

**BANK FOR
INTERNATIONAL SETTLEMENTS**

TWENTY-FIFTH ANNUAL REPORT

1st APRIL 1954 — 31st MARCH 1955

BASLE

13th June 1955

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Balance Sheet as at 31st March 1955 and Profit and Loss
Account for the financial year ended 31st March 1955.

* * *

The Bank for International Settlements 1930-55, by Roger Auboin.

TWENTY-FIFTH ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held at

Basle on 13th June 1955.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the twenty-fifth financial year, which began on 1st April 1954 and ended 31st March 1955. 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 1955.

The financial year closed with a surplus of 9,356,517.53 gold francs, of which 1,657,063.26 gold francs has been utilised to write down the value of the Bank's buildings to one gold franc, 184,295.05 gold francs has been transferred to the provision for exceptional costs of administration and 2,900,000 gold francs to the provision for contingencies. The net profit for the year thus amounts to 4,615,159.22 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 8,187,260.31 gold francs available.

The Board of Directors recommends that the present General Meeting should declare a dividend of 21 gold francs per share, payable in Swiss francs in the amount of 30 Swiss francs per share, involving the distribution of 4,200,000 gold francs, and that the balance of 3,987,260.31 gold francs should be carried forward.

The surplus for the previous financial year, ended 31st March 1954, was 9,950,787.81 gold francs, of which 400,000 gold francs was transferred to the provision for exceptional costs of administration and 4,500,000 gold francs to the provision for contingencies. After the allocation of 5 per cent. to the Legal Reserve Fund and the inclusion of the balance brought forward, the

amount then available was 7,722,859.05 gold francs. The dividend declared at the last Annual General Meeting was 19.60 gold francs per share, payable in the amount of 28 Swiss francs, involving the distribution of 3,920,000 gold francs, and the balance carried forward was 3,802,859.05 gold francs.

The surplus for the financial year just closed is thus some 600,000 gold francs less than that for the previous year. It should be recalled, however, that last year's results included an amount of about one million gold francs representing interest for the quarter ended 31st March 1953 which was not brought into earnings in 1952-53. The amount paid to the Bank under the 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 was therefore about 4 million gold francs this year, against some 5 million gold francs (for fifteen months) the previous year.

The following table shows the development of the Bank's active resources during the last four years.

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

Date	Resources			Utilisation		
	Deposits	The Bank's own funds *	Total	Actual gold and investments in gold	Credits and investments in currencies	Total
in millions of gold francs						
1951 31st March . . .	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
1955 " " . . .	1,432	218	1,650	680	970	1,650

* Including reserve for minor liabilities.

The transactions of the Bank, whether 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.

The Bank has continued to co-operate in the financial field with other international institutions, in particular, the International Bank for Reconstruction and Development, the International Monetary Fund and the Organisation for European Economic Co-operation. It has been asked by the High Authority of the European Coal and Steel Community to participate in the execution of the agreement for a loan of \$100 million which the High Authority has concluded with the U.S. Government. The technical functions which the Bank has assumed in this connection are more fully explained in Chapter IX, section 3.

* * *

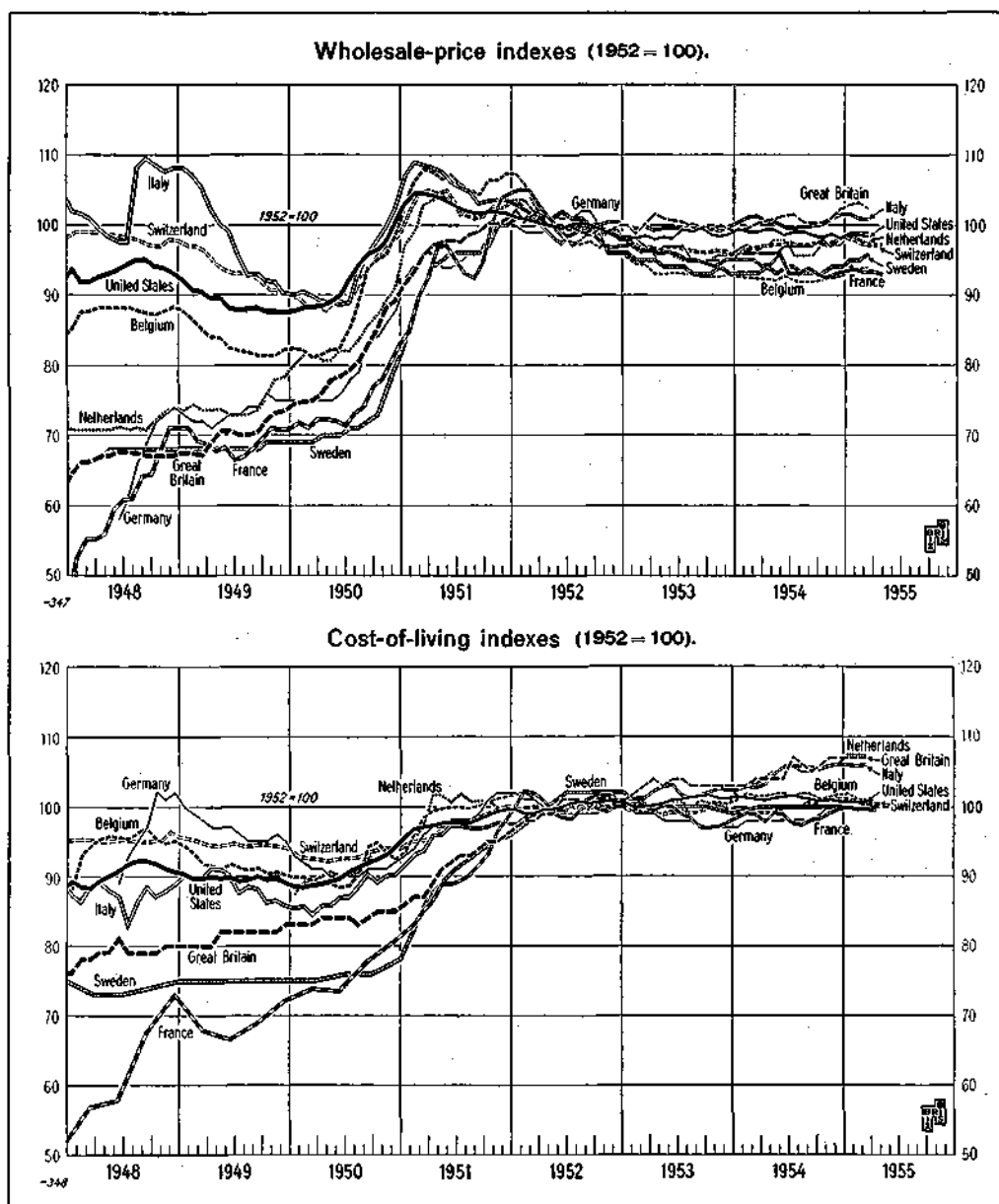
The Bank for International Settlements has now been in existence for twenty-five years. An outline of the Bank's activities during this period, written by the General Manager of the Bank, has just been published by the International Finance Section of Princeton University and is reproduced, with its permission, in the form of an annex to this Report.

Throughout the twenty-five years during which the Bank for International Settlements has been in operation, both economic and political conditions have been subject, in most parts of the world, to unusually grave disturbances. The first nine years, from 1930 to 1939, were those of the great depression and its aftermath; the next six, from 1939 to 1945, were those of the war, with its immense waste of resources, both human and material. The past ten years, from 1945 to 1955, have seen countries faced with the difficult task of reconstructing their domestic economies and of trying, at the same time, to rebuild a workable system of international trade and payments. There is no doubt that much progress has been made towards both these goals during these ten post-war years, but the process of establishing conditions under which economic growth can be combined with a high degree of stability is still far from complete. A great deal depends, of course, on political factors; but, as a result of the experience gained during the past twenty-five years of the evils both of deflation and of inflation, there is now a widespread conviction that it is only when there is a fair degree of stability in the general price level that we can enjoy the benefits of sound economic growth.

Striking evidence of the recovery which has taken place since the end of the war is provided by the fact that on both sides of the Atlantic 1954 was a fundamentally prosperous year. Whatever fears and apprehensions may have been entertained earlier as to the probable trend of economic activity during the year, actual developments soon showed them to have been groundless; in most countries of Europe the volume of production continued to increase throughout 1954, the gross national product of the seventeen O.E.E.C. countries having apparently been on an average, in real terms, about 4 per cent. greater than in 1953. And in the United States and Canada output began to rise again in the second half of the year and went on increasing in the early months of 1955. The progress was all the more notable in that it was achieved concurrently with an unusual degree of overall price stability and without there being any resurgence of major balance-of-payments difficulties. In these respects the conditions prevailing in 1954 were a continuation of those of the two preceding years. Thus by the beginning of 1955 the great majority of the countries of Europe, as well as many in other parts of the world, had enjoyed three years of generally rising consumption and of relative stability in the overall level of prices.

The overall stability of prices is an important fact which deserves to be singled out for special mention in any review of economic conditions during the last few years, since it not only is a sign of the attainment of a better relationship between the amount of goods and services available and the evolution of monetary demand but also has a very beneficial effect on general

economic efficiency. Price stability encourages the adoption of improved methods of trade and production by teaching business people and others to calculate more carefully, thus causing them to introduce all those cost-cutting measures and devices which, though often unimportant-looking in themselves, can by their combined effect make just as essential a contribution to the rationalisation of a country's economy as do the major changes in technique which require the investment of large sums of money. Furthermore, by



Note: The above graphs show clearly that since 1952 the movements of wholesale prices and the cost of living have been much more limited than in the previous period. The base year 1952, however, cannot be regarded as a year in which the price levels in the different countries were in equilibrium with one another — a fact which must be taken into consideration in interpreting subsequent movements.

eliminating those enterprises which depended for their existence on the continuance of inflation, it tends to place business in the hands of the more efficient. An overall stability in the price level does not, of course, exclude changes in individual prices; and the effect of such changes in bringing about a redistribution of productive resources may be expected to be greater if the general trend is neither inflationary nor deflationary. Price-cost relationships, as they influence profitability, are after all the driving force in a free economy, in which the balance to be sought must be dynamic in character and not the result of an artificially imposed rigidity which can only result in stagnation.

Finally, by strengthening confidence in the domestic currency, price stability brings about an increase in savings activity, and this in turn enables the mechanism of the money and capital markets to work more efficiently. Conditions are thereby created which make it possible for commercial and industrial financing and the management of the monetary system to be put on a sounder and therefore more durable basis. To the large mass of wage-earners this whole development gives a feeling of reassurance that their incomes and their savings will retain their purchasing power and, in particular, that any increase in nominal wages will also represent an increase in real wages.

Once the public in the various countries has been able to enjoy the great boon of relative price stability, one of its chief desires is to avoid returning to the old days characterised by constantly mounting raw-material prices and living costs, and it therefore expects the authorities to adopt policies designed to prevent the reappearance of inflationary tendencies. It is a sign of the times that governments all over the world are nowadays greatly concerned to keep the cost of living from rising. Proper fiscal and credit policies are essential for the attainment of a genuinely stable price structure, free from the distortions which are so often produced by systems relying extensively on direct controls, owing to the fact that price-fixing normally leads either to the rationing of consumer goods or to the accumulation of unsalable stocks.

Unfortunately, the preoccupation of the general public with price stability — especially in relation to their living costs — does not mean that particular groups in the economy always recognise their responsibility in this respect. There will often be a conflict between the immediate — usually short-sighted — interests of certain sections and what is required for economic growth, since the development of an economy involves changes in the relative rate of expansion of different sectors.

It should, moreover, be mentioned by way of warning that price stability may create a feeling of false security and may thus divert attention from the fact that incipient inflationary influences — resulting, in particular, from excessive financing by means of newly-created credit — are being allowed to permeate the economy. Price stability is not enough by itself but needs to be accompanied by freedom of commercial and financial transactions in order that

foreign competition may be able to exert its salutary effects; and the authorities must be ready to reshape their credit policy whenever there are signs that expansion is tending to go beyond the limits of available resources or that deficits which are not properly provided for are developing in the balance of payments.

A second important feature of 1954 was the absence of any major disturbance in the balances of payments. The following table shows the current-account surpluses or deficits of the individual O.E.E.C. countries since 1951 and also the yearly figures for the group as a whole, representing approximately the aggregate balance of these countries in relation to the rest of the world.

O.E.E.C. countries:
Current account of the balance of payments.¹

Countries	1951	1952	1953	1954 ²
	in millions of U.S. dollars			
Austria	- 176	- 104	+ 71	+ 68
Belgium-Luxemburg	+ 214	+ 142	+ 4	- 72
Denmark	- 40	+ 22	+ 13	- 70
France	- 1,058	- 659	- 220	+ 78 ³
Germany	+ 186	+ 567	+ 965	+ 976
Greece	- 303	- 118	- 24	- 73
Iceland	- 11	- 8	- 6	- 1
Ireland	- 174	- 25	- 20	- 17
Italy	- 124	- 311	- 212	- 140
Netherlands	- 60	+ 490	+ 337	+ 127
Norway	+ 36	- 3	- 137	- 154
Portugal ⁴	+ 53	- 17	+ 33	+ 23 ⁵
Sweden	+ 182	+ 35	+ 66	- 22
Switzerland	- 30	+ 157	+ 335	+ 240
Turkey	- 114	- 170	- 123	- 150 ⁵
United Kingdom . .	- 1,140	+ 386	+ 322	+ 308
Total	- 2,559	+ 384	+ 1,404	+ 1,121 ⁶

¹ Excluding direct foreign aid but including off-shore purchases, military expenditure, etc. ² Provisional.
³ First half of 1954. ⁴ Escudo area. ⁵ Rough estimate.
⁶ Total includes only January-to-June results for France and Portugal. On the basis of the developments in foreign trade in these countries during the second half of the year — France had a smaller import surplus than in the first half, while Portugal had a somewhat larger surplus — the overall surplus will probably reach \$1,200 million.

The O.E.E.C. countries as a group would appear to have had a favourable balance in 1954 equivalent to about \$1,200 million — a surplus which, though smaller than that in the previous year, was still quite substantial. Three more countries than in 1953 had a deficit in 1954, and the current surpluses of some of the others seem to have diminished in the course of the year. This reduction was only to a small extent the reflection of the decline in the amount of European goods imported by the United States and Canada as a result of the recessions in these two countries (see page 26). A more important factor influencing the European balance-of-payments position was

the quickening expansion in the European economies, which led to an increase in imports and also, for a time, to a rise in the prices of certain imported goods. It cannot be said, however, that these movements caused any serious deterioration in the position of the European countries. Some of them actually welcomed a decline in their balance-of-payments surpluses, since it helped to moderate the hyper-liquidity of their money and capital markets. In the United Kingdom, however, where the aim has been to build up the country's reserves, the reduction — although not great in itself — gave rise to much

discussion and led in fact to prompt and determined action by the authorities, who raised Bank rate by two steps, in January and February 1955, from 3 to 4½ per cent. and also took a number of other measures. And in the four northern countries — Denmark, Finland, Norway and Sweden — policies which in some respects represented a departure from the methods so far employed were adopted to restore a better balance. But even taking into account these developments, the fact remains that the continued economic expansion in western Europe in 1954 was accompanied by only a moderate deterioration in the balance-of-payments position of the countries concerned — and that at a time when there was still a recession in the United States.

The current-account balance of western Europe with the United States, excluding all military transfers and expenditure, was naturally adversely affected by the recession. U.S. merchandise exports to western Europe increased by approximately \$500 million in 1954 and imports decreased by \$250 million, while the balance of invisible transactions showed little change. However, although on overall goods and services account (excluding military transfers and expenditure) western Europe had a deficit with the United States amounting to \$1,423 million, this was fully covered by direct U.S. military expenditure in the countries of western Europe (i.e. off-shore procurements, etc.), which totalled \$1,431 million.*

There were in addition, on capital account, various other government grants amounting to \$1,000 million and private remittances totalling \$230 million (the latter are in fact generally included as a current-account item in the estimates of the recipient countries). It is thus clear from the foregoing figures (which cover the most important movements) that western Europe, in its direct relations with the United States, had a substantial payments surplus, which enabled it not only to add to its monetary reserves but also to allow dollar goods to be imported more freely.

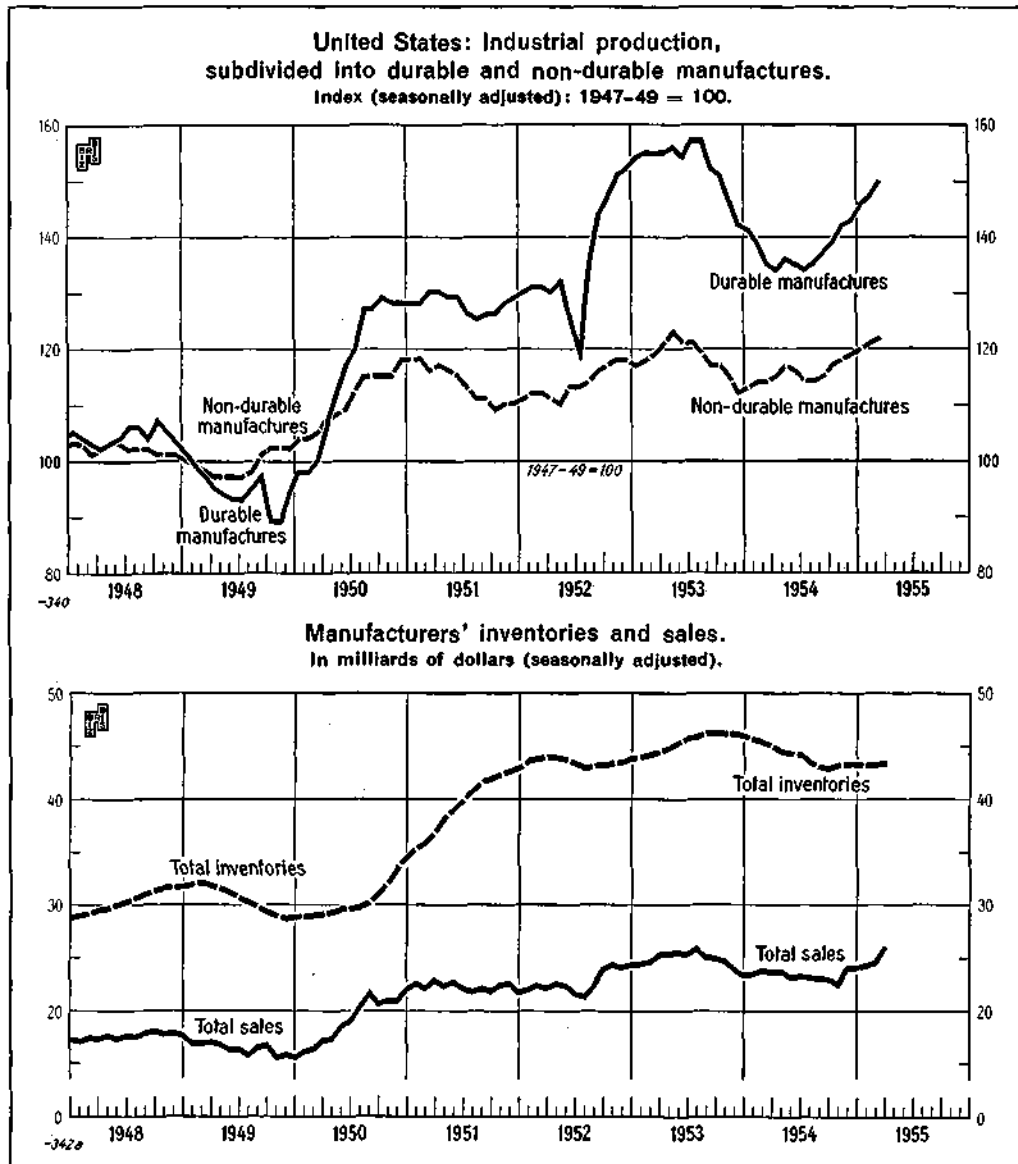
The contrast observable in the two years 1953 and 1954 between the trend of business activity in western Europe and that in the United States has naturally been one of the most widely discussed features in the recent economic history of the world. The causes and consequences of this divergence clearly require to be most closely examined. For even though it may not yet be possible fully to comprehend all the factors involved and to assess the impact of these various developments on public opinion and official policies, it is important to try to understand the forces at work in the recent past and to draw at least a few preliminary conclusions.

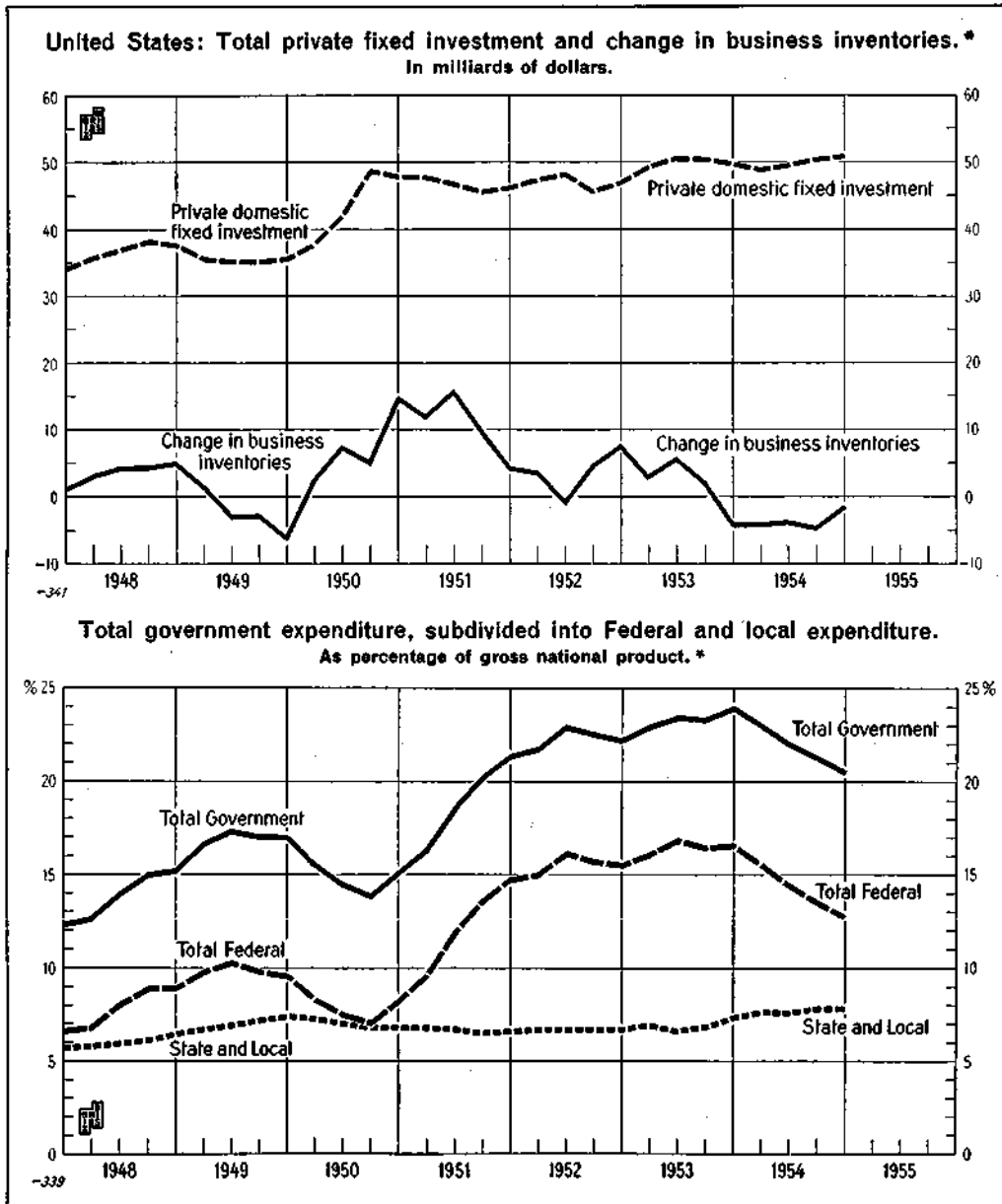
The following four graphs illustrate some aspects of the tendencies which led to the 1953-54 recession in the United States and to the recovery which has taken place since the early autumn of 1954.

* This military expenditure does not include the "transfers" of U.S. military supplies and equipment, which amounted to a total of \$2,318 million. These shipments, since they represented a grant in kind, did not, of course, directly affect the availability of dollars.

These four graphs cover the period from the beginning of 1948 up to the end of 1954.

Looking back over a somewhat longer period, one finds that in the United States the volume of investment began to expand substantially in 1940, the outbreak of the second world war having put an end to the stagnation of the 1930s. During the war period (which, for the United States, did not begin until the end of 1941) the main stress soon came to be laid on public investment for defence purposes; and when at the end of the war the volume of such investment was reduced to much smaller proportions, the spurt made in the private sector was quite remarkable. It is hardly surprising, therefore, that four or five years of continuously increasing private investment





* Based on seasonally adjusted data.

expenditure, which led to a substantial rise in the output of finished articles, should have been followed — once the post-war inflationary burst of consumer spending had subsided — by one of those periods of adjustment which are heralded, more often than not, by an abnormal increase, followed by a fairly sharp reduction, in producers' and traders' stocks (or "inventories", as they are called in the United States). As may be seen from the graphs, a mild recession began in the autumn of 1948 and lasted more or less throughout 1949. It is interesting to observe that government outlay on goods and services rose throughout 1948 and well on into 1949, so that there can be no question of attributing the

setback suffered in 1948-49 to a contraction in public expenditure. And the graphs also show that the upturn which began in the first half of 1950 cannot be said to have been due to any increase in government spending. On the contrary, government outlay on goods and services steadily declined from the early autumn of 1949 onwards (see the second graph on page 9). It was thus in the private sector that the recession began and it was also in that sector that the recovery took place, as is shown by the upturn from early 1950 onwards in private domestic fixed investment and in inventories. In view of the fact that there was still a strong underlying demand in the American economy for more houses and for more plant and equipment, it would appear that there were really no serious maladjustments requiring to be corrected.

It is important to note that the revival of business activity after the 1948-49 recession began about six months before the outbreak of the conflict in Korea. By June 1950 the index of industrial production had risen again to its previous peak — which seems to show that the American economy was not then in need of any extraordinary stimulus such as that which it received from the Korean conflict. During the subsequent rearmament boom there was, of course, a sharp increase in government outlay on goods and services; indeed, much of the private investment at that time was undertaken in response to military demand (in the widest sense of the term). Even so, however, both consumption and investment for private purposes continued to run at a high level.* After four years of these conditions some signs of temporary congestion again became observable in certain branches, especially those concerned with textiles and such durable consumer goods as radios, television sets, refrigerators and motor cars, and this in turn contributed to a setback in the demand for steel.

While the total disposable income of the public rose from an estimated annual rate of \$248 milliard in the first quarter of 1953 to one of \$251 milliard in the third and fourth quarters of that year, personal expenditure on durable goods fell at the same time by almost 10 per cent., namely, from an annual rate of \$30½ milliard in the first quarter to one of \$28 milliard in the fourth quarter of 1953.

The natural conclusion to be drawn from these figures is that consumer demand had for the time being reached a state of relative repletion as regards these important groups of commodities; this development was as usual reflected in an increase in inventories of durable goods, as is shown in the graph. Thus the U.S. economy was faced, in these particular lines, with a cyclical decline in activity.

This state of affairs had come about just at the time when, under the government's programme, expenditure on armaments not only had stopped increasing but was actually about to be reduced; even before actual defence expenditure began to fall, inventories were affected by the decline in orders,

* There was a minor setback in 1951, prolonged into 1952 by a strike in the steel industry, but the volume of sales and the level of investment were hardly affected, as may be seen from the graphs on pages 8 and 9.

for, as mentioned in the Economic Report of the President, issued in January 1955 (page 13), in the early months of 1953 "the flow of new defense contracts, which tie up inventories of factories on a larger scale than civilian production, diminished sharply".

If the marked rise in inventories which had already begun in the second half of 1952 had been allowed to proceed unchecked, it might soon have led to a dangerously unbalanced situation. In the first two months of 1953 the Federal Reserve System, in conjunction with the Treasury, applied a policy designed to restrict to some extent the volume of credit, and in taking this action they were also motivated by the consideration that the general removal of controls (on prices, wages, etc.) decreed by the new Administration might, unless measures were taken to curb the expansion of credit, lead to undesirable rises in prices, for total spending was, in fact, increasing rather rapidly at the time. As soon as this danger was considered to have been averted and the tempo of business activity began to show signs of slowing down somewhat — a stage which was reached in the late spring of 1953 — credit conditions were promptly eased again. The cost of holding commodity stocks was thereby reduced; and it was taken for granted that credit would continue to be available on easy terms until such time as there was a fresh revival in economic activity. As usual, however, it took business firms some time to bring their inventories more closely into line with the volume of their sales and new orders and, as the graphs show, the process of adjustment was not in fact completed until the autumn of 1954. It may well be appropriate, in view of the fact that the variations in the business trend in 1953-54 corresponded to the different phases of the adjustment of inventories, to refer to the slackening of economic activity during that period as an "inventory recession". But this should not be allowed to obscure the fact that these variations in business activity were bound up, as is usually the case, with a number of other — and more fundamental — forms of adjustment.

When a recession has set in, one of the primary tasks is to forestall those secondary effects which may turn an ordinary contraction of business activity into a deepening depression (as was the case in the early 1930s). It would, however, be a mistake to think that this aim can be effectively achieved by any methods which avoid the fundamental adjustments that need to be made before any genuine and lasting equilibrium can be attained. In the public sector there can be no question, for instance, of maintaining armaments expenditure at a higher level than is considered necessary for purposes of defence; and in the private sector no attempt should be made to prevent a re-allocation of resources when this may seem to be called for by changes in the orientation of demand and supply as indicated by a new set of price relationships. Nevertheless, there is still much that can usefully be done by means of public policy and private action to facilitate the necessary adjustments and to pave the way for recovery. Indeed, it is only if timely action is taken that the conditions can be established which will make it possible smoothly to overcome the difficulties that arise in a business recession.

The forces and policies which enabled the 1953-54 downswing in the United States to be effectively and fairly rapidly brought to an end may be grouped under four main headings:

1. In the first place, account must be taken of the forces inherent in a free economy which can be relied on to bring about a better balance between costs and prices and between sales and inventories, primarily by action taken in each individual business firm.

One should not overlook the importance of the efforts made in the large number of productive units scattered all over the country — this term being taken to include the shops and other agents of distribution — to ensure that their balance sheets and their profit and loss accounts are brought into proper order by reductions in costs and adjustments in prices and by concentration on the more profitable lines of selling and production. As already mentioned, the liquidation of inventories continued until the autumn of 1954 and by that time the supply position for most products, including durable goods, had become more normal again. Moreover, price reductions were made by several branches of the economy, especially the textile trade, but also by producers of durable goods.¹

At the same time it must be realised that for the efforts of individual firms to be completely successful some general conditions must be fulfilled. Of particular importance in this connection are the maintenance of the total volume of purchasing power and the absence of sudden rises in the average level of costs, especially wage costs.

The volume of purchasing power is, of course, influenced by the so-called built-in stabilisers and by fiscal and monetary policy (these are considered, under separate headings, on pages 14 and 16) but there are also other elements inherent in the structure of a free economy which are of importance in this respect. The economy of the United States is not only wealthy but also highly liquid. The Federal Reserve Board has estimated that at the end of 1953 individuals owned over \$200 milliard of liquid assets, consisting of cash, bank deposits and such equivalents of ready cash as savings banks' certificates and government securities. The fact that such assets are available for use by the public if the need arises will naturally have a steadying effect on total demand at a time of recession.²

¹ The downward flexibility of prices during periods of weakening demand appears to be greater in the United States than in other countries. At such times large-scale "sales" of merchandise at reduced prices are very common, the form of the effective price reductions granted often being such that they are not reflected in the normal price indexes. It is possible that this flexibility, which, basically, is the result of the competitiveness of American retailing, has been enhanced somewhat by the growing importance of the so-called "discount houses". Through these new retail outlets high-standard goods, mostly of a semi-durable nature, can be sold much below the normal prices, largely because of high turnover and low distribution costs.

² It may be of some interest to recall that in the Netherlands and Switzerland, two countries with relatively widely distributed wealth and a high degree of liquidity, it was found that even in the depression years of the early 1930s the demand for consumer goods remained remarkably steady. This applied also to the demand for durable consumer goods, and, indeed, for houses, the construction of which was still at record levels in 1932 in the case of Switzerland and in 1934 in the case of the Netherlands.

As far as wage costs are concerned, a remarkable degree of overall stability was maintained from the late autumn of 1953 to the end of 1954, as may be seen from the accompanying table.

The general stability of wage rates — there was virtually no change in 1954 — conceals a number of different movements in the various industries. For instance, the textile workers in New England agreed to wage cuts of up to 10 per cent. in order to help fight the competition from newly-established mills in the southern States, while in some other branches there were quite appreciable increases in wages in 1954. But the overall picture is one of stability and this stability must have made it much easier for firms to maintain a proper balance between costs and prices. It would have been difficult for many of them to remain paying concerns if there had not been, on the one hand, a general spirit of moderation with regard to wage claims and, on the other hand, an expansion of credit leading to an increase in the money supply.*

The increase in the number of unemployed — to an average of 3.2 million, corresponding to about 5 per cent. of the labour force, in 1954 — naturally affected the situation on the labour market, but it should be

United States:
Average hourly earnings of workers
in manufacturing industries.*

Month	Gross	Excluding overtime
	in dollars	
1953 July	1.77	1.71
August	1.77	1.71
September	1.79	1.73
October	1.79	1.73
November	1.79	1.74
December	1.80	1.74
1954 January	1.80	1.76
February	1.80	1.75
March	1.79	1.75
April	1.80	1.75
May	1.81	1.76
June	1.81	1.76
July	1.80	1.76
August	1.79	1.74
September	1.81	1.76
October	1.81	1.76
November	1.83	1.77
December	1.83	1.77
1955 January	1.84	1.78

* In gross hourly earnings are included earnings on work in excess of 40 hours a week, which is paid at 1½ times the straight time rates. To meet the need for data on straight time earnings (which approximately correspond to what are called in several countries the "wage rates") allowance has been made in the figures in the last column of the above table for overtime pay, but not for other premium payments, e.g. those for holiday work and late shift work and special rates other than overtime rates. The changes during 1954 in these other premium payments were, however, not of such importance as to invalidate the general picture of essential wage-rate stability up to the late autumn of the year.

* It is not always remembered that Keynes, when outlining in his famous book "The General Theory of Employment, Interest and Money" (published in 1936) a policy to combat depression, was fully aware of the need for establishing balance between costs and prices; and he recommended as a means of achieving this end the maintenance of stable money wages combined with the adoption of measures designed to increase aggregate demand, one of these being, of course, the pursuit of a liberal credit policy.

Keynes did not have much to say, on the other hand, about what would happen in a boom. It has been found that during the upward phase of the business cycle money wages usually rise — and as productivity increases, real wages are likely to go up too. This improvement may be brought about either by an increase in money wages or by a decline in prices (or by a combination of both these factors). In view of the differences which still exist in the level of money wages even as between the highly industrialised countries of western Europe, there may well be certain dissimilarities from country to country in the extent of the increase in both money and real wages during the next few years.

added in this connection that, as stated in the President's Economic Report (page 18), "trade unions conducted their affairs with an eye to basic conditions and with a sense of responsibility". It was a characteristic of the 1953-54 recession in the United States that confidence in recovery was always maintained, and this would hardly have been possible if individual business firms had not been fairly hopeful all along regarding the possibility of maintaining a proper balance between costs and prices. A considerable proportion of the investment which took place in industry was undertaken in order to reduce production costs, and the economies effected did indeed help to offset rising wage costs in some industries.

2. Apart from the great wealth and liquidity of the U.S. economy, a further factor helping to sustain aggregate demand was the operation of the various "automatic stabilisers". The essential feature of these stabilisers is that they do not depend upon new policy decisions but come into operation of their own accord whenever there is a business slump or a boom. Income tax and unemployment insurance have important automatic stabilising effects — and a similar influence is also exercised to some extent by farm-price supports.

The fall in private incomes during a period of declining business activity — such as the recent U.S. recession — is accompanied by a proportionally greater fall in tax payments, and this helps to keep up purchasing power in the private sector and also generally reduces the ratio of revenue to expenditure in the public sector. In the United States, quite apart from the fall in revenue due to changes in fiscal legislation, the tax liability of individuals declined, as between corresponding periods in 1953 and 1954, at an annual rate of about \$1 milliard and that of corporations at an annual rate of \$4.5 milliard. At the same time — and as a result of the recession — there was, as unemployment rose, an increase of \$2.2 milliard in the amount paid out in the form of unemployment insurance and other social-security benefits.

Between July 1953 and July 1954 the total of personal incomes derived from production fell at an annual rate of \$4.4 milliard, but this loss was compensated to the extent of more than two-thirds by the automatic decline in the tax payments made by individuals (i.e. as pointed out above, without account being taken of the results of the reduction in tax rates) and by the increase in social-security benefits received by the public.

These stabilisers existed even before the great changes in economic conditions in the 1930s, but nowadays, in view of the steeper progressivity of taxation scales, the collection at source of taxes on personal income, and the wider scope of the unemployment-insurance systems, their effect is greater.

The price-support programme for agriculture may also be regarded as a stabiliser, in that it has helped to keep up incomes in an important sector of the economy. In this instance, however, it will be seen that the effect of a stabiliser may be rather double-edged, because at the same time as it sustains the level of incomes, it may introduce an element of inflexibility which can do a fair amount of harm by impeding necessary adjustments. Nevertheless, while care must be taken to prevent the economic stabilisers from unduly increasing the rigidity of the economy, their net effect has been to strengthen resistance to cyclical forces.

3. Although they cannot be called "automatic stabilisers" in the strict sense of the term, there are certain other factors conducive to stability which were not present in the early 1930s.
 - (i) While up to the middle of the 1930s short-term borrowing was a much-used method of financing the ownership of houses and farms, the mortgage debt now represents for the most part a commitment amortisable at long term, payments generally being made monthly. About one-half of the residential mortgages outstanding at present are either insured or guaranteed (which means that they have some kind of government backing).
 - (ii) Individual bank deposits are insured against loss to the depositor up to an amount of \$10,000 and, generally speaking, the structure of the banks' assets and liabilities seems to be sounder than it was before the war.
 - (iii) Nowadays pension funds and other institutional investors buy for cash and hold more stock-exchange securities other than government obligations than was formerly the case, these securities having thus to all intents and purposes been permanently removed from the market, so that the ratio of credit granted is now probably higher in relation to the actual "floating" supply of securities. But even if allowance is made for this and certain other factors, it can be stated that by any standards the volume of credit absorbed in the stock market is small compared with earlier times, when the danger spots in the economy were not taken care of as they are now.
 - (iv) Under the system of margin requirements which was introduced in 1934, credits may be granted for the purchase of securities only up to a certain percentage of their value. The minimum required cash payment was lowered in February 1953 from 75 to 50 per cent. and raised in January 1955 to 60 and in April to 70 per cent. Whereas in 1929 the aggregate amount of all kinds of stock-market credit appears to have reached a figure in the region of \$14 milliard, representing over 15 per cent. of the market value of listed stock issues, the corresponding figures for the end of December 1954 were \$4.5 milliard and 2.7 per cent.

United States: Stock-market credit.

Items	End of	
	1953	1954
	in milliards of dollars	
Customers' debit balances (i.e. money owed to brokers by customers)*	1.7	2.4
Debit balances in partners' and firms' accounts	0.4	0.6
Bank loans for purchasing and carrying securities to others than brokers and dealers*	1.1	1.5
Totals	3.2	4.5
Ratio to total market value of stocks listed on the New York Stock Exchange . .	2.7%	2.7%

* Excluding credit extended on U.S. Government obligations.

4. Next on the list are the special steps taken by the authorities in the field of fiscal and credit policy.

As far as the Federal budget is concerned, the Administration was committed to a reduction in expenditure from the fiscal year 1953-54 onwards, a reduction which, as already mentioned, affected more especially the armament sector. From 1953 to 1954 (the calendar year in both cases) total Federal expenditure on goods and services (excluding transfer payments), calculated on a cash basis, fell from \$60.1 milliard to \$50.0 milliard, and in the last quarter of 1954 it was down to an annual rate of \$45.9 milliard — a reduction of over \$14 milliard from the high figure reached in 1953. These cuts in expenditure set free resources for use by the private sector of the economy; and it therefore became important that these freed resources should be promptly and effectively employed for purposes of private consumption and investment. An essential part in bringing about this result was played by the tax reductions, whereby the amount of purchasing power available to the private sector was increased. The tax alleviations decided on in 1954 are estimated to amount, for a full year, to a total of \$7.4 milliard. Thus, despite an increase of \$1.3 milliard in the social contributions paid by the public, it appears that there was to accrue to the private sector a net gain of \$6.1 milliard — this being in addition to the automatic decline in tax payments brought about by the recession independently of the lowering of the rates of taxation. Moreover, while Federal Government expenditure on goods and services was reduced from 1953 to 1954, the total expenditure of State and local governments rose by about \$2.5 milliard.

United States:
Government outlay on goods and services.

Period	Federal Government				State and local governments	Grand total
	National security	Other	Less government sales	Total		
In milliards of dollars						
1948	16.0	5.6	- 0.5	21.0	15.6	36.6
1949	19.3	6.6	- 0.4	25.4	18.2	43.6
1950	18.5	3.9	- 0.3	22.1	19.9	42.0
1951	37.3	4.2	- 0.4	41.0	21.8	62.8
1952	48.5	5.8	- 0.4	54.0	23.2	77.2
1953	52.0	8.5	- 0.4	60.1	25.1	85.2
1954	43.6	6.7	- 0.3	50.0	27.5	77.5
<i>(seasonally adjusted quarterly totals at annual rates)</i>						
1953 1st quarter	51.0	7.7	- 0.5	58.1	24.9	83.0
2nd "	54.3	8.3	- 0.4	62.2	24.4	86.6
3rd "	52.3	8.4	- 0.4	60.3	25.1	85.4
4th "	50.6	9.6	- 0.3	59.8	26.2	86.0
1954 1st quarter	46.9	8.4	- 0.3	55.0	26.9	81.9
2nd "	44.7	6.9	- 0.3	51.3	27.0	78.3
3rd "	42.1	6.1	- 0.2	47.9	27.7	75.6
4th "	40.5	5.6	- 0.2	45.9	28.2	74.1

As was the case with the upturn after the 1948-49 recession, the recovery in 1954 got under way at a time when a distinct decline was taking place in the amount of the government's outlay on goods and services. The reduction in spending by public bodies was compensated not only by the increase in the private sector's expenditure on goods and services for personal consumption, which began early in 1954, but also by a substantial rise in private outlay on new construction, particularly residential (non-farm) building.

So far as investment is concerned special importance necessarily attaches to the cost of financing and the amount of funds available, both of which may be influenced to a considerable extent by the credit policies pursued by the monetary authorities. The first steps to ease credit conditions in the U.S. money and capital markets were taken in May 1953, when the Federal Reserve Banks resumed their purchases of government securities, and early in July the reserve requirements for the member banks were reduced. As more and more signs of a slackening in business activity began to appear, credit conditions were further eased, and in order to give an unmistakable indication of their policy the Federal Reserve Banks lowered their discount rate from 2 to $1\frac{3}{4}$ per cent. on 5th February 1954 and then again to $1\frac{1}{2}$ per cent. on 16th April. Furthermore, under the policy of "active credit ease" pursued by the authorities, sufficient reserves were made available — through reductions in reserve requirements (from June to August 1954) — not only to relieve most banks of the need to borrow for the purpose of meeting temporary adjustments in reserves but also to provide a basis for an additional expansion of bank credit. While the demand for business and consumer loans remained relatively weak during the greater part of 1954, the majority of the financial institutions (commercial banks, savings banks, insurance companies, etc.), which were able to obtain ample funds, soon began eagerly to take up mortgages, municipal bonds, corporate issues and Treasury obligations.

United States:
Changes in loans and other earning
assets of all commercial banks.

Items	Change during		Amount outstanding at end of 1954*
	1953	1954	
in milliards of dollars			
Loans to			
Business proper	- 0.7	- 0.4	26.8
Real estate	+ 1.0	+ 1.7	18.4
Agriculture	+ 1.0	+ 0.3	5.3
Security	+ 0.4	+ 0.9	4.5
Consumers	+ 1.5	- 0.2	10.7
Others	+ 0.2	+ 0.8	5.9
Net total ¹	+ 3.4	+ 3.2	70.6
Investments in			
U.S. Government securities	+ 0.1	+ 6.0	69.4
Other securities ²	+ 0.5	+ 1.6	16.3
Total	+ 0.6	+ 7.6	85.7
Grand total ¹	+ 4.1	+ 10.7	156.2

* Preliminary data.

¹ The fact that the totals given do not always correspond to the sum of the individual items is due partly to rounding-off but mainly to the deduction of valuation reserves from the total loans.

² Mainly those issued by State and local authorities.

During 1954 the loans and investments of the commercial banks increased by as much as \$10.7 milliard, chiefly as a result of substantial purchases of government and other securities; the net increase in loans, however, was rather smaller than in 1953. It should be noted that most of the securities acquired by the banks were sold to them by non-financial corporations in need of funds for investment and by life-insurance companies and mutual savings banks, which in their turn increased their lending against mortgages, etc. It was mainly by this monetisation of securities through sales to the commercial banks that the newly-created credit was turned into active purchasing power.

In 1954 the money supply in the hands of the public went up by \$3.9 milliard, or about 3 per cent., the increase being more than twice as great as in 1953. In the Economic Report of the President, published in January 1955, the following observation is made on the result of the credit policies:

“Had it not been for the increased availability of credit and the easing of terms, the fast pace of residential, commercial and State and local construction, which did so much to stabilize the economy during the past year, would not have been attained. Nor would consumers have been able so easily to arrange financing for a part of their expenditure. Nor would the liquidation of inventories have proceeded with so little disturbance to markets or general economic activity.”

But low interest rates and a plentiful supply of funds, or even a reduction in tax rates, though certainly helpful, do not necessarily by themselves bring about an increase in demand; the effectiveness of these measures is, as is also pointed out in the President's Report, “conditioned by the mood of the time, and this is bound to reflect people's attitudes toward governmental policies at large”. The question of confidence is, indeed, an important one — but the kind of confidence which is the mainspring of the economy is essentially dependent on the taking of timely action in a number of fields, so that the public can reasonably expect that there will not be any cumulative deterioration in economic conditions such as took place from 1930 onwards.

5. It is generally recognised that the continued economic expansion in western Europe had a salutary influence on business activity in the United States itself.* As is mentioned in Chapter IV, total U.S. exports in 1954 were practically as high as in 1953 — which means that there was no decline in foreign demand for American goods. Moreover, the continued expansion in the European economies was accompanied by an increase in Europe's imports of raw materials and

* The President of the New York Stock Exchange, Mr R. Keith Funston, stated in March 1955 in hearings before the Senate Banking and Currency Committee that “the fact that the countries of western Europe continued their economic recovery in the face of an American downturn was an important influence in bolstering the confidence of investors everywhere.”

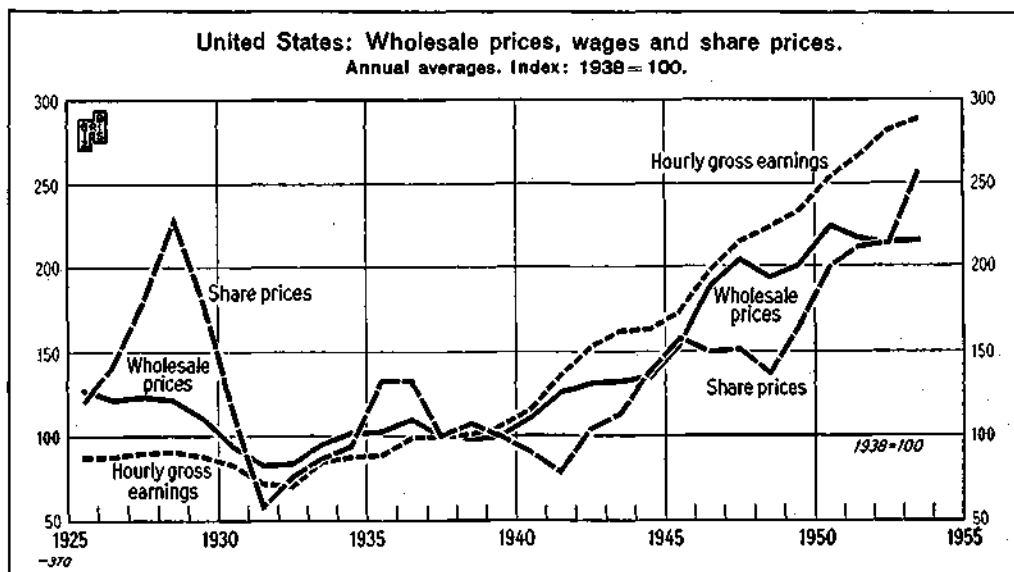
this, in its turn, helped to keep up the overall level of world-market prices. This overall stability naturally was not only of great assistance to the raw-material-producing countries but also helped to allay the fears of business men regarding the cumulative effect of successive rounds of price reductions.

It must undoubtedly be regarded as having been fortunate for the economy of the United States that favourable business conditions were maintained elsewhere. But one cannot always count on such a combination of circumstances. It may well happen that in future the various phases of the business cycle on the two sides of the Atlantic will correspond more closely, and the problem of overcoming a decline in economic activity affecting Europe and America simultaneously may then be much more difficult to solve. There were, moreover, in 1953-54 certain other favourable factors which deserve to be mentioned.

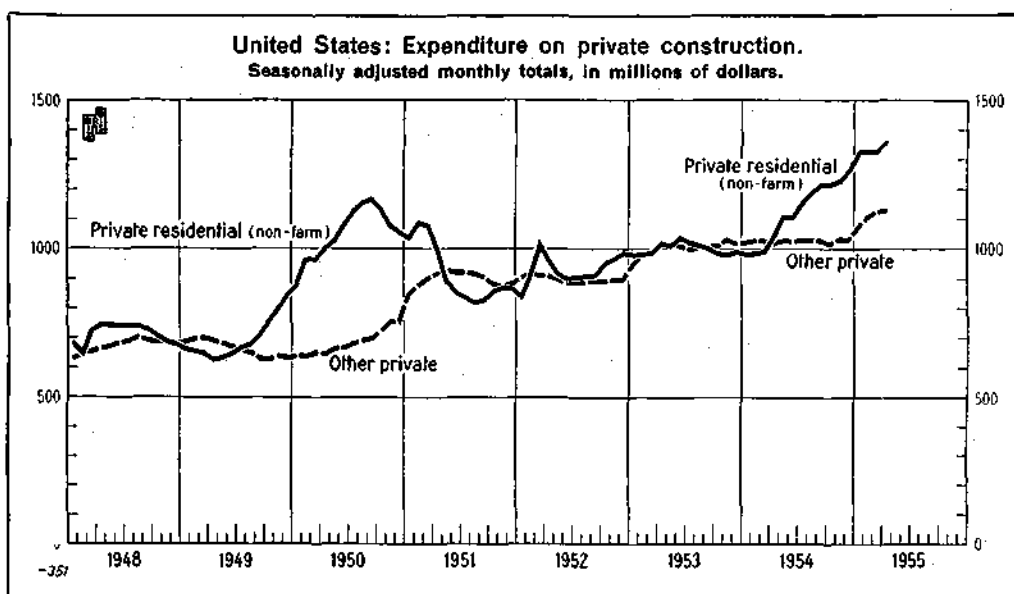
- (i) In the past, building activity, and especially residential construction, has had a cycle of its own; and when, as in 1929 in the United States, an industrial setback occurs at a time when the downturn in the building cycle has already begun (a decline had then been in progress since 1927), the recession is far more difficult to overcome. In the case of the most recent U.S. setback, on the other hand, private residential (non-farm) construction, which had begun to increase in the autumn of 1952, rose sharply in 1954 — a sign of the growing strength of demand for an improvement in housing standards.* Although the rate of family formation is at the moment relatively low, the total of the population continues to increase rapidly, and the growth in the number of earners may be expected to accelerate before long owing to the rise in the birth rate from 1941 onwards.
- (ii) Another favourable factor was the upward adjustment in stock-exchange values, which was partly the result of a fuller appreciation of the large wartime and post-war increase in the replacement cost of capital assets, due mainly to the rise in commodity prices and the even more marked increase in workers' earnings.

Such a readjustment of stock-exchange values as took place from 1953 to 1954 must clearly be regarded as a unique occurrence, and a similar development cannot, therefore, be counted on to give a lift to the economy in any future period of cyclical decline.

* An increase in private residential construction had also played an important part in bringing to an end the 1948-49 recession (see the graph on the next page). After rising to a peak in the early autumn of 1950, the rate of house-building subsequently declined as the country's resources in men and materials were increasingly absorbed by the expansion in defence activity; and it looks as if by 1954 this slowing-down in residential construction had led to a piling-up of demand which, though not as great as that which took place during the war, was still substantial enough to have an effect on the economy.



It is important to bear in mind these fortunate circumstances in order to avoid drawing over-optimistic conclusions from the experience gained in the recent recession. But it is proper to add that, however badly houses may have been needed, it would not have been possible for residential building to continue at as high a rate as in 1954 unless the necessary financial facilities had been readily available; and, as regards the upward movement on the stock exchange, investors would hardly have been inclined to an optimistic assessment of the intrinsic value of the stocks they bought unless they had felt encouraged to do so by the general financial and economic situation, and in particular by the policy of reducing government expenditure and rates of taxation.



No doubt fresh difficulties will arise. There is, for instance, much discussion at the moment in the United States as to the extent to which the present upswing is attributable to the boom in automobiles and the high level of house-building activity, both of which are largely dependent on the extension of credit to the purchaser. It is fully realised that there may have to be changes at some future date in the use of credit and the pattern of expenditure. The detailed policy which will need to be pursued when that time comes will naturally have to be shaped in the light of the situation then existing.

* * *

When the first signs of a decline in business activity in the United States appeared in the course of 1953, it was naturally asked how this would affect the economies of other countries, especially those of western Europe and the raw-material-producing countries.

In the light of the experience gained during past periods of business recession in the United States, it had come to be firmly believed that any further U.S. recession would inevitably have a harmful influence on business activity in other countries. It was taken for granted, for instance, that a decline in the index of industrial production in the United States would perforce be followed by a relatively greater decline in the value of U.S. imports, as a result both of a reduction in the volume of imports and of a fall in import prices. Such a contraction would in itself create difficulties for other countries, quite apart from the depressing effect which it could

United States: Imports and exports
from 1st April 1952 to 30th September 1954¹
(as a comparison of two fifteen-month periods).

Items	15-month period		Change	
	1st April 1952 to 30th June 1953	1st July 1953 to 30th Sept. 1954	Amount	Percentage
round figures, in millions of U.S. dollars				
U.S. imports				
Total	13,720	12,995	— 725	— 5
Including:				
From western Europe and associated territories ²	3,790	3,690	— 100	— 3
From independent sterling- area countries overseas	845	690	— 155	— 18
U.S. exports (non-military)				
Total	15,725	15,455	— 270	— 2
Including:				
To western Europe and as- sociated territories ²	4,485	4,465	— 20	— 0
To independent sterling-area countries overseas	890	850	— 30	— 3

¹ The data in the above table are taken from the balance-of-payments statistics, which cover "payments made and received" (but not the value of goods actually shipped) and which therefore differ slightly from the figures given in the ordinary trade statistics.

² Excluding the independent sterling-area countries, the trade of which is shown as a separate item.

be expected to have on world-market prices of raw materials and, in general, on the state of mind of business men. It had been confidently estimated that a decline of 10 per cent. in industrial production in the United States would lead to a fall of something like 20 per cent. in the value of U.S. imports.

Fortunately, in 1953-54 the actual pattern of developments turned out to be different from what had been expected. During the fifteen-month period from July 1953 to September 1954, the overall index of industrial production in the United States declined by roughly 9 per cent. But the value of imports, instead of falling by something like 15 to 18 per cent., declined by barely 5 per cent.; and, as far as the European trade balance was concerned, this decline was offset to the extent of 2 per cent. by a fall in U.S. exports.

Western Europe (which, for the purposes of the U.S. statistics used as the basis for the table on the preceding page, includes not only the O.E.E.C. countries but also Finland, Spain and Yugoslavia) and the associated territories of western European countries were not greatly affected by the change in U.S. foreign trade. On the other hand, the independent countries of the

Exports of the independent countries
of the sterling area.*

Exports to	1st April 1952 to 30th June 1953	1st July 1953 to 30th Sept. 1954	Change
	round figures, in millions of U.S. dollars		
United States . . .	850	700	- 150
O.E.E.C. countries	4,700	4,950	+ 250

* According to statistics of the importing countries (U.S. Survey of Current Business; O.E.E.C. Foreign Trade Statistics).

sterling area (Australia, Ceylon, India, New Zealand, Pakistan, Rhodesia and South Africa, as well as Burma, Iraq, Jordan, Libya, etc., but not Ireland, which, as a member of O.E.E.C., is included in "western Europe") suffered an appreciable reduction in

their exports to the United States but, as is shown in the table, this reduction was more than counterbalanced by larger shipments to western Europe.

The combined index of industrial production for all the O.E.E.C. countries in Europe (i.e. without their dependencies) has shown the following changes from year to year.

O.E.E.C. countries: Combined index of industrial production.

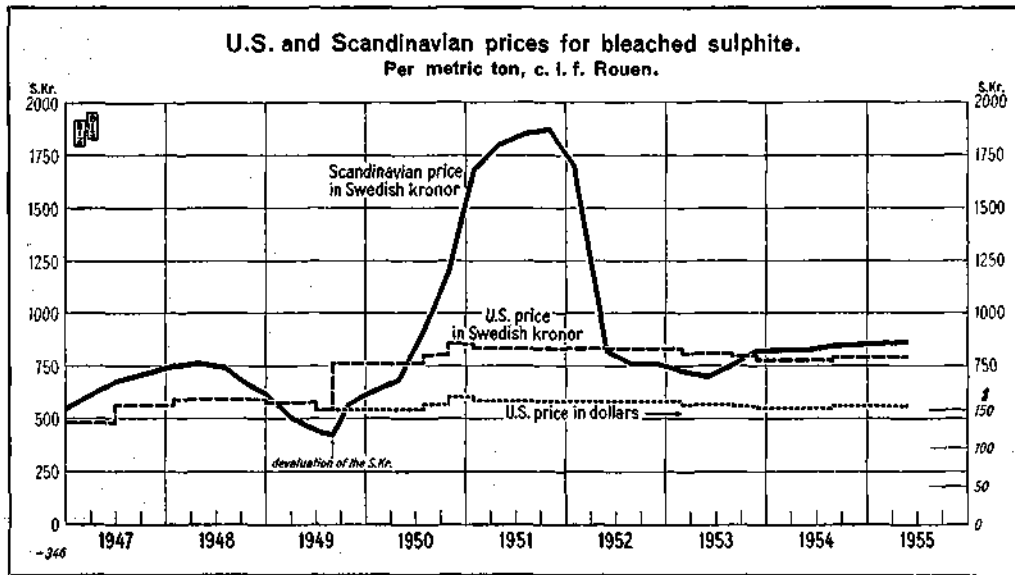
All O.E.E.C. countries	1949	1950	1951	1952	1953	1954
	annual percentage change					
Combined index of industrial production	+ 12½	+ 11	+ 10	+ 1	+ 4½	+ 8½

Note: While in the years 1949 to 1951 it was not too difficult with the help of Marshall aid to achieve high percentage increases in industrial production, especially since at that time the chief need in several countries (e.g. western Germany) was to get already existing though more or less seriously damaged factories into working order, since 1952, in almost all countries, a rise in production has been dependent on new domestically financed investment in plant and equipment.

The year which followed the outbreak of the Korean conflict in June 1950 was marked by almost feverish activity. The sudden rise in demand caused a sharp upward movement of commodity prices, which was almost as precipitously reversed in 1951. A number of countries suffered serious declines in their monetary reserves but, thanks to stiffer monetary policies (often reinforced by a tightening of import restrictions) and the virtual disappearance of the acute war scare, it became possible in most cases to arrest the drain on the reserves and to strengthen confidence in the national currency. As far as the general public was concerned, the reaction from the wave of accelerated spending in 1950-51 mainly took the form of a reduction during 1952 in its purchases of textiles and some other household goods, as was only natural after the hectic overbuying which occurred in the preceding period, when at one time it was thought that supplies might become as scarce as during the war. As a result, there was a well-nigh universal slump in the textile industry, which was most acutely felt in 1952. Somewhat similarly, the war scare induced by the Korean conflict had led to a scramble for supplies of machine tools and other products of the engineering industry. When the scare suddenly subsided there was a drop in fresh orders, which at once lessened the need to add to plant and equipment in the metal-using industries, and this in turn contributed to a contraction in the output of these industries.

Demand from the overseas countries was affected in the same way, and as a result the European engineering industries were faced for a time with a decline in orders from their domestic and overseas customers. Further repercussions were a weakening of the demand for steel and before long also of that for coal. Looking back over this period, it seems that what took place was not so much a falling-off in final consumption as a reduction in the stocks of the users of steel and coal (as distinct from the producers' stocks). When the manufacturers suddenly found that they could replenish their stocks without difficulty there was no longer any point in carrying particularly large supplies as they had been wont to do while materials were scarce. But there were definite limits to how far stocks could be run down and soon demand from manufacturers picked up again, with the result that in 1953 steel producers had to step up their output, and in the second half of 1954 the coal stocks which had been accumulating at the mines began to decline again; indeed, towards the end of the year imports of American coal had to be increased to meet the needs of some European markets.

For the sake of completeness, it should also be mentioned that three countries of northern Europe — Finland, Norway and Sweden — which are all large exporters of forestry products, experienced a special kind of economic disturbance owing to the sudden sharp increase in prices, particularly those of pulp and paper, which occurred on the European markets in 1950-51 and the equally sudden fall, both in demand and in the prices quoted, which followed in 1952. In contrast to what happened in Europe, however, the prices of forestry products did not rise appreciably either in Canada or in the United States at the time of the Korea boom; and the normalisation of prices which began in Europe in 1952 was partly due to the inflow of



Note: The prices quoted for bleached sulphite, which is one of the most important types of wood-pulp, may be taken as indicative of the general movement of wood-pulp prices.

North American supplies, which introduced a new element of competition. This widening of the sources of supply is having a steadying effect on the whole range of prices for forestry products, and this is no doubt salutary. Efficient European producers should have no real difficulty in holding their own against their North American competitors.

By and large, the decline in production in the textile, metal and forestry industries was confined to the year 1952, but demand, especially for engineering goods, remained weak until well into 1953.

Such adjustments as had to be made were seldom of a really painful nature, for the economic situation was still fundamentally characterised by a strong underlying demand for investment not only in housing but also in industry generally. From the middle of 1953 onwards new orders began to come in at an increasing rate in most western European countries. It was almost inevitable, in view of past experience, that towards the end of the year a certain amount of apprehension should have been felt regarding possible repercussions of the ever more noticeable recession in the United States; but before many months of 1954 had passed these fears were dispelled and an intensified industrial expansion set in, which was reflected, in one country after another, in improved order-books, rises in the indexes of production and a tendency to over-full employment.

In seeking the real reasons why the vigorous upswing in Europe continued notwithstanding the American recession, one must remember in particular that in the post-war years most of the European countries had been unable, owing to the inadequacy of the supply of savings, to raise the rate of new investment to the point at which projected schemes still waiting their turn could be taken in hand without further delay. In a large measure

the damage caused by the war had been made good, but the bulk of the further investment required to meet the needs of a growing population and to take advantage of the many new inventions and methods of production which had come to the fore during and after the war had, in several countries, been restrained for lack of the necessary free resources and was still waiting to be carried out. The economic trend on the European side of the Atlantic thus still held out the promise of further investment activity of a distinctly remunerative character. In 1953 the volume of investment began markedly to increase, and it expanded at an accelerated rate in 1954. While an undoubtedly important factor as far as the European business cycle was concerned was the delayed catching-up on investment backlogs, there were also other elements which contributed to the good state of business, some of them positively and some also negatively, in the sense that earlier handicaps standing in the way of an expansion — such as balance-of-payments difficulties, etc. — were no longer a serious embarrassment to European countries.

The following were the most important of these elements:

- (i) Monetary confidence had been generally restored thanks to the growth of supplies, which helped to hold down prices, and to the application of flexible monetary policies. The resultant increase in domestic savings has formed the basis for the financing of an expanding volume of investment.
- (ii) The progress made towards domestic balance led, moreover, to an improvement in the balance-of-payments positions, thus permitting not only a relaxation of foreign exchange controls but also an increase in trade liberalisation; this provided the basis for a new expansion of trade, especially among the members of the O.E.E.C. and their associated territories.

There was, further, the important fact that western Europe had become less dependent on supplies from the dollar area. The proportion of its imports of wheat, refined petroleum and certain other commodities obtained from the United States had steadily declined, partly because of a large increase in domestic supplies and partly because of a growth in output in non-dollar areas.

On the other hand, as may be seen from the following table, U.S. imports from western Europe were kept up fairly well even in 1954; indeed, they actually increased in the second half of the year, reaching during the year as a whole a level twice as high as in 1948. The fact that American policies during the recession helped to sustain consumers' expenditure gave support to European exports, especially of finished articles, this being another example of the useful interaction between American and European policies in the years 1953 and 1954.

The percentage figures in the table on the preceding page are particularly worthy of note. Whereas in 1948 about 22.7 per cent. of Europe's imports came from the United States and Canada, the corres-

O.E.E.C. countries: Distribution of foreign trade.

From or to	Imports			Exports		
	1948	1951	1954	1948	1951	1954
	round figures, in millions of U.S. dollars					
1. Member countries	7,880	13,050	15,010	7,630	13,060	14,950
2. Associated territories*	3,050	4,540	4,540	2,220	3,530	3,790
Total (1 and 2)	10,930	17,590	19,550	9,850	16,590	18,740
3. Independent sterling-area countries overseas	2,760	3,820	4,050	2,460	3,360	3,350
Total (1 to 3)	13,690	21,410	23,600	12,310	19,950	22,090
4. United States	4,470	4,420	3,300	940	1,810	1,870
5. Canada	1,170	1,110	1,110	360	530	540
6. Latin America	2,390	2,510	2,340	1,240	1,980	1,860
7. Others	3,120	4,250	3,470	2,070	2,950	3,390
Grand total (1 to 7)	24,840	33,700	33,820	16,920	27,220	29,740
	in percentages					
1. Member countries	31.7	38.7	44.4	45.1	48.0	50.3
2. Associated territories*	12.3	13.5	13.4	13.1	13.0	12.7
Total (1 and 2)	44.0	52.2	57.8	58.2	61.0	63.0
3. Independent sterling-area countries overseas	11.1	11.3	12.0	14.5	12.3	11.3
Total (1 to 3)	55.1	63.5	69.8	72.7	73.3	74.3
4. United States	18.0	13.1	9.7	5.6	6.7	6.3
5. Canada	4.7	3.3	3.3	2.1	2.0	1.8
6. Latin America	9.6	7.4	6.9	7.4	7.3	6.3
7. Others	12.6	12.7	10.3	12.2	10.7	11.3
Grand total (1 to 7)	100.0	100.0	100.0	100.0	100.0	100.0

* Excluding the independent sterling-area countries, the trade of which is shown as a separate item.
Source: O.E.E.C. Foreign Trade Statistics.

ponding figure for 1954 was 13 per cent. The proportion of western Europe's exports going to North America increased slightly, having risen from 7.7 to 8.1 per cent.

Owing to the improvement in western Europe's monetary reserves and to the generally healthy position of the balances of payments it can be said that nowhere in that area has production really been hampered in recent years by a shortage of imported raw materials or by a limitation of the amount of machinery which could be purchased abroad.

- (iii) A further helpful element has been the maintenance in almost all countries of western Europe of a satisfactory balance between costs and prices. Rationalisation through new investment and in other ways has made it possible in one country after another to improve real wages without upsetting the economic balance. At the same time, the importance of avoiding increases in money wages and other cost factors which would have an adverse effect on the level of employment has been fairly widely recognised, and such considerations have also influenced

responsible trade-union policy in several countries. The pursuit of moderate policies has been facilitated not only by the high degree of general price stability but also by the improvement in living standards that had been achieved by 1954.

- (iv) In European countries, in contrast to the United States, monetary policies and conditions are always greatly influenced by the balance-of-payments situation. The continued growth in the foreign exchange earnings of the western European countries (with but few exceptions) from the beginning of 1953 up to at any rate the middle of 1954 resulted in a considerable increase in the liquidity of banks and business firms and enabled several of the central banks to lower their official discount rates. As they had in the majority of cases raised these rates during the Korea boom, they were in a position to reduce them at a time when circumstances made it most useful for them to do so, and thus to give their economies a stimulus which was very helpful in counteracting any depressive influences emanating from the recession in the United States.

The part played by fiscal policies in assisting the upward trend of the European economies must be said to have been of less importance. It is true that western European countries did not reduce their government expenditure as the United States did; whereas from 1952 (or 1952-53) to 1954 (or 1954-55) U.S. Federal expenditure was reduced by 9½ per cent., the aggregate government expenditure of twelve western European countries increased by about 4 per cent. But, thanks to the higher yield of taxes, a number of countries — in particular Austria, western Germany, the Netherlands and the United Kingdom — were able to show good budget results, with substantial current surpluses for the year 1954 (or 1953-54).

These four countries were all able to register remarkable increases in their industrial production — 10 per cent. from 1953 to 1954 in the Netherlands, 12 per cent. in western Germany, 14 per cent. in Austria and 6½ per cent. in the United Kingdom. The budget surpluses have obviously not slowed down the rate of economic activity; on the contrary, they have added to the flow of genuine savings and have thus made possible a greater volume of investment at home and, in some countries, also in the form of capital exports — as, indeed, was only to be expected at a time when there were ample opportunities for investment in the housing sector and other fields. Moreover, the improved budgetary position has enabled a number of countries to reduce taxation, and this in its turn has had a stimulating effect on the flow of savings.

- (v) It is, of course, the improvement in real income that has provided the basis for increased saving, but it is also relevant to point out in this connection that most households have by now replenished their supplies of clothing and other essential articles which were hard to come by

during the war and immediately after it. There has now set in a noticeable shift in the distribution of consumer outlay in favour of the purchase of durable and semi-durable goods — electrical appliances such as radios, television sets, washing machines, etc., and also motor-cars and motor bicycles. In fact, western Europe has been experiencing a distinct boom in these goods, which has stimulated additional investment. There has even been a danger that an excessive amount of resources would be devoted to these lines of production; and measures have been taken in some countries to limit instalment credit for the purchase of such goods.

The progress made in western Europe in the years 1953 and 1954 has demonstrated quite spectacularly that this continent, in spite of all the damage caused by the war, still possesses considerable resilience and vigour; it is no longer sufficient to think merely in terms of a come-back of Europe, for the basis is now being laid for an expansion exceeding anything previously achieved. The economic developments of these two years both in Europe and the United States have obviously made a deep impression on public opinion, producing psychological effects that are of real importance.

Europe's haunting fear of major fluctuations in the U.S. economic trend has undoubtedly decreased. Ever since the second world war many people have been concerned lest an American recession might get out of hand and lead to sharp falls in world prices. Although, as already mentioned, there were a number of favourable circumstances that helped to limit the extent and duration of the recent recession, the usefulness of the automatic stabilisers and of prompt changes of policy, in the monetary and other fields, even during a period of declining government expenditure, has been clearly apparent. Moreover, it is now realised that whatever administration is in charge in Washington timely and effective action is likely to be taken whenever it is necessary in future.

Further, Europe is now conscious of being less vulnerable to fluctuations in U.S. business activity, at any rate to fluctuations of moderate proportions. Particularly after what happened in 1949, it was widely held that even minor changes in the level of activity in America were likely to force European countries, in self-defence, to depreciate their currencies in terms of the dollar. It is now increasingly understood that this view was the outcome of the special circumstances of the time and that the same is not likely to apply — at least not with equal force — once the individual European countries have been able to restore internal monetary balance and to replenish their monetary reserves in some measure. The fact that during the past two years Europe has continued to add to its reserves and has made less and less use of exchange controls notwithstanding the recession in the United States has inevitably brought about a certain revision of ideas in this matter.

And, lastly, as a direct consequence of the factors mentioned in the two preceding paragraphs, countries outside the United States, both in Europe and in some other parts of the world, have acquired more confidence in their own economic strength. In Europe 1953 and 1954 were years of prosperity: for the first time since the war prices have been kept relatively stable despite a sustained expansion of activity. Admittedly there are now signs that in some countries resources are being strained to their utmost limits but, since steps are being taken in various capitals to prevent the boom from getting out of hand, few people expect that the present situation will undergo any drastic change such as might wipe out the gains of recent years.

The increased confidence felt by European countries both in their own strength and in economic trends and policies in the United States — including confidence in America's adherence to its more liberal foreign-trade policy — has had the effect of encouraging them in their efforts to maintain sound internal conditions and restore a healthy system of international trade and payments. In the latter field, further progress has been made during the past year, especially in liberalising dollar imports and in simplifying exchange-rate structures.

In March 1954 the United Kingdom introduced measures whereby virtually all non-resident current sterling accounts held outside the dollar area were amalgamated into an enlarged Transferable Account Area, within which there is complete freedom to transfer funds. At the same time western Germany introduced, for non-residents, Deutsche Mark accounts with so-called "limited convertibility", which closely correspond to transferable sterling accounts; another important measure was the abolition, in September 1954, of the Sperrmark accounts, all of which — except those of dollar-area residents and residents of eastern countries — may now be repatriated without formality. In the Benelux countries there has been a unification of the capital markets; Belgium has by now achieved a high degree of convertibility for residents and the Netherlands is making progress in the same direction. The conditions under which international trade and payments take place today are thus certainly very different from those of only a few years ago.

The first major step away from the bilateralism prevailing in the immediate post-war period and thus towards a multilateral system of payments was taken in 1950 when the European Payments Union was established. The boom and subsequent slump associated with the war in Korea led to a temporary setback, but the past two years have seen further important progress in clearing away the remaining obstacles to the free transferability of currencies outside the dollar area. The stage is thus gradually being approached at which the only barrier left will be that between the dollar area and the rest of the world; the ground will then have been prepared for the dismantling of the remaining exchange controls and for the return to a single market rate of exchange for each currency.

Side by side with this process which is going on in the foreign exchange sector, the various countries are continuing their efforts to maintain internal equilibrium by applying flexible credit policies, by eliminating weaknesses in the public finances and, with the aid of trade liberalisation, by bringing their cost and price structure into line with that in other countries. Thanks to the lessons learnt, there is now a greater unity of approach to these matters than existed, or seemed likely, a few years ago.

II. Financial Policy and the Growth of Trade.

The cumulative improvement in the economic position of western Europe during recent years is, by any standards, impressive. Production is higher than ever; trade has reached levels that had hardly been thought possible; and the increase in confidence in currencies, both internally and externally, is shown by the fact that savings are rising almost everywhere and that the free-market exchange rates are now, in most cases, very close to the official rates. But there is no reason for complacency, since every country still has problems and difficulties of its own, as governments are well aware; and the establishment of more normal conditions often makes the remaining maladjustments and difficulties stand out more conspicuously. So far as the general objectives of convertibility and trade liberalisation are concerned, it is satisfactory to note that these are continuing to engage the attention of individual governments; this may be seen both in their domestic policies and in the efforts being made to consolidate and strengthen instruments of international co-operation. Domestic financial policies and the expansion of trade are, in fact, closely interdependent — especially for the countries of western Europe.

From this point of view it is of particular interest to examine, first of all, recent developments in the four northern countries — Denmark, Finland, Norway and Sweden. They differ, of course, in the extent to which they were affected by the second world war and they are also unlike in their international orientation; but otherwise they have shown certain affinities in their post-war attitudes, having, in particular, achieved a degree of co-operation in many spheres, and especially as far as the freedom of movement of persons is concerned, which has not been equalled elsewhere. They have, for instance, abolished all passport requirements for travellers from one country to another within the group and they allow citizens of the other countries to take up work in many kinds of occupations without any special permit.

While the northern countries may thus be said to have advanced together in adopting the principle of freedom of movement from country to country and in working out a serviceable arrangement for putting it into practice, they differed for some years in their credit policies. Whereas Finland embarked upon a policy of flexible interest rates as far back as 1947 and Denmark did so in 1950-51, Norway and Sweden continued to adhere fairly rigidly to cheap-money policies, and it was not until 1954-55 that the action of these two countries can really be said to have been brought more into line with the principles which had by that time become widely accepted in other western countries.

