

**BANK FOR  
INTERNATIONAL SETTLEMENTS**

**THIRTEENTH ANNUAL REPORT**

**1st APRIL 1942 — 31st MARCH 1943**

**BASLE**

**Autumn 1943**

## TABLE OF CONTENTS

	Page
I. Introduction . . . . .	5
II. Exchange Rates, Foreign Trade and Commodity Prices:	
(1) Exchange Rates . . . . .	39
(2) Foreign Trade . . . . .	60
(3) Price Movements . . . . .	83
III. Production and Movements of Gold:	
(1) Supply of Gold . . . . .	113
(2) Movements of Gold . . . . .	118
IV. Lend-Lease, British Disinvestment and European Clearings . . . . .	132
V. Government Finance, Money and Capital Markets and the Stock Exchanges:	
(1) Government Finance, Money and Capital Markets . . . . .	170
(2) Share Markets . . . . .	280
VI. Central Banking and Currency Developments . . . . .	291
VII. Current Activities of the Bank . . . . .	321
VIII. Conclusion . . . . .	328

## ANNEXES

- I. Balance sheet as at March 31, 1943.
- II. Profit and Loss Account and Appropriation Account for the financial year ended March 31, 1943.

**THIRTEENTH ANNUAL REPORT**  
**OF THE PRESIDENT OF THE**  
**BANK FOR INTERNATIONAL SETTLEMENTS**  
announced at the  
**ANNUAL GENERAL MEETING**  
held at  
Basle, 16th June 1943.

The President has the honour to submit herewith the Annual Report of the Bank for International Settlements for the thirteenth financial year, beginning 1st April 1942 and ending 31st March 1943. The results of the year's business operations are set out in detail in Chapter VII. Net profits, after provision for contingencies, amount to 4,508,953.89 Swiss gold francs. After the allocation to the Legal Reserve that is required by Article 53 of the Statutes, to an amount equal to 5 per cent. of the net profits, i. e. 225,447.69 Swiss gold francs, there remain 4,283,506.20 Swiss gold francs available towards the payment of a dividend. This sum together with the balance in the Dividend Reserve Fund amounting to 1,626,940.33 Swiss gold francs — in all 5,910,446.53 Swiss gold francs — permits the distribution of a dividend of 29.55 Swiss gold francs per share. At the end of the financial year the balance-sheet total was 483.4 million Swiss gold francs, as compared with 476.6 million Swiss gold francs on 31st March 1942.

Although the total of the Bank's balance sheet has thus risen slightly, there has again been some curtailment in current business after the substantial reductions which occurred in the first two years of the war. Such operations as are still possible, including the management of the Bank's investments on various markets and certain transactions for the Red Cross, now usually call for much more detailed work than in the past, on account of the great mass of new regulations to which international payments have been subjected and other difficulties which have to be overcome. In its activities, the Bank has continued to adhere to the principles of scrupulous neutrality which it laid down for itself in the autumn of 1939, avoiding all transactions whereby any question could possibly arise of conferring economic or financial advantages on a belligerent nation to the detriment of another.

From the very outbreak of hostilities it was generally realised that war in modern conditions demands the utmost effort, both civilian and military, from belligerent nations and that state direction of economic life was involved on a scale surpassing anything known in the past. It would even be an understatement to say that in matters of government control the present war started where the last one left off, since in many fields lacunae which were

still embarrassing the administrations of 1918 were this time dealt with immediately the war began, one notable example being the early imposition of exchange control. While the present struggle was thus a total war from its very beginning, with each year that it has been prolonged and with each extension of its compass there has been a further intensification of effort, through which, so to speak, higher and higher degrees of totality have been attained.\*

In the field of foreign commerce government direction is everywhere supreme, trade being subject to priorities, import and export permits, rationing of foreign exchange and allocation of transport facilities, while premiums and special charges have been introduced to "equalise" prices at home and abroad and thus assist the movement of goods in directions where otherwise the price differential would be prohibitive or would exert an undesirable influence on the price structure. The methods of control are many but the result is one: private business, tied by governmental restrictions, is made to function more and more for official account. Through economic warfare — the blockade, the counter-blockade and all the measures supplementary thereto — the world has become divided into quasi-watertight compartments, with only a few trickles of trade being allowed to pass through the barriers, as, for instance, imports and exports to and from Sweden via Gothenburg and to and from Switzerland via Portuguese, Spanish and Italian ports, these shipments requiring permits from the belligerents on both sides.

In the winter of 1941-42 the pattern of world trade was suddenly changed in a large measure by the extension of Japanese domination in the south and south-western Pacific. This made it necessary for many countries either to seek alternative sources of supply, for instance in Latin America, or to embark upon the production of substitutes at home; an outstanding example of such production is the manufacture of artificial rubber in the United States at a rate estimated at 250,000 to 275,000 long tons in 1943, compared with peacetime requirements of natural rubber amounting to 410,000 long tons in 1938. Another important change in the international movement of goods has been the increase in lend-lease deliveries, not less than 60 per cent. of the total exports of the United States in 1942 being on lend-lease account. On the other hand, foreign trade inside the continent of Europe showed little change in 1942, credits through the clearing mechanism being on about the same scale as in the previous year.

In its economic policy each belligerent country must aim at a maximum utilisation of its human and material resources. Under the influence of cost and price changes in markets still comparatively competitive, the manpower of a nation could in peacetime be left more or less free to distribute

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\* The war has brought the suppression of a number of statistical series, in particular those relating to commodity stocks and other matters on which information might be considered of value to the enemy; and, for much the same reasons, the greater part of the new material collected for official purposes connected with the war effort has not been published. But a considerable volume of reliable statistical material has remained, although not always easily available: especially as regards monetary and financial developments is much of the information normally received in peacetime still to hand; indeed, in a number of cases, regular publication has been resumed after an initial suspension, e.g. of certain central-bank returns.

itself among the various occupations open to it; but, in time of war, the government itself must necessarily determine what groups have to be drafted for service in the armed forces and it must further try to prevent, or at least to limit, the rise in prices which would normally be the result of its own increased demand for goods and services. In some countries higher prices and pay have no doubt been helpful factors in the transformation of production, including the regrouping of labour; but, with the intensification of the war effort, the driving force has increasingly been supplied by government direction, exerting its influence through a whole series of economic measures:

- (i) The mobilisation of the last reserves of manpower includes (in addition to the use of foreign workers, which has been important in Germany), the reabsorption of the unemployed, the lengthening of hours of work, the postponement of retirement, the earlier active employment of young people and — as not the least important measure — the greater employment of women in all kinds of occupations. Experience in more than one industry has shown that women often equal men in efficiency and sometimes even surpass them. In Germany, where 50 per cent. more women were working in trade and industry in 1939 than in 1932, the war at first brought a decline in the employment of women (mainly as a result of the many marriages); but the figure began to rise again in 1940, so that by 1942 1.3 million more women were employed than at the outbreak of war (and early in 1943 there was a further enlistment in order to set more men free for active service or armament production). By the end of 1942 foreign workers (including prisoners of war) represented 17 per cent. of those employed in industry in Germany, it being estimated that the effective yield of foreign labour was on an average about 80 per cent. of that of German workers.

That in times of heavy rearmament and war there is an urgent need for manpower is but another way of stating the fact that at such times unemployment has ceased to be a problem. In the United States, for instance, there were about 7 million more people employed in the autumn of 1942 than in the summer of 1939 and during the same interval the actual working week in manufacturing establishments had been lengthened by about one-seventh. In this as in other countries heavy new orders by the state, financed to the extent of one-half or more by additions to the public debt, provide a definite outlet for productive capacity; commodity prices — whether strictly controlled or not — are fixed so as to allow full remuneration of costs; and the redundant purchasing power in the hands of the public makes it possible to sell almost anything, while the standard of living in civilian life is necessarily pressed down. The few remaining neutral countries, with a smaller proportion of their manpower drafted for service in the armed forces, have from time to time feared that lack of raw materials and curtailment of export facilities would cause extensive unemployment; but they too have found, not without some

surprise, that, thanks to the production of substitute articles and materials and to the general hunger for goods, the number of unemployed has been kept at well-nigh the lowest figure ever recorded. It is one of the tragic aspects of life that some problems — and notably the problem of employment — can be more easily solved in periods of increasing scarcity and international conflict than in periods of peace and abundance. But, although in times of plenty a mounting production of a variety of goods certainly brings with it the risk of many maladjustments, it is, none the less, at such times that man's material welfare is increased. It makes all the difference whether the work done produces goods and services actually wanted by the people (what they are willing to buy themselves with their earnings) or whether full employment is attained only by virtue of government purchases and at a reduced standard of living, ending in scarcities all round.

- (ii) Hand in hand with the better utilisation of existing manpower there have been great efforts to rationalise production — not least in the civilian sector — the aim being to simplify output, in accordance with wartime principles, by a standardisation of models, concentration of production and curtailment of the apparatus of distribution. In the United Kingdom a vast and far-reaching scheme for the purpose of concentrating production was put into effect in the spring of 1941, with the result that, from May of that year up to March 1943, 235,000 workers were released for service in the armed forces or for war work and 61 million square feet of factory space was given over to war production or made available for storage purposes; this involved the closing of 2,800 establishments, while 5,800 were designated "nucleus firms" (and, as such, usually carried on manufacture, on a commission basis or against direct payment, for the firms which had been closed). In each country the character of the measures taken depends, of course, upon local conditions. In Germany the existing cartel system has been modified in several respects, new forms of association being introduced to carry out tasks allotted to the various branches of industry and trade; and in the autumn of 1943 the Minister of Armaments and Munitions was given the direction of the whole of German production (including, from then onwards, the civilian sector). In Japan also the government has taken drastic measures, concentration of industrial production being followed in the autumn of 1943 by the suppression of a great number of enterprises not essential for the war effort.

All this economic transformation has, of course, been primarily planned in the interests of the all-out war effort, but some of the resulting changes will no doubt have a lasting effect on industrial life. Such countries as have not taken the same stern measures of industrial concentration have begun to ask themselves whether those who have done so will not benefit greatly from an enduring improvement in efficiency, thanks to the increased interchange of technical knowledge and the many new inventions which have formed part

of the almost irresistible impulse towards rationalisation caused by an acute labour shortage. It is naturally in the armament industries that the advance has been most pronounced and the results thereof should be felt particularly in the production of durable goods. Peace will presumably bring back — though probably not at once — the right of the consumer to determine what he will buy, and much of the present manufacture according to standardised patterns will then no doubt go by the board; but, within many fields and for a large number of articles, production according to more standardised specifications provides such great advantages that it will certainly be continued even when the war is over, and this will make it possible to charge much less than would otherwise be the case. On the other hand, there is a certain danger that the strong industrial and commercial associations formed during the war may seek to retain monopoly positions conferred upon them under wholly exceptional circumstances, endeavouring to limit competition and resist change and thus failing to adapt themselves to peacetime conditions, thereby making it exceedingly difficult to ensure work for those returning from active service or no longer occupied in armament industries.

The limitation of output for civilian purposes has been applied most drastically to the production of durable consumer goods (dwelling-houses, automobiles, refrigerators, radios, etc.), since the industries and trades engaged in their production are those which can most easily be switched over to the manufacture of war materials, the bulk of which consist of guns and munitions, tanks and lorries, aeroplanes and ships. In the United States the first curtailment in the supply of finished civilian goods came in the autumn of 1941; the following table shows that from the middle of that year to the middle of 1942 the entire rise in the aggregate industrial production was caused by the rapid expansion in the output of durable manufactures and that very much the same held good for the following twelve months up to the middle of 1943.

Index of Industrial Production  
In the United States.

Base 1935-39 = 100	June 1941	June 1942	June 1943
Durable manufactures . . .	199	246	303
Non-durable manufactures .	138	136	147
Minerals (except gold) . . .	131	132	121
Total index . . . . .	160	177	203

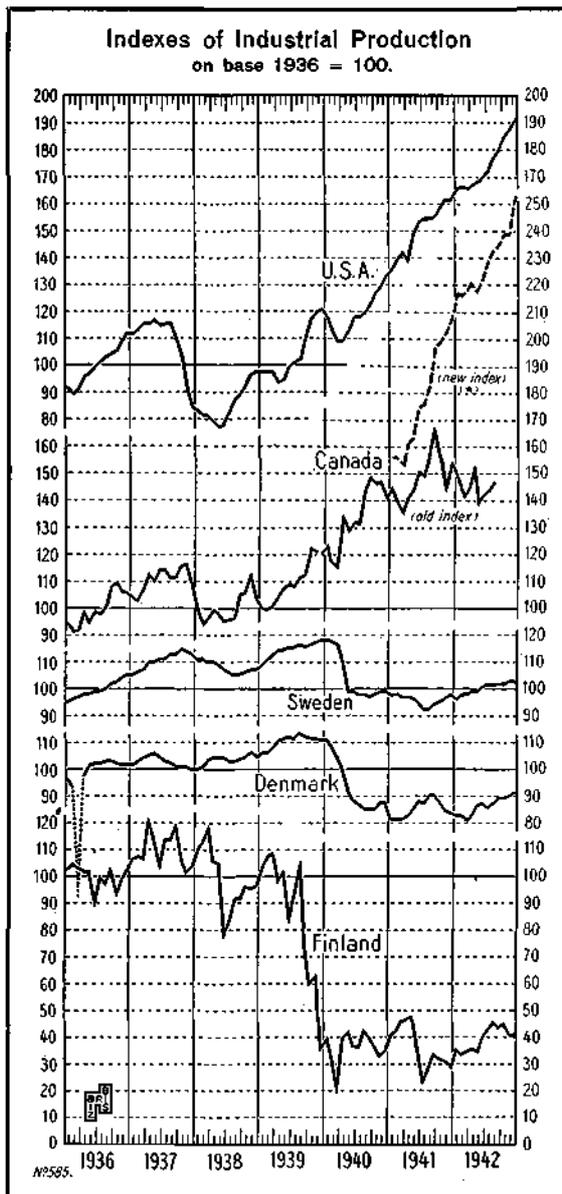
The increase between June 1942 and June 1943 in the index figures for non-durable manufactures reflects mainly higher output in the chemical industry, the products of which consist more largely of munitions than those of any other industry in the non-durable group. The decline in minerals in June 1943 would seem to have been largely temporary (a result of labour conflicts in the coal industry).

In the spring of 1943 it was estimated that nearly two-thirds of the current industrial output in the United States was for war purposes; for the first half of 1943 the index of industrial production showed little change in the total, thus apparently indicating that a more or less final stage of economic mobilisation had been reached, marked, *inter alia*, by an acute shortage of manpower.

Industrial production in Canada has increased even more rapidly than in the United States, Canada having become, after the great powers, by far the largest armaments producer in the world. This spectacular increase is

partly due to improvements in technical efficiency; but the main reason is a shift in employment from occupations with a low rate of productivity to others with very high productivity (the value of a man's output will rise fast if he moves from a "marginal" farm to an aeroplane factory equipped with all the latest machinery). War demand would seem to be in the main for goods which can be produced on a conveyer belt or with the aid of other appliances of modern mass production, while the peacetime requirements of the ordinary consumer are largely of a different character, including an increasingly high proportion of services (restaurants, holiday resorts, medical attendance, beauty treatment, etc.) which cannot benefit to the same extent from

the use of labour-saving devices or large-scale production. This — be it said in passing — would seem to be one of the reasons why for the satisfaction of peacetime needs there cannot be the same spectacular rise in the national output as has been achieved during the war.



(\*) New index, with a new method of weighting.

Apart from Finland, none of the belligerent countries in Europe regularly publishes an index of industrial production, and indications of the general trend are given but rarely. It is likely that for most of them the proportion of war production to the total industrial output is very much the same as in the United States. The rate of total output varies, however, considerably from country to country. For France in 1942 it is estimated to have been about two-thirds of the 1938 volume. The sharp decline in Finland's industrial production, as shown in the graph, is due partly to lack of raw materials and partly to the high percentage of the population on active service — for long periods, up to 18 per cent. From the spring of 1940 lack of normally imported raw materials affected the volume of industrial production in Sweden and Denmark also, the loss of markets being

another factor. If, in spite of the falling-away of the important Anglo-Saxon outlets for the Swedish pulp, paper and timber industries, the total industrial production in that country has kept up relatively well (at about the 1936 level), this has been due partly to armament work and partly to substantial investments for the production of substitutes.

The yield of industrial production is usually the most important, but still only one, of the component parts of the national income. In a number of countries current estimates are compiled (but not always published) not merely of the net but also of the gross national income, the latter including the whole flow of goods and services produced during a year and thus also the cost of maintenance and replacement of the nation's capital.\* Once estimates are available covering the maintenance and replacement charges, the total private consumption and the amounts of domestic and foreign investments (or disinvestments), it is possible to set out more or less fully the yield of the real sources from which contributions to the costs of the war are derived. These costs may be met, firstly, by an increase in production; secondly, by a reduction in one or more of the following items: private consumption, government expenditure other than for war purposes, maintenance and replacement charges, provision for new domestic capital; and, thirdly, by a draft on foreign resources (foreign disinvestment).

For four countries, fairly complete estimates of the national income in 1942 have become available and some of the main figures are reproduced on the following pages, it being understood, however, that full comparability between the data for different countries cannot be expected, considering the rather wide margin of error to which such estimates are subject and the possible employment of varying methods of computation. Even within one and the same country a true comparison between the figures for different years cannot be ensured without a reduction of these figures to a unit representing stable prices (say, 1939 dollars for the United States, for instance). Such a reduction is, of course, a somewhat hazardous undertaking, since it is most difficult to take into account the price changes of the many heterogeneous elements which make up the earnings of a nation or on which the government and the public at large spend their money. It is, however, hoped that the results may give some idea of the proportions involved.

The first two columns in the table regarding the United States give the actual figures for 1939 and 1942 respectively and the third column the figures for 1942 recalculated in terms of "1939 dollars" on the basis of a price index registering a rise of 14 per cent. from 1939 to 1942. The difference between the figures for 1942 in "1939 dollars" and those for the year 1939 shows the real sources contributing to the cost of the war. Thus, war expenditure rose by \$41.8 milliard (in 1939 dollars) but the increase in the gross national product was

\* The net as well as the gross national income is often calculated both at prices including and at prices excluding the increase due to indirect taxation.

**Real Sources of Contributions  
to War Expenditure in the United States  
in 1942 in comparison with 1939.**

Sources of contribution	1939	1942	1942 in 1939 dollars	Difference between 1942 (in 1939 dollars) and 1939
Gross national product	88.6	151.6	133.2	+ 44.6
Deduct:				
Private consumption . . .	61.7	81.9	72.0	+ 10.3
Private gross capital formation . . . . .	10.9	8.0	7.0	- 3.9
Non-war government expenditure* . . . . .	14.6	12.5	11.0	- 3.6
Total deductions	87.2	102.4	90.0	+ 2.8
Leaving for:				
War expenditure*	1.4	49.2	43.2	+ 41.8

This table has been prepared on the basis of data given in an article on the "National Income and National Product in 1942" by Milton Gilbert and George Jazzi, appearing in the "Survey of Current Business" for March 1943, issued by the U. S. Department of Commerce.  
\* For goods and services, i. e. without such transfer expenditure as interest on the public debt, pensions, etc.

**Real Sources of Contributions  
to War Expenditure in the United Kingdom  
in 1942 in comparison with 1938.**

Sources of contribution	1938	1942	1942 in 1938 pounds	Difference between 1942 (in 1938 pounds) and 1938
Gross national income	5,587	9,078	6,700	+ 1,113
Add:				
Overseas disinvestment .	55	632	485	+ 430
Total available . . .	5,642	9,710	7,185	+ 1,643
Deduct:				
Private consumption . . .	4,035	4,800	3,408	- 627
Maintenance and increase of private domestic ca- pital . . . . .	762	302	232	- 530
Total deductions	4,797	5,102	3,640	- 1,157
Leaving for:				
Government expenditure*	845	4,608	3,545	+ 2,700

In a British Government White Paper, presented to Parliament in April 1943, an analysis was given of the sources of war finance and for that purpose an estimate was made of the national income and expenditure in 1938, 1940, 1941 and 1942. On the basis of the figures thus presented, "The Economist" in an article of 27th April 1943 made a recalculation of the 1942 figures in terms of "1938 pounds", assuming a rise of 30 per cent. in prices from 1938 to 1942. In the above table account has been taken of the figures in the White Paper and in "The Economist".  
\* For goods and services, i. e. without transfer expenditure.

(1) Footnote see opposite page.

even greater — \$44.6 milliard — and, with a decrease of \$3.9 milliard in the private gross capital formation and of \$3.6 milliard in non-war expenditure, was sufficient to enable private consumption to attain in 1942 a figure of \$10.3 milliard over and above the 1939 level (i. e. allowance being made for the rise in prices).

In terms of "1938 pounds" government expenditure in the United Kingdom increased by £2,700 million between 1938 and 1942 and this increase was covered by a rise of £1,113 million in the gross national income, by a reduction of £627 million in private consumption, by a compression of £530 million in the sums devoted to maintenance and increase of domestic capital and, finally, by a draft of £430 million on foreign assets. (Overseas disinvestment of £55 million in 1938 probably represented the reinvestment in Great Britain of amounts received from abroad as amortisation on long-term loans previously granted<sup>(1)</sup>.)

Because of the increase in Hungarian territory since 1938, per-capita figures are the best basis of comparison, but even they need some further adjustment owing to the relative poverty of the newly-incorporated areas. The Institute for Economic Research estimated that, of the decline amounting to 17 per cent. in the national income per head of population, 12 per cent. was due to this circumstance and only the remaining 5 per cent. represented a real decline, which in its turn was largely a result of the bad harvest in 1942 as compared with the excellent harvest in 1938. But heavier government expenditure and a higher export surplus absorbed more of the national income in 1942-43 than in 1938-39 and private consumption (measured in stable prices) fell, therefore, within the Trianon frontiers, by 11 per cent. per head of population, a percentage which may be taken as a measure of the reduction in the standard of living as compared with pre-war conditions.

Groups	1938-39 within the Trianon frontiers	The wider territory 1942-43		Difference between Column 3 and Column 1
		in current values	in 1938-39 prices	
in millions of pengö				
	(1)	(2)*	(3)	(4)
Total national income	5,192	12,461	7,029	+ 1,837
Deduct: Private consumption . . .	4,450	9,917	5,594	+ 1,144
Leaving for other purposes, i. e. for government expenditure on goods and services, and for the export surplus . . . . .	742	2,544	1,435	+ 693
National Income per head of population . . . . .		In pengö		% change
	572	840	474	- 17 %

The above table has been constructed on the basis of estimates of the current national income, in comparison with pre-war figures, published in July 1943 by the Institute for Economic Research in Budapest. In its calculations the Institute has assumed a price rise of 77 per cent. between 1938-39 and 1942-43.

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(\*) In order to find a mode of comparison which is not obstructed by the difference in the size of the United States and the United Kingdom and in the value of their currencies, "The Economist" has expressed the (partially regrouped) figures for the two countries as percentages of their pre-war gross income, i. e. the British figures are calculated as percentages of £5,587 million (the British gross national income in 1938) and the American figures as percentages of \$88.6 milliard (the gross national product of the United States in 1939). The percentages thus obtained give a real indication of the magnitude of the changes brought about by the war: thus for 1942 the cost of the war to the United Kingdom, as measured by the increase in government expenditure, comes to 48.4 per cent. of the gross national income, and this means that in that year the British Government devoted to the war a quantum of goods and services equal to nearly one-half of the total output of the British community before the war.

**Costs of the War and Sources of Contributions to Costs  
in the United Kingdom and the United States  
as Percentages of the Pre-war Gross National Income.**

Pre-war Gross National Income = 100	United Kingdom	United States
Costs of the war (increase in government expenditure) . . . . .	48.4	46.5
Derived from:		
Increased production (increase in gross national income) . . . . .	20.0	51.2
Reduced consumption . . . . .	11.2	- 8.7
Reduced provision for private capital and disinvestment, if any . . . . .	17.2	4.0

In the two countries the increase in government expenditure has thus been in very much the same proportion to the pre-war output: but in the United States the higher costs have been met wholly by a rise in production — 50 per cent. in three years — while in the United Kingdom the increase in production amounted to 20 per cent. In four years, the difference being explained (at least to some extent) by the existence of large unused resources in the United States before the war.

For 1943 it has been estimated that about one-half of the national product in the United States is absorbed by the war effort. In 1918 the proportion so absorbed was about one-fourth.

In terms of "1939 prices" the central-government expenditure on goods and services in Sweden was in 1942 twice as high as before the war. No contribution to the increased costs of the government was, however, received from an expansion in total production, which on the contrary fell by about 7 per cent. between 1939 and 1942 (pari passu with the "total gross expenditure", as shown in the table). That being the case, the increased outlay of the central government and the fall in production led to a decline of 14 to 15 per cent. in private consumption, a reduction of nearly one-third in private investment and a certain contraction in the effective volume of local government expenditure.

Groups	1939	1942	1942 In "1939 prices"	Difference between 1942 (in 1939 prices) and 1939
	in millions of S.Kr.			
Total gross expenditure (public and private) . . .	10,891	13,930	10,200	— 700
Deduct:				
Private consumption . . .	7,588	9,087	6,500	— 1,100
Private investments . . .	1,481	1,354	1,050	— 400
Local government expenditure . . . . .	927	1,023	850	— 100
Total deductions . . .	9,996	11,464	8,400	— 1,600
Leaving for:				
Central-government expenditure . . . . .	895	2,466	1,800	+ 900

The figures given in the first two columns of the above table are taken as they stand from an analysis of "Income Developments and the Excess of Purchasing Power during the War Years", published in May 1943 by the "Konjunkturinstitut" in Stockholm. The figures in the last two columns have on the other hand, been calculated on the basis of certain percentages and other indications given by the Institute. For the reduction of private consumption to "1939 prices", the Institute has assumed a rise of about 40 per cent. in prices between 1939 and 1942.

Taking into account other information than that given in the above tables, developments during the war up to 1942 in the four countries under review may be summarised as follows: in "constant prices" the total (central and local) government expenditure on goods and services rose in Hungary and Sweden by about one-half\*, while in the United Kingdom and the United States it more than trebled; total production increased by 50 per cent. in the United States and by 20 per cent. in the United Kingdom, but is estimated to have fallen by 5 to 7 per cent. in Hungary and Sweden; total private consumption in the United States was 16 per cent. higher in 1942 than in 1939 (thanks mainly to the steep rise in American production), while in the United Kingdom and Sweden there was a reduction by 15 per cent. and in Hungary by 10 per cent. below the pre-war level.

For Germany no similar data are available, but it has been estimated that total government (central and local) expenditure on goods and services rose from RM 36 milliard in 1938 to RM 70 milliard in 1941, and that during the same period the amount available for civilian expenditure (private consumption and investments) increased from RM 59 to 71 milliard, a rise which reflects, on

\* If account were taken not only of expenditure on goods and services but also of transfer expenditure, i. e. of interest on the public debt, pensions, and subsidies granted to keep down prices, the increase in the total (central and local) government expenditure in Sweden and Hungary would, it seems, be higher than the proportion given in the text.

the one hand, the incorporation of new provinces in the east and west and, on the other, higher remuneration and higher prices in certain sectors. The available statistics do not make it possible to establish the share ascribable to each of the main sources contributory to the war effort: increased work, curtailed consumption and drafts on capital; but it may be regarded as certain that all three have helped to make possible the redirection of resources for the prosecution of the war.

It is the shortages in men, machines and materials which set the final limits to the war effort in its economic aspects; but, in order to exercise command over real resources, the governments as a rule need to make payments in money at home and abroad, and this raises the question of the financial sources of the war effort.\* When able to apply modern methods of fiscal and credit policy, governments seem to master financial limitations with comparative ease — at least on their domestic markets; and in relation to other countries various means (lend-lease, reciprocal agreements, clearing arrangements and payment of occupation costs) have been employed to prevent a lack of funds from hampering the flow of goods. The methods of financing which were worked out during the first two or three years of the war have remained essentially unchanged, such modifications as have been made being designed to ensure that the economic and financial structure would stand the strain of heavier war liabilities and the piling-up of buying power in the hands of the public. While the figures of national income and consumption indicate a considerable amount of diversity between different countries, a high degree of parallelism is found in fiscal developments; in matters of taxation and borrowing, governments show no hesitation in availing themselves of the experience gained in other countries — whether friends or enemies; in any case, the choice open to the governments is not very wide, an element of compulsion entering into the picture.

In last year's Annual Report (pages 13-15) the various methods of raising money to meet government expenditure were considered from the point of view of their efficacy in resisting inflation, and a "hierarchy" was formulated, which may be summarised as follows:

- (a) taxation (and other current receipts),
- (b) borrowing of genuine current savings,
- (c) expansion of commercial-bank credit, and
- (d) expansion of central-bank credit.

The first two methods — taxation and the borrowing of genuine current savings — were shown to be the "soundest" from a monetary point of view and it is in many respects the total of the two together that is really important.

\* Government financing in wartime exerts a dominant influence on the monetary system and in the different chapters of the present Report more space has, therefore, been devoted to this subject, including the presentation of statistics of government revenue and expenditure, of public borrowing and of such matters as lend-lease, clearing balances and the payment of occupation costs. To facilitate comparison with earlier years, and to provide a background against which the wide and rapid changes of the war years may be set, the statistical tables include a number of figures relating to the immediate past — a feature which is partly responsible for the exceptional length of the Report.

While for most countries lack of statistical data makes it impossible to draw up exact figures grouped according to the "hierarchy", an approximation can be made in some cases. In Germany and the United Kingdom private credit operations unconnected with the war have practically come to an end, and the total of government borrowing on the internal market has thus become approximately equal to the so-called "money-capital formation". For these two countries tables in Chapter V (page 269) set out in some detail the means whereby government expenditure was financed in the years 1940-42, the sources being arranged roughly in conformity with the "hierarchy"; and an analysis on somewhat similar lines is made for the United States also. Some

**Analysis of government financing,  
averages for period 1940-42:  
Germany and the United Kingdom.**

Sources of funds covering government expenditure 1940-42	Germany	United Kingdom
	As percentages of total expenditure internally financed	
Taxation and other current revenue . . . . .	48.9	49.9
Borrowing other than from the central and commercial banks . . . . .	35.1	34.2
Total . . . . .	84.0	84.1
Borrowing from the commercial banks . . . . .	10.2	12.5
Borrowing from the central bank . . . . .	5.8	3.4
Total . . . . .	16.0	15.9
Total expenditure internally financed . . . . .	100.0	100.0

of the principal facts and conclusions are given here in an abbreviated form.

The construction of these tables has necessitated certain estimates and adjustments which are mentioned in the notes on page 269. By and large, the differences and errors do not appear great enough to vitiate a broad comparison of the figures, and the main points brought out by the tables are these:

- (i) In both countries the proportion of government expenditure (internally financed) raised by taxation and other current internal revenue averaged just under 50 per cent. in the years 1940-42 (the highest level being in the third year, 1942);
- (ii) similarly, borrowing from other sources than the commercial and central banking system, at 34-35 per cent., was approximately equal for the two countries. The proportion covered by taxation and other internal revenue, plus borrowing outside the banking system, was thus 84 per cent. in both countries;
- (iii) the proportion covered by borrowing from the commercial banks was 10-12½ per cent. for the whole period (with a marked tendency to decline from year to year); from the banking system as a whole (central and commercial banks) 16 per cent. was borrowed, also with a declining trend.

Judged on these lines the similarity of war finance in the two countries is truly remarkable; after three full years of war the relative importance of the sources of internal financing was so nearly the same in Germany and the United Kingdom that the differences in the percentage figures are well within the margin of error due to the unavoidable inaccuracies of the data.\*

\* It should be remembered that the comparison given in the text is based on tables covering the situation up to the end of 1942, while the intensification of the war in 1943 has led to many changes in the scope of the government's command of goods and services in the different countries — changes which are likely to be reflected in the financial accounts.

Besides similarities, however, the sources of financing show some differences. One of these — brought out by the tables — is that the proportion borrowed from the central bank was somewhat larger in Germany than in the United Kingdom, reflecting the greater importance of the commercial banks in the latter country. On the other hand, in the United States the proportion borrowed from the commercial banks was considerably larger than in either of the two European countries, as may be seen from the following table.

The proportion of expenditure covered by taxation and other current internal revenue fell in the United States from over 60 per cent. in 1940 to under 30 per cent. in 1942, and, conversely, total borrowing and movements of official

Analysis of government financing  
in the United States, 1940-42.

Sources of funds covering government expenditure	1940	1941	1942	Total 1940-42
	In percentages of total expenditure			
Taxation and other current revenue . . . . .	60.4	46.4	29.3	36.7
Government securities taken by:				
Investors other than banks	22.1	48.9	43.4	42.2
Total . . .	82.5	95.3	72.7	78.9
Government securities taken by:				
Commercial banks . . . .	15.1	21.2	34.9	29.5
Federal Reserve Banks . .	(- 3.1)	0.3	7.0	4.4
Total . . .	12.0	21.5	41.9	33.9
Movements of official balances . . . . .	5.5	(- 16.8)	(- 14.6)	(- 12.6)
Total expenditure . .	100	100	100	100

There are two main reasons why it has not been possible to compile for the United States a table in the same form as for Germany and the United Kingdom. Firstly the formation of money capital could not in the United States be taken as equal to government borrowing, since private credit operations were still very important, especially in 1940 and 1941 before the entry of the country into the war; and, secondly, large purchases of government securities by the Federal Reserve Banks in earlier years had led to an accumulation of latent central-bank credit by the way of excess reserves of the member banks. The above table has been based on the budget figures and on the statistics regularly published regarding the principal holders of government securities.

balances rose from 40 to 70 per cent. of expenditure. Actual new government borrowing from the Federal Reserve Banks was comparatively small but from the commercial banks it was very considerable, notwithstanding the fairly successful efforts made in 1942 to sell securities to purchasers other than banks. One reason for the high proportion of borrowing from the banks was the rapidity with which government expenditure increased after the United States had become involved in the war — a rapidity which also helps to explain why a smaller proportion of government expenditure has been covered by taxation in the United States than in the United Kingdom or Germany.

Averaging 34 per cent. for the years 1940-42, the proportion of government expenditure financed by the banks of the United States is twice that of such financing in Germany and the United Kingdom. But the danger of government financing by an extension of bank credit cannot be measured primarily by its ratio to the total of government expenditure; it depends essentially on the rate of expansion in the volume of credit and currency and must thus be related to the size of the commercial banking system, which, in terms of the budget and the national income, varies from country to country.

**The Importance  
of the banking system in Germany,  
the United Kingdom and the United States.**

Years 1938 and 1942	Germany	United Kingdom	United States
	RM	In millions of £ stg	dollars
<b>1938</b>			
<b>Credit volume</b>			
Currency . . . . .	10,500	600	6,800
Commercial-bank deposits . . . . .	19,500	2,800	43,700
<b>Total credit volume . . . . .</b>	<b>30,000</b>	<b>3,400</b>	<b>50,500</b>
<b>Net national income . . . . .</b>	<b>80,000</b>	<b>4,500</b>	<b>64,500</b>
<b>1942</b>			
<b>Budget expenditure internally financed . . . . .</b>	<b>90,000</b>	<b>4,500</b>	<b>56,000</b>
	<b>Percentage proportions</b>		
<b>The credit volume in 1938 as percentage of the net national income in 1938 . . . . .</b>	37½	75	78
<b>the budget expenditure internally financed in 1942 . . . . .</b>	33	75	90

These percentages show that, in relation to national income and war-time budgets, the banking and currency structure was on a smaller scale in Germany than in the two Anglo-Saxon countries, the ratio being about 1:2 in relation to the United Kingdom and somewhat higher in relation to the United States; this would seem to reflect a profound difference of habit with regard to the maintenance of amounts in the liquid form of cash and bank deposits.

A system with a more restricted mass of liquid claims outstanding may in some respects have its advantages; but, with regard to the problem of war financing, it is obvious that recourse to the credit system covering, say, 15 per cent. of budget expenditure (internally financed) must provoke a greater relative expansion of bank credit in a country with a smaller initial volume than in other countries.\* The expansive movement is, by its nature, cumulative, the danger of government financing by an extension of bank credit lying in the fact that annual war expenditure is of a very large order compared with the outstanding volume of bank-notes and bank credit dictated by the usual requirements of a peace economy. Thus, if a certain proportion of government war expenditure is financed by borrowing from the banking system, the expansion of bank credit will be relatively much greater.

Developments in the United Kingdom during the last war may be taken as an example. If not only the actual war years but the whole period from August 1914 to March 1921 be considered, 44 per cent. of the internally financed expenditure amounting to £11,050 million was covered by taxation, 5 per cent. by other current receipts and 51 per cent. by borrowing. Of the amounts borrowed internally, some £350 million appears to have been in the form of "central-bank credit" (including issues of Treasury notes) while the expansion of commercial-bank deposits amounted to £1,350 million. The total increase in currency and credit — equivalent to the government's financing by the banking system as a whole — was thus £1,700 million, representing 15 per cent. of government expenditure internally financed — a proportion very close to that of 1940-42. Although this does not seem a high percentage, its

\* In actual practice, of course, account has also to be taken of changes in the area in which the banking system operates and thus, as regards Germany, of the widening of that area in recent years.

uninterrupted influence on the volume of notes and bank deposits for nearly seven years was very considerable. Owing to the circulation of gold coins before 1914 and to other factors, it is not possible to state exactly the amount of currency in circulation on the outbreak of war, but it appears to have been about £120 million; with a volume of commercial-bank deposits amounting to some £1,100 million, the total of circulating media was, say, £1,220 million. Thus, an expansion of £1,700 million, although covering only 15 per cent. of government expenditure, represented 140 per cent. of the total of currency and bank credit outstanding before the war; as a matter of fact, commercial-bank deposits more than doubled and the currency in circulation rose to four times its pre-war level.\*

In this as in the last war no government has been able wholly to avoid borrowing from the banking system. Indeed, apart from the necessity of resorting to the banks when the flow of funds from other sources has become insufficient, it is fair to say that some expansion of the currency and credit volume has been helpful—perhaps indispensable—as a means of facilitating the collection of taxes and the placing of government securities. But the consequence has been an increase in the buying power of the public at a time when such an increase was being stimulated in other ways also (good employment all round, etc.). Rising note circulations and bank deposits are outward signs of growing money surpluses; and estimates of national income point the same way. Thus, the U. S. Department of Commerce has calculated that the national income for the second quarter of 1943 was 19 per cent. above the level in the third quarter of 1942, that is, just before the inception in the United States of the anti-inflation programme. At the rate attained in the second quarter of 1943, the annual national income would be \$146 milliard, i. e. \$37 milliard more than the sum of (i) the total value of goods and services available for consumption and (ii) the amount of taxes paid by private individuals and corporations. In September 1942 the difference in question—the so-called "inflationary gap"—was just short of \$29 milliard; it has thus been growing at a relatively more rapid rate than the national income itself.

For Sweden, also, an attempt has been made to calculate the excess of buying power in the hands of the public, the term being given, in this case, a somewhat different meaning in that an amount corresponding to the normal rate of savings is also deducted from the gross income. In the Swedish sense of the term, the excess of buying power was found to represent, in 1942, about 10 per cent. of the total income in the hands of the public.

Could the principles of a war economy be carried to their logical conclusion, there would presumably be no "free sector" of goods and services

\* The more rapid increase in the note circulation during the war caused a permanent change in the ratio of currency and bank deposits; while in 1913 the value of commercial-bank deposits was eight to nine times that of notes and gold coins in circulation, the proportion had fallen to five and a half times by 1919. This expansion of currency and credit in the United Kingdom was illustrated by a graph on page 214 of the twelfth Annual Report; the graph also showed that the volume attained during the war remained outstanding when the war was over, a phenomenon found also in the United States, although in that country a fairly large part of the war debt was repaid by 1931. See also page 279 of this Report.

left, but all purchases would have to be authorised either by the possession of coupons or by some special permit. Money would then have no purchasing power in itself but only within the framework of these authorisations; and what could not be spent would have to be saved (the supposition being that, with fully effective control, no black market could emerge). Total consumption being limited to the supplies officially available, any amounts paid out by the government in excess of what was required to purchase the authorised volume of consumption goods would take the form of taxes and savings; and, if hoarding of bank-notes could be prevented, the amounts saved, when not invested in government securities, would lead specifically to an increase in bank deposits, which would in its turn be lent to the government. This process is often described as a "money circuit", but it would work adequately, i. e. without inflation, only in so far as the newly-created moneys paid out by the government (that is to say the amounts borrowed from the banking system) were effectively brought back by taxation or genuine savings. The authorities have, as it were, to pursue and capture the new purchasing power wherever it makes its appearance. In dealing with this problem, three direct methods have been employed to check inflationary developments:

- (i) taxation;
- (ii) forced and semi-forced saving, and
- (iii) stimulation of direct investment in government securities.

Since these steps, however, have proved inadequate, a series of further measures, designed to limit the expansive effect of government outlay and thus to curb indirectly the pressure of unbalanced demand, has been necessary:

- (iv) restricting the resort to loanable funds of commercial and central banks and preventing their use for other than war purposes;
- (v) measures to avoid credit creation in financing surplus exports;
- (vi) price control as a means of combating the inflationary spiral;
- (vii) checking an increase in prices of capital assets.

These various steps are considered in the following paragraphs:

(i) Taxation has been described by the German Finance Minister to be "the most important means of combating inflationary dangers, while, at a time of deflationary stagnation in business, credit policy would take the primary place."\* During the present war, steep increases in income and profit taxes, coupled with the effects of such measures as restrictions on the payment of dividends, have, in a number of countries, amounted to even more than the whole additional money income of the better-situated classes. The increase in buying power, as revealed, for instance, by the rise in the figures of national income, seems to have been spread for the most part over the broad mass of the population as a result of increased employment, longer working hours, higher rates of pay per hour and a transfer of labour to better-paid occupations — not forgetting a substantial increase almost everywhere in the income of the agricultural population. Of the growth in the national income in the United States

\* In an article in "Europa-Kabel" of 17th September 1943 on "Volkswirtschaftliche Aufgaben der Finanzpolitik".

from the third quarter of 1942 to the second quarter of 1943 the farmers were proportionately the main beneficiaries, with a rise in net income (on an annual basis) by \$3.7 milliard to \$13.6 milliard. Wage and salary earners had an increase by \$17 milliard to \$103.2 milliard, while profits on business enterprises rose by \$0.9 milliard to \$8.7 milliard and interest yields and pensions etc. by \$1 milliard to \$9.5 milliard (these figures representing income before payment of direct taxes). According to data given in the White Paper submitted with the budget in April 1943, the private income of British individuals with £1,000 or more a year amounted to a total of £930 million in 1941-42. At the tax rates in force in 1938-39 the amount retained after payment of income tax and surtax would have been £668 million, but at the 1941-42 rates it came only to £450 million; thus, direct taxes in wartime absorbed well over one-half of the original income.

While the application of increased rates to the higher income groups has presented few technical difficulties, the absorption of a substantial proportion of the new buying power from the mass of consumers has everywhere given rise to many difficult problems. The solutions found have generally included sharp increases of indirect taxation, most typically, perhaps, by the introduction or augmentation of turnover taxes, the yield of which rises along with an increase in commodity prices — an excellent attribute from a fiscal point of view. In judging the burden of these taxes on the poorer classes and particularly on larger families, account has to be taken of other government measures including subsidies granted to hold down the prices of necessities such as bread and milk; amounts thus utilised may fairly be regarded as a set-off to mitigate the effects of increased indirect taxation. Steps have also been taken to extend income tax to brackets formerly exempt, and to apply the principle of "pay-as-you-go", together with deduction at the source (called in the United States "withholding") by the employer of a part of salaries, wages and other earnings. Such extensions of the incidence of income tax have, in particular, been characteristic of the fiscal policies of the Anglo-Saxon countries, where before this war the free limit was relatively high, especially as compared with countries on the continent of Europe. The number of actual taxpayers with gross incomes below £500 a year rose, for instance, in the United Kingdom from 3 million in 1938-39 to 9½ million in 1941-42. The "pay-as-you-go" principle, whereby the tax is collected on the basis of current earnings, was adopted in 1943 both in the United Kingdom and in the United States; it ensures that the amounts due are paid promptly instead of at a later period, and it also helps taxpayers (particularly the new ones, many of whom are likely to have only small reserves) to discharge their tax liability in a not too burdensome way.

(ii) In addition to and in conjunction with ordinary taxation, some countries (notably the United Kingdom and the United States) have adopted measures of forced saving with repayments when the war is over (or, in certain special cases, at an earlier date), while other countries (notably Germany) have made arrangements for organised voluntary savings, under which certain percentages are deducted from current wages, the amounts

being credited to savings-bank accounts or invested in government securities for the benefit of the income-earners. The proceeds obtained from such schemes and arrangements may not as a rule be very important compared with the great needs of wartime financing, but these measures help to some extent to absorb purchasing power from the mass of income-earners and they also "tie up" savings in a form which will render them less dangerous when the war is over.

A further form of savings containing a certain element of compulsion is represented by the reservation for the state of the periodic payment of insurance premiums and the regular contractual amortisation of mortgage and similar loans. In most belligerent and some other countries the granting of new private credit, unconnected with the war effort, has generally been forbidden, so that mortgage banks, building societies and similar institutions have had their normal lending business severely curtailed. In these circumstances, debt repayments have become an important element in current savings; institutions which regularly receive repayments on loans outstanding have — often as part of a concerted scheme — devoted such incoming funds to the purchase of government securities, which thus come to constitute a growing item among their assets. In neutral countries also similar measures have often been taken: in Switzerland the granting of new mortgage loans to agriculture has been subjected to a strict control, amounting in practice to a prohibition, a measure primarily designed, however, to prevent a repetition of the speculative borrowing characteristic of the last war and ending in disastrous consequences for land-owners. On the other hand, a measure more directly aiming at the reservation of available funds for the government has been the curtailment of instalment lending in the United States, the outstanding volume of which was reduced by two-thirds between the end of 1941 and the summer of 1943.

(iii) In general, success in financing may be judged by the degree to which investments in government securities are "tied up" — a criterion the value of which may not be fully evident until after the war; in this respect long-term borrowing is better than short-term; non-marketable securities are better than marketable; and direct purchases of government securities by the public are better than commercial-bank deposits.

In the issuing of loans the technique differs from country to country but the tendency is to provide a wide range of long and short-term securities suited to the most varied kinds of funds. Marketable loans, both at long and short term, are favoured by the banks and other large market investors in all countries. Non-marketable long-term securities are issued to savings banks, insurance companies and social funds, which are often of an official nature — the so-called "Liquidity loans" in Germany and "special issues" in the United States are typical examples. Non-marketable short-term issues in the form of tax certificates, which are designed to absorb liquid funds held in readiness for taxation payments, have recently proved popular in several places where they have been introduced.

In some countries the governments have organised intensive propaganda campaigns to stimulate personal savings and the direct purchase of government

securities by others than banks. For many reasons particular attention has been paid to "small" savers (who become "large" in the aggregate) and special types of non-marketable securities have been created to meet their needs. It is characteristic of German war financing, however, that no such special savings issues have been made, reliance being placed on the attractiveness of savings deposits; of the RM 44 milliard accumulated on savings deposits in the three years 1940-1942, RM 1 milliard was in the form of "iron savings", which are tied up until after the war. This is in contrast to England and the United States, where savings deposits have been of considerably less importance than special savings issues in the financing of the war, as is shown in Chapter V, which also gives indications of the various proportions financed by market and non-market issues, long and short-term borrowing etc.

(iv) In so far as governments have been unable to borrow from the public and from such financial institutions as insurance companies and savings banks, they have turned to the commercial banks and, as a last resort, to the central bank; by keeping strictly to this order they have hoped to lessen the inflationary effects. This is true particularly of the larger countries with a highly developed banking system; and in certain of the smaller countries also this principle has been followed, e. g. in Hungary. But it must be expected that part of the amounts borrowed from the commercial banks and paid out by the government will be withdrawn in cash by the public. To meet the public's demand for currency, the commercial banks may already have ample cash reserves at their disposal (that was the case, for instance, in the United States when the rearmament period began) or cash reserves may accrue to the banks from an influx of funds from abroad (as happened in Switzerland during 1940 and 1941). Often, however, the commercial banks will have to borrow from the central bank, or sell to it (directly or indirectly) part of their government paper; or the central bank may by its own operations (including direct lending to the government) furnish the banks with sufficient funds. Thus, credit is extended by the central and the commercial banks concurrently, in proportions dependent upon the ratio of the note circulation to bank deposits; and, generally, attempts are made to provide for a harmonious parallel expansion.

The pursuance of a well-balanced policy requires, on the one hand, skilful maintenance of a high degree of liquidity on the money and capital markets (as a condition, *inter alia*, of continued low interest rates) and, on the other hand, reaction against a superabundance of liquid funds liable to produce inflationary lending for speculative and other purposes. The question has sometimes arisen as to the steps which could and should be taken by the authorities to regain control over the money and capital markets; in the United States the minimum cash requirements of the commercial banks were increased before the entry of that country into the war, but later somewhat relaxed for banks in New York and Chicago, which were exposed to an outflow of funds to other districts; in Denmark minimum cash requirements were introduced in 1942 for the first time and funds received from special government issues were not used to meet current expenditure but were sterilised by being

left on deposit at the central bank; and in Sweden the Riksbank was authorised to obtain, at its request, government securities from the Public Debt Office with a view to absorbing excess funds from the market when it thought fit.

Monetary action to cope with the liquidity problem has thus taken the form of open-market operations and of changes in minimum cash requirements, while interest rates have been kept down in continuation of the cheap-money policy pursued before the war. So long as the war lasts, the Treasuries have practically been given a monopoly position to enable them to borrow the huge amounts they need at favourable rates. Indeed, it has been found that credit control is not difficult to apply when war needs must be given preference over everything else; in peacetime, the task is different, it being then a case of selecting, among a vast number of possibilities, those which best provide for the variety of civilian needs. The earning power of different businesses will then regain its importance as a test of usefulness and a guide to production; and, presumably, credit conditions will again be related to the profit margins of those actually using the credit facilities which can be made available.

(v) A problem of particular importance in the present war has been the financing of surplus exports and other excess balances in relation to foreign countries. The financing of lend-lease exports in the United States has been put on a par with that of other war expenditure and the same is true with regard to the "reverse lend-lease" of countries within the British Empire. In a similar way the Swiss Government has provided from its own funds the amounts advanced to meet clearing "Spitzen", thus reducing the risk of a creation of new buying power and also carrying the credit risk of the clearing arrangements (which were of course concluded by the government itself). In other European countries the task of financing clearing surpluses has generally devolved upon the central bank, with the result that the note circulation and commercial-bank reserves have together increased by an amount corresponding to the clearing advances. In some Latin American countries problems of a similar nature have arisen under the influence of substantial export surpluses. It may be added that the intervention practised by exchange equalisation accounts before the present war was mostly in respect of funds which the owners intended to maintain as capital assets (e. g. short-term money moving from one market to another). It is a more difficult matter to insulate a credit structure from the impact of advances in the clearing, since the greater part of the balances then to be offset represents sums which are employed for wage payments, purchases of materials etc., and thus effectively utilised in payment of goods and services.

(vi) Whatever efforts have been made to raise taxation and to borrow genuine savings, no country has been able to avoid the emergence of excess buying power, side by side with shrinking supplies of consumption goods. In the last war also there was an overflow of buying power, but commodity prices were then mostly determined by the interplay of supply and demand, with the result that prices rose far above the pre-war level. The rise did not lead, however, to the attainment of a new equilibrium but tended to continue as long as the financial needs of the government brought further

additions to the volume of buying power already in the hands of the public. There was a disposition to regard continued price increases as well-nigh inevitable and in such a situation higher discount rates or other purely monetary measures could but be ineffective as a check on the price rise. This time the governments of the most important countries have adopted a completely different line of action, instituting a comprehensive price control, which has gradually been extended to wages and other forms of income.