Looking back on the situation in the second half of 1953, one finds that business sentiment in the three Scandinavian countries was strongly influenced at that time not only by a lingering recession in their own economies

Sweden: Actual development of investment in 1954 compared with 1953 forecasts.

Investments in	Predicted change	Actual change calculated on basis of data available in August 1954
	percentage change in relation to volume of investment in 1953	
Buildings and plant	- 10	+ 7
Equipment	- 19	+ 15
Total	- 15	+ 12

Note: It is often the case that business men's forecasts tend to represent merely a projection into the future of the market conditions prevailing at the time when the forecast was made.

but also by the belief that there would be a progressive slackening of activity in the United States, which would have repercussions throughout Europe. Typical of this state of mind are the results of an enquiry conducted in August 1953 among Swedish business firms, which, when asked to make an estimate of

their anticipated investments during 1954, gave answers revealing considerable pessimism about the future, though, as the table shows, they subsequently proved themselves ready to adjust their plans quickly when business began to look up in the course of 1954.

In the Annual Report of the Danmarks Nationalbank for 1954 it is clearly stated that "economic policy in 1953 was in several countries characterised by a fear of a decline in the international business trend", and as conditions in Denmark itself were at the time satisfactory the official discount rate was lowered from 5 to 4½ per cent. in September 1953. The Sveriges Riksbank reduced its discount rate from 3 to 2¾ per cent. in November of the same year, while bank rate in Norway was maintained at 2½ per cent., at which level it had stood since 1946. Moreover, the budget appropriations for investment were increased in each of the four northern countries.

Soon, however, it was seen that the tempo of business activity, far from slowing down, was actually becoming distinctly brisker; and before long the effects of this tendency became clearly observable, not least in the development of the balances of payments.

In Denmark, the foreign exchange reserves began to fall in March 1954. The National Bank reacted to the situation in June by raising its discount rate from 4½ to 5½ per cent. Since one of the reasons for the deterioration in the foreign exchange position was the very high level of activity in the housing sector, the National Bank at about the same time ceased to give undertakings to rediscount the building credits granted by the commercial banks. Another reason for the loss of foreign exchange was the gradual easing of the government's fiscal policy in the two previous years — and in July and September the authorities took measures (including cuts in investment expenditure and increases in certain indirect taxes) which, it was estimated, would improve the budget situation to the extent of D.Kr. 70 million. Although the government had a revenue surplus of D.Kr. 300 million over and above its own current and capital expenditure, this was not enough to cover its extra-budgetary capital expenditure, especially its building loans. In the course of the year there was a sharp fall in sales of government bonds, and the government therefore had to draw on the National Bank to meet part of its needs. The net amount drawn over the whole year came to D.Kr. 302 million. As the commercial banks also borrowed from the National Bank to the extent

of D.Kr. 165 million, the loss of foreign exchange was only partly reflected in a contraction in the volume of the note circulation and of sight deposits with the National Bank, which decreased by only D.Kr. 52 million. Moreover, a poor and late harvest and a certain accumulation of commodity stocks contributed to the decline in the foreign exchange reserves, which fell by D.Kr. 498 million during the year.

After improving slightly at the end of 1954 and the beginning of 1955, the foreign exchange reserves began to decline again in February. To remedy the situation, further fiscal measures were taken in the following month. A sales tax on retail goods, etc. was introduced and a number of excise duties and other charges were raised. These measures are expected to yield about D.Kr. 450 million in each of the two financial years 1955-56 and 1956-57. In order to prevent these tax increases from influencing the level of wages, the taxpayers are being given savings certificates to compensate them for the rise in the cost of living. The savings certificates, which are redeemable by lot, do not fall due until 1962-71. Finally, the government's housing subsidies were reduced.

In Sweden, when in the autumn of 1954 the usual seasonal increase in the monetary reserves failed to materialise and it became clear that the large amount of funds needed by the government to finance its heavy investment expenditure could no longer be obtained on the terms hitherto offered, it was decided to issue — in addition to relatively short-term loans — two long-term loans at higher interest rates. The National Debt Office accordingly issued in October 1954 a fifteen-year loan bearing interest at $3\frac{1}{2}$ per cent. and in November a sixteen-year loan (with the right of repayment after twelve years) bearing interest at 4 per cent. — the highest interest rate since 1941 for a government loan placed on the Swedish market. In the new budget proposals submitted in January 1955 the increases in current expenditure were kept within narrow limits and the amounts allowed for investment purposes quite severely curtailed; and at the same time special taxes at the rate of 12 per cent. of the amount invested were imposed on most types of private investment and an additional duty of about 10 per cent. was levied on the purchase of new cars. As early as the autumn of 1954, and again in January 1955, steps were taken to free the import of dollar goods in order to stimulate foreign competition. Industry still continued to prosper, both foreign and home demand remaining strong; and in the early months of 1955 wage increases averaging about 6 per cent. were agreed upon in negotiations between the trade unions and the various industrial associations. As there had already been a deficit of S.Kr. 110 million in the current account of the balance of payments in 1954, the increase in spending power resulting from the wage agreements gave rise to particular concern. As from 19th April 1955 the central bank raised its discount rate from $2\frac{3}{4}$ to $3\frac{3}{4}$ per cent. and corresponding increases were made in the rates of the other banks. Later in the month a twenty-four-year government loan was issued, bearing interest at $4\frac{1}{2}$ per cent., with a right of advance repayment after ten years. Subscriptions for an amount of fully S.Kr. 435 million were received on the day of issue, and the subscription lists were then closed. In addition, two other measures were taken: company taxation was increased from 40 to 50 per cent. of net profits; and it was decided that both in 1955 and in 1956 a special premium, corresponding to 20 and 15 per cent. respectively of the sum saved, should be paid on voluntary savings up to S.Kr. 1,000, provided that they were not drawn upon until 1961.

In Norway the fundamental position was somewhat different from that in the other Scandinavian countries, since in the post-war period investment for the purpose of building up the mercantile marine and domestic industries had been deliberately undertaken on a scale which made it necessary to secure a substantial inflow of funds from abroad. In 1954, however, the deficit on the current account

of the balance of payments rose to N.Kr. 1,100 million, as compared with an original forecast of N.Kr. 870 million; and at the beginning of 1955 the first steps were taken to reduce the volume of investment. On 14th February 1955 the discount rate of the Norges Bank was increased from $2\frac{1}{2}$ to $3\frac{1}{2}$ per cent., and the Governor of the Bank, Mr Erik Brofoss, addressing the Bank's Supervisory Council on the 21st of the same month, said that "imports must be limited by a reduction in demand, and disposable incomes must be reduced. Creation of new purchasing power through the monetary and credit systems must be halted.... Steps should now be taken to adjust the current budget to the present situation, and to achieve this it should be reformed in such a way as to exercise a more restrictive influence, both by curtailing investments and by increasing current revenue.... Surplus budgets must limit disposable incomes, higher interest rates and a sales tax on building and construction must check the inclination to build too much and too dear, and industrial concerns must be made more cost-conscious." Mr Brofoss also explained that "an aspect of the higher bank rate which has been an important consideration is the favourable effect it may be expected to have on foreign loan negotiations. It should eventually stimulate greater private interest in exploiting the possibilities for borrowing abroad for the financing of new investments." Earlier in the same month, the Finance Minister, Mr. M. Lid, had explained that "it will be the task of the Government, in co-operation with Parliament and with industrial and labour organisations, to achieve the called-for lowering of the high level of activity, but in such a way that full employment is safeguarded". He went on to state that the government intended to take steps to reduce the cost of living somewhat (mostly by freeing imports) and he added that "the Government considers that the prospects of being able to avoid a wage and price increase should be good, if industry actively co-operates in price cuts in the immediate future. Such action, plus the measures otherwise proposed, which latter will gradually begin to take effect, should make it possible to stabilise the price level, provided that price movements on external markets do not exert too powerful a contrary influence."

It is a matter of considerable interest that the three Scandinavian countries, when faced with balance-of-payments difficulties in 1954, did not go back on their policy of trade liberalisation but instead proceeded to raise the interest rate and to take other financial measures to limit the volume of internal demand. Some of these other financial measures (such as the taxes on investment in Norway and Sweden) may differ from those adopted elsewhere, but the disinclination to reimpose any direct quantitative restrictions, either in the domestic economy or on foreign trade, is unmistakable.

In Finland, too, the question of trade liberalisation has come to the fore. Of that country's exports 80 per cent. consist of pulp, paper, timber and other forestry products, and the fact that the prices of these products have held up well helped Finland to increase its foreign exchange reserves by FM 10 milliard (= \$43 million) in 1954. In December of that year the Bank of Finland lowered its minimum lending rate from $5\frac{3}{4}$ to 5 per cent. and raised its maximum rate from $6\frac{3}{4}$ to $7\frac{1}{2}$ per cent., the net effect being a certain increase in the average rates actually charged. The purpose of this step was to moderate the demand for credit. Moreover, in March 1955 the Bank of Finland concluded an agreement with the various banks whereby the latter undertook temporarily to increase their cash reserves at the central bank. One source of difficulty has been the fact that, in order to limit the rise in wages, the government agreed late in 1954 and again early in 1955 to increase subsidies, thus imposing an extra strain on the budget. In the situation which has arisen the need is felt for increased competition from abroad through the liberalisation of trade — a question which was examined

by the Finnish Economic Council early in 1955. The goal is, as stated in March 1955 by the Minister of Commerce, to permit freer imports under conditions which will not impair the real value of the currency. It seemed certain, the Minister added, that a change-over to a freer system of trading would have to be accompanied by certain measures of monetary, tariff and general economic policy, and he said that such measures were in fact under active consideration.

Finland's most important trade partner in 1954 was the United Kingdom, closely followed by the U.S.S.R. Trade with the United Kingdom is of outstanding importance for the other northern countries too — a fact which naturally makes them particularly sensitive to changes in the economic climate in the United Kingdom.

In the United Kingdom the expansion of the economy continued throughout 1954 and there was a surplus in the balance of payments for the year as a whole, although towards the end of the year certain difficulties arose on foreign account, so that a number of decisive measures to correct the disequilibrium had to be taken early in 1955.

According to the estimates contained in the Economic Survey (published at the end of March 1955), the gross national product rose, in real terms, by 4 per cent. from 1953 to 1954, reaching a figure of £15,500 million. Three-quarters of the increase was accounted for by industries covered by the index of production, which rose by 6½ per cent. It is estimated that the total of personal incomes, after payment of taxes, rose by £645 million, or nearly 5½ per cent., and that consumer expenditure increased by almost exactly the same amount — which suggests that the total of personal savings remained the same as in the previous year, representing some 7 per cent. of personal incomes after tax. There was, however, an increase in other forms of saving, and the country's net savings (i.e. excluding depreciation allowances) may be put at about 14 per cent. of the national income. Gross fixed-capital formation is estimated to have risen by almost 7 per cent. in 1954, to a figure of nearly £2,500 million.

In relation to other countries, the United Kingdom had a surplus of £160 million on the current account of the balance of payments for the year as a whole, as compared with one of £217 million in 1953. But these figures include "defence aid", which fell from £102 million in 1953 to £50 million in 1954; if such aid is excluded, the surplus is seen to have remained almost unchanged (£115 million in 1953 and £110 million in 1954).

The value of the United Kingdom's exports in 1954 was 4 per cent. higher than in 1953 and, as prices fell somewhat, the increase in volume was rather greater, amounting to 6 per cent. Imports, on the other hand, rose by only about 1 per cent. in value and 2 per cent. in volume. But the impression of comparative stability given by the import figures for 1954 as a whole masks a change in trend in the latter half of the year, when there was a rise in both the volume and the average price of British imports; and this trend continued in the early months of 1955, reflecting, inter alia, the need to replenish stocks of imported raw materials, which had declined in the first half of 1954, and to maintain food stocks at a level considered adequate by private traders, these stocks having been gradually reduced from the high level at which they had been kept under the system of government trading.

United Kingdom: Current account of the balance of payments.

Items	1952	1953	1954	1954	
				First half ¹	Second half ¹
in millions of £ sterling					
Visible trade					
Imports (f.o.b.)	2,946	2,839	3,007	1,471	1,536
Exports (f.o.b.)	2,826	2,671	2,815	1,423	1,392
Balance of visible trade	- 120	- 218	- 192	- 48	- 144
Invisible items (net)					
Shipping	+ 105	+ 124	+ 132	+ 77	+ 55
Interest, dividends and profits	+ 87	+ 59	+ 35	+ 20	+ 15
Travel	- 3	- 1	- 6	+ 4	- 10
Government transactions . .	- 172	- 155	- 169	- 74	- 95
Other Items ²	+ 241	+ 306	+ 310	+ 169	+ 141
Balance in respect of in- visible items	+ 258	+ 333	+ 302	+ 196	+ 106
Total current balance					
Excluding defence aid . . .	+ 138	+ 115	+ 110	+ 148	- 38
Including defence aid . . .	+ 259	+ 217	+ 160	+ 172	- 12

¹ Provisional estimates.

² Includes a number of miscellaneous items, such as the overseas transactions of oil companies (other than capital expenditure) and payments in respect of insurance, civil aviation, royalties, commissions, banking and other services.

Note: When the state of the monetary reserves of the United Kingdom is being considered, attention is usually concentrated on the gold and dollar reserves. These rose in 1954 by £87 million (= \$244 million) but, if account is taken of the changes in other monetary assets and liabilities — viz. the holdings of other currencies, a repayment of £78 million to the European Payments Union and one of £40 million to the International Monetary Fund, an increase of £197 million in sterling liabilities and some minor items — it is found that the net improvement in the assets and liabilities affecting the monetary reserves of the United Kingdom was £8 million. After deduction of this addition from the current balance-of-payments surplus of £160 million (shown in the above table), there remains an amount of £152 million, which gave rise in 1954 to a corresponding net increase in the country's overseas investments, as compared with an increase of £200 million in the previous year.

This change in trend in the course of 1954 is clearly revealed by the balance-of-payments figures.

The surplus of £172 million in the first half of 1954 was, according to the provisional estimate, turned into a deficit of £12 million in the second half, but this is for various reasons the seasonally weak period of the year, so that this deterioration in the situation was not in itself a very serious matter. It must be considered, however, in conjunction with the upward trend of the United Kingdom's imports in the latter half of the year (a trend which continued in the early months of 1955) and in relation to the balance of payments of the whole of the sterling area.

For the rest of the sterling area a surplus of £108 million in 1953 was replaced by a deficit of £153 million in 1954 — a reversal which was due to a large increase in imports unaccompanied by any increase in exports. There was, in fact, a modest rise in the exports of the rest of the sterling area to the continental countries of western Europe, which required in particular more raw materials to sustain their continuing economic expansion; but exports to most other non-sterling-area countries fell, this decline being largely attributable to a reduction in the purchases of the United States and Canada, whose demand for imported raw materials was noticeably diminished by the recession (cf. the graph in chap. IV). It may be that the economic recovery in these two countries will soon give rise to an increase in their imports, but in the meantime some of the countries of the rest of the sterling area have had to take action themselves to rectify their balance-of-payments position.

In Australia, import restrictions were tightened up again in March 1955, though not as severely as they had been early in 1952. In New Zealand, where

Balance of payments of the sterling area.¹

Items	1952	1953	1954	1954	
				First half	Second half ²
in millions of £ sterling					
United Kingdom					
Current balance with					
Rest of the sterling area . . .	+ 379	+ 173	+ 269	+ 114	+ 155
All other countries	- 120	+ 44	- 109	+ 58	- 167
Total	+ 259	+ 217	+ 160	+ 172	- 12
Rest of the sterling area					
Balance with					
United Kingdom	- 379	- 173	- 269	- 114	- 155
All other countries	+ 161	+ 281	+ 116	+ 113	+ 3
Total	- 218	+ 108	- 153	- 1	- 152
Balance of whole of sterling area with all other countries	+ 41	+ 325	+ 7	+ 171	- 164

¹ Including defence aid.

² Provisional estimates.

there has also been a drain on the reserves, use is being made of the instruments of monetary policy: in April 1954, the bank rate of the Reserve Bank of New Zealand was changed for the first time since 1941, being raised from 1½ to 3½ per cent., and in November it was further increased to 4 per cent. The commercial banks are moreover being kept on a fairly tight rein as a result of changes in their obligatory reserve ratios.

In the United Kingdom the first signs of a response of monetary policy to the changing situation were already visible in late November, when the rates in the discount market began to rise, reflecting action taken to make the existing Bank rate effective. Thereupon, the Bank of England raised its discount rate from 3 to 3½ per cent. on 27th January 1955; on the 24th of the following month Bank rate was again increased, this time to 4½ per cent.; and the Chancellor of the Exchequer announced in the House of Commons the following additional measures:

- (i) the reimposition of certain restrictions on hire purchase, together with a request to the Capital Issues Committee to adopt a stricter attitude with regard to the provision of finance for hire purchase;
- (ii) the granting of authority to the Exchange Equalisation Account to use wider discretion in operating the markets through which sterling was being traded at a discount.*

The Chancellor went on to explain that what was needed — and was now proposed by the government — was the taking of “steps to moderate excessive internal demand” and that he was “determined not to allow an unhealthy position to develop in which the very prosperity we have enjoyed should have unhealthy effects on our balance of payments”.

The deterioration of the balance of payments was not due to the state of the public finances; on the contrary, it was accompanied by a substantially larger budget surplus “above the line” than had been anticipated.

The actual figures for government revenue and expenditure for the financial year 1954-55 and the estimates for 1955-56 are shown in the table on the following page.

* The most important of these markets is that for transferable sterling.

United Kingdom: Budget accounts.

Items	1954-55	1955-56	Items	1954-55	1955-56
	actual	estimates		actual	estimates
		in millions of £ sterling			in millions of £ sterling
"Above the line"					
Revenue			Expenditure		
Inland revenue (taxes on income and profits)	2,541	2,478	Consolidated Fund services (mainly debt service) . .	685	699
Customs and excise. . . .	1,872	1,928	Defence.	1,436	1,494
Other revenue.	325	304	Civil expenditure.	2,204	2,369
Total revenue	4,738	4,710	Total expenditure	4,305	4,562
				Surplus "above the line"	433
"Below the line" (capital receipts and payments)					
Receipts			Payments		
Repayments	63	65	Loans to local authorities	353	320
Interest outside the budget	104	120	Interest outside the budget	104	120
Other receipts.	24	7	Other payments	235	336
Total receipts	191	192	Total payments	692	776
Net payments "below the line" . . .	501	584			

Note: The national debt at the end of March 1955 stood at £26,933 million — an increase of £350 million over the year, £68 million of this amount being accounted for by borrowing to cover the deficit "below the line". The greater part of the increase, however, was due to the provision of an additional £300 million for the sterling capital of the Exchange Equalisation Account to enable it to finance the increase in the gold and dollar reserves which took place early in the financial year.

The surplus "above the line" amounted in 1954-55 to £433 million (compared with an estimate of only £10 million), the improvement being equally due to an increase in revenue and a shortfall in expenditure. Thus over four-fifths of net capital expenditure ("below the line") was covered by the current surplus "above the line". In presenting the budget for 1955-56, the Chancellor of the Exchequer stated that, on the basis of existing rates of taxation, he would have had an estimated surplus of £282 million; of this, £134 million, or not quite one-half, was to be used for a tax reduction (the main feature being a cut of 6d. in the standard rate of income tax), leaving £148 million as a budget surplus "above the line".

The reduction in the standard rate was from 9s. to 8s. 6d. in the pound, while the rates applicable to the lower levels of taxable income were reduced by 3d. At the same time, the tax-free personal allowance was increased, as were also the allowances for children. It should be added that, with effect from 1st June 1955, the national insurance contribution of employed persons and employers will go up by 1s. per week. This rise, together with increases in national insurance benefits, was announced in December 1954.

Of the net payments of £584 million "below the line", £148 million will be covered, according to the estimates, by the surplus "above the line", thus leaving £436 million to be obtained by borrowing. In addition, borrowing through the issue of stock or in the form of advances from banks will have to be resorted to in order to cover the fairly large projected capital outlay of nationalised enterprises — gas, electricity and the railways. In a period of vigorous business expansion it is, of course, of particular importance to restrain the capital requirements not only of the private but also of the public sector sufficiently to make it possible to rely only on non-inflationary methods of financing.

In several countries other than the Scandinavian countries and the United Kingdom, the increase in imports which accompanied the marked industrial expansion led towards the end of 1954 to a decline in the current balance-of-payments surpluses and, in the case of some of them, also to drafts on their foreign exchange reserves without, however, prompting any immediate increase in the official discount rates. In fact, a number of countries had reduced their rates in the first half of 1954; and the only changes in the second half were also reductions — one from 4 to $3\frac{3}{4}$ per cent. by the Bank of Spain on 1st July and one from $3\frac{1}{4}$ per cent. to 3 per cent. by the Bank of France in December 1954.

For France 1954 was in many respects a most successful year. Industrial production rose by $8\frac{1}{2}$ per cent., reaching an average level 52 per cent. above that of 1938. At the same time exports increased considerably and the current deficit of \$276 million in the balance of payments of the whole French franc area in the first half of 1953 was replaced by a surplus of \$78 million in the first half of 1954 (excluding all receipts due to foreign aid, which in the latter period amounted to \$212 million). There has been a distinct revival of the capital markets (see Chapter VII); more than two years of price stability have given rise to a more ample flow of savings and have brought some gold out of private hoards. Moreover, there was in 1954 a net increase of \$483 million in France's gold and foreign exchange reserves — and this after repayments of foreign debts totalling some \$300 million.

The improvement in the position of France has continued in the early months of 1955. It has been facilitated by France's receipts resulting from various kinds of foreign expenditure. Moreover, many exports are subsidised, and special duties were imposed on imports when the liberalisation percentage for trade with other western European countries was raised in stages from 18 to 75. Notwithstanding these duties, however, imports have increased (see chap. IV). If the improvement is to be maintained without the aid of the various exceptional factors at present assisting it, further progress needs to be made towards the solution of certain difficult problems affecting the French economy.

The total money volume in France expanded by $13\frac{1}{2}$ per cent. in 1954.

There is no doubt that the increase which has taken place in the gross national product has been such as to justify an expansion in the volume of money, particularly in view of the fact that the velocity of circulation has been somewhat reduced as confidence in the currency has strengthened as a result of the stability of prices. Furthermore, over one-quarter of the increase in the money volume in 1954 had as its counterpart a growth in the country's gold and foreign exchange reserves, the situation being in this respect different from that in previous years (see chap. VII). Nevertheless, the increase in the money volume was still partly due to the method of financing government expenditure and to the continued granting of medium-term credits rediscountable at the Bank of France. In an address given on 27th April 1955, the Governor of the Bank of France, Monsieur Wilfrid Baumgartner, said that in 1954 the volume of money increased rather more than

France: Formation of the money supply.

Items	1951	1952	1953	1954
	in milliards of French francs			
Changes in money supply				
Currency	+ 293	+ 241	+ 186	+ 241
Demand deposits	+ 265	+ 240	+ 285	+ 395
Total	+ 558	+ 481	+ 471	+ 636
Changes in corresponding items				
Gold and foreign exchange	- 209	- 43	- 11	+ 169
Credit to public authorities	+ 198	+ 213	+ 257	+ 164
Credit to the private economy*	+ 550	+ 386	+ 247	+ 334
Total credits	+ 748	+ 579	+ 504	+ 498
Other items (net)	+ 19	- 55	- 22	- 31
Grand total	+ 558	+ 481	+ 471	+ 636

* Including the nationalised industries.

production and the national income and that this "should make us mindful of the fact that there is still a certain danger of inflation". In the same address Monsieur Baumgartner mentioned that the exact total of the French gold and foreign exchange reserves was not published but that it was possible to conclude from the various items in the returns of the Bank of France that the reserves amounted at that time to more than Fr.fcs 500 milliard. It can thus be assumed that the present total of the reserves is somewhat above that figure, which is equal to \$1,430 million.

In its report for 1954, the National Credit Council refers to the monetary problem in the following words: "Even though the expansion of the money volume has taken place in response to the economy's needs, there is no doubt that the methods of its formation have not sufficiently corresponded to the increase in foreign exchange assets; too great a proportion of new investments, whether they are financed by mobilisable medium-term credits or by state advances and subsidies, still depend on money creation; the deficit in fact forces the Treasury to have continuous recourse to the placing of bonds with the banks. Personal savings, although increasing, remain insufficient to meet the total needs for new investment."

The Seventh Report of the Investment Commission (published early in 1955) gives certain estimates of the total amount of gross investments in the French franc area in recent years and of how they were financed (see table on next page).

In each of the three years from 1952 to 1954 about 30 per cent. of total investment was financed by metropolitan public funds. This is, in fact, the main cause of the overall deficit in the French budget. If for the year 1953 (for which final estimates are available) the capital outlay of the government itself and of local authorities (for roads, schools, etc.) is deducted from the total, the remaining amount of government-sponsored investment financed by public funds is Fr.fcs 740 milliard. In that year the overall budget deficit is reported to have been Fr.fcs 887 milliard. In the following year an effort was made to change the character of government assistance in investment financing by giving it less in the form of direct advances and more by the guaranteeing of loans issued by the borrowers direct to the public.

In France, as in most other countries, a distinction is made in the budget accounts between current and capital revenue and expenditure. Certain items of

French franc area: Total gross investments and their financing.

Items	1952	1953	1954 preliminary estimates
	in milliards of French francs		
Investments			
Metropolitan France	2,267	2,272	2,370
Rest of area	363	309	295
Total Investments	2,630	2,581	2,665
Financed by			
Metropolitan public funds	836	853	866
Local resources of overseas territories. . .	221	161	158
Metropolitan funds other than public funds:			
Loans by specialised institutions*.	88	112	170
Issues of shares, bonds, etc.	106	156	205
Medium-term bank credits	150	184	160
Self-financing	1,229	1,135	1,106
Total financing. .	2,630	2,581	2,665

* These institutions are: the Crédit National, the Crédit Agricole, the Crédit Foncier, the Caisse des Dépôts et Consignations, the Caisse Centrale de Crédit Hôtelier, Industriel et Commercial and the insurance companies.

expenditure may, however, appear in either of these two categories, depending on the origin of the statement concerned and the purpose it is to serve, and the method of classification may also vary from year to year. The most consistent and at the same time most realistic set of statistics are to be found in the regular Treasury returns, from which the figures in the following table have been taken.

As a rule the final results show somewhat larger deficits than the provisional figures available at the end of the year, and this may be expected to be the case also in 1954. The estimated deficit in the budget for 1955 is of the same order of magnitude as that shown by the provisional figures for 1954.

France: Government expenditure and revenue.

Items	1952	1953	1954 provisional figures as at 31st December
	final figures		
	in milliards of French francs		
Budget expenditure			
Civil expenditure	1,664	1,755	1,876 ¹
Military expenditure	1,257	1,290	1,102
War damage and reconstruction	388	399	382
Economic and social investment ²	347	357	343 ³
Special Treasury accounts	45	62	95
Total budgetary expenditure	3,701	3,863	3,873 ⁴
Budget revenue ⁵	2,746	2,976	3,037
Budget deficit	— 955	— 887	— 786
Covered by			
Foreign aid	141	127	163
Loans and Treasury resources	814	760	623

¹ The total includes Fr.fcs 52 milliard of miscellaneous expenditure covered by earmarked revenue.

² The figures do not include guaranteed loans.

³ Includes net payments totalling Fr.fcs 241 milliard from the Fund for Construction, Rural Equipment and Economic Expansion.

⁴ The total includes Fr.fcs 75 milliard of net expenditure not yet charged to the corresponding budget items.

⁵ Foreign aid not included.

The more ample flow of savings is reflected in the increase in the amount of investment financed by the specialised institutions and through the issue of shares, bonds, etc. The figures given in the first table on page 41 show the net yearly increase in medium-term credits. It is estimated that repayments in 1954 of medium-term credits previously granted to nationalised enterprises, industrial and commercial firms and agriculture totalled about Fr.fcs 120 milliard, representing no less than three-quarters of the amount of fresh credits — some Fr.fcs 160 milliard — extended to these sectors in that year. On the other hand, Fr.fcs 120 milliard was advanced in the form of medium-term credits for the construction of houses, against which there were as yet no corresponding repayments. The aim must naturally be to ensure that these housing credits are increasingly furnished by institutions in possession of genuine savings and thus to avoid their being rediscounted with the Bank of France.

The National Credit Council points out in its report that “the attempts to develop the country’s exports were still hampered by the too high level of many French prices”. It is estimated that the total cost of subsidising exports (by direct subsidies and the refund of fiscal and social charges) amounted in 1954 to Fr.fcs 80 milliard (i.e. about 10 per cent. of the total value of exports to foreign countries as distinct from the French overseas territories). On the import side, compensatory taxes of between 10 and 15 per cent. were imposed on certain newly-liberalised imports. In November 1954 these taxes were reduced to between 7 and 11 per cent. The previous rates of between 10 and 15 per cent. are, however, applicable for the time being to most of the goods which were subsequently liberalised (the percentage was raised to 75 per cent. on 1st April 1955).

Taking a broad view of the state of the French economy one finds that there are large sectors which have brought their production methods up to date and are fully able to compete internationally, but that there still remain some branches in which this is not yet the case. Assuming the employment of non-inflationary methods of investment financing, the problem of the disparity in costs and prices may soon be reduced to really moderate proportions — although the need to rationalise industry and commerce is in France, as in most other countries, an ever-present problem.

In Italy, the index of industrial production rose by 9 per cent. during 1954 — a rate of expansion which inevitably put a certain strain on the money and capital markets (see chap. VII). Interest rates on long-term industrial securities remained, however, at between 7 and 8 per cent.; fortunately, current savings, supplemented by various capital receipts from abroad, were sufficient to meet the demand for funds without there being any need to draw on the gold and foreign exchange reserves, which in fact increased during the year by \$55 million.

The development of southern Italy, which is an important part of the government’s programme, and which, owing to modern techniques of irrigation, etc., has nowadays become much more of a practical economic proposition, places a special burden on the country’s resources. As the greater part of the flow of domestic savings is needed to finance further expansion in the parts of the country — especially the north — which are already industrialised, Italy cannot be expected to supply itself all the funds required for such a vast and urgent enterprise. In 1950 it was planned to obtain during the next few years a total of \$100 million from the I.B.R.D. for the Cassa del Mezzogiorno (the public institution set

Italy: Balance of payments.

Items	1953	1954
	in millions of U.S. dollars	
Merchandise trade		
Exports ¹	1,397	1,596
Imports	2,117	2,221
Balance of trade . . .	- 721	- 625
Invisible items (net)		
Transport	134	135
Tourist trade	131	139
Emigrants' remittances	119	114
Other invisible items ²	125	97
Balance of invisible items	+ 509	+ 485
Balance on current account	- 212	- 140
Receipts on capital account		
American aid	133	104
Loans	5	39
Investments	17	53
Total capital receipts . .	+ 155	+ 196
Total balance (change in monetary reserves)	- 57	+ 55

¹ The export figures include deliveries under off-shore arrangements amounting to \$65 million in 1953 and \$123 million in 1954.

² "Other invisible items" include the amounts received in respect of the pay of American troops and the U.S. Army Finance Office, amounting together to \$43 million in 1953 and \$20 million in 1954.

up to carry out the programmes for the development of Southern Italy). Of this amount \$10 million was received during each of the years 1951 and 1953, and in June 1955 a loan of \$70 million was granted for the same purpose.

The number of persons registered as seeking employment was still about 2 million at the end of 1954, and the heavy birth rate of pre-war years has made it difficult to reduce this figure. It should be noted, however, that the annual increase in the working population, which was over 400,000 in 1945 and 1946, is now only about 200,000 and that as a result of the lower post-war birth rate this figure will have decreased by 1967 to less than 100,000, which is no more than the net rate of Italian

emigration in recent years. The so-called Vanoni Plan, published in January 1955, is more a statement of general objectives for all sectors of the Italian economy for the next ten years than a detailed plan of action; but for that very reason it may be said to serve the purpose of presenting a general framework into which the current programme must be made to fit as regards the use of available financial and other resources, their remuneration, etc.

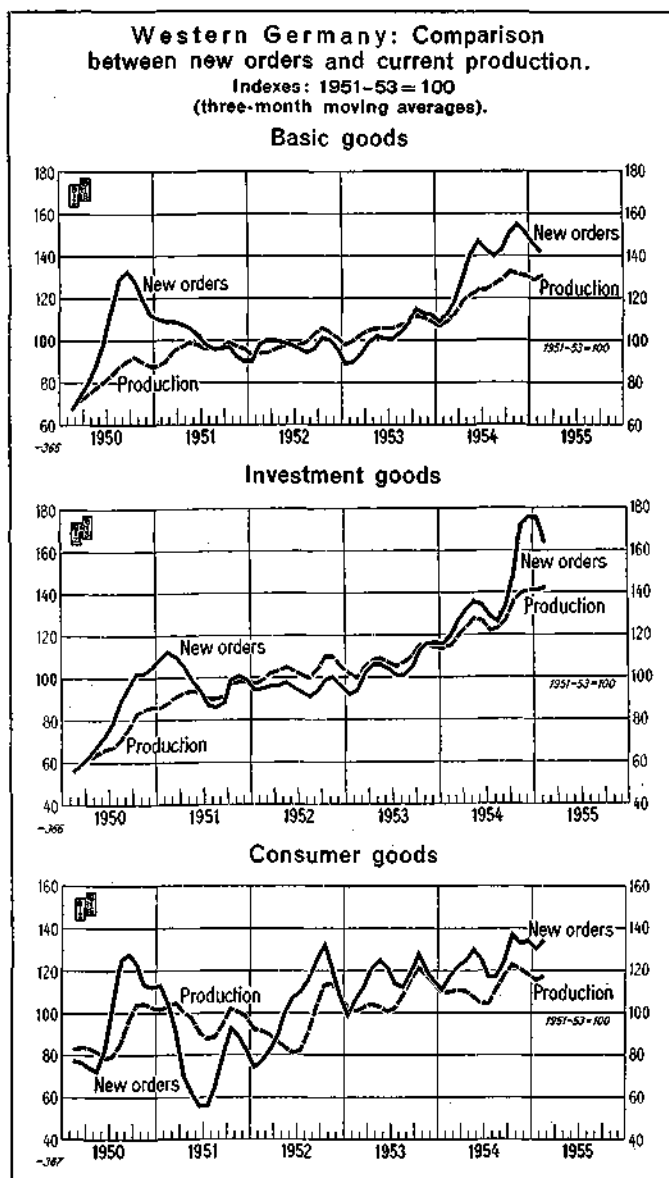
A determined effort has been made in recent years to reduce the overall budget deficit, and thus to increase the proportion of investment expenditure covered out of current revenue. From the provisional results for 1952-53 to the estimates for 1955-56, revenue is shown to have risen by about one-third, the increase being partly due to the expansion of the economy but partly also to more effective methods of tax collection.

Italy: Government finances.

Items	1952-53	1953-54	1954-55	1955-56
	provisional results		estimates	
	in milliards of lire			
Expenditure	2,304	2,381	2,355	2,726
Revenue	1,807	1,990	2,058	2,446
Budget deficit	- 497	- 391	- 297	- 280
Treasury deficit . .	- 375	- 257		

Note: The expenditure includes all outlay on investment account, including the allocations of Lit. 120 milliard per annum to the Cassa del Mezzogiorno.

The Treasury deficit represents the difference between cash receipts and payments during the year, whether in respect of the current year or of previous budget years, while the budget deficit represents the difference between commitments and revenue in respect of a given fiscal year. The difference between the two deficits is expected to be almost negligible in the fiscal year 1954-55.



In western Germany, the volume of production continued to increase at a rapid rate in 1954; it is estimated that the gross national product was 8.2 per cent. larger than in the previous year, having reached a total of DM 145 milliard in terms of current prices (compared with DM 90 milliard in 1950). While government consumption of goods and services rose by 7 per cent. and private consumption by 8 per cent., fixed investments went up by an estimated 10 per cent., and reached a total of DM 30.6 milliard, equal to 21 per cent. of the gross national product. The demand for investment goods both from the domestic economy and from abroad became particularly strong during the latter half of the year, with the result that by the end of 1954 the new orders were well ahead of current production. As can be seen

from the graph, the demand for consumer goods also exceeds current production, though in this case the disparity is not as marked as it is in the investment-goods sector.

The vigorous spurt in production in 1954 led to an increase of more than 700,000 in the number of persons employed; in the course of the year it became increasingly difficult to obtain additional workers — which is particularly remarkable in view of the fact that since the war some 8 to 9 million refugees from the east have entered western Germany.*

* It is true that 894,000 people were still reported as unemployed at the end of April 1955, but many of them, for health reasons, are not fully employable; and it has often proved difficult to move refugees from the rural districts where they were first settled to the industrial areas, where the demand for workers is particularly strong.

Under the influence of the growth in production and consumption, which was accompanied by a replenishment of stocks, western German imports, facilitated as they were by the extension of trade liberalisation, increased by as much as 21 per cent. The value of exports went up by 19 per cent.; for 1954 as a whole the export surplus, at DM 4,172 million, was larger than in any previous year, but the monthly surpluses began to decline in the autumn and continued to do so in the early months of 1955.

In 1954 the balance-of-payments surplus was again the most important factor contributing to the increase in the liquidity of the German market.* Net purchases of foreign exchange by the Bank deutscher Länder and the other banks amounted to DM 2,890 million in 1954; but there was also an increase of DM 1,403 million in the volume of credit granted by the whole credit system over and above the amount which was offset by long-term funds received by the banks,

Western Germany: Balance of payments.

Items	1953	1954
	in millions of Deutsche Mark	
Current account		
Merchandise trade		
Exports (f.o.b.)	18,596	22,140
Imports (f.o.b.)	14,838	17,968
Balance of trade	+ 3,758	+ 4,172
Invisible items		
Receipts	3,822	4,512
Expenditure	3,526	4,584
Balance of invisible items	+ 296	- 72
Balance on current account	+ 4,054	+ 4,100
Capital account		
Foreign aid	+ 265	+ 290
Unrequited remittances . .	- 323	- 523
Debts and credits		
Repayments of debt and investment abroad (-)	- 359	- 1,388
New credits (net)	+ 163	+ 336
Net capital outflow (-) . .	- 196	- 1,052
Balance on capital account net out-movements (-)	- 254	- 1,285
Errors and omissions . .	- 207	- 150
Change in monetary reserves	+ 3,593	+ 2,665

and this, in conjunction with some minor factors, caused the volume of notes, coins and demand deposits to rise by DM 2,981 million, or 12.7 per cent., in 1954. Of the increase of DM 3,807 million in the total of demand deposits, no less than DM 1,781 million represented a growth in the deposits of the public bodies and may, in view of the surplus in the public finances, be regarded as temporarily sterilised.

Note: The repayments of debt under the London Agreement amounted to some DM 900 million, while western German investments abroad rose by about DM 320 million, as compared with an increase of DM 200 million in 1953. The most important of the foreign credits of DM 336 million obtained by western Germany in 1954 was one of DM 135 million granted to various German firms by the European Coal and Steel Community.

The credits extended by western Germany via the E.P.U. and under bilateral agreements are counted as part of the monetary reserves. The E.P.U. credits rose by DM 271 million in 1954, whereas the credits granted under bilateral agreements (largely with Latin American countries) had declined by DM 358 million by the end of 1954, leaving an amount of DM 536 million outstanding.

* To judge by the rapid rise in the national product, there has undoubtedly been a need for an increase in the money volume in western Germany. Such an increase was desirable also from the point of view of international equilibrium. In its annual report for 1954 the Bank deutscher Länder explained that its policy corresponded "not only to the internal monetary position but also to the rules of the traditional gold-standard mechanism, as determined by the balance of payments, when it had not only refrained from intervening by employing the instruments of credit policy to curb the expansionist tendencies connected with its purchases of foreign exchange but had rather admitted these tendencies by the reduction in its discount rate in May 1954".

In order to enable the Bank deutscher Länder to cope with a situation in which the market threatened to become excessively liquid, an arrangement was made in the spring of 1955 whereby DM 2,000 million of the so-called Equalisation Claims owned by the bank were exchanged by the Federal Government for money-market securities which could be used for open-market operations. The possession of these securities is an important extra weapon, since it helps the central bank to withdraw funds from or place funds on the market whenever it finds it desirable — steps which can, at its discretion, be reinforced by a simultaneous change in the discount rate or in the reserve requirements applying to the banking system.

The longer-term and short-term credits granted by banks rose in 1954 by DM 11 milliard, or 25 per cent., and in addition the banks bought securities, most of them tax-free, for a net amount of some DM 2 milliard, which also involved an extension of credit. Although the various credit institutions received time and savings deposits and other long-term funds to the value of DM 11.5 milliard, the high proportion of investment funds channelled through the banking system may well give rise to some concern. These trends have made it more necessary than ever to proceed with the development of a properly functioning capital market.*

In its report for 1954 the Bank deutscher Länder again stresses the need for "strengthening the rôle of the security market in the general formation and employment of capital, since a broad security market makes it possible to use capital in the most rational way and facilitates the consolidation of bank credit, which is desirable for many reasons". With this end in view, the tax exemption previously granted in respect of income from public bonds and "social" mortgage bonds was finally withdrawn as from the beginning of 1955 and the preferential tax rates applying to income earned on other fixed-interest-bearing securities were abolished. These special measures were originally introduced in order to facilitate the rehabilitation of the capital market in its early stages but, since they made it much more profitable to lend for some purposes than for others, they had the effect of distorting the capital market. Of the DM 4.8 milliard absorbed by the capital market in 1954, no less than DM 3.2 milliard consisted of tax-privileged securities in the form of mortgage bonds and municipal bonds — part of this representing a raising of funds in advance of current needs. Now, however, that all borrowers have to compete on the same fiscal terms for the favour of investors, industry should have a greater opportunity to obtain its fair share of the long-term funds available on the market instead of having to rely, as heretofore, mainly on self-financing plus bank borrowing.

The remarkable recovery of Austria after the new financial programme had been put into effect in 1951-52 is perhaps most strikingly shown by the fact that industrial production increased by 16 per cent. from 1952 to 1954 and that the country's gold and foreign exchange reserves rose from \$87 million at the end of 1952 to \$356 million two years later. In addition to having

* Gross fixed investment and the increase in stocks together amounted in 1954 to DM 35.4 milliard. Of this amount a considerable part was, of course, financed by depreciation allowances and out of the net profits of individuals and firms. DM 3.3 milliard was obtained from the banking system in the form of short-term credits. As regards the provision of long-term finance, the Bank deutscher Länder in its annual report accounts for an amount of DM 17.1 milliard in the following way:

- (i) amount provided from public funds — DM 8.8 milliard;
- (ii) amount obtained via the capital market — DM 8.1 milliard (of which DM 3.4 milliard represented purchases of securities by banks, business firms and private investors and DM 1.3 milliard came from insurance companies, while DM 1.1 milliard took the form of loans from building societies and some DM 2.3 milliard was invested in other ways via credit institutions);
- (iii) the remainder — DM 0.2 milliard — came from foreign aid (counterpart funds, etc.).

benefited by foreign aid and a net inflow of private funds — which would seem to have consisted largely of repatriated capital — Austria is estimated to have had a current balance-of-payments surplus amounting to \$71 million in 1953 and \$68 million in 1954. A change of trend took place, however, in the course of the latter year, an average surplus of \$33 million in the first three quarters having been followed in the fourth quarter by a deficit of \$30 million, mainly owing to a sudden increase in imports. This increase was no doubt partly due to a bad harvest and to the raising of the trade-liberalisation percentage to 75 per cent. in May 1954 and to 82 per cent. from 1st December; but an even more important cause was the very substantial growth in consumption and investment in Austria, leading to larger imports both of machinery and raw materials and of consumer goods.

In 1954 the money supply in Austria expanded by 25 per cent., partly in response to the inflow of foreign exchange and partly owing to the granting of new credit by the banks. But whereas the amount added to the monetary reserves was nearly Sch. 2 milliard less than in 1953, the total of new bank credit extended to businesses was Sch. 3 milliard more than in the previous year. It was on account of these trends, which continued in the early months of 1955, that the Austrian National Bank increased its discount rate in May 1955 from $3\frac{1}{2}$ to $4\frac{1}{2}$ per cent. (see Chapter VII).

Although an attempt has been made to develop a capital market, not very much progress has been achieved so far and, consequently, a large proportion of the funds required for investment purposes is still being obtained in the form of credits from the commercial banks. This is a very difficult matter for Austria, because it has always been the practice in that country for the commercial banks to provide businesses with investment funds, and consequently they often become the dominant partners in industrial and commercial firms — a conjunction of interests which has more than once in the past led to a grave financial crisis affecting the whole economy.

The problems so far dealt with are those facing individual countries, though it will be noted that the difficulties with which they have to cope are often similar, as is the case, for instance, with those arising in connection with the establishment of properly functioning capital markets, one aspect of this question being the difficulty of financing building activity in the absence of such markets. Belgium, Luxemburg and the Netherlands also each have their own particular problems to contend with, but in addition they are actively seeking a solution to those arising from the programme of economic union which was worked out by their exiled governments in London in 1944.

Belgium and Luxemburg, being important exporters of steel and metal products, benefited, generally speaking, by the vigorous economic expansion in western Europe and many overseas countries. But the volume of purchasing power in the domestic economy has increased fairly rapidly, partly owing to the Belgian budget position; imports have risen more sharply than exports, with the result that the current account of the balance of payments showed a deficit for 1954, after having been in equilibrium the previous year.

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

Items	1951	1952	1953	1954
	in milliards of Belgian francs			
Merchandise trade (f.o.b.)				
Imports	109.7	102.6	99.9	107.6
Exports	125.5	109.7	98.0	101.6
Balance of trade	+15.8	+ 7.1	- 1.9	- 6.0
Other trade transactions*	+ 3.3	+ 4.5	+ 4.6	+ 3.9
Invisible items (net)				
Transport	- 8.2	- 4.9	- 2.4	- 3.0
Tourist traffic	- 2.1	- 1.6	- 1.1	- 0.5
Interest and dividends	+ 0.9	+ 0.8	+ 0.8	+ 0.7
Wages earned abroad	+ 1.3	+ 0.7	+ 0.7	+ 1.0
Private donations	+ 0.6	+ 0.2	+ 0.5	+ 1.0
Other items	- 0.9	+ 0.5	- 1.1	- 0.7
Total of invisible items	- 8.4	- 4.5	- 2.6	- 1.5
Balance on current account	+10.7	+ 7.1	+ 0.1	- 3.6

* Commodity arbitrage, trade in processed goods and movements of non-monetary gold.

The problems confronting Belgium have in fact been essentially internal in character, being due, on the one hand, to the government's need to borrow to add to its budgetary resources and, on the other, to the comparative weakness of the domestic market for long-term bonds.

As regards the budget, extraordinary expenditure includes, in addition to certain items of capital outlay, part of the expenditure on armaments and also part of the public-works expenditure and of current allocations to local authorities. Subsidies, on the other hand, including the subsidy of some B.fcs 2 milliard to cover the recurrent deficit of the state railways, are shown as ordinary expenditure. The public debt rose from B.fcs 266 milliard at the end of 1952 to B.fcs 298 milliard at the end of 1954, and in the 1955 estimates the service of the public debt is put at B.fcs 13.5 milliard, which represents 17 per cent. of the total of ordinary expenditure.

Belgium: Government finances.

Items	1952	1953	1954	1955
	actual results			estimates
	in milliards of Belgian francs			
Ordinary expenditure	77.8	77.3	79.1	80.6
Ordinary revenue . .	78.6	74.6	78.0	80.6
Balance	+ 0.9	- 2.7	- 1.1	-
Extraordinary expenditure (net) .	16.8	15.1	13.8	17.3
Overall balance	-15.9	-17.8	-14.9	-17.3

The fairly rapid growth in the public debt in recent years, together with the expected increase in the government's need of borrowed funds in 1955, have given rise to concern, and it was therefore decided in the spring of 1955 to make a thorough examination of the whole budget situation with a view to reducing the gap between revenue and expenditure.

In the Netherlands, the pronounced austerity policy which was pursued during the first five or six post-war years, owing to the need to make good the damage caused by the war, not only helped to provide the resources for large-scale reconstruction and new investment but also kept costs down more strictly than was the case in other countries. Under the

influence of rising output and a flexible monetary policy, it became possible, once the Korea crisis had been surmounted, to remove most of the remaining direct controls and also to begin to reduce taxation, with the consequence that costs and prices in the Netherlands are now more in line with those in the other countries of western Europe. One of the signs that such an alignment was taking place was an upward movement of wages, which rose by 16 per cent. in 1954. As this movement set in, it was asked in some quarters whether the necessary adjustment to conditions in foreign countries could not be better achieved by a revaluation of the florin. In answer to this question the Minister of Finance stated in Parliament that, in his opinion, an autonomous alteration of the rates of exchange should only be made in extreme circumstances. For a country such as the Netherlands, which depends so much on foreign countries for its well-being, the maintenance of stable rates of exchange is of paramount importance. He considered that, as a matter of principle, adjustments in the domestic economy should not be effected through modifications in the rates of exchange.

In its report for 1954, the Nederlandsche Bank added that it is neither practicable nor desirable for the government, by means of anti-cyclical measures, completely to neutralise the effects of occasional strong inflationary or deflationary impulses originating in other countries. The most that can be done is to attenuate these influences by responding to them after a certain interval of time. It is more to the point to try to prevent such impulses from arising and much progress can be made in this direction by action designed to bring about a speedy transition to a system based on convertibility.

With a rise of 16 per cent. in wages and one of 6 per cent. in the cost of living there was, of course, an increase in consumption; but this increase did not take place at the expense of private saving or of investment; indeed, the volume of fixed investment was greater than in any previous year, while investment in stocks and work in progress reached once more the record levels attained in 1950-51. The increase in domestic expenditure was reflected in a reduction in the current surplus of the balance of payments.

Larger movements on capital account in 1954 resulted in net foreign investments of about Fl. 260 million, and, with account taken of some Fl. 50 million in aid from the United States, there was left some Fl. 270 million to swell the

country's holdings of gold and foreign exchange (compared with Fl. 880 million in 1953). The development of the government's finances had practically no effect on the liquidity position, but local authorities had an increased deficit, in spite of higher tax revenue. The liquidity position of the banks was still easy, owing to the growth in their cash holdings in recent years, so that, although strictly observing the gentleman's agreement regarding their cash reserves which was concluded early

Netherlands:
Current account of the balance of payments.

Items	1952	1953	1954
	in millions of florins		
Merchandise trade (f.o.b.)			
Imports	7,212	8,155	9,717
Exports	7,312	7,738	8,612
Balance of trade	+ 100	- 417	- 1,105
Invisible items (net)			
Services	+ 1,536	+ 1,466	+ 1,291
Interest and dividends	+ 224	+ 230	+ 296
Net total of invisible items	+ 1,760	+ 1,696	+ 1,587
Balance on current account	+ 1,860	+ 1,279	+ 482

in 1954, they were able to increase the amount of credit granted fairly considerably, the total having gone up by Fl. 455 million, or 23 per cent. The money supply expanded by Fl. 560 million (almost exactly one half of which was accounted for by notes and the remainder by bank accounts); this rise of 6.7 per cent. was accompanied, however, by a growth of 6 to 7 per cent. in the real national income. In general, it seems to have been the policy of the Dutch authorities to permit such changes in their financial and economic position as would help to establish a true equilibrium in relation to other countries.

Although the steps taken by the Benelux countries towards economic union in some ways benefited all three from the very beginning by increasing their mutual trade, the principal benefits to each of the partners were felt at different times and were also somewhat different in character. At first, the Netherlands derived a distinct advantage from being able to supplement its still meagre supplies by imports, partly on credit, from Belgium, and this also helped it to neutralise part of its money supply, which at that time was excessive. Some Belgian industries — especially the textile industries — found a useful outlet in the Dutch market for certain of their products. Later on, stronger competition from the low-cost Dutch economy exerted a useful influence on the pricing of Belgian goods, and recently there has been a reversal of the capital movements, this time in the direction of Belgium.

One interesting fact which has emerged — it really should have been self-evident — is that a union of this kind can work well only when the currencies of the participating countries are more or less equally hard — a condition which has been gradually fulfilled in Benelux, the improvement having led to the almost complete freeing of current and capital payments between the partners (see Chapter V.). There will naturally be in such a union a certain tendency towards the equalisation of costs. The differences in production costs within Benelux have made themselves most acutely felt in the agricultural sector. By a protocol added in May 1947 to the Benelux agreement, agricultural products were, at the request of Belgium, for the most part excluded from the freedom of trade introduced by the Union. In contrast with the fairly sharp price fluctuations which commonly occur in the world markets, the prices paid to Dutch producers have been made fairly stable. One of the problems at present being discussed is whether an alignment of agricultural policies may not also prove possible, especially in view of the fact that Belgium, too, is beginning to be an exporter of agricultural products, in addition to the horticultural products of which Belgium has been an exporter for years. In some respects Belgian agriculture is very highly developed; the yearly output of milk per cow is, for instance, among the highest in Europe, being equal to, if not higher than, that in the Netherlands and Denmark.

Moreover, the substantial rise in wages which has occurred in the Netherlands in recent years has considerably reduced the disparity in costs. In a speech delivered at the beginning of March 1955, the Belgian Minister of Foreign Trade, Monsieur V. Larock, stated that, account being taken of social charges, the difference between the level of wages in the Netherlands and that in Belgium had been reduced from more than 50 per cent. in 1953 to about 30 per cent. in 1954.

In the Benelux customs union there is being developed a free market of some twenty million people which provides a basis for an expansion of trade and, consequently, a degree of rationalisation such as would hardly otherwise have been possible.

Ever since the war wages in Switzerland have, on an average, been well above those for comparable work in most other western European countries; as long as there was a strong demand for goods of all kinds — and in particular for such Swiss specialities as machinery and many chemical products — the disparity did not matter much, especially since Switzerland's industries were definitely in better shape in the early post-war years than those elsewhere on the continent. When, after 1949, the Swiss franc was still kept at its 1936 value, it seemed for a while as if the disparity was becoming even greater. But the situation changed considerably in connection with the Korea boom; and, moreover, as the industries of other countries have gradually become better equipped, the fact that money-wage rates have risen quite considerably in the great majority of countries while remaining relatively stable in Switzerland has reduced the degree of disparity, which might otherwise have been a serious handicap to the Swiss export industries.* One source of difficulty in this connection, however, is the relatively high level of agricultural protection in Switzerland, which has also influenced Swiss policy in other respects (having affected, for instance, the attitude adopted by that country's representatives in several of the O.E.E.C. negotiations in Paris).

Switzerland:
Current account of the balance of payments.

Items	1952	1953	1954*
	in millions of Swiss francs		
Balance of visible trade . . .	- 551	+ 94	- 320
Invisible items:			
Electrical energy	+ 17	+ 10	+ 10
Tourism	+ 360	+ 460	+ 460
Transport of goods	+ 80	+ 80	+ 80
Insurance	+ 80	+ 85	+ 95
Interest, dividends, etc.	+ 340	+ 410	+ 500
Post, telegraph and telephone	- 23	- 24	- 25
Other items	+ 370	+ 325	+ 240
Balance of invisible items . . .	+ 1,224	+ 1,346	+ 1,360
Total balance on current account	+ 673	+ 1,440	+ 1,040

* Preliminary estimates.

Estimates of the current account of the Swiss balance of payments were published in 1954 for the first time by an official institution, the Commission for the Observation of the Economic Trend.

In 1954 — to consider only that year — the gold and dollar holdings of the National Bank and the Federal Government increased by Sw.fcs 545 million, but there was, on the other hand, a net extension of Federal and central-bank credit totalling Sw.fcs 46 million, so that Sw.fcs 591 million of the

* It is often difficult to obtain adequate statistics of changes in real wages, particularly since actual earnings are often not identical with wage rates, and this difficulty becomes greater at a time of boom, when a great deal of overtime is worked, mostly at higher rates. It is not unusual for estimates to differ widely. With regard to the extent to which real wages in Switzerland have improved since before the war, one set of statistics, based mainly on wage rates, which has been given in the reports of the Federal Commission for the Observation of the Economic Trend, shows the increase to have been 15 per cent., while a more comprehensive enquiry into actual earnings, conducted by the Federal Office for Industry, Trades and Labour, puts the increase at 30 per cent. (and this without taking into account the greater social benefits, which are estimated to have added another 6 per cent. to the increase in real wages, cf. also Chapter III.).

year's surplus was accounted for by official transactions. Net private foreign investment amounted to Sw.fcs 765 million, the largest single item consisting of foreign long-term loan issues on the Swiss market amounting altogether to Sw.fcs 395 million, while unspecified transactions (together with errors and omissions) account for Sw.fcs 316 million.

Net annual savings in Switzerland are estimated at over Sw.fcs 3,000 million, corresponding to 15 per cent. of the national income. Domestic investment, especially in building, has risen considerably, having been stimulated by the low level of interest rates, which for a first mortgage average $3\frac{1}{2}$ per cent. or less. If it were not for the substantial volume of foreign lending, the interest rates would presumably have declined still further, and it is therefore recognised that the incentives for Switzerland to export capital are considerable, in any case as long as the rate of private and official savings remains as high as it is now.

In Switzerland, as in several other countries, steps have been taken to guard against a possible excessive liquidity in the banking system. Thus, the National Bank concluded, in the spring of 1955, a gentleman's agreement with some eighty banks whereby the latter undertook to maintain in future certain minimum cash reserves (see chap. VII).

While it would be an exaggeration to say that the problem of arresting inflationary tendencies has been solved in all the countries of western Europe, there has everywhere been a considerable increase in production and, generally speaking, great progress has been made in the financing of investment by means of current savings. The problems which still have to be faced will often give cause for serious concern but need rarely be viewed with alarm. As a rule the authorities and their experts now require, in order to judge what is the best and most practicable course of action, much more knowledge of the structural characteristics of their respective economies and the political implications of particular solutions than was necessary when it was primarily a question of suggesting a way of checking the excessive creation of new money.

In eastern Europe, too, such information as is available points in general to an overall increase in production and to an endeavour to put into practice strict principles of budgetary financing, but these countries also are clearly having to grapple with the problem of how to maintain a satisfactory balance between the various sectors of the economy, while taking into account both domestic requirements and deliveries abroad.

The economic policy of rapid industrialisation by collectivist methods which has been carried out in the U.S.S.R. since 1928 has since the war been extended to other eastern countries as well, where it has in most respects followed the pattern worked out in the U.S.S.R. The basic principle has been to concentrate on the development of heavy industry (instead of beginning by setting up light industries, such as the textile industry — the method usually adopted in non-industrial countries elsewhere). It will be some time, therefore, before the eastern countries are able to achieve a substantial expansion in the output of consumer goods; the need for them has been growing, however, as a result of the rapid increase in the urban population.

Statistics are published of the yearly percentage increases in industrial production in the various eastern countries and these show that, over a number of years, the relative expansion has been more marked in countries, such as Albania and Bulgaria, which had little industry at the outset, while in Czechoslovakia and Hungary, for instance, where the degree of industrialisation was already fairly high, the rate of increase has been decidedly lower. The most rapid growth in industrial output, however, to judge by the official data, has recently been that in the U.S.S.R. itself — amounting to 13 per cent. in 1954, compared with increases ranging from 3 to 11 per cent. for the other eastern European countries (the former in the case of Hungary and the latter in the case of Poland).

The concentration on heavy industry has not meant, however, that no progress has been made in raising the output of consumer goods. In the first place, it should be noted that, whereas the production of consumer goods normally falls within the province of the light industries, in the U.S.S.R. and the other eastern countries certain consumer goods may be manufactured by heavy industry proper; for example, bicycles and bedsteads may be made by armament plants, and watches appear to have been produced, at any rate before the war, in factories controlled by the Soviet Ministry of Heavy Machine Building. But even if one confines oneself to considering the light industries themselves, it is clear that their output too must have expanded, for appropriations for new investments have been made year after year in the budgets and these industries have, moreover, been allowed to invest part of their own profits. There have been changes in emphasis — particularly in 1951 and 1953, and again in 1955. At the end of 1950 and the beginning of 1951 the existing plans for almost all the eastern countries were radically revised, the production goals being set higher, especially for the heavy industries — which meant a widening of the gap between the planned output of the heavy industries and that of the light industries. The new plans drawn up two years later — in 1953 — not only provided for a downward revision of the previously projected increase but also gave relatively more weight to the development of the light industries.

In all the eastern countries the principles adopted have been very much the same; they may be illustrated by the data for Hungary given in the following table.

Hungary: Original and revised targets for industrial production in 1954.

Items	Heavy industry	Light industry
	Index: 1938 = 100	
1954		
Targets up to 1951	340	208
Targets as revised in 1951	632	294
Targets as revised in 1953	481	280
Percentage change		
Upward revision in 1951	+ 86	+ 42
Downward revision in 1953	- 24	- 5
Net raising of targets resulting from 1953 revision in comparison with those aimed at up to 1951	+ 42	+ 35

In 1951 the production targets for 1954 had been raised beyond the original plan figures by 86 per cent. for the heavy industries and by 42 per cent. for the light industries. The downward revision of targets in 1953 reduced the projected increases over the original plan figures to 42 per cent. for the heavy industries and 35 per cent. for the light industries, so that the difference between the goals set in the two sectors was no longer very great.

According to statements made early in 1955, a new revision, providing for a further emphasis on the heavy industries, seems to be in the offing, but it appears that the changes envisaged are fairly moderate (especially in comparison with those introduced in 1951).

Agricultural production in the eastern countries has been affected not only by the changes resulting from far-reaching collectivisation but also by the movement of workers to the industrial centres. According to several recent official statements, there is an urgent need in the U.S.S.R. and in some of the other eastern countries for an increase in the output of food, and the measures which have been decided upon in order to deal with the situation include the ploughing-up of about 30 million hectares of virgin land in Kazakhstan and southern Siberia, whereby, it is estimated, the total sown acreage in the Soviet Union will be enlarged by one-sixth and production of cereals increased by some 30 million tons, thus raising total grain output from about 130 million tons in recent years to about 165 million in 1960. Until recently the usual diet of the population of the U.S.S.R. consisted mainly of foodstuffs of vegetable origin, as was also the case under the previous régime. To provide more nourishing and interesting fare, of course, more calories of animal origin are required, and when, for instance, meat or eggs are produced, between 60 and 90 per cent. of the nutritive value of the feeding stuffs given to the animal or bird is "lost". It is therefore imperative, when seeking to improve the quality and especially to increase the variety of a nation's food supply, to raise the output of cereals, particularly maize — not in order to increase the amount of calories available for direct human consumption but in order to supply the feeding stuffs necessary to expand production of foods of animal origin, i.e. eggs, meat and dairy produce.

The growth in the demand for consumer goods has led in a number of the eastern countries — not least the U.S.S.R. — to an increase in imports of such goods. In 1954 the U.S.S.R. alone, which imported twelve times as much meat in that year as in 1953, was the third largest meat importer in the world (coming after the United Kingdom and the United States), and the eastern countries were also substantial importers of butter, coffee, cocoa, citrus fruit and other similar products.

No price reduction was decreed in the U.S.S.R. in the spring of 1955 such as there had been in the seven previous years, but reductions were made in prices in some of the other countries, notably Bulgaria, Czechoslovakia, Poland and Roumania. The actual prices paid by consumers are affected by the turnover tax, which is one of the mainstays of the public finances of these countries, and also by the margin of profit which the state enterprises

are allowed. In recent years the government of the U.S.S.R. seems to have placed a little less reliance on the yield of the turnover tax and correspondingly more on the share of the profits which is entered as revenue in the state budget.

The following table shows some of the main data available in respect of the U.S.S.R. budget.

U.S.S.R.: State budget 1953-55.

Items	1953	1954		1955
	actual	estimates	actual	estimates
in milliards of roubles				
Revenue				
Turnover tax	243.6	234.4	.	233.7
Tax on profits	70.3	92.8	.	117.5
Other direct taxes	46.1	45.7	.	48.4
State loans from the public	17.3	15.9	.	30.5
Other revenue	162.5	193.7	.	160.1
Total revenue	539.8	572.5	557.5	590.2
Expenditure				
National economy				
Heavy industries . . . . .	.	79.7	.	101.2
Light industries and trade . . . . .	.	14.2	.	11.4
Agriculture and forestry . . . . .	.	62.5	.	56.1
Other expenditure . . . . .	.	60.0	.	54.6
Total for national economy	180.4	216.4	213.4	222.3
Social and cultural	128.8	141.4	141.9	147.0
Defence . . . . .	.	100.3	.	112.1
Debt service	9.8	10.5	10.2	12.2
Other expenditure . . . . .	.	94.2	.	69.9
Total expenditure	514.7	562.8	552.8	563.5
Balance	+ 25.1	+ 9.7	+ 4.7	+ 26.7

In addition to being financed by budget appropriations, the cost of investment is partly covered by amounts set aside from the enterprises' own funds. The amounts made available in this way are shown in the table below.

It will be seen that there has been a reduction in the amounts available for investment in the light industries both as regards the funds appropriated in the budget and as regards those which may be set aside by the enterprises themselves, but this shift does not mean that there will necessarily be any contraction in the output of these industries.

U.S.S.R.: Investments of enterprises out of their own funds.

Items	1954	1955
	estimates	estimates
in milliards of roubles		
Heavy Industries	53.5	62.4
Light industries and trade	22.4	16.5
Agriculture and forestry	11.9	10.1

Receipts from state loans subscribed to by the population are counted as part of the state's revenue. In May 1955 a tax-free loan, of the usual lottery type, was issued for an amount of Roubles 32 milliard, with a currency period of twenty years, and at a yearly cost to the state of 2 per cent. Actual subscriptions totalled Roubles 34 milliard.

Part of the public expenditure of the U.S.S.R. is financed by the proceeds of loans representing savings which, although they may be to some extent compulsory, are nevertheless genuine. No recourse is had to forced savings of the kind which result from an inflationary expansion of credit. In this respect the other eastern countries may not always have been able to follow the Soviet Union's example, but it is clear beyond all doubt that the authorities in these countries are trying to apply non-inflationary policies.

No foreign-trade statistics are published for the eastern countries, but the extent of their trade with the western European countries may be gauged from the statistics of the latter.

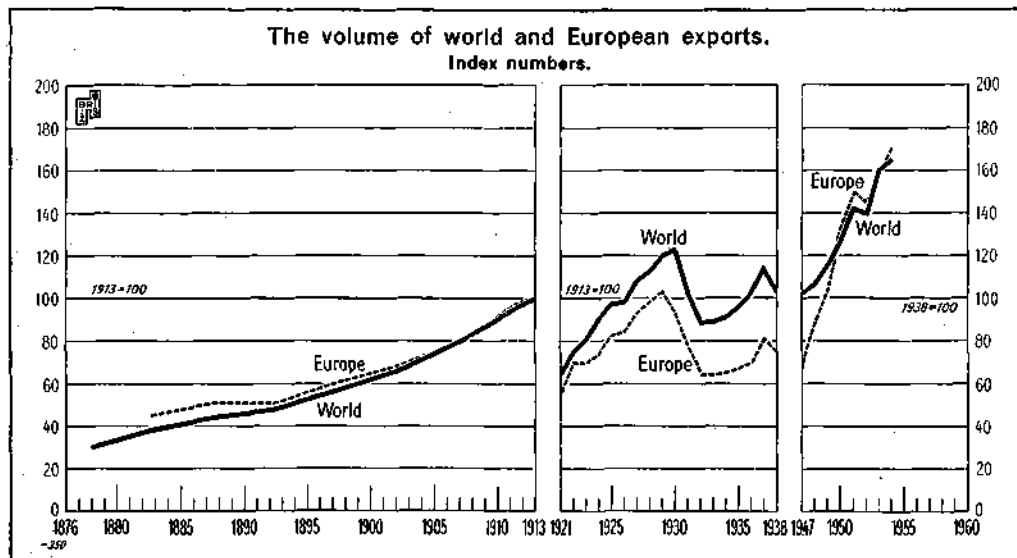
**Western European countries:
Trade with eastern Europe.***

Year	Imports (c.i.f.) from eastern Europe	Exports (f.o.b.) to eastern Europe
	in millions of U.S. dollars	
1951	1,012	747
1952	990	739
1953	908	789
1954	1,034	974

* Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, Roumania and the U.S.S.R.
Source: Figures released in May 1955 by the U.N. Economic Commission for Europe.

Exports from western European countries to eastern Europe increased by about a quarter from 1953 to 1954, reaching their highest post-war figure. Imports from eastern countries increased by over one-eighth and were somewhat above their 1951 level. The proportion of the total trade of the western European countries represented by trade with the eastern countries remains small, having been over 3 per cent. in 1954 (as against some 8 per cent. in 1937).

The foreign-trade turnover of the whole western world (including imports from and exports to eastern countries) amounted in 1954 to about \$160 milliard, of which total trade with the eastern countries would seem to have accounted for a little over \$4 milliard. In general, trade between the eastern and the western countries is conducted on the basis of world-market prices.



Source: U.N. Economic Commission for Europe: Growth and Stagnation of the European Economy, Geneva, 1954.

The previous graph illustrates the very remarkable expansion which has taken place in the foreign trade of the world, and of western Europe in particular, during recent years.

The increase in the volume of world trade indicated by the rise in the index numbers is confirmed by the figures for world shipping tonnage actually employed.

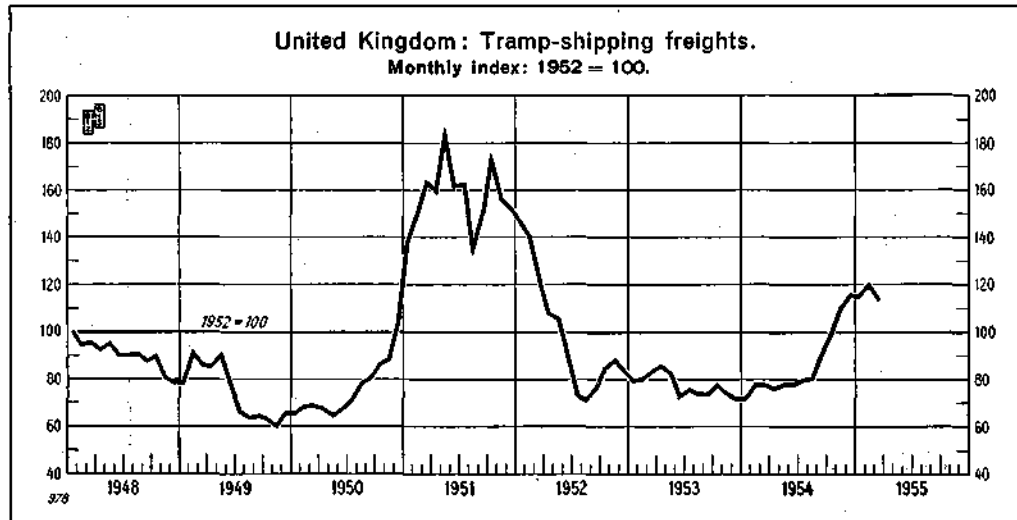
World shipping tonnage.¹

Mid-year	Dry cargo	Tankers	Total tonnage	U.S. tonnage "put into moth-balls"	Total remaining tonnage ²	Tankers as percentage of total remaining tonnage
1914	—	—	45.4	—	45.4	—
1929	59.5	8.6	68.1	—	68.1	13
1939	56.9	11.6	68.5	—	68.5	17
1952	70.2	20.0	90.2	13.0	77.2	26
1953	71.4	21.9	93.3	13.0	80.3	27
1954	72.8	24.6	97.4	14.0	83.4	29

¹ Vessels of 100 gross register tons and over, excluding lake and river tonnage.

² After deduction of U.S. tonnage "put into moth-balls".

The fact that the total of world tonnage is increasing from year to year may be taken to indicate not only that there is a brisk current demand for sea transport but also that this demand is expected to be well sustained in future. It should also be remembered, of course, that this form of transport has generally become more rapid and, on the whole, more economical than it used to be. It is, indeed, an undoubted fact that the amount of merchandise transported has increased at a higher rate than the total of tonnage employed. In view of the recent sharp increase in freight rates one may assume that practically all ships, apart from those laid up in the United States, are actually employed.



The continued upturn in world trade — so contrary to the beliefs and expectations of only a few years ago — has no doubt been partly due to the conscious and deliberate efforts made to lower the obstacles to trade in the form of quotas, high tariffs, inadequate payments arrangements, etc., which are discussed in detail in Chapter IV, but it is also attributable to some significant changes in the world's economic structure.

1. It used to be said — with much justification — that the flow of world trade was governed largely by the extent to which manufactured goods could be sold to the countries supplying raw materials and foodstuffs. Thus a dominant feature of the pattern of trade before the first world war was the exchange of manufactures from western Europe against raw materials and foodstuffs from eastern Europe and overseas countries. Since then, however, the fairly clear distinction between raw-material-producing and agricultural countries, on the one hand, and highly industrialised countries, on the other, has been blurred through the almost universal trend towards industrialisation. For instance, textile and leather industries have been established behind high tariff walls in countries where not long ago hardly anyone knew how to manage a machine; and a beginning has also been made in the building-up of iron and steel and engineering industries. There has been a certain amount of anxiety as to whether this development might not endanger the future prosperity of the industrialised countries, and especially those of western Europe, which are so heavily dependent on overseas trade.

Had there been no technological advance and no new products invented, the damage to the economies of these countries might indeed have been considerable. As it is, nearly all the often very complicated modern machines needed by the new industries can still be obtained only from the older industrialised countries (or, in some cases, from Japan or the U.S.S.R.) and — what is more important — it has been estimated that probably over one-quarter of the goods covered by the world-trade statistics for 1950 consisted of articles which either did not exist at the beginning of the century or existed then only in an experimental form — motor vehicles, aeroplanes, artificial textiles, liquid fuels, many chemical (especially pharmaceutical) products, electrical appliances, etc.* It will be a considerable time before countries now in the

Production of crude petroleum.

Year	North America	Latin America	Middle East	Western Europe	Eastern Europe, U.S.S.R. and China*	Others	World total
in millions of metric tons							
1900	9	0	—	0	11	0	20
1910	29	1	0	0	13	2	45
1920	62	25	2	0	6	5	100
1930	124	34	6	0	25	11	200
1938	172	44	16	1	38	9	280
1946	239	74	34	2	30	1	380
1950	286	104	88	4	45	13	540
1952	332	123	105	4	59	17	640
1953	345	121	121	5	65	18	675
1954	340	130	135	6	70	19	700

* Partly estimated.

* U.N. Economic Commission for Europe: Growth and Stagnation in the European Economy, Geneva, 1954.

early stages of development can produce anything like such a variety of goods (and this, moreover, is becoming ever greater); in the meantime one thing is certain: there will be an active demand from these countries for most of the above-mentioned products — and as the national income per head increases, this demand will grow.

2. A most important new fact affecting one group of raw-material-producing countries is the increase in the output and use of oil in the modern world.

Some 30 per cent. of the shipping tonnage at present in active employment is used to transport oil, most of which comes from areas which had been little developed prior to the discovery and exploitation of their oil deposits. Even today many of the oil-exporting areas have to obtain the bulk of their supplies of manufactured articles from abroad; and the highly industrialised countries have in this way gained quite important new markets.

3. As far as western Europe is concerned, two further points have to be borne in mind:

- (a) While the overseas countries producing foodstuffs and raw materials have been progressively expanding the volume of their exports to the United States, they are now obtaining an increasing part of their supplies of machinery and manufactures from Europe. For some time after 1945, war-damaged Europe was no longer able, as in earlier years, to ensure ready supplies of these types of goods, but now that its industries have to a great extent been rebuilt and rationalised, their products are again available at competitive prices. This so-called "triangular trade", of course, helps to make it possible for Europe to earn, as in the past, the dollars which it needs to pay for its current requirements.

- (b) Even within western Europe there are several countries which are important producers of raw materials or foodstuffs for export. Thus, Finland, Norway and Sweden are the main suppliers of forestry products, while Sweden is also an exporter of iron ore. Denmark and the Netherlands supply dairy produce and Italy fruit and vegetables. With the gradual removal of obstacles to international trade, shipments of these products will in all likelihood expand, thus leading to an increase in imports of other products in return.