In Germany, price control, which had been in operation since 1936, was very much reinforced in the autumn of 1939, particularly by the addition of a formal wage stop. Most other countries proceeded step by step to build up a comprehensive control. At first, price increases emanating from abroad were generally allowed to exert their full influence on the domestic price structures; the reduction in the exchange value of sterling by 14 per cent. in the autumn of 1939 thus brought about an advance in British prices; and adjustment to the higher German price level (as calculated at the official exchange rates) was one of the most characteristic features of price developments on the continent of Europe up to the spring of 1942, while increased transport and insurance charges had a considerable influence on the cost of imported goods. By arrangements between different governments, however, steps were taken to fix the prices of goods exchanged between their respective countries and these arrangements soon became fairly effective (thanks, in some measure, to stricter price control internally). But in relations with countries subject to clearly inflationary tendencies more far-reaching measures proved necessary to prevent undesirable price influences and, indeed, to keep trade going at all. Examples of such measures are the special organisations established to carry on trade between Germany and Greece, and, in the Far East, between Japan and Nanking China. By these and other measures it became possible, if not wholly to eliminate, at least greatly to reduce price-raising influences from abroad — an essential condition for a successful handling of price problems at home.

In their internal affairs, governments have carefully controlled the prices paid by them for their own requirements. Considering the importance of the armaments sector, this control has as a rule covered the major part of the industry of a belligerent power and has thus gone a long way towards preventing the enormous demand by the state from immediately becoming a price-raising factor. With the continuance of the war, improved methods of price-fixing have been elaborated (e. g. in Germany, by the adoption of uniform or group prices, which have given an incentive to individual firms to rationalise their production in order to be able to increase — or, in some cases, merely to maintain — their profits).

By this and other forms of price control, profit margins were already limited, but increased gross profits have often still been realised as a result of larger turnovers, reductions in costs etc. A considerable part of these increased profits has no doubt been absorbed by higher taxation and the remainder usually finds its way back to the state as a result of a limitation of dividends (observed de facto even in countries where there has been no legal

obligation) and a control imposed upon investments, either directly or by restricting the supply of essential materials (iron and steel, timber etc.). Individual firms have thus been given no choice but to keep their remaining undistributed profits chiefly in the form of money savings, which in one way or another must be lent to the government.

The introduction of a wage and salary stop has served a double purpose: besides bringing the most important cost element for the economy as a whole under control, it has helped to keep down the effective demand for goods and services emanating from wage and salary earners. In order to make such a measure acceptable, however, some guarantee was required as to the stability of living costs; the introduction of a wage and salary stop was in fact bound up with the question of agricultural prices, so important for the level of the cost of living. But in dealing with these problems the governments usually found themselves in a dilemma: on the one hand, it was necessary to stimulate agricultural production by the granting of remunerative prices (as politically strong groups were prone to insist); on the other hand, the cost of living could not be permitted to rise too much.

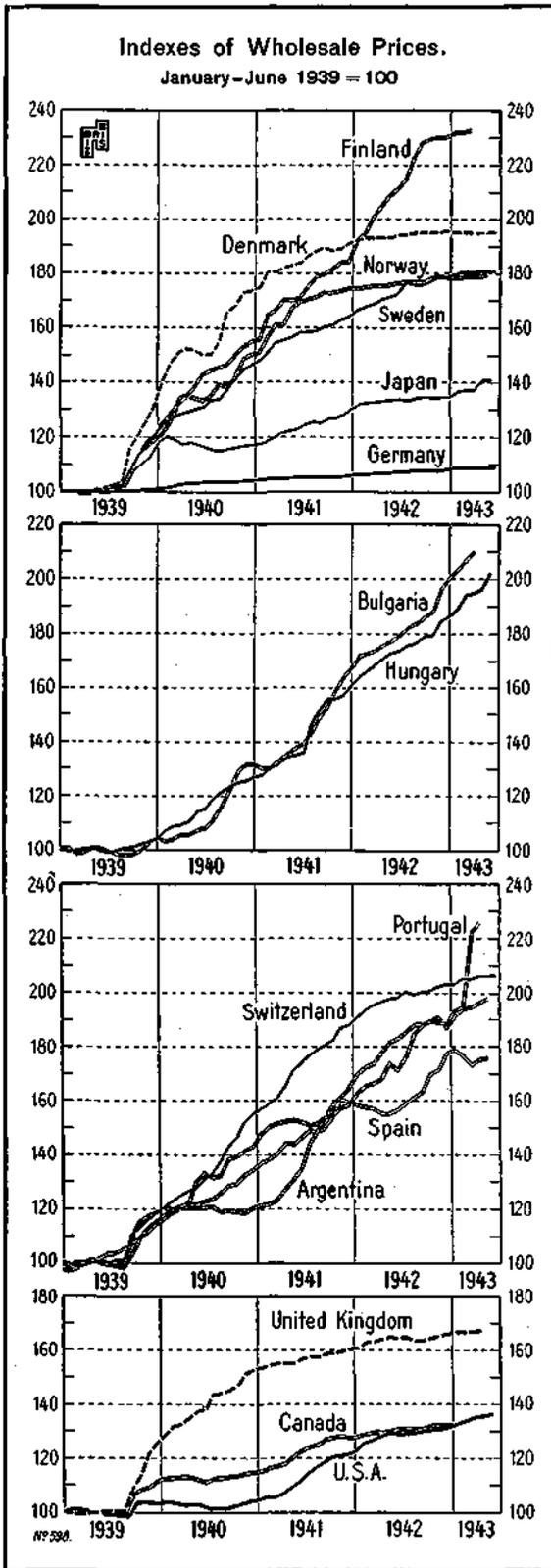
Government subsidies announced in 1942-43 to keep down prices of commodities.

Countries	In millions of national currency units	In millions of Swiss francs
Argentina . . . .	Pesos 240	230
Canada . . . . .	Can.\$ 70	260
Croatia . . . . .	Kunas 2,000	170
Eire . . . . .	£ 3.6	60
Finland . . . . .	FM 1,600	140
France . . . . .	Fr.fcs 3,000	300
Germany . . . . .	RM 1,000	1,730
Great Britain . . .	£ 180	3,100
Italy . . . . .	Lit. 12,000	2,700
Japan . . . . .	Yen 400	400
Slovakia . . . . .	Ks. 300	50
Sweden . . . . .	S.Kr. 220	230

A solution has been found in more than one country by the granting of subsidies designed to reduce prices for the consumer; but here again the governments were faced with a dilemma: subsidies add to the budget deficit and naturally the last addition is the most difficult to meet without resorting to inflationary financing. In his report to the general meeting on 31st March 1943 the Governor of the Banca d'Italia observed that subsidies, together with other indirect costs of the war, were then such a substantial item in the Italian budget that any further increase would

defeat its own end, since recourse by the Treasury to the bank of issue would in the long run frustrate the attempt to keep down the general level of prices.

(vii) Finally, mention should be made of the measures taken to prevent undesirable increases in the prices of capital assets, liable to exert a dangerous influence as a symptom of, and a further incitement to, an inflationary orientation of economic life. The pursuance of a cheap-money policy is to some extent a handicap in dealing with these problems, but the overwhelming influences are no doubt the hopes and fears entertained with regard to the intrinsic value of each individual currency when the war is over. The different measures taken to counteract a strong upward movement in share quotations are mentioned in Chapter V, 2. of this Report; where fixed prices have been prescribed, the result has usually been that the volume of transactions has shrunk to a minimum.



This list of possible reactions against a redundant purchasing power is by no means complete but it shows what a variety of official agencies have to cooperate in the task of resisting inflation. The central bank is one of these agencies, being specially concerned with maintaining a proper degree of liquidity in the credit system and collaborating with official and other institutions in regard to all questions having a monetary significance. In wartime, of course, the requirements of the government must predominate. Aid must be given to make borrowing at cheap rates possible even if the central banks are thereby debarred from curtailing the amount of cash furnished by them to the markets (however much such action would have been natural and requisite in times of peace). In this, as in other fields, the needs of the war must be allowed to take first place. The price control, so to say, takes over the task of maintaining "the integrity of the currency" (the expression used in the Act establishing the Central Bank of Ireland in 1943); for that purpose a vast new administrative machinery has to be instituted. After four years of war the general principles which should govern the price control are well known; but principles are not enough; their application is of equal importance; and it is not everywhere that a sufficiency of capable and trustworthy persons can suddenly be found for administrative purposes, especially since many suitable candidates are likely to be called to the armed forces.

Another problem is that of coordinating the work of the different agencies; the governments themselves will, for instance, have to decide questions which for one reason or another have assumed important political aspects. Thus governments (with or without the assent of parliaments) seem to have invariably reserved for themselves the fixing of prices of agricultural products, partly because of the importance of these prices for the cost of living, and thus for the general wage level, and partly because the farmers' organisations practically everywhere exert considerable political influence.

The essence of price control is to prevent the new buying power in the hands of the public from raising prices by being translated into effective demand, "official" prices taking the place of the quotations previously determined by supply and demand. In so far as the control is successful, the value attached by the consumer to the goods he is still able to buy tends to rise above the official price. There is thus a divorce between "value" and "price", and official prices cease to indicate (by their relation to one another) the respective degree of scarcity of different goods and services. Some elasticity in the price structure may still be part of the official policy; it is, as a matter of fact, often forced upon countries by a rise in import prices or by strong pressure from domestic producers; but there normally comes a point when fear of inflationary developments and fear of social unrest (the two go together as living costs increase) induce the authorities to adopt, if possible (and mostly with the aid of such props as government subsidies), a policy of more rigid price control, virtually amounting to a "price stop" for consumers' goods.

The tables show how in several countries the rise in prices was effectively arrested or very much slowed down in the course of 1942, the stricter control being in some instances aided by a certain reluctance of the public to buy, a tendency also affecting the black markets. With the greater stability of prices, wage movements have been more easily held in check. But all this has meant an increase in the number of frozen price positions, reflecting the situation at a given moment in the past instead of the ever-changing conditions of current economic life, and for that very reason failing to fulfil the normal functions of the price system. This failure is, however, less fraught with danger in wartime, when the main purpose is obviously to concentrate maximum effort on the prosecution of the war, and there is, moreover, good employment.

Percentage Increase in Cost of Living.

Countries	Percentage increase from June 1939 to		
	December 1941	December 1942	June 1943
Germany . . . . .	+ 5	+ 7	+ 10
Argentina . . . . .	+ 11	+ 11	+ 15
New Zealand . . . . .	+ 12	+ 14	
United States . . . . .	+ 12	+ 22	+ 27
Australia . . . . .	+ 12	+ 22	
United Kingdom . . . . .	+ 29	+ 29	+ 29
Japan . . . . .	+ 24	+ 29	+ 35
Sweden . . . . .	+ 34	+ 41	+ 41
Switzerland . . . . .	+ 34	+ 46	+ 48
Portugal . . . . .	+ 35	+ 47	+ 54
Norway . . . . .	+ 43	+ 48	+ 50
Hungary . . . . .	+ 39	+ 52	+ 55
Denmark . . . . .	+ 51	+ 56	+ 54
India . . . . .	+ 24	+ 81	
Bulgaria . . . . .	+ 65	+ 104	+ 129
Roumania* . . . . .	+ 138	+ 232	+ 332

\* Retail prices.

Relating control to positions in the past seems, indeed, to be a matter of intrinsic necessity; the practice extends to many fields, including the distribution of scarce raw materials, allocation of export and import quotas, the granting of compensation when businesses are closed, etc. In all these cases the measuring rod is usually the peacetime turnover of the individual trader or producer, which means that preferential treatment is given to firms already established. And very soon, as part of the wartime regulations, workers are debarred from changing their place of employment without permission from an official agency subordinate to a national manpower commission or similar control organ.

The freezing of positions is also found in the field of foreign exchange: there the outstanding feature of the war has been the maintenance — with few exceptions — of practically stable exchange rates, thanks to the intervention of central banks, stabilisation funds or exchange institutions operating in highly-controlled markets. During the war of 1914-18 a nucleus of stability was established through the pegging of sterling in relation to the dollar and of the French franc in relation to sterling (effective from the spring of 1916 until the end of the war); but other exchange rates showed considerable movements despite an increased application of exchange control. The currencies of neutral countries appreciated in relation to other currencies, one reason being that these countries refused at times to accept gold unconditionally in payment from abroad. Outside the range of the pegged exchanges, to which the lira was added in the summer of 1918, the currencies of most of the belligerent countries became increasingly depreciated as the war went on, being subject from time to time to sudden declines.

In the present war, pegging of exchange rates being universally adopted, the authorities have obtained the resources required partly from existing monetary reserves, partly through the mobilisation of privately-owned foreign assets and, finally, from foreign credits or other forms of foreign assistance. In the "lend-lease" and "reciprocal aid" arrangements the main emphasis has been laid on the actual supply of goods and services, less importance being attached to the credit or money aspect of the transactions (which shows, incidentally, the exceptional wartime character of these new forms of "lending").

In Europe, clearings have largely ceased to serve their original purpose of equalising incoming and outgoing foreign payments and have become a credit device by which a government advances the funds necessary to enable its country's export trade to continue even when no adequate countervalue is obtained from the importing country. In the various countries on the continent of Europe involved in the war, virtually the whole foreign trade is settled via clearings; in addition to the "trade" transactions, there are, however, certain deliveries of a military nature not entered in the clearing accounts. Nearly 75 per cent. of the foreign trade of Switzerland and over 80 per cent. of that of Sweden are paid for via clearings. This means that these two neutral countries, like the belligerents, settle an overwhelming part of their foreign payments outside the ordinary exchange markets. Among the belligerent

countries all the world over, most of the trade being handled by the state itself, the ordinary exchange market tends to disappear altogether. In the end, the foreign exchange control not only excludes all forms of arbitrage operations but increasingly differentiates between the payments for which each particular kind of money may be used. (The regulations may prescribe, for instance, that goods exported must be paid for by the foreign purchaser through the delivery of foreign exchange or that certain kinds of deposits may only be used for investment in government bonds; the examples could easily be multiplied.) Under these circumstances money no longer constitutes general purchasing power; the stock of circulating media becomes divided into different categories, each with its particular use.

These restrictions on the use of money apply especially to balances and cash of foreign holders and thus affect, in particular, international monetary relations. In actual practice, multilateral clearing so far has had little more to show than permits, given in isolated cases, to employ certain limited amounts for payments in third countries. And the reason is obvious: a real multilateral clearing, in which balances in one currency could, without serious restrictions, be used for settlements in other countries, presupposes an approach to equilibrium in the balances of payments and in the exchange structure — a state of affairs very different from the growing disequilibria which characterise international relations under a war economy. It has been said that the conditions under which a multilateral clearing would work satisfactorily are very much the same as those under which the whole system of clearings could be dispensed with. This may be too sweeping a statement\* but it at least draws attention to the need of fundamental equilibrium in any currency system if it is to be capable of rendering adequate service as a vehicle for multilateral trade and the settlement of current financial obligations. The essence of the system of clearings is, indeed, to be found in the fact that it permits a measure of discrimination in regard to certain countries (purchases or sales by one partner being related to the purchases or sales by the other partner) and in regard to groups of commodities ("useful" or "essential" purchases being given a preference over purchases of other commodities). If a system were really multilateral, there would be little possibility of maintaining discrimination of the kind indicated.

The universal pegging of exchange rates in the present war has remained the policy of the authorities even when it has become clear that the existing rates no longer correspond to the underlying realities of the relative cost and price structures. When the war is over, governments will have to cope with the two closely connected problems of excessive buying power in the hands of the public and adjustment of the exchanges to the intrinsic values of the various currencies. Much thought

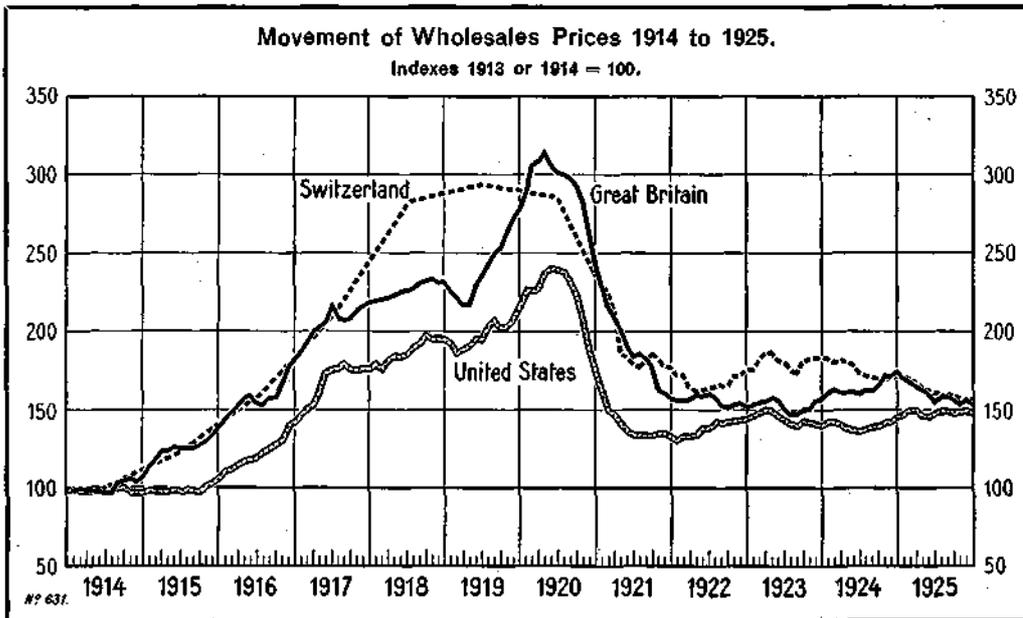
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\* A particular danger may arise from the fact that the huge public debts contracted during the war have greatly increased the proportion of assets of a liquid nature held by the public. In discussions regarding the problems created by these debts, such questions as the internal "burden" of the debt, its annual service in the budget etc. have often been given primary importance. But it must not be overlooked that the mass of outstanding public obligations, an artificial kind of wealth, is liable to exert a disturbing effect on the whole capital structure; while shares and other forms of real wealth may be allowed to fall in price if offered to an increasing extent on the market, such a fall in the quotations of government securities would at least imperil the uninterrupted maintenance of a cheap-money policy.

has already been given to these problems, past experience being ransacked with a view to avoiding a repetition of old mistakes, especially those committed after the last war. Much will depend upon the success with which each particular government is able to master its own internal problems, and in particular to prevent uncovered budget deficits from producing a "galloping inflation" (such as occurred in several countries after the last war). In the different sections of Chapter II of this Report dealing with exchanges, foreign trade and prices, some aspects, chiefly international, of the post-war problems are discussed; here a few general observations are briefly set down:

- (i) It is sometimes taken for granted that at the end of the present war prices will tend to follow the same course as after the last war, i.e. that after a brief period of hesitation a brisk demand will set in to make up for shortages suffered during the war, and that a slump in prices will come only after a few years, when immediate post-war needs have already been satisfied. Ups and downs of this kind being undesirable, it has been suggested that the wartime system of control, rationing and subsidies should be maintained for some time after the end of hostilities, in order to check the impulse towards an immediate post-war boom and, by doing so, to assist in preventing a subsequent severe slump. Thus the British Chancellor of the Exchequer in his budget speech on 12th April 1943 declared that it was the intention of his government to control supplies and restrict private consumption for some time after the war; two months earlier (in February 1943) he had explained that it was the policy of the government to maintain commodity prices at the level which had been reached during the war.

When forecasts are made of post-war fluctuations, account should be taken of the probability that business men and others, remembering



how the profit boom of 1919-20 was followed by heavy losses in 1921-22, may be much more careful in their purchases this time and may, in particular, decide to keep stocks down to a minimum until, in their opinion, a more settled price situation has been reached. Should such a cautious attitude be adopted, there would be much less risk of a violent rise of prices in the first phase of the post-war cycle and also less need for the maintenance of the whole apparatus of wartime control. After the last war lack of shipping facilities (aggravated by delays in ports) was among the factors contributing to the high prices in 1919-20; and it remains to be seen whether in this respect similar scarcities and delays will occur again. In general it may be hoped that present planning will not be based too slavishly on the assumption that the after-effects of the last war must necessarily recur, but will remain sufficiently flexible to enable measures, in practice, to be adapted to varying circumstances. Nor should planning be made an end in itself; in exaggerated zeal to avoid upheavals, governments must not regard it as their paramount duty to perpetuate controls, the maintenance of which may delay necessary adaptation and hamper more dynamic forces whose contribution is vital for the employment of the millions returning to civilian work. Care should be taken lest, in too much concern about the transition period, the world loses the benefit of an upward swing such as that which, after the last war and in spite of all vicissitudes, had by 1924-25 brought production back to the 1913 level and, in a great number of countries, lifted the average of real wages to well above the pre-war standard.

- (ii) While it is often assumed that exchange rates are determined by relative costs and prices (according to the theory of purchasing-power parities) it is frequently found in practice that some general idea as to the future exchange relationship plays a predominant rôle. After the last war, for instance, actual exchange movements were greatly influenced by the belief that it was the settled policy of many countries to re-establish the gold standard at the old pre-war parity; and this belief also affected the trend of commodity prices, both directly and indirectly through the movements in the exchange rates. For some time after this war exchange rates will presumably remain subject to official control and current beliefs will accordingly have less influence, official action being decisive, especially when government finances are in order. If that is the case, the most important single factor in determining the price level, particularly of smaller countries, will undoubtedly be the more or less deliberately chosen foreign exchange rates; and it is to be hoped that the larger countries will soon succeed in establishing and maintaining relatively stable prices, to which the others could link their economies.

The importance of the exchange problem is, of course, fully realised, and currency plans under discussion in the summer of 1943 envisaged a situation in which, by consultation and, if need be, financial assistance,

countries will be in a position to maintain orderly exchange conditions. It will certainly not be an easy task to find the right levels for stabilisation, considering the profound changes to which different economies and their currencies and credit structures have been exposed. When in the nineteenth century one country after another linked on to the gold standard they did so at rates of exchange which had already established themselves in the market and could fairly be regarded as equilibrium rates. The different countries then had a good chance of maintaining those rates, provided that in other respects they applied the principles of the gold standard, which at that time were accepted as almost self-evident precepts of monetary policy. As it functioned before 1914, the gold standard meant, of course, much more than the maintenance of stable exchanges and the settlement of international balances by shipments of gold. It provided a number of semi-automatic correctives designed to remedy the causes of monetary disequilibrium at their very inception, and it presupposed a code of behaviour, with regard to budgets, borrowing, credits, interest rates and readjustments of costs, which had slowly become the common doctrine of well-nigh the whole world. A later generation may have found some of the "accepted principles" too restrictive, involving too many financial "taboos"; but, while the old system lasted, a comparatively uniform financial policy was pursued in the different countries and, in commercial matters the governments refrained from imposing too cramping restrictions. Without idealising the past, it may be said that the gold standard up to the last war gave the world a uniform monetary system, with its international credit centre in London, while since 1914 it has proved impossible to re-establish a monetary community equally comprehensive and smoothly working.

When a country contemplates measures with a view to influencing the movement of domestic prices, it will have to take into account the probable psychological reactions on the part of the general public. After the last war the cost of living in certain countries remained permanently at a level fully 50 per cent. above that of 1914, yet the public did not attribute this increase to unwise monetary management but simply to the effects of the war; holders of money claims such as government bonds and insurance policies did not feel that they had been unjustly treated as compared with those who had invested their money in shares and other real assets ("Sachwerte"). Nor had they any grievance when currencies depreciated in the 'thirties since prices and living costs did not mount above the level attained in the years 1926-29. In the countries in question the public continued to take out insurances and to practise other forms of saving in terms of money. (In Sweden and Switzerland — countries in which the cost of living had risen to twice the figure for 1914 — the amount of subscriptions to new life assurance in 1942 was an all-time record — a sign of unshaken confidence in the currency.)

In some other countries, however, a point was reached beyond the limit within which a unit of the currency was still regarded as retaining the same value, notwithstanding the rise in prices. In France the franc of 1926-28 became "le franc à quatre sous" while a Swiss franc remained unquestionably a Swiss franc. When people begin to feel that money claims may be subject to special risks, their attitude towards savings in money form necessarily changes and it may then prove difficult indeed to re-establish a sufficiency of real monetary confidence. These distinctions — vague though they may be — are not without their importance and the governments will probably be well advised to take them into account when they proceed to rebuild the currency system after this war.

This does not mean, however, that a country must subordinate its whole economic and monetary policy to the attainment of some former parity or some definite price level. Both foreign exchange rates and commodity prices may alter within a fairly wide margin before a reduction in the purchasing power of the currency unit is felt as a positive grievance; within that margin a government may seek a level conducive to a high degree of production with a satisfactory volume of employment. But, if it should thus be possible to avoid a deflationary fall in prices, there must, even so, be some sectors in which costs will have to be reduced from high wartime levels; and then it will be well to remember that a sharp cut is often preferable to a long-drawn-out adaptation, since the former is more likely to establish a proper basis for recovery and will thus hasten the advent of a more satisfactory level of employment.

In the light of past experience, the restoration of a true balance in the cost and price structure appears to provide the only reliable basis for an economic recovery characterised by a high degree of activity in the investment industries, and with profit and loss as a guide to production and a gauge of efficiency. Such a balance can hardly be attained without some adjustment of costs; but reductions in wage rates and other cost elements are generally not by themselves sufficient as a basis for recovery since they may simply result in successive contractions in demand, with a tendency to cumulative deflation — a tendency which, however, may be counteracted by a financial expansion designed to restore and even to augment the volume of demand. In the years 1929 to 1932 hourly wage rates in the manufacturing industries in the United States were reduced by about 20 per cent.; but this adjustment, being accompanied by a contraction of demand and an even more rapid fall in commodity prices, failed to bring about a recovery and the result was a feeling of frustration and useless suffering. In a number of other countries (including Australia, the United Kingdom, Sweden and also Germany) cost adjustments were, however, supplemented by a policy of financial expansion, costs and prices being balanced within each national economy and vis-à-vis other countries, after which signal success was achieved in reviving industrial activity. In this process a cheap-money policy played a part, both by reducing the cost of capital and by providing a stimulus to new borrowing. Depreciation of currencies was likewise a factor, helping

especially the smaller countries to restore a balance with other markets and also to bring about a better relation between costs and prices in the domestic structure, making it easier, besides, to pursue a cheap-money policy. As regards public works, the attitude in different countries was not uniform and the part they played in the recovery was less decisive until wholesale government spending for rearmament, and later on for war, brought industrial activity of a special kind to a high pitch.

The methods of the 'thirties will not, of course, be applicable again in every respect. Other and better means of expansion must be employed than depreciation of currencies and heavy spending on armaments; but the main conclusion certainly holds good: a combination of financial expansion and cost adjustment brings about a revival of economic activity with less real cost and with much greater certainty than would be possible without one or other of these factors. It is one of the great advantages of insistence on cost adjustment that it brings home to every single firm the importance of taking the steps needed to put its business into proper order, while exclusive reliance on such general measures as cheap money and public works is apt to give the impression that individual firms can simply wait for the beneficial effects of some outside action. None of the forces which can help in overcoming a depression must be neglected; and the sum total of a great number of individual efforts may represent an important — even indispensable — contribution to this difficult task. In framing an anti-depression policy one should not be too orthodox and exclude all resort to credit expansion, nor too expansionist and rule out every measure of cost adjustment.

Possible difficulties of finding employment in the first years after the war will, however, be different from those of an ordinary business depression, in which an abundance of productive capacity seems to curtail the opportunities of useful investment as an outlet for current savings. Indeed, just the opposite may happen, in that the desire of people to purchase what they have been forced to do without for years may reduce the volume of voluntary savings to less than the amounts needed for repairs and reconstruction, the readaptation of industry and, maybe, credits to other countries. Such maladjustments as may be foreseen will probably be wholly due to causes other than a flow of savings in excess of the available investment possibilities, and the primary task will then be to sweep away those other frictions and hindrances to recovery, e.g. by finding proper parities between the different currencies, by correcting such costs and prices as are obviously out of line, and by arranging for raw-material credits and other financial assistance designed to revivify international trade. There will not be one patent solution for the troubles arising but many different measures will have to be taken, the main task of the governments being to secure political order, nationally and internationally.

In three particular fields — development of exports, the building trade and public works — a number of special questions arise. For countries with insufficient monetary reserves and large requirements of raw materials the development of the export trade

will be of primary importance. But those more fortunate countries which are in possession of adequate monetary reserves will also be greatly concerned about the future trend of world trade, since each one of them will have to decide how far it should integrate its own economic life with that of the rest of the world. The end of the war will find almost all countries applying intricate systems of exchange control which, as much as any tariff policy, may stand in the way of a recovery in international trade. Such measures as can be taken to replenish monetary reserves or provide foreign credits for a resumption of the flow of merchandise may be particularly helpful in widening one of the obvious bottlenecks in the post-war situation, not least because they will facilitate a relaxation of exchange restrictions.

Demands for protection will, no doubt, be put forward by both masters and men in industries expanded during the war beyond the scope of ordinary requirements (the shipbuilding industry is, for instance, reported to have attained in the Anglo-Saxon countries a capacity ten times as great as is likely to be needed in times of peace). As it will be difficult to find employment at once for those no longer occupied in the typical war industries, there may be a strong temptation to try to relieve the situation by measures represented as detrimental "only to the foreigner". Much will then depend upon the lead given by the larger countries. After all the obstacles to world trade which were built up during the great depression — the tariff increases in the United States in 1930, the introduction of exchange control in Germany in 1931 and, in the following year, the adoption of a tariff in Great Britain, together with the conclusion of the Ottawa agreements — some equally important and striking moves, but in the opposite direction, would seem to be needed to convince the world that a turning-point in the realm of commercial policy had indeed been reached.

It has been feared that industrialisation, especially of extra-European countries, will seriously curtail the future volume of international trade; but the experience already gained in the older industrial countries themselves seems to indicate that this is by no means a necessary consequence: as long as the trade policies adopted by individual countries are followed by an increase in their standard of living, with new wants and new activities, there will in all probability be an expanding market for the products of other countries also. The composition of foreign trade will, however, tend to change somewhat, in that the countries which are in process of industrialisation will come to import, instead of mass-produced goods, a larger quantity of highly finished articles, including those they need for their capital equipment, namely, tools and machines of all kinds. Such a change in character may be entirely compatible with an increase in the aggregate volume of world trade, though it raises for each exporting country the problem of attaining the highest efficiency, especially in those industries which stand to profit from the change in the pattern of world trade.

Turning to activities on the domestic market, the outstanding importance of the building trade is, perhaps, best shown by the fact that in times of good business this trade is normally responsible for fully 50 per cent. of all

current capital investments, a proportion found even in the nineteenth century at a time when railway construction in the United States was at its peak. In the present emergency the private building trade has been greatly contracted since special permits are needed for new constructions and are usually granted only for purposes connected with the war effort. According to the official index figures, building costs have risen by 20 per cent. in Germany, and even more in other countries, though the exceptional character of wartime building makes it difficult to calculate reliable index numbers of these costs. Rents, on the other hand, have not been allowed to go up; in many countries they have not risen at all, and everywhere the increase has been less than in other items on which the cost-of-living indexes are based (compare the table in Chapter II, page 107). Here are the elements of a serious maladjustment which, no doubt, will have to be corrected before private building activity can again expand. Experience after the last war proved conclusively that those countries which were the first to abolish their rent restrictions were also the first to benefit from a recovery in building activity, followed by a general revival. As there is little prospect of bringing building costs back to the pre-war level, an increase in rents would seem to be required. Socially and politically, however, it will be anything but easy to allow rents to rise and thus to establish in practice the balance in the cost and price structure which is more and more recognised as a necessary condition for a sound recovery.

In order to be prepared for such difficult situations as may arise when the war is over, many governments have had lists drawn up of suitable projects for public works. One of the main tasks of the transition period after the war will obviously be to shift workers from industries having undergone a great wartime expansion to those which cater for ordinary peacetime needs. The problem will then be essentially one of industrial flexibility and, as such, it will be affected not only by the existence of powerful economic organisations but also by a number of other circumstances, including the readiness of individual workers to change their occupations and, maybe, to find new homes, despite the wrench of such an uprooting. Sometimes one is almost despairingly driven to the opinion that the more modern communications develop the less can reliance be placed upon the voluntary migration of workers in response to economic demands. Hence the need for well-organised labour exchanges.

Unfortunately, public works are apt to reduce still further the mobility of labour and the capacity for adjustment in industry generally. The financing of such works might easily absorb a good part of current savings and it would thus reduce the amount of capital in search of new investments (ordinarily one of the mainsprings of industrial expansion). By the relief which public works would provide, they would tend to diminish the inducement — weak as it already is — to seek new employment. In these different ways the execution of a vast programme of public works might impede and delay the correction of maladjustments which had arisen in the course of the war. These dangers are all well known and, in order to eliminate them as far as

is humanly possible, such programmes as are adopted should at least provide for a high degree of flexibility and also ensure that the works in question, primarily concerned as they must be with the home market, shall not prejudice the production and trade of the export industries.

In countries having suffered much war damage, extensive reconstruction works will be needed and these will, at least in part, be financed by the government; elsewhere, also, a large demand for labour and materials will arise in connection with delayed repairs, the restocking of factories and warehouses, etc. Being additional to direct purchases by consumers, this demand is likely to ensure an initial phase of good business with great industrial activity; but much of the work thus undertaken may be of a non-continuous nature and the post-war boom may therefore be followed after some years by a second phase with fewer openings for current savings. If these are the prospects for the post-war period, it would seem advisable not to set about public works of a less urgent nature too early in the programme but to keep them in reserve for a subsequent downward turn of business.

It is, however, most difficult to forecast what will happen in the economic field when the war is over and it is therefore imperative that plans for this period should be adjustable to the circumstances prevailing at the time of their execution. If countries feel that they can count upon good prospects for their export trade (as a result, maybe, of monetary or other arrangements) they will be less disposed to embark upon a vast programme of public works at home. It is obvious that the sooner economic enterprise can start producing what private consumers themselves are anxious and willing to buy, the quicker and greater will be the improvement in the standard of living. Not every mode of employment is equally valuable for the satisfaction of peacetime needs; for the betterment of social conditions it is necessary not only that the available human and material resources should be employed but that they should produce what is actually wanted — this being obviously in the interests of the great mass of consumers. In the present emergency, representatives of employers and employed have participated, as never before, in the working-out of the general principles governing the war economy, and they have been largely responsible for many arrangements which could hardly have been realised so smoothly or so efficiently in any other way. Would it be too much to hope that the same spirit of cooperation may still be alive and remain a vital force to ensure industrial flexibility and to deal with the many other difficult post-war problems, the solution of which can form the only adequate and reliable basis for a progressive policy of social security?

## II. EXCHANGE RATES, FOREIGN TRADE AND COMMODITY PRICES.

### 1. EXCHANGE RATES.

The maintenance of stable official rates has continued to characterise the exchange position in most parts of the world. Considering the unequal rise in prices in the different countries, the consequence has been that, in a number of instances, rates continue to be quoted which are out of touch with underlying conditions; and this state of affairs undoubtedly acts as a brake on the exchange of goods and services despite all efforts made to remove the obstacles by a combination of export charges and import premiums (or vice versa). The competent authorities have feared that by an alteration in the rates they might release psychological and other forces, bringing in their train consequences which could not be foreseen. It has, moreover, proved difficult in practice to modify rates agreed upon in commercial and payments arrangements, since often more than two countries have been involved, which has made it hard, if not impossible, to arrive at a positive result. The maintenance of the stable rates by countries obtaining a large import surplus usually involves some sort of credit arrangements, e.g. advances and other payments by occupied countries, aid between belligerent countries on the same side and special credit arrangements with the few remaining neutrals.

There have, however, been some exceptions to exchange stability. In January 1942 (as mentioned in the twelfth Annual Report) the Danish crown was appreciated by 8.2 per cent., after negotiations with Germany, the main purpose being that of counteracting a further rise in the Danish price level. More directly in response to market developments, the currencies of some South American countries have risen in exchange value. In these countries current supplies of dollars have exceeded the demand, exports being mostly well maintained, while difficulties are experienced in obtaining deliveries from belligerent countries, including the United States. In Iran the improvement in the value of the rial, which set in after the occupation of the country by British and Soviet troops in the autumn of 1941, has continued, the effective quotation of the pound sterling having been reduced by stages from Rials 174 before the occupation to Rials 129 in May 1942. But the most spectacular currency changes have taken place in the Far East, involving, inter alia, a monetary unification in relation to the yen. Thus the currency units of the Philippines, Hong Kong, Thailand, the Straits Settlements, Burma and Java have all been made equal to the yen, which has entailed varying degrees of depreciation for the local currencies.

By these measures the division of the world into separate currency areas has been further accentuated; other moves in the same direction are the attachment of the territories of North Africa to the sterling and the dollar areas. The official dollar-sterling rate itself has been maintained practically

unchanged at \$4.03 = £1 since the autumn of 1939; measures taken in 1942 to simplify the sterling accounts held by residents in the United States may be regarded as one of the signs of an increasingly close connection between the two Anglo-Saxon currency blocs.

The remaining neutral countries on the continent of Europe cannot be said to belong exclusively to any of the different currency areas. They maintain monetary relations with countries on both sides in the war and they combine fixed official quotations for the pound and the dollar with the maintenance of stable rates for the Reichsmark, which, in the various clearing agreements, retains its full gold value.

Apart from the appreciation of the Danish crown mentioned above, no change has been made during the year under review in the rates between the Reichsmark and other European currencies. The process of bringing the exchange valuation of the Reichsmark in the Danubian and Balkan area into line with the quotations of the dollar, the Swiss franc and other "free currencies" came to an end in 1941, the only exception to the uniformity being Roumania, where a 90 per cent. premium is applied to the Swedish crown and the Swiss franc; for the Reichsmark the rate quoted corresponds to a premium of 50 per cent., while for a number of other currencies the premium is only 38 per cent.

In this connection it may be mentioned that for the French franc also there is a difference in the valuation. In the Franco-Swiss clearing the agreed rate of Fr.fcs 100 = Sw.Fcs 10 practically conforms to the official rate for the dollar at Fr.fcs 43.80 = \$1, which has been maintained by the Bank of France since the autumn of 1939. On the other hand, the clearing with Germany is based on the rate of Fr.fcs 20 = RM 1, which represents for the French franc a depreciation of 12.4 per cent. compared with the official rate of the dollar. In addition, there is an exchange market in Switzerland for "free" French francs, with regular transactions in French francs held in the so-called "Swiss foreign accounts" by persons resident in Switzerland. Up to November 1942 the rate in this market was kept in the proximity of the official clearing rate, but after the events in November 1942 it fell sharply — for a time to less than Sw.fcs 3 for Fr.fcs 100. Steps were taken to render support to the market, however, and the rate recovered at the beginning of 1943 to Sw.fcs 4 and later on exceeded Sw.fcs 5. The market is in any case very narrow, since it comprises only transfers outside the clearing, the latter including in particular all commercial transactions. The "free" market seems to be used mainly for certain financial transfers such as payments of insurance and reinsurance premiums etc. But, in spite of this limitation, the quotations for "free" French francs in Switzerland have attracted much attention, although, of course, similar markets exist for a number of other currencies whenever particular quotations are allowed for special purposes. (As regards the quotations of the French franc in the territories outside the home country, see page 44.)

On the Swedish exchange market the rate of the "Reisemark" was increased in March 1943 from S.Kr. 90 to S.Kr. 95 = RM 100. This increase was allowed in connection with a reintroduction of the special fee of S.Kr. 18.50 per RM 100 first levied under the Standstill Agreement of 1937 (at a rate of Sw.fcs 10, later increased to Sw.fcs 20) but suppressed from 1938 onwards as regards the most important source of "Reisemarks" for the Swedish market. The official rate of the Reichsmark has remained unchanged in the clearing at S.Kr. 167.50-168.50 = RM 100.

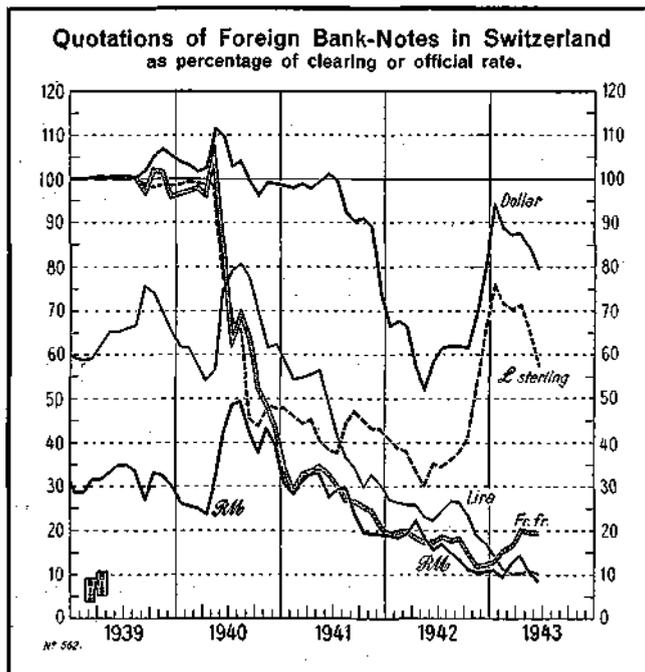
Among the innovations during the year, mention should be made of a new currency: the carbovanez issued by the Ukraine Central Bank established in March 1942. Another new bank of issue, the Ostland Central Bank, was opened with head office in Riga in April 1943. Some details regarding the operations of these two banks will be found in Chapter VI.

The external relations of the new banks of issue and of the Reichskreditkassen are practically limited to their connection with the monetary authorities in Berlin. For payments to other countries and areas they may, however, be allowed to use their holdings of Reichsmarks. The annual report of the Reichsbank for 1942 mentions that nineteen countries and areas are attached to the multilateral clearing via Berlin. It is understood that as a rule special arrangements are required to determine the nature of the transactions which are eligible for the multilateral clearing and the amounts involved. Under the one-sided developments caused by wartime conditions the effects of bilateralism have not been overcome and it must therefore be the endeavour of each country to secure equilibrium in relation to other countries both collectively and individually, surplus balances in one market being but rarely utilisable for settlement of liabilities in other markets.

For the remaining neutral countries on the continent of Europe there was the further complication that they had to handle in even more strictly separate compartments their commercial and monetary affairs with each of the belligerent groups. In doing so they have gradually been drawn nearer to each other. As an example of this closer contact may be mentioned that, since 5th August 1942, the Portuguese escudo and, since 7th October of the same year, the Argentine peso have been included in the list of official quotations on the Swedish exchange market. Notwithstanding a surplus in the current account of its balance of payments in both 1941 and 1942 (see page 122), Sweden has maintained the exchange restrictions which were imposed at a critical time in February 1940; the restrictions are kept in force mainly as a precautionary measure and to facilitate wartime control of commercial and financial payments. They are, however, applied in a liberal spirit and in several foreign exchange markets the Swedish crown is still regarded as a "free" currency in the same way as the Swiss franc and the dollar.

One of the main exchange problems with which the Swiss authorities have had to deal is still that of absorbing large offers of dollars which are subject to the freezing provisions imposed in the United States in the summer

of 1941. Under the regulations in force Swiss assets in the United States can practically only be used for payments within the dollar area, the Swiss National Bank mentioning in its last annual report that the difficulties rather increased during 1942. As in the previous year, the National Bank has in the main limited its purchases to dollars originating from exports of merchandise, travel and payments in connection with insurance, or concerned with payments to the Diplomatic Corps, the International Red Cross and persons domiciled in Switzerland whose sole income consists of their dollar receipts. On the other hand, the bank has, in principle, refused to accept dollars resulting from transfers of or income from capital, being anxious to safeguard, above all, the country's foreign trade. In view of the limited possibilities of utilising dollar assets, the National Bank has been obliged to accept — but only with great reluctance — blocked dollars and gold in the United States, since the demand for dollars from importers of goods has been insufficient to absorb the exporters' offers of dollars and it has been practically impossible to utilise dollars in third countries. Consequently the bank's monetary reserves have greatly increased. The agreement concluded with the commercial banks in September 1941 regarding purchases and sales of dollars has remained in force; each week a balance is struck between the banks' purchases and sales of dollars for the recognised purposes, and the surplus which then generally arises is taken over by the National Bank at agreed rates of exchange. Over an extensive field, including all commercial uses, a stable dollar rate is thus ensured; but, outside that field, Swiss francs are dealt in on the New York market at rates differing widely from those officially applied in Switzerland. While the official rate for the dollar in Switzerland is Sw.fcs 4.30 = \$1, rates as low as Sw.fcs. 3 = \$1 have occasionally been quoted in New York.



In 1938 about one-third of Swiss foreign trade was carried through clearing accounts; in 1942 the proportion had risen to about three-quarters, the reasons for this development being that, apart from settlements with Portugal and Sweden, payments within Europe could no longer be freely made and that the share of the continent of Europe in Switzerland's foreign trade had risen as a result of the increased difficulties in the way of commercial relations with overseas countries. Transactions which pass through the

clearing are settled at the official rates agreed upon by the clearing partners, and these rates are of great practical importance for the currents of trade and the trend of prices, being certainly more significant in these respects than, for instance, the rates quoted for bank-notes or for currency balances available only for special purposes. Quotations for bank-notes may be said to have little or no relation to the volume of trade and are as a rule unaffected by official support, the repatriation of notes being, on the contrary, forbidden in almost all countries, as part of the standard exchange regulations. The graph on the opposite page shows the quotations on the Swiss market for the notes of five countries as a percentage of the clearing or official rates for the currencies in question.

The Portuguese exchange market continued to be of considerable importance in 1942, being free from restrictions but feeling to some extent the effects of the more incisive regulations to which the country's foreign trade had been subjected. The sterling rate remained unchanged at Esc. 99.80—100.20, while certain slight adjustments were made in the rates for the dollar, the Swedish crown and the Swiss franc. The stability thus attained has been ensured through continued purchases of gold and foreign currencies by the Banco de Portugal, which increased its holdings of these assets in 1942 by no less than Esc. 4,530 million.

Spain also would seem to have strengthened its foreign exchange position during 1942. From 26th July of that year the so-called "voluntary" rates, which had been quoted in addition to the official exchange rates, were abolished. For sterling the "voluntary" rate had been Pesetas 46.55, the official rate, which still remains, being Pesetas 40.50. For the dollar the reduction was from the "voluntary" rate of Pesetas 12.56 to 10.95 and for the Swiss franc from Pesetas 2.91 to 2.53. Dealings in U.S. bank-notes have been forbidden. Towards the end of the year there was some increase in the demand for pesetas in foreign markets. This development would seem to reflect the reduction in the budget deficit and also the relative improvement in the "purchasing power parity", caused mainly by a more rapid rise in foreign costs and prices.

The Turkish pound has been subject to varying influences in recent years. There has been a good demand for certain Turkish export products, such as iron ore and chromium, while difficulties have been experienced in securing imports, and this has contributed to the maintenance of a relatively firm exchange position vis-à-vis other countries; on the other hand, commodity prices have risen rapidly on the domestic market, affecting the internal purchasing power of the currency. In order to counteract the persistent advance of prices, the government decided in May 1942 to suppress the 40 per cent. premiums on exports paid for in "free" currencies (the Swiss franc, the Swedish crown and the dollar) and in August reduced from 48 to 35 per cent. certain exchange premiums burdening imports paid for in dollars and other free currencies (a measure which would seem to be equivalent to an appreciation of the Turkish pound). Rates fixed in clearing agreements, however, remained unaltered. Notwithstanding the favourable export position, measures were introduced in the autumn affecting the conversion of Turkish pounds

into other currencies. A decree issued in September 1942 blocked all balances belonging to persons or firms, whether Turkish or foreign, domiciled outside Turkey, including all sums from the sale of commodities, rents from real estate and dividends from Turkish and foreign stocks and shares. No credit may in future be opened in Turkish pounds for any person or concern domiciled abroad. The Minister of Finance may in some cases grant exemptions. The blocked amounts can be used only for buying and exporting certain Turkish goods specified in the decree or enumerated in the various commercial agreements.

The European neutral countries are gaining what would normally be regarded as a strong exchange position by the additions to their monetary reserves; but the surplus exports (visible and invisible) which give rise to these additions involve payments which have to be financed on their domestic markets; in arranging this financing care has to be taken not to provoke a dangerous monetary expansion. For the neutrals such problems of financing have arisen in relation to countries on both sides in the war. Although Sweden and Switzerland are debarred from merchandise traffic with the United Kingdom and the United States to a greater extent than are Portugal, Spain and Turkey, the current accounts of their balances of payments still continue to show a substantial turnover with the monetary centres in the sterling and dollar areas.

The British foreign exchange control, which had gradually been perfected during the first two years of the war, underwent no important amendments during 1942. Perhaps the most significant new move was a simplification in relation to the dollar, by which three different types of sterling accounts held by residents in the United States were merged into "registered accounts", the balances of which could, if desired, be converted into dollars at the official rate. This put an end to the market for free sterling in New York. A similar measure of unification was not applied in relation to Switzerland — the only other country for which the system of "registered accounts" had been in force. Since the beginning of 1943, however, it has been permissible to open "registered accounts" in favour of private persons and firms domiciled in Switzerland, whereas previously such accounts had only been allowed between banks (with the authorisation of the Bank of England).

Foreign exchange quotations in London showed hardly any variation during 1942, official rates being applied vis-à-vis practically all countries whose currencies were quoted. New rates, applicable to the territories in North Africa, were, however, fixed for the Italian and French currencies. For Cyrenaica and Tripolitania the rate was fixed at Lit. 480 to the pound sterling, in line with that which had previously been adopted for Eritrea and Abyssinia, while for Sicily a rate of Lit. 400 to the pound sterling was announced in July 1943 together with a rate of Lit. 100 = \$1. For French North Africa the first rates to be applied were Fr.fcs 300 to the pound and Fr.fcs 75 to the dollar but, in response to representations from various quarters, these rates were changed

in February 1943 to Fr.fcs 200 and Fr.fcs 50 respectively. These new rates represent a depreciation of the French franc by about 12 per cent. in relation to the official rates of Fr.fcs 176.625 to the pound and Fr.fcs 43.80 to the dollar, established in the autumn of 1939. Since, however, the rate of Fr.fcs 176.625 has been maintained in the territories of "Free France" under agreements with the British authorities, the result is that two rates are now quoted in the French overseas territories: one rate, based on Fr.fcs 200 to the pound, applicable mainly to North Africa and to French West Africa, and the other rate, based on Fr.fcs 176.625 to the pound, applicable to French Equatorial Africa, Syria, Lebanon, Madagascar, French Cameroons, New Caledonia and other South Sea possessions as well as to French India.

In September 1942 the Brazilian milreis and the Uruguayan peso were added to the list of "specified" currencies which must be surrendered to the Treasury if held by any resident in the United Kingdom — indicating a sharp reversal in the position of these two currencies, which had previously been conspicuous by their weak tendency.

In relation to the United States the maintenance of a stable sterling-dollar rate has been much facilitated by the lend-lease arrangements, under which war deliveries are precluded from exerting an influence on the exchanges. Although the American foreign exchange market as such is not subject to control, this market is affected, on the one hand, by the exchange regulations in force in other countries and, on the other hand, by the Foreign Funds Control applicable to more than \$7 milliard of foreign-owned assets held in the United States and to the transactions of more than 35 countries, including the whole of Continental Europe (except Turkey), China, Japan and the countries occupied by Japan. The "frozen" assets consist not only of bank deposits, gold and securities but also of a great number of business enterprises, as well as merchandise, patents and other forms of property; and the control covers all financial and commercial transactions in which the countries affected or their nationals have an interest, whether such transactions are purely domestic or come under the heading of foreign exchange or foreign trade. After the United States became involved in the war, the Control was made an agency of economic warfare and its objectives and powers were defined accordingly. The control is carried out by an organisation created within the Treasury Department, major policy decisions being frequently considered by inter-departmental groups. Much of the field work concerned with licences to effect transactions subject to the control has been delegated to the Federal Reserve Banks, which in this respect act as agents of the Treasury Department.

To provide the information necessary for the administration of the control, a census of all foreign property subject to the jurisdiction of the United States was taken by the Treasury Department. The total value of the property reported in the census was in excess of \$13 milliard, and more than \$7 milliard of this total was reported as the property of blocked countries or their nationals.

Property reported as owned or held for Latin American Republics or their nationals amounted to more than \$1.2 milliard. The following table shows property holdings classified according to the principal types of property.

**Principal Foreign-owned Assets in the United States**  
in the middle of 1941<sup>(1)</sup>.

Groups of countries	Gold ear-marked	Deposits and other banking assets	Stocks of registered bonds	Direct investments	Other investments	Total
	In millions of dollars					
Enemy countries . . . . .	24	160	50	105	125	464
Enemy-occupied countries <sup>(2)</sup> . . . . .	1,269	1,225	625	365	500	3,984
Other blocked countries <sup>(2)</sup> . . . . .	848	975	540	120	200	2,683
Other American republics . . . . .	322	605	225	20	50	1,222
All other countries . . . . .	4	1,115	1,690	1,340	650	4,799
<b>Total . . . . .</b>	<b>2,467</b>	<b>4,080</b>	<b>3,160</b>	<b>1,950</b>	<b>1,525</b>	<b>13,152</b>

<sup>(1)</sup> Table reproduced from a memorandum published by the Treasury Department, Foreign Funds Control, in June 1942.  
<sup>(2)</sup> Including Finland and the part of France not occupied at that time. <sup>(3)</sup> Including China.

Apart from the "war debts" of 1917-19, the foreign assets owned by the United States at the end of 1940 were estimated by the Department of Commerce to be slightly over \$11 milliard. If only those countries are counted which are subject to the Foreign Funds Control, the claims of the United States at the end of 1940 would be as follows\*:

Direct business investments . . . . .	\$1,051 million
Dollar bonds . . . . .	613 "
Short-term banking funds . . . . .	80 "
<b>Total . . . . .</b>	<b>1,744 million</b>

In the course of 1942 a number of stabilisation agreements were concluded by the United States, with the granting of credits through the Exchange Stabilization Fund. Under an agreement concluded in July 1942 the credit line of \$60 million which the Brazilian Government had already obtained in 1937 was increased to \$100 million, for the purpose of stabilising the value of the milreis. In the same month an agreement was concluded with the Cuban Government, under which the latter became entitled to acquire gold on credit in the United States, the credits to be repaid within twenty days and in no case to exceed \$5 million. By the use of this facility the Cuban monetary authorities would be able, if they so wished, to acquire gold in advance of actual payments in dollars due to them. Earlier in the year the Ecuador Government received a credit up to \$5 million from the U.S. Stabilization Fund, to enable it to stabilise the rate between the sucre and the dollar; and, under an agreement with Iceland, the Stabilization Fund was authorised to provide up to \$2 million to ensure a stable relationship between the Icelandic crown and the dollar. Arrangements were also made to prolong, to the end of June 1943, the agreement concluded with the Chungking Government in April 1941, under which the Stabilization Fund extended credits up to an amount of \$50 million in order to secure the value of the yuan.

\* From an article by Judd Polk on the "Future of Frozen Funds" in the American Economic Review for June 1942.

Loans to several Latin American countries were granted in the course of the year by the Export-Import Bank and some countries were also recipients of lend-lease assistance. The expenditure of large sums by the United States and other governments, in payment for materials and services required in connection with the war, also helped to provide Latin American countries with substantial dollar balances, only a part of which was, as a rule, used to pay for imported goods. Some of the countries received, in addition, an influx of private refugee capital, which likewise added to the foreign resources in the hands of their central banks and Treasuries.

In the course of 1942 the gold reserves of Brazil increased from the equivalent of U.S. \$70 to 115 million (as compared with \$34 million in July 1939). The quotations of the Brazilian currency in New York showed increasing firmness up to the end of the year, the average free rate being 5.1427 cents in 1942 as against 5.0705 cents in the previous year. During the early part of 1943, however, the strong tendency was not maintained; in February the Bank of Brazil was vested with fresh powers of monetary control and took steps to prohibit imports and exports of Brazilian currency as well as unauthorised sales and holdings of foreign exchange. On 1st November 1942 the official designation of the unit of the Brazilian currency was changed from milreis (divided into 1,000 reis) to cruzeiro (divided into 100 centavos). In September 1942 the exchange rate in the "Special Account" with the United Kingdom was altered from Milreis 78.570-79.570 to 83.648 = £1. For transactions other than those falling under this account, the existing regulations provide that 30 per cent. of the value of sight export bills must be sold by the exporters at the official rates of Cr. 16.50 for the dollar and Cr. 66.49½ for the pound, the remaining 70 per cent. being sold at the free market rates of Cr. 19.47 for the dollar and Cr. 78.46<sup>7</sup>/<sub>16</sub> for the pound. The buying rates for importers in the free market are slightly higher, viz. Cr. 19.63 for the dollar and Cr. 79.59<sup>9</sup>/<sub>16</sub> for the pound. In addition, there is a special free market for cheques and mail transfers in U.S. currency with rates of Cr. 19.70-20.50 for the dollar, the purchase of dollars from the banks being subject to a 5 per cent. exchange tax.

In Venezuela the different selling rates of dollars to importers were unified in May 1942. Before this unification there were two different rates: the official rate at Bs. 3.35 = \$1, applicable to payments for essential imports duly authorised in advance, and the free rate, varying between Bs. 3.42 and 4.00 for the dollar, applicable to payments for other imports. The new uniform rate was fixed at Bs. 3.35, involving a substantial appreciation of the bolivar for a great number of transactions. Different rates, involving, in some cases, considerable subsidies, are still applied to the sales of foreign exchange by exporters; in view of the rise in the foreign price for coffee and cocoa, the purchase rates for export bills for these commodities were, however, somewhat reduced in 1942. While the current budget is usually balanced with a surplus, the government arranged in 1942 for loans amounting to \$20 million from the Export-Import Bank to be used for development works. Bolivia also obtained loans from the Export-Import Bank and, as a result of the great

foreign demand for some of its export products, especially tin, the foreign reserves increased substantially and the official rate of exchange was lowered in February 1943 from Bs. 46 to Bs. 42 for \$1. Thanks to an improvement in their exchange positions, Mexico and Paraguay were able to resume a partial service of their foreign debts. In Nicaragua the Exchange Commission as an autonomous institution was abolished in the summer of 1942 and its functions entrusted to the central bank. Similarly in Chile the powers of the Exchange Control Commission were transferred to the central bank from the end of 1942.

The exchange position of the Argentine has been influenced by an export surplus of Pesos 702 million in 1942 as compared with 363 million in the preceding year, and also by a continued inflow of capital from abroad. No change has been made in the official buying rate of Pesos 335.82 = \$100 (Pesos 13.50 = £1), applicable to about 90 per cent. of the country's exports, or in the preferential selling rate of Pesos 373.13, applicable to government payments and imports of certain essential commodities. But in April 1943 the buying rate applicable to other exports than those classified as "regular" was reduced from Pesos 421.82 to 397.02, corresponding to a decline in the free market rate from Pesos 424.75 to 398 (with a corresponding reduction from Pesos 16.96 to 15.96 = £1). Financial payments continued to be effected at the old rates, a claim by British holders of Argentine railway shares for remittances at a better rate than Pesos 16 = £1 being refused.

In consequence of decisions reached at the Pan-American Conference in Rio de Janeiro in 1942, steps had been taken by the Argentine Government to control capital movements in relation to other than American countries. In April 1943 the control thus introduced was extended to all countries in order to protect the Argentine market from the harmful repercussions of an excessive inflow of funds from abroad. Any import of capital would in future require a permit, which would be granted only if the import in question served productive purposes, it being held that the capacity of the Argentine market to absorb unproductive refugee funds had already reached its limit.

The main purpose of the monetary policy of Japan since the beginning of 1942 has been the establishment of a yen area comprising the whole of the Far East. Different aspects of this policy have been (i) the monetary unification of the occupied parts of China, involving a gradual elimination of the military yen and a strengthening of the position held by the Nanking yuan and the Peiping yuan; (ii) the establishment of the South Seas Development Bank, provided with the privilege of note issue (of which it began to make use on 1st April 1943); (iii) the confirmation of the yen as the basic currency for all the other currencies in the area.

The main instrument for the extension of the monetary power of Japan has been the gumpyo, i. e. the military currency issued by the Japanese occupying authorities. While in China the military yen had from the beginning the same value as the yen of the mother country, elsewhere the gumpyo was, in each area, given the same value as the local currency, with which it was

thus made interchangeable; only later was it to be brought into a fixed relation with the yen. An exception was made, however, in Hong Kong where, on account of the close economic relations with China, the military yen was already introduced as a new currency on 5th January 1942, but the Hong Kong dollar was allowed for the time being to continue in circulation. The rate of exchange between the military yen and the Hong Kong dollar was originally fixed at Hong Kong \$2 = Military Yen 1, but was soon altered to Hong Kong \$4 = Military Yen 1. By the adoption of the latter rate the Hong Kong dollar was subjected to a depreciation of more than 75 per cent. (the value of the military yen being taken as fully equal to that of the Japanese yen itself). In the spring of 1942 all holders of Hong Kong dollars were told to exchange them for military yen before 31st May 1943; all liabilities in Hong Kong dollars would be repayable in military yen, including bank deposits, which were to be converted into military yen; and from 1st June the Hong Kong dollar ceased to be legal tender. To give support to these measures the Nanking Government prohibited within its jurisdiction the holding and use of Hong Kong dollars, English pounds and U.S. dollars (the Japanese military authorities in China had already in July 1942 prohibited all transactions in these currencies).

In the other occupied areas the gumpyo was, as mentioned above, at first made equivalent to the respective local currency. But, in settlements with Japan, the gumpyo was, without exception, put on a par with the Japanese yen, which involved an indirect attachment of all the local currencies to the yen at a rate of 1:1. Apart from the adoption of the decimal system for the subdivision of the Burmese monetary unit, there have so far been no formal currency changes in the different areas, but the de facto introduction of a new parity with the yen has amounted to a depreciation of the local currencies:

The rupee in Burma was depreciated . . . . .	by 22 per cent.
The baht in Thailand . . . . .	by 37 " "
The Straits dollar in British Malaya, North Borneo and Sarawak . . .	by 50 " "
The peso in the Philippines . . . . .	by 53 " "
The guilder in the Dutch East Indies . . . . .	by 56 " "

The Thailand baht was defined in February 1942 as equal to 0.32639 grammes of fine gold (instead of being linked to sterling at the rate of Bahts 11 as previously). By this definition Bahts 100 were equal to Yen 155.70, but already in April 1942 the link with gold was broken and the baht was given the same value as the Japanese yen. In January 1943 it was agreed that, in relation to Japan, French Indo-China would accept "special yen" instead of, as previously, gold or certain foreign currencies, in settlement of balances arising from commercial payments, expenses for stationing Japanese forces and all payments on service account (the new mode of settlement being applied also to the various areas under Japanese domination). Simultaneously the relationship of the piastre to the yen was slightly altered from Yen 98.12½ to Yen 97.60 = Piastres 100. The new rate, calculated via the last yen-sterling quotation of 1s.2d. = Yen 1, corresponds to a rate of Fr.fcs 175.64 = £1. The piastre being thus equal to Yen 0.976, the currency unit has become practically the same for all the southern Pacific areas dominated by Japan; the new relationship has been so fixed as to give a high purchasing power to the Japanese yen.

Of the four currencies circulating in China proper, three — the military yen, the Nanking yuan and the Peiping yuan — are attached to the Japanese yen, and the fourth — the Chungking yuan — is the currency of the Chungking Government. In these circumstances of great diversity the monetary developments present a double aspect: within each area the authorities have to cope with the problem of maintaining some measure of currency order in spite of the strain and stress of a prolonged war; at the same time, between the currencies attached to the yen, on the one hand, and the Chungking yuan, on the other, they are pursuing a kind of monetary warfare parallel with the armed struggle.

A slight lowering of the official exchange rates for sterling and the U.S. dollar was announced from Chungking in July 1942. In place of the rates of  $3\frac{5}{32}$ d. for Yuan 1 and  $\$5\frac{9}{32}$  for Yuan 100 the central bank quoted new selling rates of 3d. and  $\$5$  respectively; the fixing of these quotations would seem to be a sign that the Chinese Currency Stabilisation Fund, backed by the British and United States Governments, is continuing to function. According to information given by the Finance Minister, the circulation of notes expressed in Chungking yuan, which in June 1937, i.e. at the beginning of the so-called China Incident, stood at Yuan 1.6 milliard, had attained an amount of Yuan  $22\frac{1}{2}$  milliard by the autumn of 1942, or about  $8\frac{1}{2}$  milliard more than a year earlier. At the rate of  $\$5$  for 100 Chungking yuan, the latter currency retains only 17 per cent. of the value it had in the summer of 1937.

Among the Japanese-sponsored currencies, a determined effort has been made to bring support to the Nanking yuan — the currency issued by the Central Reserve Bank in Nanking, opened on 6th January 1941. The note circulation of this bank, which by the end of its first business year had reached about Yuan 300 million, stood at about Yuan 1,000 million in the early summer of 1942 and reached Yuan 1,700 million in the autumn of the same year. This increase is at least partially connected with the measures taken to oust the Chungking yuan from the areas under the Nanking Government.

Originally, the Nanking yuan was given the same value as the Chungking yuan but on 31st March 1942 a rate of Chungking Yuan 100 = Nanking Yuan 77 was fixed, the Nanking Government announcing at the same time that the link between the two currencies was officially broken. Two months afterwards steps were taken in specified provinces (including Shanghai) for the withdrawal of Chungking yuan and their conversion into Nanking yuan at a rate of two to one. To avoid a large expansion in the note circulation of the Central Reserve Bank in Nanking it was decided to issue so-called "stabilisation bonds" in exchange for the large amounts of Chungking notes held by the banks, while the public were to receive Nanking notes in exchange for such notes. Gradually, the area in which the Nanking yuan was to be the sole currency was extended: after the first stage, comprising the important districts of Nanking and Shanghai, the Nanking yuan was introduced in the provinces of Kiangsu, Chekiang and Anhwei; a further move aimed at its introduction in the province of Hupeh, with Hankow as the leading city. The Finance

Minister of the Nanking Government announced in the autumn of 1942 that all Chungking notes still in private hands on 1st December 1942 in the provinces of Kiangsu, Chekiang and Anhwei would not only be banned and debarred from circulation but the carrying or hoarding of such notes would be severely punished. This order also applied to the cities of Nanking and Shanghai. The population in these various districts were at the same time offered a last opportunity to exchange Chungking for Nanking notes. Continuing the same policy, the Nanking Government in January 1943 announced similar measures applicable to the Hankow area and such districts in Kwangtung as were controlled by the said government (in particular the city of Canton). The time limit for the exchange of Chungking notes for Nanking notes was 14th February 1943 in the case of Hankow, but as early as 25th January for the Canton districts.

The Central Reserve Bank in Nanking has received support from the Japanese authorities in several ways. In July 1942 the Japanese Government granted the Nanking Government, through the Bank of Japan, a five-year book credit of Yen 100 million, carrying interest at  $3\frac{1}{2}$  per cent., for the purpose of forming a reserve in yen as cover for the notes issued by the Central Reserve Bank. At the same time it was reported that credits granted by the Japanese to the Nanking Government in June 1941 amounted to Yen 300 million. In this connection it may be mentioned that the Central Reserve Bank in Nanking has transferred the execution of ordinary banking business to the Bank of China and the Bank of Communications, these two institutions having dissociated themselves from the Chungking Government and become private banks under the control of the Nanking Government. The Central Reserve Bank in Nanking has announced that from the beginning of 1943 it will confine its own operations to those of a government bank of issue.

On 9th March 1942 the rate of the Nanking yuan in relation to the military yen was fixed at 5:1, but on 22nd June of the same year the rate was altered to 5.55:1 (or Military Yen 18 = Nanking Yuan 100), involving a further depreciation of the Nanking yuan by 10 per cent. Since commodity prices, however, were much higher in Nanking China at the official rate of exchange than in Japan, it was rumoured that the relation between the yen and the Nanking yuan would be radically revised. To allay the fears which had thus arisen, the Japanese Economic Adviser to the Nanking Government explained, on a visit to Tokio in March 1943, that, on the one hand, measures would be taken to counteract the price rise in Nanking China but, on the other hand, the present relation between the military yen and the Nanking yuan would be maintained. The price discrepancy, however, seems to be considerable: in January 1943 the wholesale price index in Tokio stood at 249, while in Shanghai the index had attained 3,518 (on the basis of the level obtaining before the outbreak of the Sino-Japanese conflict). A price equalisation system which had been introduced before 1939 for imports and exports, in order to bridge over the difference between Japanese and Chinese commodity prices, was superseded in September 1941 by a system providing for "special yen" rates for

a number of goods, the rates varying, according to the type of goods, between Yen 18, 10 and even 3 = Yuan 100. This system was discontinued in the spring of 1943, when the exchange rate of Yen 18 = Yuan 100 was fixed for all commodities. Its place has been taken by a Barter Trading Corporation, through which losses ensuing from price differences between Japan and China are compensated (in virtue of a law on Trade Equalisation Special Accounts). During the current fiscal year the new corporation may obtain from the Treasury up to Yen 750 million to compensate for losses from price differences; in addition, it pays into the Trade Equalisation Special Account the profits on its own barter deals.

At the end of March 1943 it was announced by the Japanese military and civil authorities in China that no further issues of military yen would be made in the area under the control of the Nanking Government, nor were any new payments, deposits etc. to be made in military yen, but Nanking yuan were to be employed to the greatest possible degree. The military yen would, however, remain in circulation and there was no immediate intention of converting liabilities in that currency into Nanking yuan. The process of withdrawal of the military yen would be gradual; no change would be made in Hong Kong, where the military yen was to remain the basic currency.

The so-called Tientsin or Peiping yuan issued by the Federal Reserve Bank of North China, with head office in Peiping, was also unaffected by the announcement relating to the military yen. The note circulation of this bank, which began operations in March 1938, has developed as shown in the table.

Federal Reserve Bank  
of North China:  
Note Circulation.

End of month	Millions of yuan
1938 December	162
1939 "	458
1940 "	715
1941 "	966
1942 "	1,593

The Peiping yuan is theoretically linked to the Japanese yen at the rate of 1:1. It has, however, been influenced by the movements of the other Chinese currencies. Up to the spring of 1943 a free market rate was quoted between the Peiping and the Nanking yuan, but on 1st April 1943 an official rate was fixed of Nanking Yuan 3.8 =

Peiping Yuan 1 (a cross rate which incidentally does not tally with the official rates of the two currencies in relation to the yen). The recent growth of the Federal Reserve Bank of North China reflects, in particular, the taking-over of certain foreign banking institutions which were liquidated after the outbreak of war between Japan and the Anglo-Saxon countries.

By recent measures the network of fixed exchange rates between the different parts of the yen bloc has been well-nigh completed. The rates thus in force do not correspond, however, to the relative purchasing power of the different currencies; the arrangements which have been introduced for price equalisation entailed, indeed, an open admission of substantial price discrepancies existing between the different areas. In this respect, however, conditions in the Far East do not differ materially from developments in many other parts of the world. An example of the increased control exercised by official

agencies in the field of foreign exchanges is provided by the transfer to the Bank of Japan, in the spring of 1943, of the foreign exchange business previously carried out by the Yokohama Specie Bank. In return the latter bank has been able to develop its banking business rapidly throughout the southern territories, the Philippines, Malaya, Java and Burma. In these various areas the currency units, as mentioned above, are equal to the Japanese yen, but conversions of these foreign currencies into the yen of the home country are permitted only in exceptional cases and to limited amounts, a rule which also applies to the gumpyo circulating in these areas.

In the discussions of future exchange policy it is possible to discern two distinct — in some ways contradictory — tendencies, both arising out of the experience gained during the Interval between the two wars. First of all, there is a profound realisation of the disadvantages connected with overvalued and undervalued currencies and, therefore, great emphasis is laid on the need of bringing exchange rates into line with the underlying economic conditions in the respective countries (a restoration of "purchasing power parities" being a somewhat simplified version of the principle involved). Countries have found by dire experience how harmful it is to cling to rates which make a currency overvalued, since this upsets their export trade, endangers the current account of the balance of payments, and, what is often more serious, exerts a downward pressure on prices, while costs remain high. To remedy the situation, some countries, of which Germany was the chief example, decided in 1931 and the following years to submit their national economies to a comprehensive control, offsetting the disequilibrium on foreign account by a system of export subsidies and import charges and stimulating domestic activities by extensive state investments. Elsewhere, the usual result of an uncorrected overvaluation was widespread unemployment, with much suffering and grave dangers from a social point of view, while the burden of public and private debts was aggravated by a contraction of the national income.

Undervaluation of a currency, on the other hand, might appear — for a time at least — to bring some advantages, as a means of ensuring remunerative prices (i. e. prices well above costs) both in export trade and in domestic activities, including agriculture (the undervaluation acting as a form of protection combined with export premiums). But this is not the end of the story. Countries with undervalued currencies have usually found the terms of trade affected to their disadvantage, foreign firms and individuals being able to buy goods and services from them too cheaply. Should reliance upon undervaluation become a habit (as the use of artificial stimuli is apt to do) monetary security would soon be impaired, with consequences which would not be immediately revealed in all their force. Labour circles in a number of countries would seem to have realised more and more that, without monetary stability, efforts towards social improvement may soon be nullified, the real value of contractual wage rates and social benefits being diminished by rising prices. In relation to foreign markets, the advantages which at first seemed promising

have often proved short-lived: since every undervaluation subjects other countries in some degree to the difficulties of overvaluation, these countries may be expected to take steps to protect themselves by special duties and quantitative restrictions, or may themselves enter the depreciation race and try perhaps to go one better. The net result is a restriction of trade all round, curtailing the openings for useful employment, and leading ultimately to a reduction in the standard of living.

The conclusion drawn from all this has been that speedy adjustment of exchanges must indeed be a desideratum for the post-war world, overvaluation and undervaluation of currencies being harmful to economic progress and the maintenance of peaceful relations.

The world has, however, also learnt to value exchange stability, having found by bitter experience how disturbing a period of instability can be to international trade, and especially to foreign capital investments involving payments to be spread over a number of years. When there is no certainty that the exchanges will remain stable, the individual producer or trader has not only to study conditions on his own market but, since the result of an exchange transaction will often make or mar the profitability of a business deal, he must try to forecast the future trend of the exchanges — frequently with no better result than a sheer loss of time. (Covering forward might at best relieve his anxieties with regard to payments already contracted for a short time ahead but not with regard to the general effect of currency changes on the trend of the market).

The wider aspects of instability may, however, be more serious: it is not easy to limit adjustments to those cases which really call for them or to restrict the degree of adjustment to what is necessary to constitute a new equilibrium. In departing from an established rate, there is often a great temptation to try to secure some commercial advantage from a change which can never be wholly agreeable; but, whenever that happens, the fatal spiral of competitive depreciation is easily set in motion; and the ultimate effects of such a development may not be confined to the economic sphere. Since modern monetary systems are mainly based on credit, i. e. on a belief that the system itself will remain stable, a prolonged period of instability undermining that belief has often been followed by a period in which an over-careful — not to say retrograde — credit policy has been pursued in order to restore lost confidence (indeed, the monetary history of both France and Germany provide examples of such a sequence of events). In view of all these dangers and difficulties, maintenance of exchange stability appears almost an end in itself, well worth attaining even at the cost of some immediate sacrifices.

Experience thus urges, on the one hand, the imperative need of adjustment and, on the other, the advantages of stability. This is not a new discovery, indeed, an attempt to reconcile these two apparently conflicting desiderata was made in the Tripartite Agreement of September 1936: exchange adjustments were not to be ruled out — the agreement itself was

concluded for the immediate purpose of facilitating an alignment of the French franc with the dollar and sterling — but the adjustments were to be kept within proper limits, the parties to the agreement trusting that no country would "attempt to obtain an unreasonable exchange advantage and thereby hamper the effort to restore more stable economic relations". The hopes that the agreement would lay the foundation for other necessary adjustments, and thus for a world-wide exchange stability based on appropriate parities, were, however, disappointed; within three years the exchange rates between the three original signatories had all been subjected to major modifications.

When this war is over, similar problems will present themselves and new attempts will be made to find a reasonable way out of the difficulties. Each of the two Anglo-Saxon currency plans published in the spring of 1943 set out to provide for reasonable exchange adjustments and safeguards against unnecessary departures from the rule of exchange stability. From the experience of the troubled years 1919 to 1939 it seems possible to extract certain general principles which may command a fair measure of agreement for the future.

1. There can be little difference of opinion as to the need, which will become more evident after the war, for exchange adjustments as a result of unequal increases in costs and prices in different countries. For the time being official quotations are maintained by a complicated system of trade and exchange control (often tempered, however, by palliatives such as premiums and subsidies designed to span gaps which would otherwise prove unbridgeable). Prestige in currency matters will probably play less of a rôle in the future than it did after the last war, since the question of returning to old time-honoured parities will rarely arise. But within the different countries and in their relations with one another it will probably be impossible to rule out entirely those clashes of interest which often make it difficult to arrive at agreed solutions and to work out an objective formula capable of universal application. In fixing relative exchange rates, attention must no doubt first be paid to the factors most resistant to change, namely the level of wage rates, agricultural prices, and the volume of domestic and foreign indebtedness. The great difficulty will be to find a relationship which will not only answer immediate requirements but will also prove tenable in the years to come.

2. On one point agreement in principle may perhaps be taken for granted; all will concur in condemning currency manipulation as an instrument of commercial policy and a fortiori competition in depreciation (or appreciation). While it may be accepted that exchange rates should be adjusted to fit relative cost and price levels and the volume of indebtedness, a country which resorts to manipulation would provoke new disequilibria; and, although such disequilibria might procure the country in question some temporary commercial advantage, they would for that very reason expose other countries to corresponding disadvantages and tend to provoke retaliatory measures.

The distinction between "adjustment" and "manipulation" is not easy to establish either in theory or in practice; but the line of argument put forward to support a change in the rate may possibly reveal the intention of those responsible for the decision. Perhaps the best practical test is willingness or reluctance to accept some immediate sacrifice as a contribution to general exchange stability. According to the Keynes Plan, the main advantage of a monetary reserve is "to allow time and method for necessary adjustments and a comfortable safeguard behind which the unforeseen and the unexpected can be faced with equanimity". Thus, this Plan (and perhaps this is even truer of the White Plan) presupposes, as part of the monetary machinery to be used in the future, a willingness to rectify an internal disequilibrium.

In the twelfth Annual Report of this Bank the opinion was expressed that major maladjustments would probably have to be corrected by alterations in exchange rates; reductions of wages by anything like 20 or 30 per cent. might expose the social fabric to too great a strain and too heavily increase the burden of public and private indebtedness. If, on the other hand, the necessary reduction of costs were limited to something like 10 per cent., it might well be possible to re-establish equilibrium by a policy of internal cost adjustment. The monetary authorities alone, however, have no longer the means of giving full effect to such a policy, and it was therefore suggested that a solution might be found by associating labour organisations in the responsibility for monetary decisions and in that way arriving at a method of cost adjustment with a minimum of friction and waste of resources. If it were made a rule that minor disequilibria should be adjusted by changes in price and cost levels, an important step would have been taken towards the realisation of general exchange stability.

3. Even in cases where a modification of exchange rates is unavoidable, it will usually prove essential to success to combine such a step with a direct adjustment of costs and prices. First of all, such a combination would ensure a less extensive modification in the rate of exchange than would otherwise be necessary; the risk of establishing a new disequilibrium by too great a swing in the exchange rate would thus be materially diminished. The adjustment of a currency to its proper equilibrium rate does not really produce any harmful effects for other countries but, since it eliminates an obstacle to trade, is in the interests of all, provided, of course, that alterations in the rates do not become so frequent as to destroy all sense of stability. If exchange adjustments were to be regarded as part of a permissible policy to be applied whenever a currency found itself in an unbalanced position, and if such adjustments involved no loss of monetary prestige, it would probably be impossible to prevent their use for improper purposes; the attitude which the world in general adopts towards currency changes most certainly influences the amount of effort which each individual country may be willing to expend in order to rectify its position by other means than modifying its exchange rates.

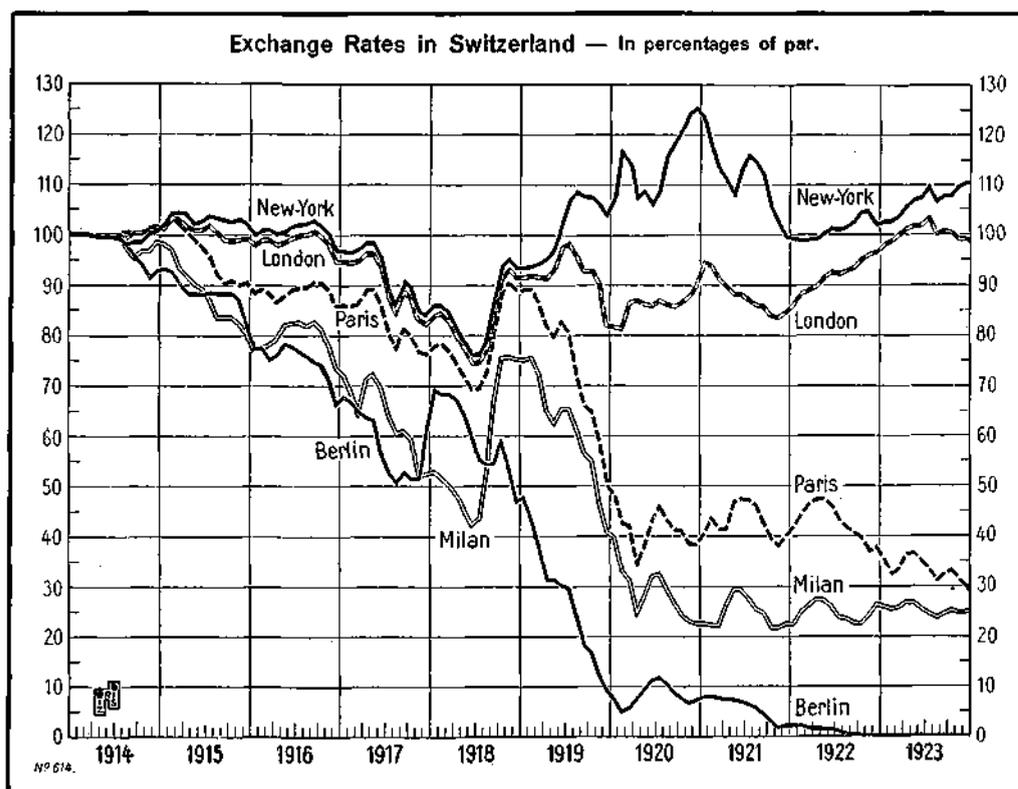
Secondly, by the combination referred to above the problem of a trade revival would be attacked from both the financial and the economic angle; and

this would mean, *inter alia*, that the business world could not sit back and wait for the results of some official action but each individual firm would be expected to take the measures necessary to put its own affairs in order. Experience has proved that a double attack of this kind, involving an intensification of individual efforts, offers the best chance of success (see Introduction, pages 34-35).

Finally, a policy of combining cost adjustments with a modification of exchange rates probably holds out the greatest hope of restoring confidence in the currency, since it gives reason to believe that the modification of the exchange rate is definitive, being part of a comprehensive plan to secure a lasting equilibrium. Not every modification of exchange rates has in the past produced the results hoped for; experience has proved that no automatic results can be expected but that monetary reforms are successful only if certain conditions are fulfilled, foremost among them being a strengthening of public and private credit. If the choice of the new rate appears to be reasonable; if costs are not too high for the level of prices and the budget is properly drawn up; and if the new arrangements consequently give the impression of being more than a mere makeshift, the credit position of both the government and the business world will be sure to improve. In this way a firm basis will be laid for a more confident outlook, soon to be reflected in the rate of investment and the turnover of trade. Wherever, in the past, the authorities allowed important problems concerning the budget or the cost and price structure to remain unsolved, not even a very considerable depreciation was able to produce the desired recovery.

4. A particularly nasty kind of depreciation overtook a number of countries after 1918: in advance of actual internal inflationary developments, the exchange rates of a number of countries were affected in response to heavy sales, especially of bank-notes, on foreign markets. It did not take long for the precipitous fall in exchange values to intensify the rise in domestic prices: for instance, during the wild post-war inflation in Germany, prices for vegetables in small country towns came to be raised daily and even several times a day, to conform with the latest Mark quotation for the dollar as received from Amsterdam or Zurich. If there is no complete collapse of the system now in force, a continuation of wartime controls during the critical period is likely to rule out this type of price-raising influence at the end of the present war. But a continued suppression of the free foreign exchange market will then prevent the exchanges from finding their own level, and this is not wholly satisfactory either. In the period immediately after the war, market influences, if allowed to make themselves freely felt, would be so formidable that control would appear to be the lesser evil. Nevertheless, it would be dangerous to believe that any fundamental disequilibrium had been cured by attending to what is after all only a symptom — the weak tendency of the currency. And, if an unbalanced position were to remain uncorrected, preventing a relaxation of the restrictions imposed, the whole system of control would act as a brake upon those dynamic forces whose freedom to operate probably provides the best chance of restoring business activity and ensuring a healthy demand for labour.

5. Another danger may arise from the imperfect synchronisation of the stabilisation measures in different countries. In the period 1920-29 the leading countries did not stabilise their currencies at even approximately the same time, and the late-comers often adopted new rates of exchange which proved to be out of keeping with the conditions already firmly established in the other countries. Again, after 1931, when one country after the other departed from the parities which they had adopted in the previous decade, there was not much coordination between the currency changes of the important countries: England took the step in 1931, Japan likewise, the United States in 1933, France and Italy (with the remaining countries of the gold bloc) in 1936, while Germany continued to apply the old gold parity as a basis for the official rate of the Reichsmark in its different clearing and payments agreements. It is to be hoped that when measures of monetary reconstruction are undertaken after the present war they will be more nearly simultaneous, whether this be the result of concerted action or the outcome of parallel endeavours by individual countries. There can be little doubt that concerted action may help to restore a fair measure of monetary order at an earlier date than would otherwise be possible. Many countries will have insufficient reserves in gold and foreign exchange to pay for the import of essential raw materials, foodstuffs, machinery and manufactured goods; and these countries will, moreover, need to strengthen their monetary reserves in order to be able to relax their wartime restrictions on exchange and foreign trade at an early date. If the countries themselves were to



attempt, by some ingenious technical device, to mobilise the amounts of foreign exchange which they would need, they might easily expose their monetary mechanism to an excessive strain. Whatever outside assistance becomes available, it is almost an essential condition for success that this should be given as part of a comprehensive plan aiming at financial and economic equilibrium in the country benefiting from the aid — at least, that is one of the main conclusions which may be drawn from the reconstruction work after the last war.

6. Whatever policy the larger countries may adopt to organise financial assistance on an international basis, there can be little doubt that one of the greatest services which they could render the post-war world would be the speedy establishment of stable conditions within their own economies and in their relations with one another; a lack of balance in their exchange positions or a failure on their part to bring about a revival in business will not leave other countries unaffected. It is not the interests of the larger countries which are least served by a restoration of monetary stability. A smaller country will usually find it easier than a larger one to derive a stimulus from currency depreciation. The smaller country can often assume that prices on world markets will be little affected by an alteration in its own exchange rates and that the larger countries will not alter their commercial policy because of an added difficulty in what may be, for them, only a minor sector of their foreign trade. But such an added difficulty is nevertheless real and, if several small countries were to adopt the same course, the combined effect might be acutely felt by the larger countries. They themselves have not the same possibility of deriving benefits from exchange alterations, since world prices are often determined by the quotations on their own markets; and, when great disparities arise between the price levels of the larger countries as a result of currency changes, it will be difficult to avoid a restrictive twist to commercial policy. For a country with a leading position in economic and financial activities it is natural to stress the advantages inherent in the principle of exchange stability, since a departure from this principle is likely to be at its own expense. The action taken by U.S. Congress in April 1943, when it decided not to prolong the President's powers to alter the gold content of the dollar within the limits of 60 and 50 per cent. of the old parity, was in many respects typical.

The maintenance of a fixed relationship between gold and the U.S. dollar does not, of course, in itself constitute a sufficient safeguard against fluctuations in commodity prices. From 1914 to 1933 the gold content of the dollar remained unchanged, but American commodity prices (together with world-market prices on a gold basis) varied widely during these years, with repercussions on the price level in other countries and particularly in those which kept their currencies in a fixed relation to the dollar (or to gold, which up to 1933 amounted in practice to the same thing).

When one or other of the larger countries insists on the advantages of exchange stability, it must not be forgotten that under a system of stable

exchanges the fortunes of the smaller countries will be linked most closely to the developments within the larger units. Experience shows that a country may be driven to depreciation through its own fault, for instance by the pursuit of an unsound policy, resulting in an accumulation of budget deficits or an untoward increase in production costs; it might also happen — though more rarely than is often supposed — that a country has resort to depreciation for the purpose of gaining distinct commercial advantages. The great changes in currency values after 1929 were for the most part connected with the violent decline, during the great depression, first in the prices of raw materials and then in the level of other prices also. It was the countries with a one-sided economic structure, dependent on the export of a few raw materials, that were most acutely affected — and their currencies were the first to depreciate. But many other countries also were driven into a disequilibrium between costs and prices by the continued slump; the monetary changes during the 'thirties can, generally speaking, be regarded as a reaction against the unwanted price decline. Since fluctuations on the world markets mainly reflect the situation in the larger countries, the attainment of general exchange stability presupposes that these countries are able to bring about relatively stable business conditions. It would, of course, be wrong to demand the impossible: there can be no complete suppression of business fluctuations so long as economic life continues to obey the laws of dynamic growth — and that they should do so must after all be the continued hope of mankind; the goal must rather be to smooth out the curve of the business cycle and, in particular, to avoid such violent price changes as those experienced during the unbridled inflation after the last war and the devastating deflation after 1929.

## 2. FOREIGN TRADE.

Out of more than sixty countries which before the war published foreign trade returns some two-thirds have successively suspended publication and these two-thirds, as it happens, accounted for roughly two-thirds of the turnover of world trade in 1938. Among the great powers only the United States belongs to the remaining one-third, i.e. the countries which continue to publish — though often in a simplified form — regular returns of their imports and exports. It is true that, in cases where publication of statistics has been discontinued, speeches by cabinet ministers or high officials often shed some light on the trend of affairs. But the information thus obtained is generally fragmentary in nature and difficult to piece together into a satisfactory picture. Such figures as are given, regularly or from time to time, must, moreover, be read with particular caution, since not only have prices risen considerably and transport costs most spectacularly (thus tending to give an inflated impression of the magnitude of trade under war conditions) but shipments of arms and similar products may or may not be included in the published statistics. In any case, all the available material seems to point to the fact that a general increase in value as expressed in current

monetary units has been accompanied by a decline in volume, which is tantamount to a real shrinkage in world trade. This has been due, in the first place, to the severance of relations by the blockade and counter-blockade, to changes in the Far East and to a lack of means of transport (not only by sea but also by rail); in the second place, it is connected with the world-wide reduction in the supply of consumption goods, reflecting a diversion of output to the service of the war effort, with a steadily shrinking margin for civilian production and for international trade.

Such, in broad outline, is the development; but it should be added that within certain areas the factors just mentioned have been less potent, and an intensification of trade has therefore been possible. That has been the case, for instance, between a number of countries on the continent of Europe, between leading Anglo-Saxon countries, within the South American continent and also between such distant neutral countries as the Argentine, Switzerland and Sweden. (Argentine trade with these two European countries rose from some Pesos 60 million in 1940 to Pesos 250 million in 1942.)

In 1942, according to a statement in the annual report of the Reichsbank, Germany's imports, again affected by the placing of armament orders in occupied and other countries, came quantitatively near to the pre-war level, and exports also advanced to an appreciable degree. (The average of German imports for the two years 1937 and 1938 was about RM 5.4 milliard and exports about RM 5.6 milliard.) In the course of the war Germany has acquired a predominating position in the foreign trade of most European countries, its share sometimes attaining as much as 80 per cent. of the total turnover, with little change on balance from 1941 to 1942.

Germany's clearing indebtedness rose by some RM 7 milliard in 1942, but this increase was only partly the result of surplus imports; other payments played a great rôle, among them the transfer of wages earned by foreign workers from some seventeen countries (rising from a monthly average of RM 10 million in 1940 to RM 60 million in the first months of 1943).

Percentage of Trade  
with Germany in Total Turnover<sup>(1)</sup>  
(Estimates of value).

Countries	1938	1941	1942
Belgium . . . . .	12	70	65
Bulgaria . . . . .	56	70	65
Croatia . . . . .	—	—	60
Denmark . . . . .	22	80	70
Finland . . . . .	17	53	70
France . . . . .	7	.	50
Greece . . . . .	33	27	40 <sup>(2)</sup>
Hungary . . . . .	28	59	53
Italy . . . . .	23	50	80
Portugal . . . . .	16	14	.
Slovakia . . . . .	—	36	70
Spain . . . . .	13 <sup>(2)</sup>	25	26
Sweden . . . . .	21	47	43

(1) In the sources from which the percentages have been obtained there is as a rule no indication whether or not they include trade with Bohemia and Moravia. (2) January-July.

(2) For the year 1935.

One of the most debated questions regarding German foreign trade was the continuous rise in prices in many of the countries from which Germany received a substantial part of its imports; among the most important measures taken to overcome the difficulties to which the discordant price tendencies gave rise were the Price Equalisation Fund mentioned on page 86 and the price fixing in commercial agreements with other countries.

Information available regarding Italy's foreign trade in 1942 gave an indication that this trade, although limited to Continental Europe, passed the pre-war level and showed an export surplus. In comparison with the pre-war period account must, of course, be taken of the increase in prices. Germany's share in Italy's foreign trade would seem to have risen to 80 per cent. in 1942\*. Since the greater part of the trade with Germany was subject to a price stop, the general increase in prices probably played less of a rôle in Italy's foreign sector; and it may thus be concluded that, in volume, foreign trade was fairly well maintained in 1942. Moreover, the statistics published by a number of other countries, such as Hungary, Bulgaria, Sweden, etc., reveal that Italy in 1942 ranked second after Germany in their foreign trade. Italian foreign trade took two main directions: from the north, besides the supplies of Danish dairy products and of Swedish and Finnish pulp, Italy received (principally from Germany) coal, mineral ores and products of the iron and steel industries in exchange for foodstuffs and minerals (such as sulphur, bauxite, quicksilver, etc.), while with the east the exchange was mainly of petroleum, timber and oil-seeds against textiles and other finished products. In a trade agreement between Italy, Croatia and Hungary arrangements were made for a settlement by triangular clearing, under which Italian surplus imports from Croatia would, up to a certain amount, be paid for via Hungary, against which country Italy had a clearing claim, while Hungary had an active balance in relation to Croatia.

The swelling of the figures for the three countries in the table on the next page — the only ones in the Danubian basin which published trade statistics in 1942 — largely reflects the rise in prices which has occurred in this region in spite of all the efforts of the price control. In Bulgaria (and the same applies to Hungary) there has been further progress in transforming the composition of foreign trade to an increased export of goods of higher value and less bulk. Thus, Bulgaria's importance as a great cereal-exporting country has considerably declined. Bad harvests during the last three years, together with increased domestic requirements consequent upon enlargement of territory, have necessitated not only a drastic cut in exports but also a curtailment of home consumption. As sole exception, exports of rice to Roumania would seem to have been kept at a high level in order to obtain, in exchange, essential imports of petrol. On the other hand, there has been a continued increase in the exports of tobacco (notably from Greek territory recently attached to Bulgaria), dried products, jams and fruit juices. The prices of several Bulgarian products — especially tobacco — rose during 1942 above the limits fixed in various trade agreements. Fresh efforts were made from time to time to adhere more closely to the price relations agreed upon, but it was found that strict price fixing in the foreign sector tended to make producers and traders more interested in supplies for the home market, with a consequent neglect of the export trade.

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\* The number of Italian export transactions with Germany in 1942 was only 50 per cent. of the total as shown by the statistics given in Chapter IV; but this percentage applies to Italian exports only and it is probable that the average value of Italian export transactions with Germany was greater than that with other countries.

**Foreign Trade  
of Hungary, Bulgaria and Slovakia.**

In millions of national currency units	Imports	Exports	Balance
<b>Bulgaria:</b>			
1938 . . . . .	4,934	5,579	+ 645
1941 . . . . .	10,239	9,234	-1,005
1942 . . . . .	12,979	13,418	+ 439
<b>Hungary:</b>			
1938 . . . . .	411	522	+ 111
1941 . . . . .	730	791	+ 61
1942 . . . . .	923	1,144	+ 221
<b>Slovakia:</b>			
1941 . . . . .	3,491	3,182	- 309
1942 . . . . .	3,900	3,300	- 600

In Hungary too, in spite of price-stop agreements, export prices were allowed to rise, but not to the full extent of domestic price increases. Hungary no longer published details of the distribution of its foreign trade among different groups of commodities, but it is known that the export of manufactured articles continued to advance at the expense of farm products, which up to a few years ago represented over one-half of total exports. Wheat, which was still

the leading export commodity before the war, has lost its old pre-eminence, while tinned fruit and vegetables have gained in importance. In view of the decline in imports of raw materials and semi-manufactured products, efforts have been made to promote the importation of ready-made articles.

In 1942 Slovakia increased its imports more than its exports, doubling the import surplus from Ks. 309 to 600 million. But the clearing claim on foreign countries still increased, mainly as a result of remittances from Slovak workers in Germany, expenditure by Germans evacuated into Slovakia from parts of the Reich subjected to aerial bombardment, and revenue from transit traffic — all active items in Slovakia's balance of payments. Dealing with Slovakia's balance of payments in 1941, the Governor of the National Bank stated that income from abroad (including Ks. 3,180 million in respect of goods exported) amounted to Ks. 5,568 million and that payments abroad (including payments for imports of Ks. 3,490 million) amounted to Ks. 4,810 million, thus leaving an active balance of over Ks. 750 million. In order to tighten the control of prices in the foreign sector, a special department was established in the Ministry of Commerce in the spring of 1943. This department was entrusted with the task of examining whether the prices agreed upon between Slovak nationals and foreign firms corresponded to those fixed by the competent authorities in the respective countries.

In the years immediately before the war Continental Europe supplied about 80 per cent. of the imports and absorbed about 75 per cent. of the exports of Roumania. 60 to 70 per cent. of the exports consisted of cereals, petroleum and petroleum products; the balance of trade was active to the extent of several milliard lei a year. After the outbreak of hostilities the share of Continental Europe rose to 100 per cent., exports of cereals falling as a result of the loss of territory, bad harvests and shortage of manpower, while in value, if not in volume, exports of oil increased considerably. The only official indication concerning the country's foreign trade in 1942 has been furnished by the annual report of the National Bank, in which it was stated that the export surplus was again very large and that oil, wheat, cattle and other foodstuffs constituted the main export items.

During the ten years up to 1940 Roumania's oil production amounted to just over 3 per cent. of the world output but, according to the published statistics, production declined from a peak of 8.7 million tons in 1936 to 5.5 million tons in 1941, being in the latter year only 1.8 per cent. of world production. Roumania exports, however, as much as 70 per cent. of its output, ranking fifth among the oil-exporting countries of the world, after Venezuela, the United States, Iran and the Dutch Indies. (In 1939 the country's oil exports covered 1.6 per cent. of world consumption and 6.5 per cent. of European consumption.) By the end of 1942 the export price for crude oil had risen 400 per cent. and for oil products 500 to 600 per cent. above the pre-war level.

No statistics are available for Bohemia and Moravia, Albania and Serbia, but for Croatia figures have been published for the year ended 30th September 1942, showing an import surplus of about Kunas 1,500 million, mostly in respect of the two major trading partners, Germany and Italy. On the clearing account with these countries, Croatia has, however, an active balance, due to such items as transit traffic and remittances from workers in Germany.

For the first seven months of 1942 Greek imports are reported to have totalled Dr. 4,700 million and exports Dr. 2,100 million, but these figures are of little significance owing to the peculiar conditions of the country's foreign commerce. In normal times Greek exports usually covered about two-thirds of imports, the passive trade balance and other current payments being met by a number of active items, such as emigrants' remittances, shipping revenue, tourist traffic, etc. During 1941, however, these sources of revenue dried up; at the same time the rise in Greek prices made it impossible to export at the official rates of exchange. In order to overcome the consequent deadlock, the occupying authorities imposed a strict control over foreign trade by means of two special monopoly companies (the "Degriges"<sup>(1)</sup> for German-Greek relations and the "Sacig"<sup>(2)</sup> for Italian-Greek relations) whose function it was to fix prices of goods entering foreign trade and also to determine the use to be made of imported commodities. A Price Equalisation Fund was authorised to raise the selling prices for imported goods and to collect the difference between these prices and the amount of the invoice in Reichsmarks or lire converted at the official rate of exchange, part of the said difference being available for the lowering of Greek export prices so that the export trade could still be continued to some extent. Early in the year, moreover, an agreement was signed between Italy and Greece whereby the Italian Treasury advanced Lit. 100 million for the taking-over of all Italian claims in the Italo-Greek clearing account, the advance to be redeemed gradually by charges on a new account opened on 1st January 1943. This arrangement benefited other foreign creditors of Greece also, especially Hungarian and Roumanian exporters, who, for want of a direct clearing between their own countries and Greece, in many cases settled their export claims via the Italo-Greek account.

(1) Deutsch-Griechische Waren-Ausgleichs-Gesellschaft.

(2) S. A. Commerciale Italo-Greca.

Regular returns of foreign trade are not published for France but, with the aid of the customs statistics, the information about the Treasury's advances against clearing accounts and various other data, it has been possible to compile certain general figures of imports and exports.\*

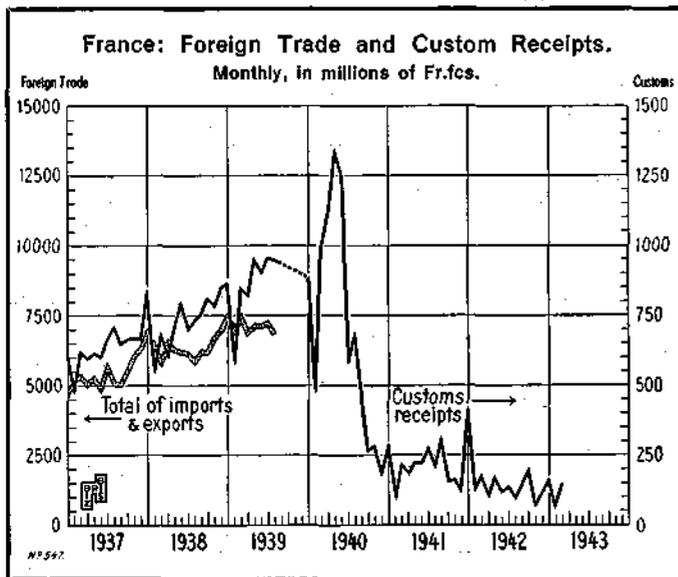
**French Imports 1938 and 1942.**

Imports	1938	1942	Percentage decline
Value: . . . . .	in milliards of Fr.fcs		%
	46,0	25,8	
Weight:	in thousands of tons		%
	5,846	1,598	
Foodstuffs . . . . .	39,663	5,404	- 86
Industrial materials . . . . .	1,645	514	- 69
Finished products . . . . .			
Total . . . . .	47,154	7,516	- 84

From 1938 to 1942 the shrinkage in the weight of imports was much more pronounced than the decrease in value, one reason for this disparity being the considerable rise in import prices and another the particularly sharp fall in the heavy items among industrial materials. But, even if allowance is made for the shift to foodstuffs and finished products at the expense of materials, the fact remains that French imports in 1942 sank to the lowest level for well over a century.