4. Finally, there is intensive trade between the industrialised countries themselves. This is nothing new. Before the first world war, when coal was practically the sole source of energy, three major European countries — the United Kingdom, Germany and France — played a particularly prominent part in the production of steel, machinery and chemicals, as well as textiles, though the United States was already an important producer of these goods. But even though these three European countries were self-sufficient in many manufactured products, they carried on with each other a highly developed trade, particularly in certain specialised products, such as silks (from France), dyestuffs (from Germany) and certain types of precision machinery (from the United Kingdom and Germany). Trade between the three countries was, moreover, by no means limited to these products, for they exchanged a very large range and volume of goods. In fact, as is frequently pointed out, before 1914 the United Kingdom and Germany were each the other's best customer. And in 1913 France's exports to the United Kingdom and Germany accounted for 34 per cent. of its total exports, while purchases from these two countries represented one-quarter of all French imports.

With the increasing variety of products which is so characteristic a feature of the present age, no country can be completely self-sufficient and thus the possibilities for trade between the economically fairly similar regions in western Europe and North America have greatly improved. The countries of these regions are providing each other with bigger markets for both capital and consumer goods. Since average real incomes have increased to double or more than double what they were at the beginning of this century, more and more people have the means to buy a wide variety of goods for current consumption. At the same time the demand for capital equipment has grown beyond recognition and, for replacement purposes alone, there is an increasing need for large quantities of specialised machines and machine tools, which are often obtained from other industrialised countries.

While there is little doubt about the broad developments in international trade over the years, it is — to say the least — not very easy to follow the pattern of its distribution according to products because of the thousands of items involved and the difficulty of making direct comparisons

Composition of world exports.

Classes of goods	1928	1937	1952
	as a percentage of total exports		
Foodstuffs and live animals .	25	22	25
Raw materials, including fuels	35	39	30
Manufactured products	40	39	45
Total . . .	100	100	100

Sources: League of Nations, Network of World Trade, Geneva, 1936; G.A.T.T., Etudes commerciales, No. 1, 16th July 1954.

between the pre-war and post-war period, owing especially to changes in classification. The percentages given in the accompanying table can therefore only be regarded as giving an approximate idea of the shifts which have occurred.

These figures seem to make it fairly clear that trade in manufactured products has gained while the relative importance of trade in raw materials has declined.

Most countries naturally allow raw materials needed by their industries to enter freely, in many cases even without duty, their protective measures being directed essentially against imports of foodstuffs and manufactured goods. It is now the objective to extend freedom of trade to all classes of commodities and thus to widen the possibilities for the division of labour among the nations. But account must still be taken of the fact that difficulties may arise in the form of balance-of-payments deficits — few countries being invulnerable to adverse movements on their foreign accounts — and then the authorities may be tempted to seek to restore balance by imposing import quotas or other direct restrictions on trade. In a grave emergency a sudden recourse to such measures may seem unavoidable, but experience has shown that if at such times the increase in domestic spending power is not held in check the result is likely to be a continued rise in demand on the home market and thus a decline in the amount of goods available for export, so that the threat to the balance of payments has not really been warded off at all. The essential requirement, therefore, is to take steps to restore financial balance at home — and the

authorities in most countries have gradually come to the conclusion that the best course of action is to tackle the trouble at its source, relying on the remedial effects of general financial measures which interfere much less than do direct controls with the dynamic forces at work both in the home economy — which will still feel the energising effects of foreign competition — and in trade between nations; hence it must be one of their main objectives to admit imports freely rather than to keep out goods which it is in the country's interests to obtain from abroad. The Chancellor of the Exchequer, Mr R. A. Butler, in his speech on 19th April 1955 introducing the 1955-56 budget said, in discussing the balance-of-payments problem of the United Kingdom, that the government did not believe in a policy which "would involve a return to curtailment of trade, both at home and abroad, a return to controls on consumer choice — even, perhaps, a return to rationing. . . . It is only by looking forward and outward, by expansion, by liberating the human spirit to give and do of its best, that our island people can survive. This is the road we prefer — an adjustment of fiscal and monetary policy which, without cramping or distorting the natural vigour of the economy, maintains the disciplines which are essential to an expanding community."

This statement may be regarded as typical of the general policies which are now being followed in a great many countries, especially in western Europe.

For a flexible financial policy to succeed when business activity is at a high level it is essential, inter alia, that the budget should be in proper balance. This does not mean that the government may never incur a deficit; what is necessary is that the amounts borrowed by the public authorities should be obtained from genuine savings and not simply by means of an expansion of credit. For this condition to be fulfilled, these amounts must not be unduly large, since trade and industry must also be given an opportunity to raise the funds they need without causing an inflationary expansion of bank credit. Unfortunately it has often been the case that in drawing up the estimates of the "national accounts" there has been so much pre-occupation with the question of what supplies of "real resources" are available and of how they are to be employed that there has been a tendency to overlook important problems relating to the methods of financing investment, both public and private, and also any government deficit on current account which has to be covered by borrowing.

Turning now to the influence of credit policies, much experience has recently been gained of the effects of increases in interest rates. Most often the rates have been raised when there has been a deficit in the balance of payments which has had to be covered by drafts on the monetary reserves and when, therefore, national currency has had to be paid in to the central bank (or to an Exchange Account managed by it) for the purpose of meeting the country's foreign exchange requirements. In order to prevent the contractive effect on the credit volume exercised by these in-payments

from being nullified by a fresh extension of credit (made possible, for instance, by the running-off of Treasury bills held by commercial banks), an increase in interest rates is usually called for, in conjunction, if need be, with other measures (such as contractive open-market operations together with requests by central banks to commercial banks to be stricter with regard to the provision of security, etc.).* Here, as in other connections, the question of the availability of credit at the time when action is taken is, of course, of the greatest importance. It may justly be said that in well-organised markets a rise in the price of credit (i.e. in the level of interest rates) is a result of a reduction in the supply of credit in relation to demand.

It used to be the case that when money rates rose in a particular market where credit had become scarce short-term funds could be expected to flow in from other countries in order to take advantage of the higher interest rates. Under régimes of exchange control the flow of funds was less easy to predict; but, even so, there were often capital movements of no mean proportions. International firms with branches in several countries can, for instance, fairly rapidly shift part of their current financing to centres where interest rates are lower. Moreover, whenever a currency has become "suspect", those abroad who have had payments to make in that currency have often tended to postpone settlement as long as possible; and, conversely, holders of the "suspect" currency wishing to purchase foreign exchange have done so without delay. When, in such a situation, the interest rate is increased, a signal is given that the currency in question is to be "defended", and that very fact may help to normalise the timing of payments.

Moreover, this evidence of determination to keep up the value of the currency may have important beneficial effects on the home market. If the initial situation was one of growing distrust in the currency, a quick reaction in the form of an increase in interest rates may help to restore confidence, thus making people feel that it is worth while to save and giving them an incentive to work harder.

Time and again, experience has shown that an increase in the discount rates in the leading centres may have a fairly prompt influence on the prices quoted in the commodity markets. It is difficult to believe that the decline in Moody's and Reuter's commodity-price indexes in the spring of 1955 was not at least partly conditioned by the increases in Bank rate in London in the previous January and February. Quotations on the stock exchange were also affected. Indeed, an increase in interest rates can have the effect of arresting a speculative boom and thus may also influence rates of capitalisation; in some situations and countries, however, it may need to be supplemented by other action.

* It should be borne in mind that in a number of countries savings are deposited by the public for a period of years with the commercial banks, which thus perform to some extent the functions of "savings banks" and are in a position to grant credits which do not in fact increase the money supply. Even so, the handling of a considerable portion of a country's savings in this way contains many elements of risk; a far superior method of financing is that offered by a properly working capital market.

The effects of a raising of interest rates which have been mentioned so far may all be felt fairly rapidly. It will necessarily take longer for an increase in interest rates to exert a more fundamental influence on currents of investment and consumer expenditure and hence to affect the tempo of economic expansion and gradually also the flow of imports and exports, since changes of this nature involve the reversal of decisions already taken for more long-term action. Experience has shown that four or five months must pass before these more fundamental effects can be fully felt — but that then they exert an influence which permeates practically the whole economy.

The immediate effect of an inflow of short-term funds from abroad is, normally, to bring down somewhat the rates of interest quoted in the money market of the recipient country. But it should not be assumed that long-term borrowing from abroad, e.g. for investment purposes, will necessarily have the same effect. Indeed, the immediate consequence may well be the very opposite. In the first place, it may not be possible to obtain from abroad all the capital for the investment in question, so that some may have to be raised internally; secondly, the new investment as such, if it be a project such as the enlargement of a harbour or the construction of steel works, will usually lead to further investment, for instance, the building of houses for workers, etc., and also to the setting-up of other enterprises directly or indirectly connected with the original investment. If the consequent fresh demand for funds is not to lead to an inflationary expansion of credit, rates of interest may well have to be stiffened in the country in which the investment is being undertaken. Such considerations need to be borne in mind, not least by under-developed countries, which may be tempted to assume that they can add to their available resources by some "mild" form of inflationary financing and may not realise that as the public becomes aware that prices are going up and that difficulties are arising in the balance of payments, as is bound to happen before long, its confidence in the currency will tend to be impaired. This is bound to weaken the flow of domestic savings which, after all, must in any country be relied upon to supply the bulk of the resources required for investment. The whole question of conditions in under-developed countries is now being carefully studied — inter alia, under the aegis of the International Bank for Reconstruction and Development — and it is very likely to be concluded that the credit policies which should be pursued in under-developed countries do not differ as much as has sometimes been assumed from those appropriate to other countries.

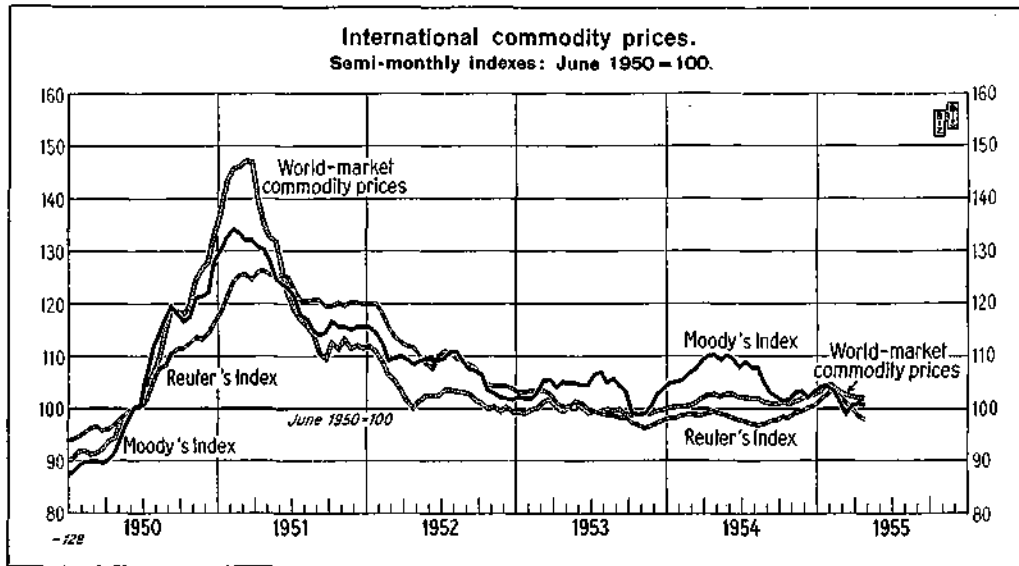
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Among the many misconceptions that have been dispelled by recent experience is the idea that the pursuit of flexible monetary policies and the liberalisation of foreign trade and payments, on the one hand, and a high level of employment, on the other, are mutually incompatible. It has not perhaps been sufficiently realised that there is no question of establishing a

credit system which will work "automatically", the authorities acting merely as technicians and more or less mechanically applying rigid rules, or of keeping fiscal and monetary policy in separate, watertight compartments. Recent developments have added much to our knowledge of what measures can usefully be taken, and we have found out, among other things, that when the world economy is generally buoyant, as it has been on the whole in most post-war years, temporary increases in interest rates do not adversely affect economic progress or, indeed, cause any appreciable rise in unemployment. They do not involve, as do quotas and strict controls over foreign payments, an arbitrary curtailment of the international exchange of goods and services; instead, they have provided the basis for a striking expansion of world trade, which is now, as it has been in the past, an essential element in improving standards of living all over the world.

III. Flexible Prices and Overall Stability.

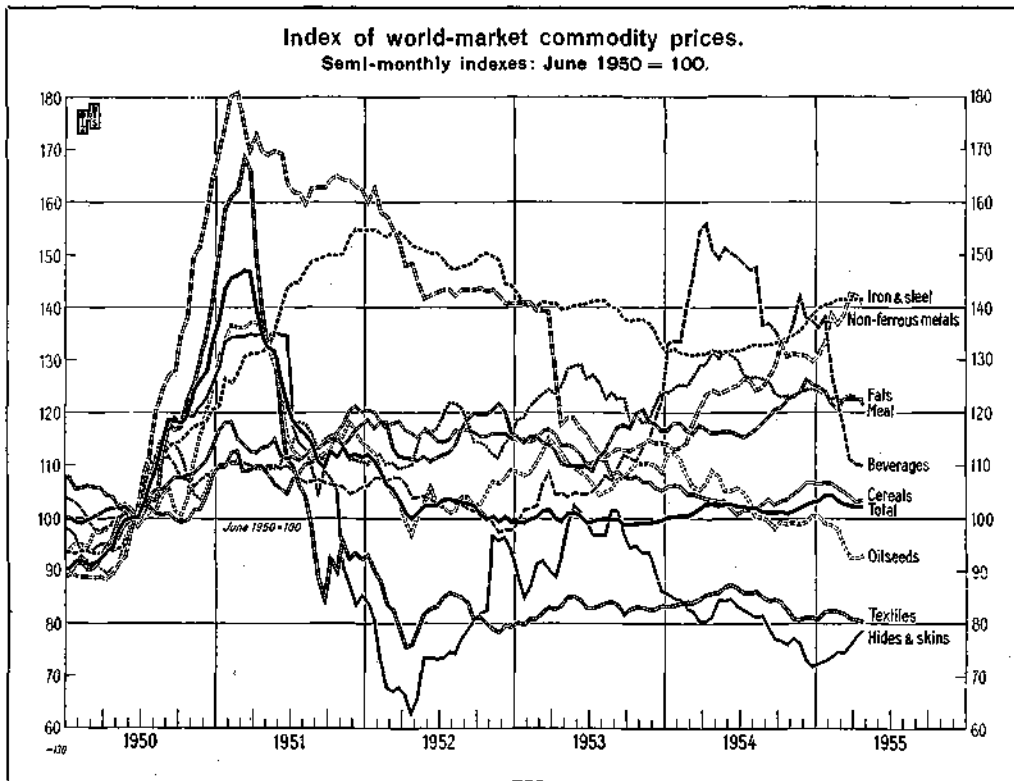
The outstanding characteristic of 1954 in the field of commodity prices was the continued combination of fairly wide fluctuations in individual prices with a remarkable degree of overall stability, which by the spring of 1955 had lasted for fully three years.



As has already been pointed out in the Introduction (page 3), the general stability of the price level and of the cost of living has done much to promote more intensive rationalisation of production and trade, and has at the same time strengthened confidence in currencies, thus bringing about an increase in savings, which in turn has provided the basis for a larger volume of investment and the more effective working of the credit systems in the various countries. This stability has not been the result of direct controls, since these have gradually been removed, but is instead the effect of the operation of genuine market forces aided, in particular, by active monetary and credit policies designed to maintain an overall economic equilibrium during a period of expanding production.

With the return to relatively free markets, the changes in supply and demand have been able to influence day-to-day price quotations and have, in fact, led to some rather sharply divergent movements in the prices of individual commodities and of particular groups of commodities. As may be seen from the graph on the following page, the spread between the various commodity groups showed no signs of narrowing in the course of 1954.

The strength of the diverse movements which took place helps to explain the uneasiness which prevailed in several markets in 1954. How great



Note: Based on the "Index of world-market commodity prices" calculated by R. Schulze (Frankfurt).

were the changes in the prices of some commodities is shown by the table on the following page, which records the quotations for twenty-one commodities according to Reuter's Index, which is compiled mainly on the basis of price quotations in the United Kingdom.

An interesting feature of the year's price movements was that while the changes in the prices of most products were relatively moderate — less than 8 per cent. in either direction — there were many cases in which commodity prices which had fallen sharply in 1953 rose even more sharply in 1954, and vice versa. Indeed, the only outstanding exceptions to this reversal in trend from the one year to the other were the marked rise for two consecutive years in the price of shellac and the steep fall, both in 1953 and in 1954, in the price of pepper.

The commodities which gained most in price were rubber and certain non-ferrous metals, while sharp declines were registered by agricultural products. According to the "Index of world-market commodity prices", the index figure for industrial raw materials rose by 4.8 per cent. between 1st January 1954 and 1st May 1955, whereas that for food fell by 2.5 per cent., one of the highlights of the period under review being the important shift in the relationship between the prices of agricultural commodities, on the one hand, and those of industrial raw materials, on the other.

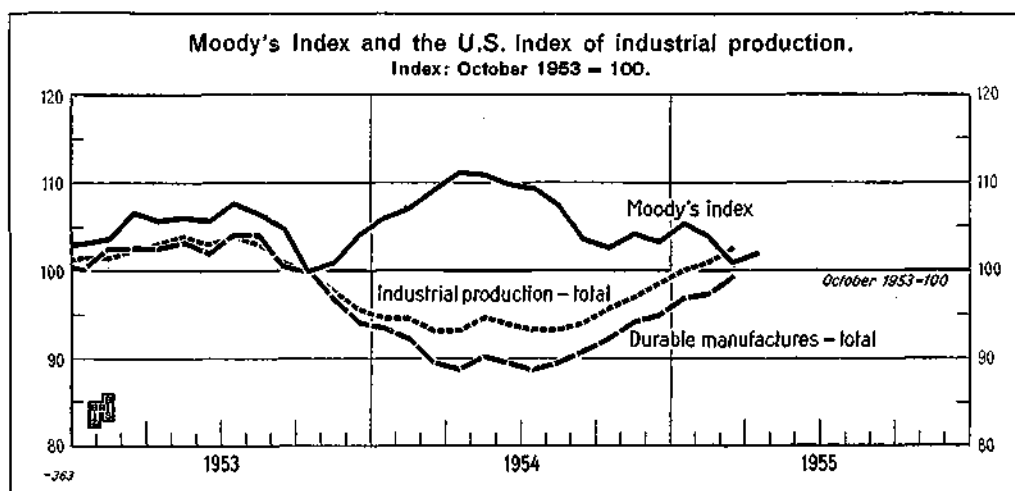
Reuter's Index: Changes in commodity quotations during 1953 and 1954.*

Commodity	Price change during	
	1953	1954
in percentages		
I. Commodities whose prices rose considerably in 1954		
Rubber	- 36.1	+ 77.5
Shellac	+ 59.4	+ 56.4
Copper	- 17.8	+ 23.8
Lead	- 15.9	+ 19.4
Zinc	- 32.2	+ 12.4
Sub-total for group I .	- 19.5	+ 42.5
II. Commodities whose prices changed little in 1954		
Jute	+ 21.4	+ 7.4
Tin	- 30.7	+ 6.4
Linseed	- 13.0	+ 5.0
Cotton	+ 0.5	+ 4.0
Cocoa	+ 47.0	+ 1.9
Gold	0	+ 1.4
Silver	+ 1.4	+ 0.7
Maize	- 5.4	- 0.4
Sugar	- 10.2	- 2.5
Groundnuts	- 24.5	- 4.7
Wheat	- 14.3	- 7.2
Soya beans	+ 3.5	- 7.9
Sub-total for group II .	- 6.6	- 0.5
III. Commodities whose prices fell considerably in 1954		
Copra	+ 4.0	- 18.6
Hemp	0	- 23.2
Rice	+ 18.9	- 30.7
Pepper	- 33.8	- 49.6
Sub-total for group III	+ 8.8	- 29.4
Total index	- 7.0	+ 3.1

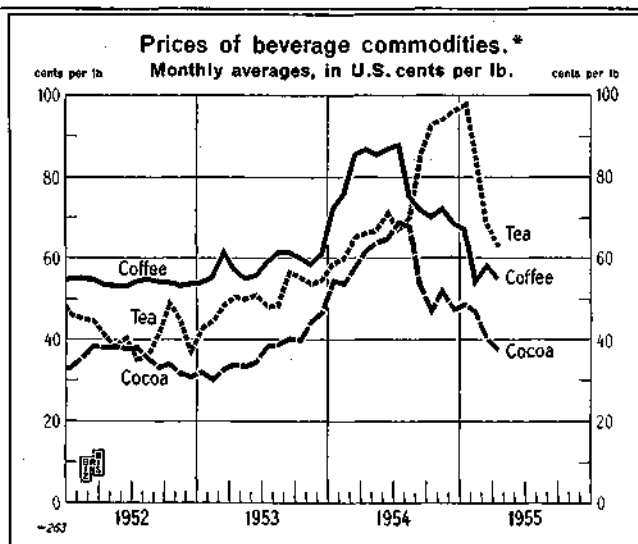
* The individual price changes occurring between December 1952 and December 1953 and between December 1953 and December 1954 have been calculated on the basis of the price quotations for salable qualities of the various commodities on typical markets. There may be certain minor discrepancies between the figures on which this table is based and those actually used in the calculation of Reuter's Index owing to differences in the material and the quotations used (for instance, in calculating changes in the price of wheat a different quality may have been chosen), but these differences will not significantly affect the result.

Within the year itself there were some rather strange developments, as is shown, for instance, by Moody's Index, which is based on price quotations in U.S. markets.

It is usually assumed that the movements of the prices of sensitive commodities follow the trend of industrial production, but in this case Moody's Index was at its highest when industrial production in the United States reached its lowest point in the spring of 1954. A closer examination of the quotations on which Moody's Index is based reveals that the most notable of the price rises in the early months of 1954 occurred in two groups of commodities. One group was that of non-ferrous metals, the rise in the quotations for which reflected the strengthening of demand as the industrial expansion in Europe got under way, together with some nervousness regarding future supplies, especially of tin, owing to the tension in the Far East (in that case particularly in Indo-China). The other group was that comprising



the so-called beverage commodities — coffee, cocoa and tea — which in 1953-54 passed through the most eventful phase in their history. The prices of these commodities, taken together, reached an all-time record level in the spring of 1954. But then consumer resistance set in; the price of coffee broke as early as July 1954, and that of cocoa in August, while the quotations for tea continued to rise until January 1955, when the market almost collapsed, showing clearly that the boom in all these commodities had come to an end.



* Spot prices in New York for Santos No.4 coffee and Accra cocoa; auction price in London for Northern India tea.

In the latter half of 1954, when industrial production in the United States began to recover and the exceptional conditions which had affected certain commodities had ceased to exist, the prices of primary products began to harden. Curiously enough, the slight increase that occurred gave rise to fairly widespread apprehensions of a possible recrudescence of inflationary influences; there was some panic buying, especially of copper and rubber, partly owing to anxiety over Formosa.* This phase was, however,

* There has been some jumpiness in the recent behaviour of certain commodity markets. Purchasers of wholesale commodities who have periodically found it difficult to obtain adequate supplies are apt to get nervous when there are signs of untoward developments and to buy precipitately. The consumers, on the other hand, have shown greater sang-froid and have put up a considerable degree of resistance when the rise in prices has gone beyond what they have thought reasonable.

short-lived; soon the international situation began to look more hopeful and, with the stiffening of credit policies in the United Kingdom and some other countries, prices fell again, notwithstanding the pronounced boom in industrial production on both sides of the Atlantic.

With very few exceptions, basic raw materials cannot be said to be in short supply.

Over the past fifteen to twenty years, and particularly since the end of the second world war, the increase in the production of basic raw materials has — except perhaps in the immediate post-war period — been sufficiently large for industrial expansion not to be jeopardised by any awkward hold-ups due to a lack of physical supplies. This should be understood to mean not that output has increased in the same proportion as economic activity but that it has grown sufficiently to meet the needs of current production and consumption. In this connection it is important to bear in mind three particular developments which have taken place.

Estimates of world production of basic commodities.

Commodities	Unit ¹	1937	1946	1950	1951	1952	1953	1954 (preliminary)	Percentage change 1954 over 1937
Aluminium ² . .	1000 tons	493	775	1,510	1,800	2,026	2,452	2,800	+ 468
Electricity . . .	million kwh	445	645	950	1,055	1,140	1,250	1,340	+ 201
Synthetic fibres	1000 tons	830	785	1,660	1,945	1,765	2,060	2,225	+ 168
Crude oil	million tons	285	380	540	610	640	675	700	+ 146
Cement	million tons	61	75	135	145	158	175	190	+ 135
Rubber, natural .	1000 tons	1,230	850	1,890	1,915	1,819	1,750	1,840	+ 106
Rubber, synthetic.	1000 tons	5	820	543	923	892	951	728	+ 106
Tungsten (90% WO ₃)	1000 tons	40	19	39	51	68	73	75	+ 88
Brown coal . . .	million tons	252	240	350	386	413	435	466	+ 85
Nickel ³	1000 tons	115	120	140	160	175	190	210	+ 83
Steel	million tons	135	110	190	210	210	235	225	+ 67
Soya beans . . .	million tons	12	14	20	17	18	18	20	+ 67
Pig-iron	million tons	105	80	130	150	150	170	155	+ 48
Manganese ore	1000 tons	6,064	3,700	5,800	7,100	7,800	9,300	9,000	+ 48
Zinc ²	1000 tons	1,636	1,405	2,035	2,145	2,255	2,355	2,410	+ 47
Copper ⁴	1000 tons	2,564	2,060	3,095	3,180	3,190	3,383	3,430	+ 34
Sugar	million tons	30	28	36	38	37	41	40	+ 33
Mercury	tons	4,251	5,260	4,940	5,060	5,200	5,400	5,600	+ 32
Oilseed crops ⁵	1000 tons	14,016 ⁶	.	16,282	16,226	17,415	17,298	16,046	+ 29
Lead ²	1000 tons	1,697	1,150	1,825	1,795	1,944	1,978	2,075	+ 22
Wool, greasy . .	million lbs	3,790	3,820	4,010	4,055	4,363	4,407	4,425	+ 17
Wheat	million bushels	5,980	5,700	6,320	6,470	7,420	7,310	6,825	+ 14
Coal	million tons	1,297	1,220	1,450	1,520	1,500	1,500	1,480	+ 14
Rice, rough . . .	million lbs	323	314	339	337	357	370	360	+ 11
Maize	million bushels	4,980	5,255	5,210	5,280	5,590	5,750	5,480	+ 10
Coffee	million bags	41	35	38	39	41	42	42	+ 2
Cotton	million bales	37	22	28	36	36	38	36	- 3
Tin ²	1000 tons	207	106	167	180	181	194	197	- 5

¹ Tons are metric tons. ² Smelter production. ³ Metal content of mine production.
⁴ Refinery production. ⁵ Oil equivalent. ⁶ 1938-39 or 1939.

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

1. The growth in the demand for some materials has been accelerated by the fact that they are beginning to be employed for purposes formerly served by others. For instance, aluminium, which heads the list with regard to the increase in output, not only has its own established uses but is increasingly supplanting other metals (copper, tin, steel) and even wood.

Electricity and oil, production of which has also greatly increased, are likewise to some extent replacing old sources of energy. Similarly, synthetic fibres are replacing textile raw materials, in particular cotton, in addition to satisfying new demand.

2. It is a general characteristic of the modern techniques of manufacturing the often very complicated and specialised machinery and consumer goods now produced that less raw material is used per unit of output. To mention only a few examples, locomotives, cars, typewriters and bridges are much lighter these days than they used to be. Thus the development of raw-material production need not be expected to run parallel to that of industrial production.
3. The increase in the agricultural output of the world as a whole since the 1930s has more or less matched the growth in population. As far as the more highly developed countries are concerned, the supply of food per head of the population has generally become larger, and the recent decline in the prices of agricultural products reflects this development. There are, however, some densely populated areas, especially in Asia, in which food supplies are still very inadequate.

It may be of interest to give an idea of the percentage increase in world output of a number of important basic materials. These figures can at best only be approximate, but they give some indication of the rate of advance in various fields of production.

The data on the basis of which the percentages have been calculated are unfortunately not in every case as comprehensive as might be desired. As regards foods, it is not possible to obtain even approximate estimates for meat and dairy products. There is no doubt, however, that of all commodities produced on this earth, taken singly, the one that has the highest aggregate output value is milk, which is produced everywhere except in the very coldest regions. Because of poor harvests, the figure for food production in 1954 was lower than that for the previous year. Since in the post-war period the output of dairy produce has risen relatively more than that of other foods, the increase in the total food supply has probably been greater than the approximate increase of 10 per cent. shown in the following table.

Production of the industrial raw materials included in the table has risen by about 60 per cent. since 1937 — quite a remarkable rate of increase. The greatest increase is that in fuels, output of which seems to have approximately doubled since 1937.

Estimated percentage increase in world output of certain commodities, 1937 to 1954 (in terms of 1952 prices).

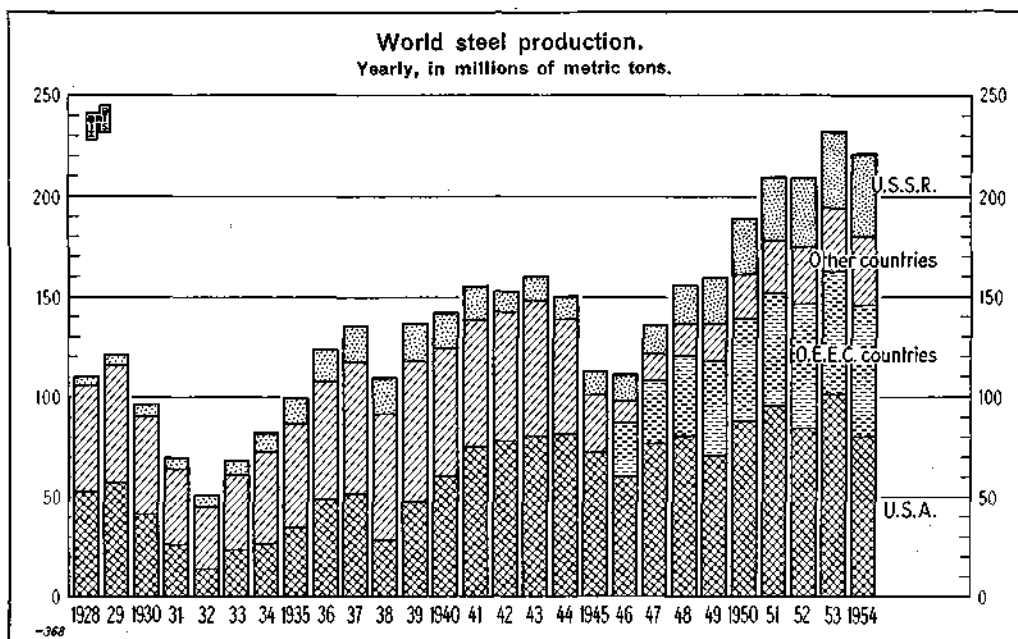
Commodities	Percentage Increase 1937 to 1954
Foodstuffs	
Cereals (barley, maize, oats, rice, rye, wheat)	9
Beverages (cocoa, coffee, tea) and tobacco	12
Certain other foods (sugar, soya beans, copra)	33
Total for foodstuffs listed above	10
Industrial materials	
Textile fibres (cotton, wool, silk, jute, nylon, rayon yarn and staple, flax, hemp, hard fibres)	20
Eighteen non-ferrous metals*	50
Coal	25
Petroleum	145
Natural gas	260
Hydro-electricity	160
Rubber (natural and synthetic)	100
Steel and pig iron	65
Total for Industrial materials listed above	60

* Aluminium, antimony, cadmium, chromium, cobalt, copper, lead, magnesium, manganese, mercury, molybdenum, nickel, platinum, silver, tin, tungsten, vanadium and zinc.

In the years immediately after the war and again during the Korea crisis it was feared that inadequate production of basic materials would lead to a rise in prices and a deterioration of Europe's terms of trade, especially since at those times there was a heavy demand from the United States for materials of all kinds, owing to the very high level of activity in the U.S. economy. But these fears proved to have been groundless.

As to the upward movement of prices which took place early in 1955, that was very short-lived indeed. At the time of writing (in May 1955) all the sensitive commodity indexes are either at the same level as a year ago or show a decline since then — and in 1954 the terms of trade were justly regarded as being favourable to the industrial countries of western

Europe. Indirect evidence of the state of the markets is provided by the fact that the producers of many basic materials — both those of agricultural origin and others — are becoming concerned about the price trend and are



seeking to secure the conclusion of agreements which will enable them to influence supplies and thus to ward off a fall in prices.

The production of steel expanded during the war, and it is therefore particularly remarkable that world output, after a brief decline, should now have risen to a level 50 per cent. above its wartime maximum.

The increase in the output of steel has naturally led to a considerable demand for coke (and thus for coal). But even so world coal production has not risen in recent years.

Only in the eastern countries has coal output increased, while in the west the growing need for fuels has been met from other sources of energy. In the United States there has been a conspicuous decline in coal production in recent years, but in continental Europe and the United Kingdom the level of output has remained fairly steady.

Since the creation of a common market for the six countries of the European Coal and Steel Community in 1952, intra-Community trade has increased by about 25 per cent. At the same time coal imports from non-Community countries have fallen by about 40 per cent.

World production of hard coal.

Countries and groups of countries	1938	1951	1952	1953	1954
	In millions of metric tons				
Coal and Steel Community					
Belgium	30	30	30	30	29
France	47	53	55	53	54
Saar	14	16	16	16	17
Germany (western)	137	119	123	125	128
Netherlands	14	12	13	12	12
Italy	1.5	1	1	1	1
Total for the Community	243	231	238	237	242
United Kingdom	231	227	230	228	228
Other western European countries . .	7	13	14	15	15
Total for western Europe	481	471	482	480	485
Eastern Europe					
Poland	69	82	84	89	91
Czechoslovakia	16	18	20	20	22
Germany (eastern)	3.5	3	3	3	3
Other eastern European countries	1.5	2.5	3	3	4
Total for eastern Europe (excluding the U. S. S. R.)	90	106	110	115	120
U. S. S. R.	113	221	230	248	267
United States	356	516	455	435	375
All other countries*	170	206	223	222	233
World total	1,210	1,520	1,500	1,500	1,480

* The main coal-producing countries included under this heading are — in the order of the size of their output in 1954 — China, Japan, India, South Africa, Australia and Canada.

**European Coal and Steel Community:
Intra-Community trade in coal and coke
and Community trade with outside countries.**

Items	1952	1953	1954	Change 1952-54
	in thousands of tons			
Exports from				
Belgium	3,110	4,234	5,157	+ 2,047
France (and Saar) . .	4,602	5,331	5,315	+ 713
Germany (western) . .	15,885	16,465	18,239	+ 2,354
Netherlands	758	934	1,872	+ 1,114
Total . . .	24,419*	26,994*	30,583	+ 6,164
Imports from non-Community countries (total) . . .	22,264	13,823	13,885	- 8,379
Exports to non-Community countries (total) . . .	9,594	10,239	13,405	+ 3,811
Net imports of the Community countries	12,670	3,584	480	-12,190

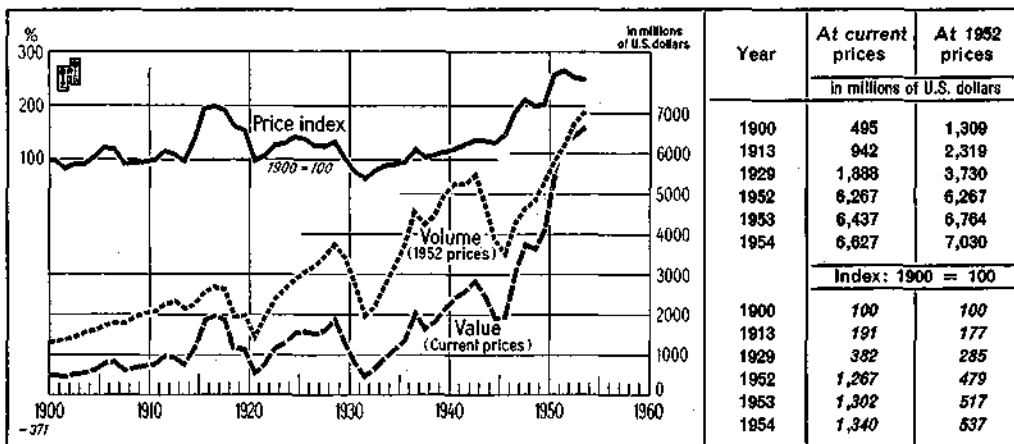
* Including, in addition to the items specified in the table, Italian coke exports to France (which totalled 64,000 tons in 1952 and 30,000 tons in 1953).

The price ceiling fixed in 1954 for coal from northern France was removed in March 1955, while that fixed for Ruhr coal remained in force but was raised at the beginning of May by an average of DM 2.25 per ton. The coal-mining industry of northern France had encountered serious marketing difficulties during the year and it was therefore authorised to offer temporary price rebates. With regard to the raising of the price for Ruhr coal, it was decided that only DM 1.25 of the increase should be passed on to the domestic consumer,

the balance of DM 1 being made up by the cancellation of the pits' obligatory contribution for the construction of miners' flats. In the spring of 1955 wages in the Ruhr had been raised (under threat of strike action) by 9½ per cent.

Production of non-ferrous metals has risen by some 50 per cent. since 1937 (in terms of 1952 prices).

**World output of main non-ferrous metals, 1900 to 1954:
value, volume and prices.**



**Relative importance of main non-ferrous metals
in terms of value of production.**

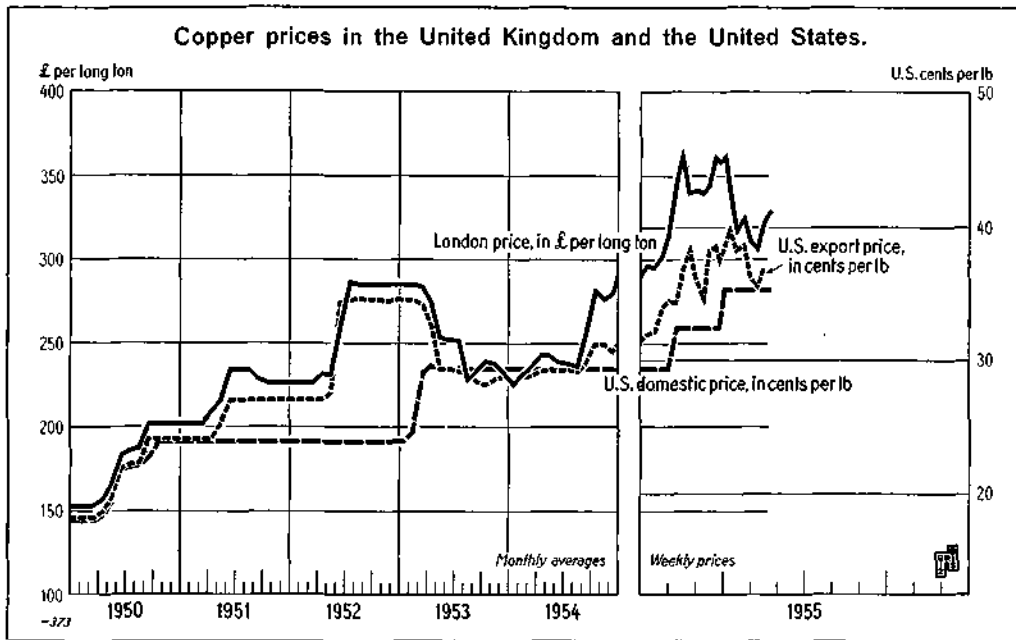
Items	1900	1913	1929	1937	1954
	in percentages				
Copper	36	36	40	32	28
Lead	17	12	14	11	10
Silver	21	14	7	6	3
Tin	11	14	10	12	6
Zinc	9	13	11	11	9
Total . . .	94	89	82	72	56
Aluminium . . .	1	3	8	11	20
12 other metals .	5	8	10	17	24
Total . . .	100	100	100	100	100

Since the beginning of the century the output of non-ferrous metals has increased more than fivefold. The growing importance of aluminium may be seen from the accompanying table.

While there has been a decline in the importance of the old non-ferrous metals, there has been a remarkable increase in the part played not only by aluminium but also by several of the group of "12 other metals" shown

in the table, including magnesium, nickel and various metals used in the production of steel alloys.

The price of aluminium has remained remarkably steady in most markets over a long period, but that of copper has fluctuated sharply, especially in the early months of 1955. When production in Northern Rhodesia, the principal source of copper apart from the United States and Chile, was brought to a standstill for two months owing to a strike early in 1955, there was a violent and disruptive rise in prices.



In April 1955 the British Government announced the release, in two stages, of 45,000 tons of refined copper and 20,000 tons of blister copper from its accumulated stocks, and this relatively small addition to the supplies on the market proved sufficient, as it just made good the loss of production due to the two-month strike in Northern Rhodesia, to bring the London quotation down from its all-time record figure of £368 per long ton, reached in March, to just above £300 in the following month.

World production of wheat.

Countries or areas	1934-38	1948-52	1953	1954
	annual figures (or averages), in millions of tons			
Four main exporting countries				
United States	19.5	31.0	31.8	26.4
Canada	7.2	13.4	16.7	8.1
Argentina	6.6	5.1	6.2	7.1
Australia	4.2	5.1	5.4	4.5
Total for the four main exporting countries . .	37.5	54.6	60.1	46.1
Europe, including Turkey	45.7	46.2	54.7	52.0
U. S. S. R.	38.1	40.5	43.0	43.0
China	21.7	22.5	23.0	24.5
Others	24.0	24.2	26.2	24.4
World total	167.0	188.0	207.0	190.0

Production of wheat has risen substantially since the period 1934-38; but it suffered a setback in 1954 owing mainly to unfavourable weather conditions in Canada and Australia and a reduction of the acreage sown in the United States.

The fall in production in 1954 was entirely due to a decline in the output of three of the four main exporting countries, the output of the fourth — the Argentine — having been somewhat higher in 1954 than in 1953.

All over the world the average yield of wheat per hectare has risen in recent years owing to improved methods of production (the use of better seed, increased use of fertilisers, a higher degree of mechanisation, etc.). There does not seem to have been any appreciable expansion anywhere in the wheat acreage.

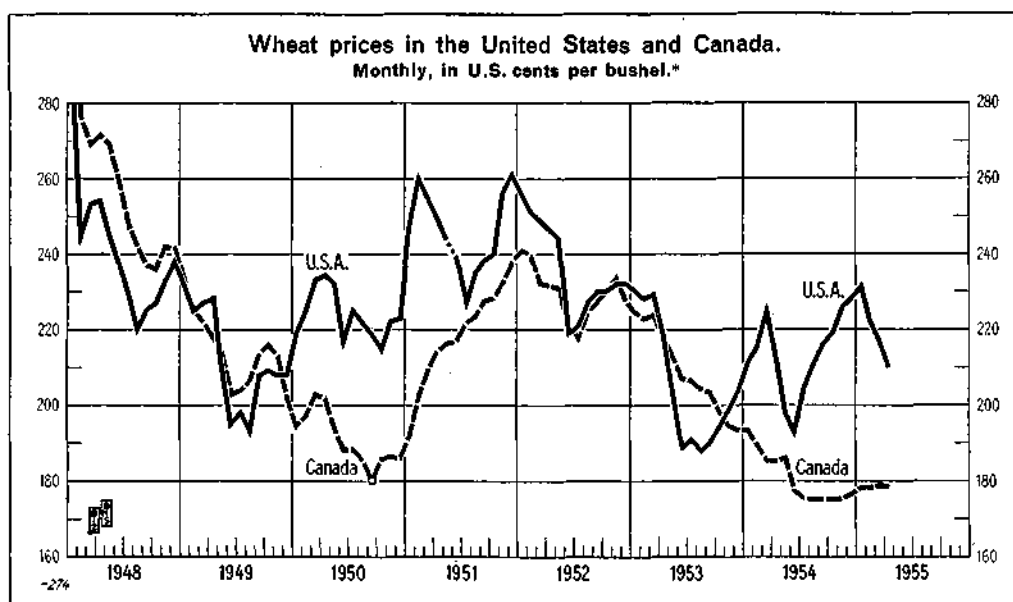
Wheat: Average yields.

Countries	1934-38	1953
	in quintals per hectare	
Denmark	30.4	41.4
Netherlands	30.3	37.7
Belgium	26.9	32.6
United Kingdom	23.1	30.1
Germany (western)	22.3*	27.5
Sweden	24.0	25.5
France	15.6	21.2
Egypt	20.1	20.5
Italy	14.4	18.5
Canada	7.1	15.7
Greece	9.0	13.4
Turkey	10.7	12.5
United States	8.7	11.4
Australia	8.0	11.4
Argentina	9.8	10.3
World total (excluding the U.S.S.R.)	10.1	11.8

* 1935-36.

Since 1945, there has been a steady increase, apart from temporary setbacks due to unfavourable weather conditions, in Europe's supplies of home-grown wheat. While price supports in the exporting countries and protection in many European countries have acted as incentives to production, it is an interesting fact that the two countries with the highest output per hectare in the whole of Europe — Denmark and the Netherlands — have hardly any agricultural protection and at the same time have the lowest wheat prices in Europe, these being more or less on a par with the Canadian price.

During the 1954-55 crop season significant changes took place in the volume and composition of the world's wheat trade. From 1st August 1954 to the end of April 1955 the total of statistically recorded trade (i.e. not including movements of wheat between the eastern countries) increased by 20 per cent. as



* 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 Fort William/Port Arthur. The 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.

compared with the corresponding period of the previous year. The most remarkable feature is the re-emergence of the United States (in place of Canada) as the principal wheat exporter, with a share of about 30 per cent. of recorded world trade. But — as was stressed by Mr Ezra Benson, the U.S. Secretary of Agriculture, on 19th March 1955 — these wheat exports from the United States have only been made possible by special measures and programmes of active assistance and the sales to foreign countries are going to cost at least some \$175 million in subsidies during the current crop year.

Accumulated wheat stocks are still, however, uncomfortably high. On 1st July 1954 stocks in the United States amounted to 24.5 million tons, thus nearly equalling the 26 million tons of the new harvest; and in Canada the total on 1st August 1954 was as high as 16 million tons, or twice as much as that of the new harvest. An estimate made in the spring of 1955 put the wheat carry-over of the four main exporting countries at the end of the season (i.e. end of July 1955) at 44 million tons (over 1,600 million bushels), compared with 46 million tons a year earlier. This forecast includes an increase in the United States' wheat stocks, while stocks in Canada, the Argentine and Australia are expected to be lower than they were at the same time in 1954.

On 28th August 1954 the U.S. President signed the Agricultural Act 1954, which represents an attempt to break away from the system of high and rigid support prices and includes measures for the revision of the "parity" prices on a more up-to-date basis and the setting-aside of part of the surpluses in special reserves.

In 1953 the International Wheat Agreement was renewed for a period of three years from 1st August of that year, without the participation of the United Kingdom — the world's largest wheat importer. In the first year of operation of the new agreement — 1953-54 — about 60 per cent. of the quotas, representing three-tenths of world trade in wheat, were taken

up. In the current agricultural year the increased import requirements of certain countries, due to a decline in their harvests in 1954, have led to larger transactions. In the first nine months about 70 per cent. of the quotas were taken up by the importing countries.

An international sugar agreement, which officially came into force on 1st January 1954 (for a period of five years), fixed a minimum price of 3.25 U.S. cents per lb., but, notwithstanding the very full use made of the various restrictive provisions contained in the agreement, sugar prices on the free world markets stayed below that level during 1954 and the early months of 1955. In March, however, the world price rose to more than 3.30 U.S. cents per lb. owing to substantial purchases by the Soviet Union.

The attempts made during the past year to institute international marketing agreements for other commodities have had no practical results. But a special Consultative Sub-committee on Surplus Disposals was established by the United Nations Food and Agriculture Organization in the summer of 1954; and in August 1954 the Economic and Social Council of the United Nations decided, by a majority vote, to set up a Permanent Advisory Commission on International Commodity Trade.

As regards national policies of international importance, it should be mentioned that several adjustments have been made in the stockpiling programme of the United States. By the end of June 1954, the overall end-objective for the "minimum programme" had been adjusted to \$6,985 million (on the basis of current prices), with "materials on hand" valued at \$4,284 million and outstanding orders at \$619 million. Materials to a total value of some \$2,000 million thus still remained to be ordered.

* * *

Further progress has been made during the period under review in the freeing of commodity trading. In the Netherlands, where futures transactions in cocoa and rubber were already possible, two more futures markets were opened in Amsterdam on 9th May 1955. That for coffee, which was suspended at the beginning of the war, resumed its activities, and at the same time the first futures market in the world for copra came into being. It is hoped to open similar markets for sugar, spices and linseed oil in the near future.

In Amsterdam — unlike in Le Havre, which has hitherto been the only coffee market in existence in western Europe — it will be possible to carry out international transactions in hard as well as in soft currencies.

It should also be mentioned that the Netherlands has officially declared its intention to return to private trading in wheat on 1st September 1955 and has announced that private companies may start importing immediately.

* * *

In the great majority of countries the movements of the indexes of wholesale prices and of the cost of living continued to be confined within remarkably narrow limits. In the case of Greece and, to a minor extent, Austria, the rises in the indexes may still be regarded as an effect of the adjustments in the foreign exchange values of the two currencies (the devaluation of the drachma by 50 per cent. in April 1953 and the alteration, in May 1953, of the official rate for the Austrian schilling from \$1=Sch. 21.36 to \$1=Sch. 26, the earlier "tourist rate").

Percentage changes in the cost-of-living and wholesale-price indexes during 1954.

Countries	Cost of living	Wholesale prices
	in percentages	
Austria	+ 3.7	+ 4.5
Belgium	+ 1.8	- 1.2
Denmark	+ 1.1	± 0
Finland	- 1.6	- 0.2
France	- 0.3	- 1.7
Germany (western) . .	+ 0.6	+ 0.4
Greece	+ 15.1	+ 12.2
Iceland	+ 1.4	
Ireland	± 0	- 1.8
Italy	+ 2.7	+ 0.8
Netherlands	+ 4.0	+ 1.5
Norway	+ 4.4	+ 1.4
Portugal	- 0.5	- 4.6
Spain	+ 1.2	+ 0.5
Sweden	- 0.4	- 0.3
Switzerland	+ 0.7	+ 0.8
United Kingdom	+ 1.8	+ 0.6
United States	+ 0.3	+ 0.2

The process of getting rid of artificial elements in the price structure was continued in 1954 and is now nearly completed except in the agricultural sector and in the field of rents, which in most countries are still controlled. The allocation of raw materials and the rationing of consumer goods, on the other hand, are almost a thing of the past. To an ever greater extent the consumer is regaining his freedom of choice; and this has generally happened without causing any great increase in the cost of living, since, while some prices have admittedly gone up, others have declined under the pressure of more effective competition or, in certain cases, of consumer resistance.

The remaining sectors in which controls still play an important part — those of agriculture and rents — present special difficulties, since it is here that political influences are particularly strong. But there is an increasing desire to introduce greater flexibility even in these sectors — as is shown by the move towards less rigid prices for agricultural products in the United States and the gradual adaptation of rents to current economic conditions which has been almost completed in the United States and is also taking place in a number of European countries.

In the United States and Canada wages rose less in 1954 than they had done in 1953, since the labour market was affected by the slackening of business activity in these two countries. In Australia and Switzerland wages remained almost stable (increasing by only 1 per cent. in 1954). In western Germany the rate of increase (4 per cent.) was the same in 1954 as in 1953. In all the other countries included in the next table the rate of increase

Percentage increase in hourly money wages.

Countries	Percentage increase during					the whole period June 1950 to December 1954
	1950 June to December	1951	1952	1953	1954	
France	10	34	4	4	5	69
Austria	17	33	0	0	9	69
Australia	15	20	13	3	1	62
Finland	20	24	1	2	3 ¹	58 ¹
Sweden ²	2	24	15	3	5	56
Norway ²	6	13	8	4	5	41
Italy	3	12	11	2	6	38
Germany (western)	8	14	5	4	4	37
Canada	4	15	6	5	2	36
Netherlands	5	6	2	1	15	32
United Kingdom ³	4	11	6	3	4	31
United States	6	6	6	4	2	26
Belgium	6	11	0	2	3	22
Switzerland	0	4	2	1	1	7

¹ To September 1954.

² Quarterly average.

³ Weekly wage rates.

in wages was accelerated in 1954, this being a reflection of the strong demand for labour under conditions of rapidly expanding production, rising productivity and mounting profits.

* * *

In the first few years after the cessation of hostilities in 1945 there was a continuous rise in prices, which was the result not only of the excess liquidity left over from wartime but also of the use by many countries of methods of inflationary financing even after the war was over. The first break in the price rise occurred during the mild U.S. recession of 1949, but this was abruptly cut short by the scramble for goods during the Korea boom. The new rise, however, was only short-lived; for the rush to buy soon turned out to have been due more to a sudden scare than to a genuine scarcity.

Now the situation is quite different. Not only have supplies become more abundant but inflationary tendencies are being curbed by the ever wider application of flexible credit policies, with the result that the general level of world-market commodity prices has not risen for three years. In the two countries which have the most representative commodity markets — the United Kingdom and the United States — the money supply increased by about 3 per cent. in 1954, which is a normal rate of increase considering the growth in the population and other relevant factors. There are signs that the idea that a "mild" or "creeping" inflation might be desirable is losing ground. The President of the Federal Reserve Bank of New York,

Mr Allan Sproul, speaking on 7th April 1955 before the Sixteenth Annual Pacific Northwest Conference on Banking, held in Pullman, in the State of Washington, said

"lower real prices, in an economy of increasing productivity, such as ours, are a function of stability of the dollar. And stability of the dollar, along with maximum production and employment, is a primary objective of monetary policy. We need the best fusion of these objectives which we can get. Then if, from time to time, our dynamic growing economy throws so many people out of work as to be socially intolerable, we should seek further means resting on the whole economy to take care of the situation. But we should not debauch monetary policy trying to make it do the whole job, by way of creeping inflation. We shouldn't steal the savings of the people with one hand, while we promise them steady work and a comfortable old age with the other."

It seems, indeed, very likely that, provided the world remains at peace, the inflationary phase of post-war economic development has now come to an end. But if the general level of world-market prices does not rise, as appears likely, the individual countries will have to be stricter and more self-reliant than they have been in the past in taking the necessary measures to ensure that conditions in their own economies do not get out of line with conditions elsewhere. It is true that in 1954 some countries still had a margin at their disposal which made it possible for them to allow their costs and even their prices to rise, but now there is much less room for further safe increases, so that any future upward adjustments — at least in so far as increases in incomes are concerned — will have to be kept more closely in step with improvements in productivity. In the new situation which is already upon us, the various countries will be faced with fresh problems in the monetary and other fields. They will be greatly helped by the fact that, thanks to the stability of prices, most of them can count on the existence of a higher degree of confidence in their currencies than was possible only a few years ago and that owing to the removal of artificial elements the markets of the world are now working much more smoothly and efficiently.

IV. Foreign Trade.

Whereas in 1951 the extremely high prices paid during the Korea boom swelled the figures for international trade out of all proportion to the actual increase in the volume of transactions — pushing them up to record heights still not reattained in 1954 — the value figures for the following three years, which have been characterised by a remarkable overall stability of commodity prices, may be regarded as reflecting fairly accurately the changes which took place in the total volume of world trade and in trade between the individual countries.

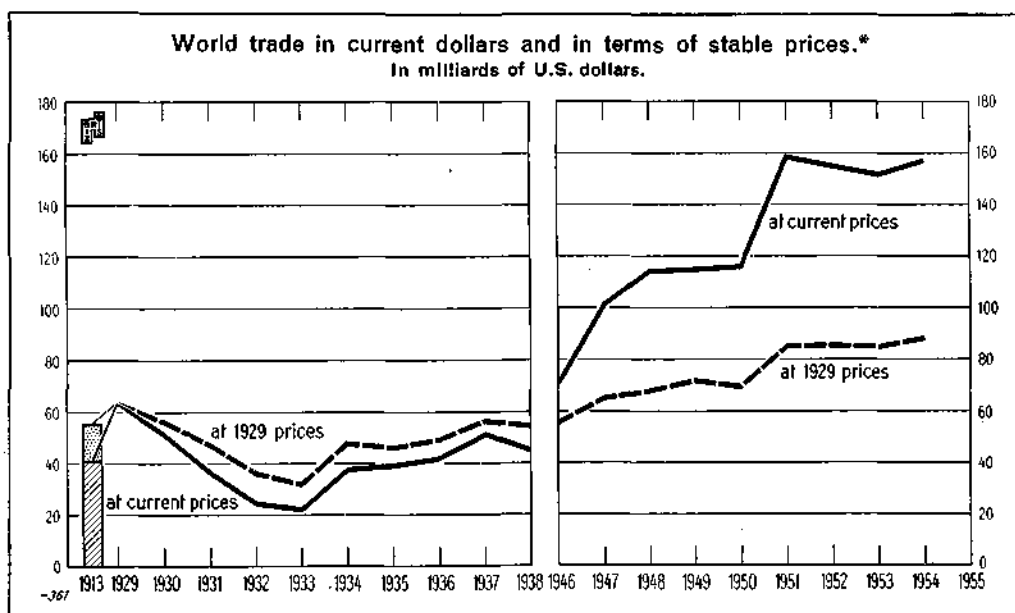
Turnover of world trade (exports + imports) in terms of value.

Areas	1950	1951	1952	1953	1954 ¹
	in milliards of U.S. dollars				
United Kingdom	13.6	18.5	17.4	16.9	17.2
Rest of the sterling area	18.3	25.3	23.2	21.5	22.2
Whole of the sterling area	31.9	43.8	40.6	38.4	39.4
O.E.E.C. continental non-sterling countries	29.7	41.4	41.0	40.7	45.1
United States and Canada	26.2	35.2	36.1	37.1	35.2
Latin American countries	12.0	15.5	14.7	14.1	15.1
Other countries	15.9	22.2	21.6	20.9	21.8
World trade turnover²	115.7	158.1	154.0	151.2	156.6

¹ Provisional.

² Excluding trade between the eastern European countries, the U.S.S.R. and China.

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



* Excluding trade between the eastern European countries, the U.S.S.R. and China.

It will be seen from the previous table that the total turnover of trade in 1954 was \$1.5 milliard lower than it had been in 1951, but, owing to a fall in prices — almost the whole of which occurred from 1951 to 1952 — the volume of trade is estimated to have been about 10 per cent. larger in 1954 than in 1951.

If, however, the comparison is taken back one year further, i.e. to 1950, when prices were not yet affected by the exceptional circumstances of the Korea boom, the increase in the volume of trade between that year and 1954 works out at an estimated figure of 24 per cent. This overall expansion in trade conceals wide divergences in the rate of increase as between different regions.

Calculations of the volume of exports are published quarterly by the United Nations Secretariat and the following data are taken from its Monthly Bulletin for May 1955.

Volume of exports.

Year	Continental western Europe	United Kingdom	United States and Canada	Latin America	World
Index: 1950 = 100					
1950	100	100	100	100	100
1951	119	101	124	100	112
1952	115	94	128	93	110
1953	127	98	133	103	118
1954	146	104	129	104 ¹	124

¹ January to September.

Leaving out of account the oil-producing countries of the Middle East, which more than doubled the volume of their exports from 1950 to 1954, the greatest advance over the last five years has been made by continental western Europe, followed by the United States and Canada, whereas in the case of the United Kingdom and Latin America the increase has been less striking.

For the world as a whole, the volume of exports has increased by nearly a quarter from 1950 to 1954. In the latter year there was an overall rise of 5 per cent., which was the net result of a 15 per cent. rise in the exports of continental western Europe and a 6 per cent. rise in those of the United Kingdom, while North America's exports declined by 3 per cent. Latin American exports remained at about the same level as in 1953.

The pattern of foreign trade generally displays a considerable degree of stability, owing to the fact that a country's import requirements and the range of export goods it can supply naturally depend on its economic structure, which is not liable to sudden change. Western Germany's economic recovery in recent years has, however, led to a distinct increase in its share of world trade; in 1954 its exports, at 7 per cent. of world exports, were nearly back to their pre-war figure, i.e. 7½ per cent. The expansion in Germany's exports has been most pronounced in the field of manufactured products.

Percentage share of the main exporting countries in exports of manufactured products.

Commodity groups and countries	1951	1952	1953	1954 first half
	in percentages of total			
Machinery and vehicles				
United Kingdom	26	25	24	24
Germany (western)	10	14	15	16
United States ¹	39	36	36	35
Other countries ²	25	25	25	25
Total	100	100	100	100
Metals and metal products				
United Kingdom	15	15	18	18
Germany (western)	14	13	14	14
United States ¹	18	19	17	18
Other countries ²	53	53	51	50
Total	100	100	100	100
Textiles				
United Kingdom	29	28	27	26
Germany (western)	4	6	7	7
United States ¹	14	16	14	14
Other countries ²	53	50	52	53
Total	100	100	100	100
Chemicals				
United Kingdom	17	19	17	17
Germany (western)	14	13	16	17
United States ¹	31	30	28	28
Other countries ²	38	38	39	38
Total	100	100	100	100
Other manufactures				
United Kingdom	19	18	17	16
Germany (western)	8	10	11	12
United States ¹	21	21	21	21
Other countries ²	52	51	51	51
Total	100	100	100	100
Total manufactures				
United Kingdom	22	22	21	21
Germany (western)	10	12	13	14
United States ¹	27	26	28	26
Other countries ²	41	40	38	39
Total	100	100	100	100

¹ Excluding special-category exports of strategic materials.
² Belgium-Luxemburg, France, Italy, Netherlands, Sweden, Switzerland, Canada and Japan.

The accompanying table, taken from the U.K. Board of Trade Journal of 22nd January 1955, shows the percentage share of the main exporting countries in world exports of manufactured products.

The figures under the heading "total manufactures" show that the increase in Germany's share has reduced the share of all other countries, i.e. that of the United Kingdom, the United States and the "other countries". But even in the face of keener German competition, the United Kingdom was able to increase its share in exports of "metals and metal products", while in "chemicals" the German advance was entirely at the expense of the United States. In the category of "textiles" the United Kingdom is still the chief exporter, but its share in world textile exports has fallen from 29 per cent. in 1951 to 26 per cent. in the first half of 1954.

* * *

An examination of the United States' current balance of payments, given in the table on the following page, shows that, while in 1953 receipts and payments were practically equal, there emerged in 1954 an estimated surplus of \$1,362 million.

The reappearance of a substantial current surplus in 1954 was due to an increase of nearly \$450 million in commercial exports, a decline of \$660 million in imports and an increase of over \$200 million in the net income from services.

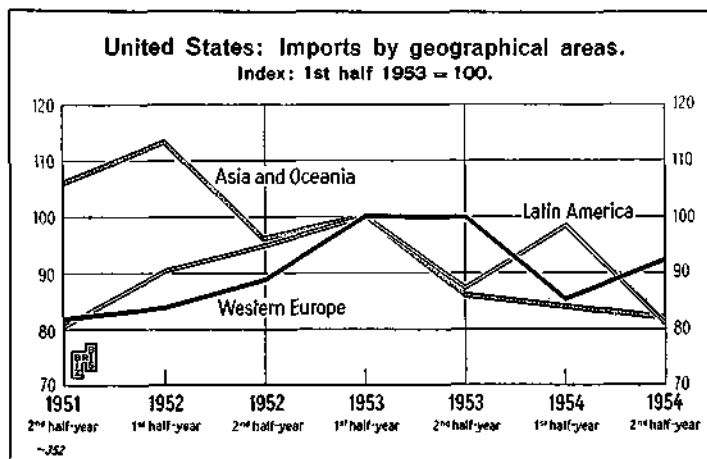
United States: Current account of the balance of payments.

Items	1952	1953	1954 ¹
	In millions of dollars		
Current receipts			
Total merchandise exports ²	15,922	16,507	15,808
Less: military supplies and services	2,603	4,281	3,137
Commercial exports	13,319	12,226	12,671
Services	4,739	4,758	4,943
Total current receipts	18,058	16,984	17,614
Current payments			
Merchandise imports	10,838	10,964	10,295
Services and remittances	3,339	3,447	3,424
Military expenditure	1,957	2,496	2,533
Total current payments	16,134	16,897	16,252
Balance on current account	+ 1,924	+ 87	+ 1,362

¹ Preliminary.

² Including certain amounts for military services under grants (mostly in respect of freights) totalling \$162 million in 1952, \$185 million in 1953 and \$215 million in 1954.

Almost the whole of the increase in commercial exports went to western Europe. The commodities exported in greater quantities to western Europe were mostly raw materials and foodstuffs — a reflection of the upward trend of industrial production and incomes in the western European countries. Exports of manufactured goods in 1954 accounted for nearly one-third of total U.S. exports to western Europe, a proportion which roughly corresponded to that in the pre-war pattern of trade, which was temporarily disturbed in the immediate post-war reconstruction period.



The reduction in commercial imports affected western Europe and, the rest of the world to the extent of \$260 and 400 million respectively. The latter figure represents mainly a decline in purchases of raw materials and foodstuffs, while the fall in imports from western Europe was chiefly due to a reduction in imports of iron and steel-mill products and non-ferrous metals and

ferro-alloys — a change attributable to a slackening in U.S. demand as well as to a rise in Europe's own requirements.

The further increase of \$200 million in the net income from services and remittances was due, in particular, to a rise in income from U.S. investments abroad.

United States: Balance in respect of services and remittances.

Year	Transport	Travel	Income from investments	Miscellaneous services		Private remittances	Total net invisibles
				Private	Government		
in millions of dollars							
1952	+ 373	- 300	+ 1,438	+ 406	- 71	- 446	+ 1,400
1953	+ 174	- 368	+ 1,480	+ 409	+ 89	- 473	+ 1,311
1954*	+ 207	- 426	+ 1,644	+ 480	+ 53	- 439	+ 1,519

* Preliminary.

In spite of the substantial sums spent abroad by American tourists and the fairly large amount of remittances sent to other countries by private individuals, the United States derives a considerable net income from invisibles.

The United States thus had a fairly considerable surplus in 1954 in respect of current transactions, but when account is taken of the government's grants and loans and of the growth in investments abroad it is found that there was in 1954 as much as \$1,773 million at the disposal of other countries — \$700 million less than in the previous year but still a substantial amount.

United States: Foreign aid and capital movements.

Items	1952	1953	1954*
	in millions of dollars		
U.S. grants (excluding those in respect of military supplies and services)	2,088	1,953	1,698
Deduct: surplus (-) on current account	- 1,924	- 87	- 1,362
Amount remaining at the disposal of other countries	164	1,866	336
Add: U.S. investments abroad	1,578	597	1,437
Total amount at the disposal of other countries . .	1,742	2,463	1,773
Purpose for which these funds were used			
Increase in holdings of dollar securities and in dollar balances	1,612	1,106	1,438
Purchases of gold	- 379	1,163	298
Total thus employed	1,233	2,269	1,736
Errors and omissions	+ 509	+ 194	+ 37

* Preliminary.

U.S. grants in respect of military supplies and services have been excluded from the above table summarising movements on capital account, since these items have already been included in the estimates of the U.S. balance of payments on current account. The grants made by the United States in respect of military supplies and services and its actual military expenditure abroad are, however, items of considerable importance and the table on the following page gives some details of their development during the past three years.

Returning to the movements on capital account, it will be seen that grants other than those for military supplies and services were reduced from \$1,953 million in 1953 to \$1,698 million in 1954. In the latter year, these grants more than covered the U.S. surplus on current account, leaving an estimated amount of \$336 million at the disposal of other countries.

United States: Military expenditure abroad and transfers of military supplies and services under grants.¹

Year	U.S. military expenditure abroad ²			U.S. military supplies and services granted ³		
	In western Europe	In other areas	total	to western Europe	to other areas	total
in millions of dollars						
1952	739	1,218	1,957	2,151	452	2,603
1953	1,157	1,339	2,496	3,469	812	4,281
1954 ⁴	1,431	1,102	2,533	2,318	819	3,137

¹ Since there is a certain amount of double-counting the two totals should not be added together.

² This item covers both expenditure by military personnel abroad and purchases of supplies and services for the armed forces, either for use abroad or for import into the United States. These purchases of supplies and services include so-called "off-shore procurement", i.e. purchases of equipment either for use by the United States or for transfer to other countries under military-aid programmes.

³ Including loans and the value of returned military equipment.

⁴ Preliminary.

But an interesting development in 1954 was the marked increase in U.S. investment abroad — to a net figure of \$1,437 million. This increase was not due to any rise in the government's foreign investment: on the contrary, the U.S. Government received repayments from abroad totalling \$511 million, and there was in fact a net inflow — of \$108 million — on government account. U.S. net private investment abroad, on the other hand, rose from \$377 million in 1953 to \$1,545 million in 1954. Of this total, new direct investment accounted for \$670 million, fresh portfolio investment for \$262 million and new short-term lending for \$613 million. Of the direct investments, nearly two-thirds were made in Canada; the portfolio investments were scattered among a number of countries (though U.S. holdings were reduced in western Europe), while of the new short-term lending about one-half went to Latin American countries and more than one-third to Europe. As far as short-term credit to Europe is concerned, the rise in the amount outstanding may be regarded as reflecting an increase in American financing of Europe's international trade.

As may be seen in Chapter VI, the foreign countries concerned were content in 1954 to hold relatively more of their net receipts in dollars in the form of dollar securities and dollar balances and less in the form of gold than in the previous year.

Whatever view one may take regarding the "dollar shortage" — whether or not, in fact, one considers it to be conditioned by structural aspects of the world's economy — it cannot be denied that some useful results have been brought about by the amounts of dollars which have become available through various special channels to the world outside the United States. This flow of dollars has undoubtedly contributed to the increase in most countries' monetary reserves and to the progress made in liberalising trade, including trade with the dollar area — developments which have helped to strengthen the economy of the western world and to overcome difficulties which, on both sides of the Atlantic, might otherwise have turned out to be more intractable.

In western Europe the continuing economic expansion led in most countries to a reduction in the current surplus in the course of 1954, while the decline in U.S. imports, especially of raw materials, during the

recession in that country had an adverse effect on the exports of a number of overseas producers and unfavourable repercussions on the exchange position of certain European countries. These developments have been discussed in a general way in the Introduction and in Chapter II, the latter of which also contains the main items of the balance-of-payments estimates for a number of countries.

The following table shows how the United Kingdom's trade was distributed among the different areas.

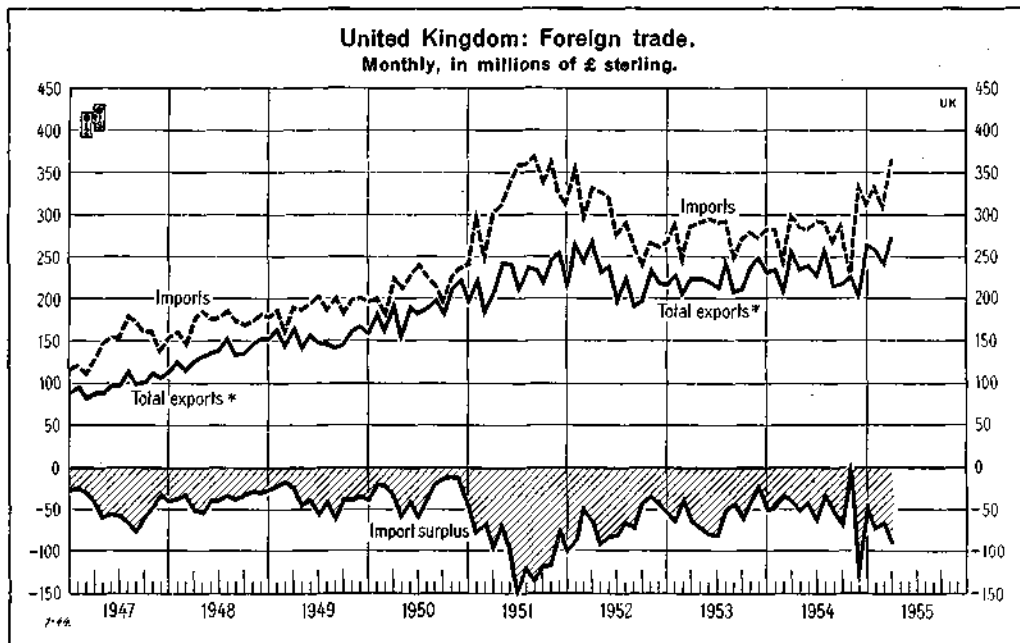
United Kingdom: Foreign trade by areas.

Areas	1952	1953	1954
	in millions of £ sterling		
Imports (c.i.f.)			
Sterling area	1,437	1,504	1,501
Other areas			
Dollar area	721	634	620
O.E.E.C. countries and overseas territories	856	769	819
Other countries	464	436	439
Total for non-sterling countries	2,041	1,839	1,878
Total imports	3,478	3,343	3,379
Exports, including re-exports (f.o.b.)			
Sterling area	1,285	1,269	1,347
Other areas			
Dollar area	377	404	375
O.E.E.C. countries and overseas territories	701	750	779
Other countries	366	265	275
Total for non-sterling countries	1,444	1,419	1,428
Total exports	2,729	2,688	2,775
Total balance of trade	- 749	- 655	- 604

There were only minor changes in the geographical distribution of the foreign trade of the United Kingdom in 1954. The small rise in imports was principally due to an increase in purchases from continental O.E.E.C. countries and the territories associated with them, while U.K. imports from the dollar area, in particular imports of wheat from Canada, declined somewhat. Imports from the sterling area remained at exactly the same level as in 1953.

Almost the whole of the rise in exports (amounting to £87 million) was in relation to the sterling area, which in 1954 absorbed 49 per cent. of the United Kingdom's total exports. Exports to the dollar area fell somewhat but there was a slight rise in those to the continental O.E.E.C. countries and the territories associated with them.

In the first quarter of 1955 there was a sharp increase in U.K. imports and, even though exports went up too, the average monthly import surplus came to £77 million, compared with £40 million in the corresponding period of the previous year. The rise in imports seems to have been partly caused by fears that the prices of a number of imported materials, which had suddenly hardened in the early months of 1955, would increase still further. But instead these prices soon fell (see page 66) and by April the situation had already improved somewhat, the import surplus for that month having been reduced to £65 million.



More than half of Ireland's imports come from the United Kingdom and about 90 per cent. of its exports go to the United Kingdom. While there is an overall deficit on merchandise account, Ireland has a substantial income from invisibles, composed mainly of the earnings of the tourist trade, remittances from abroad and the yield on foreign investments, Ireland being a creditor nation.

Ireland: Current account of the balance of payments.

Items	1951	1952	1953	1954
	in millions of Irish pounds			
Merchandise trade				
Imports (c.i.f.)	203	170	181	177
Exports (f.o.b.)	81	100	113	113
Balance of trade	- 122	- 70	- 68	- 64
Invisible Items (net)				
Tourist trade	+ 22	+ 20	+ 18	+ 18
Remittances, pensions and allowances	+ 14	+ 14	+ 15	+ 15
Income from Investments	+ 11	+ 10	+ 11	+ 12
Other Items	+ 7	+ 9	+ 9	+ 9
Total of invisible items	+ 54	+ 53	+ 53	+ 54
Balance unaccounted for	+ 6	+ 8	+ 8	+ 4
Total balance on current account	- 62	- 9	- 7	- 6

Since the war, the expansion of the Irish economy has been partly based on repatriated capital and on direct investments from abroad, corresponding to the deficit on the current account of the country's balance of payments.

France has seen a progressive diminution in its foreign-trade deficit in recent years, this improvement having been due to an increasing extent to the achievement of a better trade balance with foreign countries, since the surplus in relation to France's own overseas territories has gradually diminished.

France: Foreign trade by areas.

Areas	1952	1953	1954
	in milliards of French francs		
Imports (c.i.f.)			
French overseas territories	360	366	411
Other areas			
Dollar area	215	168	166
Sterling area	435	416	394
Continental O.E.E.C. countries and overseas territories	391	347	372
Other foreign countries	191	161	179
Total for other areas	1,232	1,092	1,111
Total imports	1,592	1,458	1,522
Exports (f.o.b.)			
French overseas territories	598	520	546
Other areas			
Dollar area	77	97	95
Sterling area	152	142	153
Continental O.E.E.C. countries and overseas territories	418	466	521
Other countries	171	181	197
Total for other areas	818	806	966
Total exports	1,416	1,406	1,512
Total balance of trade	- 176	- 52	- 10

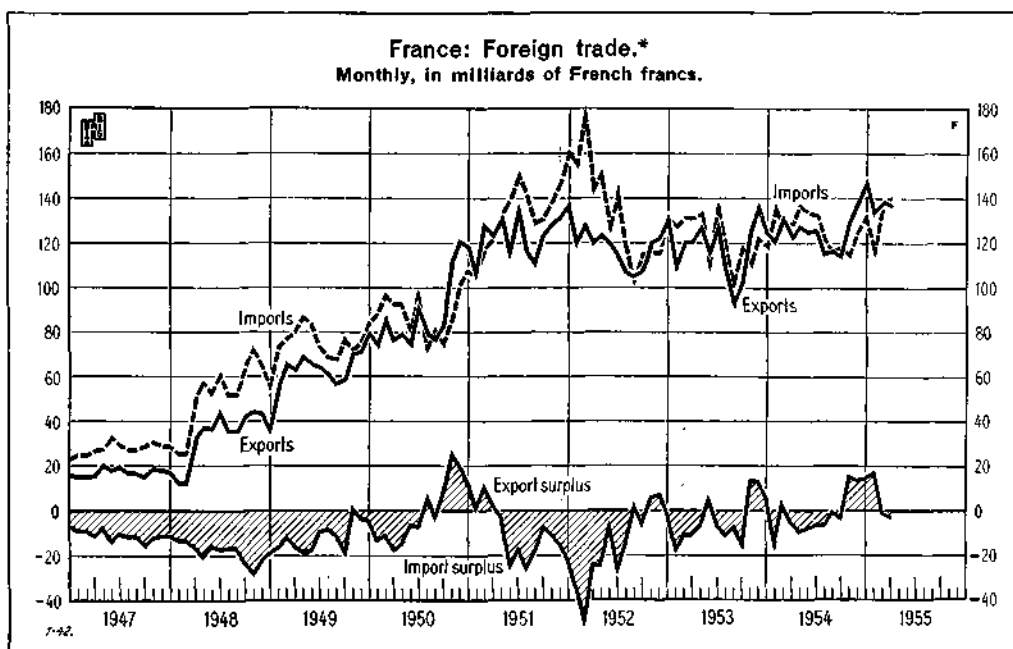
The improvement in the trade balance with foreign countries in 1954 was due equally to an increase in the export surplus in relation to O.E.E.C. countries and a reduction in the deficit in relation to the sterling area, there having been little change, on balance, in the position vis-à-vis either the dollar area or other countries. The gradual liberalisation of trade,* having been to some extent counteracted by the imposition of compensatory taxes (see page 42), did not lead to any appreciable increase in imports.

Exports to foreign countries totalled Fr.fcs 966 milliard in 1954, or Fr.fcs 80 milliard more than in the previous year. Of this increase Fr.fcs 50 milliard was accounted for by agricultural produce, chiefly meat, cereals and sugar, and Fr.fcs 30 milliard by industrial products, including raw materials and semi-manufactured goods.

The reduction in the trade deficit vis-à-vis the sterling area was primarily due to one single item, namely "industrial gold" imported from South Africa,

* The changes in France's liberalisation percentage in the field of western European trade have been as follows:

Date	Percentage	Date	Percentage
1952 February	suspended	1954 April	51
1953 October	8	September	55
December	18	November	65
		1955 April	75



* Including the French overseas territories.

which had amounted to Fr.fcs 35.5 milliard in 1953, and which dropped to Fr.fcs 3.2 milliard in 1954. Whereas both in 1952 and in 1953 imports of gold and its alloys had totalled about Fr.fcs 80 milliard — nearly the whole of which amount was brought into the country under temporary licence and subsequently re-exported, the bulk of it to Switzerland — in 1954 the value of such imports and thus of re-exports amounted to only Fr.fcs 46 milliard.

Account being taken of changes in prices, it is estimated that from 1953 to 1954 the volume of western Germany's imports increased by 25 per cent. and that of its exports by 24 per cent. Calculated on a per-capita basis, both imports and exports are now gradually approaching the levels attained in the years 1927-29, before the volume of Germany's imports was reduced by some 40 per cent. as a result of the crisis in the early 1930s and the policy of autarky pursued in the subsequent period.

Western Germany's exports consist chiefly of industrial goods (including raw materials, semi-manufactured products and finished articles), which normally account for some 98 per cent. of the total, while about 37 per cent. of its imports in 1954 consisted of food and beverage commodities. As can be seen from the following table, there have been certain interesting shifts in the composition of Germany's foreign trade in comparison with the position in 1936.

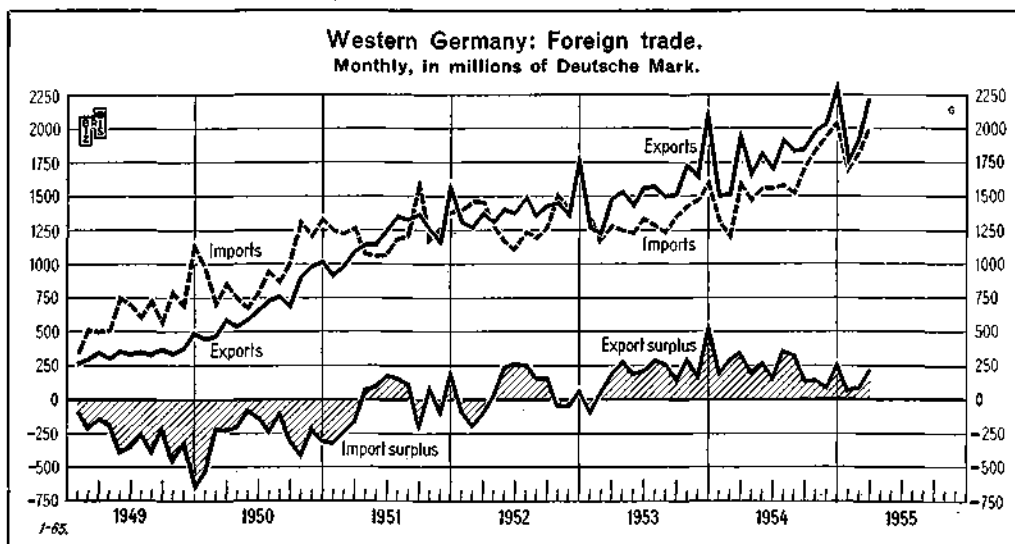
The main changes that have taken place on the import side have been the decline in purchases of raw materials and the increase in purchases of finished articles. Since the autarkic economic policy pursued during the 1930s had led to a drastic reduction in imports, especially of finished articles, the leeway to be made up in this particular field was very great indeed. On the export side, raw materials

**Western Germany:
Composition of foreign trade.**

Commodity groups	Imports		Exports	
	1936	1954	1936	1954
	In percentages			
Food and beverages	34.5	37.0	2.0	2.3
Industrial goods				
Raw materials	39.6	28.4	10.5	7.7
Semi-manufactured products . .	17.4	18.0	9.6	13.1
Finished articles	8.5	16.6	77.9	76.9
Total of industrial goods	65.5	63.0	98.0	97.7
Total	100	100	100	100

have declined in importance, while there has been an increase in sales of a growing number of semi-manufactured articles. The manufacture of machinery (including machine tools) remains the principal German export industry, but the share of this sector in total exports fell from 21.4 per cent. in 1953 to 19.4 per cent. in 1954. On the other hand, great advances were made by the vehicle-manufacturing trade and the ship-building trade (as regards

both the construction of new ships and repair work), and by the industries producing electro-technical goods and chemicals. For the first time since the war, sales abroad of consumer goods, which account for some 15 per cent. of all exports, increased relatively more than those of capital goods — a development which is due in part to the extension of trade liberalisation in O.E.E.C. countries.



Of western Germany's exports in 1954, 73 per cent. went to other O.E.E.C. countries and the territories associated with them, 11 per cent. to the dollar area and 12½ per cent. to various countries with which western Germany has bilateral agreements, leaving 3½ per cent. for other countries. Of Germany's imports, 69 per cent. came from O.E.E.C. countries and their associated territories, 15 per cent. from the dollar area and 15 per cent. from countries with which western Germany has bilateral agreements (including 8½ per cent. from Latin America).

In 1954 the balance on current account of Italy showed a deficit of \$140 million, compared with one of \$212 million in the previous year, the improvement being due to a reduction in the deficit on merchandise account in relation to the dollar area, as is shown in the following table.

Italy: Balance on current account according to currency areas.

Items	Non-convertible currencies (mainly the E. P. U. area)	Convertible currencies (mainly the dollar area)	Total
	in millions of U.S. dollars		
1952			
Merchandise trade* . . .	- 365	- 336	- 721
Invisible items	+ 281	+ 129	+ 410
Total balance	- 104	- 207	- 311
1953			
Merchandise trade* . . .	- 594	- 127	- 721
Invisible items	+ 320	+ 189	+ 509
Total balance	- 274	+ 62	- 212
1954			
Merchandise trade* . . .	- 618	- 7	- 625
Invisible items	+ 311	+ 174	+ 485
Total balance	- 307	+ 167	- 140

* As in the case of the trade figures given in this Report for other countries, receipts in respect of off-shore orders are included in exports, while direct aid is, of course, regarded as falling under the heading of capital movements and is not shown in the figures for the current account of the balance of payments.

In 1954 the volume of exports is estimated to have increased by 8 per cent. compared with the figures for the previous year, while the volume of imports rose by only 2 per cent.

Though Italy had a poor cereal crop in 1954 owing to bad weather, the excellent crop of the previous year enabled it to cut down its wheat imports from 1.1 million tons in 1953 to 260,000 tons in 1954. This meant a total saving of nearly \$90 million, of which almost \$50 million was accounted for by a reduction in purchases from the dollar area.

In 1954 there was a rise in Italian exports of all categories except textiles, particularly in exports of fresh and preserved fruit and vegetables, oil-refinery products, chemical and pharmaceutical goods and motor vehicles.

The discovery and exploitation of methane gas is bringing about great structural changes in the Italian economy, having already led to a certain decline in coal imports. Imports of crude oil, however, have trebled since 1950, but an increasing share of this imported oil is re-exported in the form of refined products.

The largest consumers of methane gas are at present the steel, engineering and textile industries and the thermo-electric power stations.

Italy: Production, imports and exports of selected fuels.

Year	Production	Imports				Exports	
	Methane gas	Coal		Crude petroleum		Refined petroleum products	
	in millions of cub.metres	in milliards of lire	in thousands of tons	in milliards of lire	in thousands of tons	in milliards of lire	in thousands of tons
1950	510	81	8,584	85	5,149	17	969
1951	957	140	10,967	103	7,333	29	1,417
1952	1,435	118	9,441	139	9,897	54	2,890
1953	2,298	101	9,261	165	12,850	89	5,147
1954	2,982	92	9,111	183	13,054	112	6,582

Austria: Foreign trade.

Period	Commercial imports*	Exports	Balance
	in millions of schillings		
1951 yearly total	11,280	9,630	- 1,650
1952 " "	12,000	10,800	- 1,200
1953 " "	12,350	13,190	+ 840
1954 " "	16,470	15,850	- 620
1954 1st quarter	3,440	3,590	+ 150
2nd " "	3,690	3,960	+ 270
3rd " "	3,910	4,020	+ 110
4th " "	5,430	4,280	- 1,150
1955 1st quarter	5,380	4,010	- 1,370

* Excluding E.R.P. imports. These, which have declined sharply in recent years, amounted to Sch. 917 million in 1953 and Sch. 514 million in 1954.

Compared with pre-war conditions, Austria's foreign trade has undergone an important change, thanks to the improvement which has taken place since the war not only in industrial output, which has doubled, but also in the country's agricultural production. Whereas in 1937 foodstuffs accounted for nearly 30 per cent. of all imports, in 1954 the proportion was less than 20 per cent. While the ratio of manufactured products to total imports has risen, the share of raw materials, at one-third, was the same in 1954 as in 1937, despite the considerable increase in

Austria: Composition of exports.

Categories of goods	1937	1954
	as percentages of total	
Foodstuffs and tobacco	4	3
Raw materials	26	28
Electricity	*	2
Semi-manufactured products	24	24
Manufactured products	46	43
Total	100	100

* Not shown separately before the war.

One of the signs of the rehabilitation of the economy of Austria has been the very considerable expansion in the country's foreign trade; in 1953 the balance of trade was actually in Austria's favour.

In the first three months of 1955 imports remained at a very high level, while exports fell off somewhat, although they were still larger than in the corresponding quarter of the previous year.

industrial production. The fact that this proportion has remained unchanged seems to be due partly to the expansion of raw-material production within the country and partly to a shift in the manufacturing industries towards production based on domestic rather than on imported raw materials. In fact, Austria's own raw materials, including electricity, are playing an increasingly important rôle in its export trade.

Austria's chief trade partner is again, as before the war, Germany, which takes 24 per cent. of its exports and furnishes 37 per cent. of its imports. Eastern countries (including the U.S.S.R.) accounted for about 9 per cent. of both imports and exports in 1954 — a smaller proportion than in the two previous years.

The table on the following page summarises the balance-of-payments figures on current account for Greece and Turkey. In both countries — and also in Yugoslavia — the foreign-trade figures in 1954 were adversely affected by the rather poor harvests.

In Greece the expansion of exports lagged behind that of imports in 1954, so that the deficit on merchandise account was larger than in the previous year. There was a rise in imports of machinery, fertilisers and industrial raw materials, owing partly to an increase in off-shore orders placed with Greek firms. The country's invisible income, which is derived mainly from shipping and tourist trade, has been increasing in recent years.

Greece and Turkey: Current account of the balance of payments.

Countries	Merchandise trade			Net In- come from invisibles	Balance on current account	Aid received	Balance including aid
	Imports (c.i.f.)	Exports (f.o.b.)	Balance				
In millions of U.S. dollars							
Greece							
1952 . . .	290	115	-175	+ 57	-118	+ 127 ¹	+ 9
1953 . . .	243	135	-108	+ 84	- 24	+ 66 ¹	+ 42
1954 ² . .	330	159	-171	+ 98	- 73	+ 61 ¹	- 12
Turkey							
1952 . . .	548	363	-185	+ 15	-170	+ 66	-104
1953 . . .	521	396	-125	+ 2	-123	+ 51	- 72
1954 . . .	.	.	.	.	-150 ²	.	.

¹ Foreign aid and reparations received.

² Provisional estimates.

The full figures for Turkey's balance of payments in 1954 are not yet available, but a preliminary estimate points to an increase in the current deficit. Foreign trade is subject to control, Turkey's commercial policy being subordinated to the government's main aim, that of achieving a rapid modernisation of the economy. In 1954 the regulations governing the granting of import licences were tightened and the amount of the deposit which importers are required to pay in to the central bank when applying for a licence was raised from 4 to 10 per cent. of the sum involved; and in June 1954 there came into force a new ad-valorem tariff providing for higher import duties on most types of goods.

Since the middle of 1952, Turkey's trade, even with other members of the European Payments Union, has been increasingly put on a bilateral basis.

Yugoslavia, too, has made great efforts to expand its trade in recent years, but its balance of payments has been adversely affected not only by the import of large amounts of capital goods for the equipment of the country's industries and of increasing quantities of raw materials to satisfy the growing needs of these industries but also by imports for defence purposes and — most burdensome of all — by purchases of foreign agricultural produce necessitated by low output and poor harvests at home. There was some improvement in 1954 in the country's agricultural production, especially of livestock, but, owing to bad weather, the cereal crop (chiefly wheat and maize), which takes up 80 per cent. of the cultivated land, was well below average.

In the years 1950-54 Yugoslavia received under various U.S. relief programmes goods to the value of \$510 million, of which 40 per cent. consisted of foodstuffs and the remainder mostly of military equipment. France and the United Kingdom provided aid during this period amounting to \$28 million and \$49 million respectively. In addition, the I.B.R.D. has made three loans to Yugoslavia: one in 1949, of \$2.7 million, for the timber industry; another in 1951, of \$28 million, for the development of mining and of other

Yugoslavia: Balance of payments.

Items	1952	1953	1954 First half-year
	in millions of U.S. dollars		
Merchandise trade			
Imports (c.i.f.)	373.1	395.3	167.5
Exports (f.o.b.)	246.5	186.0	108.5
Adjustments	- 18.8	- 21.2	
Balance of trade . . .	- 145.4	- 230.5	- 61.0
Invisible items (net)	+ 33.2	+ 27.1	+ 3.0
Balance on current account	- 112.2	- 203.4	- 58.0
Current-account deficit covered by			
Foreign aid	102.4	139.7	41.2
Capital movements and changes in monetary gold .	9.2	66.2	16.8
Errors and omissions	0.6	- 2.5	*
Total cover	+ 112.2	+ 203.4	+ 58.0

* Item included under capital movements.

Portugal is estimated to have had a surplus of \$23 million on the current account of its balance of payments for the first half of 1954, compared with one of \$33 million for the whole of 1953. Normally Portugal sells one-quarter of its exports to its overseas territories and receives from them rather less than 20 per cent. of its imports. Total exports rose in 1954, mainly on account of increased shipments of timber, of cork and cork products, of cotton yarns and tissues (sold mainly to the country's overseas territories) and of tinned fish.

Spain publishes no balance-of-payments statistics, but its tourist trade would appear to be bringing in fairly large amounts of foreign exchange, and the income thus gained has probably been sufficient to cover not only the country's deficits in respect of other invisible items, such as shipping, but also part of the trade deficit.

Spain: Foreign trade.

Year	Imports	Exports	Balance
	in millions of gold pesetas		
1952	1,439	1,044	- 395
1953	1,836	1,465	- 371
1954	1,856	1,374	- 484

Switzerland's continued surplus on the current account of its balance of payments and the capital transactions to which it has given rise have been mentioned on page 51. As far as the country's foreign trade is concerned, it is of interest to note that over 90 per cent. of its exports consist of manufactured articles.

industries; and a third in 1953, of \$30 million, for the same purpose.

Commercial relations with the eastern countries had been practically non-existent since 1949. Trade with the U.S.S.R. was resumed in January 1955 by the conclusion of an agreement providing for an exchange of goods during the following twelve months to the total value of \$20 million. Bilateral trade agreements have also been concluded with some of the other eastern European countries.

The economic and military aid received by Spain under the agreements concluded with the United States in September 1953 is reported to have amounted to \$226 million during 1953-54.

Switzerland: Main export items.

Items	1952	1953	1954
	in millions of Swiss francs		
Machinery	989	1,040	1,099
Watches	1,083	1,107	1,040
Pharmaceutical products	292	321	382
Instruments and apparatus	312	334	359
Aniline dyestuffs	179	235	296
Cotton tissues	113	162	172
Chemical products for industrial use	95	100	128
Embroidery	90	99	112
Cheese	110	102	112
Total of above products	3,263	3,500	3,700
Other exports	1,486	1,665	1,572
Total exports	4,749	5,165	5,272

The importance for Switzerland of its exports of machinery and of watches, which each amounted in 1954 to over Sw.fcs 1,000 million, may be seen from a comparison with the figures for the tourist trade, which is estimated to have brought in a gross income of something like Sw.fcs 750 million (and a net income of Sw.fcs 460 million).

Moreover, the exports of the chemical industries have been of increasing importance in recent years: in 1954 the aggregate value of exports of pharmaceutical products, aniline dyestuffs and other chemical products reached a figure of Sw.fcs 850 million. In comparison, the value of watch exports has remained more or less stationary, and since the end of July 1954, when the U.S. tariff was raised, exporters in this field have had a new difficulty to contend with.

The imports of the Belgian-Luxemburg Economic Union rose more in 1954 than its exports, with the result that it had a larger trade deficit than in the previous year and also a current balance-of-payments deficit of B.fcs 3.6 milliard (see table on page 48).

Belgian-Luxemburg Economic Union:
Distribution of foreign trade.

Items	E.P.U. area	Other areas	Total
	in milliards of Belgian francs		
Imports (c.i.f.)			
1953	81.8	39.3	121.1
1954	85.5	42.0	127.5
Exports (f.o.b.)			
1953	77.3	35.6	112.9
1954	82.8	32.4	115.2
Balance			
1953	— 4.5	— 3.7	— 8.2
1954	— 2.7	— 9.6	— 12.3

Belgium increased its imports from all regions, but the largest rise was in imports from the E.P.U. area, especially western Germany and France. Exports to the E.P.U. area also rose in value but those to all other areas fell, there having been in particular a drop in shipments to the dollar area, owing to a decline in steel exports to the United States.

In the Netherlands, too, imports increased to a greater extent than exports, but there was still a current surplus — of Fl. 482 million — in the balance of payments (see page 49).

In 1954 Belgium-Luxemburg and western Germany together provided one-third of all the Netherlands' imports and took 30 per cent. of its exports. The total turnover of trade (imports plus exports) with each of these trading

partners exceeded Fl. 3,000 million, compared with a combined turnover in the region of Fl. 1,900 million with the United Kingdom and the United States. Imports from the United States went up (partly as a result of the increasing liberalisation of dollar imports) but exports to that country declined, leaving a trade deficit of Fl. 684 million in relation to the United States, compared with one of Fl. 252 million in the previous year. Trade in invisible items, however, brought the Netherlands a net gain in dollars, and it also earned dollars in its commercial transactions with other areas.

The imports which rose most markedly were those of machinery and apparatus and of petroleum and petroleum products, which together amounted to Fl. 460 million, making up one-quarter of the total increase of Fl. 1,830 million. Total exports increased by nearly Fl. 1,000 million, of which Fl. 200 million was accounted for by petroleum and Fl. 120 million by electrical apparatus, while exports of dairy produce remained relatively stable.

The considerably larger share of machinery in both imports and exports illustrates one of the most interesting tendencies in world trade at the present time, viz. the growing importance in international trade of fully manufactured products (see page 59). Increased industrialisation requires more and more specialised machinery — a fact which gives greater scope for a division of labour, even among the highly industrialised nations, than was thought possible a few years ago.

In each of the four northern countries — Denmark, Finland, Norway and Sweden — both imports and exports rose in 1954, but since

Northern countries: Current account of the balance of payments.

Items	Merchandise trade			Net income from invisibles	Balance on current account
	Imports ¹	Exports	Balance		
in millions of national currency units					
Denmark (kroner)					
1952	6,110	6,000	— 110	+ 260	+ 150
1953	6,360	6,290	— 70	+ 160	+ 90
1954	7,400	6,750	— 650	+ 170	— 480
Finland (markkas)					
1952	182,900	156,900 ²	— 25,900	+ 4,600	— 21,300
1953	123,600	131,700	+ 8,100	+ 3,400	+ 11,500
1954 ³	152,100	156,600	+ 4,500	+ 3,800 ⁴	+ 8,300 ⁴
Norway (kroner)					
1952	6,340	4,210	— 2,130	+ 2,110	— 20
1953	6,590	3,810	— 2,780	+ 1,800	— 980
1954	7,320	4,280	— 3,040	+ 1,940	— 1,100
Sweden (kronor)					
1952	8,950	8,140	— 810	+ 990	+ 180
1953	8,160	7,660	— 500	+ 840	+ 340
1954	9,190	8,220	— 970	+ 860	— 110

¹ For Denmark imports are f.o.b.; for the other three countries c.i.f.

² Excluding exports in respect of reparations, which were completed in September 1952.

³ The trade figures for 1954 are taken from the customs statistics.

⁴ The figures for net income from invisible items, and thus also those for the current balance, are preliminary estimates.

imports rose more than exports the balances of payments were less favourable than in 1953. Finland still had a surplus on current account; Sweden had a small deficit, while in the case of both Denmark and Norway the deficits turned out to be uncomfortably large.

The measures taken in each of the northern countries in the light of their foreign-trade and domestic situation have been described on pages 32-34.

In 1954 Denmark had a surplus of nearly D.Kr. 400 million in relation to the sterling area and it still had a surplus in trade with the dollar area, but in relation to the continental O.E.E.C. countries there was a deficit of D.Kr. 1,970 million, since imports rose sharply while exports did not increase to the same extent. Though one of the reasons for the deterioration in the balance of payments in 1954 was admittedly the high level of internal purchasing power, Denmark has also been faced by a special difficulty arising from the fact that as a rule trade in agricultural products has been liberalised less than that in other products and is, moreover, particularly affected by the continued existence of state trading and the maintenance of high tariffs. In view of these difficulties, Denmark itself has fulfilled only the minimum requirements of the liberalisation programme, having achieved by the end of 1954 an overall percentage of 76 per cent., while the percentage for manufactured goods alone was only 60 per cent. When the O.E.E.C. Council decided, on 14th January 1955, that the liberalisation percentage should be raised to 90 per cent. by the end of September 1955, Denmark made certain reservations.

Norway's exports rose in 1954 by about N.Kr. 500 million, thanks mainly to increased shipments of pulp and paper and also of fish and fish products (there having been a record catch of herrings).

The high figures for Norwegian imports in recent years (especially in 1954, when there was an increase of N.Kr. 760 million) have reflected a rise in the rate of investment, one illustration of which is provided by the upward trend of ship imports.

With a view to reducing the number of orders for ships, it has been decreed that contracts for new tankers will not be approved unless the

Norway: Foreign trade.

Year	Imports			Exports	Balance of trade	Ships in relation to total imports
	Ships	Other imports	Total			
	in millions of kroner						in percentages
1938	151	1,042	1,193	787	— 406	13
1951	901	5,365	6,266	4,427	— 1,839	14
1952	654	5,585	6,239	4,039	— 2,200	10
1953	886	5,628	6,514	3,633	— 2,881	14
1954	1,263	6,013	7,276	4,163	— 3,113	17

importer undertakes to find, out of his foreign exchange earnings, the full amount required for the purchase. In general, the payments to the foreign creditors must be made within five years, but in some cases the period may be extended. The orders already placed before this decree was issued will, however, strain Norway's exchange position for a number of years to come.

Moreover, in February 1954 duties were reimposed on all imports of machinery, whereas previously machinery of a type not manufactured in Norway had been admitted duty-free.

Sweden increased its exports by S.Kr. 560 million in 1954 but its imports rose by no less than S.Kr. 1,030 million in value (14 per cent. in volume). The increase was mainly accounted for by larger imports of machinery (for investment purposes) and vehicles (mostly private cars). One of the measures taken to curb the rise in imports (see page 33) was the imposition, in January 1955, of a new duty of about 10 per cent. on motor vehicles, to be levied at the time of registration, this being in addition to the normal import duties.

Sweden: Composition of trade in 1954.

Items	Imports	Exports
	In percentages of total	
Animal and vegetable commodities	18	6
Minerals, base metals and products thereof	31	23
Textiles, rubber, hides and skins	16	*
Machinery, vehicles, ships, etc.	24	24
Forestry products	*	41
Other goods	11	6
Total	100	100

* Included under "other goods".

In recent years Sweden has become an important exporter of machinery (and to some extent also of vehicles).

Between 1953 and 1954 the greatest advance was made by the exports of the engineering and ship-building industries, the value of which rose by

S.Kr. 348 million (or 22 per cent.), of which S.Kr. 229 million, i.e. two-thirds, was accounted for by cargo vessels. Forestry products are still, however, the mainstay of the Swedish export trade, having represented over 40 per cent. of the total in 1954, while exports of iron ore accounted for 9 per cent.

The strong demand for forestry products on the world markets in 1954 gave the Finnish economy an impetus which was felt by all branches of production. The increase in the value of both imports and exports corresponded to a rise in volume of 30 and 16 per cent. respectively, prices having remained fairly stable. It should, however, be added that imports worth FM 3 to 4 milliard, which would normally have been received a month or two later, were rushed through the customs in December 1954 on account of the higher rates of duty which were to come into force at the beginning of 1955. If these imports are deducted from the total, the export surplus works out at about the same as in 1953.

Whereas in certain years 90 per cent. or more of Finland's exports consisted of forestry products, the proportion was down to 80 per cent. in 1954, while the share of the engineering and shipbuilding industries had increased to 12 per cent. These industries were expanded after 1945 in order to enable the country to make its reparation deliveries to the U.S.S.R., but most of the enterprises have actually extended their activities since the completion of the reparation programme. The U.S.S.R. has remained an important customer for their products; in 1954 the U.S.S.R. and the United Kingdom each accounted for more than one-fifth of Finland's total exports and somewhat less than one-fifth of its imports, the trade with the latter country being the larger. A considerable part of the rouble surplus resulting from Finland's trade with the U.S.S.R. has been used to make purchases from Czechoslovakia, Poland, eastern Germany and Roumania under triangular agreements with these countries and the U.S.S.R. In 1954 the U.S.S.R. also made certain payments to Finland in gold.

As may be seen from the following table, Iceland's foreign trade with eastern Europe increased sharply in 1953 and 1954.

Iceland: Distribution of foreign trade.

Items	United States	United Kingdom and Ireland	Continental O.E.E.C. countries	Eastern Europe	Other countries	Total
	in percentages of total					
Imports						
1951	13	29	28	7	23	100
1952	20	21	26	7	26	100
1953	27	12	28	9	24	100
1954	20	11	32	18	19	100
Exports						
1951	18	24	35	8	15	100
1952	25	14	41	7	13	100
1953	15	12	32	20	21	100
1954	17	10	35	25	13	100

The decline in Iceland's trade with the United Kingdom is largely due to a privately organised British boycott against the landing of fresh fish from Icelandic trawlers imposed in retaliation for certain measures taken by the Icelandic Government with regard to the fishing grounds round their island. The loss of British trade has been compensated for by an increase in exports to other countries, especially those of eastern Europe, in particular the U.S.S.R., which signed a two-year trade agreement with Iceland on 1st August 1953 whereby it undertook to buy from Iceland herrings and frozen fish and to sell to it in return fuel, oil, wheat and certain other cereals, cement and iron bars.

An important part is played in Iceland's balance of payments by its receipts from the United States in connection with the stationing of U.S. troops in Iceland. These receipts amounted in 1953 to \$13.6 million and were thus nearly sufficient to cover the country's deficit in respect of

merchandise trade, which came to \$15.8 million. The overall deficit on current account in that year was covered partly by an inflow of long-term capital, primarily in the form of loans on ships, and partly by an increase in the credits obtained through the E.P.U. mechanism.

The eastern countries publish no detailed trade figures; but, as mentioned on page 56, it has been calculated on the basis of the statistics of the western countries that, in spite of an increase in the value of east-west merchandise trade during 1954, the trade of the western European countries with the eastern countries in that year still represented only about 3 per cent. of the group's total turnover, as against some 8 per cent. in 1937. In its Economic Survey of Europe for 1954, the United Nations Economic Commission for Europe has tried to estimate the total value of the trade of the eastern countries both among themselves and with the rest of the world. Its calculations show the total trade turnover of the eastern countries in 1953 as having amounted to \$16.3 milliard, of which \$3.5 milliard represented trade with the west and \$12.8 milliard intra-area trade. In the same year the total trade turnover of the countries of the western world was \$140.3 milliard.* But the Survey warns readers that its figures for eastern European trade "should be regarded as indicative of orders of magnitude rather than as precise statistics".

* * *

O.E.E.C. countries: Degree of liberalisation in intra-European trade.

Countries	April 1954	April 1955
	in percentages*	
Austria	65	82
Belgium-Luxemburg	87	88
Denmark	76	76
France	51	75
Germany	90	90
Iceland	29	29
Ireland	77	77
Italy	100	100
Netherlands	93	93
Norway	75	73
Portugal	93	93
Sweden	91	91
Switzerland	92	92
Turkey	suspended	suspended
United Kingdom	80	84
Average for member countries, excluding Greece	81	84
Greece (unofficial)	90	97

* Imports on private account free from all quantitative restrictions as a percentage of total private imports from other O.E.E.C. countries, in most cases on the basis of imports in 1948.

When, immediately after the war, economic conditions were quite abnormal, bilateral trade and payments agreements were undoubtedly useful, up to a point, as temporary measures helping to revive trade. But the disadvantages of bilateralism were obvious, and the establishment of the European Payments Union, which introduced a high degree of multilateralism within an important group of countries, was therefore a decisive advance in this field. It was followed almost simultaneously by the efforts of the O.E.E.C. countries to liberalise their trade with one another, i.e. to free it as far as possible from quantitative restrictions. As may be seen from

* This figure differs from the world-trade turnover given on page 81 because in the latter case imports were reckoned c.i.f., whereas the above total was worked out on an f.o.b. basis.

the table on the preceding page, further progress was made between April 1954 and April 1955.

In April 1953 Greece, as an experimental measure, removed all quantitative restrictions on 90 per cent. of its imports on private account, and at the end of 1954 it increased the percentage to 97 per cent., but these changes have not been officially notified to the O.E.E.C. Sweden, too, has extended liberalisation beyond the figure notified to the O.E.E.C.

The average liberalisation percentages for the three main categories of goods were as follows at the end of 1954:

O.E.E.C. countries*:
Trade liberalisation according
to main categories.

Categories	Percentages
Raw materials	92
Manufactured products . .	78
Food and feeding stuffs . .	79
Total average	83

* Excluding Greece, whose trade-liberalisation percentage has not been officially notified to the O.E.E.C.

In eight countries the liberalisation percentage for raw materials exceeded 96 per cent. at the end of 1954. In the United Kingdom it was only 81 per cent., chiefly owing to the maintenance of restrictions on imports of paper pulp.

With regard to manufactured products, the average percentage of 78, reached by the end of 1954, is increased to over 80 when account is taken of the latest liberalisation measures introduced by France, which came into effect on 1st April 1955.

As regards food and feeding stuffs, the liberalisation percentage as shown above is for several reasons less significant than that for the other two categories. For it is mainly in the agricultural sector that government trading still continues, and the liberalisation percentages do not include government trade; in addition, agricultural products are often given substantial tariff protection. As pointed out in the Sixth Report of the O.E.E.C. (published in March 1955), "import policies in respect of this category create, on the whole, great difficulties for intra-European trade; they bear heavily on exporting member countries, and are largely maintained for reasons not connected with the balance of payments".

It is, indeed, an unfortunate fact that these restrictions apply to a very great extent to goods, such as meat, dairy produce, eggs, fruit and vegetables, which are mainly traded inside western Europe. To quote again from the O.E.E.C. report, "more than 85 per cent. of European meat exports go to member countries.* For eggs, the proportion exceeds 90 per cent., for fresh fruit it averages 80 per cent. and for some kinds more than 95 per cent. In certain cases, exports of such products are of vital importance to the producing countries; but only a few countries have freed their imports of them."

Many reasons are advanced for the continued application of restrictions and high tariffs to agricultural imports (such as the need, on social grounds,

* It should perhaps be added in this connection that the percentage would have been still higher had it not been for substantial meat exports to eastern Europe in 1954.

to stabilise agricultural income and employment, and the importance, on strategic grounds, of maintaining home food production); but one essential element of the problem is undoubtedly the fact that in several countries on the continent of Europe methods of agricultural production have not kept pace with the advances of modern technique, lagging in this respect far behind other branches of the economy. Whatever may be the historical and other reasons for this state of affairs and however great may be the difficulties of a technical or political character which have to be overcome, there is an urgent need for some European countries to devote more of their efforts to the rationalisation of agriculture, since an unrationalised agricultural sector will remain a burden on the economy and will not only retard the raising of the standard of living but is likely in addition to create certain difficulties for the export industries.

The liberalisation of invisible transactions, which was the subject of a special Code agreed to in 1950, has continued to make progress, thanks mainly to decisions taken by O.E.E.C. member countries either to withdraw reservations previously made or to go beyond the obligations of the Code. Income from capital can now generally be transferred abroad and the tourist allowance has in most countries been increased beyond the minimum amount, equivalent to \$100 a year, which it was agreed in July 1951 should be granted by countries which had liberalised at least 75 per cent. of their trade.

Progress is also being made in freeing imports from the dollar area, not only by the removal of quantitative restrictions but also as a result of a more liberal attitude on the part of the authorities in granting import licences. Switzerland does not impose any discriminatory restrictions on imports from the dollar area, and the Benelux countries have since 1st June 1954 admitted the same percentage of imports from the dollar area as from O.E.E.C. member countries. There was an immediate rise in dollar imports as a result of the liberalisation, but in Belgium the increased demand for dollar goods soon subsided, whereas in the Netherlands it has been more persistent; in that country, however, the growth in dollar imports coincided with a very considerable rise in the purchasing power of the public from a previously fairly low level (see page 49).

It should be borne in mind that European supplies of household appliances, machines, etc. at competitive prices are now generally so ample that

Benelux countries: Imports from the dollar area.

Year	Belgian-Luxemburg Economic Union	Netherlands
	in millions of U.S. dollars	
1952	523	395
1953	378	338
1954	387	473

“specialties” will in future need to pay more attention to the particular tastes of their European customers and to the conditions prevailing on European markets.

The removal of quantitative restrictions is not, of course, the only feature of the struggle for freer trade, for another obstacle to the unhindered exchange of goods and, indirectly, of many services (shipping, insurance, etc.) is the existence of tariff duties. Countries whose tariffs are relatively moderate have argued in the O.E.E.C., as they have in the G.A.T.T., that an effort should now be made to reduce existing high tariffs. As was pointed out in the Sixth O.E.E.C. Report, the tariff position in general "cannot be regarded as one specifically concerning Western Europe alone. For, in accordance with international agreements, any tariff concession by one member country must automatically be extended to all countries participating in the G.A.T.T., or to whom that country is bound to extend most-favoured-nation treatment."

The G.A.T.T. organisation was set up as "an informal operational structure" in 1948 and has since then held three tariff conferences and nine sessions, the most recent of which took place in Geneva from 28th October 1954 to 7th March 1955. At this session the Contracting Parties* completed a comprehensive review of the G.A.T.T. in the light of their seven years' experience of its working and amended the provisions of the Agreement in the light of the changed conditions. They also drew up the terms of a new agreement providing for the establishment of a permanent organisation to be known as the Organization for Trade Cooperation (the "O.T.C.").

Among the results of the revision of the G.A.T.T. the following may be briefly noted:

1. The tariff reductions already in force will be maintained. Through the G.A.T.T. machinery, agreements reducing or binding against increases 58,700 tariff items had been reached between the various governments; and it was agreed in Geneva to recommend to the governments concerned the continuance of this stability by prolonging from 1st July 1955 (when the agreements on these duties would otherwise lapse) to 31st December 1957 the assured life of the tariff schedules in question. Moreover, for the future an automatic extension of the life of the tariff schedules, by three years each time, is proposed.
2. Further negotiations for reductions in tariffs are envisaged.
 - (a) While each party retains the right to decide whether or not to engage in negotiations or to participate in a tariff conference, the Contracting Parties formally recognise the value of tariff negotiations directed to "the substantial reduction of the general level of tariffs and other charges on imports and exports and, in particular, the reduction of such high tariffs as discourage the importation even of minimum quantities". Indeed, in tariff negotiations the binding of low duties against increase or the guaranteed continuance of duty-free treatment is recognised as a concession equivalent in value to the reduction of high duties.
 - (b) The Contracting Parties have also set up a special working party to study the general possibilities of future reductions in tariffs and the methods to be adopted and to recommend the convening of a tariff conference when it is felt that further progress can be made in this field.

* In accordance with the practice adopted by G.A.T.T. the term "Contracting Parties" written with capitals means the "contracting parties acting jointly", whereas when written small the term refers to any member country or countries.

3. The Contracting Parties have confirmed the basic principle that quantitative restrictions must be eliminated as soon as they are no longer justifiable for balance-of-payments reasons and have ensured stricter observance of this principle in two ways:
- (a) It is now clearly recognised that it is a prior obligation of member countries to pay due regard to the maintenance of balance-of-payments equilibrium; and
 - (b) the O.T.C. is to undertake, at a date to be determined by the Contracting Parties, a review of all quantitative restrictions still maintained for balance-of-payments reasons, and will thereafter institute a system of annual consultations at which the countries concerned will be required to justify each year the restrictions still being maintained.

On the other hand, two kinds of exception to the principle stated above have been made by the granting of "waivers".

- (a) A temporary waiver has been granted in those "hard-core" cases where a sudden removal of the quantitative restrictions in force, although these are no longer justified for balance-of-payments reasons, would result in serious injury to a domestic industry or branch of agriculture which they have protected. While the contracting parties in question may impose on imports such conditions and limitations as they judge to be reasonable and necessary, they will have to get rid of any temporarily permitted quantitative restrictions within a comparatively short period, which must in any case not exceed five years. Furthermore, the application of these "hard-core" restrictions and the progress made towards removing them will be reviewed by the Contracting Parties annually.
 - (b) A second waiver allows the United States to apply the special measures required under Section 22 of the United States Agricultural Adjustment Act* concerning quantitative restrictions and additional charges on imports, but at the same time it reserves the right of any party whose trade is damaged by such measures to have recourse to the procedures of the Agreement in order to adjust the balance by negotiation or otherwise. The Contracting Parties will review annually any action taken by the United States under this legislation; and the U.S. Government has given assurances that before taking action it will consult with substantially interested countries and that it will terminate any restriction imposed under the legislation as soon as it is no longer required.
4. Special facilities subject to particular safeguards have been granted to "countries which can only support low standards of living and are in the early stages of development" (this being the

* Since 1933 the U.S. Government has maintained a system of price support for agricultural commodities and as a result the level of prices in the United States is as a rule higher than the level prevailing on the world's free markets. It was in view of this price disparity that Congress initially adopted in 1935 Section 22 of the Agricultural Adjustment Act, which has since then been re-enacted and amended. This Section provides that, whenever the President finds that products are being or are practically certain to be imported in such quantities and under such conditions as to render ineffective or materially interfere with an agricultural programme, he must take action to prevent imports from having such effects.

The action in question may take the form of the establishment of quotas or the imposition of additional fees. The importance attached to Section 22 has been so great that in 1951 Congress added to the Act a paragraph which laid down that no international agreement should be applied in a manner inconsistent with the provisions of this Section. Hence the waiver requested by the United States at the recent session of the G.A.T.T.

new definition of what used to be called "under-developed countries"). The purpose of these facilities is to help these countries to maintain sufficient flexibility in their tariff structure to enable them to provide the protection required for the establishment of particular industries and also to make it possible for them to apply quantitative restrictions on imports in order to safeguard their balances of payments, which may be subjected to great strain on account of the continuously high level of demand for imported goods which is likely to be one of the consequences of their programmes of economic development.

Procedures have been worked out whereby a country in the early stages of development may enter into tariff negotiations with other contracting parties with a view to modifying a concession bound under the Agreement, in order to facilitate the establishment of a particular industry. If the countries concerned fail to reach agreement through negotiation, the matter may be referred to the Contracting Parties. Should restrictions on imports be applied for the purpose of protecting a new industry, they must be non-discriminatory in nature. In some cases, any contracting party which is injured by restrictions imposed may withdraw substantially equivalent concessions granted by it under the Agreement.

By a separate decision, the United Kingdom has been authorised to give special assistance to its colonial territories, which depend largely on the U.K. market, by the adoption of measures which would otherwise have been inconsistent with the provisions of the Agreement. But this exception will apply only in cases in which the advantages conferred, while benefiting the industry or branch of agriculture in the colonial territory, will not assist industry or agriculture in the United Kingdom or any other country. The United Kingdom will report annually to the Contracting Parties on any such measures adopted.

5. Certain new provisions have been inserted in the Agreement in order to limit the harmful effects of export subsidies. No new or increased subsidies on non-primary products will be allowed, and subsidies on primary products may not be used by a country for the purpose of obtaining for itself more than a fair share of world trade.

Additional provisions have also been adopted concerning the use by importing countries of anti-dumping and countervailing measures.

Moreover, certain principles have been agreed upon as regards the liquidation of surplus stocks of agricultural commodities; and the special problems connected with international trade in primary products have also been considered.

In order to facilitate the attainment of the objectives of the General Agreement by stimulating the economic growth of countries — especially the under-developed countries — in need of foreign funds and thus rendering it less necessary for such countries to resort to import restrictions, it was recommended that contracting parties which are in a position to provide capital for international investment and others which desire to obtain such capital should do their best to create conditions which will promote the international flow of capital, having regard, in particular, to the importance of providing adequate security for existing and future investments, of avoiding double taxation and of giving facilities for the transfer of earnings on foreign investments.

6. The functions of the new permanent organisation, the O.T.C., will be firstly to administer the General Agreement and secondly to sponsor international trade negotiations and serve as an inter-governmental forum for the discussion and solution of other questions relating to international trade.

The agreements drawn up in Geneva have been submitted to the individual countries for ratification and will enter into force when accepted by governments whose territories account for 85 per cent. of the total external trade of the territories of the thirty-five contracting parties.

On 14th April 1955 the President of the United States expressed the opinion, in a message to Congress, that his country's membership in the O.T.C. "would serve the enlightened self-interest of the United States. As a member of this organization we could work more effectively for the removal of discriminatory restrictions against our exports. We could help establish conditions favorable to convertibility of currencies. We could further the expansion of markets abroad for the products of our mines, our farms and our factories. We could assist in the development of conditions conducive to the international flow of investment capital so urgently needed to expand production throughout the free world, especially in its under-developed areas. Failure to assume membership in the Organization for Trade Cooperation would be interpreted throughout the free world as a lack of genuine interest on the part of this country in the efforts to expand trade. It would constitute a serious setback to the momentum which has been generated toward that objective. It would strike a severe blow at the development of co-operative arrangements in defense of the free world. It could lead to the imposition of new trade restrictions on the part of other countries, which would result in a contraction of world trade and constitute a sharp setback to United States exports. It could result in regional realignments of nations."

Already in January the President had submitted to Congress a proposal for the renewal, for three years, of the Reciprocal Trade Agreements Act, which enables the President, within certain limits, to reduce U.S. tariffs as required to facilitate trade negotiations with other countries and also to undertake certain unilateral reductions.

Congress also has before it a bill for the simplification of customs procedures, which is a matter of considerable practical consequence.

For many reasons the attitude of the United States in this field is of vital importance, since it will depend to a great extent on the example set by that country whether future efforts to improve the conditions of world trade will be made on a truly international basis, with the participation of countries in all continents, or whether it is to be left to particular groups of countries to take further steps in this direction.

The continued expansion in the volume of international trade is concrete proof that the various endeavours made to eliminate quantitative restrictions and other obstacles to trade have been by no means unsuccessful.

A few years ago it was feared that the progressive relaxation of foreign exchange controls, as part of the gradual advance towards full convertibility, could only be effected if at the same time imports were subjected to a stricter limitation and that it would thus have to be achieved by means which might actually lead to a curtailment of the international exchange of goods and services.

But events have shown that these fears were unfounded. For the relaxation of exchange controls and the expansion of trade have in fact gone hand in hand, and it is clearly in the direction of expansion, and not of restriction, that further progress must be sought.

V. Foreign Exchange Markets.

In western Europe the past year has seen considerable further progress in the dismantling of restrictions on trade and payments and the development of foreign exchange markets which reflect more closely the real state of supply and demand for currencies. There is no clearer indication of the trend of policy than the fact that those countries which have encountered balance-of-payments difficulties have conspicuously avoided resorting to direct controls over trade and payments and have instead used monetary and fiscal measures to rectify their position (see Chapter II).

The principal measures taken during the past year to restore more normal conditions in the foreign exchange markets include:

- (i) further liberalisation of imports and, in several countries, an extension of this policy to imports from the dollar area;
- (ii) unification of non-resident accounts and thus of exchange rates, outstanding examples being those of western Germany and the United Kingdom; and
- (iii) greater freedom of capital movements, especially between the Benelux countries.

Outside Europe, the most noteworthy development in the dollar area has been the fall in the premium of the Canadian dollar in relation to the U.S. dollar from 3 to 1 per cent. in the early months of 1955.

In a number of countries in Latin America, currency difficulties have increased rather than diminished during the past year. The Argentine, Brazil, Chile, Colombia and Paraguay have all made changes in their exchange-rate systems involving a lowering of the external value of their currencies. The Peruvian sol, on the other hand, appreciated in value during 1954, thanks to the internal policies adopted to remedy the 1953 balance-of-payments deficit and to the stabilisation loan obtained from abroad early in 1954.

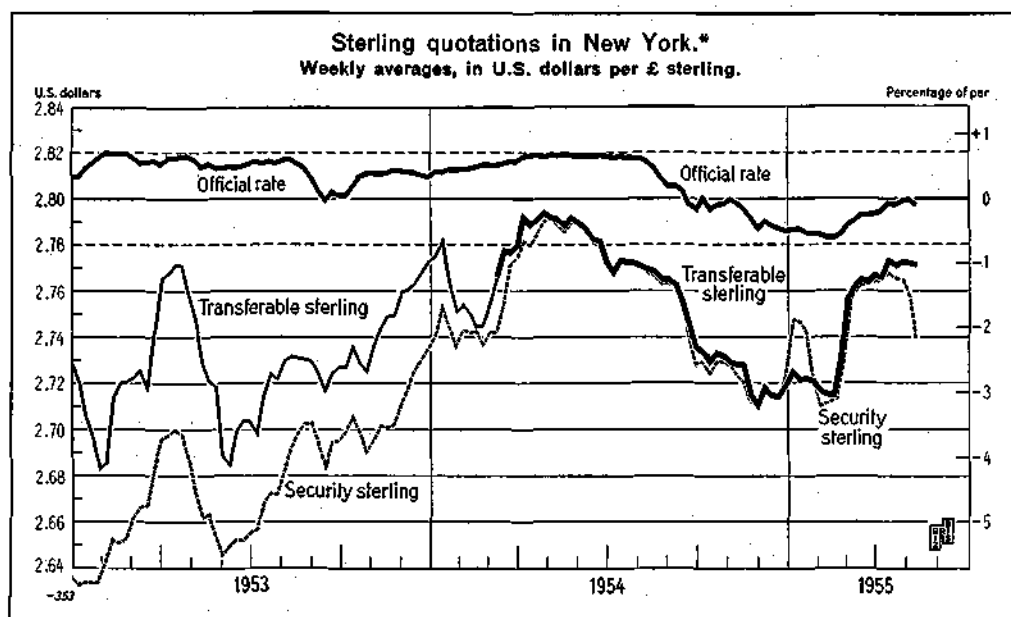
Elsewhere, Iran and Israel have simplified their exchange-rate structures, the currency of the former having appreciated in value and that of the latter having depreciated. In China there has been a currency reform and in Thailand a change in the gold value of the currency.

* * *

In the United Kingdom, the most important measure of foreign exchange policy taken during 1954 was the enlargement of the Transferable Account Area in March 1954 and the lifting of the restriction limiting the use of transferable sterling to current transactions. This step, which was described in the Twenty-fourth Annual Report (p. 127), has had a marked

effect on both the official and unofficial sterling markets and was one of the factors leading to the decision, in February 1955, to allow the Exchange Equalisation Account to intervene in the unofficial markets.

In the months immediately following the action taken in March 1954 — which also included the reopening of the gold market — sterling quotations, official and unofficial, showed great firmness, as may be seen from the following graph. During the first half of 1954 the British balance of payments was in substantial surplus (see page 36). Furthermore, partly as a result of the new facilities for the use of sterling and partly in expectation of an early return to convertibility and/or a widening of the support points for sterling, balances were being built up in London.



* The thickening of the curve for transferable sterling from March 1954 onwards is intended to indicate the greater importance of this market since that time.

In August 1954 the official rate began to weaken, as is customary at that time of the year; by the middle of September quotations were below par and from then on, except for minor recoveries in October and November, they moved continuously down towards the lower limit of U.S. \$2.78 until the end of February 1955, when Bank rate was raised to 4½ per cent. and the authorities began their intervention in the unofficial exchange markets.

For some considerable time the weakness of sterling was attributed to a prolongation of the usual seasonal movement; it is quite clear now, though, that the chief cause was the more-than-seasonal change which took place in the balance of payments from the first to the second half of the year (see page 37). There were, however, other factors of some importance. Among these was, for instance, a change in general market sentiment regarding sterling: those whose expectations of further immediate steps towards convertibility had, as already mentioned, led to a certain inflow of funds to London in the early summer were disappointed by the statement of the Chancellor of the Exchequer at the annual meeting of the International Monetary Fund in September 1954 that many problems remained to be solved before the pound could be made convertible. This probably resulted in some

selling of sterling. In addition, part of the movement into sterling earlier in the year was accounted for by advance purchases by traders who were covering their anticipated requirements further ahead than usual; the United Kingdom's reserves had, therefore, already had the benefit of some of the demand for sterling which normally occurs towards the end of the year. The effect on the foreign exchange market of the weakness in the balance of payments was thus reinforced by a certain outflow of funds and by the abnormal extent to which sterling requirements had been covered in previous months.

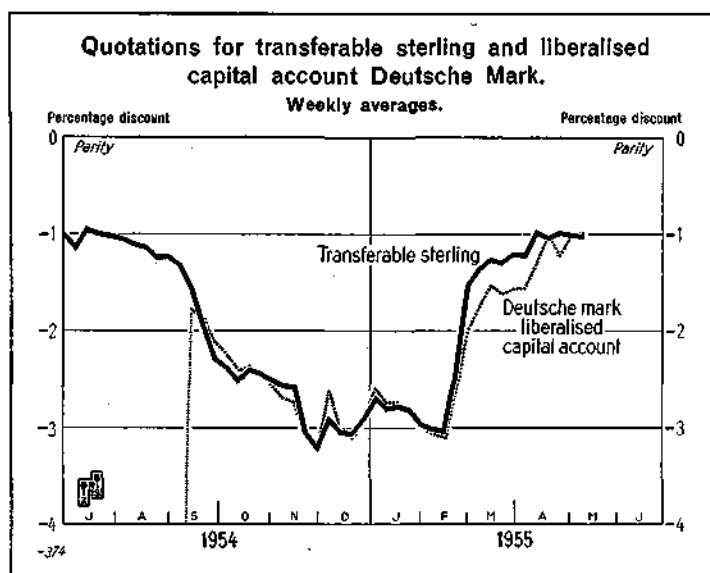
Another factor that depressed the official sterling-dollar rate was the relative weakness displayed by transferable sterling from September 1954 onwards. Two developments in particular were important in this connection. The first was the change, already mentioned, in market expectations regarding convertibility and the second was the repatriation, via sterling, of some Sperrmark balances owned by dollar-area residents to whom the unblocking measures announced on 13th September did not apply. This involved the purchase of sterling from banks in Germany or other E.P.U. countries against Deutsche Mark and its subsequent sale for dollars on the free markets.

The result was that the gap between quotations for American Account sterling and transferable sterling widened to between 2 and 3 per cent., and this proved sufficient to resuscitate cheap-sterling transactions. In former years such a small discount would not have had this effect, but the enlargement of the Transferable Account Area in March 1954 had substantially increased the volume of transactions on the market for transferable sterling and had at the same time narrowed the daily spread of quotations. It was this greater steadiness of the market that made cheap-sterling operations possible on the basis of a much smaller discount than before.

It was partly in order to put an end to these transactions, with their disturbing effects on patterns of trade, that the Exchange Equalisation Account was given authority, in February 1955, to intervene at its discretion in the unofficial foreign exchange markets. This sequence of events is a striking example of the disadvantages of being half-way between thoroughgoing exchange control, on the one hand, and a free but properly supervised exchange market, on the other. Policies of control and policies of freedom both acquire a momentum of their own. To be effective, controls must be as comprehensive as possible; once some of them are removed, the effectiveness of the remainder is greatly diminished.

The position has now, therefore, been reached where residents of all countries outside the sterling area — except Turkey, which is the only non-dollar country still excluded from the Transferable Account Area — can convert their sterling into dollars on a market supervised by the Exchange Equalisation Account authorities. Dollar-area residents, as in the past, carry out their sterling-dollar conversions on the official market and residents of other non-sterling-area countries effect theirs on the markets for transferable sterling. At the end of May 1955, the discount on transferable sterling was less than 1 per cent., the rate being just above U.S.\$2.77, while quotations for American Account sterling were slightly above U.S.\$2.79.

The movements in the quotations for transferable sterling have in recent months affected certain other rates of exchange. The next graph shows, as an example, the close parallelism between the rates quoted for transferable sterling



and those for liberalised capital Deutsche Mark accounts.

The influence is no doubt partly psychological; but there have certainly been marginal arbitrage operations between sterling obtained on the foreign exchange markets established for E. P. U. transactions* and currencies bought on other exchange markets.

Western Germany, too, has continued to relax its foreign-trade and payments regulations. The most notable step taken during the year was the unblocking, on 16th September 1954, of the Sperrmark balances. As from that date, these accounts were renamed "liberalised capital accounts" and all holders — except those resident in the dollar area and the eastern countries — were allowed to repatriate directly, at the official rates of exchange, their existing balances plus all amounts subsequently credited to their accounts. Those account-holders who were not given this right of repatriation can, of course, sell their balances on the free exchange markets to other non-residents of the Federal Republic and so obtain their own currencies at a slightly less favourable rate of exchange.

In addition to being able to dispose of their balances in the ways mentioned above, holders of liberalised capital accounts may transfer them to Deutsche Mark accounts carrying limited (i.e. non-dollar) convertibility or may use them inside Germany either for certain current payments such as travelling expenses (this was previously allowed only for holders of "original" Sperrmark) or for investment purposes. Permitted investments now include, in addition to those previously open to holders of Sperrmark balances, the granting of loans to residents of the Federal Republic, provided that the rate of interest does not exceed 4½ per cent. and that the period of the loan is not less than five years.

The origin of the Sperrmark balances lies as far back as July 1931, when, under the pressure of the foreign exchange crisis, the majority of foreign assets in Germany were blocked. During the post-war period the Sperrmark balances had gradually increased — as a result of the realisation of assets and, more recently,

* In Article 8 of the Agreement for the Establishment of a European Payments Union it is stated that:

"Each Contracting Party shall make amounts of its currency requested by any other Contracting Party available to that other Contracting Party, without requiring a settlement in gold or in the currency of any third country, to the extent necessary to enable payments in respect of transactions referred to in Article 2 to be made during the periods between the operations."

Article 2 describes the transactions which are to be settled through the mechanism of the Union.

Total balances on Sperrmark accounts (later liberalised capital DM accounts).

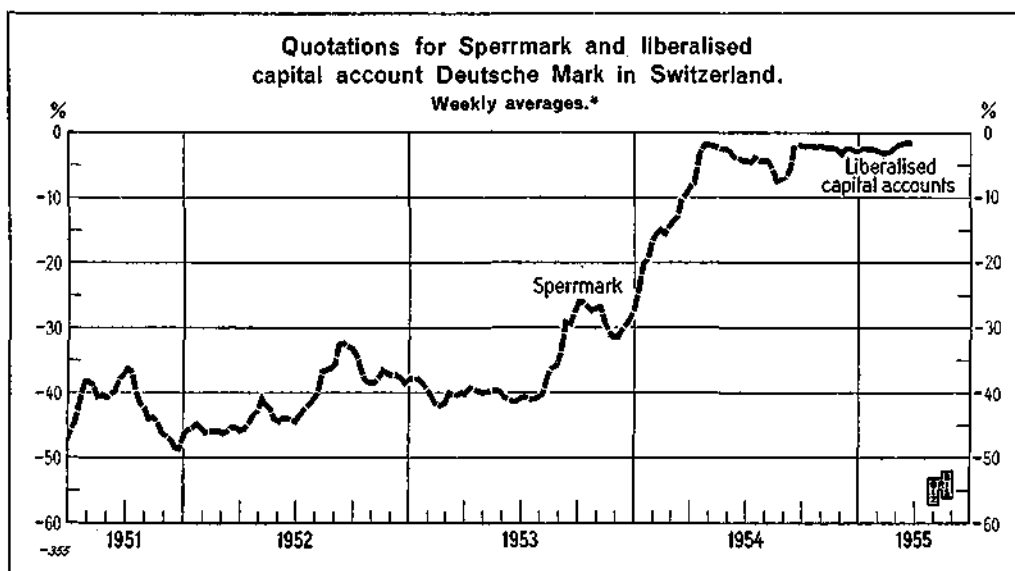
Date	Amounts
	in millions of DM
1950 February . . .	170
December . . .	260
1951 " . . .	456
1952 " . . .	609
1953 " . . .	790
1954 March	778
August	630
September . . .	573
December . . .	545
1955 February . . .	463

of the receipt of various kinds of reparation payments — but at no time was the total of the accounts very large.

The table shows the development of the total of Sperrmark balances and, since September 1954, of balances on liberalised capital accounts. The total did not begin to decrease until after the first general unblocking, which took place at the end of March 1954 and applied to all balances held on 31st March. During the period from the end of August 1954 to the end of February 1955, which corresponds roughly to the first six months during which, with the exceptions already mentioned, the balances were completely unblocked, their total declined by DM 167 million; the total of transfers abroad from the accounts during this time (by way

either of direct repatriation or of transfer to Deutsche Mark accounts with limited convertibility) amounted, however, to some DM 450 million. There was therefore a net increase of some DM 280 million in the balances as a result of other kinds of transactions: it is stated in the Annual Report of the Bank deutscher Länder for 1954 that the total of investments made from liberalised capital accounts (which are at present the only accounts that can be used by non-residents for investment in the Federal Republic) during the period from September 1954 to February 1955 was somewhat greater than the total of credits to the accounts resulting from sales of securities and other assets. The increase of DM 280 million mentioned above can therefore be attributed entirely to reparation payments.

The pattern of debits and credits to the accounts is of special interest in view of the fears sometimes expressed during the Sperrmark period that an unblocking of the accounts would lead to a substantial drain on western Germany's foreign exchange reserves. In particular, the fact that the total of investment with liberalised capital marks has exceeded the total of disinvestment shows that on balance people have been more anxious to put money into the Federal Republic



* Calculated over the rate for U.S. dollar bank-notes in Basle, as a percentage of the Deutsche Mark/U.S. dollar parity.

than to take it out. It is impossible to estimate what the total of capital owned by foreigners in western Germany amounts to — perhaps between DM 10 and 15 milliard — but it is safe to say that, quite apart from the fact that disinvestment is at present more than covered by investment, a fair proportion of the foreign-held assets in the Federal Republic consists of direct investments which their owners neither would nor could hastily dispose of. As for the other main source of supply of liberalised capital marks, namely restitution and reparation payments of various kinds to firms and individual persons, it has been estimated that these will amount to some DM 4 milliard over the next ten years; even assuming that all these moneys will be transferred abroad, it may be expected that this movement will be fairly evenly spread over the period.

Following the introduction of the Deutsche Mark with limited convertibility in March 1954 — a measure which gave non-residents of western Germany a new type of account, freely transferable outside the dollar area — a further multilateralisation of payments took place in December. Since then, it has been possible for payments between the Federal Republic and all non-dollar countries, except Brazil, Turkey and Yugoslavia, to be made via whatever payments agreement is most convenient. This means that the DM agreement accounts — that is, the accounts created under separate bilateral payments agreements for the settlement of transactions coming within the scope thereof — can now be used multilaterally in the same way as the DM accounts with limited convertibility. Furthermore, all payments between western Germany and the above-mentioned non-dollar countries may, if desired, be made in any foreign currency, except that Germans may not pay dollars to non-dollar countries. The effect of this step has been virtually to amalgamate the E.P.U. area and the other non-dollar countries (except for the three countries mentioned above), so that there are now in relation to western Germany only two main payments areas, the dollar and the non-dollar areas.

Considerable progress in relaxing exchange controls has been made by the Belgian-Luxemburg Economic Union and the Netherlands, partly through measures taken independently in these countries and partly also by action agreed upon between them as constituting further steps towards the full achievement of economic union.

Apart from introducing, in June 1954, a common list of free dollar imports covering 87 per cent. of their total dollar imports (see page 103), the Benelux partners jointly agreed, in July 1954, that capital should be allowed to move almost without restriction between their countries. As far as the export of capital was concerned, on the Belgian side (and this includes Luxemburg) there was little need to change the already existing regulations, since the only transactions which had not been allowed previously were exports of domestic securities. In the Netherlands, on the other hand, special permission had been required for all capital exports (including those to Belgium). Under the new regulations, Netherlands residents are permitted to buy, sell and subscribe to securities denominated in Benelux currencies — including the Congolese franc and the Indonesian rupee — on stock exchanges in Belgium and Luxemburg, to purchase real estate in these countries and to transfer inheritances. Furthermore, under special licence (which is invariably

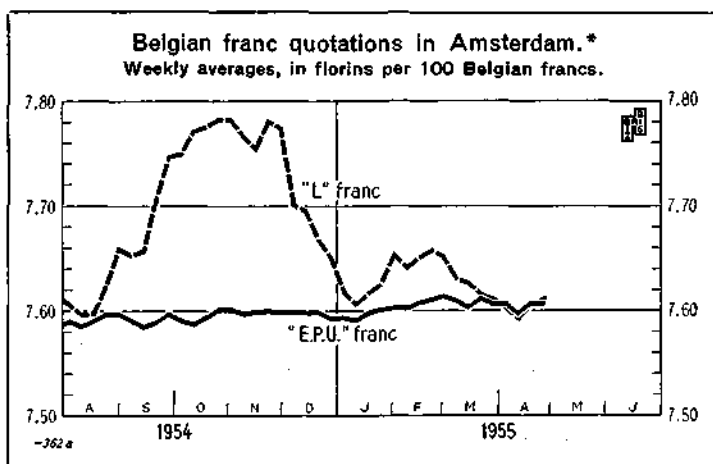
granted) they may buy unquoted securities, give and repay mortgages, and participate in enterprises in Belgium and Luxemburg.

As regards capital imports, neither country was prepared to accept capital from the other via the European Payments Union, since both have substantial creditor positions in that organisation which they are anxious to limit as much as possible: it was agreed, therefore, that there should be a system of accounts outside E.P.U. — with a free exchange rate — through which capital transactions would have to pass.

The Netherlands achieved this end by allowing B.L.E.U. residents to augment their capital florin accounts — called K accounts — by purchasing florins with Belgian francs. Previously these accounts could be credited only with the proceeds of the sale of Belgian capital in the Netherlands.

On the Belgian side, advantage was taken of this opportunity to introduce a new kind of non-resident account. The new accounts — called L accounts — were to be used by Netherlands residents for their capital transactions in Belgium, but their importance extended beyond the boundaries of Benelux, since they were made available to residents in all other E.P.U. countries as well. The most important points with regard to these accounts were the following:

- (i) They could be used to purchase any securities whatever, including dollar securities. As non-residents may export their securities from Belgium, the effect of this measure was to make the franc convertible for residents in E.P.U. countries, via the securities market.
- (ii) Dollars required for purchases of securities had to be bought on the free market. Consequently, any great pressure of demand would be reflected in a movement of the exchange rate which would make such transactions less attractive.
- (iii) L-account balances could also be used for certain current payments and receipts. Non-residents were therefore given the option of making certain transactions either inside or outside the E.P.U. system.
- (iv) Because of (iii), the margin between quotations for the Belgian franc under the E.P.U. arbitrage system and quotations for L-account francs was kept fairly narrow. Furthermore, it has been found in practice that the possibility of arbitrage transactions via transferable sterling means that there is a "floor" below which the free rate for L accounts does not fall — this "floor" being determined by the discount on transferable sterling in relation to the dollar.



* As explained in the text, the L accounts were changed as from 1st April 1955 into "comptes étrangers financiers".

The range of possible uses of the Belgian L accounts was thus much wider than that of the Netherlands K accounts, which are more or less on the lines of the capital accounts usually to be found in countries practising exchange control.

The Belgian L accounts were, however, abolished as a special category as from 1st April 1955, when there was a general reclassification of non-

resident Belgian accounts. The former L accounts are now called "comptes étrangers financiers" and are available to all non-residents. For dollar-area residents this means that Belgian francs may be bought for investment purposes at the (for them) slightly more favourable free-market rate of exchange. Residents of other countries outside the dollar area have now been given the same measure of convertibility, via the securities market, as residents of the E.P.U. area have had since the L accounts were set up in July 1954.

In September 1954, the Netherlands announced the granting of increased facilities for residents to purchase foreign securities in E.P.U. countries. And in the following December permission was given for the purchase, subject to certain limitations, of officially quoted dollar securities, with the exception of German bonds.

Thus the Benelux countries — and Belgium in particular — have now gone a long way towards restoring freedom of foreign exchange transactions. What used to be exchange control is turning more and more into exchange supervision — a development which is taking place in some other countries too — and such controls as still exist are largely controls over the entry of money from abroad, as in Switzerland, rather than the reverse.

In France, one of the results of the recent increase in the monetary reserves (see Chapter II, page 39) has been a certain relaxation of the exchange control régime. There has been the increase in France's liberalisation percentage in O.E.E.C. from 18 to 75 since the end of 1953: in addition, a certain degree of intertransferability for the franc accounts of non-residents has been restored. Since July 1954 residents in E.P.U. countries have been able to transfer funds to each other out of their current and capital accounts — though not to transfer from a current to a capital account, or vice versa — as have also residents in the various countries of the dollar area.

In May 1955 it was announced that, for a period of one month, French exporters holding E.F.AC. (Exportation-Frais accessoires) accounts denominated in E.P.U. currencies — except for those of Greece and Turkey — would be allowed to convert their balances into any other E.P.U. currency or dollars. These accounts, which may be credited with 10 per cent. of the proceeds of French exports, were set up after the war and enable exporters to hold balances for use in developing their export businesses. So long as France receives one hundred per cent. in gold or dollars for any surplus in the European Payments Union, this concession does not entail a net loss of hard currency.

In Italy, too, the system of non-resident accounts has been greatly simplified by the elimination of most of the numerous types of accounts formerly existing; this has not in itself resulted in any great extension of transferability, but is rather in the nature of a preparatory measure paving the way for possible further progress later. As far as E.P.U. residents are concerned, all balances held by them in Italy have been made intertransferable.

The rapid increase in Austria's monetary reserves (see page 46) has had an effect not only on the degree of liberalisation of the country's imports (see page 101) but also to some extent on its exchange controls. At the end of June 1954, the blocked accounts of residents of E.P.U. countries were unblocked and in September permission was given for the repatriation of bank-notes in unlimited quantities.

In addition, there has been a move to decentralise holdings of foreign exchange in order to try to reduce the amounts sold to the central bank and thus to avoid too great an enlargement of the credit base resulting from an inflow of foreign exchange. It was announced in July that as from 16th August E.P.U. currencies need no longer be handed over to the National Bank; at the same time holders other than banks were allowed to make free use of their balances in E.P.U. currencies for all current purposes or for the purchase of other E.P.U. currencies. This did not mean that prohibited imports, or imports in excess of quotas, could be brought into the country; but it did mean that it was no longer necessary, as far as E.P.U. currencies were concerned, to obtain separate payment licences in addition to import licences.

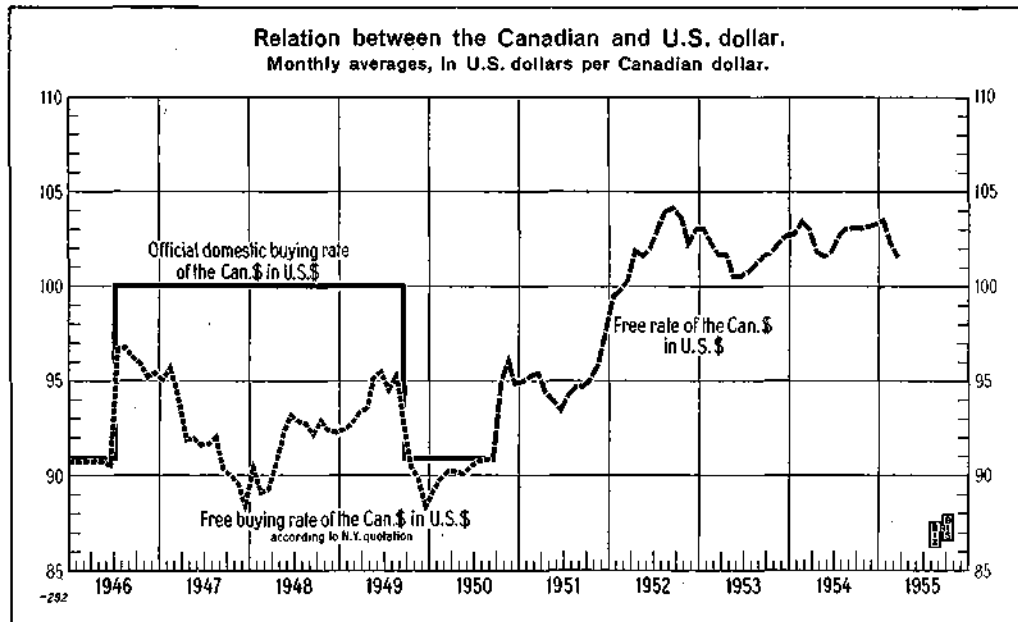
In other western European countries no far-reaching changes have been made in the exchange control systems, but minor concessions, such as increases in travelling allowances, have been granted in several cases.

The dismantling of exchange controls in Europe, far from weakening the currencies of the countries concerned, has, together with the application of flexible internal policies, had the effect of bringing the quotations for a number of them on the unofficial markets almost up to those on the official markets — a development which, in conjunction with the increased liberalisation of dollar imports, is causing the distinction between the dollar area and the rest of the world to become more and more blurred.

Apart from the United States, Canada is becoming the most important trading nation outside Europe. For a number of reasons, including the large amounts of foreign capital invested in Canada, the fluctuations which have occurred in the quotations for the Canadian dollar have been closely watched in business and other circles.

Being a capital-importing country, Canada usually has a deficit on the current account of its balance of payments: in 1954 the deficit amounted to Can.\$427 million, compared with Can.\$439 million in 1953. On capital account there was an inflow of Can.\$551 million last year against one of Can.\$401 million in 1953, so that in 1954 the monetary reserves increased by Can.\$124 million.

Movements of capital have therefore clearly played an important part in sustaining the exchange rate. In 1954, however, there was an interesting change in the character of the capital inflow; direct investments declined from Can.\$398 million in 1953 to Can.\$325 million and portfolio investment



in the form of Canadian issues on the U.S. market also decreased. On the other hand, American purchases of existing securities on Canadian stock exchanges rose from Can.\$21 million in 1953 to Can.\$121 million in 1954 (one reason for this increase being a change in the interpretation of the U.S. tax laws, which made this kind of investment more attractive).

The switch from direct to portfolio investment means that the inflow of capital had a more immediate effect on the liquidity of the Canadian market in 1954 than in previous years. Between February 1954 and February 1955, interest rates on Canadian three-month bills fell from 1.74 per cent. to 0.90 per cent. On 14th February 1955 the discount rate of the Bank of Canada was lowered from 2 to 1½ per cent. This reduction came at a time when American short-term rates were already higher than those in Canada and the increase which took place in the United States in the spring of 1955 made the difference still greater. Coupled with the winter stoppage of traffic on the St Lawrence river, the movements in relative interest rates had the effect of reducing the premium on the U.S. dollar during February 1955 from 3 to 1 per cent. The decline seems to have been moderated by official sales in the exchange market totalling some Can. \$40 million. For Canadian domestic industries the fall in the premium will tend to diminish somewhat the force of foreign competition and it will at the same time be of some help to the country's export industries.

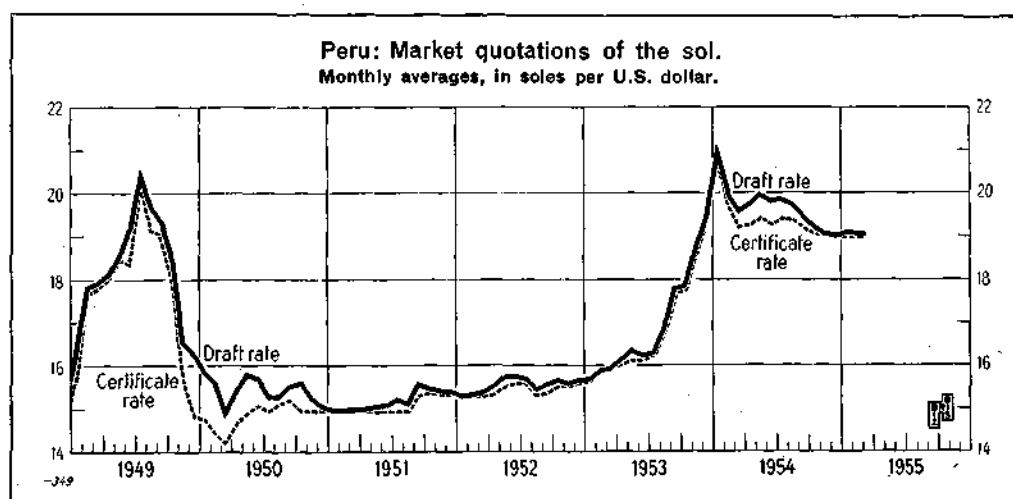
In Latin America, the exchange-rate systems of a number of countries continue to be complex and unstable. Account has to be taken, of course, of the general lack of diversity in these countries' economies, which makes them dependent for their foreign exchange earnings upon the export of a few primary products; of greater importance, however, has been the

strain on their resources resulting from ambitious development programmes, which have been partly financed by an expansion of their note issues. For both these reasons there has been a predilection for multiple and often rapidly changing exchange rates, which tend to weaken a country's foreign-trade position, since they are apt to undermine confidence at home and abroad.