It is more difficult to obtain correct figures for the export trade because it is often impossible to separate commercial transactions from other deliveries, such as those made under the provisions of the armistice convention. It has, however, been estimated that the value of France's foreign trade turnover in 1942 was close to the figure for 1938, i.e. Fr.fcs 76.5 milliard. If this estimate is accepted, it may be concluded that French exports in 1942 were in the neighbourhood of Fr.fcs 50 milliard. This gives an export surplus of about Fr.fcs 25 milliard. The increase during 1942 in the Treasury's advances to the Franco-German clearing was Fr.fcs 33 milliard, but a part of this amount corresponds to payments of a non-commercial character (for instance, remittances from French workers in Germany). The changed geographical distribution of French foreign trade is shown by the first table on the following page.

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\* See an article by Albert Aigoud in the "Revue de l'Economie Contemporaine" for April 1943 on "Le Commerce Extérieur de la France depuis l'Armistice".

**France: Direction of Foreign Trade**  
(Value).

Percentage distribution of Imports from or exports to:	Imports		Exports	
	1938	1942	1938	1942
The French Empire . . .	27	46	27	22
Europe . . . . .	34	50	56	78
Other countries . . . . .	39	2	17	0

Since the armistice, supplies from the Empire, although almost entirely confined to North Africa, have constituted a higher percentage of France's import trade.

The loss sustained through separation from North Africa was reflected in a 40 per cent. drop in France's total foreign trade during the first two months of 1943, as compared with the corresponding period of the previous year. France's commercial relations with foreign countries were regulated by clearing agreements, except in the case of Portugal, with which trade was on a very limited scale and was settled by payments in free currencies.

**French Trade with the Empire.**

In milliards of Fr.fcs	Imports from the Empire	Exports to the Empire
1938 . . . . .	12.5	8.4
1941 . . . . .	14.3	5.3
1942 . . . . .	12.4	6.5

During 1942 France had an import surplus in relation to Bulgaria, Croatia, Denmark, Spain, Finland, Greece, Hungary and Turkey but an export surplus in trade with Germany and Belgium.

According to a Franco-German agreement of 14th April 1942 French export prices remained free but charges were to be levied on the difference between the prices actually quoted for exports and those fixed for the

**French Foreign Trade Prices.**

Index figures 1938 = 100	Import Prices		Export Prices	
	1941	1942	1941	1942
Food . . . . .	194	272	140	168
Industrial materials .	257	259	180	141
Finished products .	235	345	161	224

same commodities on the internal market, the charges in question being credited to an equalisation fund (Caisse de Péréquation) from which subsidies were to be granted to importers of essential commodities.

The publication of foreign trade statistics has not yet been resumed in Holland, Belgium and Norway. In so far as Belgium is concerned it has been unofficially stated that by 1942 the foreign trade turnover had fallen in value to about 50 per cent. of the pre-war level. Figures have also been disclosed showing the geographical distribution of the country's foreign trade. While, before the war, overseas trade accounted for 51 per cent. of Belgium's imports and 42 per cent. of exports, the three neighbouring countries, France, Germany and Holland, absorbed in 1942 as much as nine-tenths of the total turnover, Germany occupying by far the most important position. In the year before the war Belgian exports covered imports to the extent of 90 per cent., but this ratio rose to 261 per cent. in 1942, the export surplus being

for the most part accumulated in Berlin in the form of clearing claims. Belgian trade with all countries in Continental Europe, except Spain,

**Belgium: Direction of Foreign Trade**  
(Value).

Percentage distribution of imports from or exports to:	Imports			Exports		
	1938	1941	1942	1938	1941	1942
Germany . . . . .	11	66	56	12	72	78
France . . . . .	14	11	21	15	10	13
Holland . . . . .	9	12	9	12	13	4
All other countries* .	66	11	14	61	5	5

\* In 1938 overseas countries were shown separately and represented 51 per cent. of imports and 42 per cent. of exports.

Portugal and Turkey, was regulated by clearing agreements but, in view of the large proportion absorbed by Germany, France and Holland, very little margin was left for commercial relations with other countries.

In spite of the wartime increases in prices, Denmark's foreign trade turnover fell in value by 30 per cent. between 1938 and 1942; in volume the fall was to one-third of the pre-war figure. Shortage of fodder has necessitated wholesale slaughterings, reducing the output and export of eggs, butter and milk. There have, however, been increased deliveries of industrial goods to Germany, the raw materials and semi-manufactured products being furnished

**Foreign Trade of Denmark, Finland and Sweden.**

In millions of national currency units	Imports	Exports	Balance
<b>Denmark: D. Kr.</b>			
1938 . . . . .	1,625	1,535	— 90
1941 . . . . .	1,311	1,278	— 33
1942 . . . . .	1,210	1,053	— 157
<b>Finland: FM</b>			
1938 . . . . .	8,607	8,398	— 209
1941 . . . . .	10,201	4,322	— 5,879
1942 . . . . .	11,724	5,989	— 5,735
<b>Sweden: S. Kr.</b>			
1938 . . . . .	2,062	1,843	— 239
1941 . . . . .	1,674	1,345	— 329
1942 . . . . .	1,770	1,313	— 457

by that country. Nevertheless, Germany's share in Danish foreign trade fell from 80 to 70 per cent. during the year. It is calculated that in 1942 Swedish deliveries to Denmark as counterpart for Danish exports of foodstuffs to Finland amounted to about Kr. 40 million, and further arrangements for such deliveries have been concluded for 1943.

In volume, Finnish exports were reduced by about two-thirds and imports by about one-half between 1938 and 1942. In value, exports likewise decreased during the same period while imports rose; there was thus a high import surplus, which, nevertheless, slightly declined in 1942 (the statistics include civilian goods imported for the army but not imports of war materials). Only a part of the import surplus, however, constitutes a net charge in the balance of payments; in Finland, as in most other countries, export values are counted f.o.b. and import values c.i.f. and, since about two-thirds of the foreign trade is carried by Finnish ships, the import surplus is to a large extent offset by income from shipping and from Finnish insurance companies. It may be mentioned that in 1942 Finnish clearing indebtedness doubled, from FM 1,500 million to FM 3,000 million.

Before the war Finland supplied about 85 per cent. of its own requirements of foodstuffs, importing cheap raw materials from overseas and finished goods from all over the world, while forestry products accounted for about four-fifths of the country's exports. During the war domestic production of foodstuffs has been hampered by mobilisation, shortage of fertilisers and, in 1940 and 1941, by exceptionally unfavourable weather conditions. In 1942 the harvest was somewhat better and domestic supplies were further improved by increased imports from Germany and credits from Sweden, available for food purchases in Denmark. The changes in the geographical distribution of the country's foreign trade are shown in the table.

**Finland: Direction of Foreign Trade**  
(Value).

Percentage distribution of imports from and exports to:	Imports			Exports		
	1938	1941	1942	1938	1941	1942
Great Britain . . . . .	22	—	—	44	—	—
United States . . . . .	9	*	*	9	*	*
Germany . . . . .	20	53	72	15	54	64
Italy . . . . .	1	2	3	2	6	5
Sweden . . . . .	13	18	8	5	6	4
Denmark . . . . .	5	7	8	3	10	12
Other countries . . . . .	30	20	9	22	24	15

\* Included in other countries.

In Sweden import prices in December 1942 were 165 per cent. and export prices 77 per cent. above the pre-war level, but here too import prices (quoted c.i.f.) have been swollen by high transportation costs, the index of shipping freights in the Baltic showing a rise of fully 200 per cent. between August 1939 and 1942.

A leading official in the Swedish Foreign Office, charged with commercial negotiations, wrote in the autumn of 1942 that "the most difficult foreign trade questions are the price questions", special attention being devoted to the task of checking the advance in import prices. While, for instance, in earlier agreements with Germany the price stop applied only to the more important commodities, it was gradually extended to encompass more and more goods until it covered almost 90 per cent. of the commercial exchanges between

**Sweden: Direction of Foreign Trade**  
(Value).

Percentage distribution of imports from and exports to:	Imports			Exports		
	1938	1941	1942	1938	1941	1942
Germany . . . . .	24	52	46	18	41	40
Northern countries* . . . . .	10	8	7	16	24	20
Other countries of Continental Europe . . . . .	24	22	25	21	23	28
Overseas countries . . . . .	42	18	22	45	12	12

\* Norway, Denmark and Finland.

Germany and Sweden. After prolonged negotiations it became possible in the spring of 1941 to resume trade with certain overseas countries, particularly in South America, ships provided with German "Geleitscheine" and Anglo-Saxon "navicerts" being able to enter and leave Gothenburg.

Thanks partly to higher imports from overseas countries, the import surplus increased from S. Kr. 329 million in 1941 to S. Kr. 457 million in 1942.

Volume  
of Sweden's Foreign Trade.

Index: 1936-38 = 100	Imports	Exports
1938 . . . . .	103	93
1939 . . . . .	122	102
1940 . . . . .	74	55
1941 . . . . .	49	50
1942 . . . . .	48	41

There was, however, a further fall in the aggregate volume of Swedish trade, the total turnover in 1942 being about 45 per cent. of the pre-war figure.

There was a further contraction in the foreign trade of Switzerland in 1942. Measured by 10-ton railway trucks, the weight of the country's imports fell by 10 per cent.

in comparison with the previous year, registering a total reduction of 40 per cent. below the pre-war level. For exports, the corresponding reductions were 20 and 35 per cent. In value, both imports and exports showed higher figures than before the war, import prices in 1942 being 116 per cent. and export prices 61 per cent. above the pre-war level. The high import prices are partly due to heavy transportation costs; before the war, freight payments to foreign shipowners amounted to Sw.fcs 40-50 million a year; for 1942 these payments are estimated to have been well over Sw.fcs 100 million, although Switzerland has acquired a mercantile marine of its own, with a tonnage of 58,600 and with Genoa, Barcelona and Lisbon as its principal ports of call in Europe. While in 1914-18 prices of raw materials rose more and foodstuffs less than the general index figure, foodstuffs have risen most in price this time — an increase which is the more felt since the domestic output (even with the increased cultivation achieved during the war) covers less than 40 per cent. of the country's food requirements. But, even if high prices have been paid for foreign goods and for their transportation, essential supplies have been procured. While in the years 1915-17 the traditional Swiss import surplus practically disappeared (in 1916 there was even an export surplus), the surplus of imports in this war has been actually above the pre-war rate. Difficult negotiations have been undertaken with the belligerents on both sides. For several months in 1943 payments in relation to Germany and some of the occupied territories were no longer governed by commercial agreements but were subject to autonomous regulation by the clearing offices in Berlin and Zurich.

Foreign Trade  
of Switzerland, Portugal and Spain.

In millions of national currency units	Imports	Exports	Balance
<b>Switzerland: Sw.fcs</b>			
1938 . . . . .	1,607	1,317	— 290
1941 . . . . .	2,024	1,463	— 561
1942 . . . . .	2,049	1,572	— 477
<b>Portugal: Esc.</b>			
1938 . . . . .	2,306	1,146	— 1,160
1941 . . . . .	2,643	2,896	+ 253
1942 . . . . .	2,457	3,898	+ 1,441
<b>Spain: gold pesetas</b>			
1935 . . . . .	879	588	— 291
1941 . . . . .	550	521	— 29
1942 . . . . .	610	631	+ 21

With Italy a new quota and clearing agreement was signed in November 1942, containing, inter alia, a so-called "security clause", under which Switzerland was authorised to reduce its exports to Italy if Swiss exporters were called upon to wait more than four months for their payments through the clearing; on the other hand, Switzerland undertook to increase its export quotas should the waiting period become less than four months.

A striking feature in Portugal's foreign trade during 1942 was the unprecedented export surplus, amounting to Esc. 1,441 million, as compared with Esc. 253 million in the previous year and an unfailing import surplus in the decade up to 1940. Moreover, the total transit trade reached a peak figure of Esc. 2,511 million in 1942, as compared with Esc. 412 million in 1938. Portugal, indeed, continued to benefit from its geographical position and also from certain features of its national production. Before the war farm and forest products furnished about two-thirds of total exports, minerals and metals contributing only 7 per cent., while the import surplus was met by such active items as income from foreign investments and emigrants' remittances. By 1942 the share of minerals had jumped to 40 per cent. of total exports, owing chiefly to the spectacular rise in the price of tungsten to 30 times the pre-war figure. On the other hand, difficulties were experienced in maintaining the volume of imports, which was distinctly smaller in 1942 than in the previous year. An agreement with Spain, concluded early in 1943, provided for a considerable increase in the exchanges between the two countries. About one-third of the total transit trade in 1941 was with Switzerland, and in the same year Portugal had with that country an export surplus of about Esc. 400 million instead of the small import surplus registered in the three years up to 1940.

Foreign Trade of Portugal and Spain  
(Volume).

In thousands of tons	1935	1938	1941	1942
Portugal . . . . .	2,488	3,924	2,505	1,945
Spain . . . . .	11,440		4,066	3,552

In weight, the total foreign trade turnover of Portugal fell by one-half from 1938 to 1942. In Spain the shrinkage was even greater—to one-third of the weight in 1935, before the civil war began.

The value figures in the foreign trade statistics of Spain are given in gold pesetas, and these show a reduction in the total turnover by about 15 per cent. between 1935 and 1942. By 1942 Spanish export prices had risen by 184 per cent. above the 1935 level, while import prices stood at 66 per cent. above that level. Thanks mainly to favourable prices for Spanish products, an export surplus of 21 million gold pesetas was attained in 1942, as compared with an import surplus of 29 million gold pesetas in the previous year and 292 million gold pesetas in 1935. Of Spain's foreign trade,

Spain:  
Direction of Foreign Trade in 1942  
(Value).

Trade partner	Spanish imports	Spanish exports
	In millions of gold pesetas	
All countries . . . . .	610	631
of which:		
Germany . . . . .	117	137
United Kingdom . . . . .	30	72
Italy . . . . .	24	48
Switzerland . . . . .	23	44
United States . . . . .	16	24

about 500 million gold pesetas out of a total of 1,241 million gold pesetas was the share of Continental Europe, Germany occupying the first place with deliveries to Spain for 117 million gold pesetas and purchases for 137 million gold pesetas, as compared with 51 million and 162 million respectively in the previous year.

On the other hand, the importance of Latin America has declined somewhat: the combined imports from the Argentine, Brazil, Chile, Cuba and Mexico amounted to 114 million gold pesetas in 1942, as compared with 151 million gold pesetas in the previous year, while exports to these countries totalled only 15 million gold pesetas — the same figure for the two years.

Of the neutral countries on the continent of Europe, Turkey is the only one which (since April 1941) has suspended the publication of its foreign trade returns. Like Portugal, Turkey has benefited from its geographical position and from the production within its borders of a mineral of a high strategic value (in the world production of chromium Turkey ranked first in 1938 with a share of about one-fifth). While maintaining with the continent of Europe a trade which, apart from armament deliveries, was expected to exceed £T 100 million in 1943, Turkey has been able to develop its commercial relations with the Anglo-Saxon countries, being also a beneficiary of lend-lease facilities. The total turnover with these countries was valued for 1942 at £T 130 million, the bulk of which passed through the United Kingdom Commercial Corporation. The trend of Turkish foreign trade in the course of the war is reflected in a substantial increase in the monetary reserves.

According to American statistics the U. S. S. R. received lend-lease deliveries from the United States in 1942 for an amount of \$1,314 million, while other (cash) exports to the U. S. S. R. were given as \$65 million and imports from the U. S. S. R. as \$25 million. This means that ordinary trade is at a very low level, as indeed it was already before the war. During the second Five-Year Plan (1933-37) the foreign trade of the U. S. S. R. represented about 1 per cent. of total world trade, having been 2 to 2½ per cent. in the early 'thirties (the high-water mark after 1917), while before 1914 Russia's foreign trade accounted for about 4 per cent. of world trade. It may also be mentioned that the percentage of exports in proportion to Russian production is reported to have fallen from 3.5 per cent. in 1930 to less than 1 per cent. in 1936 — another measure of Soviet Russia's progressive withdrawal at that time from the sphere of international trade.

Trade between the British Isles  
and the United States.

In millions of dollars	1938	1941	1942
<b>U. S. exports:</b>			
Lend-lease deliveries . .	—	572	1,967
Other (cash) exports* . .	548	1,070	495
Total . . .	548	1,642	2,362
<b>U.S. imports* . . . . .</b>	119	139	135

\* Including Elre; separate trade statistics have not been made available for 1942. In 1938 U.S. exports to the United Kingdom alone amounted to \$521 million and imports from the United Kingdom to \$118 million.

In no country has the ban on the publication of foreign trade statistics been more strictly observed than in the United Kingdom. The only information furnished by the British authorities would seem to have been a statement in April 1943 by the Chancellor of the Exchequer to the effect that "recently the volume of exports available to be sold abroad had fallen to about a

quarter of what it was before the war". Some further information may, however, be gathered from American trade statistics.

A partial offset against the American lend-lease deliveries is provided by the reverse lend-lease of the United Kingdom, about which information is given in Chapter IV, pages 132-133 and in footnote (c) to page 133.

In the first half of the nineteenth century British recorded exports regularly exceeded imports, but from 1853 an import surplus appeared, reflecting the growth of Britain's creditor position. In the period from 1920 to 1939 the passive trade balance fluctuated between a minimum of £179 million and a maximum of £463 million, exports amounting by the end of the period to about one-half of the import total. In the course of the war the gap between imports and exports must have been further widened, efforts being made to maintain such exports as are necessary to meet the war requirements of the United Nations — a task which for the moment has taken precedence over the nursing of foreign markets with an eye to the revival of trade after the war. The United Kingdom Commercial Corporation, which was created in 1940 (with an initial capital of £0.5 million later raised to £5.0 million) to foster trade with the Balkan countries, has had to limit its work in that area to Turkey; on the other hand, it has been active in Spain and Portugal, in the Middle East and in connection with British non-military supplies to the U. S. S. R.

After the customary trend of Eire's foreign trade had experienced a short-lived reversal, when in 1941 exports exceeded imports by £2.3 million, in 1942 there was once more an import surplus amounting to £2 million. Strict rationing and increased tillage made it possible to solve, to a large extent, the difficult problems of the country's food supply, but the shortage of shipping has continued to make itself felt in connection with supplies of fuel for heating and transport and the import of essential raw materials for industry.

The only other member of the British Commonwealth which has continued to publish its foreign trade statistics regularly is New Zealand. In value,

**Foreign Trade of Eire and New Zealand.**

In millions of national currency units	Imports	Exports	Balance
<b>Eire: £</b>			
1938 . . . . .	41.4	24.2	-17.2
1941 . . . . .	29.5	31.8	+ 2.3
1942 . . . . .	34.7	32.6	- 2.1
<b>New Zealand: £N.Z.</b>			
1938 . . . . .	55.4	58.4	+ 3.0
1941 . . . . .	49.2	67.5	+18.3
1942 . . . . .	53.7	80.9	+27.2

imports for 1942 were at the pre-war level but, in volume, they declined by one-third, and what remained was largely for war purposes. On the other hand, exports rose 40 per cent. in value and even somewhat in volume. At the request of the British Government, New Zealand's dairy farmers changed over their production during the season 1941-42 from butter to cheese,

switching back to butter when British requirements altered. Up to the end of 1942 New Zealand and Australia together received from the United States lend-lease deliveries valued at \$289 million and both rendered lend-lease in reverse, including food for the troops, construction of hospital camps, warehouses, etc. for the use of American forces. The New Zealand Government has estimated the cost of the reciprocal aid to the U. S. forces at about \$50 million up to June 1943 and the Australian Government put the cost at nearly \$200 million for the same period. In 1942 Australia provided most of the food for the American forces in the south and south-west Pacific.

The policy of restriction introduced by South Africa in September 1941 (by which imports from non-sterling-area countries were made conditional upon a government permit) together with increased shipping difficulties led to a reduction in imports from £SA 101 million in 1941 to £SA 84 million in 1942. Exports also appear to have declined, a shift being noticeable from agricultural products to increased exports of minerals (other than gold). For India no foreign trade figures are available but it may be mentioned that the United States lend-lease deliveries up to the end of 1942 amounted to \$295 million, being on the same scale as those furnished in the same period to Australia and New Zealand together; reverse lend-lease from India was estimated on American data to be about \$57 million up to June 1943.

The necessity of increasing the home production of foodstuffs led the Egyptian Government to reduce the area of cotton, and the crop in 1943 was estimated at less than half the peacetime average. Before the war three-quarters of Egypt's exports consisted of cotton fibre. From the beginning of the war exports declined steadily, while imports, including lend-lease, rose sharply in 1942, the resulting import surplus being offset, it would seem, also by the outlay of allied forces stationed in the country.

**Egypt's Foreign Trade.**

In millions of £E	1938	1939	1940	1941	1942
Imports . . . . .	37	34	31	33	55
Exports . . . . .	29	34	28	22	19
Balance . . . . .	-8	0	-3	-11	-36

From the beginning of the war exports declined steadily, while imports, including lend-lease, rose sharply in 1942, the resulting import surplus being offset, it would seem, also by the outlay of allied forces stationed in the country.

The publication of foreign trade returns for Canada was discontinued in April 1942 but it has been officially stated that exports in 1942 amounted to Can.\$ 2,385 million, as compared with Can.\$ 1,641 million in the previous year.

**Canada's Foreign Trade:**  
September 1939-April 1942.

In millions of Can. dollars	U. S. A.	British Empire	Other countries	Total
Imports . . . . .	2,387	678	151	3,216
Exports* . . . . .	1,361	2,233	770	4,364
Balance . . . . .	-1,026	+ 1,555	+ 619	+ 1,148

\* Including net non-monetary gold.

The bulk of Canadian exports consisted of war deliveries, Canada ranking third among the United Nations as an exporter of war equipment. The accompanying table, covering the first thirty-two months of the war, for which trade

statistics are available, shows that the import surplus in relation to the United States was more than outweighed by the export surplus in relation to countries of the British Empire.

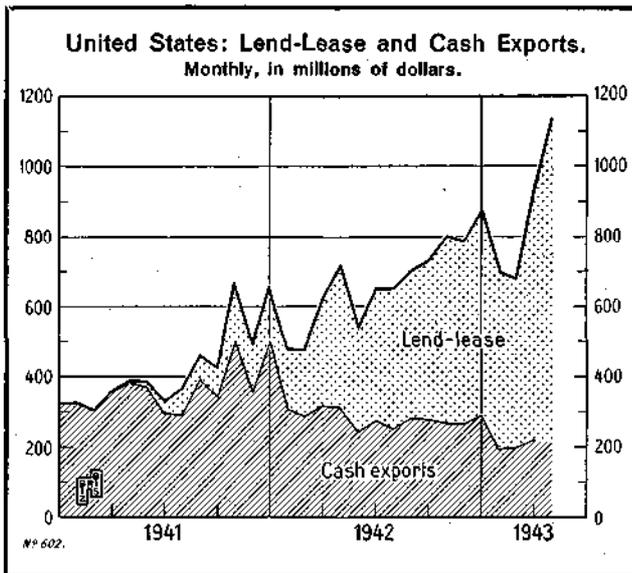
The foreign trade of the United States was influenced in 1942 by three main factors: a steep increase in lend-lease exports, concentration of available tonnage on shipments essential for the war effort;

**Foreign Trade of the United States.**

In millions of dollars	1938	1941	1942
<b>Exports</b>			
Lend-lease . . . . .	—	741	4,668
Cash exports . . . . .	3,094	4,406	3,158
<b>Total exports . . . . .</b>	<b>3,094</b>	<b>5,147</b>	<b>7,826</b>
<b>Total imports . . . . .</b>	<b>1,960</b>	<b>3,345</b>	<b>2,743</b>
Balance . . . . .	+ 1,134	+ 1,802	+ 5,083
<b>Balance between cash exports and cash imports . . . . .</b>	<b>+ 1,134</b>	<b>+ 1,061</b>	<b>+ 415</b>

and loss of trade with the Far East. Nevertheless, as stressed by the U. S. Commerce Department, export trade was "maintained at a surprisingly high level in spite of mounting obstacles to international commerce".

In value, total exports (including lend-lease but excluding shipments to the armed forces overseas) were 50 per cent. greater in 1942 than in the previous year, reaching a total of \$7,826 million, a higher figure than in the years 1917-18, although below the record of \$8,228 million reached in 1920 (when, however, prices stood at a higher level). Still, exports in 1942 did not constitute more than 5 per cent. of U. S. gross national income. Lend-lease shipments at a rate of \$4,668 million were responsible for 60 per cent. of total exports and were equal to 92 per cent. of the year's export surplus, amounting to \$5,083 million. The excess of cash exports over cash imports was \$415 million.



Total imports fell by \$602 million from 1941 to 1942; the reductions caused by the acute shipping shortage and the loss of major sources of supply in the Far East were only partially offset by larger imports from the British Empire, especially Canada. Emphasis has been laid more and more on the maintenance of imports essential for the war, typical commodities being graphite, industrial diamonds, jute, mica splittings, beryllium, tungsten and bauxite.

### United States: Direction of Foreign Trade.

In millions of dollars	Imports			Exports			Balance		
	1938	1941	1942	1938	1941	1942	1938	1941	1942
United Kingdom and Eire . . . .	119	139	135	548	1,642	2,362	+ 429	+ 1,503	+ 2,227
Canada <sup>(1)</sup> . . . . .	268	575	735	476	1,019	1,367	+ 208	+ 444	+ 632
U.S.S.R. . . . .	24	30	25	70	108	1,379	+ 46	+ 78	+ 1,354
Latin America . .	485	1,086	1,022	564	1,035	836	+ 79	- 51	- 186
Asia and Oceania <sup>(2)</sup>	557	1,199	520	575	719	880	+ 18	- 480	+ 360
Rest of the world .	507	316	306	861	624	1,002	+ 354	+ 308	+ 696
<b>Total . . . . .</b>	<b>1,960</b>	<b>3,345</b>	<b>2,743</b>	<b>3,094</b>	<b>5,147</b>	<b>7,826</b>	<b>+ 1,134</b>	<b>+ 1,802</b>	<b>+ 5,083</b>

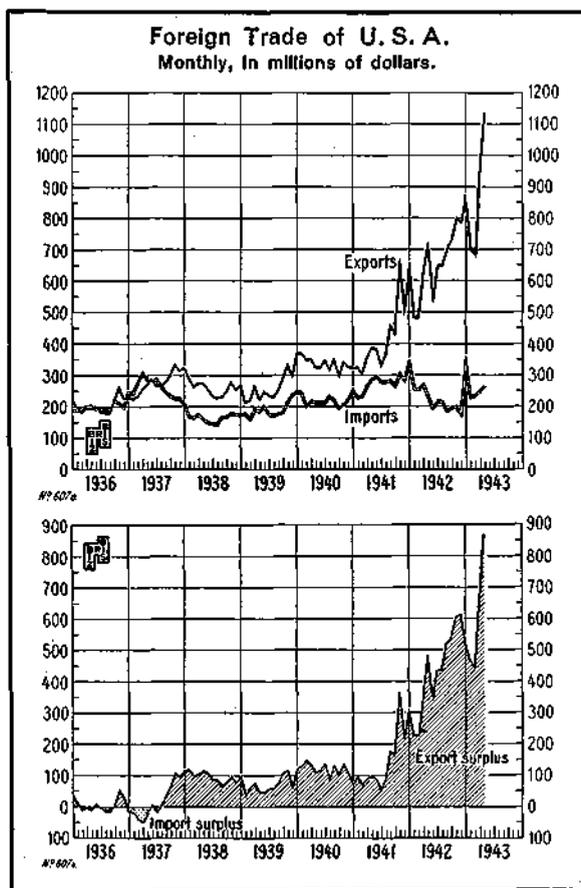
(1) Including Newfoundland, Labrador, St-Pierre and Miquelon, Greenland and Iceland.

(2) Including the Far East, India, Australia and New Zealand, but excluding the Near East.

Of total exports in 1942, 68 per cent. were sent to the British Empire (including large consignments to Egypt for the British armed forces stationed there) and 18 per cent. to the U. S. S. R., which suddenly rose to second place in the list of countries receiving American exports.

Latin America is the only area with which trade declined. Exports in the trade of the United States fell more than imports, leaving an import surplus of \$186 million —

almost four times as large as in 1941. The foreign trade of the United States has gradually been subjected to more effective control in order to ensure as far as possible that exports to friendly countries are restricted to goods necessary to maintain their war economy and essential domestic structure and to commodities which have to be supplied in exchange for strategic materials. On these lines an agreement was concluded between the United States and Canada, providing for a coordination of the two countries' exports to Latin America as from 1st July 1943. Earlier in the year, under a new control plan aiming at decentralisation, special offices had been set up in the various Latin American countries to examine demands for imports from the United States.



In 1938 South America as a whole drew about one-half of its imports from Europe and shipped to that continent a proportion of its exports rising from one-third for some of the northern and western countries to three-quarters for the basin of the River Plate. Most European countries bought from South America more than they sold there. It was largely with its surplus exports to Europe that South America paid for its surplus imports from the United States. The interchange of goods between the South American countries was of little importance. In 1938 only 6 per cent. of the exports of South American republics went to and 9½ per cent. of their imports came from Latin American countries.

As a result of the war, trade with Continental Europe has declined to a very low level, Portugal, Spain, Sweden and Switzerland being the only customers with which a certain amount of trade has still been carried on. The share of the United Kingdom has also fallen, it being particularly difficult for the British to maintain the volume of their exports to the South American countries. On the other hand, the share of the United States has risen and trade between South American countries has also gained in importance. For the United States and Canada, South America has become an important source of supply for some greatly needed raw materials no longer available from the Far East or other blocked areas. Although the volume of trade was affected by lack of shipping and the concentration of North American production on the war effort, with a consequent dearth of finished articles and machinery for export, the decline in volume in 1942 was offset by higher prices and by sale agreements with the United States.

**Foreign Trade of Latin American Countries.**

Countries	In millions of	Imports		Exports		Balance	
		1941	1942	1941	1942	1941	1942
Argentina . . . . .	Pesos pap. . . . .	1,277	1,274	1,640	1,976	+ 363	+ 702
Brazil . . . . .	Cruzeiros . . . . .	5,514	4,644	6,729	7,496	+ 1,215	+ 2,851
Chile . . . . .	Pesos or . . . . .	525	622	768	863	+ 243	+ 241
Colombia . . . . .	Pesos . . . . .	170	105	176	192	+ 6	+ 87
Costa Rica . . . . .	Colones . . . . .	100	69	57	59	- 43	- 10
Cuba . . . . .	Pesos . . . . .	134	145	212	182	+ 78	- 37
Dominican Republic	U. S. \$ . . . . .	12	12	16	20	+ 4	+ 8
Ecuador . . . . .	Sucres . . . . .	150	200	200	299	+ 50	+ 99
Haiti . . . . .	Gourdes . . . . .	38	41	42	41	+ 4	+ 0
Mexico . . . . .	Pesos . . . . .	915	753	730	992	- 185	+ 239
Panama . . . . .	Balboas . . . . .	33	37	4	2	- 29	- 35
Paraguay . . . . .	\$ m/n . . . . .	12	17	15	16	+ 3	- 1
Peru . . . . .	Soles . . . . .	358	339	494	495	+ 136	+ 156
Salvador . . . . .	Colones . . . . .	21	21	28	45	+ 7	+ 24
Uruguay . . . . .	U. S. \$ . . . . .	63	64	71	58	+ 8	- 6

The above table shows that in 1942, with few exceptions, imports into Latin American countries either fell in value or kept about level with the previous year, while exports as a rule rose in value. The result was in most cases an increased export surplus, providing the Latin American countries with a larger supply of liquid foreign resources than they had ever had before. There being little opportunity for the employment abroad of funds, these countries would seem to have used only some 20 per cent. of such credit facilities as had been placed at their disposal in the United States. Credits granted under lend-lease

arrangements, being mainly for defence purposes, were not published; but, according to statistics of the Export-Import Bank available early in 1943, as much as \$743 million, out of total credit authorisations of \$1,099 million, was granted to Latin American countries, although actual disbursements did not amount to more than \$137 million, the chief beneficiary being Brazil. The National City Bank in New York has calculated that the combined reserves of gold and foreign currencies of eleven Latin American countries increased from \$775 million in 1940 to \$1,325 million at the end of 1942 and to about \$1,500 million at the end of March 1943 — a rapid rate of expansion.

As far as individual commodities are concerned, the picture presented by the export trade is in no way uniform. Exports of some of the most traditional Latin American commodities, such as coffee, cocoa, wheat, maize, linseed, etc., though still representing a high percentage of foreign trade, continued to decline, while others, such as meat, cotton, nitrates, mineral ores, etc., either held their own or gained in importance. The interest of the United States was, as a matter of fact, concentrated upon metals and minerals and upon certain agricultural products, such as rubber, sugar, wool, cotton and meat, which are either important for the war effort or no longer obtainable from the former sources of supply. As regards other products, such as coffee and cocoa, which are of secondary importance for the war effort but of which the United States is normally a large consumer, Washington followed the policy of arranging for large-scale purchases over a number of years, even if shipping space should not be available. In other agricultural products, such as wheat, maize, etc., North America, being itself a producer, has less interest; large stocks of such commodities accumulating in the producing countries were bought by their own governments, which thus assumed a heavy financial burden. With the growing necessity of concentrating industrial effort in the United States on war production, preference was given in the course of 1942 to semi-finished products (metals, textiles, tinned meat, instead of ore, raw cotton and frozen meat), i. e. to goods of higher value in relation to bulk; this has contributed to the tendency of Latin American exports to fall below the 1941 level in physical volume, although the aggregate value was considerably higher. In March 1943 the Inter-American Coffee Board decided that, for the quota year ending 30th September 1943, the 1940-41 basic quota of U. S. coffee imports should be increased by about 100 per cent., making a total of 27.9 million bags (of 60 kilogrammes) to be imported into the United States during the quota year 1942-43 against the 19.7 million bags previously fixed, the major beneficiaries being Brazil and Colombia.

International trade within South America has in the past been hindered, and is to a great extent still hindered, by the economic structure of the individual countries (whose production is competitive and, where diversified, not complementary) and by lack of transport facilities. The greater part of such trade is still carried on between Brazil and the Argentine or between neighbouring countries. A number of trade agreements have, however, been concluded between the various republics, and trade between them is increasing. Thus Brazil is supplying cotton textiles to the whole of South America;

Colombia is exporting coal to the Argentine, which has agreed to buy all the available coal for ten years; the Argentine is selling wheat to Bolivia and Brazil and has agreed to buy all the oil produced in certain districts of Bolivia for the next ten years, plans having been made for a pipe-line between the two countries. Furthermore, the increased measure in which finished or semi-finished products appear in the foreign trade returns reflects the progress made in the process of industrialisation; but the rate of advance is relatively moderate since, apart from the difficulties — psychological and other — which such a transformation necessarily encounters, there are particular obstacles such as scarcity of shipping and the temporary inability of the supplying countries to keep pace with the continent's demand for industrial equipment.

The rise in the export surplus of the Argentine from Pesos 363 million in 1941 to Pesos 702 million in 1942 was due to higher prices for certain agricultural commodities, such as meat, wool and hides, and to increased sales of finished products, especially textiles. Owing to reduced shipments of wheat, maize and linseed and to a shrinkage in supplies of raw materials (especially coal and iron) and of machinery, both exports and imports declined in volume, the latter falling to the lowest level for the last fifty years. That in 1942 exports of industrial goods were nearly as large as those of cereals constitutes a great change in the Argentine's foreign trade, and one which will probably not be limited to the duration of the war. The Argentine is the country on the South American continent whose foreign trade has suffered most from the effects of the war. In 1938, the continent of Europe absorbed over 40 per cent. of the Argentine's exports, while 8 per cent. was taken by the United States, which, owing to the competitive character of the two countries' agriculture, offered only a limited market for the principal agricultural products. The loss suffered through the severance of commercial relations with the continent of Europe has found only partial compensation in the increased turnover with the United States and in the intensified trade with other South American countries, whose share rose from 10 per cent. in 1938 to about 20 per cent. in 1942.

No official foreign trade returns have been published in Brazil since April 1942, but it has been reported by the Central Bank that there was an export surplus in 1942 of a little less than Cruzeiros 3,000 million, or some 130 per cent. more than in the previous year. Shipments of coffee, cocoa and cotton declined, but some of these reductions were compensated by higher prices. Rubber and manganese were exported in larger volume. In contrast to the Argentine, Brazil's products had better opportunities on the U. S. market, which already before the war absorbed more than one-third of Brazilian exports. The country's mineral wealth has facilitated industrial development and the rise in the output of cotton has placed it fourth among the cotton producers of the world; Brazil is incidentally the only country which can maintain cotton production throughout the year, i. e. alternately in the north and in the south, being, in addition, able to produce every quality of cotton. The textile industry has also made great progress, the output increasing from 823 million metres in 1940 to 1,500 million in 1942.

Uruguay's balance, though active with the United States, is passive in the aggregate, owing to difficulties in the disposal of the country's wool surplus. Chile has benefited from large exports of copper, nitrates, wool and frozen meat and Peru has shipped sugar as the most important of its export goods, followed by cotton, oil and metallic ores. To compensate for the loss of the Japanese market, which was of great importance for the sale of Peruvian cotton, the United States has agreed to buy cotton from Peru, as well as minerals and rubber.

The value of international trade accounted for by the territories in the Far East which have come more or less directly under Japanese domination amounted in 1938 (including Japan but excluding China) to \$4,800 million, or a little over 10 per cent. of total world trade in that year. Since 1940 the publication of foreign trade statistics has been suspended in one country after another in this area and few other indications of their trade are available, but some observations may be made on the commercial principles which the authorities have sought to apply in the different territories. In Manchukuo the development in the 'thirties of heavy industries, based on the country's rich deposits of coal and iron, was carried on almost wholly with the aid of Japanese capital and equipment, exports to Japan consisting of raw materials for heavy industries and of agricultural products. Thus, for instance, in the first Five-Year Plan, covering the period 1937 to 1942, the direct participation of Japanese capital amounted to Yen 4 milliard, as part of a total investment of Yen 6.7 milliard. In order to lessen dependence on Japan a new Five-Year Plan was adopted early in 1942, restricting the investment of Japanese capital and arranging for larger exports of minerals and semi-manufactured products to Japan. At the same time steps were taken to accelerate the development in Manchukuo of light industries capable of producing articles in daily use and also to augment the agricultural output with a view to exporting an increased proportion of the surplus to Japan.

Until its establishment as a separate country in the year 1938 Inner Mongolia, with a surplus in its external balance, formed part of the economy of North China. This relationship was largely changed by the policy of the Independent government, which founded the Central Bank of Mengchiang to aid in the financing of new investments, principally the exploitation of iron and coal resources and the encouragement of the country's traditional activities: agriculture and cattle breeding. But difficulties arose, owing partly to devastating floods in the summer of 1939 but partly also to the

large imports of industrial equipment needed for the new investments. In 1941, however, conditions changed again; the balance of payments in that year produced an estimated surplus of

Industrial Production of Inner Mongolia.

Indexes 1941 = 100	Milling	Hats and clothing	Chemicals	Metals	Processing of minerals
1938	90	7	—	—	—
1939	126	43	12	53	40
1940	104	56	63	120	93
1941	100	100	100	100	100

Yuan 34 million and in the first quarter of 1942 a surplus of Yuan 8 million. The central bank sponsored an investigation into the development of light industries and helped to find the necessary funds. The indexes given in the table on the preceding page show the development of a number of industries up to the outbreak of the Pacific war.

In North China a Five-Year Plan was in preparation in 1941 but its execution was affected by the outbreak of the Pacific war. The plan aimed at increased production of coal, iron and industrial salt and the use of these products in further manufactures. Foodstuffs are imported, payment being facilitated by remittances from workers who have found employment in Manchukuo. According to the customs statistics, the foreign trade of North China had a value of Yuan 332 million in 1936, and in the twelve-month period from November 1940 to October 1941 the trade turnover was Yuan 1,383 million. The increase must not be taken to reflect a larger volume of trade since by 1941 most commodities in the trade of North China had risen to three or four times their 1936 price.

In the other parts of the Japanese-controlled area of China there are three principal economic centres: Shanghai, Canton and Hankow, of which Shanghai is the most important and the most closely connected with the Nanking Government. By the outbreak of the Pacific war Shanghai was largely cut off from its ordinary markets and sources of supply. With the support of the Japanese Government, local industries were encouraged to resume work and barter agreements were concluded with North China, Manchukuo and Inner Mongolia. In the region of Canton, which with Hong Kong as the great outer seaport is the commercial centre of South China, trade was much disturbed by the war; silk exports, vital for this region, were almost reduced to nil, efforts being made, however, to stimulate domestic consumption. Immediately after the occupation of Hong Kong the Japanese authorities arranged a series of barter agreements between this town and Canton, Suwatao, Amoi, Hainantao and the Philippines. In June 1943 a barter agreement was concluded with Central China, under which Hong Kong was to export goods to the extent of Yen 17 million and receive imports amounting to Yen 25 million during the year April 1943 to March 1944. By these agreements Hong Kong has become a centre for the barter trade system between China and the south-western Pacific area.

In May 1941 two commercial agreements were concluded between Japan and French Indo-China, granting reciprocal facilities for establishment of businesses, navigation, etc. In September 1942 a barter agreement was signed with Manchukuo and North China and in March 1943 a new barter agreement (the second of its kind) with Japan, providing for increased exports from French Indo-China of resin, timber, yellow flax, rice, cowhides, bones etc. against the import of consumption goods from Japan.

Communiqués published by Japanese military and naval authorities have announced the initiation of a large-scale revision of the economic system of the south-western Pacific area. In the past this area greatly developed its

primary production, while importing most of the industrial articles needed in daily life from distant countries. The war, causing a severance of commercial relations and a lack of shipping facilities, led to surpluses of some commodities and scarcities of others and, in order to cope with these difficulties but also for more permanent reasons, the policy was adopted of establishing in this region a certain number of light industries designed to meet essentially local requirements.

Under a Five-Year Plan for production of cotton in the southern area (including Burma) cotton plantations have been greatly extended in the Philippines and Sumatra. As regards other agricultural products, the authorities adopted the principle that the production of foodstuffs should be encouraged in so far as it helped to establish current consumption on a basis of greater self-sufficiency. Plans have been made, for instance, to replace some of the plantations of sugar-cane by production of other more urgently needed foodstuffs. It is also proposed to explore and develop the countries' mineral and industrial resources as fully as circumstances permit.

The tendencies discernible in the Far East provide a telling example not only of the difficulties resulting from a disruption of long-established commercial ties but also of the measures which may be planned to attenuate these difficulties. Of the new production of consumers' goods, which in the course of the war has been started in different parts of the world, something will presumably remain even after the emergency has passed; but there can be little doubt that the broad currents of trade as determined by natural advantages will assert themselves as and when commercial intercourse is resumed on a more normal basis. The present war may have shown that a government (able to tax and borrow) can obtain most of the commodities it needs (or serviceable substitutes for them) as long as it is willing to pay the price, however high. But, when it is no longer possible to disregard the manifold needs of ordinary consumption and the financial burdens on the state, the problem will assume a different aspect: the price paid and the quantity obtainable at that price will once more become a consideration, and along with them the question of the most favourable conditions for production.

For a period immediately after the cessation of hostilities it may be expected that government agencies will continue to handle a large part of international trade. Demobilisation will take time and there will presumably be deliveries of badly needed supplies to countries in distress, on terms not strictly commercial. A part of this movement of goods will no doubt be of a temporary character, filling the gap until normal sources of supply have been reopened; but another part ought to be followed by a continuous flow of trade, which will need to be put on a commercial basis as soon as possible. It is of great importance that payments should again be made in the ordinary course of affairs, for if that were not the case the flow of goods could hardly continue for long (and a stoppage would be to the disadvantage both of the producer and of his customer). Government agencies themselves have, indeed, every reason to assist in creating the conditions for a steady flow of trade.

Trading on official account has often been accused of introducing an arbitrary element into international trading by making abrupt transfers of orders from one market to another, not on account of economic calculations but for political and other reasons. Private commerce, on the other hand, has striven to build up direct contacts between business firms in different countries, usually establishing a relationship characterised by a large measure of continuity. In such conditions, the business partners, although still exposed to competition as regards price and quality of goods, could assume that considerations of an extraneous and arbitrary character would not be allowed to break an established connection. If, in certain sections or in relation to certain countries, trade in the future remains subject to official direction, it will become more important than ever to recognise that steadiness is a prerequisite of successful foreign trade.

No country can confidently embark upon a line of production for foreign markets if it has reason to fear that the demand may suddenly be diverted for causes unconnected with price and quality of the goods produced. Indeed, it has long been a favourite protectionist argument that foreign trade is subject to exceptional risks which are not fully taken into account by business men in the management of their affairs, and which thus compel the government to provide special safeguards. To lessen the force of this argument it is necessary to be able to hold out some prospect of a reasonable degree of steadiness in the international exchange of goods and services. Besides calling for assurances from government agencies with regard to their own trade activities, the attainment of greater steadiness presupposes the pursuit of a commercial and monetary policy with guarantees against sudden changes in currency rates and sudden additions to tariff barriers. From 1925 to 1929 considerable progress was made in the maintenance of exchange stability and in freeing international trade from quantitative restrictions; but the success was short-lived. The tariff increases and currency depreciations of 1930 and the following years can be understood only if considered as a reaction against the wide — and wild — fall in commodity prices, which deranged world markets and the economies of many countries after 1929. Steadiness in foreign trade is thus in a large measure dependent upon stability in the general level of prices.

To achieve such a stability is not easy; many problems will arise, not only of a monetary character; some of them will best (perhaps only) be solved by concerted international action. One such problem will be how to ensure an expansion in effective demand *pari passu* with the increase in production, and how to do that without indulging in a dangerous credit inflation liable to be followed by a setback. In the period immediately after the war, the abundance of pent-up buying power will be likely, it may be hoped, to ensure a strong demand for goods and services, which — after a relatively brief period of shaking down — may make it less difficult to develop the post-war export trade than is often feared; after the 1914-18 war, international trade had by 1929, in spite of all obstacles, risen in volume nearly 30 per cent. above the level of 1914. For the first few years after the present war the main tasks in the field of foreign trade will presumably be to find some practical system of financing shipments

~~of raw materials and to eliminate from the monetary system such measures as are apt to exert an arbitrary influence on the currents of trade, among them certain forms of exchange control. Here again, the aim must be to establish an order permitting a steady advance in the international exchange of goods and services and thus in those sectors of the national economies which are directed towards intercourse with other countries.~~

The foreign trade of small countries normally constitutes a greater part of their economic life than is the case in larger countries; the former may therefore be said to be more dependent upon conditions abroad. This higher degree of dependence is bound to have an influence on their economic policy; it forces them, for instance, to adapt their cost and price structures more readily to changes on world markets. In some respects this compulsion may have its disadvantages (just as for small countries the narrowness of the home market may constitute a handicap); but, at the same time, regard for foreign tendencies leads to a higher degree of flexibility than would otherwise be necessary. It makes it less likely that these countries will remain for long in an unbalanced position; they cannot afford to forget that intelligent adaptation to changed conditions is one of the requisites for progress. As in other fields of human activity the principle of conservation has to be supplemented by the principle of change, so in foreign trade attention has to be given to the need both for steadiness and for flexibility — two requirements which may appear contradictory but which in actual practice can and must be reconciled.

### 3. PRICE MOVEMENTS.

While in ordinary times price indexes used to reflect current price movements with a high degree of accuracy (as could be seen, for instance, from a comparison of indexes covering different numbers of commodities or indexes weighted differently), the present situation, with a large number of prices officially fixed but not always effectively imposed, makes it much more difficult to arrive at an adequate expression of actual changes in the price level. Moreover, it should be borne in mind that a price index, as such, gives no indication of the extent to which the commodities and services entering into the calculation are available on the market. Even so, the cost-of-living index in an increasing number of countries has acquired an enhanced importance, in that wage rates and other forms of remuneration are adjusted to changes in that index — if not by law or contract, at least by de facto recognition. In these circumstances, the calculation of each index number becomes a matter of general interest, and such questions as whether indirect taxation should be reckoned in the price quotations collected for the index become a subject of discussion even for the public at large.

While the purpose of a cost-of-living index is to measure changes in outlay required to maintain an unchanged standard of living for a certain income group, attempts are often made to calculate subsidiary indexes with a different object in view. Thus, in several countries indexes have been

compiled to show the change in income which is needed to enable a particular income group to acquire a constant proportion of the goods and services available, i. e. allowing for the wartime contraction in supplies, as indicated, for instance, in the rationing system. These subsidiary indexes are sometimes thought capable of giving a direct indication of the increases which should be allowed in wage rates for different income groups; a case in point is the "expense index" in Switzerland, designed to measure the changes in the amounts needed to acquire the reduced supply of goods and services actually available. In some other countries the degree of compensation has been fixed as a percentage of the increase in the price index, a method which is perhaps more arbitrary, although in practice it very often gives the same result as in Switzerland, i. e. compensation averaging about one-half of the rise in prices. In yet other countries the wage policy has been less closely related to changes in living costs, the two extremes being Germany, where a "wage stop" has been in force since the beginning of the war (indeed, actually since 1933) and, for a time, the United States, where, up to the autumn of 1942, wage increases of varying magnitude served as a means of attracting workers to essential branches of production — in the first place the all-important war industries. But, even when the rate of compensation has been based on a "scientifically" calculated expense index, the amount of income earned by the public has almost invariably exceeded the current supply of goods and services that could be bought by consumers, the reason for this being the considerable additional income produced by increased employment of men and women, longer hours and more piece-work, and by other outlay, such as the allowances paid to wives and children of men serving in the armed forces, etc. Among the measures taken to prevent the excessive buying power in the hands of the public from exerting too strong an upward pressure on the price level, price control is, of course, one of the most important.

In order to avoid a rise in the cost-of-living index liable to occasion an increase in wages and thus to augment both the volume of buying power in the hands of the public and the cost of production, the authorities have naturally tried to keep all increases in prices of commodities affecting the regularly published cost-of-living statistics within as narrow limits as possible. When collecting the basic price quotations, those responsible for the indexes have obviously in many instances omitted to take account of any deterioration in quality to which the products available in the market have been subject. There are, however, other methods of stabilising the index: one of them is to grant subsidies to keep down the prices of goods with a marked influence on the cost of living; another is to abstain from imposing excise or other indirect taxes on goods and services included in the range of items on which the cost-of-living index is calculated.

In order to solve certain technical problems which arise when goods are no longer available in the same quantities or qualities, the so-called "chain" method has been increasingly adopted in calculating the index. Germany was one of the first countries to introduce this method during the present war, and its example was afterwards followed by a considerable number of countries.

In Germany the system of price control was applied in 1942 on very much the same lines as in the previous year and, in spite of growing difficulties, comparatively stable prices were maintained for commodities subject to rationing, while for armaments and other products required by the government the prices paid would seem to have been kept completely under control, and even reduced in several instances, as in the case of cartel prices.

**Price and Wage Rates in Germany.**

Index figures 1928 = 100	Wholesale prices	Cost of living	Hourly wage rates
1928, average . . . . .	100	100	100
1932, December . . . . .	66.0	77.9	84.2
1936, December . . . . .	75.0	81.9	83.5
1939, January-June . . . . .	76.1	83.1	84.2
1942, December . . . . .	82.4	89.5	95.9
1943, June . . . . .	82.9	91.9	

From the low level reached in 1932, wholesale prices were raised in the four following years by about 15 per cent. and the cost of living by 5 per cent., the purpose being to lessen the disparity between agricultural and industrial prices and generally to bring about a better balance in the cost and price structure,

wage rates being maintained at the level to which they had fallen in the years 1928 to 1932. (but owing to more employment and longer hours the total earnings of labour increased considerably). In the autumn of 1936 the process of price adaptation may be said to have come to an end with the introduction of the "price stop", later supplemented by the formally proclaimed "wage stop", which has been applied in Germany more strictly than in any other country. The disadvantages inherent in a system of more or less immovable prices are, however, realised in Germany — and not merely the danger that such a system will inhibit the helpful influence of prices in determining the direction of production, but also the probability that it may lead to waste of effort, etc. There is a conviction, however, that in wartime no other system can prevent a cumulative upward surge of prices. In certain respects an attempt has been made so to adapt the system that it will produce at least some of the useful effects obtained in ordinary times from the interplay of costs and prices. The guiding principle has been to increase efficiency through rationalisation or, in other words, to bring about a reduction in costs by appealing to the profit motive, while leaving prices more or less unchanged. This was the purpose of the system of uniform and group prices ("Einheits- und Gruppenpreise") introduced at the end of 1941. The salient features of the system may be summarised as follows: (i) prices are based on performance and not on costs; (ii) they are not the result of negotiations with the interested parties but are fixed by an official agency mostly after consultation with representatives of the branch of economy concerned; and (iii) they are imposed uniformly throughout the country or within certain groups, thus greatly simplifying the mechanism of control. Applied originally to armament contracts, the system has covered many thousands of articles, efforts being made to extend it to civilian consumption goods.