There are, of course, exceptions. In Peru, measures were taken in 1953 to control bank credit and government expenditure on public works, and there followed an improvement in the balance of trade, from a deficit of \$75.5 million in 1953 to one of \$2.1 million in 1954. In addition, the stabilisation loan of \$30 million provided jointly by the International Monetary Fund, the U.S. Treasury and the Chase National Bank early in 1954, which has not yet been used, effectively diminished the speculative pressure on the rate of exchange which developed in the second half of 1953 owing to fears that the modest foreign exchange reserves of the central bank would be inadequate to meet the demands then being made on them.

Since the beginning of 1954 there has been a notable improvement in the exchange value of the sol, as is shown by the following graph.

Peru's net foreign exchange reserves fell from \$20.8 million at the end of 1953 to \$15.9 million at the end of June 1954, after which they rose again, reaching \$28.5 million at the end of 1954.



Note: The two exchange markets in Peru operate as follows:

1. Certificate market. All export proceeds in sterling or dollars, and 10 per cent. of export proceeds in Argentine pesos, must be sold to the central bank in exchange for negotiable certificates. Such certificates may be used to acquire foreign exchange for most imports and for certain invisible payments.
2. Draft market. This is supplied with foreign exchange from invisible receipts, capital transactions, and all export proceeds not required to be surrendered to the central bank. Certain payments for invisibles must be made via this market, and also 90 per cent. of payments for imports from the Argentine. Other imports may be paid for via either market.

The certificate market is the main one, on which three-quarters of the country's foreign exchange business is transacted. It is the market in which the central bank operates, and consequently the sol is nearly always valued rather higher in it than in the draft market.

The present rate structure in the Argentine was established in August 1950, when the central bank's basic buying and selling rates were fixed at \$1 = Pesos 5 and Pesos 7.50 respectively. At the same time, preferential buying and selling rates of Pesos 7.50 and Pesos 5 were applied to certain commodities, and there was also a so-called "free" rate, which has been held by the central bank since the beginning of 1952 at about \$1 = Pesos 13.95 and which applied at first only to financial transactions and a very limited number of exports and imports.

During the last three years the authorities have gradually been transferring export commodities from the basic to the preferential buying rate and from the preferential to the "free" rate. In August 1954 most imports previously paid for at the basic selling rate of \$1 = Pesos 7.50 were transferred to the free rate of \$1 = Pesos 13.95. In that way the differential between import and export rates was widened again — and it would seem that the re-establishment of a sizable differential between buying and selling rates, a step which virtually doubled the price of many imports, was decided on mainly for fiscal reasons. At the time the monetary reserves were increasing, having risen from a low point of Pesos 1,084 million at the end of 1952 to Pesos 3,308 million in September 1954; since then, however, they have decreased again somewhat, and on 15th April 1955 they stood at Pesos 2,706 million.

The exchange position of Brazil is predominantly influenced, on the one hand, by the inflationary policies pursued at home and, on the other hand, by the coffee price quoted on the international markets.

The difficulties facing Brazil's internal economy were aggravated last year by the introduction on 1st May of increases of 100 per cent. or more in minimum wage rates and by the political crisis which followed the death of President Vargas in August 1954.

Moreover, the country's external position was made more difficult by the price policies adopted with regard to coffee, which probably made the break in coffee prices last summer greater than it would otherwise have been. In June 1954, when the world price of coffee had risen to a peak of nearly one U.S. dollar per lb., the Brazilian Government fixed a minimum price of 87 U.S. cents per lb., but this soon proved too high, for, shortly afterwards, largely as a result of consumer resistance, world coffee prices began to fall. In August, therefore, the Brazilian authorities decided to fix the minimum price in terms of cruzeiros instead of dollars and to devalue the export rates of exchange. These had been Cruz. 23.36 for coffee and Cruz. 28.36 for other exports. As from August 1954, only 80 per cent. of export proceeds were settled at these rates, the remainder being exchanged by the central bank at the fluctuating free-market rate. At that time this rate stood at Cruz. 63 per dollar, on which basis the effective export rates worked out at Cruz. 31.30 for coffee and Cruz. 35.30 for other commodities. But the new arrangement did not last long, since the free-market rate was falling continuously and this led to the speculative holding-back of crops and export receipts.

In November 1954, a fixed rate of Cruz. 31.50 was introduced for coffee exports; but shipments from Santos nevertheless continued to fall, being in the second half of 1954 as much as 40 per cent. below what they had been a year earlier. The export rates were therefore further devalued in January and February 1955, and are now as follows.

Brazil: Export rates of exchange in April 1955.

Items	If sold for convertible currencies or sterling	If sold for other currencies
	cruzeiros per U.S. dollar	
1. Coffee, pinewood, cocoa, nuts, bananas, tobacco, carnuba wax	37.06	35.55
2. Raw cotton, hides and skins, piasava, castor seeds, soya beans, sisal, cocoa cake and paste	43.06	41.31
3. Other products	50.06	48.03

This led to a further revision of the minimum rates of exchange for imports in March and again in April 1955. These now range from Cruz. 43.82 for Category I imports to Cruz. 118.82 for Category V commodities.

In recent months Brazil has on two occasions obtained credits from the United States. At the end of 1954 a group of American banks granted a loan of \$200 million to the Brazilian Government, and this was followed in March 1955 by one of \$75 million from the Export-Import Bank. These funds have been used to pay off other loans and to prevent a further accumulation of commercial arrears. Furthermore, the period for the repayment of the U.S. \$300 million loan obtained from the Export-Import Bank in 1953 has been lengthened.

In Chile, too, the value of the currency continued to fall during the year.

In October 1953 the official parity had been altered from \$1=Pesos 31 to \$1=Pesos 110 and at the same time the range of transactions to which the official rate applied had been increased. During 1954, the dollar rate was held at Pesos 110, but the rates for other currencies were allowed to fluctuate; for instance, the peso-sterling rate, which in January 1954 gave a peso-dollar cross rate of Pesos 143, fell considerably in the course of the year, with the result that at the end of October the cross rate worked out at Pesos 234. The movements of the fluctuating rates reflected the rise of 70 per cent. during 1954 in the cost of living in Chile; at the same time, the holding-down of the dollar rate necessitated a stricter control over dollar imports than over those from other countries.

But this unbalanced rate structure could not be maintained for long. Consequently, in November 1954 the dollar rate was raised from Pesos 110 to Pesos 200 and at the same time action was taken to prevent the rates for other currencies from rising beyond the equivalent of Pesos 200 to the dollar. Thus, while it was devalued vis-à-vis the dollar, the peso was revalued in relation to other currencies, which eliminated the broken cross rates. The old dollar rate of Pesos 110 was retained, however, for so-called "essential" imports, such as sugar, wheat, cotton, hides and petroleum, so that the multiplicity of rates can by no means be said to have been abolished.

The uncontrolled market rate of exchange rose during the early months of 1955 to Pesos 400=U.S.\$1 and even higher. The principal rate of Pesos 200=U.S.\$1 therefore soon proved too low to allow Chilean exporters to quote competitive

prices, and consequently in April 1955 bonuses were introduced for certain exports, the proceeds of which are now exchanged partly at the old rate and partly at a rate of Pesos 360 = U.S.\$1. These two rates were combined in varying proportions for different commodities, giving effective rates ranging at the time of writing from Pesos 240 to Pesos 312 = U.S.\$1. The funds to pay for these higher export rates are obtained by applying the rate of Pesos 360 = U.S.\$1 to certain imports.

Colombia, over 90 per cent. of whose export income is derived from coffee, is naturally very vulnerable to a boom-and-slump sequence such as occurred in the market for that commodity last year. During the first seven months of 1954 the country's monetary reserves rose from U.S.\$190 million to U.S.\$256 million, only to fall again to U.S.\$185 million by the end of October. After that, thanks partly to a purchase of U.S.\$25 million from the International Monetary Fund, they recovered, reaching U.S.\$258 million at the end of the year, but by 15th April 1955 they were down again to U.S.\$133 million.

In February 1955 the rate of Pesos 2.50 = U.S.\$1 was applied to all exports: previously the rate for exports of coffee had been Pesos 2.3845 = U.S.\$1. At the same time, certain import prohibitions which had been removed during the coffee boom were reimposed and permitted imports divided into five categories, with exchange rates varying from Pesos 2.585 to Pesos 5.01 = U.S.\$1.

On 13th May 1955 the exchange-rate system was again altered. There are now only two rates of exchange, the official parity of Pesos 2.50 = U.S.\$1, and a free market rate which opened at around Pesos 4 = U.S.\$1. The official parity applies to nearly all exports and to certain invisible items, as well as to the more essential imports. All other transactions take place on the free market.

Paraguay devalued its currency again in 1954, the basic rate being changed in August from Guaranies 15 to Guaranies 21 to the dollar. The old basic rate still applies to imports on government account and there are also, in addition to the new parity, nine other import rates of exchange, varying from Guaranies 27 to Guaranies 65 per dollar. The new official parity is also the basic export rate but, account being taken of the present export subsidies and taxes, the actual range of export rates would appear to be from Guaranies 18 to Guaranies 49 to the dollar.

The correction of a balance-of-payments deficit by means of an adjustment in internal expenditure is still a rare phenomenon in Latin America. The success achieved by Peru in its attempts to remedy its external payments position is therefore particularly notable.

Israel, which adopted a multiple-exchange-rate system in 1952, has, since September 1954, used a single rate of I£1.80 = U.S.\$1 for almost all transactions. The only exceptions are remittances of funds raised abroad for Jewish charitable and national institutions, which are exchanged at the rate of I£1.30 = U.S.\$1.

In Iran, the rial continued to appreciate in value, and progress was made in simplifying the exchange-rate structure. The main import and export rates were revalued twice during the year: in August 1954 they were lowered from Rials 90.50 and 87.10 to Rials 84.50 and 82.00 per U.S. dollar respectively and in February 1955 they were again readjusted to Rials 76.50 and 75.00 per U.S. dollar.

Still further east, a monetary reform was carried out in China on 1st March 1955. All values expressed in yuan were divided by ten thousand: the new rate of exchange with the U.S. dollar is \$1=Yuan 2.46.

* * *

Following the disruption caused by the world economic crisis and the war, it is in western Europe that the most decisive progress has been made in freeing trade and payments and thus towards the re-establishment of an international economic order. This advance is the outward sign of the achievement of a better balance both in the internal economies of the countries concerned and in their relationships with one another and the rest of the world. Much is said in this Report about the efforts which these countries have made, by means of more flexible monetary and fiscal policies, to restore equilibrium between the money volume and the supply of goods and services. The influence of such policies, whether they be expansive or contractive, is by no means limited to the domestic economy. Thus, as mentioned in Chapter II (page 45), the Bank deutscher Länder has stated in its Annual Report that its decision not to intervene by means of credit policy to curb expansionist tendencies in the western German economy has been influenced by its desire to allow the traditional gold-standard mechanism to help in bringing about external equilibrium. It is also mentioned in the same chapter (page 49) that the Dutch authorities have made it a matter of policy to permit such changes in the internal financial and economic situation as would help to establish a true equilibrium between the Netherlands and other countries.

In the inter-war period, much was heard about purchasing-power parities, and it is, of course, very important that exchange rates should reflect the differences in the cost and price levels of different countries. In examining this question today, it is difficult to find a year which is suitable as a basis for the calculation of such parities, for neither 1937 nor 1938 can be considered as having been years of relative equilibrium, and the immediate post-war years even less so. What can be said, however, is that those countries which, under conditions of freer trade, stable prices and diminishing American aid, have recently been able to show satisfactory balance-of-payments results cannot be far from equilibrium. Close attention must, of course, continue to be paid to changes in external conditions and policies must be adjusted accordingly; provided, however, that the overall price stability of the past three years continues, and that there is no relapse into bilateral patterns of trade, a firm basis will exist for any further adjustments of internal costs and prices, or of exchange rates, that may be necessary.

Official currency values — Middle of May 1955.¹

Countries	Currency	Grammes of fine gold	1 U.S. dollar	1 pound sterling	Remarks
			equals		
Europe					
Albania	Lek	—	50.—	140.—	Rates fixed on 11th July 1947.
Austria	Sch.	.0341796	26.— ²	72.80	IMF parity since 4th May 1953.
Belgium	Franc	.0177734	50.— ²	140.—	IMF parity since 22nd Sept. 1949.
Bulgaria	Lev	.130687	6.80	19.04	Rates fixed since 12th May 1952.
Czechoslovakia	Koruna	.123426	7.20	20.16	Rates fixed on 1st June 1953.
Denmark	Krone	.128660	6.90714 ²	19.34	IMF parity since 18th Sept. 1949.
Finland	Markka	.00386379	230.—	643.—	IMF parity since 1st July 1951.
France	Franc	—	350.— ²	980.—	No IMF parity fixed.
Germany (eastern)	D.Mark	.399902	2.222	6.22	Rates fixed on 29th October 1953.
Germany (western)	D.Mark	.211588	4.20 ²	11.76	IMF parity since 30th Jan. 1953.
Greece	Drachma	—	30.— ²	84.—	Official rates since 1st May 1954.
Hungary	Forint	.0757002	11.74	32.87	Official rates since 1st Aug. 1946.
Iceland	Króna	.0548676	16.2657 ²	45.60	IMF parity since 20th March 1950.
Ireland	Pound	2.48828	.357143	1.—	Rate fixed on 18th Sept. 1949.
Italy	Lira	—	624.88 ²	1,749.66	No IMF parity fixed.
Luxemburg	Franc	.0177734	50.— ²	140.—	IMF parity since 22nd Sept. 1949.
Netherlands	Guilder	.233861	3.80 ²	10.64	IMF parity since 21st Sept. 1949.
Norway	Krone	.124414	7.14286 ²	20.—	IMF parity since 18th Sept. 1949.
Poland	Zloty	.222168	4.—	11.20	Rates fixed on 28th Oct. 1950.
Portugal	Escudo	—	28.75 ²	80.50	Rates fixed on 21st Sept. 1949.
Roumania	Leu	.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 ²	14.485	IMF parity since 5th November 1951.
Switzerland	Franc	.203226	4.37282 ²	12.2439	Official parities.
Turkey	Lira	.317382	2.80 ²	7.84	IMF parity since 19th June 1947.
United Kingdom	Pound	2.48828	.357143 ²	1.—	IMF parity since 18th Sept. 1949.
Yugoslavia	Dinar	.00286224	300.—	840.—	IMF parity since 1st January 1952.
U.S.S.R.	Rouble	.222168	4.—	11.20	Rates fixed on 1st March 1950.
North America					
Canada	Dollar	3	3	3	No IMF parity fixed.
Mexico	Peso	.0710937	12.50	35.—	IMF parity since 19th April 1954.
United States	Dollar	.888671	1.—	2.80	IMF parity since 18th Dec. 1946.
Central America					
Costa Rica	Colón	.158267	5.615	15.722	IMF parity since 18th Dec. 1946.
Cuba	Peso	.888671	1.—	2.80	IMF parity since 18th Dec. 1946.
Dominican Republic	Peso	.888671	1.—	2.80	IMF parity since 23rd Apr. 1948.
El Salvador	Colón	.355468	2.50	7.—	IMF parity since 18th Dec. 1946.
Guatemala	Quetzal	.888671	1.—	2.80	IMF parity since 18th Dec. 1946.
Haiti	Gourde	.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 (except Iceland 1\$ = 16.29).

³ Market rates in the middle of May 1955 were U.S.\$1 = Can.\$ 0.9859 and £1 = Can.\$ 2.7605.

Official currency values - Middle of May 1955 (continued).

Countries	Currency	Grammes of fine gold	1 U.S.	1 pound	Remarks
			dollar	sterling	
			equals		
Central America (continued)					
Honduras	Lempira	.444335	2.-	5.60	IMF parity since 18th Dec. 1946.
Nicaragua	Córdoba	.177734	5.-	14.-	IMF parity since 18th Dec. 1946.
Panama	Balboa	.888671	1.-	2.80	IMF parity since 18th Dec. 1946.
South America					
Argentina	Peso	—	6.-7.50	14.- 21.-	Basic export/import rates since 29th August 1950.
Bolivia	Botiviano	.00467722	190.-	532.-	IMF parity since 14th May 1953.
Brazil	Cruzairo	.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	.0592447	15.-	42.-	IMF parity since 1st Dec. 1950.
Paraguay	Guarani	.0423177	21.-	59.80	IMF parity since 18th Aug. 1954.
Uruguay	Peso	—	1.519-1.90	4.25-5.32	Official basic buying and selling rates since 6th October 1949.
Venezuela	Bolivar	.265275	3.35	9.38	IMF parity since 18th April 1947.
Africa					
Belgian Congo	Franc	.0177734	50.-	140.-	IMF parity since 22nd Sept. 1949.
Egypt	Pound	2.55187	.348242	.975078	IMF parity since 18th Sept. 1949.
Ethiopia	Dollar	.357690	2.48447	6.956516	IMF parity since 18th Dec. 1946.
Liberia	Dollar	.888671	1.-	2.80	Parity with the U.S. dollar since 1st January 1944.
Union of South Africa	Pound	2.48828	.357143	1.-	IMF parity since 18th Sept. 1949.
Asia					
Burma	Kyat	.186621	4.7619	13%	IMF parity since 7th August 1953.
Ceylon	Rupee	.186621	4.7619	13%	IMF parity since 16th January 1952.
China	Yen Min Piao	—	2.46	6.893	Official rate since 1st March 1955.
India ¹	Rupee	.186621	4.7619	13%	IMF parity since 22nd Sept. 1949.
Indonesia	Rupiah	—	11.40	31.72	Official basic rates since 4th Feb. 1952.
Iran	Rial	.0275557	32.25	90.30	IMF parity since 18th Dec. 1946.
Iraq	Dinar	2.48828	.357143	1.-	IMF parity since 20th Sept. 1949.
Israel	Pound	—	1.-	2.80	Official rate since 1st Jan. 1954.
Japan	Yen	.00246853	360	1,014.40	IMF parity since 11th May 1953.
Jordan	Dinar	2.48828	.357143	1.-	IMF parity since 2nd Oct. 1953.
Korea	Hwan	—	180	504	Official rate since 15th Dec. 1953.
Lebanon	Pound	.405512	2.19148	6.136144	IMF parity since 20th July 1947.
Pakistan	Rupee	.268601	3.30852	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	.0444335	20.-	56.-	Official rate since 18th March 1955.
Australasia					
Australia	Pound	1.99062	.446429	1.25	IMF parity since 18th Sept. 1949.
New Zealand	Pound	2.48828	.357143	1.-	Official parity since 18th Sept. 1949.

¹ Includes French and Portuguese possessions in India.

VI. Gold Production and Monetary Reserves.

World gold production (excluding that of the U.S.S.R., for which no data are available), after remaining on a plateau of around 24.5 million ounces between 1950 and 1953, rose markedly in 1954, when it reached a level of 26.0 million ounces. At the U.S. official price of \$35 per fine ounce, the 1954 total is the equivalent of \$910 million. The value of the fresh supplies available in the western world, including gold known to have been received from the U.S.S.R., amounted to almost \$1,000 million.

South Africa alone increased its production by 1.3 million ounces, or over four-fifths of the total increase, and its output now accounts for approximately one-half of world production (outside the U.S.S.R.). There was also a distinct recovery in Canadian output (after a prolonged labour strike in the previous year), as well as notable rises in production in Australia, British West Africa and Southern Rhodesia. But output fell in certain other areas, particularly in the United States, Mexico, and the Philippines.

Reflecting increased monetary confidence, an appreciable decline occurred in the net hoarding of gold in western Europe. Gold to the value of over \$100 million was still going to the Middle and Far East, but since part of this amount is used for artistic purposes and as a means of payment, it is not quite correct to regard the entire flow as disappearing into hoards.

If the value of the gold used in the western world for industrial purposes is put at about \$180 million (slightly higher than the estimate for 1953), the amount remaining for monetary purposes works out at some \$600 million, to which has to be added at least \$50 million representing gold sold by the U.S.S.R. in the early months of 1954.

The increase in the gold reserves of central banks and governments (apart from those of the U.S.S.R.) during 1954 was \$640 million, or the equivalent of more than two-thirds of current output. There was a further gold loss for the United States amounting to nearly \$300 million, which helps to account for an increase in the gold reserves of western European countries by almost \$800 million, over three-fifths of which went to western Germany and the United Kingdom.

Between 1949 and 1954, the U.S. gold stock declined from \$24.6 to 21.8 milliard, while the total gold reserves of other countries rose from \$10.8 to 15.6 milliard. Hence the United States' share of the world's stock of monetary gold fell from 70 per cent. in 1949 to 58 per cent. in 1954 — a redistribution which has helped to restore balance in the world's monetary structure and to make a return to convertibility more of a practical proposition. Moreover, short-term dollar holdings of countries other than the United States (and of international institutions) increased in 1954 by some

\$1,230 million, bringing the total to about \$13.0 milliard. Thus the total of the gold and dollar reserves of these countries, at \$28.6 milliard, has now reached quite an impressive figure.

The reopening of the London gold market on a restricted basis on 22nd March 1954 was an event of major importance. Coming at a time when the hoarding of gold had dwindled to minor proportions and free-market premiums had virtually disappeared, it served to facilitate the flow of gold into official channels, at prices which, compared with the official U.S. selling and buying rates, were favourable to both buyers and sellers. Central banks, principally those of western Europe, have been the main buyers. Since central banks have the alternative of buying gold from and selling gold to the U.S. authorities in New York at \$35 per fine ounce plus or minus handling charges of $\frac{1}{4}$ per cent., the international dollar price of gold in London has tended to remain within a narrow range.

By the reopening of the London market a further useful step has been taken towards re-establishing that sensitive financial mechanism which is essential for the smooth functioning of the international monetary system.

Production of gold.

Earlier fears that gold production would slowly decline in post-war conditions were further dispelled in 1954. It is true that the output of 26.0 million ounces in that year was still approximately 30 per cent. below the all-time record of 37 million ounces estimated to have been mined in 1940, but it was 23 per cent. above the figure for 1945, having risen by about 6 per cent. in the year 1954 alone.

The extraordinary rise in gold production in South Africa in 1954 included the first yields of any appreciable size from the new mines which are being developed on a large scale in the Orange Free State and the Far West Rand. The output of the Orange Free State mines alone almost trebled in 1954, and by the end of the year it was equivalent to almost 10 per cent. of the production of the Witwatersrand (Transvaal) area, which comprises mainly the older mines. Moreover, the yield of the new mines is expected to continue to expand significantly over the next few years.

Although the large expansion of South African gold production was predominantly due to the partial coming to fruition of new mines, this achievement was greatly facilitated by a favourable set of auxiliary factors. The persistent labour shortage, which not long before had been an important production bottleneck, was considerably relieved during 1953 and 1954. During the first quarter of 1955 the native labour supply was on an average about 8 per cent. above the level for the corresponding period of 1954, which in turn had shown a rise of 6 per cent. over the same period of 1953. In addition, the shortage of electric power appears to have become less acute owing both to an increase in output and to a better distribution of the

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

Countries	1929	1940	1949	1950	1951	1952	1953	1954
	Weight, in thousands of fine ounces							
Union of South Africa.	10,412	14,046	11,705	11,664	11,516	11,819	11,941	13,237
Canada	1,928	5,333	4,124	4,441	4,393	4,472	4,056	4,367
United States	2,059	4,870	1,996	2,375	1,996	1,938	1,990	1,869
Australia	426	1,644	889	870	896	860	1,075	1,116
British West Africa . .	208	939	677	689	699	691	731	787
Southern Rhodesia . .	562	833	528	511	487	497	501	536
Philippines	163	1,121	288	334	394	469	481	416
Mexico	652	883	406	408	393	459	483	387
Colombia	137	632	359	379	431	422	437	377
Belgian Congo	173	559	334	339	352	369	371	372
Japan	395	864	84	135	177	201	228	250*
Nicaragua ¹	12	163	217	230	251	255	259	237
India	364	289	164	197	226	253	223	220
Chile	26	343	185	192	175	177	131	130*
Peru	121	281	114	148	158	135	130	130*
Brazil ²	107	150	119	131	136	137	116	121
New Guinea	36	295	93	80	94	127	121	85*
Fiji	—	111	104	103	98	74	77	75*
Sweden	35	209	80	79	71	70*	70*	70*
New Zealand	120	186	85	77	75	59	39	35*
Total listed	17,876	33,751	22,551	23,382	23,018	23,604	23,459	24,817
Other countries ³	624	3,249	1,449	1,318	982	1,096	1,141	1,183
Estimated world total ³	18,500	37,000	24,000 [†]	24,700 [†]	24,000	24,700	24,600	26,000
Value of estimated world total, at \$35 per fine ounce	Value, in millions of U.S. dollars							
	650 ⁴	1,295	840 [†]	865 [†]	840	865	860	910

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	per ton milled		in millions of tons	In millions of SA£		
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	3.893	48s. 5d.	36s. 6d.	11s. 11d.	58.8	34.9 ⁴	12.3	18.2
1954	4.068	50s. 11d.	38s. 8d.	12s. 3d.	62.4	38.2 ⁴	14.3	19.1

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£26.7 million in 1951, SA£3.7 million in 1952 and SA£1.9 million in 1953. Premium sales ceased with the reopening of the London gold market.
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.

available supplies. Finally, the joint extraction of uranium and gold in an increasing number of mines has encouraged the processing of marginal ores.

Largely as a result of the foregoing factors, the tonnage of ore milled rose by over 6 per cent. during 1954; and as there was also an increase in the average gold content per ton of ore milled, the total output in terms of fine ounces was as much as 11 per cent. above the figure for the previous year. Total working costs rose by 12 per cent., i.e. in about the same proportion as gold output, and costs per fine ounce of gold produced thus remained relatively stable. Total working profits, after having declined steadily from SA£51.5 million in 1950 to SA£34.9 million in 1953, rose by almost 10 per cent., to SA£38.2 million, in 1954. Furthermore, the profits earned through the extraction of uranium, which are not included in these figures, increased markedly, rising from approximately SA£1.8 million in 1953 to around SA£8.1 million in 1954.

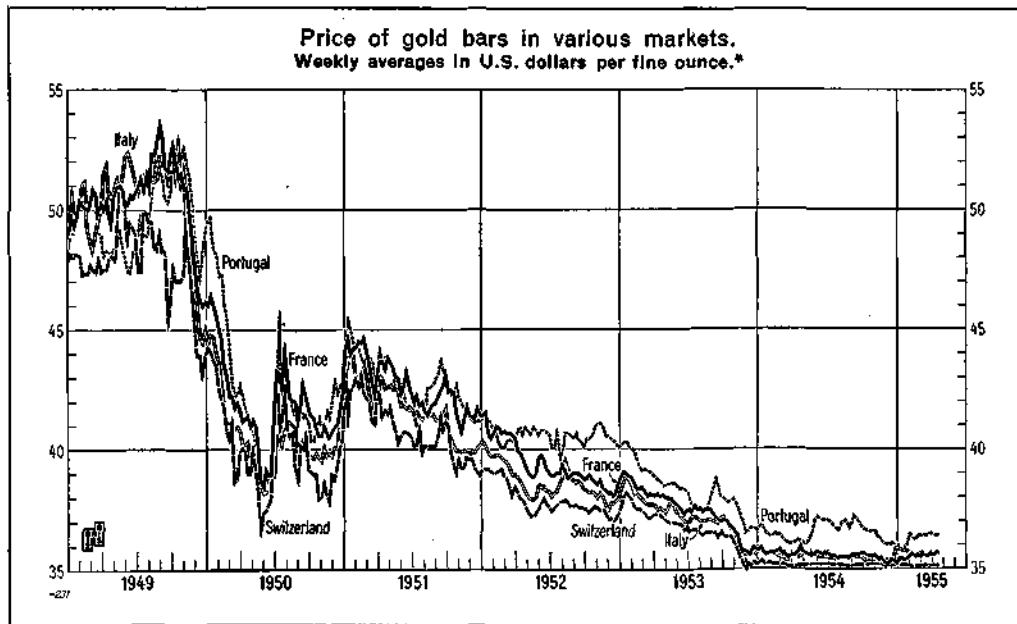
Output in Canada, although it rose in 1954 above the low level to which it had sunk in 1953, remained below the total reached in 1951 and 1952. High production costs having remained a pressing problem for many mines, it was officially announced early in 1955 that the country's emergency subsidy programme would be continued for at least two additional years. At the same time, however, the scale of benefits was drastically revised, certain low-cost producers being excluded from the subsidy programme altogether and the maximum rate of assistance for others being reduced somewhat.

In the United States, the third largest producing area, output declined by 6 per cent. in 1954. In that country gold is obtained to a great extent as a by-product of base-metal mining, and despite fluctuations from year to year the general trend of production has been fairly level.

While gold producers in the United States have all along had to sell their output at the official price, those in other areas have so far been able to augment their earnings by selling at least a part of their production at a premium in various free markets. At the present time, however, producers can no longer obtain any appreciable premium above the U.S. official price for gold, and the consequent fall in revenue has undoubtedly had a depressive influence on output in certain producing areas. To some extent, sales of gold in the new London market, which not only have been at a somewhat higher price than the official U.S. buying price but also have often entailed lower transport and other charges, have yielded minor compensating advantages to the gold producers.

Gold markets and hoarding.

The radical change which has taken place in the free-market price of gold since 1949 — and more particularly its development since the beginning of 1951 — is perhaps best shown by the following graph.



* At the dollar rate for banknotes.

Note: It should be observed that the premium paid for gold coins in relation to the prices for gold bars, which has at times been as high as 40 per cent. in some markets, has recently shrunk to less than 5 per cent.

The outbreak of the Korean conflict in the summer of 1950 interrupted a rapid decline in the free-market prices paid for gold which had been in progress for about nine months. From the beginning of 1951 onwards, as international tension abated and inflation was gradually curbed, the downward price movement was resumed. When, towards the end of 1953, substantial amounts of Soviet gold were sold in the west, the free price for gold bars quickly dropped to around the official U.S. parity — a reaction that reflected not only the increased supply of gold but also a notable diminution in the propensity to hoard.

It is possible that more gold has been sold by the U.S.S.R. than is indicated in the following table, in which case the amounts going into private

Estimates of "disappeared gold".

Items ¹	1946	1947	1948	1949	1950	1951	1952	1953	1954
	in millions of U.S. dollars								
Gold production	755	770	805	840	865	840	865	860	910
Sales by the U.S.S.R. ²	45	30	—	—	—	—	—	75	50
Less: increase in official gold reserves	—350	—430	—380	—480	—410	—150	—310	—430	—640
"Disappeared gold"	450	370	425	360	455	690	555	505	320
Accounted for by									
Industrial uses	280	120	170	200	180	140	180	170	180
Private hoarding ³	170	250	255	160	275	550	375	335	140

¹ The figures for gold production and for changes in official gold reserves exclude the U.S.S.R.

² Based on unofficial reports.

³ This is a residual figure. As is pointed out in the text on page 126, a small part of the gold shipped to the East has gone into active circulation and is thus being used for monetary purposes.

hoards in certain of the years in question may have been somewhat underestimated. But there can be no doubt that private hoarding dropped off greatly during the latter half of 1953 and early in 1954, just prior to the reopening of the gold market in London in March. As a result of the simultaneous disappearance of the premiums paid for gold to be used for hoarding purposes, most gold producers had no other choice than to sell their gold through their central banks. Moreover, late in 1953 the South African Treasury announced that gold could not thereafter be disposed of on free markets at below \$35 per fine ounce, delivery South Africa, which meant, in practice, that all gold had to be sold to the Reserve Bank (acting on behalf of the Union Treasury), since any sales to the U.S. Treasury would have had to be made at a lower price.

Subsequently, the reopening of the London market on 22nd March 1954 provided a new and relatively attractive outlet for many producers. In this connection, however, it must be noted that in South Africa all gold was from that date required to be sold to the South African Reserve Bank, which in turn marketed the bulk of the new output in London.

In the London market, gold may be bought or sold only against dollars, American or Canadian Account sterling or so-called "registered" sterling, a new type of convertible sterling that can be acquired only by residents of countries outside the sterling and dollar areas in exchange for gold or dollars. Besides facilitating gold-market transactions, "registered" sterling has also proved to be a useful vehicle for short-term investment in the London money market. An operation of this kind involves the purchase of registered sterling spot (the amount bought being used to acquire short-term earning assets in London) and the simultaneous sale of registered sterling forward.

Residents of the sterling area are allowed to purchase against sterling gold required for certain industrial uses and other authorised purposes, provided that permission is obtained from the Bank of England.

The London gold market is, in principle, a free market without definite price limits. Although the chief free market of the world, it is not the only one, and the price of gold in London therefore fluctuates in response to changes in the conditions governing the demand for and supply of gold the world over. In practice, however, in present circumstances, there has tended to be both a "floor" and a "ceiling", each of which needs some explanation.

As long as the U.S. Treasury remains prepared, as it is at present, to purchase gold at a fixed price of \$35 per fine ounce, less $\frac{1}{4}$ per cent. handling charges (i.e., at \$34.9125), it is estimated that — account being taken of transportation, insurance and other miscellaneous costs incurred in the transfer of gold from London to New York — the dollar price of gold in London cannot fall below a figure of around \$34.76. Moreover, as the British authorities keep the movements of the sterling-dollar exchange rate within a range of \$2.78 to \$2.82 (or within about $\frac{3}{4}$ per cent. on either side of the official parity of \$2.80), there will be, at the maximum rate of \$2.82, a minimum sterling price for gold in London which works out at 246s. 6d.* If the sterling-dollar rate on any given day is below £1 = \$2.82, the minimum possible gold price for that day will be correspondingly higher.

* The relationship between the sterling price of gold and the sterling-dollar exchange rate is an inverse one, in that a strengthening of sterling in terms of the dollar results — assuming that other influences remain unchanged — in a decline in the sterling price of gold (and vice versa).

Footnote continued next page.

The ceiling price is determined — although there is somewhat less certainty about this* — by the fact that the Federal Reserve System, acting on behalf of the U.S. Treasury, sells gold to other central banks at a price of \$35 plus $\frac{1}{4}$ per cent. handling charges (i.e. at \$35.0875). With due allowance for other costs incurred in the transfer of gold to London, this means that the maximum dollar price of gold in London will be about \$35.24. At the lowest sterling-dollar rate, i.e. £1 = \$2.78, the maximum price in sterling works out at 253s. 6d.

In actual practice, apart from the foregoing potential influences, there have been two factors operating during the past year which seem to have set even narrower limits to fluctuations in the price of gold to date: these are

- (i) the fixed U.S. buying and selling prices of \$34.9125 and \$35.0875 effective in New York, and
- (ii) the fact that the London market has been largely a "central-bank" market.

In these circumstances, whenever the dollar price of gold in London tends to rise above \$35.0875, central banks find it advantageous to shift part of their purchasing to New York, in so far, of course, as they are willing to hold an additional part of their gold reserves in that centre. Conversely, if central banks became on balance sellers of gold, they would find, if the London price were to drop below \$34.9125, that it would be preferable to sell to the U.S. Treasury from their earmarked stock in New York rather than to sell at a lower dollar price in London.

By no means all foreign central-bank transactions in the New York market are carried out directly with the U.S. authorities. There also occur a number of central-bank "swaps" of earmarked gold in New York against gold in other centres. Normally the price at which such swaps take place bears a very close relationship to the dollar price of gold in London, with New York gold being offered at a small discount if, for example, European central banks are, on the whole, attempting to build up stocks held domestically or in London.

Continuation of the footnote from the preceding page.

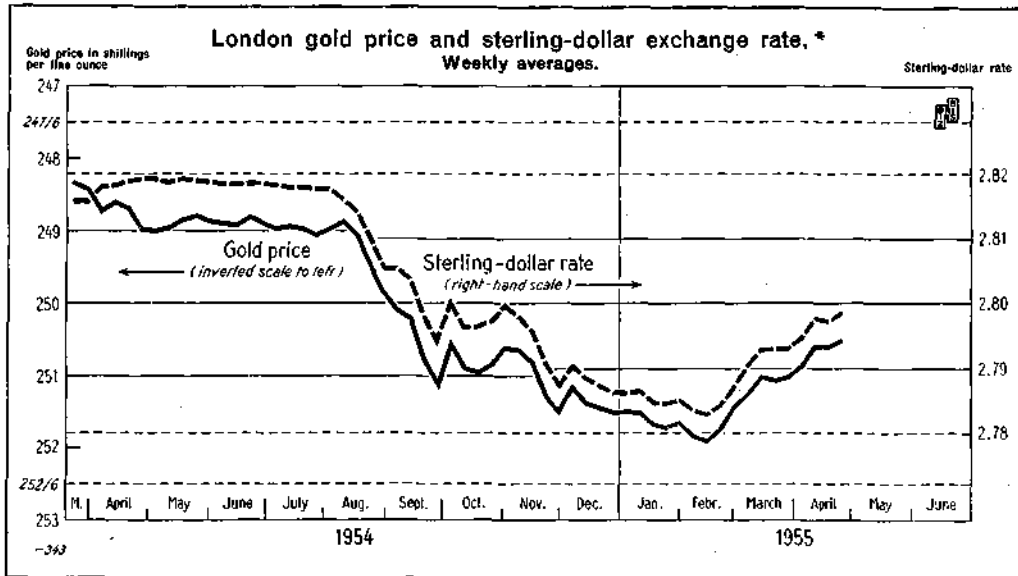
Account must also be taken of another possible constraint which, given certain relationships between the ruling sterling-dollar exchange rate and the prevailing demand and supply conditions for gold, could modify the price limits indicated above, assuming that the Bank of England wished to intervene in the gold market. According to I.M.F. Rule F-4, as amended in the latter part of 1954, official sales or purchases must take place at prices differing by no more than 1 per cent. from the par value, or "mint-parity" price, of gold in London. The par value is obtained by converting into terms of sterling, at the official exchange parity of £1 = \$2.80, the official dollar price of one fine ounce of gold, i.e. \$35, the result being 250s. per fine ounce. The range within which the Bank of England must confine its operations on its own account (i.e. on behalf of the Exchange Equalisation Account) is therefore 247s. 6d. to 252s. 6d.

(I.M.F. Rule F-4, as amended, reads as follows:

"For transactions in gold by a member the margin above and below par value shall be, at the option of the member, either:

1. One quarter of one per cent. plus the following charges:
 - (a) The actual or computed cost of converting the gold transferred into good delivery bars at the normal centre for dealing in gold of either the buying member or the member whose currency is exchanged for the gold;
 - (b) The actual or computed cost of transporting the gold transferred to the normal centre for dealing in gold of either the buying member or the member whose currency is exchanged for the gold;
 - (c) Any charges made by the custodian of the gold transferred for effecting the transfer; or
2. One per cent., which one per cent. shall be taken to include all of the charges set forth in 1 above."

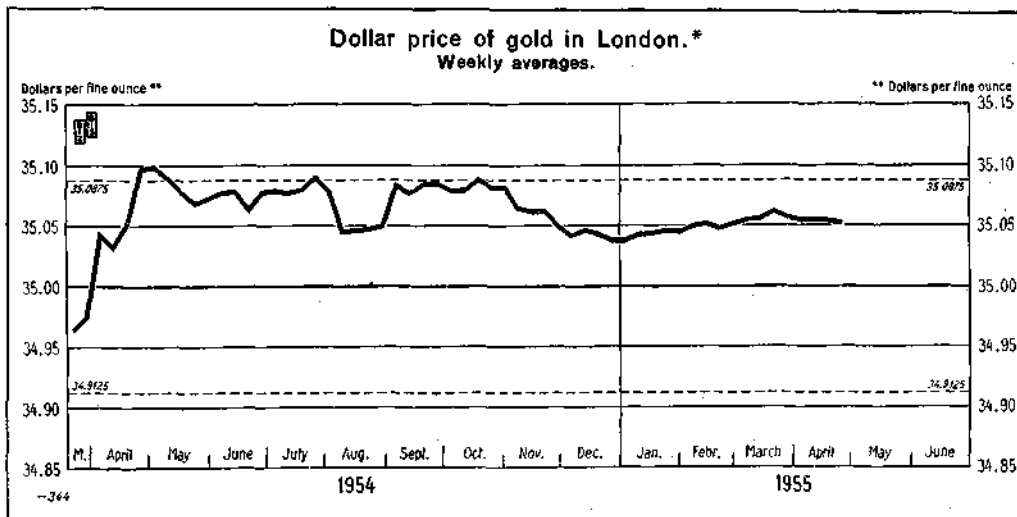
* For the sake of completeness, it must be mentioned that the U.S. Treasury has, in principle, been opposed to free-market sales that entail a leakage of gold into non-monetary uses. It does not follow, however, that this attitude would lead, in the event of a strong resurgence of hoarding demand, to a refusal to sell gold against dollars to other central banks, for this might, among other things, affect the international value of the dollar.



* Gold price and middle sterling-dollar rate at the time of the daily gold "fixing".

The sterling price of gold has, in fact, moved broadly in sympathy with the variations in the sterling-dollar rate, having tended to remain somewhat below 249s. from March to August 1954, when sterling stood just below \$2.82, and having subsequently risen to 251s. or more as the sterling rate fluctuated not far above its lower support level of \$2.78 in the latter part of 1954 and the early months of 1955.

It will be seen from the second graph below that, in practice, an approximate upper limit has been set to the dollar price of gold in London by the U.S. Treasury's selling price for gold (\$35.0875) loco New York, which has only been exceeded on certain occasions, principally in April and May 1954 and again towards the end of July.



* Sterling price of gold divided by the middle sterling-dollar rate at the time of the daily gold "fixing".
** Scale double that of graph above.

The strength of the price trend in the London market has up to now reflected the buoyant central-bank demand for gold loco London, which can be ascribed principally to the fact that a number of western European countries have gained dollars in substantial quantities.

In view of the strength of the dollar price of gold in the London market and the strategic location of that market in relation to the main centres of supply and demand, it is interesting to examine the effects of its operation upon the direction and volume of international gold movements.

Under an agreement reached in 1949, South Africa arranged to sell annually in London to the British authorities a minimum of 4 million fine ounces of gold (equal to £50 million). In practice, however, in order to procure the sterling needed to pay for its imports, etc., South Africa sold in all subsequent years considerably more than the minimum amount stipulated.

South Africa: Exports of monetary gold.

Year	Recipient countries				Total
	United Kingdom	United States	Switzerland	Others	
in millions of SAE					
1950	72	5	3	1	80
1951	65	19	0	1	85
1952	68	9	17	1	95
1953	79	1	17	1	98
Total*	284	33	38	5	358

* Because of rounding, figures may not add up to totals.

Source: Adapted from Transvaal and Orange Free State Chamber of Mines "Gold goes to market", The Mining Survey, Vol. 5, No. 4.

As well as exporting monetary gold, however, South Africa sold large quantities of gold in the free markets between 1950 and 1953. Indeed, measured in fine ounces, these sales accounted for approximately 35 per cent. of South Africa's total gold exports (the gold being sold in a processed or semi-processed form in accordance with the regulations of the International Monetary Fund). Now that all newly-mined gold has to be sold to the

South African Reserve Bank (see page 131), the latter carries out virtually all its sales through the London market, the special sales arrangement of 1949 between South Africa and the British authorities having been allowed to lapse at the end of 1954.

In addition to the fairly sizable current output of British West Africa and Southern Rhodesia, London normally also receives a fair proportion of the gold produced in Latin America. Australia's output, however, partly for geographical reasons, has not been disposed of in London; some of it has gone directly to augment the country's own monetary reserves, and a certain amount has found direct outlets in the free markets of the East. Canada, on the other hand, appears to have sold a little of its gold in London; in fact most of its new output during the past year has been used to increase domestic gold reserves. For most gold-producing countries, particularly those of the sterling area, the London dollar price of gold compares very favourably with the U.S. Treasury's buying price of \$34.9125 in New York, having averaged well above \$35.05 loco London since March 1954.

As regards the buying of gold, the principal purchasers in London have so far been central banks (in particular central banks in western Europe), and these have been responsible for a relatively steady offtake since the reopening of the market. The amount of gold purchased in the Near and Far East, the bulk of which tends to go into private hoards, has also remained fairly stable during the past year. The speculative demand for gold, on the other hand, which arises mainly in connection with the "positions"

taken by gold dealers, has virtually disappeared since the reopening of the London market. The smallness of the daily variations in the dollar price of gold in London, when weighed against the interest which might otherwise be earned on funds tied up in speculative holdings of gold, has greatly reduced the incentive for dealers to take speculative positions.

A noteworthy feature of the technical operation of the London market is the fact that the day-to-day fluctuations in the dollar price of gold, although lively, have been very small. The price is still responsive to sudden political and economic disturbances of international significance, but there are no longer sharp reactions as in the past. A factor which, in conjunction with the breadth of the new market, has helped significantly to steady the dollar price of gold in London has been the readiness of the Bank of England to intervene in the market as a large buyer or seller of gold, either on behalf of the Exchange Equalisation Account or as agent for the South African Reserve Bank for the disposal of newly-mined gold through the London market. The ability to deal in gold, together with the wider powers recently acquired to operate in the transferable sterling markets abroad, has increased the effectiveness of the Bank of England's support operations. In view of the transitory price discrepancies that continually arise, the Bank may find it more economical at a particular moment — if, for instance, it is supporting sterling — to buy sterling against gold rather than to buy sterling by drawing upon its dollar stocks. It should be noted that the turnover of transactions at the price "fixing" at 10.30 each morning may be, and frequently is, only a small part of the total daily turnover in the London market. The Bank of England is prepared to enter the market at all times of the day.

The Paris gold market, which is a free market only as far as internal transactions are concerned, was instituted in February 1948. Gold may be bought freely against French francs, but may not be exported or imported except for officially authorised purposes. There is, nevertheless, a close relationship between the price of gold quoted in Paris and the unofficial quotations for the French franc on certain foreign markets, especially the Swiss market. During the post-war period as a whole, there has been a strong net hoarding demand for gold in France, and the price of gold coin has shown a marked premium in relation to the price of gold ingots. At the beginning of 1954 the premium on gold coin was still in the neighbourhood of 20 per cent., but thereafter it dropped steadily and by the end of the year was down to less than 7 per cent.; the price of gold ingots, on the other hand, remained near to the official U.S. price of \$35 per fine ounce throughout the year. The decline in the premium on coin reflects not only the virtual disappearance of new hoarding demand but perhaps also incipient dishoarding tendencies, particularly on the part of individuals and business firms desirous of switching from gold to earning assets in the form of securities. This impression is reinforced by the fact that the volume of transactions in the Paris market has been reduced to minor proportions, and the Bank of France is known to have intervened in the market to purchase supplies of gold ingots.

In Switzerland, the return of more normal conditions in the gold market led the authorities to abolish, as from 15th May 1954, the 4 per cent. turnover tax on private purchases of gold coin and gold bars (excluding industrial gold). This measure did not result, however, in an increase in the demand for gold coin or ingots on the internal market. The premium on the Vreneli (a gold coin of the denomination of Sw.fcs 20, containing 5.806 grammes of fine gold) in relation to the price of gold ingots fell from 19 per cent. to 1 per cent. during the year. Following an official announcement to this effect in January 1955, Vrenelis were made freely available by the National Bank to the Swiss banks and other dealers. The selling price to the public is reported to range between Sw.fcs 28.60 and Sw.fcs 29.00. The principal objective of the National Bank in taking this action was to sterilise part of the excess liquidity which exists in the economy, but the demand by the public for these coins has been relatively weak.

Movements of monetary reserves.

The gold reserves of central banks, governments (excluding the U.S.S.R.) and international institutions rose in 1954 by \$640 million, or about 2 per cent., reaching at the end of that year the figure of \$37.4 milliard. The U.S. gold stock fell by almost \$300 million, however, so that the reserves of the other countries actually increased by over \$940 million, representing a rise of 6 per cent. in their total holdings.

As in 1953, by far the greater part of the rise in gold reserves during 1954 was accounted for by the countries of western Europe, which registered increases totalling almost \$800 million. In absolute terms, the largest rises were those in western Germany (\$300 million) and the United Kingdom (\$250 million), but notable gains also took place in the reserves of Portugal, the Netherlands, Switzerland and Sweden. With regard to France, it is known that the Bank of France and the Stabilization Fund acquired considerable amounts of gold and dollars in 1954, but the exact figure has not been published (see page 40).

The countries outside Europe which added to their reserves were Canada, the Belgian Congo, South Africa, Australia, Venezuela and the Lebanon. All these countries except the latter two are gold producers of significance, which suggests that the increases which took place in 1954 were attributable largely to the diversion of newly-mined output into official reserves.

Losses — severe in each case — were sustained by Mexico, Indonesia and Bolivia.

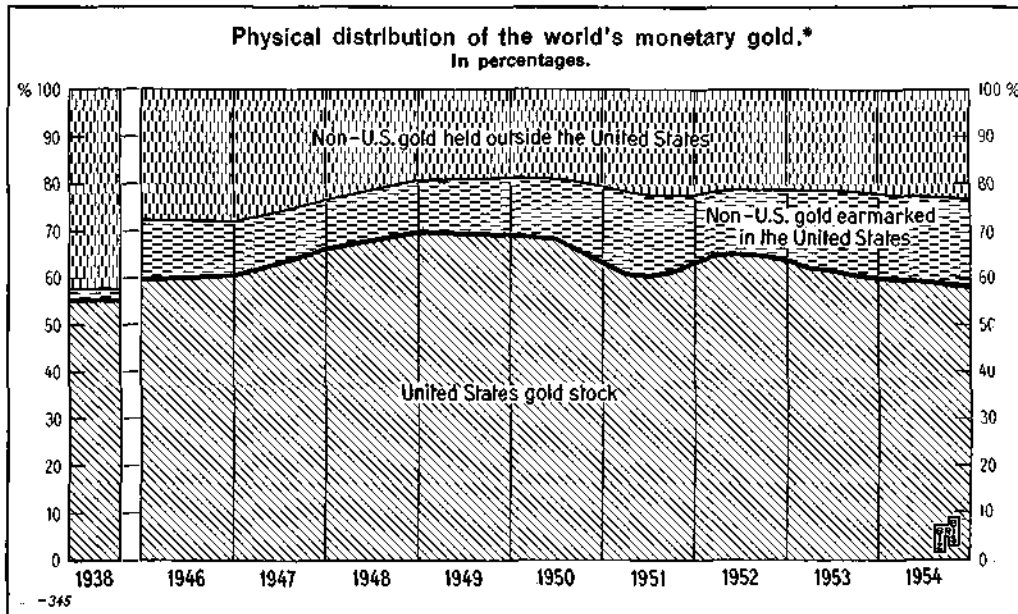
The share of the United States in the world's monetary gold stock was 55 per cent. in 1938, 60 per cent. in 1945 and nearly 70 per cent. in 1949. By the end of 1954, however, its share had been brought down to 58 per cent. as a result of a decline in the country's own gold holdings and also of the flow of newly-mined gold into the reserves of other countries.

Gold reserves of central banks and governments
(Including international institutions).

Reporting countries or institutions	End of							Change during 1954
	1938	1945	1950	1951	1952	1953	1954	
in millions of U.S. dollars								
European countries								
Germany (western) . . .	29 ¹	0	0	28	140	326	626	+ 300
United Kingdom ² . . .	2,877	1,980	2,900	2,200	1,500	2,300	2,550	+ 250
Portugal	86	433 ³	192	265	286	361	429	+ 68
Netherlands	998	270	311	316	544	737	796	+ 59
Switzerland	701	1,342	1,470	1,452	1,411	1,459	1,513	+ 54
Sweden	321	482	90	152	184	218	265	+ 47
Austria	88 ⁴	0	50	50	52	47	57	+ 10
Finland	26	3	12	26	26	26	31	+ 5
Belgium	780	733	597	621	706	776	778	+ 2
Spain	525 ⁵	110	61	51	51	54	56	+ 2
Turkey	29	241	150	151	143	143	144	+ 1
Denmark	53	38	31	31	31	31	31	0
France	2,757	1,550	523 ⁶	548 ⁶	573 ⁶	576 ⁶	576 ⁶	0 ⁶
Greece	27	29	2	4	10	11	11	0
Iceland	1	1	1	1	1	1	1	0
Ireland	10	17	17	18	18	18	18	0
Italy	193	24	256	333	346	346	346	0
Norway	84	80	50	50	50	52	45	- 7
Other countries								
Canada	192	361	590	850	896	966	1,080	+ 84
Venezuela	54	202	373	373	373	373	403	+ 30
Belgian Congo	6	16 ⁷	23	33	65	86	118	+ 29
Lebanon	—	2	20	26	31	35	63	+ 28
Union of South Africa	220	914	197	190	170	176	189	+ 23
Australia	6	53	88	112	112	117	139 ⁸	+ 22
Japan	230	119 ⁹	128	133	128	130	133	+ 3
Brazil	32	354	317	317	317	321	322	+ 1
Iran	26	131	140	138	138	137	138	+ 1
Argentina	431	1,197	216	268	288	373	373	0
Chile	30	82	40	45	42	42	42	0
Cuba	1	191	271	311	214	186	186	0
Ecuador	3	21	19	22	23	23	23	0
Egypt	55	53	97	174	174	174	174	0
El Salvador	7	13	23	26	29	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	29	32	33	33	33	0
Pakistan	—	—	27	27	38	38	38	0
Thailand	—	86	118	113	113	113	113	0
Uruguay	73	195	236	221	207	227	227	0
Peru	20	28	31	46	46	36	35	- 1
Bolivia	3	22	23	23	21	21	5	- 16
Indonesia	80	201 ¹⁰	209	280	235	145	81	- 64
Mexico	29	294	208	208	144	158	62	- 96
United States	14,592	20,083	22,820	22,873	23,252	22,091	21,793	- 298
International Institutions								
International Monetary Fund	—	—	1,495	1,530	1,692	1,702	1,740	+ 38
Bank for International Settlements	14	39	167	115	196	193	196	+ 3
European Payments Union	—	—	—	65	158	153	153	0
Total listed above . . .	25,993	32,315	34,882	35,122	35,481	35,864	36,442	+ 578
Other (excl. U.S.S.R.) . . .	427	1,455	938	848	799	846	908	+ 62
Estimated world total (excl. U.S.S.R.)¹¹ . . .	26,420	33,770	35,820	35,970	36,280	36,710	37,350	+ 640

¹ Pre-war Germany.² Beginning with 1945 estimates of the U.S. Treasury and the Board of Governors of the Federal Reserve System.³ End of 1946.⁴ Beginning of March 1938.⁵ April 1938.⁶ Reported holdings of the Bank of France only (see also page 40).⁷ June 1945.⁸ September 1954.⁹ September 1945.¹⁰ 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.

In 1938 only \$630 million, or 2 per cent., of the world's gold stock was held under earmark in the United States by other countries. By 1945 the amount of such gold had risen to nearly \$4,300 million, or 13 per cent. of the whole, large stocks having been shipped to the United States for safe-keeping. The growth which took place in the U.S. gold reserves between 1945 and 1949 was not due to any substantial decline in the amount of earmarked gold and must therefore have been attributable either to a diversion of newly-mined gold to the United States or to the shipment of gold from the reserves of the deficit countries. The decline in the U.S. gold holdings from 1949 to 1954, on the other hand, took the form not of actual shipments from New York but rather of additions to the amount of earmarked gold. The result was that the total amount of gold held in the United States (that is, the country's own stock plus the gold earmarked for other countries) remained almost unchanged — \$28.8 milliard in 1948 and \$28.6 milliard in 1954. The following graph shows, in terms of percentages, the present physical distribution of monetary gold.



* Including international institutions but excluding the U.S.S.R.

While the total amount of gold actually held in the United States was very much the same in 1954 as in 1949, the proportion of this gold to the world's total stock of monetary gold fell during this period from 81 to 77 per cent., signifying in effect that newly-mined gold was received by centres other than the United States, an increase having probably taken place in the quantity of earmarked gold held in London as well as in the amount of gold held in the central banks' own vaults.

The next table shows the substantial annual increases which have taken place since 1949 in the amount of gold held under earmark in the United States (except in 1951, when the situation was strongly affected by the Korea crisis).

Changes in official gold stocks of countries other than the United States.*

Year	Changes in earmarked gold in the United States	Changes in supplies held outside the United States			Changes in total supplies of countries other than the United States
		Net imports from (+) and exports to (-) the United States	Increase (+) from other sources	Total	
in millions of U.S. dollars					
1946	- 470	- 310	+ 510	+ 200	- 270
1947	- 210	- 1,870	+ 350	- 1,520	- 1,730
1948	+ 160	- 1,680	+ 370	- 1,310	- 1,150
1949	+ 500	- 690	+ 510	- 180	+ 320
1950	+ 1,350	+ 370	+ 430	+ 800	+ 2,150
1951	- 620	+ 550	+ 160	+ 710	+ 90
1952	+ 300	- 680	+ 310	- 370	- 70
1953	+ 1,170	- 0	+ 420	+ 420	+ 1,590
1954	+ 330	- 20	+ 630	+ 610	+ 940

* Including International institutions but excluding the U.S.S.R.

It will be seen that net imports from or exports to the United States were virtually nil in 1953 and 1954. On the other hand, the gains from "other sources" increased, reflecting in the main a decline in the rate of hoarding and hence larger receipts of newly-mined gold.

The growing volume of short-term dollar balances (including the holdings of international institutions) must clearly be taken into account if one is to obtain a more comprehensive picture of the actual reserve position of different countries. The figures in the table on the following page have been taken from the Federal Reserve Bulletin for March 1955.

The total gold and dollar holdings of countries other than the United States rose by \$2,172 million in 1954, compared with a rise of \$2,639 million in the preceding year. More than 70 per cent. of the increase in 1954 went to countries on the continent of Europe, with Germany, France and Italy adding the largest amounts to their balances. The sterling area as a whole gained \$195 million, of which \$180 million represented additions to the reserves of the United Kingdom.

In the western hemisphere, Canada increased its holdings by \$196 million, while on the other hand the Latin American countries as a group augmented their reserves by only \$62 million, compared with a rise of \$254 million in 1953. Contrasting with developments elsewhere, the reserves of the Asian countries as a whole showed a decline.

The fairly large increase in the holdings of international institutions was mainly the result of repayments by several countries to the International Monetary Fund in the form of repurchases of their domestic currencies. The United Kingdom, for instance, repurchased the outstanding \$112 million of the sterling sold to the International Monetary Fund in 1947 and 1948.

**Gold reserves and short-term dollar balances
of countries other than the United States¹**
(Including international institutions).
Estimated changes during 1954.

Area and countries	Holdings at end of 1953			Holdings at end of 1954			Change in total during 1954
	Gold reserves	Dollar balances	Total	Gold reserves	Dollar balances	Total	
In millions of U.S. dollars							
Western Europe other than the United Kingdom							
Austria	47	191	238	57	273	330	+ 92
Belgium-Luxemburg ²	874	224	1,098	891	148	1,039	— 59
Denmark	31	96	127	31	71	102	— 25
Finland	26	39	64	31	41	72	+ 8
France ²	596 ³	453	1,049	596 ³	758	1,354	+ 305
Germany (western)	326	899	1,225	626	1,372	1,998	+ 773
Greece	11	101	112	11	113	124	+ 12
Italy	346	466	812	346	579	925	+ 113
Netherlands ²	761	294	1,055	820	298	1,118	+ 63
Norway	52	119	171	45	103	148	— 23
Portugal ²	386	93	469	457	102	559	+ 90
Spain ²	114	36	150	116	72	188	+ 38
Sweden	218	117	335	265	141	406	+ 71
Switzerland	1,459	674	2,133	1,513	672	2,185	+ 52
Turkey	143	14	157	144	8	152	— 5
Other western European holdings ⁴	523	357	880	607	333	940	+ 60
Total	5,913	4,162	10,075	6,556	5,084	11,640	+ 1,565
Other continental European countries⁵	290	16	306	290	19	309	+ 3
Sterling area							
United Kingdom ⁶	2,300	709	3,009	2,550	639	3,189	+ 180
U. K. dependencies	—	108	108	—	103	103	— 5
Australia	117	59	176	133	48	181	+ 5
India	247	99	346	247	87	334	— 12
South Africa	176	38	214	199	33	232	+ 18
Rest of sterling area ⁷	106	91	197	116	90	206	+ 9
Total	2,946	1,104	4,050	3,245	1,000	4,245	+ 195
Canada	996	1,421	2,417	1,080	1,533	2,613	+ 196
Latin America	1,921	1,702	3,623	1,836	1,849	3,685	+ 62
Asia	672	1,637	2,309	634	1,592	2,226	— 83
All other countries	178	106	284	178	111	289	+ 5
Total for all countries	12,916	10,148	23,064	13,819	11,188	25,007	+ 1,943
International institutions ⁸	1,702	1,629	3,331	1,740	1,820	3,560	+ 229
Grand total	14,618	11,777	26,395	15,559	13,008	28,567	+ 2,172

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. 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 and U.S. dollars based on figures 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 1955.

Of the total increase of \$2.2 milliard in 1954 in the gold and dollar reserves of countries other than the United States, \$1.6 milliard represented net gains by these countries as a whole in their balance-of-payments transactions with the United States, while the remainder was accounted for mainly by acquisitions of newly-mined gold. The balance-of-payments relationship between the United States and the rest of the world has been described on pages 84 and 85. While in 1954 the United States had a current-account surplus of \$1.4 milliard (excluding military goods transfers but including private remittances), compared with a surplus of only \$0.1 milliard in the preceding year, and reduced its grants of non-military aid from \$2.0 milliard to \$1.7 milliard, the effects of these changes were largely offset by an increase in the net outflow of private U.S. capital from \$0.4 to \$1.5 milliard; military expenditure abroad, at \$2.5 milliard, remained at the same high level as in 1953.

Another factor, apart from their payments relations with the United States, which has significantly affected the gold and dollar position of individual western European countries has been the settlements made within the framework of the European Payments Union, as summarised in the table on the following page. A considerable part (since 1st July 1954, 50 per cent.) of the monthly surpluses and deficits in the Union is settled in gold and dollars and, furthermore, certain additional repayments in gold and dollars took place in 1954 (and to some extent also in 1955 — see Chapter VIII).

Within the E.P.U. group as a whole the total gold and dollar payments made to and by the Union over the three years 1952-54 are about equal. Considerable gains and losses, however, have been registered by individual countries. Thus, Austria, Belgium, western Germany, the Netherlands and Switzerland have substantially added to their reserves as a result of their settlements with the Union, while net payments have had to be made by most of the other countries. Indeed, western Germany obtained more gold and dollars in 1954 from its settlements with the Union than from all other sources together, while on the other hand the gold and dollars gained by the United Kingdom, France and Italy, for instance, were derived from settlements outside the Union, which were partly offset by losses within the Union.

The increase in gold and dollar holdings over recent years has notably strengthened the reserve positions of a great many countries. The gains have, however, been uneven from country to country and during the past year there was even a decline in the holdings of some countries. A standard often used as an aid in assessing the adequacy of a country's reserves is the relationship between its gold and dollar holdings and the volume of its imports, as shown in the table on page 143.

Even though it is necessary, when considering the position of most countries, to take into account reserves other than those in gold and dollars (i.e. sterling balances, E.P.U. credits and, to some extent, holdings of certain

Changes in gold and dollar reserve positions of E.P.U. member countries.

Countries	Net change in gold and dollar holdings through				Total net changes in gold and dollar reserves ⁴	
	E.P.U. settlements ¹			Transactions with dollar and other areas ³		
	Ordinary	Special ²	Total			
in millions of U.S. dollars						
Austria	1952	+ 17	—	+ 17	+ 19	+ 36
	1953	+ 37	—	+ 37	+ 58	+ 95
	1954	+ 17	+ 16	+ 33	+ 59	+ 92
Belgium-Luxemburg ⁵	1952	+ 141	+ 80	+ 221	— 84	+ 137
	1953	— 20	—	— 20	+ 83	+ 63
	1954	— 8	+ 79	+ 71	— 130	— 59
Denmark	1952	+ 2	—	+ 2	+ 23	+ 25
	1953	— 14	—	— 14	+ 40	+ 26
	1954	— 51	— 18	— 69	+ 44	— 25
France ⁵	1952	— 228	—	— 228	+ 292	+ 64
	1953	— 257	—	— 257	+ 339	+ 82
	1954	— 84	— 69	— 153	+ 458	+ 305
Germany (western)	1952	+ 153	—	+ 153	+ 104	+ 257
	1953	+ 172	—	+ 172	+ 362	+ 534
	1954	+ 239	+ 153	+ 392	+ 381	+ 773
Greece	1952	—	—	—	+ 7	+ 7
	1953	— 2	—	— 2	+ 57	+ 55
	1954	— 55	—	— 55	+ 67	+ 12
Italy	1952	— 30	—	— 30	+ 52	+ 22
	1953	— 80	—	— 80	+ 237	+ 157
	1954	— 113	— 43	— 156	+ 269	+ 113
Netherlands ⁵	1952	+ 110	—	+ 110	+ 181	+ 291
	1953	+ 40	—	+ 40	+ 200	+ 240
	1954	— 5	+ 47	+ 42	+ 21	+ 63
Norway	1952	—	—	—	+ 10	+ 10
	1953	— 21	—	— 21	+ 32	+ 11
	1954	— 33	— 15	— 48	+ 25	— 23
Portugal ⁵	1952	— 10	—	— 10	+ 53	+ 43
	1953	— 8	—	— 8	+ 103	+ 95
	1954	— 14	+ 10	— 4	+ 94	+ 90
Sweden	1952	+ 44	—	+ 44	+ 7	+ 51
	1953	+ 6	—	+ 6	+ 54	+ 60
	1954	— 50	+ 35	— 15	+ 86	+ 71
Switzerland	1952	+ 22	—	+ 22	+ 58	+ 80
	1953	+ 69	—	+ 69	+ 11	+ 80
	1954	+ 55	+ 45	+ 100	— 48	+ 52
Turkey	1952	— 98	—	— 98	+ 84	— 14
	1953	+ 2	—	+ 2	+ 4	+ 6
	1954	— 72	—	— 72	+ 67	— 5
United Kingdom ⁵	1952	— 276	—	— 276	— 236	— 512
	1953	+ 115	—	+ 115	+ 571	+ 686
	1954	+ 89	— 110	— 21	+ 196	+ 175
Totals	1952	— 153 ⁶	+ 80	— 73	+ 570	+ 497
	1953	+ 39 ⁶	—	+ 39	+ 2,151	+ 2,190
	1954	— 85 ⁶	+ 130	+ 45	+ 1,589	+ 1,634

¹ The settlements effected during the calendar year are in respect of the period November to November.
² The large volume of special gold and dollar settlements during 1954 consists principally of settlements arising in connection with the renewal of the E.P.U. as from 1st July 1954. Included in these settlements are \$130 million in gold and dollars received by creditor countries from the Union's own reserves, and also the transfers resulting from bilateral repayments and amortisation instalments (see Chapter VIII). A special repayment by France of \$80 million early in 1955 is not included in the table.
³ Including international organisations other than E.P.U. Calculated as a residual.
⁴ Gold and short-term U.S. dollar balances only (see table, page 140).
⁵ Including monetary areas.
⁶ The operation of the settlement mechanism of the Union results in unequal net receipts and payments.

Number of months' imports covered by gold and dollar holdings.

Countries	1948	1953	1954
Austria	1.9	5.3	6.1
Belgium-Luxemburg	4.5	4.5	4.1
Denmark	1.3	1.5	1.1
Finland	0.6	1.5	1.3
France	2.6	2.9	3.6
Germany (western) .	0.8 ¹	3.9	5.2
Greece	0.9	4.5	4.6
Italy	3.2	4.1	4.6
Netherlands	1.9	5.1	4.5
Norway	2.1	2.3	1.7
Portugal	7.8	15.5	17.9
Sweden	1.1	2.6	2.7
Switzerland	19.4	21.5	20.0
United Kingdom . .	3.1	3.9	4.0
United States ² . . .	41.3	24.6	25.5

¹ For 1949. ² Based on gold holdings only.

other currencies), the figures in the table give at least a rough indication of the growing strength of reserves over recent years. Changes in reserves, reflecting as they do the fluctuations in a country's external payments position, serve as a warning that adjustments in internal financial policies may be required; and in recent years countries have shown increasing readiness to respond quickly and vigorously to such warnings.

* * *

Sterling balances, in addition to gold and dollars, serve as an important means of payment for the settlement of international transactions and also comprise an important part of the monetary reserves of a considerable number of countries. Moreover, the widened transferability of sterling has clearly added to the usefulness of this currency over the past year. It is interesting to note, for instance, that in the exchange regulations issued in Brazil in January and February 1955 sterling is grouped with the fully convertible currencies (the dollar, etc.) as regards the differential rates at which various types of export proceeds are to be converted into cruzeiros (see page 121). As may be seen from the following table, the sterling holdings of non-sterling-area countries rose during 1954 but are still considerably below their 1951 level.

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	1,909	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	735	1,999	2,734	3,745
1951	38	57	409	514	1,018	930	1,663	2,793	3,811
1952	34	6	320	394	754	1,034	1,647	2,681	3,435
1953	62	40	304	366	772	1,102	1,832	2,934	3,706
1954	94	9	322	427	852	1,226	1,823	3,049	3,901

* Excluding the sterling balances held by non-territorial organisations (mainly the International Monetary Fund), which amounted to £475 million by the end of 1954.

Within the sterling area, the British colonies, which as a group appear to have recorded an overall balance-of-payments surplus in 1954, increased their sterling balances still further. The total holdings of other sterling-area countries, however, remained approximately the same as in the previous year.

If account is taken of the net changes in all the known assets and liabilities affecting the monetary reserves of the United Kingdom — including changes in its gold and dollar reserves, its sterling liabilities, its indebtedness to the International Monetary Fund and its obligations vis-à-vis the European Payments Union — there is found to have been in 1954, as already mentioned on page 36, a net improvement of £8 million. Thus the greater part of the United Kingdom's £160 million current-account surplus corresponded to a net increase in long-term overseas investment.

The availability of reasonably large reserves of gold and foreign exchange is obviously a condition for the proper working of an international monetary system — and the strengthening of the reserve position of so many countries in the last few years is therefore a matter of great significance. But it would be a very jerky and vulnerable system if every seasonal or other temporary deficit entailed a draft on the monetary reserves. It must be emphasised that credits to sustain the flow of trade and to help to bridge over minor payments gaps are at all times an essential feature of a smoothly functioning international monetary system. Through the operation of the European Payments Union a substantial amount of official credit has been automatically made available to the members, and the E.P.U. has thus been useful as a transitional arrangement at a time when other credits could not yet be relied upon. But with the return of more normal conditions the part played by official financing will be declining, and therefore that played by private credit must increase. In order to encourage greater activity along these lines, it is naturally very important that there should be full confidence in the position of the prospective borrowers and that the appropriate financial institutions of the lending centres should be sufficiently well equipped to meet short-term credit needs. Evidence of progress in this respect is provided by the fact that there has been over the last year an increase in the movements of equilibrating private short-term funds and that in some cases these movements have eased pressures on monetary reserves.

VII. Credit and Money in 1954-55.

The period from January 1954 to the end of May 1955 witnessed a further remarkable spread of the policy of flexibility in the field of credit and money management, especially as regards interest rates. Flexible interest-rate policies have now come to be generally recognised as a most helpful means of achieving and maintaining monetary equilibrium, in conjunction, where practicable, with open-market operations by the central bank; the authorities in most countries are having less recourse, on the other hand, to changes in the legal reserve requirements of the commercial banks.

Since the outbreak of the Korean conflict in mid-1950 twenty-five countries have made changes in their official discount rates. One of them — Austria — has altered its official discount rate seven times in the past five years. Two countries — western Germany and the United Kingdom — have made six changes, and four others — Belgium, France, the Netherlands and the United States — have made five changes in their rates.

In the period from January 1954 to the end of May 1955 five countries — Brazil, Greece, New Zealand, Norway and Spain — altered their discount rates for the first time since the beginning of the new trend in 1950, the rates having been increased in New Zealand and Norway and reduced in Greece and Spain. During the same period seven other countries included in the following table, viz. Canada, Ceylon, Finland, France, western Germany, Ireland and the United States lowered their rates, and four countries (besides New Zealand and Norway) raised theirs, these being Austria, Denmark, Sweden and the United Kingdom.

In every one of the countries included in the table on pages 147/148 (apart from Denmark) the money supply increased in 1954 but in each of them — with the sole exception of the United States — this expansion went more or less hand in hand with a growth in the gross national product. As far as the United States is concerned, the ratio of the money supply to the gross national product was increased somewhat as a result of the anti-cyclical policy pursued by the authorities — and the improvement in business activity in the latter part of 1954 and the early months of 1955 seems already to have gone a long way towards absorbing the increase. In Denmark, a moderate decline in the money supply in 1954 was connected with a substantial loss of foreign exchange (see page 32).

The ratio of the money supply to the gross national product also declined in Belgium, Italy and the Netherlands, while in five countries (Finland, Norway, Sweden, Switzerland and the United Kingdom) it remained unchanged. In France and western Germany (as in the United States) there was a rise in the ratio.

Modifications of official discount rates since July 1950.*

Country and date of modification	Official discount rate	Country and date of modification	Official discount rate
	in %		in %
Austria		Greece	
10th July 1935	3½	12th July 1948	12
6th December 1951	5	1st January 1954	10
3rd July 1952	6	1st January 1955	9
22nd January 1953	5½	Iceland	
26th March 1953	5	1st January 1948	6
24th September 1953	4	2nd April 1952	7
3rd June 1954	3½	India	
20th May 1955	4½	28th November 1935	3
Belgium		15th November 1951	3½
6th October 1949	3½	Ireland	
11th September 1950	3½	23rd November 1943	2½
5th July 1951	3½	25th March 1952	3½
13th September 1951	3½	25th May 1954	3
18th December 1952	3	Japan	
29th October 1953	2½	5th July 1948	5.11
Bolivia		1st October 1951	5.84
4th February 1948	5	Netherlands	
30th August 1950	6	27th June 1941	2½
Brazil		26th September 1950	3
2nd February 1945	6	17th April 1951	4
14th October 1954	8	22nd January 1952	3½
16th May 1955	6	1st August 1952	3
Canada		7th April 1953	2½
8th February 1944	1½	New Zealand	
17th October 1950	2	26th July 1941	1½
14th February 1955	1½	12th April 1954	3½
Ceylon		26th November 1954	4
28th August 1950	2½	Norway	
23rd July 1953	3	9th January 1946	2½
11th June 1954	2½	14th February 1955	3½
Chile		South Africa	
13th June 1935	6	13th October 1949	3½
28th March 1951	8	27th March 1952	4
Denmark		Spain	
15th January 1946	3½	22nd March 1949	4
4th July 1950	4½	1st July 1954	3½
2nd November 1950	5	Sweden	
23rd September 1953	4½	9th February 1945	2½
23rd June 1954	5½	1st December 1950	3
Finland		20th November 1953	2½
1st July 1949	5½	19th April 1955	3½
3rd November 1950	7½	Turkey	
16th December 1951	5½	1st July 1938	4
1st December 1954	5	26th February 1951	3
France		United Kingdom	
8th June 1950	2½	26th October 1939	2
11th October 1951	3	8th November 1951	2½
8th November 1951	4	11th March 1952	4
17th September 1953	3½	17th September 1953	3½
4th February 1954	3½	13th May 1954	3
2nd December 1954	3	27th January 1955	3½
Western Germany		24th February 1955	4½
14th July 1949	4	United States	
27th October 1950	6	13th August 1948	1½
29th May 1952	5	21st August 1950	1½
21st August 1952	4½	16th January 1953	2
8th January 1953	4	5th February 1954	1½
11th June 1953	3½	16th April 1954	1½
20th May 1954	3	15th April 1955	1½

* The last discount rate in force prior to July 1950 is also indicated.