During 1942 a growing disproportion between internal and external prices created a difficult situation. Only in relation to Roumania have adjustments

of clearing rates offset, to an appreciable extent, the steep price increases in the countries which are Germany's principal trade partners in the Danubian region.

It has been calculated that in Germany expenditure on food represents about 50 per cent. of the outlay of an average family (against 15 per cent. for rent and 10 per cent. for clothing); imports of foodstuffs amounted before the war to a little more than one-quarter of total German imports; the great advance in prices in the agricultural exporting countries, together with the necessity of stimulating home production, induced the authorities to grant certain price increases (affecting milk, butter, pigs, potatoes and vegetables), but the consequences for the consumer were to a large extent avoided by increased subsidies.

Moreover, as in previous years, steps have been taken to fix, by commercial negotiations, the prices of the most important commodities exchanged between Germany and other countries. A price stop applicable to their mutual trade had already been agreed upon in principle between Germany and Italy in October 1941 and through negotiations between these two countries a whole series of prices were fixed for different groups of commodities in March 1942. Similar agreements covering a varying range of commodities have been concluded by Germany with a number of other countries. Price-fixing of this kind may, however, involve certain dangers, in that producers in the countries exporting to Germany may find that prices are kept lower for their export goods than for other products; this may discourage production and make exporters more reluctant to sell abroad (not only because the profits from exports tend to be lower but also because the time lag between sale and payment is generally much longer than in the case of the home market). In the winter of 1942-43 a Price Equalisation Fund was instituted in Germany, initially provided with a sum of RM 1 milliard to bring down prices of imported goods. Thanks to the system of subsidies, the rise in the official cost-of-living index was limited in 1942 to 2.6 per cent., with only slight changes in all but the prices for textiles, which are shown to have risen by 10.5 per cent. from 1941 to 1942. While rents have been kept unchanged, building costs have continued to rise and by 1942 were 20 per cent. above the level in 1936.

In Italy price statistics have not been published regularly since the war began but it is known that by June 1942 wholesale prices had risen about 50 per cent. above the pre-war level. Between 1939 and 1941 prices of domestic goods had increased by 25 per cent., while prices of imported goods had gone up by 40 per cent. Up to the spring of 1943, import prices would seem to have been maintained without any appreciable rise (thanks to the price-fixing through commercial agreements, affecting, inter alia, the price of coal, which, together with textiles, showed the steepest rise of all in the 1914-18 war), but prices of domestic goods have continued to mount. Great difficulties in applying an effective control were encountered owing to the existence of a large number of medium-sized and small enterprises which produce a variety of products not easily brought into a general scheme of standardisation. Some measure

of price supervision was adopted in Italy as early as 1927 and tightened up in 1940, but it was not until January 1942 that an attempt at a uniform and extensive control was made through the creation of an Interministerial Committee under the chairmanship of the head of the government. It proved, however, impossible to prevent the emergence of an extensive black market with high prices, although the authorities again and again denounced the practice of illegal transactions as disturbing the system of rationing and impairing the value of the currency. The necessity of encouraging an increased output, especially of foodstuffs, led to several upward adjustments, the difference between the price paid to the producer and that at which the commodity was sold being, in the case of primary products, mostly borne by the state through a system of subsidies, varying according to the quality of the product, the place of production, etc. From Lit. 175 per quintal in 1942 the price of wheat was, for instance, increased in 1943 to Lit. 235 in northern and central Italy, Lit. 280 in southern Italy and Lit. 310 for the islands Sardinia and Sicily. This policy of subsidising, however, entailed a heavy financial burden, the annual outlay having, in the financial year 1942-43, reached about Lit. 12 milliard, of which Lit. 2.5 milliard represented the cost of premiums allocated for that year's wheat campaign. A revision of prices for war supplies was initiated early in 1943, when a special committee was set up to enquire into war contracts for amounts exceeding Lit. 3 million.

A wage and salary stop had been introduced in 1940 but a number of special increases were permitted, often taking the form of family allowances. In the spring of 1943 comprehensive measures of adjustment were applied first to wages and later on to civil servants' salaries, with increases up to 30 per cent.

In the Danubian and Balkan countries the steep rise in prices which characterised the year 1941 continued, although not quite at the same rate,

#### Price Movements in Danubian and Balkan Countries.

Percentage price increase during:	1939 2nd half	1940	1941	1942	June 1939 to Dec. 1942
<b>Bulgaria:</b>	%	%	%	%	%
Wholesale prices . . . . .	+ 5	+ 26	+ 27	+ 19	+ 101
Cost of living . . . . .	+ 2	+ 17	+ 37	+ 24	+ 104
<b>Hungary:</b>					
Wholesale prices . . . . .	+ 5	+ 22	+ 26	+ 16	+ 88
Cost of living . . . . .	+ 1	+ 15	+ 21	+ 9	+ 52
<b>Roumania:</b>					
Retail prices . . . . .	+ 14	+ 25	+ 67	+ 48	+ 252
<b>Slovakia:</b>					
Cost of living (foodstuffs) . . . . .	.	+ 18 <sup>(1)</sup>	+ 25	+ 17	+ 74
<b>Turkey:</b>					
Wholesale prices <sup>(2)</sup> . . . . .	.	+ 51 <sup>(2)</sup>	+ 46	+ 134	+ 415 <sup>(2)</sup>
Wholesale prices <sup>(1)</sup> . . . . .	+ 8	+ 25	+ 42		
Cost of living . . . . .	+ 6	+ 13	+ 22	+ 94	+ 184
<b>Yugoslavia:</b>					
Cost of living . . . . .	+ 13	+ 32	+ 46 <sup>(3)</sup>	+ 104 <sup>(3)</sup>	+ 364 <sup>(3)</sup>

<sup>(1)</sup> January 1939 to December 1940.    <sup>(2)</sup> Index of the Ministry of Trade.    <sup>(3)</sup> Compared to average of 1939.  
<sup>(1)</sup> Chamber of Trade and Industry of Istanbul.    <sup>(2)</sup> Refers to Croatia, Agram (Zagreb).

during 1942. Generally speaking, this rise was, of course, connected with war charges, including the surplus exports to allied countries — in the first place Germany, though Italy also participated to some extent; but the peculiar difficulties which the countries in south-eastern Europe have met with in their attempts to combat inflation are partly due to the size of their agricultural population, which, with their present methods of administration, makes a system of effective rationing almost impossible, and partly to absence, in most cases, of fully-developed financial markets and modern fiscal practices.

Bulgaria: Price Indexes.

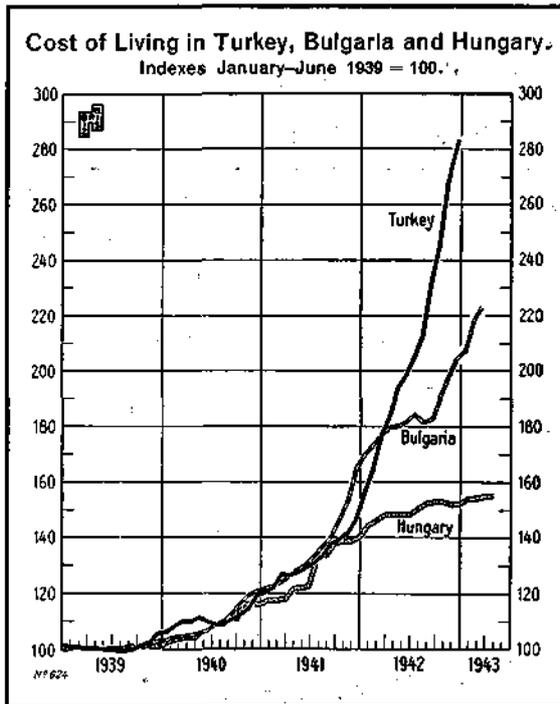
Base January-June 1939 = 100	General whole- sale prices	Import goods	Export goods	Domestic products for home con- sumption	Cost of living
1939 January-June . . .	100	100	100	100	100
1940 December . . . . .	132	163	113	136	124
1941 June . . . . .	139	174	108	149	132
December . . . . .	168	198	134	181	156
1942 June . . . . .	179	203	150	192	177
December . . . . .	201	202	169	219	197
1943 June . . . . .	224	206	183	249	223

The extent to which the upward surge of prices in the Danubian area has, of late, reflected mainly domestic influences may be illustrated by developments in Bulgaria.

While up to June 1942 the rise in import prices above the

January-June 1939 level was higher than the rise in prices of domestic products for home consumption, the order had already been reversed by the end of 1942, when a rise of 102 per cent. in import prices compared with a rise of not less than 119 per cent. in prices of domestic products for home consumption.

Apart from the effects of a bad harvest (the third in succession), the price increase was accelerated by a considerable advance in wages, which in most cases were almost doubled during the year, thus adding to the cost of production. The consequence was another sharp rise in the cost of living, which in Bulgaria, unlike most countries, has kept pace with the rise in wholesale prices. A Price Equalisation Fund was instituted in 1942 to reduce disparities between import and domestic prices. Early in 1943 the Ministry of Trade pointed out that the majority of Bulgarian commercial agreements contained a price clause under which an increase introduced by one of the partners would entail a parallel measure by the other.



In Turkey the experiment of allowing a greater degree of freedom to the markets was tried in the second half of 1942, it being hoped that a relaxation of the regulations in force would lead to an increased supply of goods and thus bring about a price level which, if not as low as the former official prices, would at least fall short of the highest quotations attained in the black market. But by these changes the basic causes of the price rise were not eliminated; and in the winter of 1942-43 special measures had to be taken to reduce prices of foodstuffs and clothing for the poorer classes.

In no country has the rise in prices and wages assumed such an inflationary character as in Greece. The rise practically put a stop to all normal exports, while such importers as were able to buy foreign exchange at official rates could not help making unduly large profits. One of the measures adopted to mend the situation was the introduction of a special fund charged with the task of subsidising exports, whereas in other countries price equalisation funds have usually owed their origin to the need for stimulating imports. A series of foreign trade measures (see page 64) and the arrival of foodstuffs under the aegis of the Red Cross would seem to have somewhat improved the position. A sign of this improvement was that workers were once more beginning to prefer cash to payment in kind. In Croatia and Serbia, sharp price rises have also occurred, although not on a scale comparable with that in Greece. The official index in Agram (Zagreb) shows a trebling of the cost of living between the summer of 1939 and the end of 1942. To reduce prices of vital foodstuffs, a Price Equalisation Fund of Kunas 2 milliard was set up and the proceeds from increases in certain consumption taxes were also allocated to this fund. Official price statistics ceased to be published in Roumania in the middle of 1941 but calculations by the economic journal "Argus" put the level of retail prices in the spring of 1943 at 448, as compared with 100 in the summer of 1939. The development of agricultural prices since the beginning of the war may be seen from the following table.

**Roumania: Agricultural Prices.**

Products	Lei per quintal in July				
	1939	1940	1941	1942	1943
Wheat . . . . .	427	560	1,100	2,200	2,600
Maize . . . . .	407	525	720	1,050	1,800
Barley . . . . .	315	380	750	1,400	1,660
Oats . . . . .	445	653	770	1,500	1,900
Rye . . . . .	274	560	900	1,600	1,870

The price of wheat doubled from 1940 to 1941, and again from 1941 to 1942, but in 1943 the increase was only at the rate of 18 per cent., as a result of an excellent harvest.

At the end of 1942 a price increase of about 100 per cent. was allowed to the oil industry, agreement having been secured, as from 1st May 1942, to a price rise of over 40 per cent. in respect of oil exported to Germany.

Hungary: Price Indexes.

Base January-June 1939 = 100	General wholesale prices	Agri- cultural products	Industrial products	Cost of living
1939, January-June	100	100	100	100
1940, December . .	127	146	118	116
1941, June . . . . .	136	153	129	123
December . . . . .	161	174	152	140
1942, June . . . . .	174	190	166	148
December . . . . .	186	204	181	152
1943, June . . . . .	205	222	205	156

The accompanying table shows the development of prices in Hungary during the last few years.

While in 1942 the price rise had been at a slower rate than in the previous year, a marked increase was sanctioned by new regulations adopted in the spring of 1943 and coming

into force on 1st July. Under these regulations agricultural prices would advance, on an average, 30 per cent., a system of compulsory deliveries of farm products being introduced at the same time. The wages of agricultural labourers were also increased according to a scale with minimum and maximum rates. Workers employed in armament industries received an increase of 23 per cent. in their wages, and other workers 15 per cent. (these being in addition to substantial earlier increases). Employees in public and private enterprises were allowed an increase of 20 to 23 per cent., together with certain other advantages designed to improve the position of the middle classes. Prices of industrial articles, which in many cases had been low in comparison with the increased cost of production, were raised by 30 to 40 per cent. The purpose of these regulations was to arrive at a solution which would hold good for at least one year (being thus a kind of price and wage stop) and which would at the same time bring greater harmony into the price and cost structure and more fairness into the remuneration of different sections of the population.

Since the beginning of the war a distinct improvement in conditions had been obtained by agriculture and steps were now being taken, by way of the new regulations, to make good some of the loss in real income suffered by the middle class. It was pointed out, however, that no section of the public could expect to escape its share of the burden of the war in such of its manifestations as higher costs of living, increased taxation and reduced supplies of most commodities.

A Central Supply Board was set up in Slovakia in the spring of 1942 to ensure the supply of foodstuffs and other essential commodities at normal prices. It had been found difficult to prevent goods from escaping to the black market, by which the real cost of living was increased and the maintenance of an effectual wage stop accordingly jeopardised. To meet this situation, a more rigid control was established over foreign trade and special attention was given to the encouragement of agricultural production, Ks. 100 million being expended in 1942 on direct subsidies and Ks. 200 million on premiums on cereals, milk and other dairy produce. Further progress has been made in the adaptation of costs and prices in the Protectorate of Bohemia and Moravia to the German system. Uniform and group prices have been introduced for government orders, although in a less rigid form than in

Germany, the degree of rationalisation being less uniform in the industry of the Protectorate than in Germany. As from 1st October 1942 the maximum prices for goods exported from or imported into the Protectorate were to be those charged on the home market, any deviation from this rule requiring special permission. The wage and salary stop at the level prevailing on 15th January 1942 has been renewed, higher wages being allowed only in cases of increased efficiency.

In France the price indexes\*, revised to take account of the real consumption in 1942 and based exclusively on regulated prices, showed an increase

France: Price Indexes.\*

Base: August 1939 = 100	Wholesale prices		Retail prices	Cost of living
	A	B		
1939 August . . . .	100	100	100	100
December . . . . .	126	121	110	111
1940 December . . .	157	148	132	130
1941 December . . .	190	174	151	154
1942 December . . .	227	204	178	184
1943 August . . . . .	246	222	200	202

\* Indexes calculated by "La Conjoncture Economique et Financière".  
A = weighted according to consumption 1938.  
B = weighted according to consumption 1942.

of 120 per cent. in wholesale prices and of 100 per cent. in the cost of living between August 1939 and the summer of 1943, the rate of increase in 1942 in both index numbers being practically the same as in the two previous years (amounting to about 20 per cent. per annum).

An attempt has also been made to calculate a

general index of all prices, including those for goods bought in the black market or acquired in other ways, e. g. by barter transactions or trading in country districts or by parcels sent from one member of a family to another. According to these calculations, the index (with the pre-war level as 100) amounted to 210 by the end of 1941, 280 by the end of 1942 and 290 for August 1943. The upward tendency has subsisted in 1943 but has been offset to some extent by a sharp fall in some of the more speculative prices. It should be borne in mind that these prices are quoted in what are mostly very narrow markets and that they are as a rule extremely sensitive, being influenced by changes not only of an economic and monetary character but also by political and military events regarded as providing an indication of the probable duration of the war. It is hardly necessary to add that these prices are not at all representative of the level at which commercial exchanges would settle down on a return to normal conditions, the point of equilibrium being probably nearer to the official than to the black market prices.

In France, as elsewhere, the authorities have been faced with a shortage of goods in conjunction with an abundance of money. It has proved impossible to withstand price increases even in the official sector, the maintenance of stability in food prices, for instance, being inconsistent with the need to encourage agricultural production. In the autumn of 1942, when prices were

\* The Office of General Statistics has resumed the publication of a large number of wholesale and retail prices and, on the basis of these and other data, various institutions have proceeded to calculate general price indexes.

fixed for the next year's wheat crop, a comprehensive system of premiums was introduced, which had the effect of raising the price of wheat 33 per cent. above the 1940-41 level. Since by 1942 the price of bread had risen by only 17 per cent. as compared with 1939, a charge of about Fr.fcs 3 milliard had to be provided for in the budget to make the official bread price possible. Transport and other difficulties have resulted in a considerable degree of autarky in the different "départements", the price divergencies already existing before the war having been much accentuated. Up to 1942 wages and salaries would seem to have risen by rather more than 25 per cent., lagging considerably behind the increase in the cost of living. Special family allowances have, however, been generally introduced and other forms of assistance have been devised, such as the provision of meals in factories; further wage increases were announced by the government as from June 1943.

No price indexes are available in Holland, while in Belgium the publication of official price indexes has been resumed for a number of important commodities, such as wheat, barley, rye, sugar, coal and steel; by June 1943 these quotations showed an increase above the pre-war level varying between 30 and 90 per cent., except in the case of sugar, which had risen by 138 per cent. Before the war the Dutch price level was 30 to 40 per cent. below that of Germany, but by the end of 1942 it had been completely adjusted to the height of German prices. Since 1940 Dutch agriculture has undergone an extensive structural change, the area under cultivation having been considerably extended at the expense of pasture land. The resulting increase in cereal production has not been sufficient, however, to make good the drastic fall in imports, and the shortage has been progressively aggravated by the exhaustion of stocks. Prices having soared to high levels on the black market, the powers of the Price Controller were extended late in 1942. Dutch wages do not seem to have been increased *pari passu* with the adjustment of official prices to the German level.

**Price movements:  
Denmark, Finland, Norway, Sweden and Switzerland.**

Percentage price increase during:	1939 2nd half	1940	1941	1942	June 1939 to Dec. 1942
<b>Denmark:</b>	%	%	%	%	%
Wholesale prices . . . . .	+ 30	+ 34	+ 10	+ 2	+ 95
Cost of living . . . . .	+ 10	+ 28	+ 7	+ 3	+ 56
<b>Finland:</b>					
Wholesale prices . . . . .	+ 19	+ 28	+ 19	+ 25	+ 127
Cost of living . . . . .	+ 8	+ 21	+ 15	+ 20	+ 82
<b>Norway:</b>					
Wholesale prices . . . . .	+ 19	+ 26	+ 16	+ 3	+ 79
Cost of living . . . . .	+ 6	+ 22	+ 10	+ 4	+ 48
<b>Sweden:</b>					
Wholesale prices . . . . .	+ 21	+ 21	+ 12	+ 9	+ 79
Cost of living . . . . .	+ 5	+ 15	+ 11	+ 5	+ 41
<b>Switzerland:</b>					
Wholesale prices . . . . .	+ 18	+ 31	+ 21	+ 8	+ 103
Cost of living . . . . .	+ 4	+ 13	+ 15	+ 9	+ 46

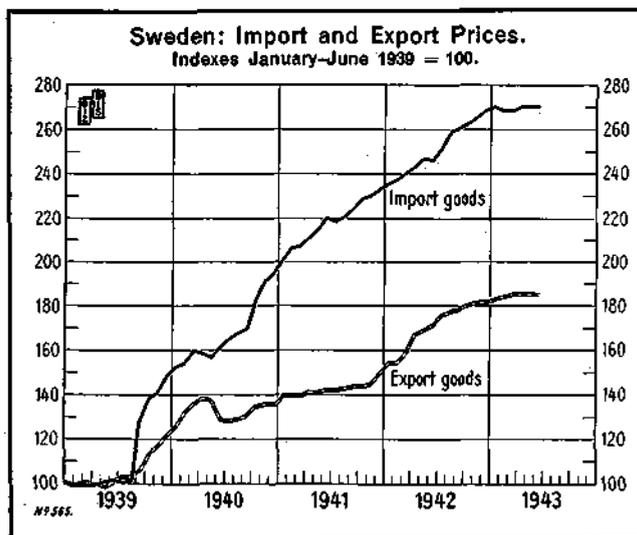
With the exception of Finland, engaged in active warfare, the different countries shown in the above table all managed to slow down the price increase during 1942 and to bring it almost to a standstill in the latter half of the year. The firmer hold which the authorities had thus been able to keep upon price movements was secured not merely by a strengthening of the price control — important though that was — but by a whole series of measures adopted in the different countries, an additional factor being a distinct weakening in the price-raising influences from abroad. Thus, in Denmark import prices rose by 1.6 per cent. during 1942 as compared with 12 per cent. in the preceding year. The greater part of Denmark's foreign trade has been regulated under agreements stipulating fixed prices for the goods exchanged and, in addition, the resistance to price rises in the foreign sector was strengthened by the revaluation of the Danish crown by 8.2 per cent. in January 1942. At home, maximum prices have been fixed for nearly 90 per cent. of all foodstuffs, most of them more readily available thanks to better crops. Owing to the persistent shortage of fodder (due to the cessation of imports from overseas) agricultural output of different kinds of foodstuffs had, by 1942, shrunk to about one-half of the pre-war volume; at the end of the year the stock of cattle had fallen by 13 per cent., pigs by 62 per cent. and poultry by 65 per cent. of the pre-war numbers. In order to help small agricultural producers whose situation had improved very slightly in comparison with that of the larger farmers, a rise of 24 öre per kilogramme in the price of pig meat was allowed in the spring of 1943, the greater part of the resulting burden being assumed by Germany, anxious to encourage this line of production. Wages and salaries were increased during the year, at the cost of a further Kr. 100 million on the national wage-bill, the increase being extended to workers under twenty-three years of age, i. e. to a category which had not benefited by the previous increase in February 1940. Less in Norway than in the other Scandinavian countries do the official indexes, based primarily on the prices fixed for rationed commodities, seem to reflect the actual changes in living costs. If allowance is made for deterioration in quality and for the need of supplementing the official rations by outside purchases, the actual rise in the cost of living by the end of 1942 was well above the 48 per cent. shown officially. Before the war Norway covered a substantial part of its food requirements through imports paid for mostly with the income from shipping, the Norwegian mercantile marine ranking fourth among the world's commercial fleets. Now that this equilibrium has been disturbed, the heavier cost of procuring necessary supplies has contributed much to the difficulties on the domestic market.

The two great obstacles which the authorities in Finland have encountered in attempting to master the price problem have been the price increases in the foreign sector (affecting, in particular, imported goods) and the decline in home production (up to 18 per cent. of the Finnish population being for long periods on active service at the front). In the autumn of 1942 a comprehensive financial programme was adopted, combined with a tightening of the price control. Under the new provisions, agricultural prices were not to

be increased during the ensuing harvest year, although certain premiums were to be granted to the producers; and prices for domestic industrial articles were to be adjusted upwards only in consequence of a rise in the cost of materials (while a rise in costs due to a decline in production or in turnover would not justify an increase in the price of the finished article). In conformity with the principles previously adopted, according to which an increase in the cost of living was to be compensated to the extent of two-thirds by a rise in wages, it was laid down that each new advance of 10 points in the official cost-of-living index beyond the figure of 160 (1938-39 = 100) would entail a 4 per cent. increase in wages. Originally the provisions regarding the degree of compensation did not apply to farm workers; but by the middle of 1943 agricultural prices had been raised (an increase in retail prices being avoided by means of government subsidies amounting to FM 1,600 million); and in that connection the same right to compensation was granted to workers employed in agriculture. It may also be mentioned that, contrary to the practice in most countries, a certain increase in rents has been allowed in order to offset the rise in maintenance and other charges, the amount of the increase authorised from 1st September 1942 being 20 per cent.

Since the middle of 1942 a high degree of stability has characterised nearly all branches of Sweden's economic life, including the volume of industrial production, wholesale prices, cost of living, etc. The magnitude of government expenditure, necessitating borrowing at the rate of about S.Kr. 150 million a month, has continued to provide an excess of buying power, it being estimated that the gross income of the population rose by 32 per cent. between 1939 and 1942, while at the same time the available volume of consumption goods fell by 17 per cent. In the autumn of 1942 the government entrusted an outside expert (not a state official) with the negotiations and investigations required to determine the future economic policy best calculated to counteract a harmful rise in prices. While

negotiations were being conducted with representatives of various economic groups regarding the prices to be paid for the 1943 crops, stabilisation of wages, etc., a temporary price stop was imposed on 31st October 1942. A few weeks later, agreement was reached with regard to a conditional wage stop: as long as the official cost-of-living index (1914 = 100), standing in October 1942 at 239, did not reach the level of 249,



wage rates would remain unchanged, but they would be increased by 5 per cent. if the cost of living rose to a point between 249 and 257; should the latter limit be attained, new negotiations were to take place between the interested parties. In point of fact, however, it proved possible to hold down the cost of living (partly as a result of government subsidies costing S.Kr. 220 million a year); in the spring of 1943 the cost-of-living index moved around 240 and was thus well below the critical margin.

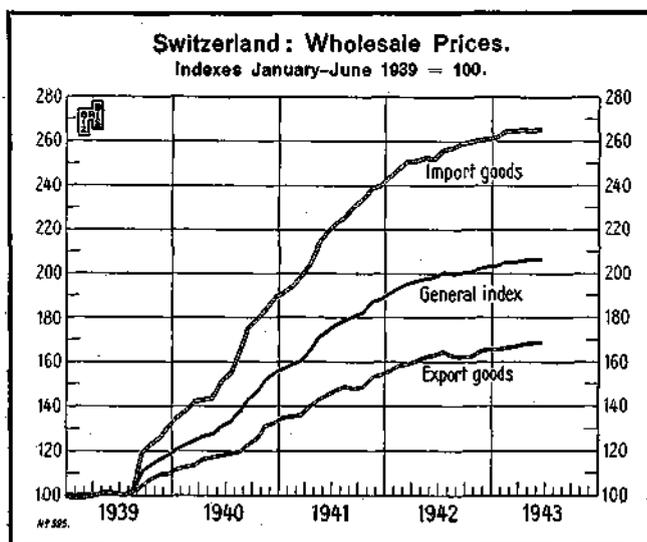
The slackening in the upward movement of prices in Switzerland may be seen from the following table. The Swiss economy, being particularly dependent upon foreign trade, has been much affected by price-raising influences from abroad, including a huge increase in the costs of transport from overseas countries (in 1938 about two-thirds of total Swiss imports consisted of raw materials and foodstuffs).

**Switzerland: Price Movements.**

Percentage price increase during:	1939 2nd half	1940	1941	1942	June 1939 to Dec. 1942
Wholesale general index	+ 18	+ 31	+ 21	+ 8	+103
Imported goods . . . . .	+ 30	+ 44	+ 27	+ 9	+159
Home-produced goods . . . . .	+ 10	+ 21	+ 16	+ 7	+ 65
Cost of living . . . . .	+ 4	+ 13	+ 15	+ 9	+ 46

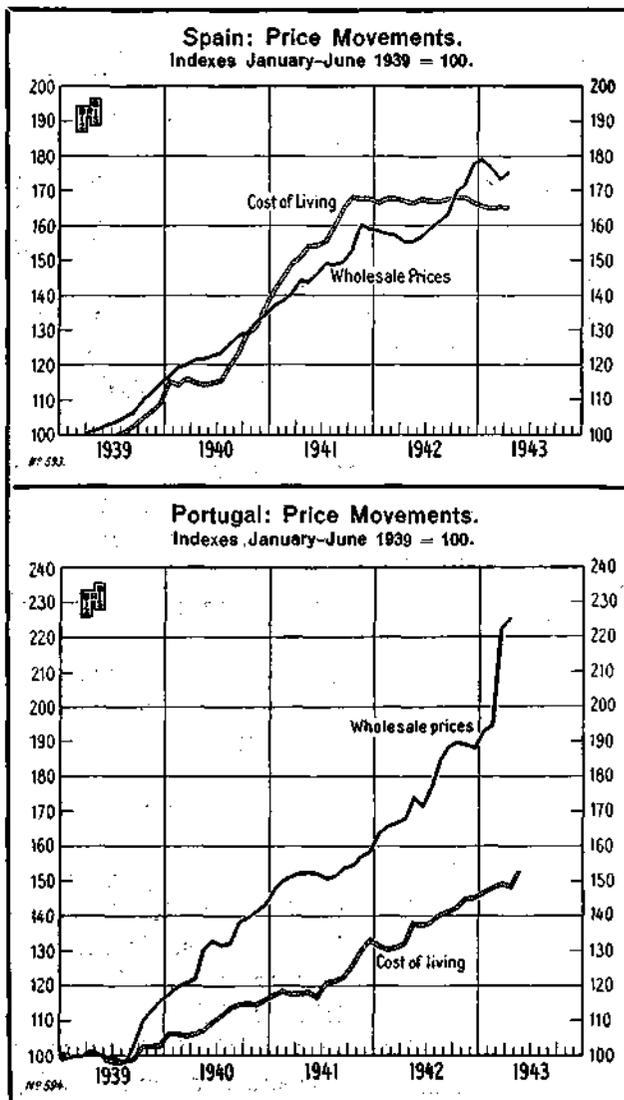
The upward thrust from abroad, however, made itself felt less strongly in 1942, partly because the rise in the prices of imported goods was not so marked as previously, and partly because of the further shrinkage by 10 per cent. in the volume of imports (to about 60 per cent. of the pre-war figure) with the result that the proportion of imported goods in total consumption was materially reduced.

Mainly in order to prevent exaggerated price increases and undue profits, about sixty Price Equalisation Funds have been set up in Switzerland, covering such products as window glass, hides and leather, base metals and a number of foodstuffs. These funds receive payments from exporters and producers (in a few cases also contributions from the Federal Government) and they grant subsidies to producers and importers who would otherwise be working at a loss. In the early months of 1943 steps were taken to bring greater uniformity into their organisation and methods of working.



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On the basis of the specially prepared "expense index", the Government Commission appointed to advise on wage problems recommended, in the spring of 1943, that wages should be increased by varying percentages ranging from 38 per cent. for the lower income groups to 24 per cent. for those with an income of Sw.fcs 6,000 or more. By the end of March 1943 the average increase obtained by industrial workers since the beginning of the war came to about 29 per cent., as compared with a rise of 47 per cent. in the official cost-of-living index. Between August 1939 and the end of 1942 agricultural prices rose by 64 per cent.; it has been calculated that the income received for agricultural work (as distinct from the income arising out of ownership of land or capital) increased by about 50 per cent. between 1938 and 1942, this increase being allowed in order to stimulate agricultural production during the emergency and also to compensate farmers for the lower rate of their pre-war income.



Price movements in Spain during 1942 were characterised by a relatively high degree of stability, supported by a slow but steady increase in the current supplies of both raw materials and foodstuffs. Owing to keen competition between the belligerent countries to secure certain vital Spanish products (mainly metals), export prices have on the whole been favourable to Spain.

Portugal also has been able to charge high prices for its export goods (especially tungsten, Far Eastern output being no longer available). While in 1942 prices of national products rose by 10 per cent., those of imported products went up by 27 per cent. and prices of export goods (other than foods) by 35 per cent. The favourable export position not only added to the reserves of gold and foreign exchange but at the same time increased the

buying power of the public and was an important factor in bringing about the marked rise in prices and cost of living during 1942. By the end of that year the official cost-of-living index showed an increase of 46 per cent. above the pre-war level, but the real increase was probably somewhat higher, since the index only takes account of national products. Wage adjustments, ranging from 20 to 50 per cent. above pre-war earnings, had been allowed in 1942 and rationing was extended in the spring of 1943.

**Price Movements: United Kingdom, Eire, British India, Australia, New Zealand, Canada and United States.**

Percentage price increase (or decrease) during:	1939 2nd half	1940	1941	1942	June 1939 to Dec. 1942
<b>United Kingdom:</b>	%	%	%	%	%
Wholesale prices . . . . .	+ 25	+ 22	+ 5	+ 3	+ 64
Cost of living . . . . .	+ 12	+ 13	+ 2	- 1	+ 28
<b>Eire:</b>					
Cost of living . . . . .	+ 12	+ 11	+ 11	+ 15	+ 59
<b>British India:</b>					
Wholesale prices . . . . .	+ 36	- 12	+ 28	+ 55	+ 136
Cost of living . . . . .	+ 9	+ 2	+ 12	+ 46	+ 81
<b>Australia:</b>					
Wholesale prices . . . . .	+ 5	+ 9	+ 4	+ 15	+ 38
Cost of living . . . . .	+ 1	+ 6	+ 4	+ 9	+ 22
<b>New Zealand:</b>					
Wholesale prices . . . . .	+ 5	+ 14	+ 9	+ 7	+ 39
Cost of living . . . . .	+ 3	+ 4	+ 4	+ 2	+ 14
<b>Canada:</b>					
Wholesale prices . . . . .	+ 11	+ 3	+ 11	+ 4	+ 32
Cost of living . . . . .	+ 3	+ 4	+ 7	+ 3	+ 18
<b>United States:</b>					
Wholesale prices . . . . .	+ 5	+ 1	+ 17	+ 8	+ 34
Cost of living . . . . .	+ 1	+ 1	+ 10	+ 9	+ 22

In the United Kingdom the same price policy has been pursued as in the previous year and the official indexes of wholesale prices and cost of living show only slight changes. Among the principal groups which make up the wholesale price index the largest advance is registered by "cereals" — an increase of 123 per cent. from August 1939 to March 1943. According to the cost-of-living index, however, the price of flour rose by only 26 per cent. and of bread by 9 per cent., the divergence in the price trends revealed by the indexes being largely due to subsidies granted as part of the price-stabilisation policy, which is estimated to cost the government £210 million in 1943 as compared with £180 million in 1942, £125 million in 1941 and £100 million in 1940. The stability in the cost-of-living index is also due to an extension of the "utility" class of goods; 80 per cent. of all new clothes are made of standardised materials and practically all new furniture produced falls within the utility category. In addition, the purchase tax was removed from utility cloth and wearing apparel in August 1942. In the same month the output of luxury articles was suspended altogether, with the result that, apart from food, drinks and tobacco, the production of consumption goods other than utility goods fell to about 20 per cent. of the pre-war volume.

There has been much discussion of the extent to which the official cost-of-living index gives a true picture of the actual increase in living costs. Even before the war the index took account of only a part of the current expenses included in an average household budget; since 1939 a number of articles on which it is based have ceased to be available, while certain goods which have since become more or less indispensable are not taken into consideration. Thanks to the general increase in wages, some of the lower income groups are now prepared to pay, for unrationed goods, prices which have often doubled and which were formerly beyond their means. The White Paper published in connection with the budget in April 1943 came to the conclusion that, apart from price increases deliberately brought about by higher indirect taxes, the whole volume of consumption goods and services, including luxury goods and other non-necessities, had not risen in price by more than 36 per cent., against the rise of 28 per cent. registered by the official index.

A corresponding stability does not seem to have been attained with regard to wages. From the summer of 1939 to the end of 1941 the index of average weekly wages (i. e. wage rates) had risen by about 25 per cent. and to the end of 1942 by 30 per cent., but the increase in earnings had been much greater, owing principally to overtime and night work and probably to a relative increase in piece-work. Statistics of actual earnings, collected by the Ministry of Labour at six-monthly intervals, showed that, for 6,250,000 workers employed in manufacturing industries, average earnings rose by 65 per cent. between October 1938 and January 1943, while the average level of rates of wages for an ordinary week's work, exclusive of overtime, increased by 26 or 27 per cent. And for coal-mining (not included in the above figures) information collected by the Ministry of Fuel brought out the fact that, from the last quarter of 1939 to the corresponding quarter of 1943, for all classes of workers (including boys) engaged in or about mines, the average earnings per shift had likewise increased by approximately 65 per cent. In general, however, the figures for different industries vary widely, the largest increase in earnings (by more than 75 per cent.) being found in the metal, engineering and shipbuilding groups.

In Eire a further advance in prices reflected the great difficulties in obtaining supplies from abroad (the country possessing practically no merchant ships of its own) but it was also to some extent connected with an increased demand due to the presence of American troops in Northern Ireland. The cost-of-living index continued to rise, reaching, by the end of 1942, a point 60 per cent. above the pre-war level, while the index of agricultural prices by the same date stood at 75 per cent. above that level. In presenting the budget for the fiscal year 1942-43, the Minister of Finance estimated at £3.6 million the expenditure to be incurred on subsidising food and peat fuel in order to keep down the cost of living.

In other countries of the British Empire, as in most parts of the world, local factors have assumed increased importance in the determination of price developments. In British India commodity prices rose again sharply during 1942, it being almost impossible in this vast country to introduce a compre-

hensive price control combined with an effective system of rationing, and thus to neutralise the excess of buying power engendered by the swollen war expenditure. In Australia a series of new measures fixed all prices for goods and services at the level prevailing on 16th April 1943; in order to keep living costs down to that level, increased government subsidies were granted and the purchase tax was reduced as regards clothes and other textiles. In New Zealand an arrangement had been in force for some years under which wage rates were allowed to rise if prices increased by more than 2.5 per cent. A comprehensive stabilisation scheme was inaugurated in December 1942, with the object of pegging wages, salaries, rents and the prices of farm products, the Prime Minister having declared that the national income had increased by about £50 million since 1939, while the supply of consumption goods had decreased by more than 40 per cent. — a disparity which made stricter control of the price structure a matter of particular urgency.

The price movements in Australia and New Zealand are of very much the same proportions as those in Canada and the United States. Before the outbreak of war in 1939 there was an abundant production in all these countries and substantial stocks of foodstuffs, which it was difficult to sell at remunerative prices. For a while, the wartime hindrances to export trade intensified the accumulation of surpluses; but, as prices began to rise, the stocks constituted valuable reserves to meet the growing demand for domestic consumption and war purposes. These countries had also large unused resources of other kinds to draw upon and were thus able, at comparatively short notice, to increase their war production on a considerable scale.

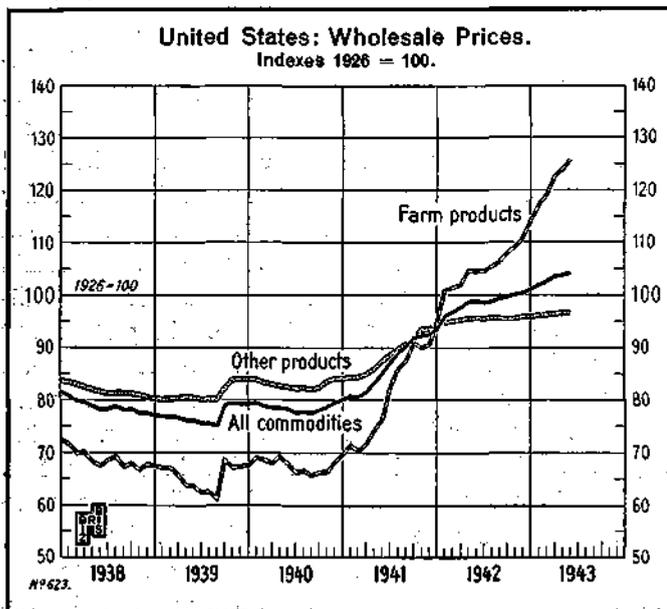
In November 1941 a rather elastic system of price ceilings had been introduced in Canada, retail prices being brought down to the level prevailing from 15th September to 11th October 1941. Wholesale trade was not made subject to ceilings, but it was expected that the prices fixed for retail sales would react on the prices paid for goods bought wholesale and would ultimately affect producers. In certain cases the government intervened with subsidies. In the shoe trade, for instance, the retail prices charged when the control became effective were found to be about 15 per cent. above the level obtaining from 15th September to 11th October; the producer and the retailer thereupon each undertook to reduce prices by 4 per cent., and the government agreed to pay the remaining 7 per cent. on condition that within a certain time it should be relieved of this necessity by further measures of rationalisation. The system was effective in slowing down the increase in prices, but a shifting of workers to highly-paid branches of the war industries and the record crops of 1942, which exclusive of subsidies brought Canada's farmers a 20 per cent. increase in their income, added to the abundance of buying power in the hands of the public. To prevent a further rise in the cost of living and a consequent increase in wages, a number of retail prices were reduced by such means as subsidies, the removal of duties or taxes, and direct selling at a loss through a government agency. The first reductions were applied in December 1942 to tea, coffee, milk and oranges, and it was

estimated that these measures cost the government Can. \$40 million per annum, total price subsidies amounting to Can. \$68 million for the fiscal year up to the end of March 1943 and being expected to reach Can. \$120 million in the following year.

Wage rates have not been subject to ceilings, properly speaking, but have been linked to prices in that employers are bound to pay their employees cost-of-living bonuses adjusted quarterly at a rate of 25 cents per week for each full point of change in the cost-of-living index. With a rise of 18 points between the outbreak of the war and December 1942 this made a total bonus of Can. \$4.5 or, in the case of employees receiving Can. \$25 a week, 18 per cent. of the wages received.

While in the United States the level of wholesale prices rose by 17 per cent. in 1941, the rise in the following year was only 8 per cent. On the other hand, the cost of living continued its steady advance at the rate of 10 per cent. in 1941 and 9 per cent. in 1942; and the rate of progress was fully maintained during the first half of 1943, with a rise of nearly 1 per cent. a month. The basic influences have been a rapid increase in buying power (income payments to individuals running, by the end of 1942, at an annual rate in the neighbourhood of \$125 milliard, as against an average of \$65 milliard for the period 1935 to 1939) and a gradual curtailment in production for civilian uses. The sharpest cut in production was imposed on durable consumer goods (automobiles, refrigerators, etc.), since in this field production could most easily be converted to war purposes. Otherwise the restrictive measures were applied principally to capital equipment, and the output of finished articles for civilian purposes was thus affected only indirectly and with a certain time lag. All through 1942, moreover, consumers were able to draw on substantial stocks previously accumulated in the hands of

users and distributors. Finally, the output of farm products available for civilian requirements in 1942 was close upon that of the 1935-39 period and in some lines reached record levels, while imports of a number of materials, notably wool, were larger than had been expected. Including the use of houses and other durable and semi-durable goods which consumers possessed when the controls were imposed, aggregate civilian consumption in the



spring of 1943 was not far below the pre-war level. There had, however, been a shift to increased food purchases, the amount actually expended on food being fully 60 per cent. larger by the autumn of 1942 than in 1939. Because of this shift in demand, conditions became propitious for an increase in the price of farm products and, that being the case, political pressure for higher prices made itself strongly felt. By the end of 1942 farm prices had reached 110 per cent. of "parity" (i. e. the range of agricultural prices which gives the farmer the same buying power in relation to non-farm products as he had in 1909-14). For wheat and maize the so-called "loan rates" were maintained at 85 per cent. of parity in order to prevent an increase in the cost of fodder for livestock and poultry, but for cotton, tobacco, rice and peanuts the loan rates early in October 1942 were raised from 85 to 90 per cent.

In conformity with the Emergency Price Control Act adopted in January 1942, the Office of Price Administration proceeded in May of the same year to stabilise the prices of a great number of goods at the highest level reached in March. In October the control was extended, on the basis of the levels existing on 15th September, to other commodities, including agricultural products, and a Director of Economic Stabilization was appointed. Quotas were established for the purpose of restricting future deliveries for civilian consumption, which, according to a Presidential statement, would have to be reduced by 25 per cent. below the record year of 1941; plans for rationing meat, cheese, tinned and dried fruits and vegetables, fats and oils were drawn up and these were put into effect in the early months of 1943. After some lively controversy, it was decided later in the year that government subsidies might be paid for the purpose of keeping down the cost of living.

It is probable that the considerable increase which is found in the volume of genuine savings to some extent reflects the influence of rationing and the inability to buy goods which are no longer available; but the current supply of consumers' goods is still so considerable (and not merely in comparison with conditions in other countries) that rationing and similar forms of restriction can play only a minor rôle, greater importance attaching to direct limitation of incomes, e. g. by wage control. Many more workers being employed in industry and a 50 per cent. increase being paid for overtime (i. e. for work in excess of 40 hours), the national wage-bill increased from \$61 milliard in 1941 to \$80 milliard in 1942. Hourly earnings in manufacturing industries advanced from 78.3 cents in December 1941 to 90.7 cents in December 1942, or by fully 15 per cent. The jurisdiction of the War Labor Board was extended to all wage-scale changes for workers not on farms, including changes agreed upon between employers and employees. The Board adopted the policy of rejecting requests entailing increases in excess of compensation for the 15 per cent. rise in the cost of living between January 1941 and May 1942 (in accordance with the "little steel formula", so called because it had been worked out as a fair solution in a conflict involving the smaller steel companies). Further wage increases were, however, allowed in a number of cases: for instance, where previous increases had been less than 15 per cent., or wages had remained at sub-standard levels, or it was considered necessary for certain industries to admit

improvements in wages essential to encourage the war effort. In April 1943 further stabilisation measures were adopted, workers being, inter alia, prohibited from changing their employment in favour of better-paid work. With the freezing of certain sections of the price structure, a more deliberate direction of economic life of the country became necessary in the United States, as elsewhere, the War Manpower Commission being charged with the task of providing manpower both for the armed forces and for essential industries. From the middle of 1939 to the spring of 1943 earnings per hour in the manufacturing industries increased by about 50 per cent.; wage rates of farm labourers, which have remained free of control and which in 1939 were at a low level, would seem to have risen by an even higher percentage.

In North America the wheat harvest in 1942 was the best on record, with the single exception of the year 1928. Canada's large harvest

#### Wheat Production in the United States and Canada.

In millions of bushels*	United States	Canada	Total
1934—1938, average . . . . .	717	263	980
1939 . . . . .	751	521	1,272
1940 . . . . .	812	540	1,352
1941 . . . . .	946	312	1,258
1942 . . . . .	981	593	1,574
1943 (estimate) . . . . .	635	615	1,450

\* 1 bushel of wheat = 60 pounds = 27.2 kilogrammes.

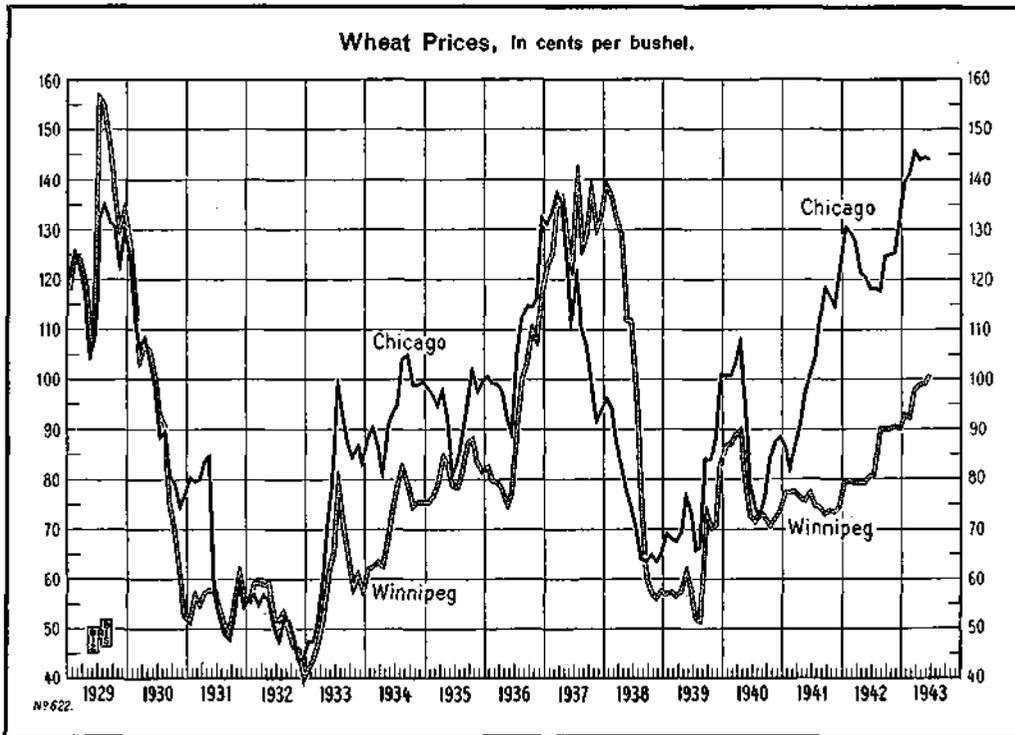
in 1942 was obtained from a smaller area than that sown with wheat in either 1928 or 1941 and was thus primarily due to a higher yield per acre. The carry-over of wheat on 1st August 1943 was estimated at 680 million bushels, only slightly above the estimate for the carry-over of wheat in the United States

on the same date. Owing to a record consumption the carry-over in the United States rose very little between August 1942 and August 1943, in spite of the abundant harvest. At 1,013 million bushels, or some 80 per cent. above the normal level, the estimated figure of total wheat consumption reflects an increased use of wheat in industry (manufacture of alcohol for wartime purposes) and as fodder, particularly for pigs, the U. S. pig stock having risen from about 50 million at the beginning of 1939 to approximately 75 million at the beginning of 1943. For the United States, Canada, Australia and the Argentine the total carry-over of wheat on 1st August 1943 is estimated at 1,750 million bushels. Compared with normal conditions (the

#### Carry-over of Wheat.

Estimates	U. S. A.	Canada	Argen- tina	Australia	Total of four countries
	in millions of bushels				
1938, 1st August	153	25	72	34	284
1939, "	253	103	230	43	629
1940, "	282	300	75	109	766
1941, "	385	490	180	55	1,100
1942, "	632	424	198	122	1,376
1943, "	650	688	245	165	1,748

corresponding figure for August 1938 was 280 million bushels), this represents a very large accumulated supply but, considering the higher level of consumption of wheat for purposes other than human food, there seems likely to be a continuous



decrease in stocks until the end of the war. The change which has occurred is reflected in a stiffening of wheat prices both in Canada and in the United States.

The maize crop in the United States was also at a high level in 1942, reaching 3,175 million bushels\*, as compared with 2,673 million bushels in the preceding year. In the Argentine, however, the severe drought caused exceptional damage to the growing maize, entirely destroying the crop in some provinces. As a result, the total production of maize in the Argentine fell from 356 million bushels in 1941-42 to 76 million bushels in 1942-43, and stocks of maize, which had been estimated at 280 million bushels at the beginning of May 1942 and for want of storage room had then caused the authorities great concern, suddenly shrank to less than normal proportions. The price of maize in Buenos Aires, which had been down to 83 cents per bushel in November 1942 (government support alone preventing it from falling still further), suddenly recovered to 98½ cents per bushel at the beginning of 1943 and 105 cents in April.

The Conference on Food and Agriculture held at Hot Springs in May-June 1943 dealt with questions of nutrition standards, the expansion of agricultural production and its adaptation to consumption needs, as well as the means of improving distribution. It decided to set up new international machinery in the form of an Interim Commission to function in Washington until such time as a permanent food organisation could be established. This

\* 1 bushel of maize = 56 pounds = 25.4 kilogrammes.

Commission was charged with the promotion and coordination of research and with the collection and dissemination of information; it is to submit to the individual governments recommendations for action along the lines agreed upon by the conference and, further, examine such questions as the development of agricultural resources, commodity arrangements, consumer cooperatives, land development and other subjects considered at the conference.