Gross national product and money supply.¹

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	
Belgium (francs)					
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	169	423	23	40
1952	102.1	173	425 ²	24	41
1953	105.9	179	420 ²	25	43
1954	106.7	182	440 ²	24	41
Denmark (kroner)					
1938	0.43	2.65	7.7	6	33
1945	1.49	8.24	14.5	10	57
1948	1.55	6.74	19.5	8	35
1949	1.55	6.45	20.7	7	31
1950	1.63	6.45	23.6	7	27
1951	1.73	6.55	25.8	7	25
1952	1.89	6.97	27.2	7	26
1953	2.03	7.41	28.5	7	26
1954	2.05	7.26	29.7	7	24
Finland (markkas)					
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	803.9	6	9
1953	46.7	74.3	805.0	6	9
1954	49.9	79.3	847.0	6	9
France (francs)					
1938	112	192	432	26	44
1946	732	1,349	3,018	24	45
1948	993	2,166	6,739	15	32
1949	1,301	2,704	8,480	15	32
1950	1,590	3,120	9,359	17	33
1951	1,883	3,678	11,950	16	31
1952	2,124	4,159	13,690	16	30
1953	2,310	4,627	13,800	17	34
1954	2,551	5,266	14,720	17	36
Germany (western) (R.Mark/D.Mark)					
1938 ³	8.6	30.9	100.2	9	31
1949	7.1	13.8	79.4	9	17
1950	7.7	15.8	89.8	9	18
1951	8.8	18.6	113.6	8	16
1952	10.2	20.7	126.0	8	16
1953	12.0 ⁴	23.4	134.3	9	17
1954	12.8	26.4	145.3	9	18
Italy (lire)					
1938	25	42	164	15	26
1947	928	1,507	6,239	15	24
1948	1,122	1,963	7,251	15	27
1949	1,194	2,236	7,596	16	29
1950	1,326	2,496	8,352	16	30
1951	1,459	2,876	9,360	16	31
1952	1,573	3,316	10,134	16	33
1953	1,662	3,619	11,093	15	33
1954	1,758	3,761	11,797	15	32

¹ See footnote on next page. ² Unofficial estimate. ³ Pre-war Germany.
⁴ Since December 1953, including DM 0.7 milliard of bank-notes issued in west Berlin.

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	
Netherlands (florins)					
1938	1.05	2.54	5.9	18	43
1946	2.80	6.19	10.7	26	58
1948	3.18	7.33	15.7	20	47
1949	3.13	7.55	17.5	18	43
1950	2.97	7.10	19.4	15	37
1951	3.04	7.27	21.6	14	34
1952	3.17	8.04	22.4	14	36
1953	3.39	8.55	24.1	14	36
1954	3.68	9.12	26.2	14	35
Norway (kroner)					
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	4.96	15.02	15	33
1950	2.31	4.84	16.65	14	29
1951	2.53	5.40	20.71	12	26
1952	2.79	5.67	22.78	12	25
1953	3.00	5.89	23.14	13	25
1954	3.19	6.11	24.81	13	25
Sweden (kronor)					
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	38.5	11	26
1952	4.62	10.43	41.9	11	25
1953	4.89	10.89	43.2	11	25
1954	5.14	11.09	45.4	11	25
Switzerland (francs)					
1938	2.0	4.8	10.0	20	48
1945	4.1	8.8	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	23.5	23	52
1953	5.6	12.6	24.1	23	53
1954	5.8	13.2	25.0 *	23	53
United Kingdom (pounds)					
1938	0.46	1.64	5.72	8	29
1946	1.38	4.96	9.81	14	51
1948	1.25	5.13	11.71	11	44
1949	1.27	5.19	12.45	10	42
1950	1.29	5.28	13.14	10	40
1951	1.36	5.36	14.52	9	37
1952	1.45	5.38	15.67	9	34
1953	1.53	5.54	16.71	9	33
1954	1.62	5.73	17.59	9	33
United States (dollars)					
1935-39	5.6	31.1	85.2	7	37
1946	26.7	110.0	209.2	13	53
1948	28.1	111.6	257.3	10	43
1949	25.4	111.2	257.3	10	43
1950	25.4	117.7	285.1	9	41
1951	25.3	124.5	328.2	8	38
1952	27.5	129.0	346.1	8	37
1953	28.1	130.5	364.9	8	36
1954	27.9	134.4	357.2	8	38

* Unofficial estimate.

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.

An examination of a longer period — from the end of 1949 to the end of 1954 — shows that the rate at which the money volume has increased has differed greatly from country to country.

Percentage changes in money supply.

Countries	1950	1951	1952	1953	1954	Overall change 1950-54
	in percentages					
Austria	+ 13	+ 19	+ 8	+ 24	+ 25	+ 125
Belgium	- 0	+ 8	+ 3	+ 4	+ 2	+ 17
Denmark	+ 0	+ 2	+ 6	+ 6	- 2	+ 13
Finland	+ 13	+ 39	- 9	+ 6	+ 7	+ 61
France	+ 15	+ 18	+ 13	+ 11	+ 14	+ 95
Germany (western)	+ 14	+ 18	+ 11	+ 13	+ 13	+ 91
Italy	+ 11	+ 16	+ 15	+ 9	+ 4	+ 68
Netherlands	- 6	+ 2	+ 11	+ 6	+ 7	+ 21
Norway	- 2	+ 12	+ 5	+ 4	+ 4	+ 23
Sweden	+ 6	+ 19	+ 4	+ 4	+ 2	+ 40
Switzerland	+ 3	+ 4	+ 3	+ 4	+ 3	+ 19
Turkey	+ 18	+ 19	+ 15	+ 26	+ 7*	+ 117*
United Kingdom	+ 2	+ 2	+ 0	+ 3	+ 3	+ 10
United States	+ 6	+ 6	+ 4	+ 1	+ 3	+ 21
Canada	+ 10	- 0	+ 7	- 1	+ 6	+ 23

* Up to August 1954.

The country with the smallest increase during these years — one of 10 per cent. over the whole period — was the United Kingdom. There seems to be no doubt that the money volume in that country was excessive in 1949 but, owing to the fact that it has been found possible there to keep to a distinctly lower rate of increase than elsewhere, the original disequilibrium must by now have been very greatly reduced, if not wholly eliminated.

As for the other countries, exceptional circumstances (such as the devaluation of the Austrian schilling in 1953 and the abnormally low level, for different reasons, of the initial money volume in France and western Germany) may in some cases have permitted a relatively high rate of increase in recent years; but in view of the cessation of the upward movement of world-market commodity prices (see page 65) and the intensification of international competition the possibilities for further safe expansion are likely to be more limited in future. The raising of the official discount rate of the Austrian National Bank in May 1955 — to mention only one example — is a sign that such considerations are being allowed to influence monetary policies.

Although it may have been possible for a time in highly protected economies for the money volume to be increased without there being any immediate repercussion on the balance of payments, now that the realisation of the advantages of commercial freedom is leading to a progressive abandonment of trade restrictions, with the result that domestic price levels are coming under the influence of general world-market movements, any undue

expansion in the money volume will rapidly bring about a deterioration in the balance of payments and will in this and in other ways adversely affect the stability of the national currency. It is, therefore, most important not to be misled by what has happened in earlier post-war years and to realise that a new situation has arisen in which it is necessary to pay closer attention than hitherto to changes in the money volume.

One result of the growth in output and incomes, the strengthening of confidence in national currencies and the lessening of fears with regard to the international situation has been a continued rise in the rate of personal saving. There has been an increase in most countries in money savings in the form of deposits with credit institutions, but these represent only a certain proportion, and not infrequently a declining proportion, of the total. Of equal significance is the fact that other kinds of personal savings, notably savings with insurance institutions, direct private loans, repayments of mortgage and other loans, direct investments in house-building, etc., have increased in volume in recent years. Unlike personal saving, self-financing by means of retained profits, which has in all countries been a most important form of saving since the war, is tending to account for a somewhat smaller proportion of total savings, not only because the contribution from other sources has become larger but also because commercial and industrial firms, having satisfied their most urgent re-equipment needs, have thought it right to consider the interests of their shareholders more than they have done in the past by gradually increasing their dividend payments.

It has been mentioned on page 19 of the Introduction that there was in 1954 an upward adjustment of stock-exchange values in the United States, partly as a result of a fuller appreciation of the extent of the large wartime and post-war increase in the cost of replacing capital assets, which was attributable mainly to the rise in commodity prices and the even more rapid growth in workers' earnings. As is shown by the following table, there were substantial increases in stock-exchange quotations in other financial centres, too.

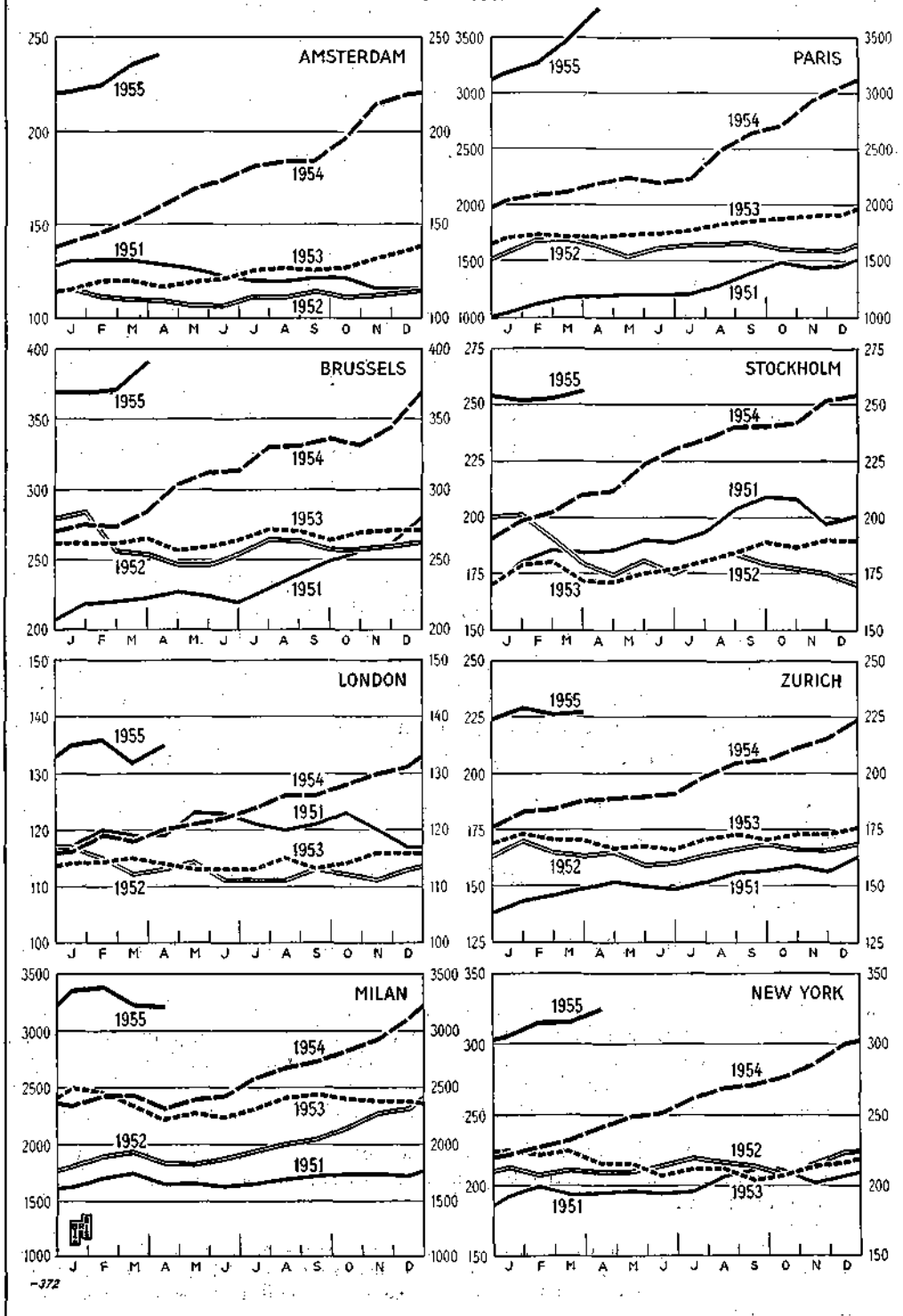
Indexes of share quotations
1938=100.

End of	Amsterdam	Brussels	London	Milan	New York	Paris	Stockholm	Zurich
1949	132	188	109	1,511	151	1,086	137	128
1950	123	206	114	1,589	179	948	170	138
1951	116	279	117	1,715	207	1,456	200	163
1952	114	262	113	2,317	223	1,592	170	169
1953	136	270	116	2,391	217	1,919	190	176
1954	220	369	131	3,090	300	3,059	254	224
<i>Percentage increase in 1954</i>								
	62	37	13	29	38	59	34	27
<i>Wholesale prices at the end of 1954 (1938 = 100)</i>								
	374	416	331	5,350	214	2,592	269	217

Movements on the stock exchanges.

Indexes of share quotations

1938 = 100.



For several years there had been, in practically all centres, a marked disparity between the rise in the cost of replacing capital assets and the increase in the capitalisation value of shares, and it was really not until 1954 that a more reasonable relationship was restored. The payment of higher dividends (taken together with the reduction, in some countries, of excess profit taxes) doubtless had much to do with the strengthening of the markets, but there were other factors as well. One of these was the improvement in the international political atmosphere* and another the fact that the recession in the United States proved to be mild in character and did not adversely affect western European economies.

Another interesting development is the continued increase in the demand for shares by institutional investors — and that at a time when, for fiscal and other reasons, there was generally a dearth of new share issues.

In the stock-exchange centres listed in the above table the increases in quotations ranged from 13 per cent. in London to 62 per cent. in Amsterdam. In most places the increase took place gradually throughout the whole of 1954 but in Paris and Milan it was concentrated in the second half of the year.

* * *

The main lines of the credit policy of the United States have been indicated in the Introduction (pages 17 and 18). In both 1953 and 1954 the authorities took prompt action, first to curb the rather too strong expansionist tendencies which were revealed by the movements of inventories and in other ways early in 1953 and then, later in 1953 and in the first half of 1954, as business became less active, to mitigate the effects of the recession and encourage a renewal of activity by easing credit conditions.

Five different phases can be distinguished in the monetary policy pursued by the Federal Reserve System since the middle of 1952:

- (i) July to December 1952: mild restraint, mainly through open-market operations;
- (ii) January to April 1953: more vigorous restraint by means of an increase in discount rates;
- (iii) May 1953 to June 1954: easing of credit conditions by open-market purchases, a reduction in minimum reserve requirements (in July 1953) and a lowering of the discount rate in two stages (in February and April–May 1954). These steps inaugurated the policy of active ease, which was reinforced in June and July by further reductions in minimum reserve requirements;
- (iv) July 1954 to March 1955: adoption of a neutral attitude through a policy with the limited aim of offsetting seasonal variations in the supply of money and credit; and

* In the latter half of 1954, it will be remembered, a remarkable number of international agreements were concluded within a few months: there were agreements about Indo-China, Iranian oil, Trieste, and the Suez Canal, and also the London and Paris agreements leading to the foundation of the Western European Union.

(v) since April 1955: mild restraint by means of a small increase (of $\frac{1}{4}$ per cent.) in the official discount rate, which went together with a hardening of market rates and an increase in stock-exchange cash-margin requirements.

An examination of the measures taken by the Federal Reserve System shows that the three instruments available — open-market operations, a change in minimum reserve requirements and an alteration in the official discount rate — have all been repeatedly used, although open-market operations stand out as the most flexible, rapidly-working and effective of the three.* The official discount rate was reduced twice in 1954: in February from 2 to $1\frac{3}{4}$ per cent. and in April-May to $1\frac{1}{2}$ per cent., while the buying rate for ninety-day bankers' acceptances was reduced from $2\frac{1}{8}$ to $1\frac{1}{2}$ per cent.

Between 16th June and 1st August 1954, the minimum reserve requirements for member banks were reduced once more, thus setting free some \$1.6 milliard formerly needed for reserves (a reduction in reserve requirements in the middle of 1953 had released \$1.2 milliard). The effects of the lowering of the reserve requirements had already begun to make themselves felt in July 1954. In that month and the next the Federal Reserve Banks sold some \$1 milliard of securities in order temporarily to cushion the impact of the reduction in the reserve requirements and to spread its effects over a longer period.

**Federal Reserve System:
Member banks' reserve requirements**
(as a percentage of deposits).

Minimum reserve required on	Percentage applicable from			Legal maximum
	1st February 1951	9th July 1953	1st August 1954	
Demand deposits of				
Central reserve city banks	24	22	20	26
Reserve city banks	20	19	18	20
Country banks	14	13	12	14
Time deposits of				
All member banks	6	6	5	6

In contrast to what had happened in previous years, when credit to business had been the major factor making for monetary expansion, in 1954 the main contribution to the increase in the money supply was made by the impressive growth in the commercial banks' holdings of securities, which rose by \$7.6 milliard (see table on page 17). These securities were acquired mainly from insurance companies and mortgage banks, which in their turn used the proceeds of

these sales to make advances for investment purposes. There was a decline not only in the volume of credit granted by the banks to business but also in the rate of expansion of consumer credit, for although the total of the latter rose by a further \$600 million in 1954 this was a much smaller increase than in the two preceding years, in which there had been rises of \$4.4 and 3.7 milliard respectively. At the end of 1954 the total of consumer credit outstanding amounted to \$30.1 milliard, of which \$10.4 milliard was accounted for by instalment credit for the purchase of motor-cars.

The public debt rose by \$3.6 milliard in 1954, reaching at the end of the year a figure of \$278.8 milliard — some \$2 milliard below the legal ceiling, which had been temporarily raised from \$275 to 281 milliard. Of the total debt outstanding, \$24.9 milliard was held by the Federal Reserve Banks, \$77.7 milliard by other banks, \$34.4 milliard by corporations (including insurance companies), and

* In his address on 7th April 1955 (which has already been referred to on page 80), Mr Allan Sproul, the President of the Federal Reserve Bank of New York, said that "the principal burden of sustaining this policy (viz. the easy-money policy) was borne by open-market operations, the name given to purchases and sales of government securities by the Federal Reserve Banks, which put reserve funds into the banking system or take them out as the needs of the economy seem to require".

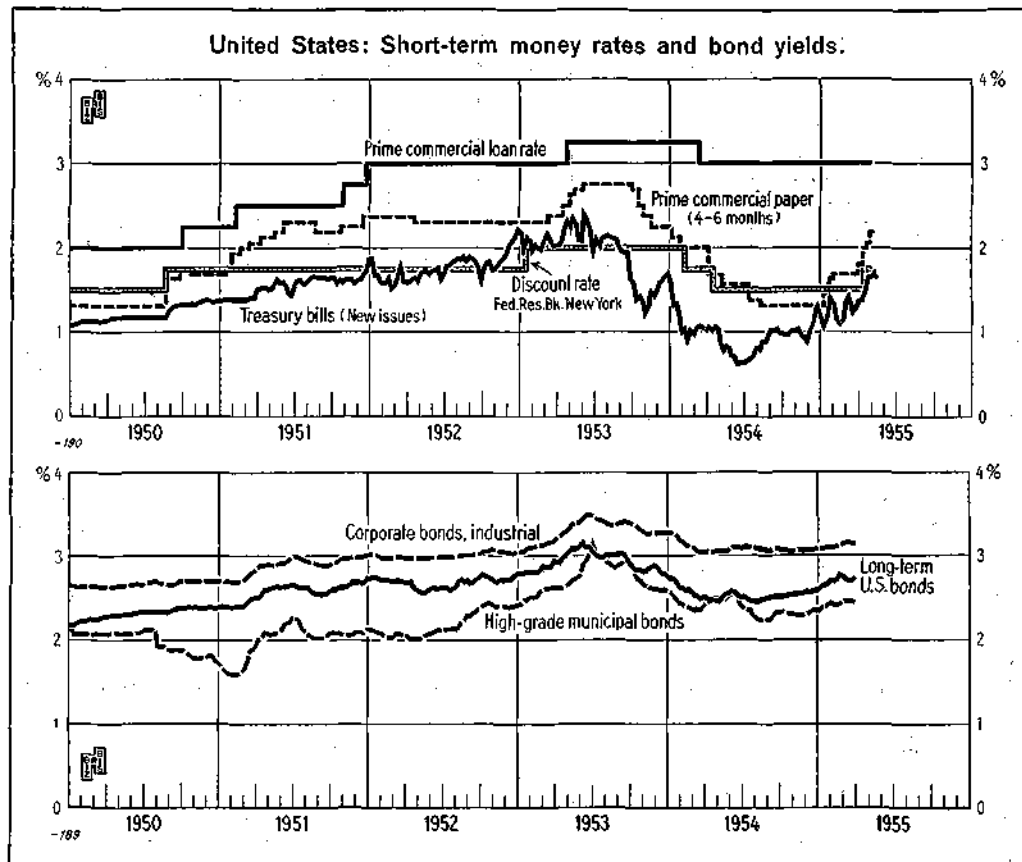
United States: Interest rates in money and capital markets.

Averages in	Federal Reserve Bank discount rate	U.S. Government securities				Short-term commercial paper		Average yield of	
		3-month bills, new issues	9 to 12 month issues	3 to 5 year issues	Bonds, 12 years and over	Prime commercial paper 4 to 6 months	Prime bankers' acceptances	corporate bonds	common industrial stock
in percentages									
1950 4th quarter	1.75	1.35	1.44	1.64	2.38	1.71	1.31	2.88	6.62
1951 4th "	1.75	1.65	1.73	2.03	2.66	2.26	1.65	3.19	5.78
1952 4th "	1.75	1.92	1.92	2.27	2.73	2.31	1.75	3.20	5.32
1953 2nd "	2.00	2.20	2.38	2.80	3.05	2.62	1.88	3.51	5.55
1953 4th "	2.00	1.49	1.62	2.31	2.82	2.37	1.88	3.41	5.56
1954 2nd "	1.75-1.50	0.81	0.81	1.76	2.51	1.63	1.28	3.14	4.80
1954 4th "	1.50	1.04	1.02	1.90	2.55	1.31	1.25	3.13	4.27
1955 1st "	1.50	1.26	1.42	2.20	2.69	1.61	1.36	3.18	4.14

\$92.1 milliard by private individuals, local authorities, etc. The remainder, \$49.6 milliard, was in the hands of Federal agencies and trust funds.

The table above shows the main changes in interest rates since the fourth quarter of 1950.

The recovery in the rates in the first quarter of 1955 reflects the change-over from a policy of "active ease" to one of "mild restraint".



Two major funding operations were carried out by the U.S. Treasury in 1954 — one in February for an amount of \$18.2 milliard and one in November for an amount of \$17.0 milliard. In the course of 1954 the proportion of marketable U.S. Government securities represented by those maturing within one year fell from 47.4 to 39.8 per cent. of the total outstanding, while the proportion of those maturing within five to ten years rose from 13.1 to 21.3 per cent.

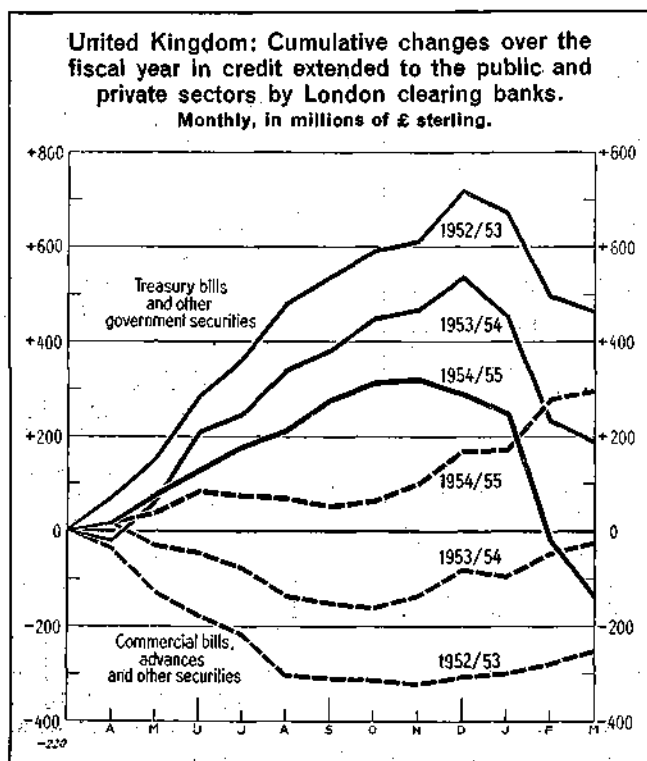
In 1954 there was a net increase in the money supply of \$3.9 milliard, or 3.0 per cent., this being (as has already been stated) mainly due to the growth in the banks' holdings of government and other securities.

In the United Kingdom, the substantial budget surplus of £433 million "above the line" in the financial year 1954-55 covered nine-tenths of the government's net capital expenditure so that the amount of budgetary outlay "below the line" which had to be financed by borrowing did not exceed £68 million net. Moreover, the British Government took advantage of the period of relatively cheap money in 1954 to carry out conversion and refunding operations amounting to £1.7 milliard.

The reduction in the demands made by the public sector on the resources of the credit system is illustrated by the following graph and by the table on the next page.

Owing to the fact that most of the government's revenue is collected in the January-March quarter of the financial year, borrowing by

the public sector generally reaches its highest level in December, and then declines. The graph shows the scissors-like movement in 1954-55 of the totals of the two major categories of credit extended by the London clearing banks, there having been an increase over the fiscal year in the amount of credit granted by the banks to the private sector under the heading "Commercial bills, advances and other securities" and a slight net decline in the credit extended to the public sector under the heading "Treasury bills and other government securities".



The following table gives further details of the changes which occurred in the various items included in the monthly returns of the London clearing banks.

London clearing banks: Selected items from the monthly returns.

Mid-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	89	1,867
1954	6,010	468	995	2,269	3,732	1,760	83	1,843
1955	6,139	438	849	2,281	3,568	2,024	116	2,140
Changes in the past twelve months	+ 129	- 30	- 146	+ 12	- 164	+ 264	+ 33	+ 297

The main changes shown in the table are:

- (i) the increase in credit to the private sector after two years of contraction;
- (ii) the decline in credit to the public sector after three years of expansion; and
- (iii) the continued increase in net deposits, which rose in 1954 by 2 per cent., while in the same year the real national income went up by 4 per cent. and industrial production by 6.6 per cent.

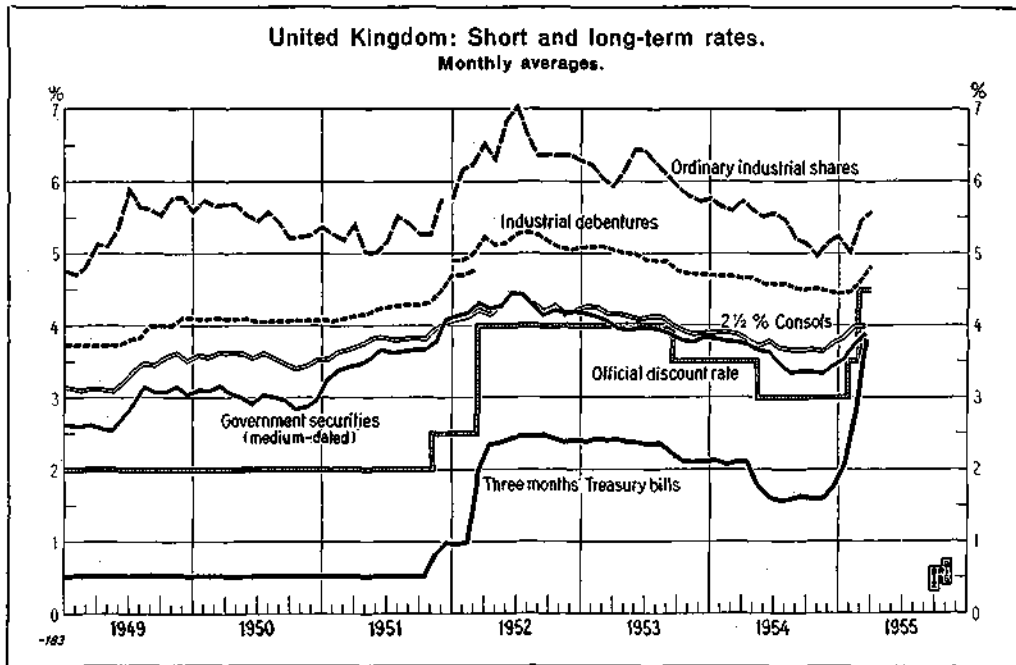
All the different groups of the clearing banks' customers benefited by the increase in advances.

United Kingdom: Changes in bank advances.

Advances to	From February to February		
	1952-53	1953-54	1954-55
in millions of £ sterling			
Industry and trade	- 123	+ 3	+ 104
Finance, services, personal . .	- 69	+ 15	+ 57
Total	- 192	+ 18	+ 161
Public utilities	+ 5	- 53	+ 75
Local authorities	- 1	+ 9	+ 17
Grand total . . .	- 188	- 26	+ 253

The substantial rise in advances to the "public utilities" (i.e. nationalised industries) following the decline which took place in 1953-54 reflects an increase in the investment activity of these industries, since they borrowed nearly as much on the capital market in 1954 as they did in 1953.

The decline in cash, money at call and bills, together with the rise in deposits, considerably affected the liquidity ratios of the London clearing banks, which had fallen by March 1955 to the conventional minimum of 30 per cent. of total deposits. Already in the previous autumn the London money market had become tighter, as may be seen from the behaviour of short-term rates. Between the end of September and the end of November 1954, the average rate of discount on Treasury bills at the weekly tender remained at around 1.58 to 1.63 per cent. During December it rose steadily, reaching 1.86 per cent. at the end of that month; after that it moved up again, and it amounted to 2.01 per cent. at the tender just prior to the raising of Bank rate from 3 to 3½ per cent. on 27th January 1955. This alteration in Bank rate and the subsequent further increase to 4½ per cent. on 24th February 1955 are discussed in Chapter II (see page 37).



In the spring of 1955 the Treasury bill rate rose to over $3\frac{3}{4}$ per cent., thus making the purchase of Treasury bills an attractive investment for holders of substantial bank balances. The upward trend of interest rates in the money and capital markets may be seen from the following table.

United Kingdom: Interest rates and yields.

Items	31st October 1951	End of April			
		1952	1953	1954	1955
in percentages					
1. Bank of England					
Bank rate	2.0	4.0	4.0	3.5	4.5
2. Market rates					
3-month Treasury bills	0.52	2.31	2.38	2.06	3.91
3-month bank bills	1.0	3.0	3.0	2.12	3.94
3-month fine trade bills	2.12	4-5	4-5	3-3.5	4.25-4.75
3. Bank deposit rates	0.5	2.0	2.0	1.75	2.5
4. Public Works Loan Board					
(over 15 years)	3.0	4.25	4.25	4.0	4.0
5. Government securities (yield)*					
2½% Savings bonds 1964-67	3.39	3.98	3.62	3.34	3.83
2½% Consols	3.97	4.18	4.16	3.75	4.08
3½% War loan	4.08	4.50	4.35	4.01	4.27

* Yields calculated to latest date for savings bonds. For consols and war loan flat yields.

New capital issues, excluding government issues, amounted in 1954 to £471 million — this figure being nearly 20 per cent. higher than that for 1953 and approximately equivalent, in real terms, to the average for the pre-war years 1933-38. Nearly one-half of the new issues was accounted for

by the nationalised industries, while issues of companies, in spite of having doubled in 1954, are still, in terms of real values, well below the pre-war level — as are also foreign issues.

The budget situation and the most important developments in the field of credit in France have been dealt with in Chapter II; a certain amount of additional information is given below.

While total investments in France are estimated to have increased in 1954 by some Fr.fcs 80 milliard (see table on page 41), it was found possible to finance a larger proportion than previously by means of loans from specialised institutions and through issues of shares, bonds, etc. — a sign that there was a more ample flow of current savings than in earlier post-war years. New savings in monetary form rose, in fact, from Fr.fcs 574 milliard in 1953 to Fr.fcs 825 milliard in 1954, i.e. by nearly 45 per cent.

France: Formation of new savings in monetary form.

Items	1951	1952	1953	1954
	in milliards of French francs			
Liquid savings				
Increase in savings and time deposits	98	143	225	250
Increase in reserves of life-insurance companies	23	26	28	46
Short-term Treasury paper bought by the public	80	77	92	166
Total of liquid savings	201	246	345	462
Capital-market issues by				
Public authorities	19	238	93	192
Nationalised industries	24	31	62	70
Private business	61	81	96	137
Total of invested savings	104	350	251	399
Total	305	596	596	861
Double items	- 18	- 67	- 22	- 36
Total net new savings in monetary form	287	529	574	825

There was a relatively larger increase in savings invested directly on the capital market than in liquid savings — and the public authorities absorbed a higher percentage of the total of both (52 per cent. of the total of net new savings in 1954, compared with 43 per cent. in the preceding year).

France: New bank credit to the private economy.

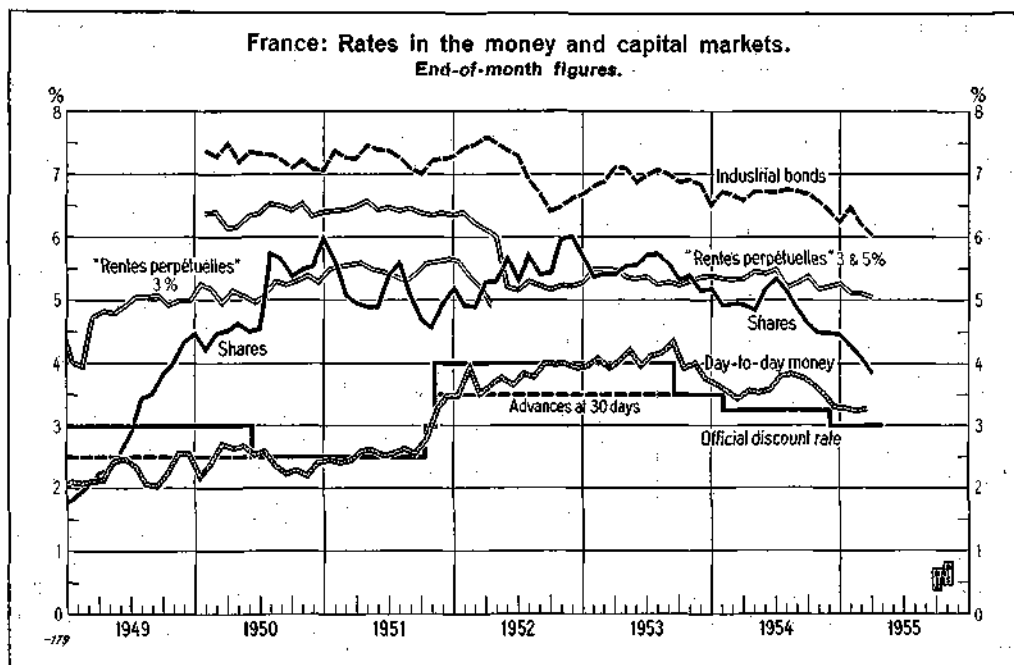
Items	1951	1952	1953	1954	Amount outstanding at the end of 1954
	in milliards of French francs				
Short-term bank credit	+ 494	+ 164	+ 143	+ 200	2,205
Medium-term bank credit	+ 56	+ 202	+ 104	+ 134	647
Total	+ 550	+ 366	+ 247	+ 334	2,852
Amount refinanced at the Bank of France	+ 194	+ 168	+ 54	+ 124	1,122

The private economy continued to depend largely on the banking system not only for its working capital but also for the funds required for investment.

Of the new credits obtained from the banks by the private economy some 40 per cent. was in the form of medium-term credits (usually for five years). Most of these credits were refinanced at the Bank of France.

As a result of the higher rate of saving and the larger volume of money (see table on page 40), the liquidity both of business enterprises and of the banks has risen considerably. The banks have increased their rediscounting potential from Fr.fcs 281 milliard to Fr.fcs 365 milliard (i.e. they can obtain new finance at the central bank up to this amount without exceeding the existing ceilings beyond which penalty rates are charged).

Under the influence of market developments, the effect of which has been intensified by the policy of lowering the cost of money, long and short-term interest rates have steadily declined since the middle of 1954.



Long-term rates for fixed-interest-bearing securities are down to between 5 and 6 per cent., while the yield of industrial shares has fallen, as a result of the stock-exchange boom, to less than 4 per cent. The Bank of France lowered its discount rate by $\frac{1}{4}$ per cent. early in 1954 and again at the end of the year — in all from $3\frac{1}{2}$ to 3 per cent. Cuts in commissions and other charges have also in many cases led to a certain reduction in the cost of money to borrowers.

As mentioned on page 42, the rapid expansion of industrial production in Italy has inevitably put a strain on the money and capital markets. Even so, it has been possible to moderate somewhat the rate of increase of the money supply, which rose by 4 per cent. in 1954, compared with an increase of 9 per cent. in the preceding year.

Italy: Formation of the money supply.

Items	1951	1952	1953	1954
	in milliards of lire			
Changes in money supply				
Currency	+ 133	+ 114	+ 89	+ 96
Demand deposits	+ 256	+ 326	+ 215	+ 46
Total	+ 389	+ 440	+ 304	+ 142
Changes in corresponding items				
Bank credit to the economy	+ 361	+ 688	+ 660	+ 596
Bank credit to the government	+ 132	+ 281	+ 280	+ 275
Total bank credit	+ 493	+ 969	+ 940	+ 871
Gold and foreign exchange	+ 222	— 25	— 29	+ 4
Other items	— 21	— 17	— 57	— 104
Total	+ 694	+ 927	+ 854	+ 771
Less: Increase in savings and time deposits	— 305	— 487	— 550	— 629
Total	+ 389	+ 440	+ 304	+ 142

There was less reliance on the banking system in 1954 for the provision of fresh financial resources, more recourse being had, however, to the capital market.

Italy: Origin of new financial resources.

Items	1951	1952	1953	1954
	in milliards of lire			
Internal sources				
Banks	493	969	940	871
Capital market	242	283	394	478
Total	735	1,252	1,334	1,349
Counterpart funds	223	143	72	20
Total	958	1,395	1,406	1,369
Used by				
Public sector	422	468	433	436
Private economy	536	907	973	933

Since 1954 was a year of buoyant business activity, commercial and industrial enterprises had greater scope for self-financing than in past years (and in a country where the cost of borrowing is high they naturally prefer to finance investment in this way). Funds from abroad have also been directly invested in Italy and several Italian firms have obtained foreign loans. As regards the financing of building activity, in Italy the down-payments demanded when

purchasing a house or flat are more substantial than in most other countries, usually amounting to as much as 50 per cent. or more of the price, since specialised credit institutions do not generally grant mortgage loans for more than 40 to 50 per cent. of the total cost. In order to make the down-payments required, it is usual to draw on former savings or to borrow outside the banks. Non-bank financing is thus of great importance in Italy, considering that in 1954 the whole of the increase in net fixed investment (amounting to nearly Lit. 100 milliard) was accounted for by the construction of new dwellings.

Mention must also be made of an important change in the distribution of deposits held with the commercial and savings banks as a result of a new interbank agreement, which has been in force since February 1954, providing for an increase in the rates paid on certain types of deposits. Before this time the high interest charge which the banks were able to make on advances and other forms of credit had encouraged them to compete among themselves

for additional deposits by paying rates higher than those agreed upon. This agreement, by legalising the new rate structure and making it generally applicable, has caused an impressive shift from sight and savings deposits to time deposits at three to twelve months' notice, which yield up to $4\frac{3}{4}$ per cent.

In 1954 sight deposits went up by only Lit. 46 milliard (compared with an increase of Lit. 214 milliard in the previous year), while savings deposits actually fell by Lit. 165 milliard. Time deposits, on the other hand, rose by no less than Lit. 794 milliard.

In Austria several factors have combined to cause a rapid growth in the money supply in recent years. There have been substantial increases in the gold and foreign exchange holdings of the National Bank, which have added to the money volume and have at the same time enabled the commercial banks, as they have become more liquid, to be more liberal in extending credit. Since there are only limited possibilities of financing investment, especially private investment, on the capital market, commercial and industrial firms have continued to rely largely on the banking system for new funds.

Austria: Changes in the money supply.

Items	1952	1953	1954
	In millions of schillings		
New bank credit to			
The private economy	375	2,400	5,400
The Treasury	375	— 100	— 150
Total new bank credit . .	750	2,300	5,250
Increase in the gold and foreign exchange holdings of the National Bank	1,625	4,800	2,975
Other items (movements of counterpart funds, etc.)	—	— 750	400
Total of above items . .	2,375	6,350	8,625
Less:			
Increase (—) in savings and time deposits	—1,050	—1,800	—2,925
Changes in money supply	1,325	4,550	5,700

It will be noticed that no new credits were granted to the Treasury in 1953 and 1954.

Since the end of 1951, as a result of the rise in their liquidity, the commercial banks have not only almost ceased to rediscount bills at the National Bank but have also bought back from it about Sch. 2 milliard's worth of Treasury bills and, in addition, have increased their free deposits with the National Bank by very nearly the same amount.

When, towards the end of 1954, a deficit appeared in the balance of payments and foreign exchange started to flow out of the country, the banks began to draw down their balances with the National Bank and there was also a slight

Austrian National Bank: Selected items from the balance sheet.

End of	Liabilities			Assets		
	Note circulation	Free deposits of banks	Free and blocked deposits of public authorities	Gold and foreign exchange	Commercial bills	Treasury bills
in millions of schillings						
1949	5,721	454	2,367	194	154	2,089
1950	6,349	429	2,829	500	809	1,949
1951	8,032	539	2,050	634	1,710	2,210
1952	9,048	631	2,084	2,260	1,247	1,730
1953	10,474	1,496	2,780	7,057	446	593
1954	12,252	2,622	2,242	9,669	282	102
1955 15th May	11,620	2,345	2,262	8,863	308	74

increase in rediscounting. This made it possible for the National Bank to act more effectively, and with a view to keeping the granting of new credit within reasonable limits the bank increased its discount rate from 3½ to 4½ per cent. as from 20th May 1955.

In the spring of 1955 an electricity loan was issued and by the end of May, when the subscription lists were closed, over Sch. 1 milliard had been subscribed. As in the case of two earlier loans of this kind, this loan was provided with certain fiscal privileges, although less important than those attached to its predecessors.

In Switzerland the boom continued unabated during 1954 — in some sectors, indeed, notably the building, chemical and engineering industries, there was even an acceleration of the upward trend. Overtime (i.e. work beyond the normal limit of forty-eight hours) increased and even with more than 200,000 foreign workers in the country (not including those in domestic service) it was difficult to satisfy the intense demand for labour. Notwithstanding the existence of an active capital market, there was a considerable expansion in the volume of bank credit in the form both of mortgage loans and of advances to industry.

Switzerland: Changes in the balance sheets of fifty-two banks.

Year	Liabilities		Assets				
	Sight liabilities	Time and savings deposits, savings bonds, etc.	Cash	Bills	Advances	Mortgage loans	Securities
round figures, in millions of Swiss francs							
1950	+ 185	+ 540	- 235	+ 40	+ 555	+ 395	+ 80
1951	+ 130	+ 810	+ 80	- 60	+ 550	+ 450	+ 85
1952	+ 150	+ 1,075	+ 75	+ 10	+ 255	+ 555	+ 120
1953	+ 315	+ 840	+ 125	+ 115	+ 125	+ 515	+ 160
1954	+ 80	+ 935	+ 40	- 270	+ 735	+ 580	+ 100
Position at the end of 1954	5,975	16,120	1,425	2,175	6,340	10,785	2,760

Still on the assets side, there was a decline in the amount of the banks' holdings of discounted bills. Almost the whole of the increase in liabilities was accounted for by the item "Time and savings deposits, savings bonds, etc."

The Swiss National Bank increased its gold and dollar holdings by Sw.fcs 365 million in 1954 and, on the other side of its balance sheet, the note circulation went up by Sw.fcs 183 million and sight liabilities by Sw.fcs 151 million — this being the sharpest rise in these two items taken together in any post-war year, with the exception of 1949.

For the Swiss authorities the problem has been to put a brake on the excessively rapid credit expansion and to prevent the mass of loanable funds available on the market — arising either from current savings or from the repayment of old loans — from causing a dangerous amount of partly speculative investment. Fortunately, nearly Sw.fcs 400 million was skimmed off the market in 1954 by long-term foreign loans issued at rates ranging from 3½ to 4½ per cent. (see page 52). As far as Federal loans are concerned, the effective rate of interest had fallen to 2.17 per cent. by the middle of March 1954, but it closed the year at around 2.55 per cent. The Swiss banks have kept the rate for first mortgages at 3½ per cent., but other investors have offered funds at somewhat lower rates.

In order to prevent the already low interest level from falling still further, the Swiss banks concluded in 1954 a temporary "gentleman's agreement" providing for mutual consultation whenever there were requests for large loans. At the instigation of the National Bank, two more "gentleman's agreements" were concluded in the spring of 1955: under one of these, over eighty banks pledged themselves to maintain part of their cash assets at the Swiss National Bank; and under the other, the banks undertook to exercise restraint in accepting and paying interest on foreign funds.

A notable feature of the credit system in western Germany is (as mentioned in Chapter II, page 46) the very important part played by the banks in medium and long-term financing. If one considers the banking

Western Germany:
Funds received and credit granted by all credit institutions.

Items	1952	1953	1954	Total outstanding at the end of 1954
	in milliards of Deutsche Mark			
Funds received				
At sight	1.3	2.3	3.8	21.1
At longer term	8.1	10.1	11.5	49.9
Total of funds received	9.4	12.4	15.3	71.0
Credit granted by				
The central-bank system	- 0.6	- 0.1	- 0.1	0.8
Other credit institutions				
At short term	3.4	2.6	3.3	25.1
At medium and long term	4.6	6.8	7.7	30.7
Purchases of securities	0.5	1.2	2.0	5.7
Total for other credit institutions	8.5	10.6	13.0	61.5
Total of credit granted	7.9	10.5	12.9	62.3

system as a whole (that is, the Bank deutscher Länder and the Landeszentralbanken, the commercial and savings banks, the various "Kassen", etc.), one finds that in recent years the volume of newly-granted medium and long-term credit has considerably exceeded the volume of new short-term credit.

The total of longer-term funds received by the credit institutions is each year much greater than the amount received at sight and also greater than the amount of long and medium-term credits. The surplus of receipts over credits granted has enabled the banks to improve their liquidity position in relation to the central-banking system.

Western Germany: Selected items from the combined statements of account of the Bank deutscher Länder and the Landeszentralbanken.

End of	Assets			Liabilities		
	Gold and foreign exchange (net)	Domestic bills	Equalisation claims	Notes in circulation	Deposits of credit institutions	Other deposits
in millions of Deutsche Mark						
1952	4,576	3,360	7,237	10,509	2,990	2,009
1953	8,112	2,766	5,642	11,547	3,311	1,531
1954	10,879	2,850	3,985	12,350	3,959	1,397

The gold and foreign exchange holdings represent an increasing proportion of the assets of the central-banking system, and on the liabilities side there has been a rise both in the amount of notes in circulation and in the total of the deposits held by credit institutions.

The credit institutions have in recent years had to perform to some extent the functions properly belonging to the not yet fully developed capital market, which, however, was beginning to absorb increasingly large amounts, especially of bonds, in 1953 and 1954.

Western Germany: Securities sold since the monetary reform.

Period	Government, communal and other debts	Mortgage bonds	Industrial bonds	Shares	Total
In millions of Deutsche Mark					
1948 (second half)	2	6	10	1	19
1949	473	201	96	41	811
1950	413	211	53	51	728
1951	213	468	62	165	913
1952	799	628	130	259	1,816
1953	1,474	1,043	396	269	3,182
1954	1,676	2,239	791	453	5,159

It must, however, be remembered that credit institutions bought some DM 2 milliard of securities in 1954, so that purchases by other investors must have totalled no more than about DM 3 milliard. The measures taken to place the capital market on a sounder basis have been outlined on page 46. To judge by the issues made in the first five months of 1955, it seems that the effective long-term rate for securities without tax privileges is coming down to about 6 per cent.

In Belgium the money supply rose by B.fcs. 2.9 milliard in 1954 — the smallest increase for three years. The slowing-down of the rate of expansion was not due, however, to any decline in the volume of new credit, for in 1954 the amount of new credit granted both to the private economy and to public authorities considerably exceeded the corresponding figures for the preceding year.

Belgium:
New credit granted to the economy and to the public authorities.

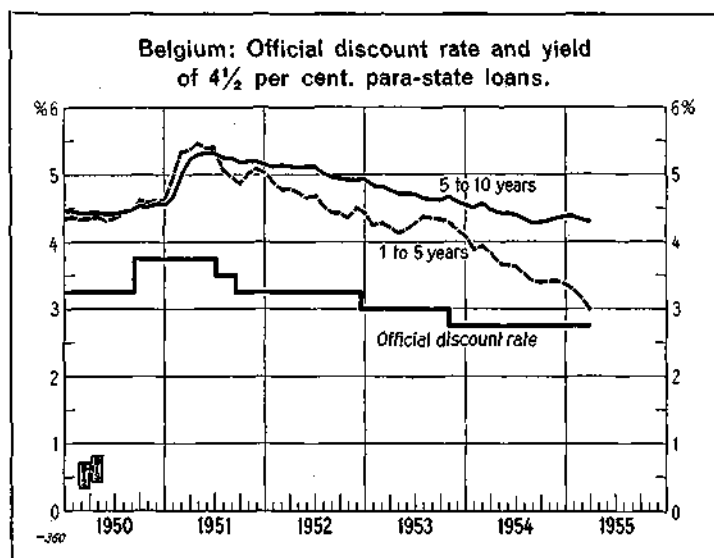
Year	New credit to the economy			New credit to the public authorities			Total new credit
	National Bank	Others	Total	National Bank	Others	Total	
In milliards of Belgian francs							
1949	- 1.5	+ 1.3	- 0.2	+ 1.0	+ 0.6	+ 1.6	+ 1.4
1950	+ 7.3	+ 0.9	+ 8.2	- 0.7	+ 0.7	+ 0.0	+ 8.2
1951	- 2.5	+ 4.2	+ 1.8	- 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
1954	+ 0.5	+ 1.7	+ 2.2	+ 1.1	+ 2.1	+ 3.2	+ 5.4

An important factor which helped to offset not only the fresh expansion of credit but also the effects of the release of B.fcs 2.8 milliard's worth of special deposits connected with claims on the E.P.U.* was the decline of B.fcs 3.7 milliard in the net gold and foreign exchange holdings of the National Bank, which were reduced from B.fcs 54.4 milliard at the end of 1953 to B.fcs 50.7 milliard a year later.

National Bank of Belgium: Selected items from the balance sheet.

Items	Changes in			Situation at the end of 1954
	1952	1953	1954	
In milliards of Belgian francs				
Assets				
Gold and foreign exchange (net)	+ 3.3	+ 0.9	- 3.7	50.7
Credit to the public sector	+ 2.3	+ 1.2	+ 2.7	45.4
Credit to the private economy	+ 0.5	- 0.4	+ 0.5	9.8
Other items	- 4.2	- 2.5	- 0.4	6.0
Total of assets	+ 1.9	- 0.8	- 0.9	111.9
Liabilities				
Special deposits against claims on E.P.U.	+ 2.8	- 1.1	- 2.8	—
Counterpart funds	+ 0.3	- 1.1	- 0.1	0.1
Note circulation	+ 2.8	+ 3.8	+ 1.1	102.7
Other items	- 4.0	- 2.4	+ 0.9	9.1
Total of liabilities	+ 1.9	- 0.8	- 0.9	111.9

* As explained in the Twenty-fourth Annual Report (pages 109 and 176), the Belgian authorities decided in 1951, when Belgium had considerable monthly surpluses in the E.P.U., temporarily to block a portion of the proceeds of exports to the E.P.U. area in order to neutralise the expansive effect of the surpluses in question. In 1953, when Belgium began to have deficits in the monthly E.P.U. settlements, the regulations were relaxed somewhat, and in April 1954 the system of special deposits was discontinued, provision being made at the same time for the gradual release of the amounts already blocked.



As the domestic market was not able to furnish all the funds the Treasury wished to borrow (see page 48), the Belgian Government issued loans in 1954-55 on the Swiss, Dutch and U.S. markets, part of the proceeds being used to repay earlier loans and credits. Between the end of 1953 and the end of March 1955 the external government debt rose by B.fcs 2.4 milliard to a total of about B.fcs 24 milliard. The official discount rate remained unchanged at

2¾ per cent., while market rates for short and medium-term bonds moved slightly downwards. In the spring of 1955 the effective rate of interest on long-term government securities was about 4¼ per cent.

In the Netherlands the central bank's net purchases of gold and foreign exchange declined from Fl. 1,070 million in 1953 to Fl. 235 million in 1954 (reflecting a reduction of the balance-of-payments surplus, see page 49), but the smaller addition to the money supply which would have resulted from this decline was more than counterbalanced by an increase in the amount of new credit granted in the course of the year.

**Netherlands:
Formation of the money supply.**

Items	1952	1953	1954
	in millions of florins		
Changes in money supply			
Currency	+ 136	+ 221	+ 288
Demand deposits	+ 612	+ 275	+ 272
Total	+ 748	+ 496	+ 560
Changes in corresponding items			
Credit to public authorities	- 1,074	- 719	+ 157
Credit to the private economy	+ 90	+ 303	+ 455
Total credit	- 984	- 416	+ 612
Gold and foreign exchange holdings	+ 1,989	+ 1,070	+ 235
Other items (net)	- 84	- 134	- 47
Total	+ 921	+ 520	+ 800
Less: increase in time deposits	- 173	- 24	- 240
Grand total	+ 748	+ 496	+ 560

In 1954, for the first time since 1951, money was created on behalf of the government — to the extent of Fl. 86 million. Some Fl. 428 million became available for use from the counterpart-fund account; of this Fl. 336 million was employed to redeem indebtedness to money-creating institutions, the remainder being drawn from previously accumulated deposits. On the other hand, less credit than in the previous year was granted to local authorities.

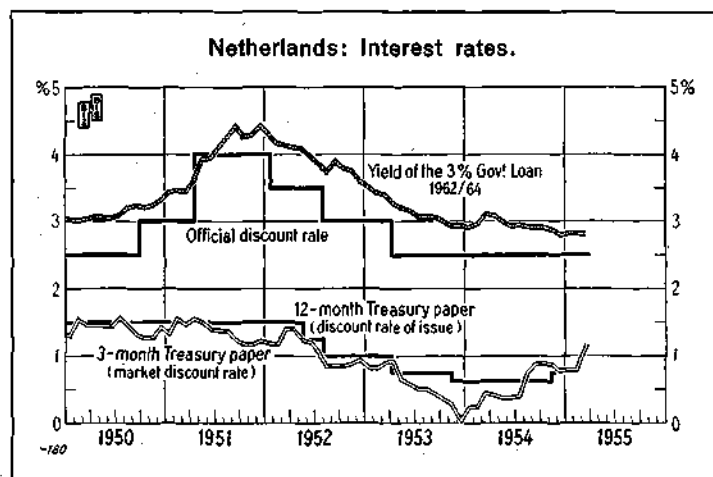
As much as 80 per cent. of the new credit to the private economy was granted during the second half of 1954, which suggests that the heavy demand for funds was connected with the increase then taking place in commodity stocks and the simultaneous decline in the balance-of-payments surplus.

Nederlandsche Bank:
Main items from the balance sheet (net).

End of	Assets		Liabilities	
	Gold and foreign exchange	Credit to the state	Note circulation	Accounts of Dutch banks
round figures, in millions of florins				
1949	1,365	2,700	3,080	30*
1950	1,485	2,930	2,935	30
1951	1,880	3,065	2,990	— 50
1952	3,660	570	3,115	5
1953	4,445	270	3,340	250
1954	4,650	180	3,625	460
Change between end of 1949 and end of 1954	+ 3,285	— 2,540	+ 545	+ 430

* Estimated.

If one examines the period 1950–54, during which the gold and net foreign exchange holdings of the Nederlandsche Bank more than trebled, one finds that the credit-expanding effects of this increase in the central bank's assets were very largely neutralised by net repayments of government debt, which amounted to Fl. 2,540 million. There was, in addition, a net repayment of Fl. 480 million to other banks. Of the total of Fl. 3,020 million thus repaid, Fl. 2,263 million was derived from counterpart funds, the remainder being repaid by the government from its own budget resources.



Short-term market rates stiffened somewhat at the turn of the year but long-term rates tended, if anything, to decline. In December 1954 the effective yield of government securities ranged from 2.78 per cent. for 9½-year bonds to 3.22 per cent. for 27½-year bonds.

For all the Scandinavian countries 1954 has been a critical year, since the high rate of economic expansion made it difficult for them to maintain a proper balance at home and in relation to other countries.

The information given about Denmark in Chapter II, page 32, is supplemented by the following table, which shows the changes in the sight liabilities of the National Bank and in corresponding items.

**Danmarks Nationalbank:
Sight liabilities and their counterpart.**

Items	1950	1951	1952	1953	1954
	in millions of Danish kroner				
Changes in the sight liabilities of the National Bank					
Notes in circulation	+ 82	+ 108	+ 149	+ 152	+ 26
Demand deposits at the National Bank . . .	- 432	+ 18	+ 30	- 49	- 78
Total	- 350	+ 126	+ 179	+ 103	- 52
Changes in corresponding items¹					
Gold and foreign exchange position	- 306	+ 199	+ 312	- 6	- 498
Import-licence deposits: increase (-)	-	- 262	- 68	+ 126	- 10
Government transactions ²	- 71	+ 139	- 398	- 89	+ 302
Other items	+ 27	+ 50	+ 323	+ 72	+ 154
Total	- 350	+ 126	+ 179	+ 103	- 52

¹ The plus sign (+) indicates an outflow of funds from the National Bank and the minus sign (-) an inflow of funds to the National Bank.

² Including foreign-aid counterpart funds (net).

The fact that the total sight liabilities of the National Bank fell by only D.Kr. 52 million, corresponding to little more than one-tenth of the loss in the monetary reserves during 1954, was mainly due to the bank's increased lending to the government but also, to some extent, to a rise in the amount of credit granted to the commercial banks (by the rediscounting of bills and through the fulfilment by the National Bank of earlier commitments to take over building loans, etc.), which is included under "other items" in the above table.

After the raising of the official discount rate to 5½ per cent. in June 1954, the quotations of government bonds moved downwards; by the end of the year the effective rate of interest on long-term government bonds was about 6¾ per cent. Six-month Treasury bills were issued at 4¼ per cent., compared with 3½ per cent. in the previous year.

Although Norway's current deficit in the balance of payments was somewhat greater in 1954 than it had been in the previous year, larger amounts were obtained in the form of foreign loans (from the I.B.R.D., Sweden, etc.), so that the decline in the foreign exchange holdings — N.Kr. 275 million — was smaller than in 1953.

The most important influence in 1954 was that exerted by the Treasury's continued drawing-down of its account with the Norges Bank.

The joint-stock banks had been repeatedly requested to show great restraint in granting credit and in February 1955 the authorities themselves began to apply

Norges Bank: Changes in the main items of the balance sheet.

Year	Assets		Liabilities	
	Change in net gold and foreign exchange reserves	Decline (—) in Treasury accounts (net)	Increase (+) in note circulation	Decline (—) in banks' deposits
	round figures, in millions of Norwegian kroner			
1952	+ 180	— 220	+ 250	— 305
1953	— 495	— 360	+ 210	— 10
1954	— 275	— 350	+ 195	— 165

a more restrictive credit policy, the Norges Bank raising its discount rate from 2½ to 3½ per cent. This was followed by an increase in all other interest rates, with the sole exception of the rate charged by the state banks for housing credits.

In order to relieve the commercial and savings banks of the burden of passing on part of their resources to the state banks, which finance house-building,

a twenty-year government loan for an amount of N.Kr. 400 million was issued in March 1955, bearing interest at 4 per cent. (whereas up to that time all issues — with one minor exception early in 1954 — had been made at the fixed rate of 2½ per cent.). At the same time, however, a limit was set to the extent of the new commitments which these state banks might undertake in 1955, but, even so, since they already had heavy commitments to meet, their disbursements in the current year are expected to reach N.Kr. 775 million, or N.Kr. 184 million more than in 1954.

As from 1st February 1955, the law passed in 1952 providing for the introduction of statutory minimum cash-reserve requirements was put into effect, the larger joint-stock and savings banks being required to maintain a cash reserve of at least 10 per cent. By the early spring of 1955 the liquidity of the credit institutions had been considerably reduced, while the demand for new credit still remained very strong. Quotations for government bonds weakened and in April the Norges Bank made support purchases of the newly-issued government loan in order to keep the effective rate from rising above 4 per cent.

At the beginning of 1954, funds were plentiful in Sweden in both the money and capital markets, there being a high degree of liquidity in the banking system.

The government took advantage of this situation by issuing in February four loans — two short-term interest-bearing loans, one long-term interest-bearing loan and one lottery loan — total subscriptions to which amounted to about S.Kr. 1,000 million. From July onwards, when further funds were needed, the government obtained them mainly by issuing Treasury bills, which were taken up by the banks and which were counted as part of their total liquid assets. It was not until October and November, when the government issued two long-term loans — one at 3½ per cent. and the other at 4 per cent. — which together yielded over S.Kr. 900 million, that the banks' liquidity was seriously reduced, as is shown by the fact that they disposed of part of their holdings of government securities.

Over the year as a whole the commercial banks reduced their holdings of government securities by S.Kr. 300 million, but at the same time they increased their loans and discounts by no less than S.Kr. 1,160 million, 40 per cent. of which was for housing purposes.

**Sweden: Changes in the main items
of the balance sheets of the commercial banks.**

Year	Liquid assets			Loans and discounts			Deposits
	Cash	Government securities	Total	Housing	All others	Total	
round figures, in millions of Swedish kronor							
1951	+ 260	+ 740	+ 1,000	+ 70	+ 870	+ 940	+ 1,580
1952	+ 60	- 130	- 70	+ 80	- 420	- 330	- 150
1953	- 350	+ 1,630	+ 1,280	+ 340	- 260	+ 80	+ 1,460
1954	+ 0	- 300	- 300	+ 450	+ 710	+ 1,160	+ 890
Outstanding at the end of 1954	650	3,050	3,700	1,280	9,810	11,090	12,730

In October 1954 the credit institutions were allowed to increase their lending charges — except those for housing credits — by $\frac{1}{4}$ to $\frac{1}{2}$ per cent.

A further change in credit conditions took place in April 1955 in connection with the raising of the official discount rate from $2\frac{3}{4}$ to $3\frac{3}{4}$ per cent. and the issue of a government loan bearing interest at $4\frac{1}{2}$ per cent. (see page 33). Other interest rates were likewise increased and the Governor of the Riksbank stated that in future it should not be taken for granted that the central bank would automatically supply the market with sufficient funds to meet all demands. At the same time, the commercial banks were given until the end of July to bring their cash holdings strictly into line with the cash-reserve requirements in force.

In contrast to the situation in the three Scandinavian countries, Finland had in 1954 a surplus in its current balance of payments and was able to add the equivalent of FM 10.3 milliard to its monetary reserves, but the expansive effect of this increase was to a great extent neutralised by the repayment of more than half of the Treasury's debt to the bank of issue.

While the Bank of Finland was able in 1954 to reduce its direct discounting of bills presented by private customers, there was a slight rise (of FM 0.2 milliard) in its rediscounting of bills tendered by commercial

Bank of Finland: Changes in the liquidity position.

Items	Changes in			Amount outstanding at the end of 1954
	1952	1953	1954	
in milliards of markkas				
Sight liabilities				
Notes in circulation	+ 1.4	- 1.1	+ 2.9	47.9
Sight deposits	+ 3.6	+ 0.5	- 0.8	3.2
Total	+ 5.0	- 0.6	+ 2.1	51.1
Corresponding items				
Gold and foreign exchange (net)	- 14.6	+ 12.4	+ 10.3	43.0
Claims on the Treasury (net)	+ 6.0	- 0.3	- 8.2	6.2
Bills	+ 20.3	- 9.8	- 1.7	20.4
Other items (net)	- 6.7	- 2.9	+ 1.7	- 18.5
Total	+ 5.0	- 0.6	+ 2.1	51.1

banks. These banks were, moreover, able to obtain additional funds by refinancing with other credit institutions, mainly savings banks, and this made it possible for them to extend credit for an amount well in excess of the total of the deposits which they received.

Finland: Changes in deposits and loans of the commercial banks.

Year	Deposits			Loans	
	Sight	Time	Total	Total	Of which rediscounted
in milliards of markkas					
1951	+ 18.3	+ 10.1	+ 28.4	+ 18.2	- 6.9
1952	- 14.7	+ 13.0	- 1.7	+ 19.3	+ 17.2
1953	+ 4.1	+ 10.7	+ 14.8	+ 0.7	- 8.9
1954	+ 2.8	+ 13.0	+ 15.8	+ 23.3	+ 0.2

The rapid expansion of credit in 1954 gave rise to some concern and led to the adoption of the following measures:

- (i) As from 1st December 1954 the range of interest rates applied by the Bank of Finland was widened (see page 34), it being understood that the minimum rate was applicable to special credits for the purchase of machinery, etc., while the higher rates were to be charged for credits of a kind which it was thought desirable to discourage.
- (ii) By an agreement signed in February 1955 between the Bank of Finland and credit institutions holding 86 per cent. of total deposits, it was provided that, as a rule, 40 per cent. of the monthly increase in deposits in the eight-month period from the beginning of February to the end of September 1955 should be placed in a special interest-bearing cash-reserve account with the Bank of Finland. Unless the Bank of Finland asks for a renewal of the agreement the funds thus deposited will be released in 1956 in quarterly instalments.

The interest rates paid by Finnish banks on the deposits they receive range from 1 per cent. on sight deposits to 5¾ per cent. on time and savings deposits; and the Bank of Finland has undertaken to pay corresponding rates on cash-reserve accounts.

* * *

When, at the end of 1953 and early in 1954, there were fears that business activity in western Europe might be slowed down by the recession in the United States, it was natural that the European monetary authorities should seek to make credit readily available on fairly easy terms in order to give a fillip to economic activity in their own countries. Partly as a result of these policies and partly for other reasons, European countries not only proved able to resist depressive influences from abroad but were soon experiencing an unprecedented boom, characterised by a very high rate of increase in industrial output. It was then realised, in one country after another, that such an expansion might impose an excessive strain upon the available resources and might lead not only to a deterioration in the balances of payments but also to a dangerous degree of tension in

the cost-and-price structure. In the situation which thus arose it became incumbent upon the authorities to moderate the tempo of the upsurge in demand; and the steps which have been taken to raise interest rates and, in general, to make credit less easily available are evidence of how greatly these considerations are engaging the attention of the authorities in an increasing number of countries.

Ordinary measures of credit restraint affect principally the private economy. The public sector is usually less influenced by them; and if no action is taken to adjust spending in this sector the effects of the credit measures in the private economy may be more or less nullified. Moreover, the public sector is not confined nowadays to the field of the budget proper but includes in many countries nationalised industries and, in varying degrees, housing, since present rent-restriction laws often discourage private building, so that the maintenance of an adequate level of building activity is dependent on official intervention. There is therefore felt to be a need not only to impose a restraint on the private economy by means of monetary and fiscal measures but also to modify conditions in the public sector to the extent required to ensure a balanced use of the available resources.

It is more important than ever to improve and perfect the financial machinery now that official policy in nearly all countries relies for the maintenance of equilibrium on fiscal and monetary measures instead of on import cuts and other physical restrictions. In proceeding with trade liberalisation and in abstaining from the limitation of imports by means of direct controls the European countries are obeying a deep instinct which tells them that to interfere artificially with the natural flow of international trade would be disastrous for a continent so heavily dependent on commercial relations with the rest of the world.

VIII. European Payments Union.

Previous Annual Reports have described the development and working of the European Payments Union up to March 1954; the present chapter continues the story by dealing with the prolongation of the Union after June 1954, the operations up to March 1955, and the financial position of the Union in the spring of 1955.

I. Prolongation of the Union after June 1954.

The Union was prolonged after June 1954 in a manner similar to the renewals after June 1952 and June 1953, by a Decision of the Council of O.E.E.C., taken on 30th June 1954, maintaining Article 11 (the financial commitments of members) in force for one year from 1st July 1954.

The "escape clause" introduced into the Decision in June 1953 was maintained; it provided for a re-examination of the obligations undertaken, at the request of any member which considers this necessary to enable progress to be made towards a system of freer trade and payments and, in particular, towards convertibility.

The renewal of the Union was the occasion for notable changes in the mechanism: the bilateral repayments and amortisations of old debts, the opening of new credit facilities, the adoption of a fifty-fifty basis for the future working of the Union, and the various adjustments necessary to meet these modifications — all of which are described below.

E.P.U.: Total amounts subject to bilateral agreements.

Member countries	Creditors							Totals
	Austria	Belgium	Germany	Netherlands	Portugal*	Sweden	Switzerland	
in millions of units of account								
Debtors								
Denmark	3	16	24	—	—	7	13	63
France	10	50	80	35	7	20	30	232
Iceland	—	1	2	1	—	—	1	5
Italy	3	30	48	—	6	6	24	117
Norway	—	20	—	8	—	7	16	51
United Kingdom . . .	17	84	140	70	11	48	25	395
Totals	33	201	294	114	24	88	109	863

* The amortisation instalments to Portugal were suspended in April 1955 after that country had become a cumulative debtor of the Union.

The bilateral repayment and amortisation of debts was the big innovation introduced with the renewal, it being felt that the total amount of credit extended within the Union should be reduced. In June 1954, five of the debtors to the Union negotiated agreements on a voluntary basis

with seven of the creditors for the purpose of dealing with the bilateral debts which would otherwise appear on the liquidation of the Union; in December 1954, Iceland also concluded agreements with four of the creditor countries. There are now thirty-three agreements in all, covering debts totalling \$863 million* as summarised in the table on the previous page.

The agreements differ as regards details but are for the most part similar in form. In each relation an immediate repayment of at least twenty-five per cent. was made in dollars outside the mechanism of the Union and repayment of the balance, also outside the Union, is spread over an average of seven years, in monthly instalments. Each bilateral payment when made cancels an equal amount of the debtor's debt to, and the creditor's claim on, the Union. Bilateral interest payments and the possibilities of mobilisation, which arise only on the liquidation of the Union, and other technical points are settled in the bilateral agreements; but, so long as the Union remains in existence, the amounts unamortised remain in the books of the Union, subject to the usual conditions of credit granted by and to the Union, and bear interest at the rates current in the Union.

There are a few exceptions to these general rules; for example: Italy, in view of special treatment (see below), made immediate payments of one-third of the agreed amounts and is amortising the remainder over five (in one case, six) years; some payments are made quarterly, some half-yearly and some yearly; the United Kingdom has agreed (with Austria and Germany) that the amortisation instalments of its debts under the present arrangements shall be offset against the repayment of earlier debts in the reverse direction; Denmark has made similar arrangements with Germany.

Repayment of debts by the Union. In addition to the bilateral repayments, the Union itself repaid in dollars, in July 1954, \$130 million of credit granted to it by the creditors; the sum of \$100 million was divided amongst the creditors (proportionately to the amount of their total credits

E.P.U.: Summary of cash payments and receipts on renewal of the Union.

Debtor countries	Debtors' payments in millions of dollars	Creditor countries	Creditors' receipts		
			from debtors	from Union	Totals
in millions of dollars					
Denmark	16	Austria	9	6	15
France	58	Belgium	53	16	69
Iceland	1	Germany	78	70	148
Italy	39	Netherlands	29	14	43
Norway	13	Portugal	7	3	10
United Kingdom	99	Sweden	23	9	32
		Switzerland	29	12	41
Totals	226	Totals	226	130	356

* 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.

at 30th April 1954), while a further payment of \$30 million was made to Germany in order to help reduce its extreme creditor position.

The various repayments in cash, both bilaterally and by the Union, of credit previously granted are summarised in the previous table.

The adoption of the fifty-fifty rule and the revision of the quotas. It was decided that for future working the Union would go over to a fifty-fifty gold and credit basis for all the usual operations.

E.P.U.: Quotas, old and new.

Member countries	Old quotas	New quotas
	in millions of units of account	
Austria	70	84
Belgium	380	432
Denmark	195	234
France	520	624
Germany	500	600
Greece	45	54
Iceland	15	18
Italy	205	246
Netherlands	355	426
Norway	200	240
Portugal	70	84
Sweden	260	312
Switzerland	250	300
Turkey	50	60
United Kingdom	1,060	1,272
Totals	4,155	4,986

Note: As the quotas were increased uniformly by 20 per cent., individual quotas, as a proportion of the total, remained unchanged.
The availability of Belgium's new quota as a creditor was reduced to \$402,626,000. Greece's quota as a debtor remained blocked until 30th June 1955.

This measure was not made retrospective and thus did not lead to any new receipts or payments by the Union on account of the past; nor was any new credit available as a consequence of this change. But it was agreed that there should be no reduction in the amount of credit available to each country; consequently, as the old quotas contained a credit element of 60 per cent., the new quotas (half gold and half credit) had to be increased, as is shown in the accompanying table, by 20 per cent. in order that the credit element should remain unchanged.

The tranches within the quotas were abolished, as were the so-called "sandwich" tranches for Belgium, Italy and Switzerland, and also certain special provisions for Norway (which, if it had become a creditor of the

Union, would have had to grant a gold-free tranche of credit augmented by \$10 million, an amount corresponding to its initial credit balance by loan).

Above the limits of the quotas the creditors are prepared to grant further credit within agreed "rallonges"; debtors above their quotas pay one hundred per cent. in gold, as before, except to the extent that new borrowing facilities are available as rallonges.

A special arrangement was made for France, which was the only debtor above its quota in June 1954 coming into the voluntary repayment scheme. The amount of \$369 million in gold, which had been paid by France to cover its deficits above the quota up to June 1954, would no longer appear in the cumulative accounting position, since this was calculated by doubling the credit outstanding. France would, however, be able to recapture this amount of gold to the extent that, on balance, it would be in surplus after June 1954. By the end of March 1955 \$68 million had been recovered in this way, leaving a balance of \$301 million.

New lending obligations and borrowing facilities.

Lending obligations. In consideration of the repayment of part of their claims on the Union, as mentioned above, the creditor countries agreed to accept new and higher levels for the credits which they might be called upon to grant to the Union for the settlement of surpluses arising after June 1954. These credit ceilings comprise

- (i) credit granted to the Union still outstanding after the renewal operations;
- (ii) unused credit in the old quota before the renewal operations;
- (iii) total amounts covered by the bilateral arrangements between each creditor and debtor;
- (iv) an amount corresponding to the repayment of credit from the assets of the Union.

In the case of Germany the new lending obligation, that is to say items (iii) and (iv) above, was fixed at \$300 million.

These lending obligations provide facilities for the settlement of cumulative accounting surpluses up to double their amount, as they are matched by equal amounts of gold payments.

The total lending obligation of each creditor is reduced *pari passu* with the receipt of amortisation instalments from the debtors; nevertheless, the unused amount of credit available to each member is not changed by this reduction because each amortisation instalment in itself frees an equal amount of the lending obligation utilised.

As the total lending obligations of the creditors would not be utilised immediately, it was found convenient to fix *rallonges* above the new quotas on a fifty-fifty gold and credit basis, as shown in the table below, it being understood that the total amount of credit granted would not exceed the total lending obligation at any time. The immediate lending obligations may thus be defined as the amounts of credit which creditors have undertaken to grant under the quotas, plus the credit element of any agreed *rallonges*.

E.P.U.: Creditors' and debtors' *rallonges*
(in millions of units of account).

Creditor countries		Debtor countries	
Austria	70 (+ 33)	Denmark	18
Belgium	125	France	46
Germany	450 (+ 314)	Iceland	2
Netherlands . .	100	Italy	164
Portugal	20	Norway	15
Switzerland . .	125	United Kingdom . .	78

Note: The *rallonges* of Austria and Germany were increased by the amounts by which these countries were still above their new revised quotas after the special renewal operations, viz. by \$32,594,000 and \$313,642,000 respectively. All other creditors were within their revised quotas for the beginning of the new financial year 1954-55.

For technical reasons it was necessary to cover in the *rallonges* established for 1954-55 any amounts already settled under the arrangements for 1953-54, which expired at the end of June 1954. Thus, the *rallonges* for Austria and Germany were increased by \$33 million and \$314 million respectively, as shown in the table.

Borrowing facilities. Parallel arrangements were made for debtors which entered into bilateral arrangements with creditor countries before 31st December 1954. Credit facilities were reopened

- (a) within the quotas by amounts equivalent to the individual initial cash repayments, and
- (b) by a share of \$160 million, granted in the form of rallonges (totalling \$320 million on a fifty-fifty basis) above the quotas.

With regard to the amount under (b) above: as a counterpart to the repayment of credit by the Union itself, the equivalent of \$130 million in credit was made available to the debtors (the individual shares bearing a relationship to the debtors' initial cash payments). Italy, however, was allocated a further amount of credit equivalent to \$30 million in consideration of its position in the Union and of the fact that it made an immediate repayment of one-third of its debts (against one-quarter from other debtors); the bilateral payment of \$39 million reopening credit within the quota, plus the credit element of \$82 million in the new rallonge, gave a total of new credit available to Italy of \$121 million (nearly equal to the \$123 million credit element in the old quota of \$205 million, which Italy had almost completely utilised at the end of June 1954).

The Council Decisions relating to the renewal were taken on 30th June 1954 and the Supplementary Protocol was signed on the same day. The texts of both the Agreement and the Directives were amended. The operations and adjustments for the opening of business on 1st July 1954 were carried out immediately after the normal operations for June 1954, but with the same value date, 13th July 1954.