**Price movements in various Latin American countries.**

Percentage price increase (or decrease) during:	1939 2nd half	1940	1941	1942	June 1939 to Dec. 1942
<b>Argentina:</b>	%	%	%	%	%
Wholesale prices . . . . .	+ 18	+ 2	+ 37	+ 13	+ 86
Cost of living . . . . .	+ 4	- 3	+ 10	0	+ 12
<b>Bolivia:</b>					
Cost of living . . . . .	+ 38 <sup>(1)</sup>	+ 15	+ 35	+ 29	+ 178
<b>Brazil:</b>					
Cost of living . . . . .	+ 2	+ 7	+ 12	+ 5 <sup>(2)</sup>	+ 28 <sup>(3)</sup>
<b>Chile:</b>					
Wholesale prices . . . . .	+ 7	+ 5	+ 37	+ 23	+ 90
Cost of living . . . . .	+ 5	+ 10	+ 23	+ 26	+ 77
<b>Colombia:</b>					
Cost of living . . . . .	- 2	- 5	+ 4	+ 14	+ 10
<b>Costa Rica:</b>					
Wholesale prices . . . . .	- 1	- 6	+ 19	+ 40	+ 55
Cost of living . . . . .	- 2	- 2	+ 9	+ 31	+ 38
<b>Mexico:</b>					
Wholesale prices . . . . .	- 1	+ 1	+ 14	+ 8	+ 24
Cost of living . . . . .	+ 1	+ 1	+ 14	+ 11	+ 30
<b>Peru:</b>					
Wholesale prices . . . . .	+ 11	+ 9	+ 27	+ 19	+ 82
Cost of living . . . . .	+ 3	+ 9	+ 11	+ 9	+ 36
<b>Uruguay:</b>					
Cost of living . . . . .	+ 4	+ 2	- 2	+ 4	+ 8
<b>Venezuela:</b>					
Cost of living (foodstuffs) . . . . .	- 7 <sup>(1)</sup>	+ 7	- 6	+ 16	+ 9

<sup>(1)</sup> June 1939 to January 1940.

<sup>(2)</sup> December 1941 to August 1942.

<sup>(3)</sup> June 1939 to August 1942.

More than in other parts of the world, the price movements in the various Latin American countries have been a result of market forces. Government intervention through control or subsidies has exerted an influence only in particular sections of the national economies, typical cases being the coffee agreement between fourteen countries, including the United States, and the support given to the prices of cereals in the Argentine. In both these cases the object was to prevent too disastrous a fall in the prices paid to the producers, exports having practically ceased as regards the continent of Europe and being impeded by lack of shipping even as regards countries in the American hemisphere. It is hardly possible to discern any uniformity in the tendencies revealed by the statistics of the Latin American countries. In some the cost of living, mainly reflecting the price of food, has risen very little, while in others there are distinct signs of inflation produced by uncovered deficits in the budgets.

In the Argentine the cost-of-living index showed no change on balance in 1942 but wholesale prices rose by 13 per cent. and, as the following table shows, this was due to higher quotations for non-agricultural products (mostly industrial articles either imported or dependent for their production on imported raw materials).

Argentine:  
movements of wholesale prices.

Indexes on base 1926 = 100	Agri- cultural products	Non-agri- cultural products	General wholesale prices
1939 August . . .	79	109	103
December . . .	94	129	122
1940 December . .	73	138	124
1941 December . .	80	194	170
1942 December . .	78	224	193

The price level of agricultural products at the end of 1942 was barely as high as in August 1939. Minimum prices were again fixed for wheat, linseed and maize, the government continuing to render support to the farmers; according to the report of the Banco Centrale for 1942 the amount borrowed by the government for the financing of the crops totalled Pesos 242 million in that year, as compared with

505 million in the preceding year, bringing the total of government outlay for the purchase of crops to about Pesos 1,000 million. As already mentioned, the severe and prolonged drought in the harvest year 1942-43 (the worst for over twenty years) suddenly altered the price situation for maize; the government, fearing a shortage even for domestic requirements, prohibited exports for the time being, in striking contrast to the policy previously followed. Prices for meat products had already risen by 10 to 25 per cent. in 1942, no direct government subsidy being necessary since higher internal consumption absorbed three-quarters of the production. Several increases in wage rates were allowed, which, together with the lengthening of the working week in industry, raised average earnings by 13 per cent. as compared with the previous year. In the spring of 1943 the cost-of-living index showed a sudden advance and the government then proceeded to fix maximum prices for a number of consumption goods, including butter, potatoes, rice, flour, bread and cheese.

No statistics of general price movements have been available in Brazil since the summer of 1942, the cost-of-living index then showing a rise of 28 per cent. above the level of June 1939. In the hope of withstanding further increases, a price stop was decreed for the retail trade on the basis of the quotations ruling on 1st December 1942; wages, which had been fixed in May of that year, were allowed to rise by 25 to 30 per cent. as compensation for the increase in the cost of living during the period May to December. Transport difficulties had been experienced in obtaining the normal quantum of wheat from the Argentine, shipping space being the key to the situation for Brazil as for other Latin American countries. In 1941 the United States did not take over coffee up to the full quota previously agreed upon but, under a subsequent arrangement, undertook to purchase from Brazil 12½ million bags out of the 1941-42 and 1942-43 crops whether or not shipping was available. This arrangement helped to maintain prices in conjunction with

various domestic measures, including official loans up to 80 per cent. of the value of coffee way-bills, and payments of Cruzeiros 2 per bag of coffee destroyed.

In the Far East there has been a great diversity of price movements as between different areas. The most pronounced increase appears to have occurred in the territories utilising the Chungking yuan as their currency. But also in the huge and heterogeneous areas brought together by Japan under the denomination of Greater East Asia the price variations have been considerable. Thus between June 1937 and June 1942, for instance, the level of wholesale prices in Tokio rose by 49 per cent., in Hsinking by 112 per cent. and in Tientsin by 401 per cent. For Japan this unequal rise in prices created a series of difficult problems: on the one hand, it became necessary to find means of overcoming the resulting hindrances to trade and, on the other, to ensure that the Japanese price level should not be raised by expensive imports from overseas. To achieve the desired results equalisation funds and special trading corporations were introduced, furnished with subsidies from the Japanese budget (for further particulars regarding these measures, see pages 51-52).

Another difficult problem was to prevent the wartime industrial expansion and the continuously increasing volume of buying power in the hands of the public from producing too precipitous a rise in prices on the domestic market. A price stop for certain important classes of commodities was introduced in September 1939; but, by the end of 1942, the indexes calculated by the Bank of Japan showed an increase amounting to 33 per cent. for wholesale prices and 29 per cent. for the cost of living above the level prevailing in June 1939.

Price movements in Japan.

Percentage price increase (or decrease) during:	1939 2nd half	1940	1941	1942	June 1939 to Dec.1942
	%	%	%	%	%
Wholesale prices . . . . .	+ 17	- 1	+ 11	+ 3	+ 33
Cost of living . . . . .	+ 9	+ 9	+ 3	+ 2	+ 29

A new turn was given to price policy in the spring of 1943 when a number of measures were taken to stimulate the production of essential goods while preventing a rise in the cost of living by means of

government subsidies. The maximum prices under the system inaugurated in September 1939 had often barely covered costs and frequently acted as a brake on production; under the new system Price Equalisation Funds were created and these were in a position to take over certain goods from the producer at more than the official maximum price, the margin covering the higher production costs. Thanks to the subsidies, the price charged to the consumer remained the same. In addition, a system of premiums was introduced, designed to give a stimulus through the profit motive and thus to increase the efficiency of production. Subsidies had already been granted some time before, in order to encourage certain types of agricultural production; the Minister of Finance stated at the beginning of 1943 that for this purpose about Yen 400 million had been provided in the current budget.

As a result of the war, there are marked price divergencies, not only between different countries, but also between different sections of the price structure within each country, as may be seen from the following table, giving for a number of countries the percentage rise of different groups in the cost-of-living indexes.

**Cost of living: Percentage increase**  
of different groups from January-June 1939 to December 1942.

Percentage increase (or decrease)	Food	Heating and lighting	Clothing	Rent	Others	Total
	%	%	%	%	%	%
Bulgaria (1) . . . .	+ 135	+ 50	+ 112	+ 35	+ 42	+ 101
Denmark . . . . .	+ 57	+ 112	+ 84	+ 7	+ 47	+ 56
Finland . . . . .	+ 89	+ 123	+ 127	+ 12	+ 81	+ 81
Germany . . . . .	+ 6	— 2	+ 32	0	+ 6	+ 8
Hungary . . . . .	+ 73	+ 31	+ 78	0	(?)	+ 52
Sweden . . . . .	+ 42	+ 67	+ 72	+ 2	+ 41	+ 42
Switzerland . . . .	+ 61	+ 33	+ 87	0	(?)	+ 46
United Kingdom . .	+ 21	+ 33	+ 82	+ 2	+ 53	+ 30
U. S. A. . . . .	+ 41	+ 8	+ 25	+ 4	+ 12	+ 22

(1) Increase compared to the average of 1939.

(?) Not available.

The headings do not cover exactly the same items from country to country, but differences in this respect are probably not too pronounced and certainly do not altogether rule out a comparison. Certain features are common to most of the countries concerned (including Germany, where as

a rule, however, the retail prices for rationed commodities have been kept close to the pre-war level).

In six out of the nine countries covered by the table the cost of clothing shows the highest rise of any group, but even in the three remaining countries, Bulgaria, Denmark and the United States, the increase is larger in the cost of clothing than in the general index number. The pronounced rise in the price of clothing reflects a scarcity of textile materials (wool and cotton) and the necessity of resorting to substitutes, of which the cost of production is naturally higher. Several countries have even issued detailed regulations to restrain prices in the market for second-hand clothes.

Rents have, with few exceptions, been kept down almost to the pre-war level, an effective price stop being imposed by the authorities, who can control the supply price of houses already built and, as regards the building of new houses, have usually made construction subject to a licence, in order to reserve financial resources, material and labour for the prosecution of the war. The ban upon rent increases has been facilitated by the cheap-money policy, under which interest charges on mortgage debts, etc. have remained practically unchanged (which was not the case during the 1914-18 war). But other charges have undoubtedly increased, and in several countries the question is under discussion to what extent rents might be raised in order to meet the increase in daily expenses and the higher maintenance costs which will arise after the war. Here and there some attention has been given to the difficult problem of how to re-establish a free rent market after the war, so that private building of houses can be set going once more (see Introduction, pages 36-37). The

degree of adjustment which would then have to be made in the existing rent level would vary from country to country, according to the extent to which the general price level still exceeded the pre-war mark after things had settled down again, with one proviso, however: there are evidently great possibilities of reducing building costs by the introduction of new technical methods (such as pre-fabrication); and, in so far as these possibilities are fully utilised (which often means the scrapping of certain trade-union and other regulations), a market equilibrium for rents may be found at a lower level than would otherwise be necessary.

So long as the war goes on, the authorities endeavour to establish a price harmony suited to wartime conditions. On the one hand, they must ensure that essential production is not discouraged by prices too low in comparison with other lines of production and, on the other hand, they must remember that the prices paid determine the basic distribution of income and that — not least in wartime — considerations of justice and of social order are of primary importance. Much of the social tension towards the end of the 1914-18 war can without doubt be traced to extravagant movements of wholesale and retail prices, bringing high profits to some and penury to others. The strict control which a number of governments have this time been able to impose, together with the higher taxation of war profits and the more effective aid granted, for instance, to the families of men called up for military service, constitute important elements of social, and consequently of economic, stability. Some sacrifices must, even so, be accepted and, when the reasons are understood, they are usually borne without strong opposition. Industrial workers have (in some cases with astonishing equanimity) accepted far-reaching price rises designed to stimulate agricultural production and to give farmers a fairer remuneration than they had been able to obtain before the war. Serious discontent seems only to arise when conditions of fairness are disregarded; moreover, if that happens, it is likely that a violent reversal will set in when peace comes; for a particular branch to obtain a very pronounced rise in prices would probably be unwise even from its own point of view.

Many different influences will affect agricultural policy after this war: in some respects this policy may be found to reflect the degree of collaboration established within certain groups of countries and in the world as a whole; efforts may also be made to lower the cost of food and thus to improve real wages without diminishing export capacity by a rise in costs. The difficulties which will be encountered in finding a solution of these problems will no doubt vary from country to country. A lowering of agricultural prices may for instance be facilitated by cost reductions when it once more becomes possible to import fodder from abroad. The fact that during the present war farmers have not only abstained from increasing their indebtedness but have even repaid debts should help to ensure a greater flexibility in carrying through cost and price adjustments. In North America the demands of mobilisation and the needs of the war

industries have drawn young men from country districts (in the United States some 3 million had thus left the farms by the beginning of 1943), and many of them may never return to their old occupation; but a permanent reduction in the number of agricultural labourers, whatever difficulties it may cause to individual farmers, would seem to constitute a certain safeguard against an early recurrence of agricultural production in excess of current demand. Another safeguard in the same connection may be found in a raising of nutrition standards, which would widen the consumption of basic food products. These and other developments may help to alleviate the strain of adjustment; but, even so, any proposed or threatened changes will probably meet with much resistance, since, apart from the question of daily bread, various aspects of the traditional economic and social structure are usually affected by changes in agricultural policy.

The following table shows the great difference which exists between the wheat prices on the continent of Europe and in the overseas countries.

**Wheat prices.**  
Official prices per 100 kg.

Countries	1942-1943		1943-1944		Percentage increase (in national currency units)
	In national currency units	In Swiss francs (1)	In national currency units	In Swiss francs (1)	
Argentina . . . . .	m.\$n 6.75	6.30	m.\$n 6.75	6.63	0 %
Canada (Winnipeg) (2)	\$ 2.95	11.39	\$ 3.71	14.38	+ 26
Great Britain . . . (2)	£ 1,579	27.32	£ 1,480	25.60	- 6
U. S. A. (Chicago) (2)	\$ 4.34	16.66	\$ 5.29	22.75	+ 22
Denmark . . . . . (4)	D.Kr. 28.-	25.22	D.Kr. 28.-	25.22	0
Belgium . . . . .	Fcs 200.-	27.68	Fcs 200.-	27.68	0
Sweden . . . . .	S.Kr. 27.-	27.72	S.Kr. 27.50	29.23	+ 2
Holland . . . . .	Fl. 13.625	31.28	Fl. 13.875	31.85	+ 2
Germany . . . . .	RM 21.-	36.33	RM 21.-	36.33	0
Slovakia . . . . . (4)	Ks. 250.-	37.25	Ks. 250.-	37.25	0
Norway . . . . . (4)	N.Kr. 35.-	34.40	N.Kr. 38.-	37.35	+ 9
Spain . . . . . (4)	Pts. 84.-	33.21	Pts. 94-104.-	37.16-41.11	+ 12-24
France . . . . .	Fcs 375.-	37.50	Fcs 410.-	41.-	+ 9
Hungary . . . . . (4)	Pengö 30.-	31.26	Pengö 40.-	41.68	+ 33
Bulgaria . . . . . (4)	Leva 620.-	33.11	Leva 820.-	43.79	+ 32
Serbia . . . . . (4)	Din. 600.-	51.90	Din. 600.-	51.90	0
Italy . . . . . (4)	Lit. 175.-	39.69	Lit. 235-310.-	53.30-70.30	+ 34-77
Switzerland . . . . . (4)	Fcs 51.50	51.50	Fcs 53.50	53.50	+ 4
Roumania . . . . .	Lei 2,200.-	50.38	Lei 2,600.-	59.54	+ 18
Turkey . . . . .	£T 20.- (5)	66.80	£T 20.-	66.80	0
Croatia . . . . . (4)	Kunas 600.-	51.72	Kunas 1,200.-	103.44	+ 100

(1) Converted at official rates for Argentina, Canada, Great Britain, Sweden, U. S. A. and for the other countries at clearing rate. (2) June market rate. (3) Average of ten weeks ending October 9th. (4) Price paid to producers. (5) This price occasionally raised to £T 26.

As mentioned in several sections of this Report, a number of governments spend large amounts on subsidies designed to keep down the cost of living in spite of the high prices paid to domestic producers or for imports. When, with the return of peace, present rations are increased and restrictions eventually removed, a maintenance of the system of subsidising may entail increased costs for the Treasuries, especially in countries with a large domestic production, while countries importing a substantial part of

their food supplies may benefit from lower prices abroad and, in particular, from lower freight rates. In framing its wartime policy, Switzerland has granted subsidies only in respect of imported commodities, in order to be in a position to discontinue the payment as and when the foreign goods can be procured more cheaply.

Various adjustments of wages may also prove necessary in certain countries to restore a proper balance both in the domestic price structure and in relation to other countries. After the experience of the twenty years between the two wars, it is a commonplace to state that there must be some degree of correspondence between cost and wage levels and exchange rates. One difficulty in dealing with these problems internationally arises from the fact that increases in "wages" may mean different things. In the United Kingdom, for instance, from the summer of 1939 to the end of 1942 there was an increase, amounting to 30 per cent., in average wage rates of all workers for a full week's work, exclusive of overtime, and at the same time an increase in average earnings (taking into account the longer hours worked, higher overtime pay, etc.) amounting to fully 60 per cent. Either of these percentages may be of importance. The volume of buying power in the hands of the public, which in a large measure determines the magnitude of current demand (and thus becomes of importance if it is a question of preventing prices from falling), is closely related to the figure for earnings (and perhaps even more to a figure calculated in the Bulletin of the Institute of Statistics, Oxford, giving the rise in average earnings, less income tax, as 40 per cent.). For the determination of the correct exchange rates between different countries, average wage rates may, however, be more truly relevant, since they measure by far the most important element in the cost of production for the economy as a whole, besides representing, in the cost and price structure, the factor which is most resistant to changes. In Sweden the available statistics furnish figures giving wage rates which seem, on the whole, to be comparable with the British figures, and which show an increase of approximately 27 per cent. between the summer of 1939 and the end of 1942. In the United States, however, there are no general statistics of wage rates corresponding to the British or Swedish data; but there is an index of "factory average hourly earnings", which naturally takes into account higher pay for overtime and also reflects increased efficiency, and therefore may register higher pay even when piece-work rates, for instance, have not changed. From the summer of 1939 to the end of 1942 the index in question shows a rise of 40 per cent.

Attempts have sometimes been made to find a formula in the field of foreign exchanges for the calculation of "correct parities" but it is doubtful whether a universally applicable formula can be found. So much is certain, however: in any such calculation a comparison between relative wage levels will always be an important element. It would therefore be of great help if those concerned with national and international labour statistics would arrange for a compilation of wage statistics on a uniform basis for

the various countries, taking account of different aspects of the wage problems. In doing so they would provide material of great value not only in their own field but also for the monetary discussions which will be necessary after the war.

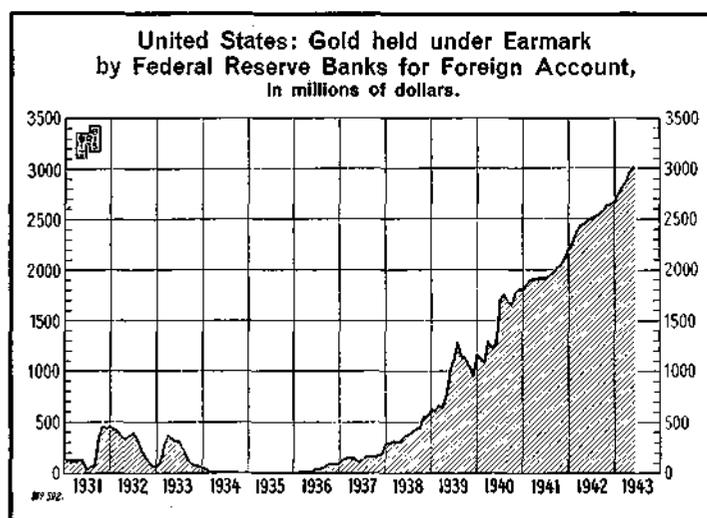
It seems to be generally agreed - at least in theory - that, in order to arrive at a basis for a sustained recovery after the war, a proper balance must be established in the domestic price and cost structure of the different countries and in their relations with each other. But there can be little doubt that it will often prove hard in practice to put through the necessary adjustments in rents, agricultural prices and wages, since these adjustments will usually affect the real income of some groups of persons; and those at whose cost the adjustments would be made will not easily be persuaded that a subsequent improvement in the level of production will compensate them for whatever temporary reduction of their income would be required.

### III. PRODUCTION AND MOVEMENTS OF GOLD.

In two respects the year 1942 will remain noteworthy in the history of gold: after a slight decline in 1941 the output of gold fell sharply in comparison with the previous year and for the first time since 1931 there was no increase in the monetary gold stock of the United States.

From 1930 to 1940 the world output of gold had risen at an average rate of 7 per cent. per annum, or more than twice as fast as in the period 1860-1914. The turn of the trend came in 1941 and in the following year the output fell by about 7 per cent. in those countries for which reliable statistical information is still available (about three-quarters of the gold production of the world); the rate of decline, however, varied greatly from one area to another, from 1.8 per cent. in South Africa to 22 per cent. in the United States. The volume of production was increasingly affected by higher working costs, shortage of labour and difficulties in obtaining materials and machinery; in a number of countries (and notably the United States, Canada and Australia) an additional factor came into play, viz. government intervention to curtail the mining of gold in order to set men, materials and machinery free for the all-important war production. Gold has, however, continued to be accepted as a universal means of payment and has held its own in this respect more successfully than in the last war; there is now no example of a gold-refusal policy similar to that applied intermittently by Holland and Sweden in the years 1916 to 1918.

From 1934 to 1940 the monetary gold stock of the United States increased by an amount equivalent to the whole current output of gold, which for the seven years may be estimated at \$8,500 million, plus \$6,500 million representing gold out of hoards and shipments from reserves of central banks. In 1941



in 1942 the U. S. gold stock actually declined by \$11 million. Still, at the end of the year, the United States possessed \$22,700 million or about 70 per cent. of the total monetary gold stock of the world. Gold continued to be sold to the U. S. Treasury from domestic production (\$126 million in 1942) and from neighbouring countries, especially

Canada and Mexico. Since the gold reserves of the United States declined during the year, more than all the gold newly acquired went to offset the sales of gold and, in particular, the increase of \$458 million in the amount of gold earmarked for account of foreign central banks and governments. The Swiss National Bank and the Sveriges Riksbank converted a considerable part of their dollar holdings into gold, the former increasing its gold reserves in 1942 by \$159 million and the latter by \$112 million. Brazil, Cuba and some other Latin American countries are also known to have increased the amount of gold held by them under earmark in the United States.

The total of gold produced in 1942 outside the U.S.S.R. and the areas dominated by Japan would seem to have been between \$1,000 and 1,100 million. Of this total some \$458 million are accounted for by earmarkings in the United States. The South African Reserve Bank increased its gold holdings by \$268 million — probably all held in the vaults of the bank. Sufficient information is not available to indicate the destination of the remaining \$300 to 400 million but it is likely that a substantial part of it was absorbed by the monetary authorities in the gold-producing areas, as was also probably the case with regard to most of the gold produced in the U.S.S.R. and in the territories dominated by Japan.

#### 1. THE SUPPLY OF GOLD.

The table on the following page shows the output of gold in the main producing areas in so far as relevant statistics are available or reliable estimates can be made. For the world as a whole a figure is also tentatively given, but, being partly based on estimates, it is subject to a fairly wide margin of error and merely indicates the general tendency of the current gold supply.

The output of gold in South Africa during 1942, although below the level of the previous year, was still somewhat higher than in 1940, there being no abrupt change in the conditions of production or the policy of the government. The South African economy has been closely dependent for over fifty years on the fortunes of the gold industry. In spite of efforts made to attain a greater variety, the country's output of minerals is still largely identical with the Transvaal gold output; of total commodity exports amounting to £160 million in 1941 not less than £119 million was gold; nearly 70 per cent. of the profits of the gold mining companies are absorbed by taxes and other contributions (including some payments to the government, which in the accounts of the companies are counted among working costs), and of budget revenue in the financial year 1941-42 the mining industry contributed directly over 30 per cent., and still more indirectly. At the meeting of the Chemical, Metallurgical and Mining Society in Johannesburg in September 1942 the Finance Minister declared that he regarded the maintenance of gold production as essential not only to South Africa's war effort but also to that of the

World Gold Production	1929	1932	1939	1940	1941	1942
	in thousands of fine ounces					
Union of South Africa . .	10,412	11,559	12,822	14,047	14,386	14,121
Canada . . . . .	1,928	3,044	5,095	5,311	5,328	4,800
United States (1) . . . . .	2,056	2,219	4,621	4,863	4,780	3,741
Australia . . . . .	426	710	1,636	1,653	1,458	1,216
Mexico . . . . .	652	584	844	883	800	850 (2)
British West Africa . . . . .	208	293	840	930	926	838
Rhodesia . . . . .	562	581	800	830	794	763
Colombia . . . . .	48	248	570	632	655	605
British India . . . . .	354	330	318	290	286	260
Nicaragua (2) . . . . .	12	14	90	140	193	221
Chile . . . . .	26	38	325	341	266	182
Roumania . . . . .	71	110	154	131	96	82
<b>Total</b>	<b>16,765</b>	<b>19,730</b>	<b>28,115</b>	<b>30,051</b>	<b>29,968</b>	<b>27,676</b>
Other countries (1) . . . . .	2,427	4,524	10,872	10,649	10,032	8,824
of which:						
U.S.S.R. . . . .	707	1,938	4,500	4,000	*	*
Philippine Islands . . . . .	152	230	990	1,140	1,196	*
Korea . . . . .	138	276	975	1,025 (2)	*	*
Japan . . . . .	335	402	850	925 (2)	*	*
<b>Total World Production . .</b>	<b>19,192</b>	<b>24,254</b>	<b>38,987</b>	<b>40,700 (2)</b>	<b>40,000 (2)</b>	<b>36,500 (2)</b>
<b>Value of Total World Production . .</b>	in millions of dollars (2)					
	672	849	1,365	1,425 (2)	1,400 (2)	1,280 (2)

(1) Without Philippine Islands. (2) Estimated.  
 (3) Estimates for 1939 to 1942 (production being taken to equal 90 per cent. of the country's gold exports).  
 (4) Partly estimated. (5) Dollars of present-day value of \$35 per ounce of fine gold. \* Not available.

United Nations. "There are people", he continued, "who urge that we must curtail the production of gold and intensify our war effort, but I believe the war effort will decrease if this is done. The maintenance of gold production has a stabilising effect not only on our economic affairs but also in relation to our politics. Because we have not got a homogeneous public opinion on national matters we are much more sensitive to economic shock than other nations would be".

The difficulties to which the decrease in the gold output is attributable have arisen from the following two factors — both connected with the war: scarcity of materials and reduction in the number of workers available. In order to overcome these difficulties the mining companies have adopted a concerted policy. Thus, through the intervention of the Transvaal Chamber of Mines, the Rand mining companies agreed towards the end of 1941 to pool their stores of scarce materials (steel, other metals, rubber, etc.), the stores department being charged with the distribution of these materials according to the production programmes and certain advantages being accorded to companies with insufficiently developed reserves of ore. Under the same agreement, development work was generally curtailed from the beginning of 1942 and in this way certain economies were effected, among them a reduced consumption of mining stores. As the chairman of one of the larger companies pointed out, however, there was bound to be a deterioration in the ore position, which would have to be rectified at some future date, and working costs would then rise accordingly. The savings due to the curtailment of development work have not been applied to an increase in dividends or higher

allocation to financial reserves but have been used to enable still poorer ores to be mined. In 1942 the average gold content of ore crushed was reduced to the lowest figure ever recorded: 4.053 pennyweights compared with 4.127 pennyweights in the previous year and about 6½ pennyweights before the increase in the South African gold price at the end of 1932, when, after a delay of fifteen months, the South African pound followed the depreciation of the English pound.

The mining industry has also taken measures to assist in the war effort. Up the autumn of 1942 7,000 European employees had been granted permission to join the forces, with half or quarter pay according to whether they had dependents or not. Other employees have been released for essential war work, e.g. in base metal mines and collieries, and these mines have also been supplied with native labour; in addition, munitions are manufactured in the workshops of the companies. At the end of 1942 the Rand mines employed 299,000 native workers, compared with 376,000 at the end of February 1942 — the highest figure ever reached. In spite of the fall in the number of workers employed, the quantity of ore crushed was 66.98 million tons in 1942 — only slightly less than the record figure of 67.26 million tons for the previous year. Working costs remained unchanged per ton crushed but rose per ounce of fine gold from 102s.6d. in 1941 to 104s.4d. in 1942, the gold price being, as before, 168s. (less certain so-called realisation charges). The total gross profits of the mining companies fell from £45.9 million in 1941 to £43.7 million in 1942 and the amount paid as dividends from £19.4 million to £17.5 million respectively, dividends being reduced at about the same rate as profits.

The following table shows the fluctuations in the South African gold production during and after the 1914-18 war and in the present war.

Gold Production in South Africa.

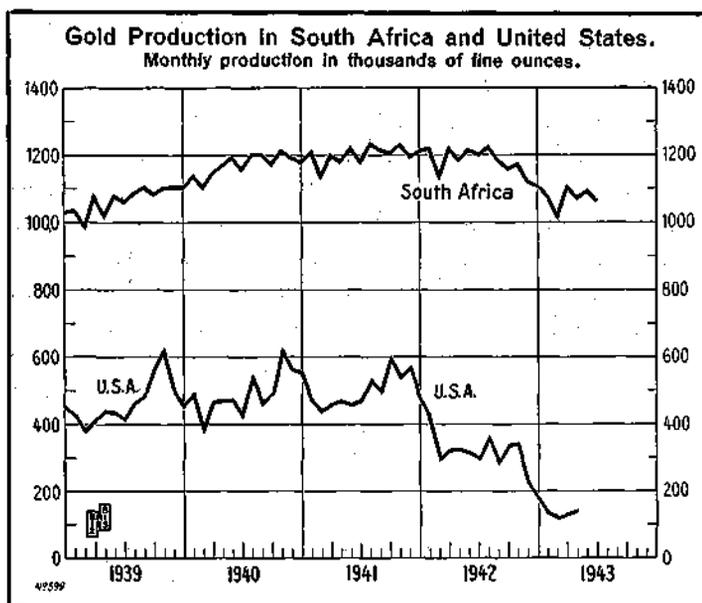
Year	In thousands of ounces	Index: 1913 = 100	Year	In thousands of ounces	Index: 1938 = 100
1913	8,798	100	1938	12,161	100
1914	8,394	95	1939	12,922	105
1915	9,094	103	1940	14,047	116
1916	9,297	106	1941	14,386	118
1917	9,018	103	1942	14,121	116
1918	8,418	96	.	.	.
1919	8,331	95	.	.	.
1920	8,158	93	.	.	.
1921	8,129	92	.	.	.
1922	7,010	80	.	.	.
1923	9,149	104	.	.	.

In the war of 1914-18, even more than in the present one, the gold industry was affected by increased costs of mining supplies, acute shortage of labour and restrictions on the consumption of explosives. After a spurt in the second year of the war the gold output began to fall —

just as it did this time — during the third year. The introduction of a premium on gold in 1919, though it saved many mines from closing, did not prevent a continued decline in output until 1922, when it was 20 per cent. below the pre-war level. That level, however, thanks to falling commodity prices and the consequent reduction in working costs, was regained and even surpassed in 1923. From then onwards the output of gold remained fairly stable up to

1929, by which year it had risen to only 10,412,000 ounces. For the world as a whole, gold production was likewise comparatively stationary from 1923 to 1929, rising at an average rate, for those six years, of only 1.3 per cent. per annum — and then came the great advance from 1930 to 1940 with an average rise per annum of 7 per cent., as mentioned at the beginning of this chapter.

In 1941 Canada and the United States, the two largest gold-producing areas after South Africa, had together a gold output of 10.1 million ounces, or 70 per cent. of the 14.4 million ounces extracted in that year from the South



African mines. In the course of 1942 the production of gold was largely curtailed in both Canada and the United States. At first, the curtailment was the result of general trends and measures: the voluntary transfer of workers to war industries, the calling-up of men to the armed forces and the direction given to production by the system of priorities in the allocation of materials

and machinery; but there was still a shortage of workers in non-ferrous mines and towards the end of the year more direct methods were applied. On 8th October 1942 the War Production Board in Washington published a decree, under which, within one week, i. e. by 15th October, the gold mines were to stop breaking new ore and within sixty days, i. e. by 7th December, all operations at the mines except maintenance work were to cease. The order covered all mines in the United States and overseas possessions, including Alaska. There were only two exceptions: (i) mines which, owing to their output of strategic minerals, had been given a preference rating and (ii) mines which in 1941 produced less than 1,200 tons of commercial ore (in the case of lode mines) and treated less than 1,000 cubic yards of material (in the case of placer mines). For these small mines a future production limit was fixed at 100 tons of ore or 100 cubic yards of materials a month. It was further provided that any person who considered that the order would subject him to exceptional and unreasonable hardship might appeal to the War Production Board. Over one-half of the American gold output has in recent years been derived from mines producing more than 1,200 tons of ore a year; and mines producing gold as a by-product only — chiefly copper mines — supplied about 10 per cent. of the gold output.

In Canada also, gold production was deliberately cut down, the Minister of Labour declaring in October that it was the intention of the government gradually to transfer 10,000 gold miners to base-metal mines and war industries.

These measures, entering into force only towards the end of the year, could not produce their full effect before 1943. In this connection it should be observed that in the past the production figures for the United States included the new gold received from the Philippine Islands. Since receipts from these Islands ceased near the end of 1941, statistics given in the form hitherto customary (e.g. in the Federal Reserve Bulletin) show a decline in the gold production of the United States from \$209.2 million in 1941 to \$130.9 million in 1942, i.e. by as much as 38 per cent.

In a number of other gold-producing areas also, production has been curtailed by government measures and by the difficulty of obtaining a sufficient supply of labour, materials and machinery. From 1940 to 1941 gold production in Australia was reduced by 12 per cent. and between 1941 and 1942 by 17 per cent. In the spring of 1943 the Colonial Office in London took steps to curtail production in the Crown Colonies, a scheme being

Estimates of World Gold Production.

In thousands of fine ounces	1939	1940	1941	1942
Total for the world . . .	38,987	40,700	40,000	36,500
British Empire . . . . .	22,475	24,000	24,150	22,500
Percentage share of the British Empire . . . .	58	59	60	62
Percentage share of South Africa . . . . .	33	35	36	39

put into effect in West Africa by which production was concentrated in the hands of seven large companies. As a result of the relatively sustained production in South Africa, however, the share of the British Empire in the total world output rose in 1942, as it had done every year since the beginning of the war.

It should be remembered that the percentages given in the table can only be approximately correct since little is known — especially for the year 1942 — about the trend of gold production in the U.S.S.R. and in the Far East. It may, however, be surmised that in both these areas scarcity of machinery and tools has made itself felt and that gradually the supply of workers has also been reduced, even though, with the exception of the Philippines, the gold-producing centres in Asia are situated far from the actual battlefields. In March 1943 the Manchukuo Government and in the following month the Japanese Government made it known that gold production would be suspended for the duration of the war, except in so far as it was linked to the production of other metals required for the war effort, in particular copper.

Although curtailment of production is the general rule, some countries have still continued to encourage the output of gold. Thus, in December 1942 the National Bank of Roumania increased the premium on gold, with retro-

active effect from 1st January 1942. The basic price of Lei 211,111 per kilogramme was not changed but the maximum premium allowed was raised to Lei 656,389 per kilogramme instead of Lei 318,889. The difference between the official and the real gold price is borne by the government.

Generally speaking, monetary authorities have sought to strengthen their reserves of gold, having found that it still offers advantages compared with other means of payment for the acquisition of goods and settlement of balances. To that end they have cut down deliveries to arts and industries making it obligatory for purchasers of gold and silver objects to furnish an equal amount of the metals in some other form (scrap, coins, etc.). In many countries there are signs of an increased demand for objects made of gold, silver and platinum, as well as for jewels, indicating a flight into real values. The purchase of bars or coins for hoarding purposes has, with few exceptions, been prohibited and is, as a matter of fact, being suppressed with considerable success.

## 2. MOVEMENTS OF GOLD.

The table on the following page shows the changes which occurred during 1941 and 1942 in the reported gold reserves of central banks and governments.

In 1942 there were two important new features compared with previous years: first, the appearance of the United States in the group of countries which, on balance, had their gold holdings reduced and, secondly, the movement of South Africa to the top of the table as the country with the largest increase. Switzerland and Sweden continued to add to their gold reserves, followed by Roumania, Brazil, Venezuela, Turkey, etc. Among the countries in the table there is no great power shown as having increased its gold reserves during 1942, but it may be presumed that both the U.S.S.R. and Japan absorbed domestic output into their reserves.

In the foreign trade of South Africa gold normally plays the rôle of a commodity the export of which is needed to pay for the country's imports and to meet other charges in the balance of payments. In the course of the war South Africa has, however, accumulated substantial credit balances abroad, which have only partly been drawn upon to repatriate securities. Considering, inter alia, the increased transport risks, there was no immediate call to speed up exports of gold. For the time being the current gold output has been acquired by the South African Reserve Bank, of which the second table on the next page gives the main balance-sheet items at the end of 1938, 1941 and 1942 respectively.

In the balance sheet of the South African Reserve Bank acquisitions of gold are booked at the old standard price of £3.17.10½ per fine ounce under the heading "gold coins and bullion", while the difference between the actual

**South African Reserve Bank.**

End-of-year figures	1938	1941	1942
	in millions of £SA		
<b>Assets:</b>			
Gold coins and bullion . . .	27	44	77
Investments and all other assets . . . . .	25	61	76
<b>Liabilities:</b>			
Notes in circulation . . . . .	19	30	40
Deposits . . . . .	29	71	108
Other liabilities . . . . .	4	4	5
<b>Total of the balance sheet .</b>	<b>52</b>	<b>105</b>	<b>153</b>

price paid to the mines and the old price is included under "other assets". The increase in the assets of the balance sheet during 1942 seems to be wholly a result of larger gold holdings, which are matched on the liabilities side by an increase of £ S.A. 10 million in notes and £ S.A. 37 million in deposits.

Reported Gold Reserves	End of 1940 ( <sup>1</sup> )	End of 1941 ( <sup>1</sup> )	End of 1942 ( <sup>1</sup> )	Loss (-) or gain (+)	
				during 1941	during 1942
	In millions of dollars (at \$35 per fine ounce)				
<b>Group 1:</b>					
South Africa . . . . .	367	366	634	- 1	+ 268
Switzerland . . . . .	502	665	824	+ 163	+ 159
Sweden . . . . .	160	223	335	+ 63	+ 112
Roumania . . . . .	158	182	241	+ 24	+ 59
Brazil . . . . .	61	70	115	+ 19	+ 45
Venezuela . . . . .	29	41	68	+ 12	+ 27
Turkey . . . . .	88	92	114	+ 4	+ 22
Colombia . . . . .	17	16	25	- 1	+ 9
Chile . . . . .	30	30	36	0	+ 6
Peru . . . . .	20	21	25	+ 1	+ 4
Canada . . . . .	7	5	6	- 2	+ 1
Belgium ( <sup>2</sup> ) . . . . .	734	734	735	0	+ 1
Bulgaria . . . . .	24	24	25	0	+ 1
<b>Total</b>	<b>2,187</b>	<b>2,469</b>	<b>3,193</b>	<b>+ 282</b>	<b>+ 714</b>
<b>Group 2:</b>					
Argentina . . . . .	353	354	354	+ 1	0
Bohemia and Moravia . . . . .	58	61	61	+ 3	0
British India . . . . .	274	274	274	0	0
Denmark . . . . .	52	44	44	- 8	0
Egypt . . . . .	52	52	52	0	0
France . . . . .	2,000	2,000	2,000	0	0
Spain . . . . .	42	42	42	0	0
Germany . . . . .	40	40	40	0	0
Hungary . . . . .	24	24	24	0	0
New Zealand . . . . .	23	23	23	0	0
Portugal . . . . .	59	59	59	0	0
United Kingdom ( <sup>3</sup> ) . . . . .	1	1	1	0	0
<b>Total</b>	<b>2,978</b>	<b>2,974</b>	<b>2,974</b>	<b>- 4</b>	<b>0</b>
<b>Group 3:</b>					
Mexico . . . . .	47	47	39	0	- 8
United States ( <sup>4</sup> ) . . . . .	21,998	22,737	22,726	+ 742	- 11
Uruguay . . . . .	90	100	89	+ 10	- 11
Java . . . . .	140	235	200 ( <sup>5</sup> )	+ 95	- 35 ( <sup>5</sup> )
Holland . . . . .	617	575	506	- 42	- 69
<b>Total</b>	<b>22,889</b>	<b>23,694</b>	<b>23,560</b>	<b>+ 805</b>	<b>- 134</b>
<b>Total Reported Reserves (<sup>6</sup>) .</b>	<b>29,000</b>	<b>30,000</b>	<b>30,500</b>	<b>+ 1,000</b>	<b>+ 500</b>

Note: These are "reported gold reserves". Additional gold is known to be held by several central banks, inter alia those of the Argentine, Portugal and Spain.

(<sup>1</sup>) Partly estimated. (<sup>2</sup>) Not including \$17 million held by the Treasury.

(<sup>3</sup>) Not including gold held by the Equalisation Fund, i.e. \$292 million in December 1940 and \$151 million for 1st September 1941.

(<sup>4</sup>) Not including gold held in the Exchange Stabilization Fund: \$48 million in December 1940; \$25 million in December 1941 and \$7 million in September 1942.

(<sup>5</sup>) Partly estimated and including other countries also (but not the U.S.S.R.).

Recent increases in the gold holdings of Switzerland and Sweden have been partly due to a net gain of monetary reserves and partly to conversion of foreign exchange — largely dollars — into gold.

During the year 1942 gold and foreign exchange holdings of the Swiss National Bank rose by Sw.fcs 70 million and in the first six months of the following year by a further Sw.fcs 184 million, so that within eighteen months the monetary reserves had risen by Sw.fcs 254 million. This increase — all in the form of gold — may be taken mainly to reflect a surplus in the balance

Monetary Reserves  
of Switzerland and Sweden 1940-42.

End-of-month figures	Gold	Foreign Exchange	Total
	In millions of national currency units		
Swiss National Bank Sw.fcs			
1940 December . . . . .	2,173	997	3,170
1941 " . . . . .	2,879	679	3,558
1942 " . . . . .	3,565	63	3,628
Sveriges Riksbank S.Kr.*			
1940 December . . . . .	672	839	1,511
1941 " . . . . .	938	873	1,810
1942 " . . . . .	1,407	640	2,047

\* At current quotations for gold and foreign exchange.

of payments with the countries in the dollar and sterling areas. At present the balance of payments of most countries has to be split up into different compartments for different monetary areas, sometimes even for different countries, there being only limited possibilities of employing balances in one compartment for settlement with countries in another com-

partment. For Switzerland — a country for which information is available to illustrate the general rule — the classification would seem to be as follows:

A. Within the continent of Europe.

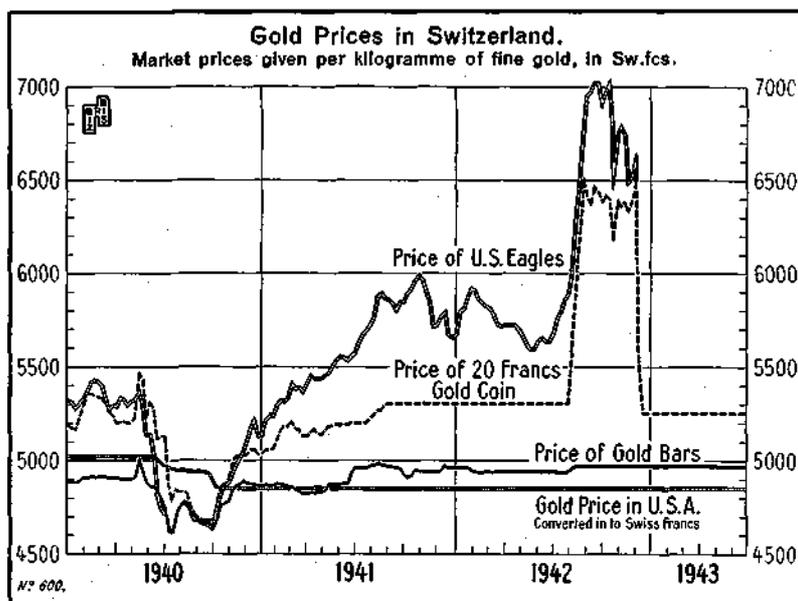
- (i) Germany, Italy and most of the occupied countries.
- (ii) The Balkan countries.
- (iii) France (a special clearing arrangement having been concluded with this country).
- (iv) Portugal, Spain and Sweden.

B. Outside the continent of Europe.

- (i) The dollar area.
- (ii) The sterling area.
- (iii) The Argentine and Brazil (with which countries certain special problems arise).

In 1942, Switzerland had an active balance in relation to Germany, Italy and the occupied countries and to the dollar and sterling areas but a passive balance in relation to the Balkan countries and to Portugal, Spain and Sweden. The Swiss National Bank mentioned in its last annual report that "the passive balances have to be settled for the most part in gold since the dollar can no longer be utilised to the former extent as an international means of payment. Gold operations between the National Bank and other banks of issue have from time to time been fairly substantial; Switzerland has to pay in gold not only for imports of commodities but also for transport".

Up to the summer of 1942 dealings in gold coins had been freely permitted on the Swiss market, prices fluctuating considerably, as may be seen from the following graph.



In August 1942 the Swiss National Bank concluded a gentlemen's agreement with the other banks concerning transactions in gold, but this agreement did not produce the desired effect, partly because considerable dealings took place outside the banks. At the instigation of the National Bank,

the Federal Government regulated trade in gold by a decree of 7th December 1942, under which the right to trade in gold coins or gold bars was limited to specially licensed firms, and imports and exports of gold required a permit from the National Bank, which might be granted only on special conditions and was subject to recall at any time. The Price Control, acting in conjunction with the National Bank, was authorised to impose maximum prices applicable to domestic gold transactions and also to the import and export of gold. The prices fixed amount to Sw.fcs 4,970 for one kilogramme of fine gold, Sw.fcs 30.50 for the 20-franc piece and Sw.fcs 15.25 for the 10-franc piece (with the devaluation of the Swiss franc by 30 per cent. the price for the 20-franc gold coin would be Sw.fcs 28.57). For foreign gold coins, corresponding maximum prices have been fixed. Each transaction is further subject to a commission of  $\frac{1}{4}$  per cent. and also to the 4 per cent. turnover tax, since gold coins, whether Swiss or foreign, have lost their rôle as means of payment and are considered as a commodity.

The Swiss National Bank emphasised in its annual report that these measures in no way affect the country's foreign payments nor the principles of Swiss monetary policy. They were introduced in order to prevent harmful repercussions for Switzerland from such abuses as might arise in connection with commercial transactions and arbitrage operations in gold. The National Bank places monthly quotas of gold at the disposal of domestic firms for industrial and handicraft purposes and in August 1943 it began to sell, from its own stock, gold coins on the domestic market (the prohibition to export gold without a special permit remaining in force).

In 1942 the net acquisitions of gold and foreign exchange by the Sveriges Riksbank and the Swedish commercial banks amounted to about S.Kr. 253 million, compared with S.Kr. 174 million in the previous year. It is

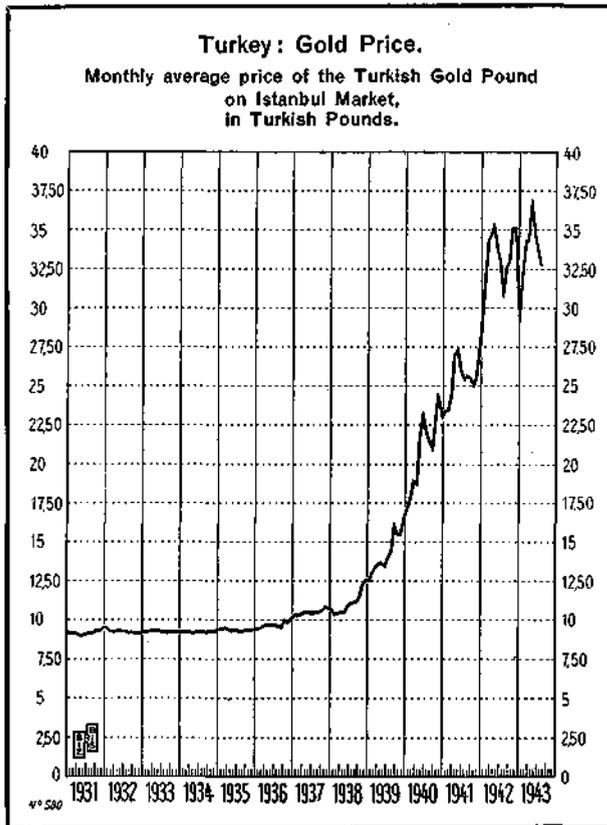
Swedish Balance of Payments	1941	1942
	in millions of S.Kr.	
<b>Current account:</b>		
Trade deficit . . . . .	- 321	- 457
Income from shipping . . . . .	+ 350-400	+ 325-375
Interest and dividends . . . . .	+ 75-100	+ 75-100
Payments for ships sold, proceeds of sales of commodities previously stored abroad, amounts received as insurance, compensation for war damage, etc. . .	+ 250	+ 250-300
Surplus on current account . . .	+ 390	+ 260
<b>Capital account:</b>		
Purchase of securities abroad . .	- 40	+ 10-20
Net shift in the clearing and in the position of trade credits . .	- 300	- 55
Total export of capital . . . . .	- 340	- 40
Balance . . . . .	+ 50	+ 220

of interest to compare these amounts with the results of the balances of payments for the same two years.

For 1942 the active balance of S.Kr. 220 million corresponds fairly well to the net increase of S.Kr. 240 million in the holdings of gold and foreign exchange. The difference of about S.Kr. 20 million is due to incompleteness of the data and to uncertainties of calculation.

Among the countries in the old world which increased their gold reserves in 1942 mention must also be made of Turkey with a net gain equivalent to \$22 million, due at least in part to trade with the U.S.S.R. A free gold market has been preserved in Istanbul but the export of gold is forbidden. In 1939 the average rate of the gold pound in terms of paper pounds was £T 14.32; in 1940: £T 21.06; and in 1941: £T 25.57. At the beginning of 1942

there was a sharp rise in the quotations to a peak of £T 40.50. After the Prime Minister had denounced gold speculation, the quotation fell to £T 33 and even to £T 23.50 in December 1942 but there was a rise up to a maximum of £T 37.70 in the spring of 1943.



In Portugal an entirely free market for gold had been maintained up to June 1942, when it was decreed that the import, export and re-export of gold bars and gold coins could be effected only through the Banco de Portugal. As a result the price of gold fell, but later on rose again; and in the autumn all purchases and sales of gold in bars and in coins were made subject to the authorisation of the central bank.

Banco de Portugal.

End-of-month figures	Gold reserves	Gold hold-ings abroad and net holdings of foreign currencies	Total
1939 December	921	700	1,621
1940 "	1,239	1,322	2,561
1941 "	1,343	4,726	6,069
1942 "	1,391	9,207	10,598

In the balance sheet of the Banco de Portugal gold is shown under the heading "Gold reserves" and as an unspecified part of "Gold holdings abroad and net holdings of foreign currencies". The rapid increase since 1939 in the assets shown under these two headings may be seen from the accompanying table.

Brazil, Venezuela, Colombia, Chile and Peru all increased their gold holdings in 1942, being able to sell their export products usually at higher prices, but finding it difficult to arrange for a satisfactory volume of imports. The Argentine also would seem to have increased its gold holdings substantially in 1942. In the balance sheet of the Banco Central the gold reserve was shown at the figure of about Pesos 1,075 million at the end of both 1941 and 1942, but the item "other gold and foreign exchanges", which probably includes, inter alia, gold earmarked abroad, increased from Pesos 467 million at the end of 1941 to Pesos 934 million at the end of 1942 and continued to increase in the first half of 1943.