2. The operations up to March 1955.

This section is divided into three main parts, dealing with: the compensations; the settlement mechanism; and the current affairs of the Union.

A. THE COMPENSATIONS.

During the fifty-seven months' life of the Union up to March 1955, the gross bilateral surpluses (which, of course, are equal in amount to the bilateral deficits) totalled the equivalent of \$13.4 milliard in the national currencies of member countries; of this total \$10.5 milliard, i.e. 79 per cent., had been compensated in the operations of the Union, leaving \$2.8 milliard, the cumulative net surpluses (and deficits), to be dealt with by the settlement mechanism of the Union.

The decline in the gross bilateral surpluses (and deficits), which was already noticeable in the previous year, continued in 1954; the lowest point, \$109 million, was reached in September, since when there has been some increase.

E.P.U.: Compensation mechanism — January 1954 to March 1955.¹

Month	Gross bilateral surpluses (and deficits)	Compensations			Net surpluses (and deficits) 2
		Bilateral offsetting	Cumulative working	Total compensations	
In millions of units of account					
Totals to December 1953 . . .	11,163	5,155	3,591	8,746	2,417
1954 January	140	70	55	126	14
February	137	63	32	94	42
March	190	96	65	160	30
April	202	62	118	180	22
May	153	64	69	133	20
June	134	66	50	116	17
July	143	54	69	123	19
August	172	88	7	95	76
September	109	58	27	85	24
October	122	77	45	122	(— 0)
November	123	58	44	102	21
December	145	64	43	107	38
1955 January	137	48	50	98	39
February	131	58	40	98	33
March	160	69	80	149	11
Totals to March 1955	13,360	6,152	4,383	10,536	2,824

¹ Earlier figures are given in the Twenty-Fourth Annual Report, page 199, and in previous Reports.

² 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 will 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 1955, this factor had caused an increase of \$77 to 79 million, lifting the cumulative net surpluses and deficits from the \$2,824 million in this table to the \$2,902 to 2,903 million shown in the tables on the next page.

B. THE SETTLEMENT MECHANISM.

As mentioned earlier in this chapter, all settlements within the quotas and all rallonges are, from July 1954, on a fifty-fifty gold and credit basis. Debtors in excess of their quotas and rallonges pay one hundred per cent. in gold as before. The tables on the next page show the effects of the

Footnotes to tables on the next page:

¹ Earlier figures are given in the Twenty-Fourth and previous Annual Reports.

^{2, 3} and ⁴ These columns record the "operational impact", that is, the residual effect on the current accounts, of previous ante-quota and special operations.

² The utilisation of existing resources, initial balances and special resources prior to June 1954. Although the individual amounts remain fixed, their effect changes with the development of the positions of the member countries as cumulative creditors or cumulative debtors.

³ The reduction of cumulative accounting surpluses due to the June 1952 adjustments (described in detail in previous Annual Reports); the fall in June 1954 was due to the repayment of \$10 million by the Union to Belgium as amortisation of the special credit.

⁴ The various adjustments made to both the cumulative accounting surpluses and deficits due to the repayments of credit (bilaterally and by the Union) in connection with the renewal of the Union in June 1954 and, in addition, the gold adjustment shown in the last column. The changes are due to the amortisation instalments and also to the corresponding gold adjustments. Further, the special repayment of credit by France in January 1955 similarly affected this column.

⁵ The gold adjustment represents the difference between the total amount of credit granted by or to members of the Union and the gold payments they had actually received or made; this adjustment is necessary to bring the accounts on to a fifty-fifty basis.

⁶ Gold paid by France to cover deficits above the quota up to June 1954 and now recoverable under the new Article 10 bis of the Agreement. This settlement no longer appears in the cumulative accounting deficits and a special position has been created in the accounts.

⁷ Gold actually paid within the quotas (concurrently with credit granted).

⁸ One hundred per cent. payments above the quotas.

**E.P.U.: Settlement mechanism — cumulative surpluses and deficits,
January 1954 to March 1955.¹**

CREDITORS — cumulative surpluses.

Month	Cumulative net surpluses (Including interest)	Net reduction (—) or increase (+) due to			Cumulative accounting surpluses	Settlement of cumulative accounting surpluses		
		Ante-quota settlements ²	June 1952 adjustments ³	General adjustments ⁴		Credit within and outside quotas	Gold Actual payments	Gold Adjustments ⁵
in millions of units of account								
1954								
January . . .	2,477	+ 136	— 316	—	2,297	1,335	962	—
February . . .	2,519	+ 141	— 316	—	2,344	1,359	966	—
March . . .	2,549	+ 148	— 316	—	2,381	1,366	1,015	—
April . . .	2,571	+ 153	— 316	—	2,408	1,379	1,029	—
May . . .	2,591	+ 156	— 316	—	2,432	1,391	1,041	—
June . . .	2,628	+ 159	— 306	—	2,462	1,416	1,066	—
June adj. . .	2,628	+ 159	— 306	— 346	2,135	1,068	1,196	— 128
July . . .	2,648	+ 159	— 306	— 410	2,091	1,045	1,206	— 160
August . . .	2,724	+ 159	— 306	— 423	2,155	1,077	1,244	— 166
September . .	2,748	+ 159	— 306	— 441	2,160	1,080	1,256	— 175
October . . .	2,746	+ 159	— 306	— 451	2,150	1,075	1,256	— 180
November . . .	2,767	+ 156	— 306	— 461	2,156	1,078	1,263	— 185
December . . .	2,920	+ 140	— 306	— 483	2,172	1,086	1,282	— 196
1955								
January . . .	2,959	+ 127	— 306	— 653	2,027	1,014	1,375	— 361
February . . .	2,992	+ 114	— 306	— 663	2,037	1,019	1,385	— 366
March . . .	2,903	+ 101	— 306	— 686	2,012	1,006	1,384	— 378

DEBTORS — cumulative deficits.

Month	Cumulative net deficits (Including interest)	Net reduction (—) or increase (+) due to			Cumulative accounting deficits	Settlement of cumulative accounting deficits			
		Ante-quota settlements ²	General adjustments ⁴	Gold recoverable from Union under Art. 10 bis ⁶		Credit within and outside quotas	Gold Actual payments on proportionate basis ⁷	Gold hundred per cent. payments ⁸	Gold Adjustments ⁵
in millions of units of account									
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	1,146	570	464	—
April . . .	2,572	— 339	—	—	2,233	1,133	556	545	—
May . . .	2,592	— 336	—	—	2,257	1,131	559	566	—
June . . .	2,628	— 333	—	—	2,295	1,142	575	578	—
June adj. . .	2,628	— 333	+ 110	— 369	2,036	924	595	183	+ 328
July . . .	2,647	— 333	+ 46	— 369	1,991	896	599	200	+ 296
August . . .	2,724	— 333	+ 34	— 369	2,055	919	629	217	+ 290
September . .	2,747	— 333	+ 16	— 369	2,061	917	635	226	+ 281
October . . .	2,747	— 333	+ 6	— 369	2,051	914	638	223	+ 276
November . . .	2,766	— 336	— 5	— 363	2,063	919	648	224	+ 271
December . . .	2,819	— 352	— 26	— 351	2,089	932	672	225	+ 260
1955									
January . . .	2,858	— 365	— 196	— 345	1,952	855	760	242	+ 95
February . . .	2,891	— 378	— 207	— 328	1,979	867	777	246	+ 90
March . . .	2,902	— 391	— 229	— 301	1,980	867	788	245	+ 79

(For footnotes see preceding page.)

renewal operations, the appearance of the new items, the general and the gold adjustments (which were added for purely accounting purposes), and also the French gold payments above the quota (now taken out of the accounting position and recoverable under the new Article 10 bis).

The settlement mechanism, which was under great pressure in the first half of 1954, was appreciably eased by three factors in the period under review: (a) the special repayments made after the operations for June 1954, (b) the reduction of credit due to the monthly amortisation instalments, and (c) the reversals of positions (especially those of the creditors, Austria, Portugal and Sweden). This has had the effect of stabilising the total operations of the Union (see Statement of Account, page 187) and bringing countries back within their quotas.

The development of the credit items illustrates the comparative ease of the Union.

E.P.U.: Credit movement
June 1954 to March 1955.*

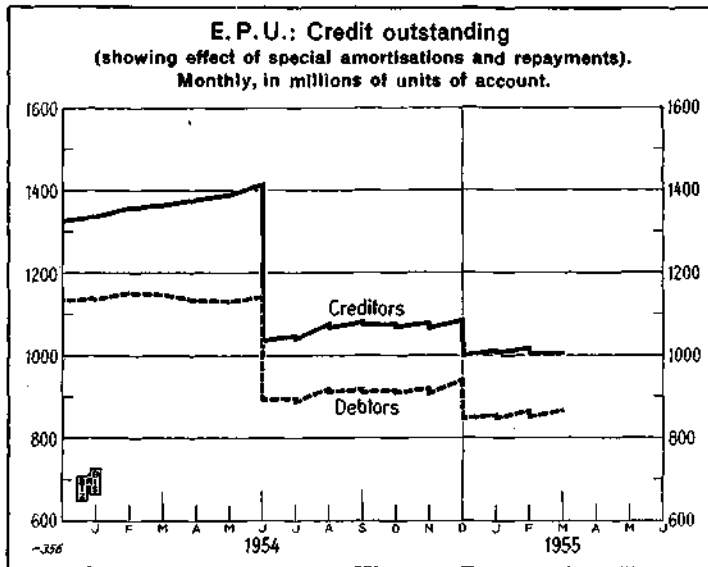
Credit granted and received	Cumulative creditors	Cumulative debtors
	in millions of units of account	
Outstanding June 1954		
Within quotas	1,034	1,142
Outside quotas	382	—
Total credit	1,416	1,142
Repayments		
Initial payments	— 226	— 226
Monthly amortisations	— 83	— 83
By Union	— 130	—
By France	— 80	— 80
Total repayments	— 518	— 388
New credit granted and received (net) (July 1954 to March 1955) . . .	+ 108	+ 113
Outstanding March 1955		
Within quotas	822	838
Outside quotas	184	29
Total credit	1,006	867

* For details by countries see the table on page 186.

Germany, was outside its quota). The \$108 million is a net figure for all cumulative creditors: in round figures, Germany granted new credit of \$100 million, Belgium, the Netherlands and Switzerland another \$100 million, while Austria, Portugal and Sweden had deficits resulting in credit repayments of nearly \$100 million in the current operations.

For the debtors, the special repayments of credit were \$130 million less than for the creditors; but only \$113 million new credit has been granted (mainly to Italy, Norway and Denmark, while the United Kingdom had

In June 1954, four creditors were outside their quotas and more than one-quarter of the total credit granted to the Union was then by way of ralonge; total credit granted was \$1,416 million. Special repayments to creditors on renewal of the Union, by monthly instalments, and the lump-sum repayment made by France totalled \$518 million, while new credit granted in connection with current operations was only \$108 million. Total credit outstanding was thus reduced by \$410 million to \$1,006 million (and only one creditor,



a small surplus and repaid credit); the total credit outstanding in March 1955 was still \$275 million below the amount for June 1954.

Note: The fall in the lines in June 1954 is due to the renewal operations; the bumps at the beginning of each succeeding month reflect the bilateral amortisation instalments, the large drop in December 1954 being attributable mainly to the special repayment by France. The small rise during each month results from the net new credit granted and received in the current operations.

C. CURRENT AFFAIRS OF THE UNION.

During the Union's fifth year, Dr von Mangoldt remained Chairman of the Managing Board, which held its fifty-sixth session in March 1955.

The routine business of the Board includes the monthly examination and approbation of the Agent's Report on the operations, which is then forwarded to the Council of O.E.E.C. for final approval. The Board also takes decisions on technical points; amongst these are the rates of interest payable to and by the Union.

After reviewing the interest-rate structure of the Union, the Board decided to raise the rate of interest paid by debtors on credit outstanding up to one year by $\frac{1}{4}$ per cent. to $2\frac{3}{4}$ per cent., while decreasing the rate payable on debts over two years old by $\frac{1}{8}$ per cent. to $3\frac{1}{8}$ per cent. The rate for credit outstanding between one and two years remains unchanged, as

E.P.U.: Interest rates on credit granted to and by the Union.

Financial years of the Union (1st July to 30th June)	Interest payable					
	by debtors to Union			to creditors by Union		
	within quota and rallonge			outside quota	within quota	outside quota
	months outstanding					
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
Fifth year (1954-55)	2½	3	3½	—	2½	3

Note: The development of interest rates up to March 1954 was described in the Twenty-Third and Twenty-Fourth Annual Reports, pages 202-203 and 202 respectively.

do the rates payable by the Union to creditors. The new rate structure, compared in the table with previous years, was effective from 1st July 1954.

The evolution of the gold and dollar holdings of the Union is shown below.

E.P.U.: Gold and dollar holdings.

After value date for operations	U.S. Treasury account 1	Gold bars 2	U.S. dollars 3	Total
	in millions of U.S. dollars			
Opening 4	350	—	—	350
1950 December	307	—	97	404
1951 June	286	—	66	352
October 3	141	36	2	179
December	112	100	5	217
1952 June (adjusted)	123	150	78	351
December	123	153	97	373
1953 June	124	153	160	436
December	124	153	198	475
1954 June 6	124	153	267	544
June (adjusted)	124	153	137	414
December	124	153	146	423
1955 March	124	153	132	409

¹ Amount obligated by the U.S. Government and remaining undrawn. The increase in 1953 results from the addition of a small amount due to the renunciation of conditional aid by Sweden.

² In London and/or New York. Arising from in-payments of debtor countries.

³ Available for investment in so far 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.

⁴ 1st July 1950.

⁵ Lowest point reached.

⁶ Highest point reached.

By June 1954, the current working of the Union — particularly the receipts of Special Resources from the U.S. Government to cover certain deficits in the early years and the large amount, \$558 million, paid in on a hundred per cent. basis by debtors outside their quotas (France, Turkey and Greece) — resulted in the Union's gold and dollar holdings' attaining a record high level, nearly \$200 million above the original dotation of the Union. As the table shows, the Union's payment of \$130 million to the creditors after the operations for June 1954 reduced the dollar holdings by a like amount, since when the fifty-fifty working of the Union has tended to keep the gold and dollar holdings fairly stable.

France had a net surplus of \$68 million from June 1954 to March 1955 and received back a like amount of gold (previously paid on a hundred per cent. basis above the quota and now recoverable under the new Article 10 bis). The other two debtors on a hundred per cent. gold basis continued to have deficits and paid in \$57 million (Greece \$34 million and Turkey \$23 million).

The numerous bilateral repayments in July 1954 and subsequent amortisation instalments were made directly from debtor to creditor, without affecting the gold and dollar holdings of the Union (although leading, of course, to reductions in credit granted to and by the Union and changes in the "gold adjustments" to take account of the bilateral payments).

For January 1955, France made a dollar payment of \$80 million to the Union in repayment of that part of the credit granted to it by the Union which was not covered by bilateral amortisation agreements. At the same time, the Union distributed an equal sum of \$80 million amongst the creditors of the Union after the December 1954 operations, proportionately to the amount of their total credits at that time, which were reduced *pari passu* with the payments; thus, Austria was repaid credit of \$3.2 million, Belgium \$10.9 million, Germany \$36.7 million, the Netherlands \$13.3 million, Portugal \$0.5 million, Sweden \$3.0 million and Switzerland \$12.4 million (the accounting positions of the countries concerned being reduced by twice the amount of the repayment made). As the \$80 million was received by the Union and paid out the same day (the value date for the January 1955 operations), the gold and dollar holdings of the Union were not affected by this operation.

Apart from undertaking more general studies, including those for the renewal of the Union after June 1954 and, currently, for the renewal after June 1955, the Managing Board has periodically examined the financial and economic position of each of the member countries. The fourth annual report of the Managing Board, covering the year to June 1954, was published in September 1954.

3. The financial position of the Union in the spring of 1955.

The financial position of the Union in March 1955 is shown in the table on the following page, which is similar to that published monthly by the O.E.E.C. in Paris.

This table gives a cross-section of the positions of member countries in the Union after the operations for March 1955 and shows the effect of the ante-quota settlements and adjustments, as well as the settlement (within and outside the quotas) of the resulting accounting positions.

Germany retained its position as the largest cumulative net creditor with a surplus of \$1,299 million by March 1955, which is \$321 million more than in March 1954. Belgium had the next largest cumulative net surplus, \$755 million but, after allowing for the adjustments made in June 1952 and June 1954, its cumulative accounting position in March 1955 was only \$318 million. The Netherlands, on the other hand, with the third highest net surplus of \$394 million, had smaller adjustments and therefore had the second largest accounting surplus of \$365 million. The other chief creditor country was Switzerland, with a cumulative net surplus of \$383 million.

France was the principal debtor with a cumulative net deficit of \$923 million: this amount was, however, reduced to a cumulative accounting deficit of \$310 million by ante-quota settlements of \$102 million, adjustments of \$210 million arising out of the renewal of the Union in June 1954, and \$301 million representing the balance of \$369 million paid by France to the

Union before 1st July 1954 in settlement of deficits outside the quota (see page 175 above). The United Kingdom's net deficit of \$370 million was less than half (40.1 per cent.) that of the French position, but the ante-quota settlements worked in the reverse way for the United Kingdom, with the result that its accounting position was \$629 million — more than twice that of France. Apart from Greece, with a net deficit of \$326 million, and Turkey, with \$331 million, Italy was the only other debtor outside its quota,

**E.P.U.: Cumulative positions of member countries,
July 1950 to March 1955.**

Member countries	Net positions cumulative surplus (+) or deficit (-) of country	Effect of ante-quota settlements and adjustments			Covered within the Union ⁴			
		Ante-quota settlements and adjustments to June 1954 ¹	General adjustments July 1954 onwards ²	Gold recoverable (+) from Union by special settlement under Art. 10 bis ³	Credit received (+) or granted (-) by Union	Gold actually paid (+) or received (-) by Union	Gold settlement adjustment ⁵	Total equal to accounting surplus (+) or deficit (-) of country
In millions of units of account								
Austria	- 58	+ 125	- 27	-	+ 20	+ 36	- 16	+ 40
Belgium	+ 755	- 316	- 121	-	+ 159	+ 210	- 51	+ 318
Denmark	- 193	- 5	- 10	-	- 104	- 72	- 32	- 207
France	- 923	+ 102	+ 210	+ 301	- 155	- 289	+ 133	- 310
Germany	+ 1,299	+ 12	- 343	-	+ 484	+ 712	- 228	+ 969
Greece	- 326	+ 269	-	-	-	- 57	-	- 57
Iceland	- 23	+ 15	- 1	-	- 4	- 2	- 2	- 9
Italy	- 425	+ 43	+ 78	-	- 152	- 181	+ 28	- 305
Netherlands . .	+ 394	+ 30	- 59	-	+ 182	+ 204	- 21	+ 365
Norway	- 252	+ 60	- 22	-	- 107	- 68	- 39	- 214
Portugal	+ 12	- 3	- 10	-	- 0	+ 1	- 1	- 0
Sweden	+ 59	+ 6	- 31	-	+ 17	+ 18	- 1	+ 34
Switzerland . .	+ 383	-	- 97	-	+ 143	+ 202	- 59	+ 286
Turkey	- 331	+ 92	- 10	-	- 30	- 209	- 10	- 249
United Kingdom .	- 370	- 243	- 16	-	- 314	- 158	- 156	- 629
Cumulative creditors . .	+ 2,903	- 205	- 686	-	+ 1,006	+ 1,384	- 378	+ 2,012
debtors	- 2,902	+ 391	+ 229	+ 301	- 867 ⁶	- 1,034	- 79	- 1,960
Net totals	+ 1	+ 186	- 457	+ 301	+ 139	+ 350	- 457	+ 32 ⁷

¹ Net amounts of existing resources, initial balances (grants and loans) and special resources utilised prior to June 1954 and reduction of cumulative accounting surpluses due to the June 1952 adjustments for Belgium and Portugal (after allowing for the first two repayments of \$10 million each by the Union on the special credit granted by Belgium).

² Arising from the renewal operations as at 1st July 1954 and subsequent repayments of credit (bilaterally and by the Union) — see footnotes on page 178.

³ Gold paid by France to cover deficits above the quota up to June 1954 no longer shown in the cumulative accounting deficit, now recoverable under the new Article 10 bis of the Agreement.

⁴ Within and outside quotas.

⁵ Representing the difference between the total amount of credit granted by or to members of the Union and the gold payments they had received or made.

⁶ As the loans to Norway and Turkey (as initial credit balances), totalling \$35 million, are included in the ante-quota-settlement column, this figure is lower by that amount than the \$902 million shown on page 187, which covers all credits and loans.

⁷ The cumulative accounting deficits are lower than the cumulative accounting surpluses by \$32 million, this being the net amount by which the ante- or post-quota settlements by debtors exceeded those of creditors (special resources, \$367 million, plus the net amount of initial balances, \$125 million, the remainder of the amount still recoverable by France under Article 10 bis of the Agreement, \$301 million, the net interest paid by the Union, \$1 million, less the net adjustments for June 1952, \$306 million, and the amount shown in the column "general adjustments", \$457 million).

having the second largest net deficit, \$425 million, and the third largest accounting deficit, \$305 million; the amounts in excess of the quota were, however, being settled within its rallonge. Denmark and Norway also had substantial deficit positions but were still within their quotas, as was Iceland, too.

Austria, a cumulative net debtor to the extent of \$58 million at the end of March 1955, had on the same date an accounting surplus of \$40 million due to ante-quota settlements and bilateral repayments; in the case of Portugal, a net surplus of \$12 million was turned into an accounting deficit of \$0.4 million.

There are two factors which have continuously affected the working of the Union since July 1950 and which are not at once apparent in the general tables. These factors are (a) the repayment of bilateral debts existing in June 1950, and (b) the payment and receipt of interest on credits granted within the Union; furthermore, two other factors of more recent appearance are (c) the bilateral repayments of credit under agreements concluded in June 1954, and (d) the foreign exchange arbitrage scheme.

(a) The repayment of bilateral debts existing in June 1950. Of the \$861 million debts 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), the amount remaining at the end of March 1955 was \$80 million, i.e. only 9 per cent. This amount includes a debt of \$30 million from Denmark to the United Kingdom and one of \$47 million from the United Kingdom to Sweden (the only member country to have retained its sterling holding intact). The final amortisation payment on the largest original debt, that of the United Kingdom to Italy, was made in the operations for February 1955.

The amortisation and repayment of these old debts is taken into account in the monthly net positions of the countries concerned and is dealt with by the normal mechanism of the Union.

(b) Payments and receipts of interest on credits within the Union. Up to December 1954 interest paid by the Union amounted to \$99.75 million, while the amount of interest received by the Union was \$98.40 million, so that the Union's net out-payment came to \$1.35 million. Interest is calculated half-yearly and debited or credited to the net positions of member countries every June and December.

Belgium has received the largest net payment of interest (\$23.2 million) followed by Germany (\$21.8 million), Switzerland (\$11.6 million) and the Netherlands (\$10.3 million).

The United Kingdom has paid a net amount of \$42.3 million and France \$22.1 million.

(c) Bilateral repayments of credit under agreements concluded in 1954. Each repayment of credit under a bilateral amortisation agreement (made directly in dollars from debtor to creditor outside the Union) involves an adjustment to the cumulative accounting position in the Union of both debtor and creditor: the extent of this adjustment is twice the amount of

the payment as, under the fifty-fifty working of the Union, the repayment of credit must be matched by an equivalent amount of gold (in this case by means of the gold adjustment).

The table affords a comparison of the progress of the bilateral amortisations from June 1954 to March 1955, including the initial repayments as well as the \$80 million repayment by France, with the granting of new credit in the current operations over the same period.

E.P.U.: Credit amortised and new credit received and granted by countries, June 1954 to March 1955.

1. DEBTORS

Cumulative debtor	Total credit received June 1954 (before adjustments)	Repayments made bilaterally	New credit received for current operations	Total credit received March 1955
	in millions of units of account			
Denmark	98	22	29	104
France	312	157	—	155
Iceland	6	2	0	4
Italy	122	50	90	152
Norway	89	17	35	107
Turkey	30	—	—	30
United Kingdom	485	141	(— 30)	314
Totals (net)	1,142	388	113	867

2. CREDITORS

Cumulative creditor	Total credit granted June 1954 (before adjustments)	Repayments received bilaterally and from Union	New credit granted for current operations	Total credit granted March 1955
	in millions of units of account			
Austria	73	20	(— 33)	20
Belgium	217	96	38	159
Germany	604	221	102	484
Netherlands	207	65	41	182
Portugal	30	12	(— 18)	—
Sweden	105	41	(— 46)	17
Switzerland	181	62	24	143
Totals (net)	1,416	518	108	1,006

Amongst the debtors, Denmark, Italy and Norway have utilised more new credit in the current operations than has been amortised in the nine months, so that the total credit taken has increased. No creditor has granted more new credit than has been repaid, so in all cases the total outstanding has fallen; in the cases of Austria, Portugal and Sweden, credit has also been repaid in the course of current operations, as these countries have had deficits over the nine months' period.

(d) Foreign exchange arbitrage scheme. In the Twenty-Fourth Annual Report it was shown that the European arbitrage scheme, which was started in May 1953, greatly reduced the bilateral positions between the

countries participating in the scheme, as reported to the Agent, without affecting the net positions; debts and claims are largely compensated daily on the exchange markets instead of being offset once a month in the Union. This scheme has continued to be effective throughout the past twelve months and has been a factor in the decline of the total gross bilateral positions.

* * *

Quarterly figures of the monthly Statement of Account are given in a simplified form in the table below. 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 granted to debtor countries and, on the liabilities side, the capital of the Union and the credits received from creditor countries.

The totals of the statement, of the liquid resources and of credits received had all reached record figures in June 1954 before the repayments and adjustments for the opening of business on 1st July 1954; the table illustrates

E.P.U.: Summary of Statement of Account
quarterly from opening (July 1950) to March 1955.

After operations for accounting period	Assets			Total of Statement 4	Liabilities		
	Liquid resources 1	Grants not yet received 2	Credits granted 3		Capital	Grants not yet given 5	Credits received 6
in millions of units of account							
Opening	350	215	—	565	288	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	—	530
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
June	544	—	1,177	1,721	272	—	1,446
June adj.	414	—	959	1,372	272	—	1,098
September	433	—	952	1,385	272	—	1,110
December	423	—	967	1,390	272	—	1,116
1955 March	409	—	902	1,311	272	—	1,036

¹ 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 discount received on U.S. Treasury bills and minus gold and dollars paid to net creditors.
² Initial debit balances not utilised on the respective dates.
³ Including loans to Norway and Turkey (on account of initial credit balances), and special credits (inside and outside the quotas).
⁴ Including a small item representing the difference between interest received and interest paid by the Union, not including interest accrued.
⁵ Initial credit balances as grants not utilised on the respective dates.
⁶ Including credits received under Article 13(b) of the Agreement (outside the quotas) and the special credit of \$50 million received from Belgium (reduced, since June 1954, to \$30 million).

how, as a result of these operations, the repayment of \$130 million from the liquid resources, together with the reduction of \$218 million in credits granted, was balanced on the liabilities side by the fall of \$348 million in credits received.

Since these repayments and adjustments, the items making up the total of the balance sheet have remained fairly stable. This is due to the fact that the fifty-fifty rule tends to equalise in and out-payments of dollars (except in the case of a few countries on a hundred per cent. basis) while certain creditors and debtors are reversing their positions and thus reducing the credit granted or received which, with the bilateral amortisations, has been about sufficient to offset, on balance, new credit granted (see also table on page 180).

The next table shows that, in March 1955, 61 per cent. of the credit granted to the debtors had been outstanding for more than three years; the proportion for the creditors was rather less, although 71 per cent. was for two years or more. In this connection it should be recalled that the recent special repayments and the bilateral amortisations apply always to the most recently created debt (in accordance with the cumulative principle).

In March 1955, the debtors were utilising on the average 69 per cent. of their quotas and those of the creditors were being drawn upon to the extent

E.P.U.: Credits granted and received — time outstanding.

On value date in respect of operations for month	Outstanding				Totals ¹
	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					
Granted by Union to debtors					
1951 September	470	—	—	—	470
1952 September	936	40	—	—	976
1953 September	163	822	40	—	1,024
1954 June	217	118	767	29	1,131
July ²	149	88	627	38	902
September	138	131	607	40	917
1955 March	113	166	66	526	862
Granted to Union by creditors					
1951 September	563	—	—	—	563
1952 September	784	379	—	—	1,163
1953 September	272	658	295	—	1,226
1954 June	365	291	626	149	1,431
July ²	142	194	561	179	1,076
September	136	213	550	206	1,105
1955 March	96	206	271	472	1,044

¹ These totals are smaller than those given in the table on page 187, as they include only credit outstanding at least one month and thus exclude credit newly granted or repaid on (and for some bilateral repayments before) the value date given in the first column. Also excluded are initial credit balances in the form of loans totalling \$35 million.

² Credits outstanding upon completion of June 1954 operations after the repayments and adjustments.

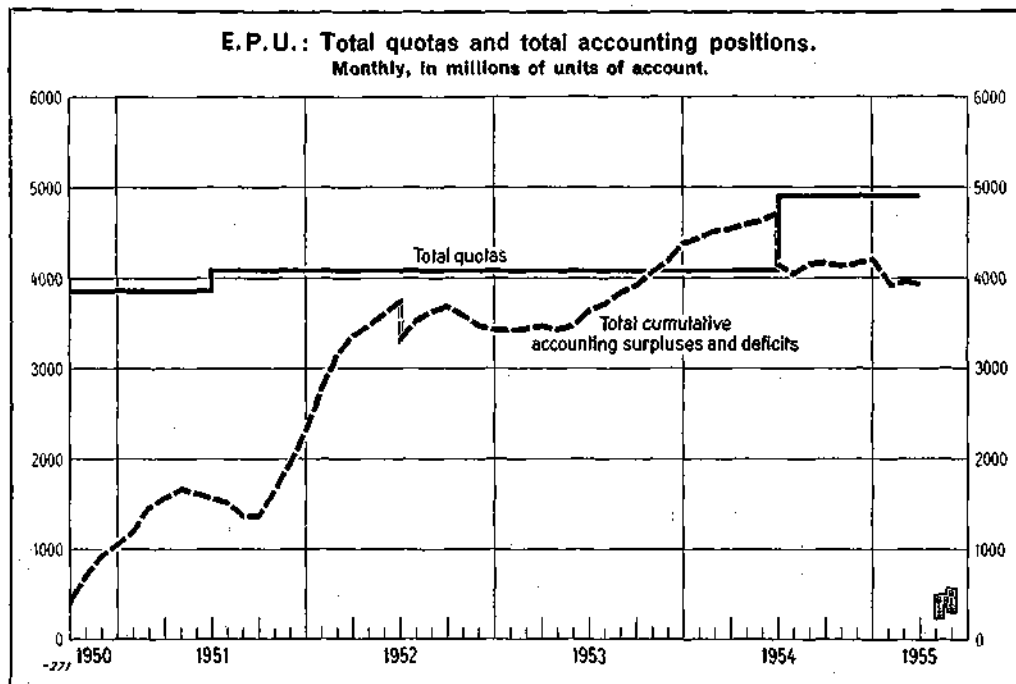
E.P.U.: Utilisation of the quotas as at March 1955.

Member countries	Quotas	Utilised as at March 1955 ¹	
		Amounts	Percentages of quotas
		as creditor (+) or as debtor (-)	
	In millions of units of account		percentages
Austria	84	+ 40	+ 48
Belgium	403	+ 318	+ 79
Denmark	234	- 207	- 89
France	624	- 310	- 50
Germany	600	+ 969	+ 161
Greece	(54)	nil	-
Iceland	18	- 9	- 48
Italy	246	- 305	- 124
Netherlands	428	+ 365	+ 86
Norway	240	- 214	- 89
Portugal	84	- 0	- 0
Sweden	312	+ 34	+ 11
Switzerland	300	+ 286	+ 95
Turkey	60	- 249	- 415
United Kingdom	1,272	- 629	- 49
Totals			<i>overall averages</i>
Creditors	2,125	+ 2,012	+ 95
Debtors	2,778 ²	- 1,923	- 69

¹ Including special arrangements above quotas.
² Excluding Greece, whose quota was blocked on the debtor side.

of 95 per cent.; excluding Germany, whose quota was exceeded by 61 per cent., the average for the creditors was only 68 per cent. Thus it would seem that, generally speaking, the settlement facilities fixed last June have been sufficient for the comfortable operation of the Union.

This is borne out by the graph, which illustrates the extent to which the Union's capacity has been utilised since its inception. At the end of March 1955, the accounting positions (totalling \$3,935 million) show an average use of 80 per cent. of the quotas (totalling \$4,903 million); and in addition to the quotas there now exist the ralonges shown on page 176.



See footnote on next page.

The main problem of the Union in the spring of 1955 concerns not so much the position of any particular country as the future course of events in the field of international monetary policy and, in particular, the progress towards convertibility. In January 1955, the Council of O.E.E.C. at ministerial level agreed, in principle, that the European Payments Union should be prolonged after June 1955 and instructed the Managing Board to consider the conditions upon which the renewal of the Union should take place and to make proposals regarding the creation of a European Fund.

Footnote to graph on preceding page:

Note: The total quotas amounted to \$3,876 million up to June 1951 (the original \$3,960 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 to June 1954 the total was \$4,081 million, the increase of \$205 million being the total of the adjustments to the German and Dutch quotas. From July 1954 onwards the total has been \$4,903 million.

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 accounting deficit of Greece and the sandwich tranches).

IX. Current Activities of the Bank.

1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1955, examined and certified by the auditors, is reproduced at the end of the present Report. It is drawn up in the same form as last year except as regards the following two points of detail.

On the assets side, the items "Cash on hand and on current account with banks" and "Sight funds at interest" have been combined under the single heading "Cash on hand and on sight account with banks", the second of the two items concerned having for many years been quite insignificant.

On the liabilities side, the deposits of central banks for the account of others, which have been very small since November 1952, have been combined with the deposits of central banks for their own account under the simplified heading "Deposits of central banks", with the result that the short-term and sight deposits in gold and in currencies are now subdivided only into deposits of central banks and those of other depositors.

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 selling price for gold at the end of the financial year.

The total of the first section of the balance sheet as at 31st March 1955 amounts to 1,717,962,180.13 gold francs, against 1,511,765,177.19 a year previously. The central banks' deposits increased principally during the first few months of the financial year; they subsequently fluctuated — sometimes rather widely — and showed a certain decline in February and March.

The total volume of business handled by the Bank during the financial year under review was about 50 per cent. greater than in the previous year, this being the largest turnover so far recorded. As in the past, operations were conducted in conformity with the monetary policy of the central banks concerned. The Bank has been ready at all times to make its services available to these institutions and has endeavoured to comply with their requests and to extend to them its closest co-operation.

* * *

As stated in Note 1 at the foot of the Bank's monthly statements of account, the following items are not included in the statements, viz. earmarked gold and securities held in custody for the account of central banks and other

depositors, the funds and securities held by the Bank as Agent for the Organisation for European Economic Co-operation (in connection with the European Payments Union), as Depositary under an Act of Pledge concluded with the High Authority of the European Coal and Steel Community, and as Trustee or Fiscal Agent for international loans.

The amounts in question are shown, however, at the foot of the assets column of the balance sheet as at 31st March 1955 under the heading "Memorandum accounts". The figures are as follows:

838.7	million	gold	francs	in	the	form	of	earmarked	gold		
86.3	"	"	"	"	"	"	"	bank	balances		
645.0	"	"	"	"	"	"	"	bills	and	other	securities

giving a total, for the items not included in the balance sheet, of 1,570 million gold francs.

The figures for earmarked gold given in the preceding Reports did not include the gold held for the account of the O.E.E.C. (E.P.U.). Whereas at the end of March 1954 the total of earmarked gold (excluding E.P.U. gold) amounted to 302.2 million gold francs, the corresponding figure as at 31st March 1955 was 370.5 million, having risen to as much as 513.7 million on 31st August 1954. At the end of the year this gold was distributed between eight different centres.

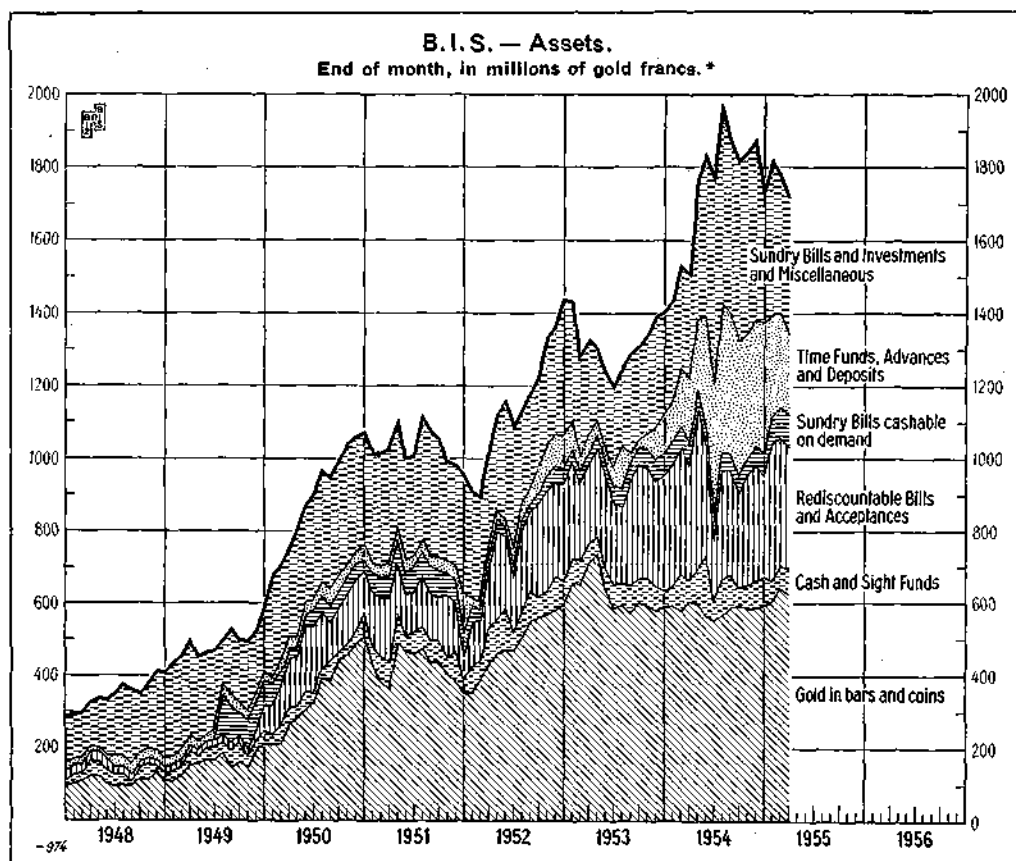
The development of the first part of the Bank's monthly statement of account during the financial year under review can be outlined as follows. The total showed an increase, which was interrupted only in June, up to 1,964.3 million gold francs on 31st July 1954 — the highest level for the year; this was followed by fairly substantial fluctuations, including a marked decline during December. A further decline in February and March brought the figure down to 1,718 million on 31st March 1955.

* * *

ASSETS.

The total of the item "Gold in bars and coins", which had amounted to 609.1 million gold francs in the statement of account as at 31st March 1954, had fallen by 30th June to 558.1 million, the lowest level for the financial year; after that it rose almost continuously, reaching its highest point — 640.5 million — on 28th February 1955, and at the end of the financial year it stood at 625.7 million.

The variations in the Bank's gold holdings remained within relatively narrow limits. They reflect the movements of the deposits expressed in a weight of gold received by the Bank and the development of the operations for which a portion of the Bank's own gold holdings is employed. During the financial year the volume of these operations showed a fairly substantial



increase and there were quite marked fluctuations in their total. 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.

The item "Cash on hand and on sight account with banks", which, as has already been mentioned, groups together the two separate items on the assets side which were combined during the financial year, showed fairly

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				
1954 31st March	609.1	439.1	170.0	212.1
30th April	602.1	320.0 (min.)	282.1 (max.)	201.9 (min.)
30th June	588.1 (min.)	434.3	123.8 (min.)	203.8
1956 28th February	640.5 (max.)	453.2	187.3	219.1
31st March	625.7	453.2 (max.)	172.5	227.0 (max.)

marked fluctuations. On 31st March 1954 its total had been 60.7 million gold francs. It reached its highest level for the financial year — 167.2 million — on 31st May and touched its lowest point — 51 million — on 30th September. On 31st March 1955 it stood at 72.5 million.

The average balance shown under this heading during the financial year 1954-55 amounted to approximately 80 million gold francs, as compared with 64 million in the financial year 1953-54.

On 31st March 1955 cash held in dollars accounted for 73 per cent. of the Bank's total cash holdings in currencies and holdings of Swiss francs for 23 per cent. The corresponding figures on 31st March 1954 had been 71 per cent. and 29 per cent.

Gold and cash holdings in currencies, taken together, represented 40.6 per cent. of the total of the first part of the statement of account on 31st March 1955, as against 44.2 per cent. on 31st March 1954.

A comparison of the figures at the beginning and the end of the financial year shows that there was relatively little change in the total of the rediscountable portfolio; it stood at 332.7 million gold francs on 31st March 1955, as compared with 315.4 million a year earlier. There were, however, wide fluctuations in the two items included under this heading: the volume of commercial bills and bankers' acceptances increased fairly markedly and the Bank's holdings of Treasury bills showed variations which were at times very substantial — as can be seen from the following table, which gives the maximum and minimum 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		
1954 31st March	14.2 (min.)	301.2	315.4
30th April	19.9	414.3 (max.)	433.2 (max.)
30th June	21.8	153.2 (min.)	175.0 (min.)
1955 31st March	41.9 (max.)	290.9	332.7

A certain proportion — generally quite a high one — of the Bank's portfolio of Treasury bills consists of U.S. Treasury bills, which are particularly easy to mobilise; during the year there was a fairly marked decline in the rates obtainable on this category of investment.

The total of the item "Sundry bills cashable on demand", which had stood at 59.7 million gold francs on 31st March 1954, fell to its lowest point — 42.7 million — on 31st August, after which it increased uninterruptedly until the end of the financial year, when it reached its maximum — 86.4 million.

The total of the Bank's investments at sight, comprising the various items mentioned above, was 1,045 million gold francs at the beginning of the financial year. On 30th April it amounted to 1,188.7 million, the highest level for the year, subsequently declining to its minimum — 837.8 million — on 30th June. After that, with one exception, it remained constantly above the level of one milliard gold francs and on 31st March 1955 it stood at 1,117.3 million. The latter figure represented 64.9 per cent. of the total of the first part of the statement of account, as against 69.1 per cent. a year earlier.

Time funds, advances and deposits underwent substantial fluctuations. They rose rapidly from 182.8 million gold francs on 31st March 1954, the minimum for the financial year, to their highest level — 409.5 million — on 31st July, and then, having remained steady at about 350 million in October and November, declined again, reaching 225.5 million on 31st March 1955. From May to November this item included investments for periods of over one year to an amount of about 91 million gold francs; this figure was subsequently reduced to some 76 million, the balance representing funds at not exceeding three months.

The total of the item "Sundry bills and investments", which had stood at 213 million gold francs on 31st March 1954, remained constantly above this level, although there were fairly wide fluctuations during the financial year. It reached its highest level — 487.6 million — on 30th June 1954, and on 31st March 1955 it stood at 305.7 million.

In the following table the two items "Time funds, advances and deposits" 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, advances and deposits, and sundry bills and investments.

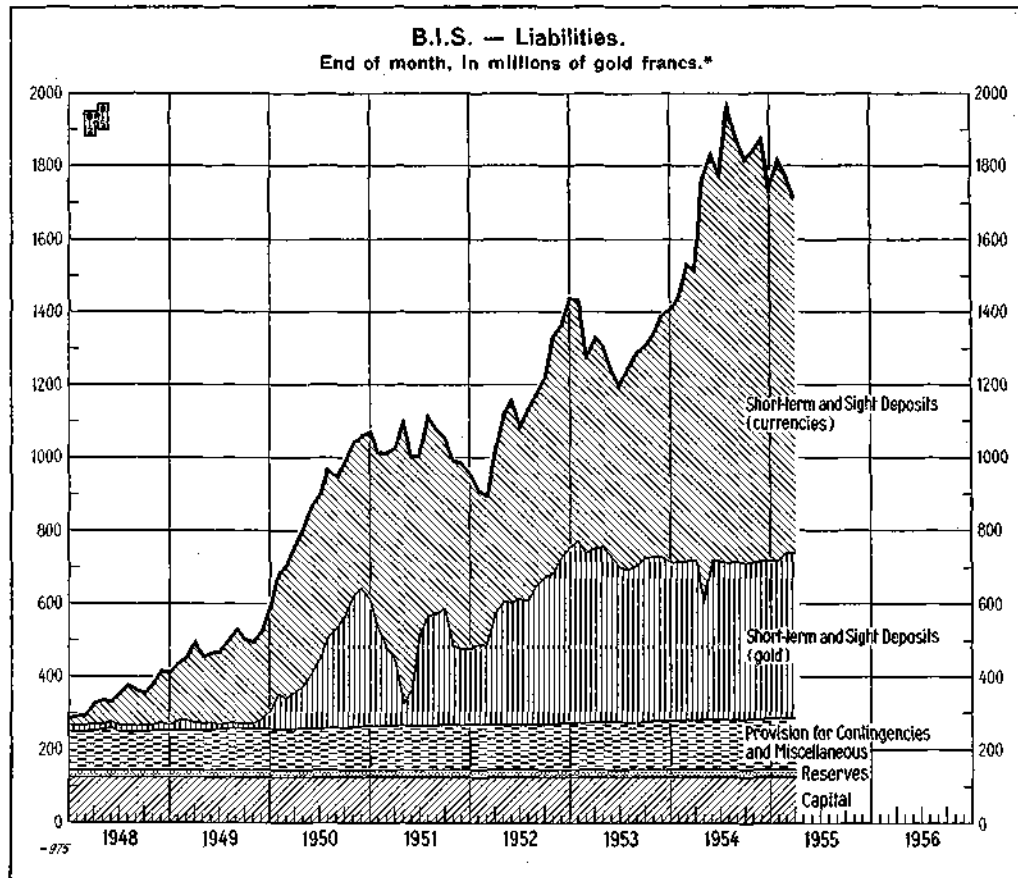
Period	31st March 1954	31st March 1955	Difference
	in millions of gold francs		
Not exceeding 3 months	293.4	377.4	+ 84.0
Between 3 and 6 months	93.5	28.9	— 64.6
Between 6 and 9 months	4.6	16.5	+ 11.9
Over 1 year	4.3	108.4	+ 104.1
Total	395.8	531.2	+ 135.4

The year-end figures revealed a relatively large increase in investments at over one year. The decline registered in investments at between three and six months was more than compensated by the increase in those at not exceeding three months; on 31st March 1955 the latter represented 71 per cent. of the total, against 74 per cent. a year earlier.

* * *

LIABILITIES.

The Bank's reserves in the form of the Legal Reserve Fund and the General Reserve Fund rose from 20.5 million gold francs on 31st March 1954 to 20.7 million on 31st March 1955. As a result of the operations of the year (see below, section 5, "Financial results") the balance of the Profit and Loss Account, which comprises the profit for the financial year ended 31st March 1955 and the balance brought forward from the preceding year,



* Not including liabilities connected with the execution of the Hague Agreements.

amounted to 8.4 million gold francs on 31st March 1955, as against 8 million a year earlier. The amount of the item "Provision for Contingencies" rose from 118 million gold francs on 31st March 1954 to 120.9 million on 31st March 1955. For the item "Miscellaneous" the figure was 10 million gold francs at the beginning of the financial year and 11 million at the end.

There was a further increase in the total of the short-term and sight deposits in gold and currencies. The following table shows the trend of the items in question during the past two financial years.

B.I.S.: Short-term and slight deposits.

Items	31st March 1953	31st March 1954	31st March 1955
	in millions of gold francs		
Gold:			
Central banks	470.4	433.8	447.7
Other depositors	5.9	5.3	5.5
Total in gold	476.3	439.1	453.2
Currencies:			
Central banks	518.6	745.4	941.5
Other depositors	60.6	45.8	37.2
Total in currencies	579.2	791.2	978.7
Total in gold and currencies	1,055.5	1,230.3	1,431.9
comprising:			
sight funds	572.1	480.9	483.1
short-term funds	483.4	749.4	948.6
Total	1,055.5	1,230.3	1,431.9

Deposits expressed in a weight of gold thus increased by 14.1 million gold francs and currency deposits by 187.5 million. The total of deposits of "Other depositors" declined by 8.4 million, while central-bank deposits rose by 210 million.

The movement of deposits during the financial year is summarised 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		
1954 31st March	439.1	791.2 (min.)	1,230.3 (min.)
30th April	320.0 (min.)	1,168.1	1,488.1
31st July	432.8	1,251.0 (max.)	1,683.8 (max.)
1953 31st March	453.2 (max.)	978.7	1,431.9

The movement of the total of deposits corresponds, in fact, to the development of the total of the first part of the Bank's monthly statement of account, which has been analysed above. The figure of 1,683.8 million gold francs recorded on 31st July 1954 is the highest ever reached since the foundation of the Bank.

Deposits expressed in a weight of gold, which by 31st May 1954, at 437.5 million gold francs, had reattained the level at which they started the financial year, showed scarcely any variation on this figure until the end of January 1955, when they stood at 436 million. On 28th February they amounted to 453.2 million and they remained at this level until the end of

the financial year. Currency deposits fluctuated more widely, as is shown by the graph of the Bank's liabilities.

Throughout the financial year, a portion of the deposits expressed in a weight of gold took the form of time deposits. On 31st March and on 30th April 1954 the total included deposits at not exceeding three months amounting to 24.1 million gold francs; from 31st May to 31st July it included deposits at not exceeding three months totalling 24.1 million and deposits at between three and six months totalling 17.2 million; from 31st August to 31st October deposits at not exceeding three months totalling 34.5 million; from 30th November to 31st January 1955 deposits at not exceeding three months totalling 17.2 million; on 28th February, deposits at not exceeding three months totalling 17.2 million and deposits at between three and six months also totalling 17.2 million; and on 31st March deposits at not exceeding three months totalling 68.9 million.

As can be seen from the first table on the preceding page showing the composition of the short-term and sight deposits, the sight deposits remained at the same level, while the short-term deposits increased by more than 200 million gold francs. It will be observed that there was a fairly marked tendency towards a lengthening of the term of the currency deposits entrusted to the Bank.

B.I.S.: Currency deposits
(central banks and other depositors).

Period	31st March 1954	31st March 1955	Difference
	in millions of gold francs		
Over 1 year	—	53.3	+ 53.3
Between 9 and 12 months	1.4	1.4	—
Between 6 and 9 months	35.8	49.1	+ 13.3
Between 3 and 6 months	42.2	46.4	+ 4.2
Not exceeding 3 months	645.8	729.7	+ 83.9
At sight	66.0	98.8	+ 32.8
Total	791.2	978.7	+ 187.5

The proportion of the total of the deposits shown under the heading "Not exceeding three months" accounted for by deposits at three months' fixed term and at three months' notice is particularly high. These funds enable the Bank to grant to its correspondents facilities for an equivalent period.

The deposits for periods of over one year have in certain cases been used, with the agreement of the central banks concerned, for the purpose of making investments in other countries which have the effect of absorbing, to a certain extent, the excessive liquidity of the market.

On 31st March 1955 the total of deposits at short term represented 90 per cent. of all currency deposits, against 92 per cent. on 31st March 1954 and 83 per cent. on 31st March 1953.

* * *

The reopening of the London gold market has enabled the Bank, in so far as its gold operations are concerned, to operate once more under normal conditions as it did before the war. During the year under review the Bank was able to maintain a certain volume of operations and thus to continue to be of service to the central banks without, however, itself obtaining any appreciable profit, since the margins were extremely small. Moreover, whereas before the war it was customary in the case of exchange operations between one centre and another for the participants to share the amount of the charges which the actual transport of the metal would have entailed, the Bank has often received no commission in respect of the transactions which have been effected recently through its intermediary. While the Bank is most anxious to afford its correspondents every possible advantage in this sphere, it is quite clear that transactions of this nature cannot take place on any considerable scale unless the benefits are shared equally by all concerned.

There was a further expansion in credits at short term. The growth in time deposits opened up new possibilities for the Bank, enabling it to undertake medium-term credit operations in conjunction with an extension of swap operations and the covering of forward exchange transactions. In several instances the method of "reciprocal credits" employed before the war was applied.

As in the past, the Bank has kept in touch with the major international financial organisations such as the International Bank for Reconstruction and Development and the International Monetary Fund. Normal business relations have been maintained with various other institutions of an international character.

* * *

SECOND SECTION OF THE BALANCE SHEET.

As in previous years, the second section of the balance sheet consists solely of 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.

2. The Bank as Trustee and Fiscal Agent for international government loans.

As was already mentioned in the Twenty-fourth Annual Report, the service of the German External Loan 1924 (Dawes Loan) and of the German Government International Loan 1930 (Young Loan) has been resumed by the Government of the Federal Republic of Germany in accordance with the conditions laid down in the London Agreement on German External Debts of 27th February 1953. An offer of settlement has been published in each country which has ratified the London Agreement and in which an issue of the Dawes Loan and the Young Loan was made and is still in circulation.

The operations for the validation and exchange of the old bonds are now in progress. According to the latest information received from the Exchange Agents, the approximate amounts of new bonds issued, not including fractional certificates, are as follows.

German External Loan 1924
(Dawes Loan).

Issue	Currency	Conversion bonds	Funding bonds
American	\$	30,203,000	5,496,000
Belgian	£	217,200	59,100
British	£	5,757,600	1,558,400
French	£	860,100	219,300
Swedish	S. Kr.	14,209,000	—
Swiss	£	867,900	72,100
Swiss	Sw. fcs	6,177,000	362,000

German Government International Loan 1930
(Young Loan).

Issue	Currency	Conversion bonds	Funding bonds
American	\$	44,018,000	6,892,000
Belgian	B. fcs	186,040,000	41,480,000
British	£	12,786,600	3,018,800
French	Fr. fcs	30,164,500,000	6,612,900,000
German	DM	5,158,000	115,000
Swedish	S. Kr.	83,507,000	5,068,000
Swiss	Sw. fcs	54,458,000	1,099,000

The amounts required for the interest service on the new bonds are regularly paid to the Bank in its capacity as Fiscal Agent of the Trustees for the Conversion and Funding Bonds of the Dawes Loan and as Trustee for the Conversion and Funding Bonds of the Young Loan. Under the terms of the London Agreement payment of the sinking-fund annuities will not begin until 1958.

By 1st June 1955 the Bank had received, since the resumption of service, a total amount

equivalent to 34.4 million gold francs in respect of the Dawes Loan and to 90.5 million gold francs in respect of the Young Loan.

* * *

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 service of the Austrian Government International Loan 1930 has likewise been resumed by the Austrian Government in the case of the Anglo-Dutch issue and the Swedish and Swiss issues. According to the latest information received from the Paying Agents, the approximate amounts of the validated bonds of these three issues are as follows:

Anglo-Dutch issue	£	832,600
Swedish issue	S.Kr.	7,364,000
Swiss issue	Sw.fcs	6,969,000

The amounts required for the interest service on the validated bonds are paid regularly to the Bank in its capacity as Trustee for the assented bonds of the Austrian Government International Loan 1930. In accordance with the arrangements concluded in Rome, the payment of the sinking-fund annuities will not begin until 1959.

By 1st June 1955 the Bank had received, since the resumption of service, a total amount equivalent to 3.6 million gold francs in respect of the three issues the service of which has already been resumed.

With regard to the coupons which matured between 1st July 1938 and 1st January 1945 inclusive, of which only those of bonds of the Swedish issue had been entirely paid, the arrangements concluded with the Federal Republic of Germany concerning the service of all issues other than the Swedish entered into force in May 1954. Holders of bonds of the Anglo-Dutch issue and of the Swiss issue were informed of this by communiqués published in the press on 13th and 15th October 1954 respectively.

The payments to the extent of 75 per cent. of the nominal value of the coupons have begun in the case of these two issues. Under the arrangements concluded, the last coupon will be paid on 1st July 1962. At the request of the Government of the Federal Republic of Germany, the Bank agreed to make its services as Trustee available for the execution of these payments, and the amounts required have since then been regularly remitted to the Bank.

3. The Bank as Depositary under the terms of an Indenture concluded with the High Authority of the European Coal and Steel Community.

In the autumn of 1954 the High Authority of the European Coal and Steel Community, Luxemburg, asked the Bank to accept new functions in connection with the agreement for a loan of \$100 million concluded by the High Authority with the Government of the United States of America, represented by the Export-Import Bank of Washington.

This loan is being used by the High Authority to make advances to enterprises in the countries which are members of the Community. Under the terms of the agreement with the U.S. Government, the claims on the enterprises to which these advances are made, and the rights attaching to these claims, constitute a separate portfolio serving as a pledge for the loan. It was agreed, however, that, if the High Authority were to contract new loans with a view to making further advances, the claims resulting from such advances, and the rights attaching thereto, should be incorporated in the separate portfolio, which would thenceforth serve as a common pledge for all the lenders of funds to the High Authority.

The Bank has agreed to take this portfolio into custody. By the terms of the Indenture which it signed for this purpose with the High Authority on 28th November 1954, the Bank receives in a special account the funds lent and remits them to the enterprises designated by the High Authority against the pledging of the claims and of the rights attaching to such claims. The enterprise obligations, in particular the notes of the debtor enterprises, are

managed for account of the Bank by National Agents appointed in agreement with the High Authority. The Bank further collects the amounts paid by the debtor enterprises in respect of interest and principal and also makes, on behalf of the High Authority, the payments due from the High Authority to its lenders.

On 1st June 1955 a total amount of \$80.9 million had been lent to forty enterprises working iron-ore and coal mines in France, Germany, Italy, Luxemburg and the Saar. The first interest payments were made by these enterprises at the end of April 1955 and were used to pay the first annual instalment of interest due from the High Authority to the Export-Import Bank.

4. 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 569,615.10 gold francs in the twelve months to March 1955; this amount has been duly reimbursed by the Organisation (as shown in the Profit and Loss Account for the financial year ended 31st March 1955).

5. Financial results.

The accounts for the twenty-fifth financial year ended 31st March 1955 show a surplus, before providing for depreciation and contingencies, of 9,356,517.53 gold francs, the gold franc being as defined in Article 5 of the Bank's Statutes, i.e. the equivalent of 0.290 322 58... grammes of fine gold. The comparable figure for the preceding financial year was 9,950,787.81 gold francs.

It is recalled that last year some 5 million gold francs was received 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. The receipt of this income under the terms of the Arrangement dated 9th January 1953 with the Federal Republic of Germany continued during the year under review, but the amount involved was about a million gold francs less than in the previous year, since only the normal four quarterly payments were received, as against five in 1953-54. Despite this shortfall, the net amount of interest, discount and commission earned was greater in the current year.

Earnings from gold transactions continued to decline and now represent only a small part of the Bank's income. Commission earned as Trustee was substantially higher, while Costs of Administration registered only a small change.

For the purpose of the Balance Sheet as at 31st March 1955, 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.

From the surplus for the financial year ended 31st March 1955, the Board of Directors has decided to deduct a sum of 1,657,063.26 gold francs in order to write down the value of the Bank's buildings in its books to one gold franc. It has further decided that it is necessary to transfer 184,295.05 gold francs to the provision for exceptional costs of administration and 2,900,000 gold francs to the provision for contingencies. This provision now amounts to 120,948,567.70 gold francs.

The Net Profit for the year, after deducting the transfers referred to above, amounts to 4,615,159.22 gold francs. After providing 5 per cent. for the Legal Reserve Fund as required by the Statutes, i.e. 230,757.96 gold francs, and after adding the balance of 3,802,859.05 gold francs brought forward from the preceding year, there is a sum of 8,187,260.31 gold francs available.

The Board of Directors recommends that the present General Meeting should declare a dividend of 21 gold francs per share payable in Swiss francs in the amount of 30 Swiss francs per share, involving a distribution of 4,200,000 gold francs, and should decide to carry forward the balance of 3,987,260.31 gold francs. The dividend declared at the last Annual General Meeting was 19.60 gold francs per share payable in the amount of 28 Swiss francs per share.

The proposed dividend of 21 gold francs per share corresponds to 3.36 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.

The accounts of the Bank and its twenty-fifth Annual Balance Sheet have been duly audited by Messrs Price Waterhouse & Co., Zurich. A copy of the Balance Sheet, the Report of the auditors and the Profit and Loss Account will be found at the end of this Report.

6. Bank premises.

As was stated in the Nineteenth Annual Report, the Bank purchased in 1949 the whole of the share capital of the company (Grand Hotel and Savoy Hotel Univers Ltd) which was the owner of the main building occupied by the Bank since 1930. The Bank, which has in the meantime acquired two

adjacent buildings, has wound up the Grand Hotel and Savoy Hotel Unvers Ltd and has therefore become the direct owner of its premises. The Board of Directors has decided that their book value, which appeared in the Bank's accounts under "Miscellaneous assets" as 1,657,064.26 gold francs, should be written down to one gold franc.

7. Changes in the Board of Directors and in Executive Officers.

Professor Stoppani, who had been appointed by the Governor of the Banca d'Italia under Article 28(2) of the Statutes, and whose term of office was due to expire on 7th November 1954, was reappointed for a further period of three years ending on 7th November 1957.

The term of office of Dr M. W. Holtrop, President of the Nederlandsche Bank, having expired on 31st March 1955, the Board at its meeting held on 4th April 1955 decided to re-elect Dr Holtrop, who had been elected to the Board under Article 28(3) of the Statutes, for a further period of three years beginning 1st April 1955 and ending 31st March 1958.

In May 1955, Mr Mats Lemne tendered his resignation as a member of the Board, having relinquished his functions as Governor of the Sveriges Riksbank in March 1955.

In January 1955, Monsieur Frère appointed Monsieur Jean Van Nieuwenhuyse as his Alternate, in the place of Monsieur Hubert Ansiaux, who had recently been appointed Deputy Governor of the Banque Nationale de Belgique.

* * *

In September and October 1954 respectively, Dr H. H. Mandel and Mr D. H. Macdonald were appointed Assistant Managers in the Banking Department.

In April 1955, Monsieur Henri Guisan, who had been in the Legal Service of the Bank since 1941, was appointed Legal Adviser. At the same time Mr Malcolm Parker, formerly Head of the Administrative Section, was appointed Administrative Sub-Manager.

In June 1955, Monsieur Georges Royot, Sub-Manager in the Banking Department, was appointed Assistant Manager.

Conclusion.

1954 has been for the world a year of prosperity and promise. It is not only that there was an expansion in business activity under conditions of stable prices and a high level of employment but also that many fears which were felt when the year began have gradually been dispelled. The events of the past year in the international political field led on the whole to a lessening of anxieties and caused little or no disturbance to the currents of trade and the flow of funds. As a result, the ordinary instruments of monetary and economic policy have been able to exercise their influences relatively unhindered by extraneous factors of a political character and, for this and other reasons, these instruments have been more effective than in earlier years.

As an upshot of recent experiences, men's ideas on the nature of economic problems and the lines of policy appropriate to deal with them have undergone a revision perhaps best characterised by a greater understanding of what was valuable in past practices but with due account taken of present-day conditions and the contribution made by modern economic theory.

Among the encouraging economic features of the past year three stand out in particular: the rapid recovery of the United States from its recent recession; the uninterrupted expansion in Europe; and the increased reliance on general financial measures to restore and maintain economic balance.

In the United States the market forces making naturally for a readjustment, aided by prompt action on the part of the authorities, not only averted a deepening of the recession but also paved the way for the subsequent expansion of activity. In consequence the feeling is gaining ground that business fluctuations, though still a part of economic life, need not assume unmanageable proportions or arrest for long the upward trend of production and living standards.

In Europe, it has been a heartening experience to witness the continuous growth in production at a time when North America was passing through a period of readjustment. While it must be recognised that valuable support was still obtained through certain American expenditures abroad, it is at the same time incontestable that Europe has gained in strength through the efforts of reconstruction made in recent years.

In all this the part played by general financial measures has been essential. There has been a gradual relaxation of direct physical controls and thus a freer movement of goods. This the individual countries have come to regard as a condition for their continued prosperity. In one country after another, when difficulties have arisen in the balance of payments, there has been no reimposition of import restrictions but instead determined action in the fiscal and monetary field to deal with the real causes of excessive domestic demand.

If, however, European countries in their enlightened self-interest are abandoning purely defensive trade policies and are relying increasingly on financial measures, it is imperative that they should possess adequate money and capital markets and that the monetary authorities should have sufficient freedom and the weapons needed to make their policies effective. Experience has shown that the proper use of monetary policy in no way impedes economic progress. On the contrary, a sound currency is indispensable to a modern economy whatever its political orientation, for without it trade will be distorted, the flow of savings will dry up and there will be no sure basis for planning ahead in either the private or the public sphere.

The price stability which has prevailed for some three years now has been accompanied by an extraordinarily high rate of industrial expansion in Europe. In most countries all the available manpower is by now fully employed and, for this reason alone, it is unlikely that the recent rate of expansion can be maintained all along the line. Already some countries have found that the boom is unduly taxing their resources, including their monetary reserves, and they have therefore taken restraining action. There is the danger that people's expectations may be pitched too high and that, for instance, the rapid rate at which credit has expanded in a number of countries will be regarded as something that can continue, it being insufficiently realised how exceptional were the circumstances in which it occurred. It must not be overlooked that in recent years the money volume in the United States and the United Kingdom has increased at an annual rate of no more than 2 to 3 per cent.

The very fact that a word of warning is needed at a time of high business activity serves to underline certain precarious features in the present situation. European countries have no doubt been very successful in recent years — but, to avoid the risk of relapse, the time has now come to consolidate that success. If inflation were allowed to reappear, with rising prices and all the uncertainty which it creates, the chances of further progress would be dim indeed, and setbacks would inevitably occur, with dangerous political and social consequences. To ensure that this shall not happen, and to provide a sound basis for continued expansion, there are two main directions in which action must be taken.

On the one hand, countries must apply realistic financial policies. Now that reliance is increasingly being placed on monetary measures instead of on physical controls, it is well to remember that such measures cannot be effective unless steps are also taken to maintain or, when necessary, to re-establish order in the public finances.

On the other hand, real efforts must be made to remove the residue of artificial restrictions and excessive disparities which still impair international economic relations and are at the root of the existing discriminations between monetary areas.

Here one must be on guard against the false — but not infrequently expressed — idea that the establishment of genuine markets for foreign

exchange is somehow incompatible with a continued expansion of international trade. For almost a generation now, there has been a succession of more or less complex and artificial arrangements, sometimes of a bilateral and sometimes of a regional character, whose object has been to enable trade to be carried on between countries with inconvertible currencies. Some real progress has been achieved in getting away from this state of affairs but it will remain precariously based until the principal currencies of the world are again quoted at a single realistic rate of exchange under proper market conditions. Some countries are already well advanced in their preparations, some less so. But the situation is now such that those less well advanced may make decisive progress if they act resolutely and with a clear view of the goal to be attained.

In these matters there is no reason to dispute the advisability of proceeding by stages and with due safeguards. At the same time, there may be an even greater risk in failing to take advantage of the opportunities that present themselves and, under one pretext or another, in postponing decisions, especially where a line of action is inevitable in the interest of the country concerned and of other nations as well.

Respectfully submitted,

ROGER AUBOIN

General Manager.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

AS AT 31st MARCH 1955

BALANCE SHEET

ASSETS

IN GOLD FRANCS (UNITS OF 0.290 322 58...)

		%
Gold in bars and coins	625,674,838.16	36.4
Cash on hand and on sight account with banks	72,503,064.39	4.2
Rediscountable bills and acceptances		
Commercial bills and bankers' acceptances	41,807,031.30	2.4
Treasury bills	<u>290,908,388.04</u>	16.9
	332,715,419.34	
Sundry bills cashable on demand	86,388,304.34	5.0
Time funds, advances and deposits		
Not exceeding 3 months	149,897,220.70	8.7
Over 1 year	<u>75,585,444.89</u>	4.4
	225,482,665.59	
Sundry bills and investments		
Treasury bills		
Not exceeding 3 months	122,690,205.48	7.2
Between 3 and 6 months	28,137,014.07	1.6
Between 6 and 9 months	15,476,649.27	0.9
Over 1 year	<u>31,266,087.08</u>	1.8
Other bills and sundry investments		
Not exceeding 3 months	104,842,781.32	6.1
Between 3 and 6 months	724,160.71	0.1
Between 6 and 9 months	1,079,454.48	0.1
Over 1 year	<u>1,462,684.98</u>	0.1
	305,679,037.39	
Miscellaneous assets	1,227,627.21	0.1
Buildings and equipment	1.—	0.0
Own funds employed in execution of the Hague Agreements of 1930 for investment in Germany (see below)	<u>68,291,222.72</u>	4.0
	<u>1,717,962,180.13</u>	<u>100</u>
Execution of Hague		
Funds invested in Germany (see Note 2)		
Claims on Reichsbank and Golddiskontbank; bills of Golddiskontbank and Railway Administration and bonds of Postal Administration (matured)	221,019,557.72	
German Treasury bills and bonds (matured)	<u>76,181,040.—</u>	
	<u>297,200,597.72</u>	
MEMORANDUM ACCOUNTS		
Funds, bills and other securities administered or held by the Bank for account of third parties:		
Earmarked gold	838,740,586.32	
Bank balances	86,345,679.11	
Bills and other securities	645,011,035.03	
NOTE 1 — 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.		

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

In conformity with Article 52 of the Bank's Statutes, we have examined the books and accounts of the and explanations we have required. Subject to the value of the funds invested in Germany, we report that in drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of above-described gold franc equivalents of the currencies concerned.

ZURICH, 6th May 1965.

AS AT 31st MARCH 1955

GRAMMES FINE GOLD — ART. 5 OF THE STATUTES)

LIABILITIES

			%
Capital			
Authorised and issued 200,000 shares, each of 2,500 gold francs	500,000,000.—		
of which 25% paid up		125,000,000.—	7.3
Reserves			
Legal Reserve Fund	7,375,377.90		
General Reserve Fund	13,342,650.13		
		20,718,028.03	1.2
Short-term and sight deposits (gold)			
Central Banks:			
Not exceeding 3 months	68,882,590.30		4.0
Sight	378,779,382.06		22.0
Other depositors:			
Sight	5,531,232.27		0.3
		453,193,204.63	
Short-term and sight deposits (currencies)			
Central Banks:			
Over 1 year	53,273,464.53		3.1
Between 9 and 12 months	1,426,719.54		0.1
Between 6 and 9 months	49,137,656.28		2.8
Between 3 and 6 months	46,374,043.23		2.7
Not exceeding 3 months	712,538,591.84		41.5
Sight	78,758,685.65		4.6
Other depositors:			
Not exceeding 3 months	17,158,286.95		1.0
Sight	20,050,143.46		1.2
		978,717,590.48	
Miscellaneous		10,966,771.02	0.6
Profit and Loss Account			
Balance brought forward from the financial year ended 31st March 1954	3,802,859.05		
Profit for the financial year ended 31st March 1955	4,615,159.22		
		8,418,018.27	0.5
Provision for contingencies		120,948,567.70	7.1
		<u>1,717,962,180.13</u>	<u>100</u>

Agreements of 1930

Long-term deposits

Annuity Trust Account Deposits of Creditor Governments (see Note 3)	152,606,250.—
German Government Deposit	76,303,125.—
	<u>228,909,375.—</u>
Own funds employed in execution of the Agreements (see above)	<u>69,291,222.72</u>
	<u>297,200,597.72</u>

NOTE 2 — 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 the principal of its investments in Germany described above, including arrears of interest thereon at 31st December 1952.

NOTE 3 — 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 1955, and we report that we have obtained all the information our opinion the above Balance Sheet and Memorandum accounts, together with the Notes thereon, are properly our information and the explanations given to us and as shown by the books of the Bank, as expressed in the

PRICE WATERHOUSE & CO.

PROFIT AND LOSS ACCOUNT
for the financial year ended 31st March 1955

		Gold francs
Net income from the use of the Bank's capital and the deposits entrusted to it (Including net exchange differences)		12,474,244.37
Commission earned as Trustee, etc.		547,912.56
		13,022,156.93
Costs of administration:		
Board of Directors — fees and travelling expenses ...	192,278.59	
Executives and staff — salaries, pension contributions and travelling expenses	3,255,803.28	
Rent, insurance, heating, electricity, etc.	81,439.67	
Renewals and repairs of buildings and equipment ...	95,112.63	
Consumable office supplies, books, publications, printing	274,702.26	
Telephone, telegraph and postage	126,418.51	
Experts fees (auditors, interpreters, economists, etc.) ...	59,936.59	
Cantonal taxation	35,643.38	
Miscellaneous	113,919.59	
	4,235,254.50	
Less: Amounts recoverable for expenses as Agent of the Organisation for European Economic Co-operation (European Payments Union)	569,615.10	3,665,639.40
		9,356,517.53
The Board of Directors has decided that it is necessary to transfer		
to the provision for depreciation on buildings	1,657,063.26	
to the provision for exceptional costs of administration ...	184,295.05	
to the provision for contingencies	2,900,000.—	4,741,358.31
NET PROFIT for the financial year ended 31st March 1955		4,615,159.22
Transfer to the Legal Reserve Fund — 5% of 4,615,159.22		230,757.96
		4,384,401.26
Balance brought forward from the preceding year		3,802,859.05
		8,187,260.31
Dividend of gold francs 21.— per share, as recommended by the Board of Directors to the Annual General Meeting called for 13th June 1955		4,200,000.—
Balance carried forward		3,987,260.31

ROGER AUBOIN

THE BANK FOR
INTERNATIONAL SETTLEMENTS

1930 – 1955

This is a reprint in the standard form of the Annual Reports of a pamphlet which was written at the suggestion of the International Finance Section of Princeton University and published in May 1955 as No. 22 of its series of "Essays in International Finance". The text of the pamphlet has been reprinted in agreement with the International Finance Section of Princeton University and is herewith made available as an Annex to the Bank's Twenty-fifth Annual Report.

ROGER AUBOIN

THE BANK FOR INTERNATIONAL SETTLEMENTS

1930-1955

The Bank for International Settlements has just completed its twenty-fifth year.

The quarter of a century during which the Bank has been in existence has not only seen a great depression and a great war but has also been marked by a significant evolution of ideas regarding the questions with which the Bank itself is especially concerned, i.e. those relating to the principles of monetary policy and the rôle of central banks.

By its structure and functions the Bank for International Settlements is a permanent organisation for co-operation between central banks, and within this technical sphere it has endeavoured to create and maintain, in particularly difficult circumstances, a truly European spirit.

The Bank's history, therefore, may well be of general interest; but relatively little is known about it or its work. The reason for this is not that there is anything mysterious or secret about its activities but that these are technical and that by the very nature of its tasks it keeps aloof from politics and avoids publicity, with the result that there is little opportunity for persons outside the narrow circle of central banks to form any clear idea of what the Bank has been doing. My aim in this brief survey, therefore, is to give an account of the character and scope of the Bank's work, without attempting to discuss all the technical and legal questions involved, in the hope that it will provide those who take an interest in questions of monetary policy and international co-operation with additional material which may be helpful to them in forming an opinion on these matters.

I. Origin, objects and organisation.

Even before 1914 there had been occasions when central banks had found it useful to co-operate with one another in order to facilitate international settlements. But this had happened only in exceptional circumstances. After the first world war, however, and especially during the currency stabilisations of the period 1922-30, the principal central banks frequently joined forces

for the purpose of granting special "stabilisation credits" either in connection with the reconstruction work undertaken by the Financial Committee of the League of Nations or independently of these schemes.

It was therefore natural enough that the monetary and political authorities soon became interested in the idea of substituting for such ad-hoc and temporary associations a more permanent system of co-operation. This idea took practical shape in the course of the negotiations on the problem of reparations owed by Germany after the first world war. These resulted in what became known as the Young Plan, which provided for a reduction (as compared with the earlier Dawes Plan) and also a "commercialisation" of the annuities to be paid by Germany and made possible, moreover, the partial mobilisation of these annuities through the issue of international loans. It was deemed necessary for the attainment of this purpose that an international organisation should be set up possessing official status and at the same time sufficiently commercial in character to be independent of political considerations and able to work in direct contact with the financial markets.

It was therefore decided to create, under the name of "Bank for International Settlements",¹ an international bank to be founded by the principal central banks of the countries involved, whose permanent function would be to promote co-operation between central banks and to facilitate international financial settlements and to which could also be entrusted the task of executing the Young Plan as the agent of the governments concerned.

* * *

The Young Plan was officially accepted at the Conference held at The Hague in January 1930. The Plan contained a general description of the nature and functions of the international bank which was to be set up, and the Annexes to the Hague Agreements included drafts of the Bank's Charter and its Statutes, as well as other relevant documents. By virtue of a special Convention signed on the same day the Government of the Swiss Confederation undertook to grant to the B.I.S. a Constituent Charter having force of law.² The next month the Governors of the founder central banks and representatives of an American banking group met in Rome and signed the instrument by virtue of which the B.I.S. was constituted. The Bank began operations on 17th May 1930.³

¹ Commonly referred to as B.I.S. in English, B.R.I. in French and Italian, and B.I.Z. in German.

² The Governments of Belgium, France, Germany, Great Britain, Italy and Japan signed the Convention with Switzerland. In 1951 the Japanese Government renounced all rights acquired by it under the Hague Agreements and in particular under the Convention concerning the B.I.S.

³ The task of drawing up the final documents concerning the B.I.S., which were annexed to the Hague Agreements, was entrusted to an Organisation Committee, which met in Baden-Baden from 3rd October to 13th November 1929 under the chairmanship of Mr Jackson E. Reynolds. It was composed as follows:

Members designated by the central banks: Belgium: Mr Louis Franck, Mr Delacroix and later Mr Paul van Zeeland; France: Mr Clément Moret, Mr Pierre Quesnay; Germany: Dr Hjalmar Schacht, Dr Wilhelm Vocke; Italy: Prof. Alberto Beneduce, Dr V. Azzolini; Japan: Mr T. Tanaka, Mr S. Sonoda; United Kingdom: Sir Charles Addis, Sir Walter T. Layton. Co-opted members: United States: Mr Jackson E. Reynolds, Mr Melvin A. Traylor.

Footnote continued on next page.

The Charter of the Bank cannot be altered except with the agreement of all the parties to the Convention; and the same applies to the essential articles of the Bank's Statutes, which are annexed to the Charter. The registered office of the Bank is in the town of Basle. By virtue of its Charter the Bank possesses in Switzerland a special status guaranteed by an international agreement.

The B.I.S. has a twofold task. Firstly, under Article 3 of its Statutes, the duty of the Bank is "to promote the co-operation of central banks and to provide additional facilities for international financial operations". The chief activity of the Bank consists therefore in the carrying-out of such banking operations as are requested by the central banks. The Bank's own operations on the various markets and any arrangements which it may make with private banks are merely accessory to its primary business with the central banks, and it is laid down that these dealings must always be such that they do not give rise to any objection on the part of the central banks.

Secondly, the Bank can under its Statutes "act as trustee or agent in regard to international financial settlements entrusted to it under agreements with the parties concerned". It was by virtue of this function that the Bank was originally entrusted with the technical execution of the Young Plan and subsequently assumed other duties, such as its present work in connection with the European Payments Union and the European Coal and Steel Community.

The Bank's capital was fixed at 500 million gold francs (one gold franc equals 0.2903 grammes of fine gold, or approximately one-third of a present United States dollar), this being the monetary unit of Switzerland at the time and the unit then often employed for various international settlements. This capital, which is divided into 200,000 shares, has been paid up to the extent of one-quarter, that is, 125 million gold francs (equal to about 41 million present U.S. dollars).

Initially the subscription of the capital was guaranteed in equal parts by five central banks, viz. the National Bank of Belgium, the Bank of England,

After the conclusion of the Hague Agreements and the signing, on 27th February 1930 in Rome, of the instrument by virtue of which the B.I.S. was constituted, the members of the Board of Directors held two unofficial meetings in Basle on 22nd and 23rd April 1930. At these meetings note was taken of the Swiss law promulgating the Convention concerning the Bank for International Settlements and of the instrument signed in Rome. The Bank having thus been duly constituted, the first official meeting of the Board took place on 12th May 1930.

The original members of the Board of Directors were: Mr Gates W. McGarrah, United States, Chairman; Sir Charles Addis, United Kingdom, Dr Carl Melchior, Germany, Vice-Chairmen; Dr V. Azzolini, Italy; Prof. Alberto Beneduce, Italy; Baron Brincard, France; Mr Louis Franck, Belgium; Mr Emile Francqui, Belgium; Mr Leon Fraser, United States; Mr Hans Luther, Germany; Mr Clément Moret, France; Mr D. Nohara, Japan; Mr Montagu Collet Norman, United Kingdom; Mr Paul Reusch, Germany; Mr T. Tanaka, Japan; the Marquis de Vogüé, France. Alternates: Mr Charles Farnier, France; Mr H. A. Siepman, United Kingdom; Mr Pasquale Troise, Italy; Dr Wilhelm Vocke, Germany; Mr Paul van Zeeland, Belgium.

The following members were elected to the Board in May 1931: Mr G. Bachmann, Switzerland; Mr Ivar Rooth, Sweden; Mr L. J. A. Trip, Netherlands.

Mr Leon Fraser was the Alternate of the President; Mr Pierre Quesnay, General Manager; Mr Ernst Hülse, Assistant General Manager; Mr Francis R. Rodd (later Mr R. H. Porters), Manager; Mr R. Pilotti, Secretary General; Mr Marcel van Zeeland, Manager.

the Bank of France, the Bank of Italy and the Reichsbank, and by two banking groups, one acting in the place of the Bank of Japan and another formed by three U.S. banks (Messrs J. P. Morgan & Company, the First National Bank of New York, and the First National Bank of Chicago). The other central banks were given the opportunity of subscribing to the capital of the B.I.S. within a period of two years but owing to various circumstances, in particular the suspension of the gold standard in a great many countries, not all the European central banks took up shares. The European character of the Bank having been demonstrated in practice, even though this character is not legally defined, an amendment to the Statutes was made in 1950 authorising the Bank to accept subscriptions of capital from further central banks. Now that Portugal, Ireland, Turkey and Iceland have subscribed, the membership of the B.I.S. consists of all the European central banks with the exception only of the State Bank of the U.S.S.R. and the Bank of Spain. On the other hand, the shares held by the Japanese banking group were repurchased by those of the European central banks which were founder members.

The central banks had the option either of subscribing for the shares themselves or of offering them for subscription by the public on their respective markets. The great majority of the central banks did, in fact, choose to subscribe for the shares themselves and central banks now own three-quarters of the Bank's shares. Most of the shares of the American issue, all of which were originally sold on the U.S. market, have since been repurchased in Europe. The Bank's shares are registered; the Bank is entitled to decline to accept any transferee of its shares and it may not give its assent to a transfer without the prior consent of the central bank concerned.

In order to ensure that the B.I.S. shall always retain its essential character as a "central banks' bank", the Statutes contain a special provision making the rights of representation and of voting completely independent of the ownership of shares, these rights being exercised solely by the central banks of the countries in which the shares were originally subscribed. The central banks thus possess the voting rights on the entire share capital.

With the object of enabling the B.I.S. to play its proper rôle in international affairs it has been given certain special advantages under the Hague Agreement and the Bank's Constituent Charter. The most important of these privileges is that the Bank, its property and assets and all deposits and other funds entrusted to it are immune in time of peace and in time of war from any measure such as expropriation, requisition, seizure, confiscation, prohibition or restriction of gold or currency export or import, and any other similar measures. Other governments, which were not signatories to the Hague Agreements, have by separate dispositions given a similar undertaking. In its relations with the U.S. Federal Reserve System and the U.S. Treasury the B.I.S. enjoys the same status as do central banks and is thus able, for instance, to buy gold from or sell gold to the U.S. Treasury.

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The B.I.S. is administered by a Board of Directors, which elects a President and appoints a General Manager. Since 1948 the Chairman of the Board of Directors has also held the office of President of the Bank, and the General Manager has been the Alternate of the President. This arrangement ensures close and permanent liaison between the Board of Directors and those responsible for the technical management of the Bank. The Governors of the founder central banks are *ex-officio* members of the Board of Directors, which also includes members appointed by these Governors and of the same nationality as themselves (there being at present five such members appointed), together with members elected from among the Governors of the other central banks which are members of the B.I.S. or of persons nominated by these Governors. In point of fact, the latter group have been up to the present the Governors of the central banks of the Netherlands, Sweden and Switzerland, these countries possessing the most important money and capital markets after those of the founder banks and having participated in the issue of the Young Loan.¹

The U.S. monetary authorities have never taken up the seats on the Board of the B.I.S. to which the original American subscription entitled them. For the periods 1930-35 and 1940-46, however, the Board elected as President of the Bank persons of American nationality, and it has always appointed a New York bank to exercise at General Meetings the right of voting carried by the shares of the American issue. In addition, close personal contact is maintained between the principal officials of the B.I.S. and officers of the U.S. Federal Reserve System. The Federal Reserve Bank of New York is the Bank's correspondent as regards the American market.

The Board of Directors of the B.I.S., which holds monthly meetings, determines the nature of the operations to be undertaken by the Bank under the provisions of its Statutes. The Bank may, in particular: buy, sell, exchange or hold gold for its own account or for the account of central banks; make advances to or borrow from central banks; discount, rediscount, purchase or sell, with or without its endorsement, bills of exchange and other short-term obligations of prime liquidity; buy and sell exchange; buy and sell negotiable securities other than shares; discount for central banks bills from their portfolio and rediscount with central banks bills from its own portfolio. Further, the Bank may accept deposits from central banks on current or deposit account, government deposits in connection with special agreements, and such other deposits as, in the opinion of the Board, come within the scope of the Bank's functions.

On the other hand, the Bank is prohibited by its Statutes from issuing notes payable at sight to bearer, accepting bills of exchange, making advances to governments, acquiring a predominant interest in any business concern, or retaining ownership of any real property other than that necessary for the conduct of its own business. The Bank is required to pay particular attention to its liquidity.

¹ A list of the members of the Board of Directors may be found in each Annual Report of the Bank.

The Statutes also stipulate that the operations of the B.I.S. must be in conformity with the monetary policy of the central banks of the countries in question. Before carrying out an operation on any market or in any currency the B.I.S. must give all the central banks directly concerned an opportunity to dissent. In the case of the United States the authority which has thus to be consulted is the Federal Reserve Bank of New York.

The B.I.S. has no direct contact with the public. It has neither counters nor tills nor strong-rooms; its gold, its funds and its securities are kept at the central banks which are its correspondents.

The B.I.S. comprises a Banking Department, which carries out the banking operations, a Monetary and Economic Department, which does research and prepares the Annual Report, and a General Secretariat, which performs the administrative work. The staff is not large, consisting at present of some 150 employees and about 30 officials and heads of section. Members of the staff, though at present consisting of persons of ten different nationalities, are selected for their individual qualifications and not as representatives of particular countries.

* * *

The B.I.S. is, then, an international bank, and both "international" and "bank" deserve emphasis. It was founded by central banks which at one and the same time are its shareholders and customers and provide its directors. It has grown up as a truly European organisation, although maintaining close technical relations with the American market. It is an official organisation possessing a charter guaranteed by international convention and enjoying certain special advantages.

But even so, the B.I.S. is essentially a bank and needs to be mindful of its standing, the liquidity of its balance sheet and the results shown by its profit and loss account. The B.I.S. receives no instructions from any government, except when it is acting in the capacity of agent in the performance of some specific function, and it is not subsidised by any country. The methods which it employs are essentially commercial.

II. Early operations.

The B.I.S. owes a great debt to those wise men who, twenty-five years ago, drew up its Statutes. They made them simple and did not attempt to provide for every possible eventuality. While taking special care to formulate clearly and concisely the general aims, they left to the new institution a large measure of flexibility. The result has been that the Bank has been able to show a remarkable degree of adaptability in contending,

as it has had to do from the very first years of its existence, with a series of extraordinary and unforeseeable developments.

When the Bank opened in 1930, the great depression had already begun. In May 1931 came the outbreak of the central European financial crisis. In July the execution of the Young Plan was suspended by the Hoover Moratorium. And in September the United Kingdom, followed by a considerable number of other countries, suspended the gold standard. The Bank's activities were profoundly affected by these events.

As already mentioned, one of the original tasks of the B.I.S. was to co-operate in the carrying-out of the Young Plan, under which it was entrusted with the duty of receiving and distributing the reparation payments provided for in the Hague Agreements. During its first year of operation the Bank received and distributed in the agreed manner the monthly instalments paid by Germany. It acted, in addition, as agent in connection with the issue of the German Government International 5½% Loan 1930 (Young Loan), for the service of which it had agreed to perform the functions of trustee. This loan was placed on nine different markets and yielded in all a net amount of about the equivalent of \$300 million. Under the Hague Agreements, one-third of this amount was received by the German Government and the remaining two-thirds went to six countries, creditors of Germany, which thus mobilised part of their reparations claims.

The duties of the B.I.S. as trustee for the governments concerned were not confined, however, to the mere collection and distribution, in accordance with the Hague Agreements, of the payments made by Germany. Its function was much wider, for it was also to play an essential part in the execution of the Young Plan by setting up "machinery which will provide an elastic element between the payments to be made by Germany and their realisation". It was, in particular, the task of the Bank to help to prevent a suspension of the transfers by granting direct aid to the Reichsbank in the form of foreign-currency credits or by giving indirect aid through the investment in Reichsmarks of part of the annuity receipts on the German market in agreement with the Reichsbank. Thus, in order to ensure the regular flow of the transfers, the B.I.S. was to influence the exchange markets by the purchase of Reichsmarks in periods of strain and by a reduction of its investments in Reichsmarks when conditions for transfer were more favourable.

It was left to the B.I.S. itself to decide when and to what extent it ought to intervene, it being merely stated in the Young Plan that the Bank was to act within the limits of the funds at its disposal and with due regard to its liquidity. But the very freedom of action which was thus allowed made it a duty for the Bank to intervene actively in periods of difficulty, as far as its means permitted.

Since the entry into force of the Young Plan coincided with the beginning of the world crisis, the difficulties which arose soon became far greater than those associated with periods of temporary strain attributable to seasonal or other factors. The Bank's interventions in the form of

purchases of Reichsmarks and of investments on the German market, although technically at short term, were in fact for an indefinite period, since the date of the termination of these operations depended on the German foreign exchange situation, except in the case of the amounts in Reichsmarks earmarked for the payment of reparations in kind, which were cancelled automatically as the deliveries took place.

When in 1931 the financial crisis broke over Europe and through the Hoover Moratorium the machinery of the Young Plan was brought to a standstill as from 1st July, the B.I.S., having acted in conformity with the obligations imposed upon it, had invested on the German market an amount corresponding to the long-term deposits which had been placed at its disposal by the various Creditor Governments for this purpose, as well as a portion of its own funds.¹ At an international conference which was held in London in July 1931, the Governments of Belgium, France, Germany, Great Britain, Italy, Japan and the United States recommended that the volume of credits already granted to Germany should be maintained. In conformity with this recommendation, the Bank's investments on the German market were left undiminished and were subsequently reduced only by the amounts earmarked for the payment of reparations in kind as the deliveries were made.

The total amount of the Bank's investments in Germany, which had been as high as 444 million gold francs (equal to about 148 million present U.S. dollars) in June 1931, had by the end of 1932 been reduced to about 300 million gold francs (about 100 million present U.S. dollars), and it has remained almost unchanged at that level ever since. A definitive settlement of these investments and the long-term deposits of the governments which were also made under the Hague Agreements should take place in 1966 under an arrangement concluded in 1953 between the Bank and the Federal Republic of Germany, a brief outline of which is given in Section IV below.

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From 1931 onwards, the B.I.S. took an active part in the attempts which were made to counteract the effects of the financial crisis.

The International Conference which met in London in July 1931 recommended, *inter alia*, that the B.I.S. should set up a committee of experts to enquire into the immediate credit requirements of Germany and the possibility of consolidating part of the short-term credits already granted to that country. The committee convened by the B.I.S. was composed of representatives appointed by the central banks of Belgium, France, Germany,

¹ Under the Hague Agreements and the Trust Agreement annexed thereto the amounts due to the governments which were creditors under the Young Plan were credited to Trust Accounts opened for them in the books of the B.I.S. These governments were required to leave in their Trust Accounts a certain minimum amount as an interest-free long-term deposit. The German Government for its part was to make a similar deposit equal in amount to 50 per cent. of the deposits of the Creditor Governments. Since 1931 the aggregate amount of these minimum long-term deposits has stood at the equivalent of 229 million gold francs (equal to about 76 million present U.S. dollars).

Great Britain, Italy, Japan, the Netherlands, Sweden and Switzerland and by the Federal Reserve Bank of New York. It held its meetings in Basle and its report was issued in August 1931.

Moreover, at the Committee's invitation, representatives of German private banks and of private banks of other countries also met in Basle; and on 17th September 1931 a first Standstill Agreement was concluded, covering six months' short-term banking credits to Germany. At the same time, at the request of the contracting parties, the B.I.S. appointed an Arbitration Committee, which was entrusted with the task of settling any dispute arising in connection with the interpretation or the execution of the Standstill Agreement.

As a result of a series of negotiations between the governments concerned, the German Government decided on 19th November 1931 to request the B.I.S., in accordance with the provisions of the Young Plan, to convoke the Special Consultative Committee entrusted with the task of examining the measures to be taken in the event of danger to Germany's exchange and economic life. The Board of Directors of the B.I.S. immediately convoked the Committee, which met in Basle under the chairmanship of Professor Alberto Beneduce and issued its report in December 1931. After recognising Germany's right to suspend for one year the transfer of the postponable part of the annuities, the Committee drew the attention of the various governments to the unprecedented gravity of the crisis, "the magnitude of which undoubtedly exceeds the 'relatively short depression' envisaged in the Young Plan to meet which the 'measures of safeguard' contained therein were designed". The following unanimous conclusion was reached:

"The adjustment of all inter-governmental debts (Reparations and other War Debts) to the existing troubled situation of the world — and this adjustment should take place without delay if new disasters are to be avoided — is the only lasting step capable of re-establishing confidence which is the very condition of economic stability and real peace."

A Conference was convened in Lausanne in June 1932 for the purpose of discussing the problem of the German debt, and at the same time negotiations also took place concerning the other war debts. The Conference reached an agreement which was signed but not ratified and therefore never came into force. Indeed it proved impossible to arrive at any general agreement on the question of a final settlement of the various war liabilities.

A great deal had, however, already been done in 1931 by way of granting emergency credits and the B.I.S. participated on a large scale in these measures. The total of the credits granted at the time by the central banks and the Treasuries and by the B.I.S. and the principal banking centres was of the magnitude of approximately \$1,000 million. It has been estimated that this total corresponded to about one-tenth of the aggregate amount of international short-term indebtedness outstanding at the beginning of 1931. The B.I.S. itself was concerned in the emergency credits granted to the National Bank of Hungary, the National Bank of Austria, the Reichsbank

and the National Bank of Yugoslavia, a temporary advance being also granted to the Bank of Danzig. In particular, the B.I.S. organised two syndicates of central banks; three central banks — the Federal Reserve Bank of New York, the Bank of England, and the Bank of France — and the B.I.S. participated to the extent of \$25 million each in a credit of \$100 million to the Reichsbank; and with twelve central banks the B.I.S. was a partner in a credit of approximately \$26 million to the National Bank of Hungary.

It is interesting to note that these emergency credits in which the B.I.S. was thus concerned have all been fully repaid, most of them within the space of a few years; the whole of the credit to the Reichsbank had been repaid by April 1933 and in the case of the credit granted to the National Bank of Hungary, for which a longer period was arranged, repayment was completed in 1946.

The B.I.S. also co-operated in the preparation for and the actual work of the World Monetary and Economic Conference which met in London in June 1933 and which represented a last combined effort, under the auspices of the League of Nations, to bring order into the economic and monetary situation. The Conference was preceded by a great deal of preparatory work, notably on the functioning of the gold standard and the gold exchange standard, in which the B.I.S. took an active part. Unfortunately the Conference itself did not result in any concerted action, for it proved impossible to arrive at an agreed policy, the participating countries grouping themselves instead into different currency areas and blocs.¹ With regard to more long-range problems of monetary policy, however, the Conference adopted five resolutions in which renewed stress was laid on monetary co-operation. Central banks should recognise, it was said, "that in addition to their national task they have also to fulfil a task of international character". The Conference therefore recommended "close and continuous co-operation between central banks", adding that in this connection the B.I.S. "should play an increasingly important part not only by improving contact but also as an instrument for common action".

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Apart from necessitating emergency credit operations, the disturbed conditions of the 1930s naturally affected the more current activities of the B.I.S., particularly its operations on the gold and foreign exchange markets.

In the first year of the Bank's existence, when the monetary authorities in a great number of countries still held fairly large reserves of foreign exchange in addition to their gold reserves, the original intention was, by centralising at the B.I.S. part of the foreign exchange holdings of the central banks, to enable payments to be made by means of transfers in the books of the Bank, as little recourse as possible being had to the markets in order

¹ A detailed account of the work of the London Conference of 1933 is given in the 3rd and 4th Annual Reports of the B.I.S. (1933 and 1934).

to avoid upsetting their equilibrium. It was, indeed, hoped that it would be possible to create what was called a "foreign exchange clearing system" and to that end attempts were made to unify the rates quoted for operations in the different currencies. The disruption of the monetary system in 1931, however, very soon cut short all these endeavours to achieve uniformity of treatment irrespective of the conditions which prevailed in particular markets. It should perhaps be added that, even if a more stable order had survived, it would very likely have been necessary to apply those initial ideas with a greater degree of realistic flexibility than was at first planned.

As it was, the financial events of 1931 not only deprived the B.I.S. of the receipts and the substantial deposits resulting from the payment of the annuities under the Young Plan but also caused the central banks to reduce their holdings of foreign exchange, with a consequent decline in their available funds, of which a part had been entrusted to the B.I.S. A number of countries devalued their currencies, and some placed an embargo on transfers by introducing systems of foreign exchange control. This resulted in a general impairment of the delicate mechanism by means of which settlements in respect of international transactions had previously been carried on with a minimum of cost and delay.

The Bank took immediate action in the autumn of 1931 to adapt itself to these new circumstances. For not only had its own resources become smaller but the increasing tension in the political and economic sphere was anything but conducive to a further development of international co-operation. As time went on it proved possible, however, to arrange for the granting of credits, especially of a commercial type — this being done by obtaining credits from a central bank in its own currency offset by credits in gold or in another currency. To the extent to which such methods were utilised, the resulting credits afforded a means of commercial financing and provided at the same time an exchange guarantee, which helped to make up for the absence of forward exchange markets in a great many currency relations. By 1938 more than ten European central banks had concluded arrangements of this type with the B.I.S.

After the devaluations of 1931 and the following years a number of central banks decided to keep an increasing portion of their reserves in gold. They consequently adopted the practice of converting into gold from day to day any currency surpluses which they acquired — and this development soon became reflected in a certain increase in the gold operations of the B.I.S. The Bank naturally continued to act as an intermediary, at the request of the individual central banks, for the carrying-out of purchases, sales and exchanges of gold, and it was often able to offer relatively favourable terms thanks to its central position.

In addition, a system of bank accounts expressed in a "weight of gold" was introduced to facilitate transfers in gold values of any desired amount. This new facility came to be used chiefly for payments between postal administrations within the scope of the Universal Postal Union.

While remaining in contact with the different markets in which it had been operating, the B.I.S. decided, as a matter of policy, to keep aloof from the bilateral clearing arrangements which from 1931 onwards were adopted by most countries in central and eastern Europe. The adoption of this attitude by the Bank may for a time have curtailed the volume of its operations, but subsequent events can be said to have justified the Bank's policy in this respect. Apart from its normal operations in convertible currencies, it was always possible for the B.I.S. to make particular arrangements whereby it obtained a special exchange or gold guarantee and, indeed, in practice was able to undertake certain clearly defined operations in controlled currencies as if these currencies had been convertible. With regard to the Bank's investments in the German market — which were in fact always kept below the figure reached at the time of the Hoover Moratorium of July 1931 — the amounts accruing in Reichsmarks in respect of discount and interest were regularly transferred either in gold or in convertible currencies.

In the troubled period between the Munich agreement in 1938 and the outbreak of the war the B.I.S. was naturally faced with many difficult problems, and these were not made any easier to solve by the knowledge that if it had become necessary to raise political questions the functioning of the Bank might easily have been paralysed. The only possible line of action was to respect meticulously the technical character of the Bank and thus strictly to disregard all political considerations in reaching the necessary decisions. During this period the B.I.S. consequently had no alternative but to adopt a similar attitude to that of the banking institutions in those countries — notably the United States and Switzerland — which had not introduced any emergency legislation. In France and the United Kingdom, on the other hand, official freezing measures had been adopted following the events in Austria and Czechoslovakia. The British and French banks were therefore legally discharged from all responsibility whenever, in execution of the freezing measures, they did not comply with the orders received for the disposal of assets held by them.

The Bank's business had been constantly conducted with due regard to the need for maintaining an extremely high degree of liquidity and also of balancing any "exchange positions" as they arose — a state of balance being of particular importance at a time when the international monetary system had been so seriously dislocated. Thanks to the observance of these rules the Bank was able, without any special difficulty, to pass through the recurrent periods of crisis in the years immediately before the second world war — and this applies, in particular, to the critical days in September 1938, in March 1939 and then again in the summer of 1939.

III. Problems and activities during World War II.

As an international institution situated in the middle of Europe, the B.I.S. was subjected to a crucial test by the outbreak of the second world war. The state of war gave rise to new and difficult problems for those whose task and concern it was to maintain unimpaired the financial and moral standing of the Bank.

In the autumn of 1939 individual consultations were held with those governors of central banks who were members of the Board of Directors of the B.I.S., following upon which a number of decisions were taken fixing the principles to be observed in the management of the Bank during the period of hostilities. It was thus decided:

1. to suspend all actual meetings of the Board of Directors and also the holding of General Meetings with the attendance of representatives from the different countries. The procedure adopted was that any necessary decisions (for instance, in relation to the Bank's balance sheet, its profit and loss account, etc.) should be approved by correspondence. The legality of decisions taken at the formal General Meetings which had to be held was ensured by the fact that voting by proxy is permitted under the Statutes;
2. to make a special declaration with regard to the nature of the Bank's operations during the period of hostilities. In the declaration in question, which was sent on 18th December 1939 to all the Bank's correspondents, the Bank announced its express intention of refraining from all operations which, although permissible in a purely legal sense, were not "above reproach both from the point of view of belligerents and neutrals";
3. to refrain from any act implying recognition of political or territorial changes which had not previously received unanimous recognition; appropriate measures were in fact taken to safeguard the rights of all the parties concerned in so far as this depended upon the Bank; and
4. in a general way, to subject every operation to a searching scrutiny not only as to its safety and to its bearing on the Bank's liquidity but especially from the standpoint of the rules of conduct which the Bank had laid down for itself.

With these decisions formally approved by all members of the Board of Directors, the Bank was in a position to protect itself in an effective manner when the changing circumstances of the war period gave rise to difficult problems. It was, in particular, necessary to ensure, on the one hand, that there should be no diminution of the special privileges which the Bank possessed, in time of war as in time of peace, in the countries which had signed the Hague Agreements or which had given it rights similar to those granted in these agreements and, on the other, that none of these privileges should be used to effect operations which would be found questionable by the countries concerned, or even operations which would merely be contrary to the line of conduct which the Bank felt it ought to maintain in these matters.

The only way in which these two essential interests could be safeguarded was to place a very strict voluntary limitation upon the operations which the B.I.S. would undertake. But even within the limitations which the Bank thus

imposed upon itself it had at times the opportunity of rendering certain services to the members of its association. When, for instance, it was found, in the winter of 1939-40, that the central banks of a number of countries not yet involved in the war desired to transfer a substantial part of their monetary reserves to places overseas (especially to New York), the B.I.S. was able to handle a considerable part of these transfers. Moreover, certain central banks which had deposits at the B.I.S. gave it a standing order immediately to transfer these deposits overseas if their country became involved in the war. The arrangements thus made all worked out satisfactorily.

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As the war went on the volume of possible business became more and more limited, but several problems arose which required much thought and care.

The military occupation of a large number of countries made it imperative for the B.I.S. to take certain precautionary measures in order to prevent amounts which the Bank had to transfer to such countries from being subjected to measures which would, in fact, be equivalent to seizure by the occupying authorities. It was, moreover, necessary to find a solution to the special difficulties created by the military occupation of a country as regards the actual management of the latter's central bank. The position arose in which certain central banks had one managing body in the occupied territory and another on foreign soil. This situation gave rise to contradictions, both political and legal in character, which the B.I.S. was obviously not qualified to resolve. It was decided, in order to avoid these difficulties, to offset in the Bank's books, whenever practicable, the claims and debts of the Bank in relation to each of the markets involved, so as to obviate the necessity for any actual transfers. It subsequently proved possible to secure the approval of the interested parties for the compensations thus effected. On the few occasions when it was impossible to resort to such a solution protective measures were taken with a view to postponing the disposal of the assets in question — the B.I.S. having taken independent legal advice.

In June 1940 the United States established a system of licences applicable to certain foreign assets, and the B.I.S. immediately placed in a special account all the amounts which it then held in the United States for the account of countries whose assets had been blocked by the American measures. In 1941, Switzerland was added to the list of countries in this category and after that the Bank's own assets in the United States became subject to the licensing system of the U.S. Treasury.

The continued transfer by the Reichsbank of the interest on the Bank's investments in Germany (investments which all dated from the period 1930-31) gave rise to a particular problem whenever the transfer in question was effected by means of a gold delivery. It was not possible for the Bank, from a legal point of view, to refuse to receive any payments that were

made in accordance with the contracts entered into under the Hague Agreements — and any such refusal would moreover have been prejudicial to the interests of the creditor countries, especially France and Great Britain. The B.I.S. could not, however, rule out the possibility that, in spite of declarations to the contrary, the gold which was transferred might have been seized, in one form or another, in one of the occupied countries. After a careful examination of the questions involved, the Bank decided:

1. to accept gold in respect of all transfers legally due to it; and
2. to take steps to ensure that at some future date an enquiry could be made into the origin of all gold bars which it had received.

Apart from the investments which the B.I.S. had made in Germany in connection with the Hague Agreements — and these could obviously not be settled during the war — the Bank was able to realise and convert into assets with a high degree of liquidity all its old investments in other countries which had still been outstanding in 1939. Over the period 1939-45 an amount equal to 120 million gold francs (about \$40 million) was in fact added to the Bank's net holdings of liquid assets in dollars, Swiss francs and gold. The Bank had, on balance, suffered no financial loss: all the commitments which different central banks had entered into with the B.I.S. had been scrupulously respected, notwithstanding the exceptional and unforeseeable circumstances which had prevailed in the years that had passed since the foundation of the Bank. At the same time, the deposits, as they stood in the books of the B.I.S. on 1st September 1939, had been safeguarded in full, largely as a result of the protective measures which had been taken in good time by the Bank.

IV. Resumption of operations and settlement of war-born questions.

When the war in Europe came to an end in May 1945, the financial position of the B.I.S. was as satisfactory as could possibly be expected but, even so, the Bank was faced with a number of new and difficult problems.

In the first place an answer had to be found to the question of the Bank's future rôle in the new conditions of the post-war world. In doing so it was necessary, in particular, to take into account the recent creation in Washington of two new international financial institutions endowed with substantial resources: the International Monetary Fund (I.M.F.) and the International Bank for Reconstruction and Development (I.B.R.D.).

The Bretton Woods Conference, which had drawn up the plans for these institutions, had at the same time recommended in its final declaration of July 1944 that the B.I.S. should be liquidated. Owing to the circumstances at the time, it is evident that little could be known concerning the precise nature of the Bank's activities during the war and its exact financial position,

isolated as it was in a neutral country surrounded by belligerent countries and bound by the very rules of conduct which it had set itself to observe the utmost discretion. But as soon as the cessation of hostilities had made it possible for the essential contacts to be re-established and for facts to be seen in their true light it was unanimously decided not to proceed with the resolution concerning the B.I.S.

Moreover, it was found that the B.I.S. would not duplicate the functions of the new organisations which had been set up in Washington but could indeed be a useful complement to them. For the B.I.S. had established itself since 1930 as an essentially European institution, whereas the I.M.F. and the I.B.R.D. had a world-wide competence. Furthermore, these two institutions had very clearly defined statutory functions, the International Bank specialising in long-term lending and the Monetary Fund in the purchasing of the currencies of the member countries to the exclusion of all other kinds of banking transactions. The field of activity of the B.I.S. was quite different, with the result that there was room for fruitful co-operation, the development of which would be in the general interest. As early as the end of 1946 contact had been established between leading officials of the B.I.S. and those of the International Bank with a view to initiating technical co-operation between the two institutions.

The B.I.S. had by then already resumed the monthly meetings of its Board of Directors, which had been suspended from the autumn of 1939.

At the first two post-war meetings, which were held in December 1946 and February 1947, the Board of Directors was given a detailed report of the management of the Bank during the war years and expressed its approval of the way in which it had been managed during this period, its business having been conducted strictly in accordance with the decisions of principle taken in 1939. At the same meetings, preparations were made for the settlement of some important unsolved problems.

At the end of the war the B.I.S. set on foot, with the co-operation of the central banks concerned, a detailed enquiry with the aim of tracing the origin of all gold bars transferred to it during the war, since it was possible that, in spite of all assurances, some of the gold it had received might have been seized in one form or another in occupied territories. It was ultimately possible to compare the results of the long and intricate investigations carried out by the Bank itself, or on its behalf, with the data available to the Governments of France, Great Britain and the United States — which had been entrusted with the task of settling the question of looted gold under an agreement concerning reparations concluded in Paris in 1946. The comparison thus made revealed that the Bank had received in payment only a small number of bars which had been transferred to it after a remelting of gold seized in occupied territories. A formal agreement between the three governments and the B.I.S. was concluded in Washington in May 1948; the amount of gold identified as having been taken from occupied countries and unknowingly received in payment by the Bank was agreed to be

3,740 kilogrammes, of which 3,366 kilogrammes was for the Bank's own account and the balance for the account of a central bank. The B.I.S. placed this amount at the disposal of the three governments in London. Once the agreement had been concluded, the Bank's accounts in the United States were freed, with the exception of certain limited amounts corresponding to deposits of a few central banks situated in countries whose accounts in the United States were still blocked.

Early in the post-war period, technical co-operation was arranged between the B.I.S. and the International Bank and Monetary Fund. The B.I.S. has each year been represented at the annual meetings of the I.M.F. and the I.B.R.D., while these two institutions have sent representatives to the Annual General Meetings of the B.I.S. Personal contacts and the regular exchange of information enable each institution to benefit from the experience of the others. In the banking field the B.I.S. was able to facilitate the placing of the first issues of bonds in Swiss francs made by the International Bank and from time to time it discounts securities approaching maturity which are held by the I.B.R.D. in respect of its loans. Further, the B.I.S. is registered with the International Monetary Fund as one of the Fund's correspondents for the purpose of gold operations.

* * *

In the following years negotiations were conducted between the B.I.S. and the governments concerned in order to arrive at a settlement of a number of still outstanding questions which resulted from the suspension of the Young Plan in 1931. There had been no particular occasion before the war to decide on an agreed interpretation of the provisions of the Hague Agreements by virtue of which the B.I.S. had, since 1931, been a creditor on the German market and a debtor of the Creditor Governments under these Agreements, noted in Section II above. Through a series of events which had occurred in the intervening period, the question had, however, evolved in a way which could not possibly have been foreseen at the time when the original texts were drafted.

Consequently, doubtful points had arisen which, though of no great importance to the governments concerned in view of the relatively small amount involved for each of them, were a very serious matter for the B.I.S. Through the good will of the various parties concerned, agreements were reached which made it possible to establish in a clear and definitive manner the scope of the Bank's responsibilities. In 1950 the principal Creditor Governments under the Hague Agreements, on whose behalf the B.I.S. had been acting as trustee, agreed that they could not, in respect of their claims on the Annuity Trust Account created under the Young Plan, demand from the B.I.S. the transfer of amounts greater than those of which the B.I.S. could itself obtain reimbursement and transfer by Germany in currencies approved by the Bank. This declaration was given, in the first place, by the Governments of France, Great Britain, Italy and Belgium, which

together hold 93 per cent. of the claims in question. Other governments have subsequently adhered to this agreement, so that at present it applies to 149.9 million gold francs, equivalent to 98 per cent. of the total of all such claims.

The B.I.S. also concluded with the Federal Republic of Germany, within the framework of the London Agreement on German External Debts, an arrangement which was signed on 9th January 1953. Under the terms of this accord, the payment of current interest on the investments made by the Bank in Germany in execution of the Hague Agreements during the period 1930-31 was resumed as from 1st January 1953 by the payment of a lump-sum annuity in Swiss francs by the Government of the Federal Republic of Germany, to which the Bank surrendered the rights which it possessed in respect of such interest vis-à-vis the German debtor institutions. The annuity, which was fixed at 5.6 million Swiss francs, represents slightly less than half the amount of interest transferred in 1939, a reduction of roughly the same magnitude having been agreed to by the other groups of Germany's creditors and notably by the bondholders of the Dawes and Young Loans.

In consideration of the regular transfer of the interest due, the B.I.S. agreed not to demand before 1st April 1966 the reimbursement of the principal amount (297 million gold francs — about \$98 million) or the payment of arrears of interest. This date was chosen for the termination of the investments in question because it is the earliest date on which, under the Hague Agreements, the withdrawal of the long-term deposit made by the German Government is permitted to take place.

It was expressly agreed that, in every other respect, the existing legal position would in no way be changed; thus, the rights and obligations of the B.I.S. under the Hague Agreements remained unaltered and the special character of the assets of the Bank was fully recognised.

V. The post-war expansion.

The consolidation of the Bank's position by the settlement of the various questions which had arisen before or just after the war paved the way for a resumption, gradual at first but later at a rapidly increasing rate, of its banking operations and its activities as a centre for contact between the European central banks.

It was found that the B.I.S. had by no means ceased to be of use to the central banks but that, on the contrary, it was particularly opportune in the special circumstances of the post-war period that there should be a central institution in Europe capable of helping in the development of monetary co-operation. For the European central banks found themselves faced after the war with new and complex problems; with the limited and often inadequate resources at their disposal, they had to contend not only with the

difficulties resulting from the war but also with unexpected fluctuations, made more violent by the absence of a wide international exchange market.

During the war the deposits entrusted to the Bank by various central banks had naturally been reduced to a minimum and in 1947 the total of the Bank's balance sheet stood at approximately 500 million gold francs (about \$166 million), having remained virtually unchanged at that level since 1939, as the charts on pages 22 and 23 show. Leaving out of account the assets and liabilities connected with the Hague Agreements, the B.I.S. actually had at its disposal for use in new operations an amount equivalent to approximately 200 million gold francs (about \$66 million). But this sum (which practically corresponded to the total of the Bank's own funds), though modest, was absolutely liquid, since it consisted of gold, dollars and Swiss francs at sight or at very short notice.

In view of this very liquid position, the Bank's credit remained high notwithstanding the small volume of its operations. And as soon as the questions resulting from the war had been adequately settled by the agreement of 1948, the deposits of central banks began to be built up again, slowly at first but afterwards at a more rapid rate, reaching 500 million gold francs in 1950, 1 milliard in 1953 and at times more than 1,500 million (about \$500 million) in 1954.

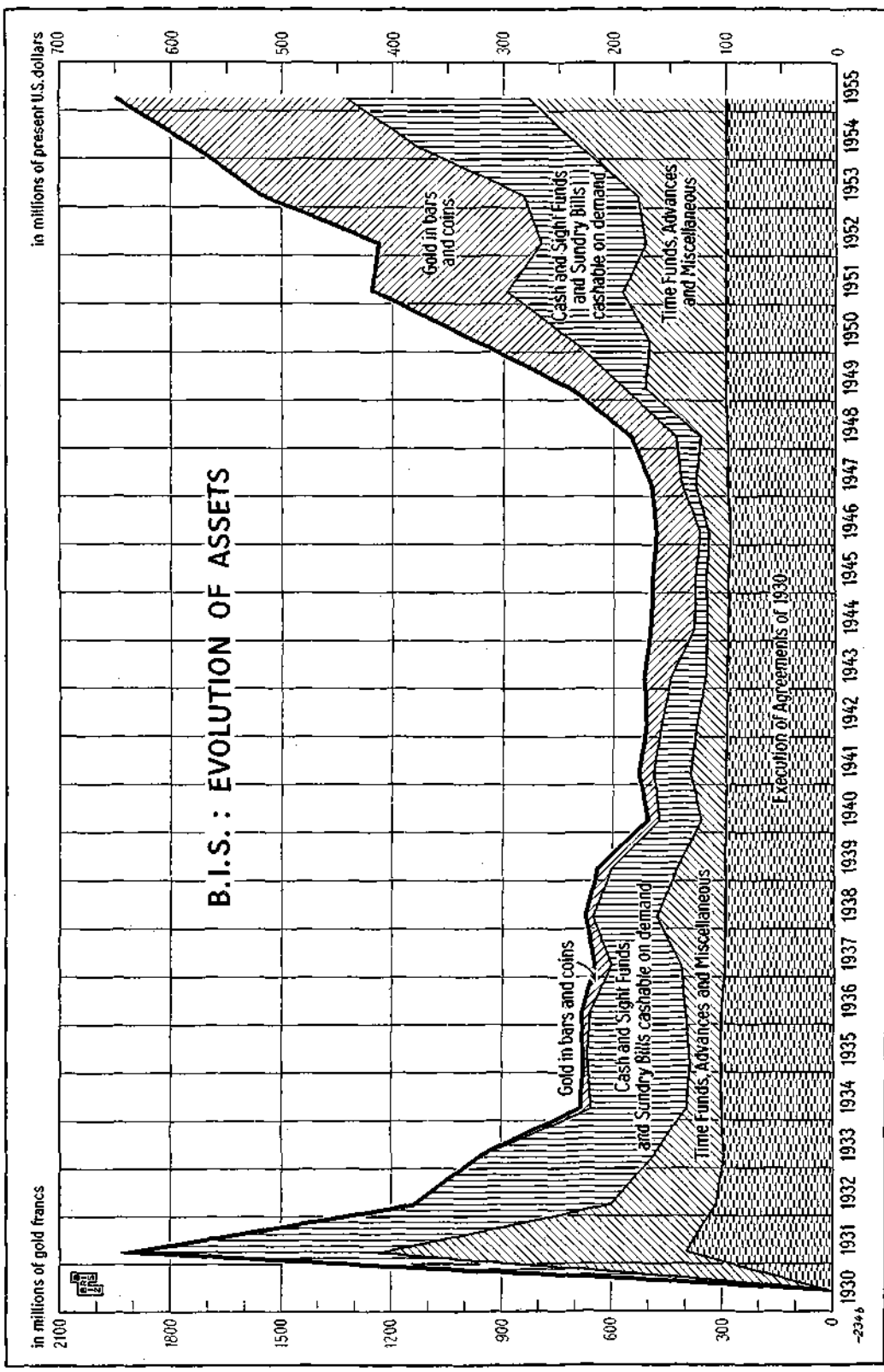
The following table shows the development since the war of the Bank's active resources:

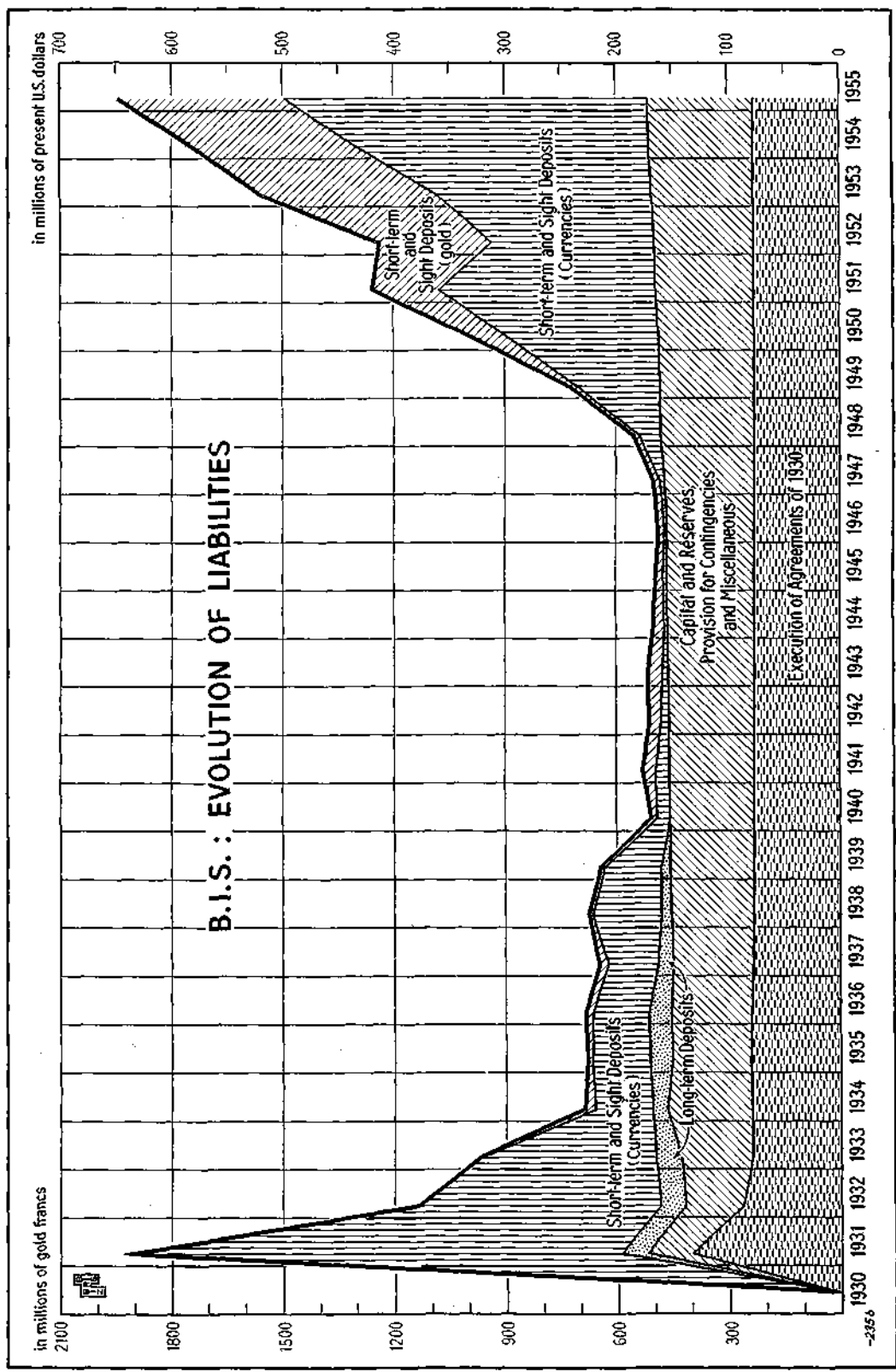
Table 1
Bank for International Settlements:
Active resources and their utilisation.¹

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						
1947 31st March	28	174	202	101	101	202
1948 " "	75	184	259	143	116	259
1949 " "	242	183	425	188	237	425
1950 " "	497	189	686	285	401	686
1951 " "	761	196	957	377	580	957
1952 " "	741	201	942	513	429	942
1953 " "	1,056	206	1,262	721	541	1,262
1954 " "	1,230	213	1,443	651	792	1,443
1955 " "	1,432	218	1,650	680	970	1,650

¹ Excluded are the assets and liabilities in connection with the execution of the Hague Agreements of 1930. The Bank's own funds include a reserve for certain secondary commitments.

This rapid growth was naturally influenced by the reconstitution of the reserves of the European central banks, which again entrusted part of their reserves to the B.I.S. in the form of deposits at sight or at term. The time deposits, whether at fixed term or at notice, are generally at three months.





A number of central banks manage funds belonging to their governments or to various official institutions, and in such cases the central banks may be able to deposit a part of these resources at somewhat longer term. The larger the overall amount of the deposits entrusted to the Bank, the easier it is for the Bank to render the central banks the services which they wish it to perform. This system is thus essentially co-operative in character.

The assets of the B.I.S. are held partly in gold and partly in the principal currencies, so that the Bank is generally in a position to buy, sell or exchange gold or to carry out various exchange operations as requested by central banks. Since the essential rôle of the B.I.S. is to act as the central banks' bank, its main operations naturally take the form of direct transactions with the central banks. Its interventions on the various markets and the arrangements which it makes with commercial banks are merely accessory to its main operations.

The gold operations of the B.I.S. are all performed in response to requests made by central banks and are, of course, effected in conformity with the monetary policies of the countries concerned; these operations are influenced, in particular, by the U.S. Treasury's official buying and selling price for gold, by the prices quoted on the London market since its reopening in the spring of 1954 and by the costs entailed in possible shipments of gold from one centre to another. It is naturally easier for the B.I.S. to comply with the requests of central banks if they are sufficiently varied in nature for the operations to be combined or offset against each other. Such transactions often make it possible to avoid a physical transfer of gold, especially between Europe and the United States. In these matters the B.I.S. enjoys the advantage of having favourable technical agreements with the central banks with which the gold is deposited.

The B.I.S. likewise deals with the central banks in connection with its credit operations. Under its Statutes, the B.I.S. may not make direct advances to governments, but it is allowed to purchase from central banks short-term government securities provided that these securities are currently marketable.

Since the B.I.S. is not bound by rigid rules as to the form of its interventions, it is generally in a position to make its operations as flexible as it desires and in that way to adapt itself to circumstances and requests which, as experience has shown, differ widely and are extremely variable. More often than not they reflect seasonal requirements, the need for an adjustment in the timing of payments, or other temporary conditions. The financial mechanism of the B.I.S. is furthermore in itself a flexible bond helping to bring together the different European markets.

* * *

The Bank's technique in the conduct of its affairs has naturally improved as a consequence of increasing experience. Its original operations under the Young Plan and the international support measures which were arranged in the period 1930-33 often took the form of purchases of securities which were expressed in the currency of the market in question and backed by a gold clause or exchange guarantees. Before the war such operations absorbed a relatively large proportion of the Bank's resources.

After the war the Bank, profiting from its early experience, endeavoured to keep its business activities within the scope of genuinely short-term operations covering specific periods and involving clearly defined commitments. It is only by adhering to this rule that the Bank can be sure of being always in a position to render at any time such fresh services as are requested of it within its own particular sphere, i.e. that of short-term operations. The development of the Bank's technique has, actually, been in the direction of increased use of forward exchange operations, especially in the form of spot sales of gold or currencies combined with an arrangement for forward repurchase.

The total of the Bank's operations increased rapidly between 1947 and 1950, and has since remained at a high level. With the Bank's active resources amounting altogether to between 1,500 and 1,800 million gold francs (\$500 to 600 million), its annual turnover is something like ten times that figure.

* * *

From the geographical point of view, there are naturally great differences in the volume of business which the Bank carries out on the various markets. It may be said that in the period before 1939 the Bank's current operations (apart from its investments in Germany under the Young Plan) were principally conducted with the central banks of countries possessing comparatively limited markets, in which the Bank's relatively modest resources could be most effectively employed. Since the war, however, the Bank has frequently been able to perform transactions involving fairly substantial amounts with the central banks of several larger countries.

Since the B.I.S. is a bank, its business transactions are subject to the ordinary rules of banking secrecy. But while individual transactions with this or that central bank must not be made public, there is nothing secret about the nature of the operations in question; on the contrary, the general lines of the Bank's business are well known both to the central banks and to the treasury departments of the various countries. The fact that the B.I.S. is obliged by its Statutes to give the central bank concerned an opportunity to dissent before any operation is undertaken by the B.I.S. on its market or in its currency constitutes a guarantee that none of its operations will conflict with the monetary policies of any of the central banks in question.

The Bank's capital being defined in terms of gold, it is unable to take up exchange positions of any great size or for any considerable period. The Bank is therefore subject to a strict discipline. But it has found that this discipline, far from having the effect of paralysing its activities, may well be regarded as a source of strength.

* * *

The position as at the end of 1954, as well as the development of the Bank's assets and liabilities, may be seen in the charts on pages 22 and 23. Detailed statements of the Bank's balance sheet are regularly published in the Annual Reports.

These balance-sheet data do not include gold under earmark and securities held in custody for the account of central banks or other depositors, nor the gold, funds and securities deposited with the B.I.S. as Agent for the Organisation for European Economic Co-operation (in respect of the European Payments Union), as Agent for the High Authority of the European Coal and Steel Community, and as Trustee or Fiscal Agent for international loans. The total of these various assets which are not included in the balance sheet but are held for account of others is of the order of \$500 million.

In the statement of account as at 31st March 1955 the Bank's gold stock stood at 626 million gold francs (\$205 million), this amount being equivalent to 36.4 per cent. of the total assets, excluding those in connection with the Hague Agreements of 1930; moreover, the liquid and remobilisable assets in various currencies, aggregating 492 million gold francs, accounted for 28.5 per cent. of the total assets, so that these two items together represented 64.9 per cent. of the total, while on the other side of the balance sheet sight deposits, amounting to 483 million gold francs, accounted for 28.1 per cent. of the total liabilities. The Bank thus maintains a particularly high degree of liquidity.

The Bank's exchange positions are of short duration and relatively insignificant in amount, fluctuating as they do with the development of the Bank's current operations. And experience has shown that the Bank's best policy, in order to be able to meet the demands which are made upon it, is always to maintain a fairly large stock of gold.

If account is taken not only of the gold deposits but also of the Bank's forward operations, the net total of the Bank's gold holdings differs — often quite considerably — from the position as indicated by the figure for the Bank's gold stock in its statements of account, as may be seen from Table 2 on the next page.

Leaving out of account the paid-up capital of 125 million gold francs and certain minor allocations, the Bank's reserves consist of the statutory reserves, totalling 21 million gold francs, and the provision for contingencies, amounting to 118 million gold francs — the equivalent of some \$46 million in all.

Table 2

Gold position of the Bank for International Settlements.

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
31st December	592.2	431.7	160.5	226.7
1954 31st March	609.1	439.1	170.0	212.1
31st December	598.6	436.0	162.6	215.9
1955 31st March	625.7	453.2	172.5	227.0

After deduction of the 68.3 million gold francs of the Bank's own funds which are earmarked for the execution of the Hague Agreements and are thus tied up until 1966, and also of the amounts held in reserve for certain minor commitments, the total of the Bank's own available funds amounted on 31st March 1955 to about 210 million gold francs (about \$70 million). This amount, which has grown steadily, particularly since 1947, as can be seen from the table on page 21, has as its counterpart on the assets side the holdings of actual gold available at sight or at short term and distributed among the principal centres. These gold holdings constitute for the B.I.S. a useful liquidity reserve and at the same time form the basis for its gold operations.

Before 1939, the interest on the investments made under the Hague Agreements amounted to between 8 and 9 million gold francs annually and accounted for a relatively large proportion of the Bank's gross profits. This income ceased in 1945 but, as already mentioned, the transfer of interest on the said investments was resumed in 1953, although at the reduced rate of 5.6 million Swiss francs, or about \$1.3 million, annually. Since 1947 the income from the Bank's current operations has increased rapidly and this increase has compensated, at least to some extent, for the loss of interest on the investments in Germany.

On the other hand, the total amount of interest allowed by the B.I.S. on deposits entrusted to it has, of course, also increased as the deposits in question have been reconstituted. The Bank's costs of administration, which were substantially reduced during the war period, subsequently returned to a more normal level. This increase has, however, only brought them up again to the pre-1935 level, notwithstanding the appreciable rise in prices which has taken place since that time and the new functions assumed by the Bank.

In the first period of the Bank's existence (1931-35) the net profit, calculated after making certain allocations to reserves, amounted to between 13 and 15 million gold francs annually. In the subsequent phase, from 1935 to 1939, the net profit settled down at about 9 million gold francs, after which it declined considerably during the war.

Table 3
Profit Record
of Bank for International Settlements.

Financial year	Profit before provisions for contingencies	Net profit
	in millions of gold francs	
1947-48	9.5	—
1948-49	5.1	—
1949-50	6.0	2.6
1950-51	6.1	3.1
1951-52	6.4	2.7
1952-53	6.9	3.5
1953-54	9.9	5.0

There was a slight loss in 1945-46, but this was compensated for by a comparable surplus in the following financial year. With the resumption of normal operations, the profits have since developed as shown in Table 3.

The dividend of 6 per cent. provided for in the Statutes was paid until 1942. It was reduced in 1943 and 1944 and suspended in 1945. The payment of a dividend was resumed as from 1951, at the

rate of first 2 and later 3 per cent. In 1954 the dividend was fixed at 19.60 gold francs, or 28 Swiss francs, per share, corresponding to 3.14 per cent. of the gold value of the paid-up capital.¹

It would seem to follow from these statements of the financial situation of the B.I.S. that, although its profits are necessarily limited by the nature of its operations, its financial position is strong and provides as high a degree of security as may legitimately be expected.

VI. Trustee and agency functions.

One of the objects of the B.I.S. under Article 3 of its Statutes is to "act as trustee or agent in regard to international financial settlements entrusted to it under agreements with the parties concerned". The first task of this nature to be entrusted to the Bank was in connection with the application of the Young Plan. The B.I.S. had only been in existence for a year when its activity in this field was almost wholly suspended by the Hoover Moratorium of 1931. The Bank remained responsible, however, for the assets and liabilities connected with the Hague Agreements and this responsibility will continue until the final settlement, due to take place in 1966.

In 1930 the B.I.S. was, in addition, appointed Fiscal Agent of the Trustees for the Dawes Loan and also Agent of the governments in connection with the issue of the Young Loan and Trustee for this loan; it was also made Trustee for the Austrian International Loan of 1930. In the carrying-out of its functions as Trustee for these loans the Bank has many

¹ The clause in the Statutes concerning a cumulative dividend of 6 per cent. gives the shareholders priority over the governments. The latter were not entitled to receive any interest on the long-term deposits which they had made under the Young Plan but had a right to a portion of the profits remaining after the payment of a cumulative dividend of 6 per cent. to the shareholders. At present there is in fact no longer any sharing of profits with the governments and the shareholders receive by way of dividend the whole of the net profit after the necessary allocations to reserves have been made. For the sake of greater clarity these allocations are now shown in the annual Profit and Loss Account.

times had to intervene in order to reaffirm the rights of the bondholders. It did so quite recently at the London Conference on German External Debts in 1952 and at the Rome Conference on Austrian Debts in 1953. Following these conferences the B.I.S. agreed, at the request of the governments concerned, to make its services available for the execution of the resultant agreements as trustee for the bondholders who accepted the proposed settlements.

Between 1930 and 1939 the B.I.S. was on several occasions asked to act as agent for specific operations in connection, for instance, with the settlement of loans, the application of certain agreements concerning the Saar, the Austrian Credit-Anstalt, etc. The Bank has also been asked at various times from 1931 onwards to hold in safekeeping certain international financial agreements on behalf of the signatories and to appoint the members of the arbitration committees provided for in these agreements, as, for example, in the case of the German Credit Agreements relating to the so-called "Standstill Debts". The B.I.S. still performs functions of this nature.

* * *

After the war a new function was entrusted to the B.I.S., viz. that of technical agent for the execution of various monetary compensation agreements.

In the autumn of 1947 the B.I.S. agreed to act as Agent of most of the European governments participating in the Marshall Plan for the purpose of the execution of the limited compensation agreement signed at that time. This scheme was a first attempt to get away from the strictly bilateral payments arrangements which had been in force since the war. Although it produced only modest results it established methods of reporting by European central banks which served as the basis for later agreements.

In April 1948 the Organisation for European Economic Co-operation (the O.E.E.C.) was formed, and in September of that year the B.I.S. became the Agent of this Organisation for the execution of the "Agreements for Intra-European Payments and Compensations" for the two years 1948-49 and 1949-50. These agreements were directly linked with the distribution of Marshall aid. As the amount of aid given to the individual countries was calculated on the basis of the estimated deficits in their balances of payments, the aid received took the form not only of direct allocations in dollars but also of grants made in European currencies in the form of "drawing rights", in respect of which "conditional aid" in dollars was allocated to the countries whose resources were drawn upon in this way. During the two years, an amount in European currencies equivalent to \$1,400 million was utilised in the form of "drawing rights".

In 1950 these schemes were superseded by the "Agreement for the Establishment of a European Payments Union". The creation of this Union (the E.P.U.), which had an initial capital fund in dollars provided out of Marshall aid, made it possible to organise a general compensation and in that

way to avoid to a great extent an important drawback of the bilateral agreements — the accumulation of inconvertible balances. The B.I.S. was again entrusted, as Agent for the O.E.E.C., with the technical operation of the E.P.U. agreement and also with the task of acting as banker for the Union.

The E.P.U. mechanism is based on the reporting of balances to the B.I.S. by the central banks of member countries and on the settlement of these balances. The B.I.S., in its capacity as Agent, performs functions of a purely technical character, duties demanding the greatest precision in carrying out intricate operations. The Bank ascertains the amount of the bilateral surpluses and deficits and calculates the net position of each country vis-à-vis the Union after the general compensation of the bilateral balances. The net positions are settled by the debtor countries with the Union and by the Union with the creditor countries, partly by a payment in gold or dollars and partly by the automatic opening and cancellation of credit to an extent and according to the rules laid down in advance. All these operations are carried out each month on the agreed "value date".

Within its terms of reference and in accordance with the instructions of the Managing Board of the Union, the B.I.S. receives reports from the central banks (to which, of course, the rule of banking secrecy applies) and performs the necessary technical operations and calculations. It receives and pays the amounts to be settled in gold, in London, New York or Paris, or in dollars through the special account opened for this purpose by the Federal Reserve Bank of New York. The B.I.S. keeps the Union's accounts, invests the available dollar balances in U.S. Treasury bills and prepares a statement of account and a report every month.

The accounts and balance sheet of the E.P.U. are, of course, kept entirely separate from the accounts and balance sheet of the B.I.S. itself, as are all funds and securities handled by the Bank in its capacity as trustee or agent.

Between 1950 and the end of 1954 the amounts received and paid by the B.I.S. in gold and dollars for the account of the Union totalled some \$6,500 million. The total of the balances in gold or dollars held by the B.I.S. for the account of the Union and not included in the Bank's balance sheet amounted at the end of 1954 to about \$300 million.

* * *

In November 1954 the High Authority of the European Coal and Steel Community invited the Bank to accept certain new functions in connection with an agreement for a loan of \$100 million which the High Authority had recently concluded with the U.S. Government, represented by the Export-Import Bank in Washington.

The proceeds of this loan are used by the High Authority to grant credits to enterprises in the six countries which are members of the Community. Under the agreement concluded with the U.S. Government the

notes drawn by the enterprises which receive the loans are to constitute a separate portfolio, which will serve as a common pledge for the benefit of present and future lenders of funds to the High Authority.

The B.I.S. has agreed to act as Depositary in regard to this pledge. Under the contract which it has entered into with the High Authority the B.I.S. receives in a special account the funds made available by the lenders and it has in due course to release these funds to the enterprises designated by the High Authority against the pledging of notes made out by the enterprises in question. The notes are managed on behalf of the B.I.S. by national sub-agents appointed in agreement with the High Authority. The amounts paid in respect of interest and amortisation by the various enterprises to which credits have been granted are collected by the B.I.S., which also makes, for account of the High Authority, the payments due from the High Authority to its lenders.

In this field too, the functions of the B.I.S. are entirely technical.

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The functions assumed by the B.I.S. as trustee or agent are quite varied in character. They all, however, meet the same need: that there should exist, for the execution of agreements between different countries, an international institution, possessing an official status and yet commercial in its methods, which at one and the same time is able to remain in contact with both the markets and the monetary authorities and is known to possess the technical qualifications necessary to ensure the smooth working of the various agreements on the best terms possible and with the maximum security for the parties concerned.

Experience has shown how important it is that any mandate given to the B.I.S. should be defined as precisely as possible. That is the reason why, apart from the functions performed by the Bank in 1930 and 1931 under the Hague Agreements and those assumed at the same time by virtue of its appointment as trustee for certain international loans, the B.I.S. has done its best to avoid entering into commitments which are too general in character. The term "trustee" in itself presents certain difficulties, for it has no exact equivalent in continental law; differences of opinion may, therefore, easily arise as to the responsibilities which the term implies. The task of the B.I.S. should be to perform certain technical duties determined in advance and considered necessary for the execution of a particular agreement. This has clearly been the case as regards the functions which have been undertaken by the Bank under the recent agreements.

VII. Economic and monetary research.

The B.I.S. is not only an international bank which makes its services available to the European central banks and a technical agent for the execution of certain specific agreements. It is also a centre for economic and monetary research and consultation.

The Bank's activity in this sphere takes various forms. Perhaps the most widely known is the regular issue by the Bank of a certain number of publications, the most important of which is its Annual Report. Each year this Report contains, in addition to the profit and loss account, the balance sheet and the financial statement which are submitted for the approval of the General Meeting, a general survey of the international economic and monetary situation, particularly in Europe, with special sections devoted to such technical subjects as the production and distribution of gold, foreign exchange markets, price movements, foreign trade, etc.

In conformity with a decision reached when the B.I.S. was first established, this survey of economic and monetary developments is not a document officially adopted by the Board of Directors or by the General Meeting. It is an independent study made by the Management of the Bank, and, while it certainly reflects opinions shared by the heads of the various central banks, it does not officially commit either these banks or their governments. This being the case, it is possible in these Reports to discuss frankly the most important economic and financial questions of the day and to express views inspired, as far as possible, by a spirit of objective enquiry.

During its existence, the B.I.S. has carried out a number of special studies at the request of various central banks. The reports written in response to these requests are as a rule of a confidential nature. They are intended for the use of the central bank which has asked for the particular study to be made, and are not published or passed on to others except with the consent of the central bank concerned. In the years 1934-38 the Monetary and Economic Department was associated with the work of a Banking Commission in Dublin, which led to the establishment of the Central Bank of Ireland; and since 1945 special studies have been carried out in Italy, the Netherlands, France, Austria and Germany — in the last-mentioned case in co-operation with the O.E.E.C. A memorandum on the sterling area was given a fairly wide distribution, with the consent of the Bank of England. In the autumn of 1953 the B.I.S. was entrusted by the High Authority of the European Coal and Steel Community with the task of making a technical study of the financing of coal stocks in certain European countries.

In addition, the B.I.S. regularly prepares compilations of a number of documents which it receives. In particular it has made a collection of documents relating to foreign exchange regulations in force in the principal countries. Certain of these compilations may be purchased by the public,

while others are reserved for internal use in the B.I.S. itself and the various central banks which are specially interested in them.

Furthermore, the central banks receive from the B.I.S. a daily press review containing summaries in English of articles selected from various newspapers in Europe and the United States as being of particular interest from a monetary, economic and financial point of view.

The B.I.S., as such, has no official doctrine and, indeed, avoids anything in the nature of dogmatism; but the members of the Board of Directors and of the Management have had, in various capacities, much personal experience in matters of monetary policy. Most of them have today, or have had in the course of their careers, to shoulder practical responsibilities in connection with the management of a particular currency.

It is therefore not surprising, and it is undoubtedly all to the good, that in the interpretation of facts and the drawing of conclusions the Bank's Annual Reports should reflect this varied experience and uphold what has come to be known as the "central-bank tradition". This is, however, by its very nature, a tradition which must be constantly kept up to date, in view of the great progress which has taken place in the science of economics over the last twenty-five years and the important advances made in monetary technique, influenced as they have been by the lessons learnt from actual developments in this field.

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Looking back over the series of Annual Reports published by the B.I.S., it is striking to note that there is an unmistakable continuity of ideas and opinions, however difficult and varied the particular circumstances of each period may have been. Right from the beginning, attention has been drawn over and over again to the fundamental solidarity of all countries in their approach to economic and monetary problems. The belief that one country in isolation could achieve prosperity by cutting itself off from the others through a policy of autarky was condemned in the very earliest Annual Reports, which appeared at a time when that particular fallacy had in some countries become so firmly rooted that it almost amounted to an official doctrine.

The Fifth Annual Report (published in 1935) gave a detailed description of the methods of co-operation between central banks. This study naturally bore the mark of the circumstances prevailing at the time, but in broad outline it is as topical today as it was when it was written.

The ideas which were contained in the Annual Reports of the B.I.S. in the first post-war years conflicted at the time on many points with the views prevalent in leading economic circles in various countries and, in particular, with a number of forecasts which were put forward at the end of the war. There was then a fairly general belief that the main danger lay in the possibility of a serious business setback after the heavy wartime expenditure

had been reduced. It seems that the great depression between the two wars had had so marked an effect on men's minds that the fear of another deflation blinded them to the opposite danger, i.e. that presented by a continuing inflation. Consequently most people were convinced that a policy of easy money would be more necessary than ever and that the methods of financial and economic control which had been introduced during the war should, broadly speaking, still be applied, in any case during the period of reconstruction.

Already in 1944 the Bank, in its Fourteenth Annual Report, had taken a very different view of the situation. After noting the excessively high degree of liquidity then characteristic of market conditions in almost every country, the Report drew attention to a number of other facts and figures which indicated that there would certainly be no immediate lack of means of payment and that the main necessity was not to fight deflation but to combat inflationary tendencies and to make the adjustments required for a rapid change-over to a peacetime trend of expanding production and employment. Such a task called not so much for a continuation of controls and restrictive measures as for a conscious reliance on the active forces which would allow the spirit of enterprise and international competition to make their proper contribution to economic progress.

In addition, the Annual Reports of the first post-war years laid stress on some other essential points which were often overlooked at the time: First and foremost, that there is a very strong link — not always recognised but still as strong as ever — between a country's domestic financial and monetary policy, on the one hand, and the development of its balance of payments, on the other. Secondly, that there is a need for a truly flexible credit policy which, by means of variations in interest rates, can be constantly adapted to changing circumstances. Finally, that with the passing of the war economy a removal of quantitative restrictions of all kinds is the most effective way of improving a country's economic position and, especially, of strengthening its currency, although particular pressure groups, swayed by shortsighted considerations, may make the lifting of import restrictions appear as a "concession" to other countries.

The Seventeenth Report of the B.I.S., published in 1947, laid particular stress in its conclusions on the urgent necessity for bringing to an end the wartime inflationary methods the retention of which, it argued, served to prolong the dollar shortage in Europe. These conclusions were elaborated in greater detail in a note on the new American scheme for aid to Europe announced by the U.S. Secretary of State, Mr Marshall, in the speech he delivered on 6th June 1947. This note, dated 10th July of that year, was intended for the use of the European central banks and was also communicated to the U.S. authorities. In it attention was drawn to the fact that foreign aid of the type contemplated — which, it was recognised, would be a factor of the greatest importance for the post-war recovery of Europe — could not be maintained over an indefinite period. To be put to the best use, it would

have to be regarded as a means of facilitating the carrying-out of a comprehensive plan in which the financial and monetary rehabilitation of the European economies should be one of the main objectives, and to assist this rehabilitation a certain portion of the aid should be earmarked for the strengthening of monetary reserves. Whilst the physical aspects of European reconstruction were undoubtedly important, they were not the only factors of which account had to be taken; if these aspects were to be given too much attention, it was maintained, while little were done with regard to balance-of-payments deficits except to subsidise them, there would be the danger that the financial disorders which were largely responsible for the shortages from which Europe was suffering might be unduly prolonged.

* * *

In the decade since the war successive Annual Reports have presented a wealth of evidence which seems to show conclusively that the fundamental monetary ideas constantly defended in the Reports have been borne out by events. With the aid of numerous examples, it has, in particular, been possible to prove that sound monetary policies are not incompatible with a steady expansion of economic activity and with the maintenance of a high level of employment. Since the outbreak of the Korean conflict, which was followed by a fairly general return to a flexible credit policy, the dominant ideas in monetary thinking have undoubtedly undergone a great change. Fortunately a careful examination of actual developments in the various countries has done much to bridge the gulf which existed between the adherents of different doctrines in the first years after the war. Nowadays there is hardly anyone who disputes the usefulness of what has been described as the "revival of monetary policy".

The remarkable economic progress which has been achieved in Europe during the last few years has inevitably given added importance to an increase in savings activity and the restoration of properly functioning capital markets; and there has come to be, at the same time, a greater understanding of the need to return to a truly international monetary system based on currency convertibility.

The Twenty-third and Twenty-fourth Annual Reports (issued in 1953 and 1954 respectively) contained special chapters on the financing of investment and the growth of savings, which constitute the basis for economic development. Particular reference was made to some of the ideas on these subjects which had come to be connected with the name of Keynes. Attention was drawn to the strange fact "that there was for a long time so little recognition of the essential difference between the situation prevailing in the post-war years and the state of affairs which Keynes had in mind when he prescribed his remedies for the ills of the great depression".¹

¹ Some ideas connected with Keynes' theories had already been discussed in Chapter III of the Twentieth Annual Report (issued in 1950) with particular reference to the need for post-war investment in various European countries, and especially in Italy.

The conclusion reached was summed up in the following words: "The restoration of a healthy currency is not only the most urgent but also the most remunerative form of investment". The restoration of a healthy currency is, indeed, the only way in which a high degree of European co-operation and integration can be achieved without turning Europe once again into a closed area. The concluding observations of the Twenty-third Annual Report laid particular stress on the same points in the following words: "Europe's whole history shows that the periods when it has been cut off from other regions of the world have been its dark ages"; and "convertibility is a flexible bond which constitutes the most effective and least rigid form of integration".

As post-war conditions have improved in Europe, the Reports have tried to indicate the practical steps which might be adopted in order to achieve a gradual return to convertibility. Constant care has been taken to avoid entering the barren field of doctrinaire controversy or losing sight of the fact that one of the essential aims of the economic analyses contained in the B.I.S. Reports is to provide those who are responsible for monetary policy with the requisite facts and figures, presented in as objective a manner as possible, so that they may be useful to them in their discussions of their own problems and may really help them to draw the necessary conclusions.

VIII. Conclusion.

The founders of the B.I.S. attached great importance to the permanent contacts which the new institution would make possible between officials of the different central banks. Their hopes that such contacts would develop and would produce useful results can certainly be said to have been fulfilled. It is, indeed, a remarkable fact that for twenty-five years — apart from the interruption during the war — the central-bank Governors who are members of the Bank's Board of Directors have, despite all the other claims on their time, devoted two or three days month after month to the Board Meetings in Basle; and other central-bank Governors not only attend the Annual General Meeting but also make occasional visits during the year.¹

These personal contacts between the Governors, their alternates and a number of high officials whom the Governors often bring to the meetings are of great value. The authorities have found by experience that in order to carry out the delicate tasks entrusted to them they nowadays require a thorough knowledge not only of their own country's monetary situation but also of that of other countries. The interchange of statistical and other data and the relations which are established through diplomatic channels or at official conferences cannot take the place of the direct personal contacts, the

¹ In addition to the regular sessions of the Board of Directors, meetings of experts are held from time to time at the B.I.S. These meetings are essentially technical and informal in character and are intended to help the central banks to compare notes and to widen their sources of information.

relationships between man and man, and the close understanding which exists between those who have to shoulder very much the same responsibilities in their respective countries.

Indeed, a new spirit has grown up in the relations between European central banks; and there is no doubt that the regular meetings in Basle have played their part in helping it to develop. And since, fortunately, this spirit of co-operation has evolved spontaneously and not as a result of any formal regulation, it has grown stronger with the years and has become powerful enough to survive even under the most extraordinary circumstances.

Practically all countries in Europe are now faced with important problems. As far as monetary questions are concerned, the primary necessity for these countries in the sphere of domestic policy is to make a proper valuation both of the traditions of the past, which have stood the test of time but which need to be harmonised with the conditions of a modern world, and of certain doctrines, more recent in origin, which have often been too rigid and therefore also stand in need of adaptation to existing facts. Indeed, the experience of these post-war years has proved more conclusively than ever that neither social nor economic progress can be made unless a proper monetary policy is pursued. In the international field the important task is to reconstruct an effective and durable monetary system, this being the only means of achieving the high degree of integration which is necessary in the world of today without at the same time turning Europe into a closed area; for the goal must be to promote a more abundant flow of goods and capital throughout the world.

In a modest but I believe useful way the B.I.S. is in a position to make a contribution to the solution of these essential problems. By its very existence and its international activities the B.I.S. proves that European co-operation should not be regarded merely as a lofty ideal but that it can, step by step, become a reality sufficiently strong and durable to surmount the greatest difficulties.

The history of the Bank for International Settlements proves that the important point is not necessarily the size of initial financial resources and still less the existence of complex and detailed statutory guarantees. What really matters is the mutual trust between men pledged to a common task and, above all, the ability of institutions, within their particular field, to adapt themselves to the constantly changing conditions of the modern world.

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