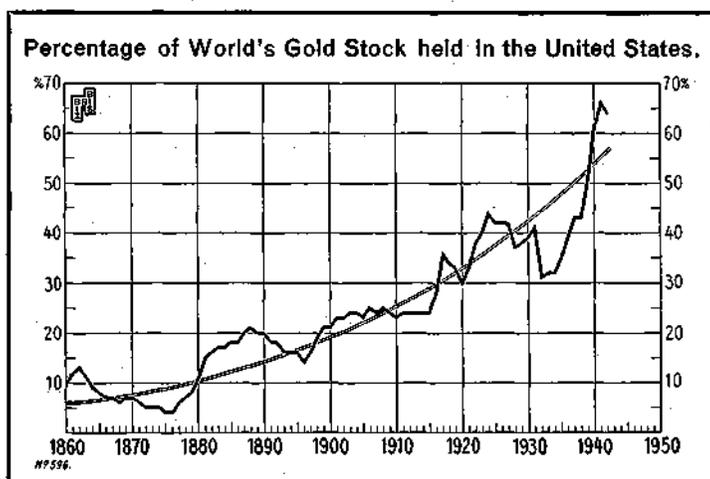
In Japan the holdings of gold and foreign exchange are no longer shown separately in the balance sheet of the central bank. The combined holdings increased from Yen 550 million at the end of 1941 to Yen 681 million at the end of 1942, the increase probably being largely accounted for by the inclusion in the monetary reserves of the yield of the domestic gold production.

Among those who lost gold on balance during 1942, the gold reserves of the Nederlandsche Bank decreased from Fl. 1,026 million at the end of 1941 to Fl. 903 million at the end of 1942, or by about 12 per cent. of the amount held at the beginning of the period. The decrease in the gold reserves of the United States, though small in itself and still more so in relation to the country's total gold stock, may be said to have a symptomatic value in that it was the first sign of a redistribution of gold, the yield of the world's current gold production having been absorbed in 1942 by other countries. This development would seem to have been welcomed by the authorities of the United States. When foreign-owned dollar assets were made subject to freezing regulations, the necessary licence to convert dollars into gold would seem to have been granted by the Treasury whenever asked for, and special arrangements have been made with certain Latin American countries under which dollars acquired by them through ordinary trade or with the proceeds of credits could be converted into gold.

It was, however, in relation to Central and South America that the United States developed a deficit in the balance of payments, having the largest export balance on record with other countries to which deliveries were largely determined by the various lend-lease arrangements. Thus no permanent change in the fundamental position is as yet in sight; on

the contrary, the demand which may be expected for American products after the war may easily bring the problem of one-sided movements of gold to the fore again.

Although it is not possible to calculate exactly the percentage share of the world's monetary gold which is now in the possession of the United States (certain important holdings, e.g. those of the U.S.S.R., being undisclosed), it is probably safe to say that it cannot be far from 70 per cent. Assuming this figure to be correct, the total monetary gold stock would



amount to \$32-33 milliard, of which \$22¾ milliard would be held by the United States and about \$9½ milliard outside that country. For the sake of comparison it may be interesting to recall that in 1913 the world's monetary gold stock, including the then substantial amounts of coins in circulation, was estimated at \$14.8 milliard (the

dollar being counted at the new price of \$35 equal to one ounce of fine gold), with holdings in the United States of \$3.2 milliard and a total gold stock outside the United States of \$11½ milliard. Of the latter amount \$8⅓ milliard represented central-bank reserves, the rest being, in the main, gold in circulation. The massive additions to the gold holdings of the United States since 1914 have, on balance, been more than covered by newly-produced gold and the reduction which has occurred in the amount of gold coins in circulation. The amount of gold held outside the United States as monetary reserves by central banks and, to a minor extent, by governments is in its aggregate somewhat larger than before the 1914-18 war, but it is now less evenly distributed, some European countries having more, others much less, than in 1914.

The Bank of England, though the central bank of the London market, i.e. the world's financial centre in pre-1914 days, never amassed a large gold reserve. At the end of 1914 the bank's gold stock amounted to £35 million, but there was, in addition, a circulation of gold coins and other reserves in the United Kingdom estimated at £120 million, which served as an additional line of defence. Most of the gold coins were collected from the public during the 1914-18 war, when in part they went to increase the bank's gold reserve, which by the end of 1918 had risen to £108.5 million. The strong position which London held in the foreign exchange markets before 1914 was, indeed, less dependent upon the magnitude of the gold backing than upon the wide-

### Monetary Gold Stock.

Countries	1913 <sup>(1)</sup>			1929 <sup>(1)</sup>	1938	1942
	Reserves	Other stocks	Total			
in millions of dollars (at \$35 per fine ounce)						
<b>Europe:</b>						
Austria . . . . .	425	74	499	41	—	—
Belgium . . . . .	81	34	115	276	581	735
Bohemia and Moravia . . . . .	<sup>(2)</sup>	<sup>(2)</sup>	<sup>(2)</sup>	63	83	61
Denmark . . . . .	34	2	36	78	53	44
France . . . . .	1,150	1,728	2,878	2,761	2,430	2,000
Germany . . . . .	501	1,183	1,684	948	40	40
Greece . . . . .	8	5	13	13	27	*
Holland . . . . .	103	19	122	390	998	506
Hungary . . . . .	<sup>(2)</sup>	<sup>(2)</sup>	<sup>(2)</sup>	49	37	24
Italy . . . . .	488	30	518	462	193	*
Norway . . . . .	20	2	22	66	94	*
Poland . . . . .	<sup>(2)</sup>	<sup>(2)</sup>	<sup>(2)</sup>	134	85	*
Portugal . . . . .	15	—	15	15	69	59 <sup>(4)</sup>
Roumania . . . . .	49	5	54	93	133	241
Russia . . . . .	1,332	430	1,762	249	*	*
Spain . . . . .	157	—	157	838	*	42 <sup>(4)</sup>
Sweden . . . . .	46	1	47	112	321	335
Switzerland . . . . .	56	34	90	256	701	824
United Kingdom . . . . .	288	1,016	1,304	1,217	2,690	1
Yugoslavia . . . . .	19	—	19	30	57	*
<b>America:</b>						
Argentina . . . . .	381	102	483	753	431	354 <sup>(4)</sup>
Brazil . . . . .	152	—	152	254	32	115
Canada . . . . .	272	2	274	256	192	6
Chile . . . . .	—	5	5	15	30	36
United States . . . . .	2,184	1,073	3,257	7,253	14,512	22,726
Uruguay . . . . .	18	7	25	117	69	89
Venezuela . . . . .	3	—	3	29	52	69
<b>Asia:</b>						
British India . . . . .	210	—	210	218	274	274
Dutch Indies . . . . .	17	—	17	95	80	216
Japan . . . . .	113	32	145	918	164	*
Turkey . . . . .	25	215	240	25	29	114
<b>Africa:</b>						
Egypt . . . . .	17	17	34	32	55	52
South Africa . . . . .	59	25	84	108	220	634
<b>Australasia:</b>						
Australia . . . . .	37	298	335	313	3	*
New Zealand . . . . .	41	8	49	47	23	23
<b>World Total <sup>(5)</sup> . . . . .</b>	<b>8,373</b>	<b>6,481</b>	<b>14,854</b>	<b>18,927</b>	<b>27,000</b>	<b>32,500</b>

<sup>(1)</sup> From estimates of the League of Nations Gold Committee.

<sup>(2)</sup> Included in Austria.

<sup>(3)</sup> Included in Austria, Germany and Russia.

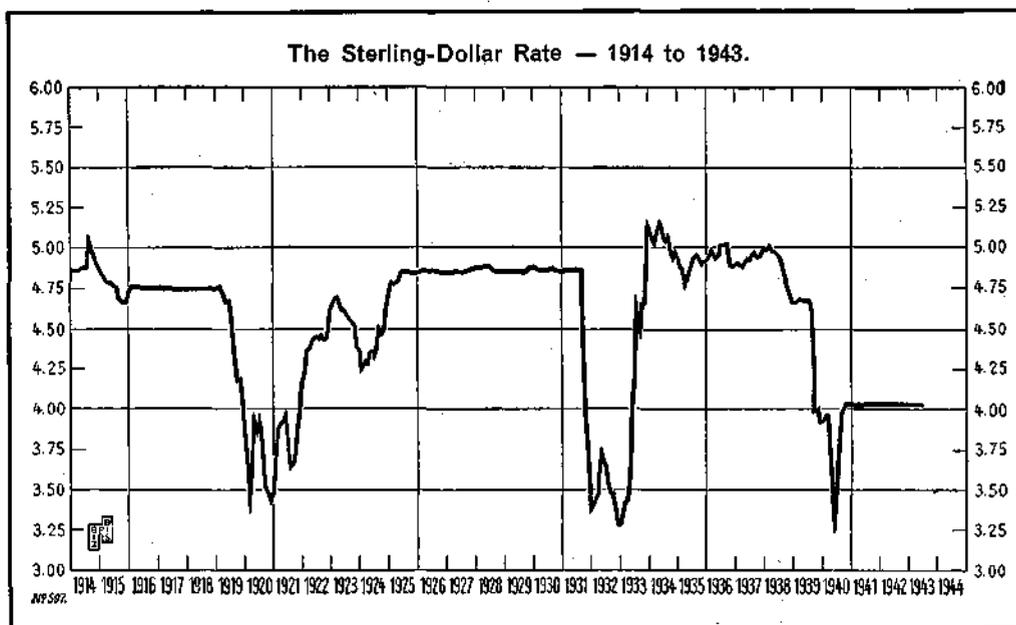
<sup>(4)</sup> Published reserve only; an additional amount is known to be included in other items in the central-bank return.

<sup>(5)</sup> Estimated.

\* Not available.

spread commercial lending, largely in the form of acceptances, which made most other markets in the world indebted to London. These markets had regularly to procure sterling resources for the payment of maturing sterling liabilities, and a slight shift in the amount of acceptances financed via London (as the result, maybe, of an alteration in discount rates) could as a rule be expected to influence the supply of and demand for sterling and consequently its exchange value. It has been estimated that in August 1914 the amount of acceptances outstanding was between £300 and 350 million, of which at

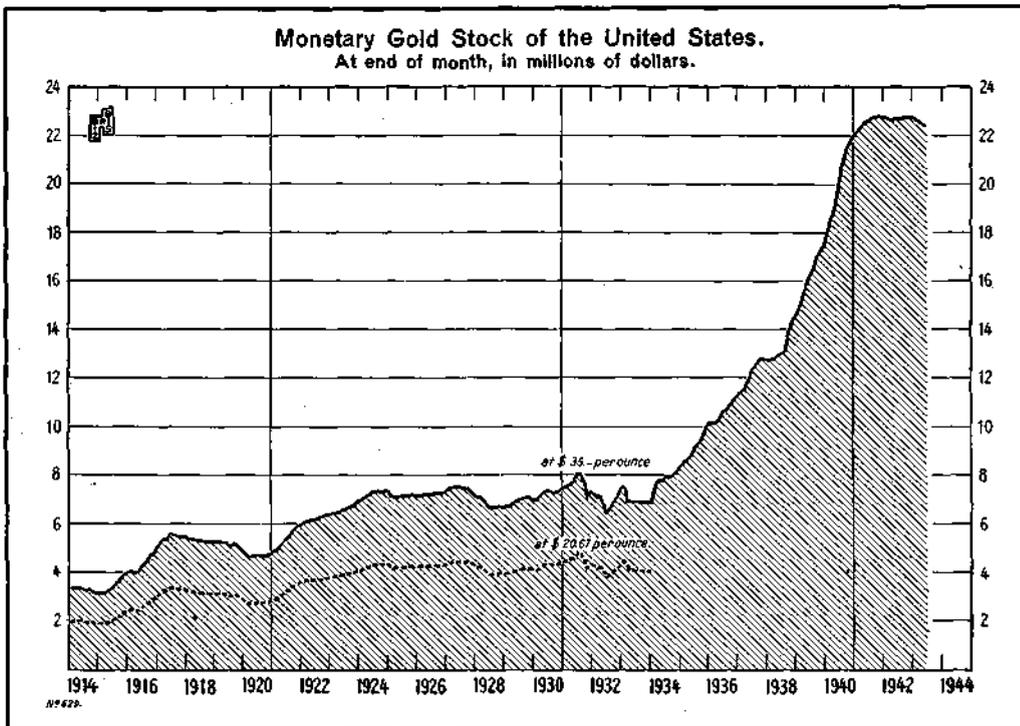
least two-thirds were met in the regular way in spite of the disturbance on the exchange markets and the declaration of moratoria on the continent of Europe. The pound appreciated in relation to the dollar in the late summer and autumn of 1914, which shows how strong London's position then was.



It is sometimes said that in the days of its undisputed financial leadership the City of London "managed" the gold standard. If by that word is meant a conscious attempt to influence the trend of commodity prices, there was certainly no management; at that time the Bank of England never sought to prevent the variations in the output of gold from producing their normal effect on the currency and credit structure and consequently on prices. Neither can it be said that the Bank of England or other central banks regarded it as their task to control the business cycle, except that, in accordance with their customary practice, they would react against speculative excesses by increasing interest rates and, conversely, lower their rates when, in times of depression, the demand for credit became less acute. But the international credit organisation which had gradually been built up over the greater part of a century, with its apex in London, was an elastic system, performing cheaply and efficiently its primary function of financing a rapidly expanding international trade. The banking houses in London, having connections of long standing with customers all over the world, avoided sudden withdrawals of credit; and a free trade policy, adhered to equally in good times and in bad, and combined, as it was, with willingness and ability to lend, facilitated the maintenance of equilibrium, not only in the British balance of payments but also in the balances of other countries.

After 1920 there was no longer any paramount financial centre in the old sense, New York having strengthened its position and increased the scope of its activities but being still engaged in building up the necessary machinery

and extending its knowledge in the sphere of international lending. Moreover, there were in most corners of the world, but particularly in Europe, unbalanced positions left unadjusted and contradictory policies pursued, as when heavy financial obligations were piling up at the charge of debtor countries while at the same time the movement of goods was being increasingly obstructed. In the end, the international gold standard, as it had been established in the 'twenties, was disrupted in an era of comprehensive exchange controls and depreciating currencies, with a persistent flow of gold to the United States.



If the development since 1914 is reviewed in broad outline it will be found that the gold acquisitions of the United States can be divided into three periods of approximately ten years each:

(i) During the first period from 1914 to 1924 the monetary gold stock of the United States (including gold coins in circulation) increased from \$3,200 to 7,400 million (the dollar in this and the following paragraphs being consistently taken at the present price of \$35 per ounce of fine gold). Apart from a temporary flow of gold from the United States in 1919 and 1920, the general characteristic of this period was that Europe's great requirements of imports from overseas markets and instability of exchanges in many European countries diverted the stream of gold to the Federal Reserve System.

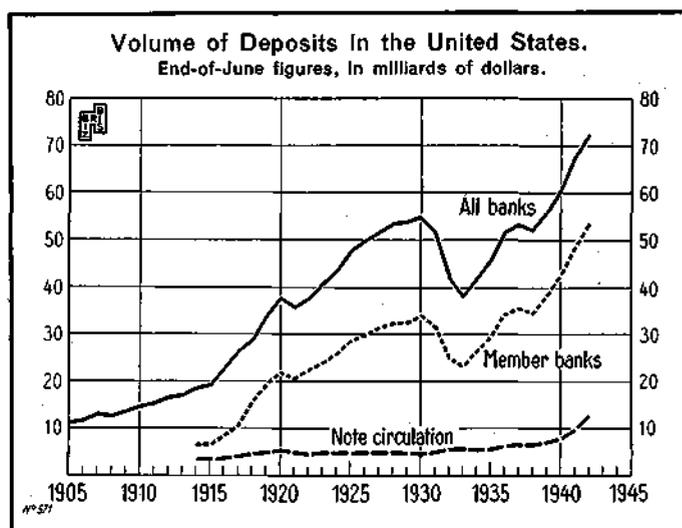
(ii) During the second period from 1924 to 1933 the gold holdings of the United States changed little on balance, being \$7,400 million at the beginning

and \$6,900 million at the end of the period. By 1925-26 monetary order had been restored in most European countries, which then set about replenishing their reserves, utilising for that purpose any surplus they managed to achieve in their balances of payments, or the proceeds of loans and credits granted largely by the United States. In conformity with recommendations made by the Genoa Conference in 1922, many central banks came more and more to include foreign exchange in their monetary reserves. This no doubt helped to relieve the pressure on gold for a time; but, when the depression came, with its monetary anxieties, the conversion of currencies into gold exposed a number of countries to an additional strain which was felt also by the United States.

(iii) During the third period from 1933 to 1942 the U. S. gold stock had its most spectacular increase, trebling from \$6,900 million in 1933 to \$22,750 million in 1942. Gold was received partly in payment for goods and services, partly for the amortisation of debts and partly also as a vehicle for funds moving to the New York market.

Much has been written in analysis of the causes which brought this stupendous flow of gold across the Atlantic. It is generally agreed that such factors as lack of economic balance, together with political fears in Europe and a high-tariff policy in the United States, played a rôle, but it is much more difficult to say whether, as is sometimes assumed, sterilisation of gold in the American credit system was also a factor in attracting gold to the United States.

In 1914 the Federal Reserve System began to function and introduced into the credit machinery of the United States a degree of elasticity never known before, making it possible, as it happened, to finance the war much more easily than would otherwise have been possible. As may be seen from the graph, the volume of deposits expanded up to and including 1920. In the following year, during the first sharp post-war depression, there was a decline in the volume of credit, but it is a remarkable fact that in the United States, as in practically every other country, the reduction in the amount of bank deposits from the high level reached during the war was comparatively slight and of short duration. Already in the course of 1922 the volume of deposits was back at the figure of 1920 and from then



there was a decline in the volume of credit, but it is a remarkable fact that in the United States, as in practically every other country, the reduction in the amount of bank deposits from the high level reached during the war was comparatively slight and of short duration. Already in the course of 1922 the volume of deposits was back at the figure of 1920 and from then

onwards a marked expansion continued without a break to the middle of 1930. It is true that for some years, especially 1923 and 1924, the Federal Reserve Banks met the demand for additional currency by issuing gold certificates requiring a cover of 100 per cent. instead of Federal Reserve notes to which the ordinary cover regulations applied. But this practice did not prevent the inflow of gold from increasing the funds at the disposal of the member banks and thus in no way limited their power to extend credit. It simply ~~reduced the excess gold reserves of the Federal Reserve Banks themselves~~ below what they otherwise would have been, it being doubtful, however, whether this more cautious policy of the monetary authorities had any psychological effect in restraining the market as to the granting of credits\*. In the following years, from 1924 to 1930, there was, on balance, no addition to the gold reserves of the United States and, considering the great expansion of credit which then took place, the question of a sterilisation of gold hardly arises. Indeed, much may be said for the contention that during this phase the credit system failed to react against the speculative boom or to discriminate sufficiently between different uses of credit. In the sphere of foreign financing the American market began to lend abroad both on short and on long-term account almost as soon as the war was over, and the total of foreign loans and credits reached very large amounts. But here again it may be contended that a more judicious selection of borrowers and methods, and in several cases also a greater moderation in the amount lent, would have been a better policy, especially since far too much credit could be recalled at short notice — a right of which, unfortunately for the general system, extensive use was made when the trend changed.

After 1930, with the great depression and the many currency changes, foreign lending came to a standstill; and internally in the United States the volume of credit was exposed to a sudden contraction, together with a violent fall in prices — which, it may be said, came as a painful surprise to the many who had thought that there could be no real danger of a destructive slump, seeing that there had been no rise in the level of commodity prices or in the note circulation during the preceding boom. By a continuous reduction of interest rates and by open-market operations, attempts were made to counter the contraction in credit; but the results were not sufficient to offset the persistent shrinkage intensified by bank failures all over the country. It was soon obvious that so violent a depression could serve no useful purpose either as cutting out dead wood from the commercial and industrial structure or as achieving a better balance between costs and prices.

In retrospect, most people would probably agree that it would have been wise to riposte by a variety of measures and with much greater energy against the depression. In the United States, as in several other countries, a more decisive expansionist credit policy necessitated an easing of existing cover

\* The influence exerted on the credit position by issues of gold certificates in the United States is not to be compared with the sterilisation effected in the following decade on the London market by the British Equalisation Account: through the operations of this Account an inflow of funds was actually prevented from enlarging the credit base of the banks and thus restricted their power to lend. It is often said that experience from 1919 to 1930 should be utilised in forming the credit policy after this war and it is therefore important to submit the credit measures adopted during these twenty years to careful examination, it being impossible in this Report to do more than refer, in passing, to some of the main problems.

and collateral requirements\*. In a way this may be said to have involved a "deterioration" of gold, i. e. a freer utilisation of already accumulated reserves as part of an anti-depression policy. During this period, comprising the years 1930 to 1932, the current of gold changed direction several times but there was no net increase in the gold stock of the United States.

With the inauguration of a new policy in 1933 various financial measures were adopted at successive stages as a stimulus to recovery: the dollar was depreciated, bank deposits were guaranteed, cheap money was made still cheaper and spending power was placed in the hands of the public through increased budget expenditure covered by borrowing. As can be seen from the graph on page 128, there was an expansion in the volume of deposits up to the middle of 1937, sustained all the time by gold coming from abroad. In the winter of 1936-37, when the upward movement suddenly took on too nervous and too speculative a bent, the authorities began to tighten the reserve requirements of the banking system, preventing, inter alia, part of the inflowing gold from widening the credit base; and more by force of circumstances than by design the Federal budget was made to balance for a short while. This policy was meant to give an orderly character to the recovery; so much the greater was the disappointment when the longed-for improvement in business was suddenly interrupted by the severe setback in the autumn of 1937. There is still lively discussion as to what caused this setback; some believe that it was due to the (in any case rather mild) credit measures, including the short-lived establishment of budget equilibrium, while others lay stress upon the increase in costs — and especially in wage costs — which went on at a rapid rate from 1936 contrary to the careful credit policy. The true explanation is perhaps that there arose a contradiction between the credit measures on the one hand and the cost and price changes on the other. For a moderate credit policy to be effective it must be allowed to act as a signal, making people abstain from too sudden advances in costs and too rapid increases in inventories — but that is the opposite of what actually happened in the boom of 1936-37. With the return of depressed conditions an expansionist credit policy was again adopted, with a stronger accent, however, on the spreading of purchasing power through the budget.

It is indeed easy to place too much reliance on financial measures as an aid to recovery and the maintenance of stability in an international monetary system. It was not so much sterilisation of gold by any measure of credit policy as failure to establish a proper balance in the economic structure that created difficulties for other countries in their relations with the United States. For that country to accept a volume of imports sufficient to relieve the rest

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\* The easing was effected partly by taking gold certificates out of circulation. Under the existing regulations such certificates could be counted as collateral and as reserves against notes but not as reserves against deposits. This particular restriction was, however, of little importance since the gold holdings of the Federal Reserve Banks furnished a sufficiency of "cover". But the provisions regarding "collateral" (i. e. the 100 per cent. backing of notes and deposits by gold and eligible paper) proved too restrictive in that they limited the power of the Federal Reserve Banks to purchase additional government securities until the Glass-Steagall Act, passed in February 1932, permitted the use of such securities as collateral against Federal Reserve notes for the period of one year — a permission which has been extended by subsequent legislation.

of the world from a strain on the balances of payments, it must in particular abstain from tariff increases in times of depression, since at such times the strain can easily go beyond breaking-point; and it must also achieve a sufficient degree of domestic activity and employment to furnish a steady market for foreign materials and articles, a question of great importance considering that the United States absorbs fully 40 per cent. of the world output of industrial raw materials and thus, by the state of its industry, has more influence than any other country on the prices of such products and consequently on the purchasing power of large areas of the world. As said above, the present cessation of gold acquisitions by the United States, notwithstanding a record export surplus, is explained by the lend-lease and other credit arrangements that are part of the special war measures.

In the years immediately after the war, which will be taken up with all the problems of reconstruction and development, many countries will find it difficult to meet the resulting foreign charges out of their current export proceeds or existing reserves. Special measures will presumably be required to cope with this situation and inter alia to assist different countries in their efforts to replenish their monetary reserves, thus enabling them to join in an increased exchange of goods and services. When these transitional problems have been more or less completely solved, there will still be the permanent task of building up a system of stable exchanges with a sufficiency of credit for domestic and international trade; and in the execution of this task, as in the earlier reconstruction period, it should be remembered, as one of the lessons from the achievements and failures between the two wars, that no amount of financial facilities will procure a smoothly working currency and credit system, whether based on gold or not, without careful attention to the more deep-seated economic factors. Apart from the influences of purely erratic capital movements, a one-sided flow of gold, like an abnormal accumulation of debit or credit balances in a country's foreign account, should be regarded as a signal of some lack of equilibrium requiring correction; and one of the more important functions of monetary reserves is to afford time for the necessary adjustment. There are several ways in which central banks — either directly or through an international institution — can assist one another in providing credit facilities to supplement existing resources. In the monetary system the currency and credit functions are closely connected and it would indeed be short-sighted not to use the system's latent credit powers to eliminate some of the hindrances blocking the flow of goods and, at the same time, to give an impulse to increased activity. But stimulus is not enough; basic conditions must be such as to allow free scope for a self-sustained commercial and industrial activity, capable of resisting more effectively than in the past the hard blows to which economic life is from time to time exposed.

#### IV. LEND-LEASE, BRITISH DISINVESTMENT AND EUROPEAN CLEARINGS.

The large international movements of goods and services to which the conduct of the war has given rise are reflected, although not fully, in the active or passive balances, as the case may be, on the financial accounts of the countries concerned. Three great movements stand out: the lend-lease aid of the United States, with a "reverse" flow growing in importance; the receipt and distribution by Great Britain of provisions from the Empire and other countries; and Germany's hold on the resources of Continental Europe through the mechanism of clearings and the imposition of occupation costs and other contributions.

During 1942 the lend-lease system was supplemented by the United Nations Declaration of 1st January 1942, pledging the employment of their full resources for the prosecution of the war, and by an agreement of 23rd February 1942 applying "reverse lend-lease" terms to aid given by Great Britain to the United States. Since that date identical agreements with the United States have been signed by China and the U.S.S.R., as also by the refugee governments of Belgium, Czecho-Slovakia, Greece, Holland, Norway and Yugoslavia. Further, an exchange of letters on 3rd September 1942 between the British Ambassador in Washington and the U.S. Secretary of State laid down the principle that "as large a portion as possible of the articles and services which each government may authorise to be provided to the other shall be in the form of reciprocal aid, so that the need of each government for the currency of the other may be reduced to a minimum". To this the U.S. President, in his sixth quarterly lend-lease report in September 1942, added the rider that "no country should grow rich from the war effort of its allies". On 3rd September 1942, Australia, New Zealand and La France Combattante\* also became parties to the reciprocal lend-lease arrangements, while Canada decided to make its contribution to the common war effort outside the lend-lease system.

The lend-lease procedure, which had originally been designed as a method for a neutral country to give aid to one of the belligerents, was thus merged in the total war effort of the United Nations and by its extension as reciprocal aid became, in effect, a pooling of resources amongst belligerents with a common aim. Lend-lease retains an element of quid pro quo in the provision for some return in kind, if not in cash, as distinct from the free gift or "mutual aid" formula adopted by Canada.

How far reverse lend-lease has worked it is not possible to say, the keeping of complete accounts having been dispensed with in the United

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\* By a new agreement concluded in October 1943 between the United States and the French Committee of National Liberation the United States provides war material to the French troops on lend-lease terms and French deliveries are made to American troops on reverse lend-lease. American deliveries to the French civil population in North Africa are made for cash; some \$56 million had been paid on this account up to the end of November 1943.

Kingdom, but it has gathered momentum as the U.S. armed forces overseas and their needs have grown in importance and it is known to constitute a considerable charge on the current budgets of the United Kingdom, Australia and New Zealand, as does mutual aid for Canada<sup>(1)</sup>. As regards the United Kingdom, the Chancellor of the Exchequer said in his budget speech in April 1943 that "the largest amount of our reciprocal aid went to the Americans. Much of this aid took the form of services whose value neither they nor we sought to reckon ... The amount of lend-lease aid which we received from the United States was no greater than we ourselves were affording to all our allies without charge"<sup>(2)</sup>.

The original Lend-Lease Act was passed on 11th March 1941 and has since been renewed until June 1944. Up to the end of 1941, \$13,000 million<sup>(3)</sup> of expenditure was authorised and contracts for some \$10,000 million were made. But these vast sums merely indicated the extent of the aid contemplated and

Lend-lease Aid from U.S.A. — value of goods transferred and services rendered\*.

Quarterly	1941	1942	1943
	in millions of dollars		
January-March . . . . .	10	1,178	2,067
April-June . . . . .	136	1,551	2,603
July-September . . . . .	408	1,798	3,600**
October-December . . . . .	690	2,492	.
Total for year . . . . .	1,244	7,009	.

\* From the reports of the Lend-Lease Administration.  
 \*\* Preliminary round figure; July 1943 was \$1,050 million and August \$1,262 million. The total up to the end of August 1943 was \$15,235 million, of which 45 per cent. went to the United Kingdom, 25 per cent. to the U.S.S.R. and 30 per cent. to other allies.

of preparations made; total lend-lease aid to the end of 1941 was little over \$1,200 million, of which three-quarters was furnished in the form of goods, the remainder being in respect of services rendered (ship repairs etc.). But by the time the United States itself became a belligerent, in December 1941, war production had got well under way and lend-lease aid in

the first quarter of 1942 was nearly equal to that for the whole of the previous year. And the acceleration has continued: from a monthly average of \$100 million in 1941 the aid given rose to nearly \$600 million a month in 1942 and since June 1943 it has exceeded \$1,000 million monthly.

(1) The cost of reciprocal aid in the Australian budget for 1942-43 was £A 59 million and for 1943-44 was estimated at close on £A 100 million, one-sixth of total war expenditure. In the New Zealand budget of 1942-43 reciprocal aid amounted to £NZ 7 million and for 1943-44 it was estimated at £NZ 20 million, about one-seventh of total war expenditure. The cost of mutual aid as booked in the Canadian budget is indicated in Chapter V.

(2) Further information regarding reciprocal lend-lease was furnished in November 1943 in the U.S. President's eleventh lend-lease report to Congress and in a British Treasury White Paper, both of which stressed the impossibility of assessing in monetary terms the benefits given and received. But as some indication of the order of magnitude involved, the U.S. President gave the following figures: up to June 1943, \$1,171 million had been received on lend-lease terms from the British Empire, \$871 million from the United Kingdom and about \$300 million from the three countries Australia (\$196 million), New Zealand (\$51 million) and India (about \$57 million); estimates based on the first six months of 1943 placed the annual rate of reverse lend-lease rendered to the United States by the British Empire at \$1,250 million. The British Treasury White Paper estimated that the net contribution of the United Kingdom to the common pool of the United Nations up to the end of June 1943 totalled £2,250 million, of which £216 million went to the United States as reciprocal aid and £180 million to the U.S.S.R. The figure of £2,250 million represented "payments made to other members of the United Nations in excess of the sums received from them" or, in other words, an amount measuring the extent to which the United Kingdom has "burdened her future commerce by parting with gold and other capital assets and by incurring liabilities to other members of the United Nations".

(3) The first appropriation of \$7,000 million was made on 27th March 1941 and the second of \$5,985 million on 28th October; a third appropriation of \$5,425 million became law on 5th March 1942, making a total of \$18,410 million. These were appropriations made directly to the President of the U.S.A. Since the United States' entry into the war no further direct appropriations for military items or for merchant ships have been made, but authorisations have been given for transfers under lend-lease of articles and services included in regular military or naval budget appropriations. Up to the spring of 1943, \$35,970 million of such transfers had been authorised.

**U. S. Foreign Trade: Lend-lease and Cash.**  
War period to December 1942.

In millions of dollars	British Empire						U.S.S.R.	All other countries ( <sup>5</sup> )	Total all countries	
	United Kingdom ( <sup>1</sup> )	Canada ( <sup>2</sup> )	Egypt ( <sup>3</sup> )	India ( <sup>4</sup> )	Australia and New Zealand	Others				Total
<b>Lend-lease exports.</b>										
1939 (Sept.-Dec.) . . . . .	—	—	—	—	—	—	—	—	—	—
1940 . . . . .	—	—	—	—	—	—	—	—	—	—
1941 . . . . .	572	12	89	8	15	10	706	1	34	741
1942 . . . . .	1,867	110	446	287	274	128	3,112	1,314	242	4,668
Total . . . . .	2,439	122	535	295	289	138	3,818	1,315	276	5,409*
<b>Cash exports.</b>										
1939 (Sept.-Dec.) . . . . .	199	210	5	21	28	45	508	30	743	1,281
1940 . . . . .	1,018	728	20	78	94	170	2,108	87	1,826	4,021
1941 . . . . .	1,070	1,007	161	90	107	338	2,773	107	1,526	4,406
1942 . . . . .	495	1,257	137	91	88	108	2,176	65	917	3,158
Total . . . . .	2,782	3,202	323	280	317	661	7,565	289	5,012	12,866
<b>Total exports.</b>										
1939 (Sept.-Dec.) . . . . .	199	210	5	21	28	45	508	30	743	1,281
1940 . . . . .	1,018	728	20	78	94	170	2,108	87	1,826	4,021
1941 . . . . .	1,642	1,019	250	98	122	348	3,479	108	1,560	5,147
1942 . . . . .	2,362	1,367	583	378	362	236	5,288	1,379	1,169	7,826
Total . . . . .	5,221	3,324	858	575	606	799	11,383	1,604	5,288	18,275
<b>Imports.</b>										
1939 (Sept.-Dec.) . . . . .	56	144	3	29	9	89	330	8	541	879
1940 . . . . .	158	440	7	134	34	366	1,139	21	1,465	2,628
1941 . . . . .	139	575	12	132	154	500	1,512	30	1,903	3,348
1942 . . . . .	135	735	22	105	219	216	1,432	25	1,266	2,743
Total . . . . .	488	1,894	44	400	416	1,171	4,413	84	5,095	9,592
<b>Surplus of exports or imports (—) for cash.</b>										
1939 (Sept.-Dec.) . . . . .	143	66	2	(- 8)	19	(- 44)	178	22	202	402
1940 . . . . .	860	288	13	(- 56)	60	(-196)	969	66	361	1,396
1941 . . . . .	931	432	149	(- 42)	(- 47)	(-162)	1,261	77	(-277)	1,061
1942 . . . . .	360	522	115	(- 14)	(-131)	(-108)	744	40	(-369)	415
Total . . . . .	2,294	1,308	279	(-120)	(- 99)	(-510)	3,152	205	(- 83)	3,274
<b>Total surplus of exports or imports (—).</b>										
1939 (Sept.-Dec.) . . . . .	143	66	2	(- 8)	19	(- 44)	178	22	202	402
1940 . . . . .	860	288	13	(-56)	60	(-196)	969	66	361	1,396
1941 . . . . .	1,503	444	238	(-34)	(-32)	(-152)	1,967	78	(-243)	1,802
1942 . . . . .	2,227	632	561	273	143	20	3,856	1,354	(-127)	5,083
Total . . . . .	4,733	1,430	814	175	190	(-372)	6,970	1,520	193	8,683

\*Note: Revised figures up to the end of 1942 place the total exported at \$5,959 million; this total does not, however, include airplanes which were flight-delivered and ships sailing under their own power, valued at approximately \$700 million. Only about 90 per cent. of the goods "transferred" were actually exported.

- (<sup>1</sup>) Including Eire.      (<sup>2</sup>) Including Newfoundland, Labrador, St-Pierre and Miquelon, Greenland and Iceland.  
 (<sup>3</sup>) Although not forming an integral part of the Empire, it is convenient to class Egypt here. The figures include the Sudan as well as Egypt proper.      (<sup>4</sup>) Including Burma and Ceylon.  
 (<sup>5</sup>) Of the total lend-lease exports of \$276 million to "other countries", \$38 million went to Latin America and \$85 million to China (in addition to direct financial assistance).

**Analysis of lend-lease allocations<sup>(1)</sup>.**

March 1941 to February 1943.

Categories	U. K.	U. S. S. R.	Others	Total
	In millions of dollars			
War material . . . . .	1,301	1,028	1,965	4,294
Industrial goods . . . .	1,100	379	609	2,088
Agricultural produce . .	1,229	128	92	1,449
Services . . . . .	801	290	710	1,801
Totals . . . . .	4,430	1,826	3,376 <sup>(2)</sup>	9,632

(1) From the report of the Lend-Lease Administration published in March 1943.

(2) Africa and the Middle East received \$1,573 million, China, India, Australia and New Zealand \$1,344 million and "others" \$460 million.

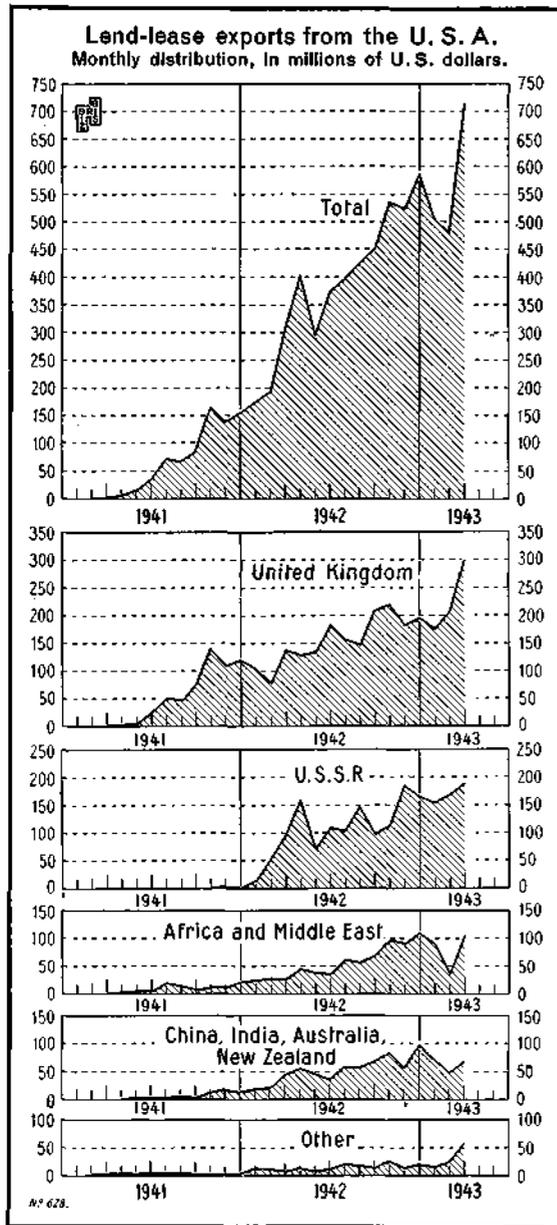
Lend-lease aid represents assistance given to allied and friendly countries and does not include shipments to U.S. armed forces abroad. The accompanying table reproduces an analysis of the first two years of lend-lease, March 1941 to February 1943. Of nearly \$10,000 million expenditure in these two years over 80 per cent. was for various forms of goods and under 20 per

cent. for services; and of the goods 55 per cent. represented war materials (36 per cent. of the total allocated to the United Kingdom but 67 per cent. of the total sent to the U. S. S. R.); 85 per cent. of the agricultural produce (including tobacco) was sent to the United Kingdom. From February 1943 tobacco was no longer sent to the United Kingdom on lend-lease terms, except for the armed forces.

Up to the end of 1942 the British Empire and the U. S. S. R. together received 95 per cent. of the U.S. lend-lease exports, as is shown by the table on the opposite page, which gives an analysis of the direction of U. S. foreign trade since the war and distinguishes lend-lease from other exports. Towards countries other than the British Empire and the U. S. S. R. the United States had a passive balance in 1941 and 1942, so that the supply of goods on lend-lease terms tended to increase the amount in cash to be paid by the United States; thus no transfer problem arose for these countries as a whole. Nor was there any transfer problem for the U. S. S. R.: lend-lease exports accounted for nearly 90 per cent. of total U.S. exports to that country during the two years and only a little over \$100 million was due to the United States on balance to be paid in cash.

Towards the British Empire, however, U. S. exports for cash were maintained on a very large scale and constituted well over one-half of total exports for 1941-42; during these two years some \$2,000 million had to be paid on balance-of-trade account in cash. But the various parts of the Empire fared differently and, for purposes of analysis, it is convenient to divide it into three parts: the United Kingdom, Canada, and the rest of the Empire, including in this connection Egypt.

For special reasons, lend-lease material was sent to Egypt on a very large scale, especially in 1942, in all over \$530 million during the two years; but net cash imports were also large, the passive balance of about \$260 million for 1941 and 1942 being cared for by the United Kingdom. Other parts of the Empire, particularly Australia, New Zealand and India, received lend-lease aid amounting to \$720 million; by this aid a passive trade balance of \$220 million in 1941-42 was changed into a surplus of \$500 million in the two years.



In principle, such surplus dollars (in so far as not absorbed by invisible items of the balance of payments) passed over to the United Kingdom and the proceeds went to swell the sterling resources of these countries.

Canada occupies a special position between the United States and the United Kingdom, partly for geographical reasons, but also because Canada has not accepted lend-lease aid from the United States. The \$120 million shown as lend-lease exports to Canada in the table on page 134 probably went to Iceland and other countries classed with Canada in the statistics. Canada's cash imports from the United States were therefore very high; in 1942 they were well over double those of the United Kingdom and more than one-half of the total for the whole Empire. Canada's balance of payments showed a persistent surplus towards the United Kingdom (and the sterling area as a whole) and a persistent deficit towards the United States, as shown in the table on the opposite page.

This deficit of \$720 million in the period 1939-41 was covered from three sources: (i) over Can. \$300 million gold and dollars

were mobilised in 1940 by the Foreign Exchange Control Board (Can. \$325 million being borrowed directly from the Bank of Canada for this purpose); (ii) some Can. \$250 million was paid in gold by the United Kingdom in 1940 to cover the cost of materials bought in the United States to carry out British Government contracts; and (iii) by an agreement made in April 1941, component parts purchased in the United States for use in carrying out British contracts in Canada were supplied under lend-lease terms on United Kingdom account. In 1942 and 1943 the position appears to have been eased by the considerable amounts of U. S. dollars which became available as a result of increasing U. S. purchases from Canadian war production.

**Canada's Balance of Payments.**

Calendar years	United Kingdom			United States		
	Credits	Debits	Credit balance	Credits	Debits	Debit balance
	in millions of Can. dollars					
1939 . . . . .	371	245	126	775	864	89
1940 . . . . .	636	289	347	827	1,128	301
1941 . . . . .	1,093	360	733	1,042	1,372	330
Totals . . .	2,100	894	1,206	2,644	3,364	720

The aggregate surplus of Can. \$1,206 million in 1939-41 vis-à-vis the United Kingdom was brought up to Can. \$1,770 million by British investments in Canadian war plant and the expansion of air training facilities. Excluding the gold

transfer in 1940, the financing of the war expenditure of the United Kingdom in Canada was shown as follows in the Canadian budget statistics for the four financial years to March 1943.

**Financing of United Kingdom war expenditure in Canada.**

Financial years	Year ending March				Four years' total
	1940	1941	1942	1943	
	in millions of Canadian dollars				
Repatriation of securities (1) . . .	79	181	365	72	697
Accumulation of sterling balances (2) . . . . .	16	190	687	(-893)	—
Loan to U. K. Government (non-interest-bearing) . . . . .	—	—	—	700	700
Gift to U. K. Government . . . . .	—	—	—	1,000	1,000
Total . . .	95	371	1,052	879	2,397

In the four years to March 1943 Can. \$2,400 million of British war expenditure was financed in Canada, in three ways: Can. \$700 million by the repatriation of Dominion Government and Canadian National Railway securities held in the United Kingdom, the conversion of Can. \$700 million accumulated sterling

(1) Dominion Government and C.N.R. securities held in United Kingdom. In addition, some Can. \$130 million of private repatriations have taken place.  
 (2) By the Foreign Exchange Control Board.

balances into a loan without interest and, lastly, a free gift of Can. \$1,000 million. This free gift, made for the financial year to the end of March 1943 to cover current British expenditure in Canada, was fully utilised by the end of December 1942.

To meet the need for Canadian dollars to March 1943, the United Kingdom sold to Canada certain British balances in the United States and the Canadian Government repurchased war production plants (valued at some Can. \$200 million) erected in Canada by the British Government soon after the outbreak of the war. In addition, from 1st April 1943, the Canadian Government assumed full financial responsibility for the Canadian Air Force serving abroad, thus relieving the United Kingdom of expenditure of about Can. \$340 million a year. Early in the financial year 1943-44 the Canadian Government appropriated a further Can. \$1,000 million for mutual aid to cover deliveries of war material to the United Kingdom and other members of the United Nations. A new War Supplies Allocation Board was set up with functions somewhat similar to those of the U. S. Lend-Lease Administration.

The United Kingdom has received aid on lend-lease terms from the United States, has benefited from Canada's free gift, has realised its reserves of gold and dollars, mobilised securities in dollars and other currencies to make "cash-and-carry payments", run up sterling and other debts, and otherwise "disinvested" abroad; on the other hand, the United Kingdom has given munitions to the U. S. S. R. estimated by the Chancellor of the Exchequer in April 1943 at £170 million (in addition to non-military goods of over £50 million<sup>(1)</sup>), it has supplied the U. S. troops stationed in the United Kingdom<sup>(2)</sup> and in the Colonial Empire, it has passed on lend-lease supplies to other countries, has itself given aid on lend-lease terms or as free gifts to its allies and otherwise contributed to the common effort of the United Nations. It is not possible to draw up a "balance sheet" or "profit and loss account" of all these operations, but certain indications have been given which throw light on the magnitude of some of the transactions involved.

British cash payments to the United States since the outbreak of war were stated by the Chancellor of the Exchequer in April 1943 to have totalled £1,500 million for supplies, munitions and the provision of capital equipment for the prosecution of the war. Cash-and-carry procedure did not cease when the Lend-Lease Act came into operation<sup>(3)</sup>; in fact, payments in cash continued for 65 per cent. of total U. S. exports to the United Kingdom in 1941 and for 21 per cent. in 1942, as the table on page 134 shows. Indeed, the most difficult period for the United Kingdom was precisely when the Lend-Lease Act had been passed but lend-lease exports had not yet got into their stride; lend-lease procedure was not made to apply to pre-lend-lease contracts and large sums in dollars had to be provided to meet cash-and-carry commitments already made. At this time the liquid gold and dollar reserves of the United Kingdom had been exhausted. Several emergency steps were taken: 93,000 kilogrammes of gold (value about \$105 million) of the reserves of the National Bank of Belgium were borrowed from the Belgian Government in London in March 1941 for two years; a credit of \$425 million was obtained from the Reconstruction Finance Corporation in July 1941; and gold to the value of about \$130 million was bought from the Government of the Union of South Africa (against the mobilisation and sale of South African securities in London).

The first two of these operations constitute the creation of debt and represent direct external indebtedness of the British Government. The debts to the Canadian and Indian Governments as well as part of the debts to the colonial administrations (included under "all others" in the next table)

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(1) In April 1943, it was stated semi-officially that the value of non-military supplies sent to Russia exceeded £50 million; these supplies were bought by and shipped through the services of the United Kingdom Commercial Corporation.

(2) In eighteen months of the war of 1914-18 the United States spent £500 million on supplies for its troops in the United Kingdom, an average of nearly £28 million a month; in 1941 and 1942 it spent an average of only £6,250 a month, the rest being provided by the United Kingdom as reverse lend-lease.

(3) According to the report of the Lend-Lease Administration for the period up to the end of 1942, the total value of all supplies exported under lend-lease for the period March 1941 to December 1942 was \$5,959 million; exports to lend-lease countries paid for in cash by the recipients amounted to \$6,900 million. Only since March 1942 have monthly lend-lease exports exceeded non-lend-lease exports.

**United Kingdom External Debt arising from the war.**

In millions of £ sterling	End of March		
	1941	1942	1943
Reconstruction Finance Corporation, at 3 per cent. (1) . . . . .	—	95	91
Belgian Government (2) . . . . .	—	—	25
Canadian Government, Interest-free (3) . . . . .	—	—	157
Indian Government, at 2 1/2 per cent. (4) . . . . .	—	—	30
All others . . . . .	2	15	21
<b>Total outstanding . . .</b>	<b>2</b>	<b>110</b>	<b>324</b>

- (1) The total credit made available was \$425 million, the equivalent of £106 million.
- (2) This loan was actually made in March 1941 but was specified publicly only in March 1943; it was repaid in gold in April 1943.
- (3) The equivalent of Can. \$700 million.
- (4) The explanation of this loan is given on page 143.

represent accumulated sterling balances converted into direct British Government obligations. In April 1943, after the gold loan from the Belgian Government had been repaid, the United Kingdom External Debt contracted during the war amounted to around £300 million.

These debts, together with the accumulation of sterling balances by Empire and other countries and their repatriation

of sterling securities plus the utilisation of gold and dollar resources, account for the "overseas disinvestment", or draft on foreign resources, made by the United Kingdom as indicated in the budget White Papers. In the three years 1940-42 this disinvestment (which thus includes both the reduction of

**United Kingdom "overseas disinvestment".**

Calendar years	£ millions
1940 . . . . .	756
1941 . . . . .	797
1942 . . . . .	632
<b>Total . . . . .</b>	<b>2,185</b>

foreign assets and the increase of foreign liabilities but excludes lend-lease and the Canadian gift) amounted to £2,185 million; for the whole war period up to the end of 1942 the total was probably about £2,350 million. And for the financial year 1943-44 a further £600 million was foreseen. The distribution of the British overseas disinvestment has changed: whereas in 1940 it was principally in dollars and gold, it is now largely in the form of accumulation of sterling balances and repatriation of sterling securities.

Canada's sterling balances were converted into a direct loan to the British Government in March 1942, but other Empire countries continued to repay their earlier indebtedness in England and to hold, and generally to increase, their sterling reserves, usually in the form of bank balances, Treasury bills and investments in British Government securities. Quarterly increases of the sterling holdings of five countries of importance in this respect are shown in the table on the next page.

The five countries, Eire, India, Australia, New Zealand and Egypt, held sterling resources totalling some £660 million at the end of 1942, of which about £230 million was accumulated during the year, in addition to considerable repatriations of sterling securities. India accounted for two-thirds of the accumulation of sterling in the war period up to the end of 1942; £150 million was acquired in 1942 alone and a further £120 million was added in the first half of 1943.

### Sterling Resources of British Empire.

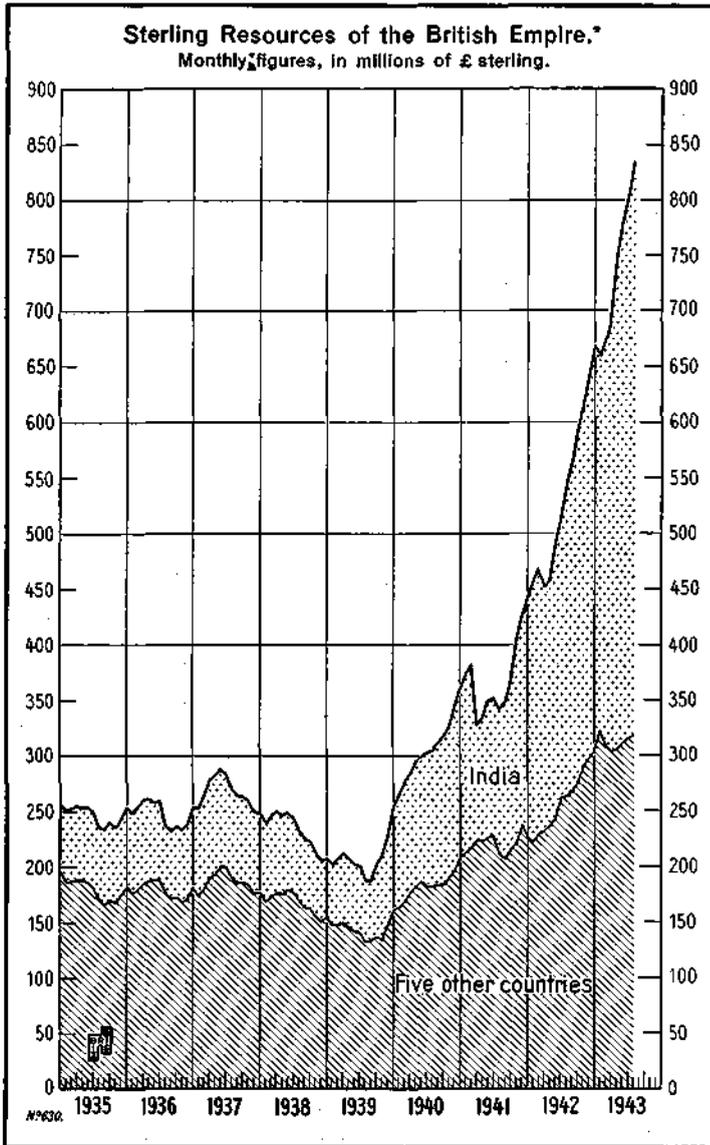
Quarterly increases or decreases (—) and totals outstanding.

In millions of £ Sterling	Eire ( <sup>1</sup> )	India ( <sup>2</sup> )	Australia ( <sup>3</sup> )	New Zealand ( <sup>4</sup> )	Egypt ( <sup>5</sup> )	Total
1939 January — March . . . . .	1 ½	9 ½	(- 6 ½)	2	(- 1 ½)	5
April — June . . . . .	(- 3 ½)	(- 4 )	(- 5 ½)	0	½	(- 12 ½)
July — September . . . . .	1 ½	7 ½	(- 9 )	(- ½)	3 ½	3
October — December . . . . .	5	26 ½	12	6 ½	1 ½	50 ½
1940 January — March . . . . .	1 ½	12	9	6	(- ½)	28
April — June . . . . .	(- 2 )	16	4	3 ½	5	26 ½
July — September . . . . .	2	11	3	(- 4 )	2 ½	14 ½
October — December . . . . .	5 ½	17	13	1	5	41 ½
1941 January — March . . . . .	4 ½	(- 45 )	6	5	(- ½)	(- 30 )
April — June . . . . .	3	20 ½	(- 5 )	1	4 ½	24
July — September . . . . .	4 ½	25	(- 18 )	(- 4 ½)	5 ½	12 ½
October — December . . . . .	6	64	(- 2 )	0	8	76
1942 January — March . . . . .	4 ½	7	(- 4 )	4 ½	(- ½)	11 ½
April — June . . . . .	2 ½	29	7	5	16 ½	60
July — September . . . . .	4	70	3	2 ½	5	84 ½
October — December . . . . .	9	45	10	0	8	72
1943 January — March . . . . .	4 ½	22	(- 5 )	(- 2 ½)	1	20
April — June . . . . .	4	102 ½	6 ½	5	10	128
Year 1939 . . . . .	4 ½	39 ½	(- 9 )	7	4	46
1940 . . . . .	7	56	29	6 ½	12	110 ½
1941 . . . . .	18	64 ½	(- 19 )	1 ½	17 ½	82 ½
1942 . . . . .	20	151	16	12	29	228
Total increases for years 1939—42 . . . . .	49 ½	311	17	27	62 ½	467
Total increases for period and August 1939 to December 1942	52 ½	310	36	25 ½	62 ½	486 ½
Approximate totals outstanding end 1942 . . . . .	120	360	70	30	80	660

- (<sup>1</sup>) The sterling reserves of the Currency Commission (from February 1943 the Central Bank of Ireland) plus the excess of sterling assets over sterling liabilities of the banks in Eire.  
(<sup>2</sup>) The sterling reserve of the Reserve Bank of India plus the sterling assets of the Silver Redemption Fund.  
(<sup>3</sup>) Australia's London funds, i.e. the sterling reserve and money at short call in London of the Commonwealth Bank plus an estimate of the net sterling assets of the trading banks.  
(<sup>4</sup>) The net overseas assets of the Reserve Bank of New Zealand and of the trading banks.  
(<sup>5</sup>) The sterling reserves of the National Bank of Egypt.

Other parts of the Empire have considerable sterling resources in the aggregate, the largest single holding being perhaps that which Malaya accumulated before the Japanese occupation and which was as high as £60 million in July 1941. Other countries with currency boards operating in sterling have also increased their reserves, the principal holdings being those of West Africa, Palestine and Irak. Some Empire governments have converted their accumulations of sterling into direct loans to the British Treasury, generally interest-free; the chief of these appear to be Newfoundland, Ceylon, East Africa and Southern Rhodesia (included under "all others" in the table on page 139).

Apart from the Empire, the allied governments in London hold sterling balances, particularly those of Holland, Norway (from freights and compensation for shipping losses) and Belgium (as a result of Belgian Congo exports). As regards other countries, the recent accumulations of sterling by Portugal, Turkey and the Argentine should be mentioned.



\* The "five other countries" are Australia, Egypt, Eire, New Zealand and South-Africa.

Up to the end of 1942 the Argentine had repatriated about £7 million sterling securities and accumulated £17 million in balances blocked on special sterling accounts (with an exchange guarantee). In the middle of September 1943, the Argentine Finance Ministry announced that the sterling holding had risen to £42.8 million and was expected to be £55 million by the end of 1943. At this time the Finance Ministry was authorised to redeem Argentine sterling bonds to a total of £25 million and raise an internal loan up to Pesos 500 million for this purpose; the sterling required was to be obtained in the first place from the Central Bank against Treasury certificates. Argentine sterling loans issued in London amounted in all to £39 million

and £14 million would thus remain when the present operation was completed. This amounts, of course, to only a fraction of the foreign investments in the Argentine, which were estimated at the equivalent of £530 million (at Pesos 17) in 1942, 60 per cent. of them being British.

All in all, the order of magnitude of the liquid sterling resources of the Empire (Dominions, colonies and other territories), of direct loans made from accumulated sterling holdings to the British Government, of sterling funds of allied governments in London and of other countries, largely on special or registered accounts, may be indicated at over £1,000 million at the end of 1942, of which perhaps three-quarters had been accumulated since the outbreak of

war. But these estimates take no account of the repatriation of sterling securities and other forms of British overseas disinvestment in sterling. To afford an idea of these developments, some details of the situation as regards the five countries shown in the above table are given in the following paragraphs.

The sterling holding of the banking system in Eire at the end of 1942 consisted of rather over £20 million reserves against the note issue of the Currency Commission, and rather under £100 million excess of sterling assets over liabilities held by the Irish banks, both holdings being invested chiefly in British Government securities (as compared with total holdings of under £70 million in the middle of 1939).

India has benefited from profitable exports and very considerable payments by the British Government, and has been enabled to repatriate the Indian Government's sterling debt and to accumulate a large reserve in sterling.

India's sterling receipts and out-payments.

Periods	Incoming sterling			Outgoing sterling			Reserve Bank sterling holding ( <sup>5</sup> )	Total repatriations plus increase in Reserve Bank reserves in sterling ( <sup>6</sup> )
	Reserve Bank net purchases ( <sup>1</sup> )	U. K. payments ( <sup>2</sup> )	Total	Indian Govt requirements ( <sup>3</sup> )	Sterling securities repatriated ( <sup>4</sup> )	Total		
	in millions of £ sterling							
August 1939 to March 1940 Financial year	64	12	76	12	14	26	+ 50	+ 64
to March 1941 . . . . .	57	33	90	23	68	91	— 1	+ 67
to March 1942 . . . . .	74	150	224	25	92	107	+ 117	+ 199
to March 1943 . . . . .	92	233	325	38	121	159	+ 166	+ 287
Total August 1939 to March 1943 . . . . .	287	428	715	98	295	393	+ 332	+ 617

Sources: Reserve Bank of India's Reports on Currency and Finance, the Reserve Bank's returns and Indian budget statistics.

- (<sup>1</sup>) The net purchases of sterling from the market by the Reserve Bank in India, due largely to the active balance of commodity exports.
- (<sup>2</sup>) Payments made by the Secretary of State for India in London for British Government purchases in India and expenditure for the defence of India, incurred in India and borne by the British Government. These payments do not take account of deliveries of war material, estimated at £45 million for 1942-1943 alone, nor of lend-lease aid from the United States of \$295 million up to December 1942.
- (<sup>3</sup>) Indian Government sterling requirements for debt service, pensions etc. plus the requirements of Burma.
- (<sup>4</sup>) Purchases of Indian Government sterling securities on the open market and as a result of compulsory surrender by British nationals. These figures give the actual cost — the nominal amount repatriated was higher. Only a relatively small part of the sterling debt was held in India.
- (<sup>5</sup>) The increase (+) or decrease (—) of the Reserve Bank of India's sterling reserves.
- (<sup>6</sup>) The total "influx" of sterling as shown by the volume of repatriations and the growth of the Reserve Bank's sterling holding.

The "influx" of sterling to India for the war period up to March 1943 was over £600 million — and of this 70 per cent. was caused by British Government payments to meet the cost of Indian defence and for purchases in India; the balance was a result of the surplus of Indian exports (principally to the United Kingdom) over Indian Government requirements of sterling for

debt service and other payments. Nearly one-half of the £600 million odd was utilised for the repatriation of the Indian Government's sterling debt and the remainder accumulated as liquid sterling reserves.

Under a financial agreement of November 1939, the Indian Government pays and equips land forces raised in India but the United Kingdom meets all expenses of Indian troops outside India and capital expenditure incurred in India for the defence of India itself. On the other hand, India receives lend-lease aid from the United States\* but is paid in full for all war equipment exported to other parts of the Empire. The 1939 agreement has resulted, particularly since Japan's entry into the war, in a movement of capital on a scale quite unforeseen when the agreement was signed. Total expenditure on the defence of India in 1941-42 was £225 million, of which the Indian Government's share was £75 million, the balance being paid by the United Kingdom. The estimates for 1942-43 placed the total at nearly £400 million, of which India was to pay £100 million and the United Kingdom nearly £300 million; actually British payments reached £233 million (in addition to free deliveries of war materials estimated at £45 million).

In 1939-40 £16 million, in 1940-41 £8 million and in 1941-42 £12 million of Indian Government sterling bonds were repatriated by purchases on the open market and, in 1940-41, £2 million were purchased under a licence scheme of February 1940. But since the war the major portion of the repatriations has been the result of compulsory schemes, the British investor being called upon to surrender his securities to the British Treasury against payment in sterling provided by the Indian Government from the holdings of the Reserve Bank. Similarly, sterling securities held in India were mobilised and repaid in rupees. The first compulsory scheme, of February 1941, covered £73 million and the second scheme, of December 1941, £74 million. In the three financial years to March 1942, some £187 million Indian Government securities were repaid (the cost of the repatriations from London being £164 million, as shown in the table).

Complete details of the repatriations and repayments in the year to March 1943 are not yet available, but they are known to include the following:

- (a) In October 1942 an agreement was announced whereby, for a capital payment of £30 million by the Indian Government, the British Treasury undertook to make available the instalments necessary to cover certain railway and other annuities, which would run until various dates from 1948 to 1959 and had a capital value of about £34 million (the British liability of £30 million is shown in the table on page 139);
- (b) at the end of 1942 the Indian Government took over certain Indian railway securities at a total cost of some £15½ million;
- (c) early in January 1943 £78 million 3½ per cent. stock was repaid, the last remaining direct sterling obligation of the Indian Government;

\* Lend-lease aid furnished to India by the United States amounted to \$295 million up the end of 1942; reverse lend-lease by India to the United States was officially estimated on American data to be the equivalent of \$57 million up to the end of June 1943.

(d) later in January 1943 certain railway debentures guaranteed by the Indian Government were vested in the British Treasury to the extent of £20 million, prior to repurchase by the Indian Government (in March 1943), while a further £11 million were called for repayment in February 1944.

The programme of repatriation of the direct and indirect sterling debt of the Indian Government has practically been concluded; there remains a small residue of about £12 million (consisting chiefly of bonds in the hands of other than British holders, which cannot be requisitioned).

The total debt of the Government of India (in both rupees and sterling) on 31st March 1941 was the equivalent of £936 million, of which £677 million or 72 per cent. was represented by profit-producing assets: railways, irrigation works, public utilities etc. The total interest payable on the debt was £30 million, of which £25 million was covered by fixed interest paid by the railways and other commercial enterprises to the government, leaving only £5 million as a net interest charge. The same commercial enterprises paid over profits to the extent of £17 million to the government, thus giving, all told, a net income of some £12 million. The interest charge of the debt in its widest sense was, and is, more than covered from the assets created with the aid of borrowing. And, whereas before the war 40 per cent. of the total debt was payable in London and required £12 million as interest service, the whole of the government's debt service has now become internal.

This rapid reversal of India's foreign position stands out as one of the most remarkable happenings in financial history. The Indian Government borrowed in London for the first time in 1887; between 1914 and 1919 the debt increased by £30 million to £230 million, while in those years India made gifts of about £150 million to the British Government as a free war contribution; post-1919 borrowing carried the debt (including guaranteed railway debentures and annuities) to around £350 million at the outbreak of the present war. Not only has the whole of the direct debt, incurred gradually over more than 50 years, been repaid during the first 3½ years of the present war, but India's sterling reserves have increased by £330 million in the same period. By the summer of 1943, India's sterling reserves had grown to over £500 million, about double the value of the remaining British commercial and industrial investments in India, which have been estimated at about £250 million.

The financing of these transactions in a country with as narrow a capital market as India has naturally been attended by some difficulties. The table on the next page shows the evolution of the main items of the return of the Reserve Bank of India, converted into sterling for purposes of comparison. Of the total "influx" of over £600 million from August 1939 to March 1943, about £180 million has been placed on the internal market in the form of rupee securities, while £435 million has been taken up by the Reserve Bank through the direct acquisition, on the one hand, of sterling balances and securities and, on the other, of rupee securities (equivalent to £100 million).

**Reserve Bank of India<sup>(1)</sup>.**

Near end of month	Assets						Liabilities			
	Gold <sup>(2)</sup>	Sterling reserve <sup>(3)</sup>			Indian govt rupee securities	Rupee coin	Notes Issued		Deposits	
		ba- lances	secu- rities	total			India	Burma	Govt	banks
in millions of £ sterling										
1939, March . . . . .	33	11	45	55	24	53	134	8	15	9
August . . . . .	33	6	45	50	28	57	127	7	11	20
1940, March . . . . .	33	21	85	106	29	42	169	10	17	13
1941, March . . . . .	33	32	77	108	66	26	180	13	17	27
1942, March . . . . .	33	26	160	186	102	21	286	21	15	32
1943, March . . . . .	33	65	316	382	131	11	483		27	35
June . . . . .	33	61	426	487	89	12	550		19	40
Increase from August 1939 to March 1943 . . . . .	—	59	271	332	103	(-46)	356		16	15

(1) Rupees converted at 1s.6d.

(2) At pre-1931 par value.

(3) The yearly increases of this item do not agree exactly with the previous table, partly owing to the date of the return (the last Friday and not the last day of March), but the total increase for the whole period corresponds.

The chief counterpart of these acquisitions was the increase of the circulation of notes and coins by the equivalent of £400 million from the beginning of the war to the end of March 1943.

Developments in Australia and New Zealand present a striking contrast to those in India. Each of the two countries maintains its own forces overseas, pays for its war equipment other than that obtained on lend-lease terms, and has entered into the mutual aid agreements. Neither country has been in a position to repatriate its sterling debt, although each was able to add a modest increment to its London funds in 1942 — but as the resultant of a number of factors and not of one-way payments.

As regards Australia, the British Government continues to purchase meat, butter and cheese, according to contract; it also purchases the whole wool-clip (with an increase of 15 per cent. in the price in 1942), whether it is shipped or not. On the other hand, Australia has had considerable external payments to make, including the cost of maintaining Australian forces overseas and importing war equipment. Some indication of the overseas war expenditure is given in the budget shown in the table on the next page.

War expenditure "overseas", which totalled £A 175 million up to June 1943, is that part borne directly by Australia; such overseas expenditure as cannot be met currently without undue depletion of London funds has been booked in inter-Treasury accounts maintained between the Dominion and the United Kingdom; £12 million only was borrowed in this way between July and December 1940 and this sum was repaid in October 1943. The larger amount borne by Australia in 1942-43 was due not so much to an increase of the expenditure as to the ability of Australia to bear a greater burden, the satisfactory position of the balance of payments being in part due to the expenditure of American forces in Australia.

### Australian Budget.

Financial years to 30th June	Closed accounts			Estimates	
	1939-40	1940-41	1941-42	1942-43 <sup>(1)</sup>	1943-44
in millions of £A					
<b>Expenditure:</b>					
war: in Australia . . . . .	19	127	273	480	500
overseas . . . . .	5	43	47	80	70
total . . . . .	24	170	320	560	570
civil . . . . .	85	89	101	152 <sup>(2)</sup>	145
<b>Total</b> . . . . .	<b>109</b>	<b>259</b>	<b>421</b>	<b>712</b>	<b>715</b>
<b>Revenue:</b>					
taxation . . . . .	90	126	180	252	273
other current revenue . . . . .	22	24	36	30	39
total . . . . .	112	150	216	282	312
borrowing . . . . .	(- 3)	109	205	430	403
<b>Total</b> . . . . .	<b>109</b>	<b>259</b>	<b>421</b>	<b>712</b>	<b>715</b>

<sup>(1)</sup> Revised estimates up to May 1943, including supplementary figures.  
<sup>(2)</sup> £A 30 million of the increase of civil expenditure is accounted for by the creation of a National Welfare Fund as a basis for an extension of social benefits.

Australia has not been in a position during the war to make any appreciable repayments in excess of contractual amortisations on its external debt, which remains at around £600 million, but has undertaken certain conversion operations. In 1941, some £30 million Commonwealth and State loans were exchanged for a 3½ per cent. 40 to 45-year Commonwealth loan, issued at 99; from December 1941, for nearly a year, Australian loans were practically unmarketable at the fixed "minimum prices" in London; but in October 1942 these loans began to move up and in November it became possible to issue a 3 per cent. 2 to 4-year loan at 98 to convert the £16½ million 2¾ per cent. bonds of 1939 which matured on 1st January 1943.

Part of the internal budget expenditure has been met by borrowing from the Commonwealth Bank and it is the increase of the bank's investments rather than fluctuations in sterling holdings which has exerted the chief influence on the note issue.

### Commonwealth Bank of Australia.

Weekly returns near end of month	Assets				Total balance sheet <sup>(3)</sup>	Liabilities	
	Sterling reserve <sup>(1)</sup>	Investments		Discounts and advances		Notes in circulation	Deposits etc.
		deben- tures	Common- wealth Govt bonds <sup>(2)</sup>				
in millions of £A							
1938 December . . . . .	42	46	52	15	159	50	88
1939 " . . . . .	45	50	51	19	173	55	95
1940 " . . . . .	87	56	37	27	218	65	128
1941 " . . . . .	60	68	82	23	243	62	135
1942 " . . . . .	79	101	158	20	370 <sup>(3)</sup>	123	154
1943 June . . . . .	80	112	214	22	440 <sup>(3)</sup>	138	178

<sup>(1)</sup> Including money at short call in London.      <sup>(2)</sup> Including a small amount of British and Colonial bonds (the total of which fell from £A18 million in 1938 to £A12 million in 1940).  
<sup>(3)</sup> Issue and banking departments only, as shown by weekly returns.      <sup>(4)</sup> Provisional.

By the Wartime Banking Control Regulations the trading banks were required to deposit with the Commonwealth Bank their "surplus investable funds", defined as the amount of assets in excess of the average in August 1939. Interest is paid at a rate which will make the profits of each bank equal to the average profits of the three pre-war years; this rate may vary from bank to bank but appears on the average to be  $\frac{3}{4}$  per cent. These deposits may be withdrawn only with the consent of the Commonwealth Bank; further, long-term government securities (as distinct from Treasury bills) may be purchased only with the consent of the Commonwealth Bank, which also lays down the banks' policy regarding private advances and discounts.

Australian Trading Banks.

Quarterly averages for quarter ending	Assets					Total balance sheet	Liabilities	
	Cash	Wartime deposits	Govt securities		Advances		Deposits	
			Treasury bills	bonds			current accounts	time deposits
in millions of £A								
1938 December . . . . .	35	—	19	21	291	380	120	198
1939 " . . . . .	37	—	23	24	294	393	128	200
1940 " . . . . .	43	—	41	50	282	433	153	205
1941 " . . . . .	45	3	46	63	279	452	175	203
1942 " . . . . .	47	64	64	60	244	490	231	191
1943 March . . . . .	45	89	83	63	234	518	262	197

New Zealand also sells meat, dairy produce and wool under contract to the United Kingdom and has an arrangement with the British Treasury similar to that of Australia; receipts on this inter-Treasury account are shown in the budget under the heading of "Borrowing from the U. K. Government under the Memorandum of Security Agreement". But expenditure overseas is not given separately from other war expenditure as in Australia; the estimate for 1940-1941 included £NZ 19.75 million for overseas expenditure of the New Zealand army and air force and the amount has doubtless considerably expanded with the growth of total war expenditure.

New Zealand Budget<sup>(1)</sup>.

In millions of £NZ	Closed accounts			Estimates
	1939-40	1940-41	1941-42	1942-43
<b>Expenditure</b>				
war . . . . .	8.0	27.1	52.4	133.0 <sup>(2)</sup>
social security . . . . .	10.8	12.6	13.5	16.0
other . . . . .	35.7	35.5	36.0	33.1
<b>Totals<sup>(3)</sup></b> . . . . .	<b>54.5</b>	<b>75.2</b>	<b>101.9</b>	<b>182.1</b>
<b>Current revenue</b>				
taxation . . . . .	44.5	61.3	68.1	77.8
other current . . . . .	7.2	6.2	10.0	14.2
<b>total</b> . . . . .	<b>51.7</b>	<b>67.5</b>	<b>78.1</b>	<b>92.0</b>
<b>Revenue</b>				
from borrowing				
from United Kingdom . . . . .	—	6.0	8.2	46.0 <sup>(4)</sup>
internal war loans . . . . .	3.1	12.2	23.5	35.6
<b>Net borrowing (less redemptions)</b> . . . . .	<b>3.1</b>	<b>14.5</b>	<b>24.4</b>	<b>81.6</b>
Lend-lease . . . . .	—	—	—	10.0 <sup>(5)</sup>
<b>Totals<sup>(3)</sup></b> . . . . .	<b>54.8</b>	<b>82.0</b>	<b>102.5</b>	<b>183.6</b>

(1) Financial years ending 31st March. Ordinary, war and social security budgets combined. There is also a Development Account covered by borrowing of £NZ 12 million in 1941-42, for which £NZ 4.5 million was estimated in 1942-43.  
 (2) Differences between total receipts and total expenditures are largely due to fluctuations of cash balances. (3) Final accounts showed actual war expenditure in 1942-43 as £NZ 144 million.  
 (4) Final accounts show only £NZ 15.4 million borrowed from the United Kingdom but £NZ 26.8 million was received on lend-lease account.

But expenditure overseas is not given separately from other war expenditure as in Australia; the estimate for 1940-1941 included £NZ 19.75 million for overseas expenditure of the New Zealand army and air force and the amount has doubtless considerably expanded with the growth of total war expenditure.

It has been announced that the gross amount borrowed from the United

Kingdom totalled £20.2 million at the end of 1942 and of this £11.4 million had been repaid; in March 1943 a further £8.0 million was repaid, leaving only £0.8 million still outstanding; these figures take no account of fresh indebtedness which may have been incurred during 1943.

New Zealand's external position has been largely determined by the rise in exports from £NZ 67.5 million in 1941 to £NZ 80.9 million in 1942, increasing the export surplus from £NZ 18.3 million to £NZ 27.2 million. As a result, the sterling assets of the Reserve Bank and trading banks together have risen from £NZ 25.3 million to £NZ 40.6 million during the year 1942. Advantage was taken of this development to convert a £6 million sterling loan in December 1942 and to make sundry small repayments in London. The total external government debt remains at about £160 million sterling; as in the case of Australia, no appreciable repayments or repatriations have taken place during the war.

#### Reserve Bank of New Zealand.

Near end of month <sup>(1)</sup>	Assets				Total balance sheet	Liabilities			
	Gold	Sterling exchange	Investments	Advances to Govt <sup>(2)</sup>		Notes in circulation	Deposits		
							government	banks	other
In millions of £NZ									
1938 December	2.8	4.7	3.6	16.4	29.5	16.6	2.8	7.2	0.1
1939 "	2.8	7.0	3.6	23.6	37.4	19.2	2.6	13.3	0.0
1940 "	2.8	12.5	3.8	27.0	47.3	22.7	8.0	12.7	0.4
1941 "	2.8	13.3	3.8	25.5	47.2	24.6	9.0	10.7	0.3
1942 "	2.8	26.6	4.5	28.8	64.7	30.8	10.8	18.5	0.7
1943 June . . .	2.8	29.7	10.3	43.2	89.5	32.4	19.1	30.1	4.6

<sup>(1)</sup> Last weekly return in month.

<sup>(2)</sup> Marketing Department and other government advances combined.

Internally the situation is influenced by the increase in sterling assets and by government borrowing; the note issue rose by 8 per cent. in 1941 and 25 per cent. in 1942. The trading banks took up government securities on a comparatively large scale in 1942, while private advances and discounts fell; time deposits stood still but current accounts rose by 31 per cent., compared with only 9 per cent. in 1941. Total government borrowing of £NZ 35.5 million in 1942

#### New Zealand Trading Banks.

Near end of month <sup>(1)</sup>	Assets				Liabilities <sup>(2)</sup>	
	Cash <sup>(3)</sup>	Net overseas assets	Government securities	Advances and discounts	Deposits	
					demand	time
In millions of £NZ						
1938 December	11.4	2.1	8.6	57.8	34.2	29.8
1939 "	17.8	7.1	15.2	51.1	41.3	31.9
1940 "	18.6	11.9	17.5	48.1	49.7	29.4
1941 "	15.9	12.0	23.0	50.5	54.0	29.0
1942 "	22.6	14.0	34.3	44.0	70.9	28.8
1943 March . .	24.4	14.9	36.2	44.9	77.1	28.6

<sup>(1)</sup> Last Monday in month.

<sup>(2)</sup> Deposits at Reserve Bank and Reserve Bank notes.

<sup>(3)</sup> In New Zealand only.

was obtained from approximately the following sources: from the public £NZ 15.5 million; from government departments £NZ 4.2 million; from the trading banks £NZ 8.3 million and from the Reserve Bank £NZ 7.5 million. The amount borrowed from the banking system was thus about equal to that borrowed from the public.

The sterling assets of the National Bank of Egypt rose by nearly £30 million in 1942, almost as much as in the previous three years taken together. In September 1943 the Egyptian Government decided to convert the whole of its public debt, including external, into new issues of internal loans; the external debt consisted mostly of sterling loans totalling somewhat over £90 million, but a large proportion of these bonds were held in France and in Egypt itself, and some repatriations had recently taken place from London; the Finance Minister estimated the British holding at £E 14 million and other holdings outside Egypt at £E 18 million.

The dominating influences have been the considerable expenditure of the forces of the United Nations in the country, estimated at £E 63 million in 1941 and at over £E 100 million in 1942, and the official British purchases of the cotton crop. The absorption of sterling has made the market very liquid and interest rates are low; the Egyptian budget for 1942 gave a surplus of some £E 10 million and the government's cotton loans have been greatly oversubscribed.

National Bank of Egypt<sup>(1)</sup>.

End of month	Assets						Total balance sheet	Liabilities			
	Gold <sup>(2)</sup>	Sterling reserves <sup>(3)</sup>			Egyptian Govt securities <sup>(4)</sup>	Advances and discounts		Note circulation	Deposits		
		securities	balances etc.	total					government <sup>(5)</sup>	banks (net) <sup>(6)</sup>	other
in millions of £E <sup>(7)</sup>											
1938 Dec.	6.2	14.5	1.5	16.0	16.0	10.2	51.2	20.4	4.8	0.1	17.2
1939 "	6.2	18.9	0.6	19.5	12.9	14.0	56.4	26.4	2.6	0.7	17.0
1940 "	6.2	31.8	0.6	32.4	29.6	9.1	81.1	37.3	4.8	2.5	26.4
1941 "	6.2	45.0	5.9	50.9	52.0	6.9	119.4	50.7	21.3	4.1	33.4
1942 "	6.2	71.5	8.6	80.1	69.9	6.0	166.7	75.3	28.6	12.4	39.1
1943 June	6.2	78.5	12.8	91.3	101.0	3.7	209.0	82.4	51.3	13.2	48.3

(1) Combined balance sheets of issue and banking departments.

(2) The £E is practically at par with the £ sterling; the rate of exchange taken in the 1942 balance sheet is £100 = £E 97.50. (3) At pre-1931 par value.

(4) The securities are held as reserves against the note issue and consist of British Government Treasury bills and War Loan. Other Egyptian banks increased their surplus holdings of sterling but no regular figures are available. It has been estimated that all the Egyptian banks accumulated the equivalent of about £E 80 million between the beginning of the war and the end of 1941.

(5) Egyptian government securities and securities guaranteed by the Egyptian Government plus a very small amount of other investments (1942: £E 1.3 million).

(6) According to the annual report of the National Bank for 1942, "capital sums" are included on this account and the increase does not necessarily signify a large surplus of government revenue.

(7) Banker's accounts are included on both sides of the return; the figure given in the table is the net amount.

The note circulation rose by £E 13.4 million in 1941 and £E 24.6 million in 1942; 45 per cent. of the increase in the latter year was concentrated into the month of June, with heavy withdrawals of deposits from the banks. The annual report of the National Bank for 1941 had already drawn attention to the fact that the rise in the note circulation was most marked in those months

when reverses of the British forces caused apprehension amongst the public (a phenomenon similar to that which may be observed in other countries also). Part of the increase of the note circulation in 1942 was attributable to the fact that Egyptian notes were employed in occupied territories.

The Union of South Africa has employed its very active trade balance (part of which arises from the British Government's purchase of the wool-clip) to accumulate gold and to redeem its sterling indebtedness.

#### Reserve Bank of South Africa.

Near end of month <sup>(1)</sup>	Assets					Total balance sheet	Liabilities			
	Gold <sup>(2)</sup>	Gold premium <sup>(3)</sup>	Sterling	Advances to Govt	Investments		Note circulation	Deposits		
								govt	banks	other
in millions of £SA										
1938 December	26.7	13.6	8.1	1.7	1.8	52.1	19.1	1.6	24.4	3.2
1939 "	30.2	18.1	8.0	—	2.6	59.0	20.7	5.4	24.1	4.4
1940 "	44.6	32.1	0.8	1.0	3.6	82.2	23.7	2.0	45.6	6.3
1941 "	44.4	32.3	0.3	—	28.6	105.8	28.6	17.4	47.2	7.1
1942 "	77.0	65.2	0.9	2.8	7.3	153.6	39.6	2.6	99.0	6.9
1943 June . . .	70.9	59.8	12.0	—	28.6	172.2	45.7	5.9	108.9	6.4

(1) Last return of month.

(2) At pre-1931 par value.

(3) "Other assets" of the bank, mainly the difference between the purchase and the book price of gold.

The gold holding rose by £SA 33 million in 1942 and the gold premium account by about the same amount; the note issue increased by £SA 11 million, about one-third, while the balance of the commercial banks at the Reserve Bank more than doubled to £SA 99 million. Other assets of the commercial banks in South Africa changed little over the year, but deposits rose by £SA 51 million to £SA 197 million. The sterling holdings of the Reserve Bank, which up to 1942 were maintained at the minimum necessary for day-to-day requirements, increased in the first half of 1943 to £SA 12 million.

The external debt of the Union and provinces, which was slightly over £100 million before the war, was reduced by a repayment of £8 million in July 1940 and by two block repatriations of requisitioned securities, the first of £32 million at the end of 1941 and the second of £42 million at the end of 1942, which did much to mop up the Union's surplus on the balance of payments. The expansion of the Reserve Bank's "investments" in December 1941 and in the first half of 1943 reflects these repatriations, the sterling securities being acquired in the first place by the Reserve Bank against payment in gold in London. Internal loans have been floated in South Africa to enable the government to repurchase these securities from the Reserve Bank for cancellation; the budget surplus of about £SA 6 million in 1942 was applied to the same purpose. It was noteworthy that, in spite of an increase of defence expenditure from £SA 2 million in 1939 to £SA 80 million in 1942, the budget had been balanced without borrowing. Eighty per cent. of the total government debt of £SA 380 million in 1942 (internal and external) was represented by interest-bearing assets (railways, post, telegraph etc.).

In addition to the repatriation of the government's external debt, a substantial amount of private indebtedness has been transferred from British to South African ownership, particularly gold shares. The Governor of the Reserve Bank at the annual meeting in July 1942 recommended that municipalities, public bodies and private firms should also seize the favourable opportunity of using local funds to redeem South African liabilities overseas; the possibilities for further repatriations of the Union Government's sterling debt have become very limited since almost the entire debt has been repaid, the only remaining sterling loan being the £5 million 3½ per cent. bonds 1954-59 issued in May 1939.

The Union of South Africa was a borrower in the London market until 1939; but, from the outbreak of war up to March 1943, it increased its gold reserves by nearly £80 million (at market price), repaid over £80 million of the government's sterling debt and repatriated a substantial volume of gold and other shares.

The following table summarises in round figures the material given in preceding paragraphs regarding British "overseas disinvestment" in sterling in relation to seven countries in the British Empire (but excluding

Accumulation of sterling,  
repatriation of securities etc.<sup>(1)</sup>  
September 1939 to March 1943.

Countries	Accumulation of sterling balances etc.	Direct loan to British Govt	Sterling securities repatriated	Total
Canada <sup>(2)</sup> . . . . .	—	155	260 <sup>(3)</sup>	415
Elre . . . . .	55	—	—	55
India . . . . .	330	30	280	640
Egypt . . . . .	60	—	—	60
Australia . . . . .	30	—	—	30
New Zealand . . . . .	25	—	—	25
South Africa <sup>(4)</sup> . . . . .	(- 10)	—	130 <sup>(5)</sup>	120
Totals . . . . .	490	185	670	1,345

(1) Amounts are rounded off to the nearest £5 million.  
 (2) Excluding the payment of £62½ million in gold in 1940 and Canada's free gift of £225 million in 1942.  
 (3) The repatriation of securities (including private) plus \$200 million utilised to repurchase British interests.  
 (4) In addition, the Reserve Bank of South Africa has added nearly £80 million to its gold reserves.  
 (5) Round figure, including an allowance for private repatriations.

Canada's "free gift" of £225 million as well as the use made of British gold holdings and the mobilisations of dollar securities, etc.). In the three and a half years to March 1943 the overseas disinvestment vis-à-vis these seven countries thus amounted to nearly £1,350 million, India with £640 million and Canada with £415 million representing nearly 80 per cent. of the total disinvestment. This £1,350 million was made up in almost equal parts of sterling accumulations (as balances etc. and direct loans) and of sterling securities repatriated.

The repatriation of sterling securities was, therefore, as great as the accumulation of sterling balances. But the outlet afforded by the repatriation of debt has its limitations and these limits are clearly in sight for certain countries. The repatriation of Canadian Dominion Government sterling debt was practically completed in March 1942, when the free gift of £225 million was granted; British holdings of Canadian securities other than those of the Dominion Government amount to the equivalent of fully £250 million and it was decided that, in the interests of both parties, these investments

should be maintained. And Australia and New Zealand have entered into the mutual aid arrangements without ever being in a position to repay any appreciable part of their indebtedness in London. On the other hand, by March 1943 the repatriation of the government sterling debts of both India and the Union of South Africa was practically completed.

The overseas disinvestment of the United Kingdom in sterling vis-à-vis all countries from September 1939 to March 1943 must have exceeded £1,500 million; in the same period £1,500 million was spent in gold and dollars in the United States. The total net overseas disinvestment was not, however, in excess of £3,000 million, but was about £2,500 million up to March 1943. The difference gives a rough measure of the gold and dollars currently acquired against sterling from countries within the Empire.

On the continent of Europe the main movements of funds have been determined by the use made by Germany of other countries' resources through the mechanism of clearings and contributions levied to meet occupation costs, etc. Germany's clearing indebtedness is represented by the debts of the Deutsche Verrechnungskasse but there are certain assimilated liabilities, such as the debts of the Reichskreditkassen to central banks, which are often shown in conjunction with the clearing claims and for the sake of uniformity may be grouped together with them.

No regular statistics of the clearing position are published in Germany but estimates have been made of the volume of foreign balances held at

Investment of clearing balances etc.  
in Reich securities.

In milliards of RM	1940	1941	1942	Total 1940-42
Verrechnungskasse (1) . . .	1.5	6.0	7.0	14.5
Reichskreditkassen (2) . . .	1.5	3.0	2.7	7.2
Total foreign sources . . .	3.0	9.0	9.7	21.7

(1) From an article by Dr. Günter Keiser in *Bankwirtschaft* 1943, No. 5. This item also includes Reich securities held direct by the banks in Holland and in Bohemia and Moravia.

(2) This is the debt of the Reich to the central administration of the Reichskreditkassen as shown in the public debt return. The corresponding liabilities of the Reichskreditkassen consist of Reichskreditkassenscheine in circulation and Reichskreditkassen debts to central banks.

the Verrechnungskasse and invested by it in Reich securities, while the debt of the Reich to the central administration of the Reichskreditkassen is given in the monthly public-debt statement. The accompanying table shows the annual increases of these two items and the total increase for the three years 1940-42; as German clearing debts were practically extinguished in the early months of 1940 and the debt to the

Reichskreditkassen dates only from May 1940, the increase in the years 1940-42 may be taken as approximately equal to the totals outstanding.

Germany's clearing debts proper thus amounted to some RM 14½ milliard at the end of 1942, nearly one-half of which was accumulated during the year. In addition, the Reichskreditkassen had debts to central banks amounting to about RM 4½ milliard, while some RM 2½ milliard Reichskreditkassenscheine were in circulation (see page 187); these debts to central banks are on account

of Reichskreditkassenscheine withdrawn (as in Belgium) or of direct advances made to the Wehrmacht (as in Denmark). Excluding the actual circulation of Reichskreditkassenscheine, which were largely in the eastern occupied territories, the total of German debts on clearing and these other accounts would thus be about RM 19 milliard at the end of 1942, according to German sources (part of the debts being, however, in the currencies of the creditor countries).

These figures can be largely confirmed from the side of the foreign creditors. As the German debts are generally to central banks directly, or are financed by them, statistics can be compiled from the information given regularly in European central-bank returns. The growth of claims on Germany, as shown by eight countries publishing such data, is illustrated in the graphs on the following pages;

### Clearing claims and assimilated accounts.

Quarterly (and yearly) increases or decreases (-) and approximate totals outstanding.

Quarterly and yearly	France (1)	Belgium	Holland (2)	Denmark (3)	Hungary (4)	Roumania (5)	Bulgaria (6)	Bohemia and Moravia	Total
In millions of Reichsmarks*									
1941 Jan.-March .	50	140	130	90	—	10	50	60	530
April-June .	100	95	385	105	—	130	130	50	995
July-Sept. .	200	255	375	105	65	125	80	150	1,355
Oct.-Dec. . .	250	195	365	125	20	10	80	255	1,300
1942 Jan.-March .	350	180	270	105	80	(-90)	55	(-25)	925
April-June .	200	310	(-20)	105	85	80	70	150	980
July-Sept. . .	500	450	330	95	(-40)	85	45	(-20)	1,435
Oct.-Dec. . .	600	535	495	135	100	40	85	335	2,325
1943 Jan.-March .	500	485	510	165	(-20)	(-75)	30**	195	1,790
April-June .	750	440	270	260	110	65	35**	305	2,235
July-Sept. . .	750	505	415	225	170	35	35**	375	2,510
Year 1941 . . . .	600	685	1,255	425	85	275	340	515	4,180
Year 1942 . . . .	1,650	1,475	1,075	430	225	115	255	440	5,666
Approximate total outstanding:									
end 1942 . . . .	2,400	2,415	2,490	1,245	310	405	695	1,550	11,510
Sept. 1943 . . . .	4,400	3,845	3,685	1,895	570	430	795**	2,425	18,045

Note: In general, only clearing claims are shown which have been financed, or refinanced, by the central bank (in the case of France, by the Treasury). For Belgium, however, certain assimilated claims are included, particularly an account showing Reichskreditkassenscheine withdrawn, amounting to RM 286 million at the end of 1942; and for Denmark, the only country which books occupation costs as a Reichsmark claim, these are included also and amounted to RM 670 million, rather more than half the total claim on Germany, at the end of 1942. For Bulgaria, the net amount on clearing accounts is shown (assets less liabilities), but the Bulgarian Treasury certificates, denominated in Reichsmarks and purchased by the National Bank from its clearing balances, have been added. Since the abolition of the German clearings with Holland and with Bohemia and Moravia, the central banks of these countries have held Reichsmark claims directly.

The table excludes amounts taken over by Treasuries (e. g. in Holland) and Reichsmark claims of private banks (e. g. in Hungary) and of private individuals or firms (for instance, the Belgian National Railways show a claim of B.fcs 2,004 million (RM 160 million) in the balance sheet for 1942 in respect of military transports and the utilisation of railway stock by the Reichsbahn, while on the other hand the Reichsbahn in its balance sheet for 1942 shows claims of RM 237 million against the railways in the occupied territories).

\* Figures are rounded off to RM 5 millions.

\*\* Estimates.

(1) Advances made by the French Treasury to finance the surplus of exports to Germany. The total for 1941 is known to have been RM 600 million; in the absence of detailed information for that year a rising tendency during the year has been assumed.

(2) The Nederlandsche Bank's figures showed a decline of RM 20 million for the quarter ended June 1942 but some RM 300 million was transferred to the Dutch Treasury at the beginning of April 1942.

(3) Including occupation costs which, in the case of Denmark, are booked as a claim on Germany.

(4) The relevant item of the National Bank of Hungary's return declined by RM 40 million when RM 161 million was taken over by the Hungarian Treasury in the middle of September 1942; in all, RM 225 million was taken over in this way during the year. The reduction of RM 20 million to the end of March 1943 was followed by a rise of over RM 100 million in the first week in April, when a new credit appears to have been granted.

(5) In the two months to the end of February 1942 the clearing assets fell by RM 135 million of which RM 50 million was utilised to purchase gold. Similarly in 1943 clearing assets fell by RM 100 million in the two months to the end of March, of which again RM 50 million reflected a purchase of gold.

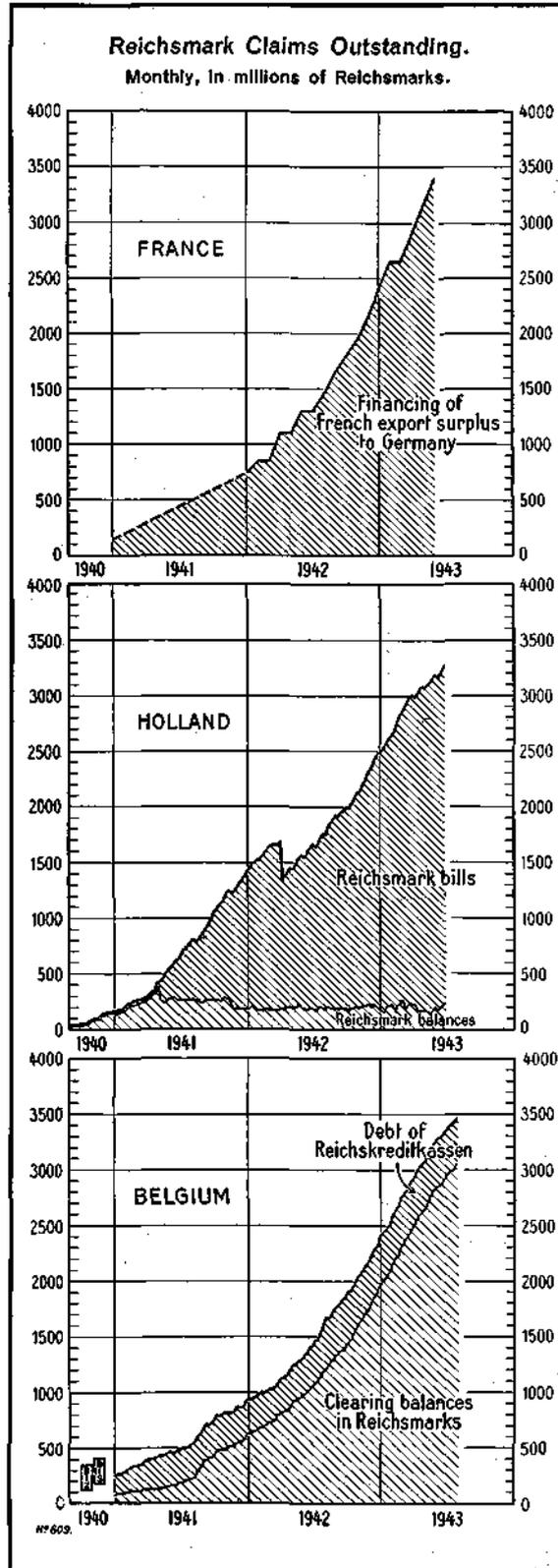
(6) In the three months June-August 1942 the net clearing claims shown by the National Bank of Bulgaria fell altogether by RM 50 million compared with an average increase of over RM 30 million in the other months of the year, from which it may be assumed that some RM 150 million was utilised for special purposes.

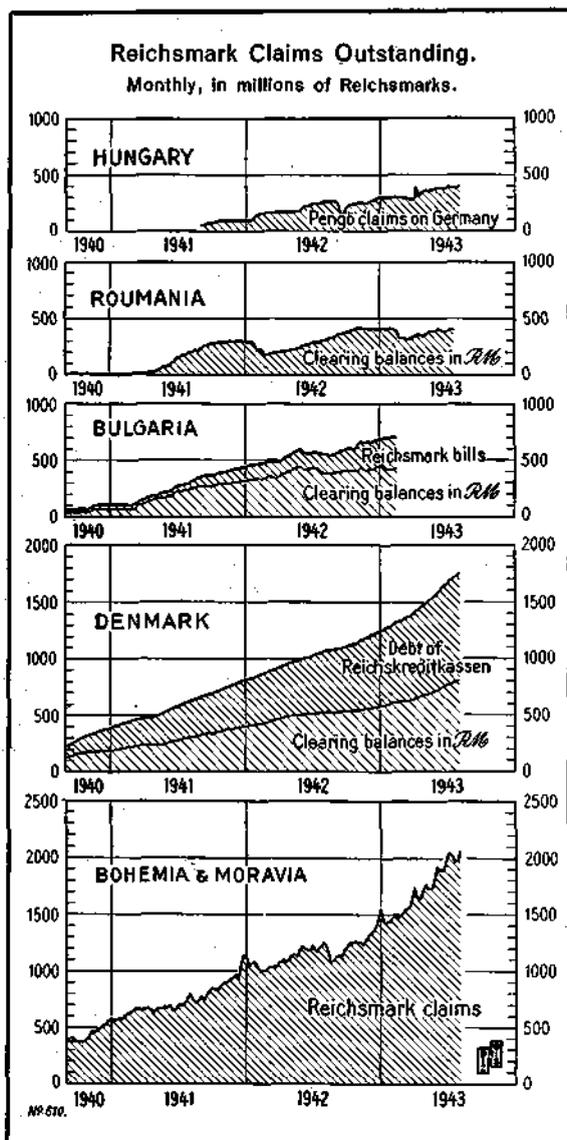
quarterly and yearly figures of the increases are given in the table on the previous page. In both the graphs and the table local currencies have been converted into Reichsmarks for purposes of comparison.\*

This table is compiled from statistics covering clearing claims of the countries concerned vis-à-vis all other countries. Generally, individual debtor countries are not distinguished in these totals but it is known that the preponderating debtor in all cases is Germany. Germany accounted for 90 per cent. of the Belgian clearing claims at the end of 1942, 98 per cent. of Hungarian claims, 99 per cent. of Dutch claims and 100 per cent. of the French total; and similar proportions are applicable to Denmark and other countries. Thus no great error would be made if the figures given were taken as applying to German clearing debts only.

The total Reichsmark claims outstanding of the eight countries shown in the table reached RM 11.5 milliard at the end of 1942, about 60 per cent. of the total for all countries as given from German sources; the increase for the eight countries during the year was RM 5.7 milliard against RM 4.2 milliard in 1941. In addition over RM 800 million was taken over in 1942 by the Treasuries in Holland, Hungary, Roumania and Bulgaria and utilised in part for extraordinary payments in Germany. In 1943, the increase of the clearing

\* Almost the whole of Germany's export trade and thus a great part of European trade is, in fact, conducted in Reichsmarks. The annual report of the Golddiskontbank for 1942 states that its exchange-guarantee business has lost much of its importance "since German exporters are now invoicing almost exclusively in Reichsmarks".





accounts of the eight countries was RM 6.5 milliard in the first nine months.

Other countries which have appreciable clearing claims on Germany, but for which no regular periodical statistical data are available, include the following: Italy, Switzerland, Spain, Slovakia, Croatia<sup>(1)</sup> and Greece.

Deficits on clearing accounts in Europe other than those of Germany are mostly of little relative importance. Only Finland appears to be generally indebted all round (but chiefly to Germany and largely on account of deliveries of war materials): the total of Finnish clearing debts rose from RM 75 million at the end of 1941 to RM 150 million<sup>(2)</sup> at the end of 1942. Semi-official estimates made in September 1942 placed the French clearing debt to Switzerland at Fr.fcs 1,000 million (equivalent of Sw.fcs 100 million). Certain Italian clearing debts are mentioned later. More detailed information regarding the development of the clearings in particular countries is given in the following paragraphs.

The surplus on the French clearing with Germany during the year 1941 was less than that of Belgium and only one-half that of Holland; but in 1942 it expanded to considerably more than double its former volume and exceeded these other two principal suppliers of Germany on credit. Some idea of the extent of French exports to Germany can be obtained from the following estimates: in the first five months of 1942 French exports to Germany amounted to Fr.fcs 14.7 milliard (over 70 per cent. of France's total exports) and imports Fr.fcs 3.7 milliard, the Fr.fcs 11.0 milliard surplus of exports being financed by the French Treasury. The total claim in the clearing with Germany was equivalent to about RM 2,400 million at the end of 1942.

(1) Clearing claims were first shown in the return of the Croatian State Bank on 15th October 1943 when they totalled Kunas 2,950 million. (2) I. e. the equivalent of RM 3,000 million. There is, in addition, a foreign short-term debt of a similar magnitude owed partly to Sweden and partly to the United States.

After France, Belgium was the chief exporter to Germany on credit in 1942; the figure in the table for 1941 includes, besides the clearing, the withdrawal during the year of RM 286 million Reichskreditkassenscheine issued in 1940; the surplus on the actual clearing account with Germany in 1942 was two and a half times as great as in 1941. The total of the Belgian claim on Germany at the end of 1942 was the equivalent of about RM 2,400 million.

Holland follows closely after France and Belgium. Actually the returns of the Nederlandsche Bank show an increase of only RM 1,075 million in 1942, compared with RM 1,255 million in 1941, but, in addition, some RM 300 million were purchased by the Dutch Treasury from the bank early in April 1942. According to unofficial reports, similar purchases took place regularly at the end of each month thereafter, but these transactions were for much smaller amounts and, as these Reichsmarks are not shown amongst the assets in the Treasury returns, it is not possible to make allowance for them. At the end of 1942 the total Reichsmark holding of the Nederlandsche Bank amounted to nearly RM 2,500 million (of which RM 2,300 million was invested in Reich securities\*); taking account of the Treasury's holding, the total Dutch claim would be about RM 3,000 million.

Statistical data regarding the Italian surplus in the clearing with Germany are lacking but the increase of the Italian Treasury's assets in the past two years leads to the assumption that the total clearing surplus may be in the neighbourhood of Lit. 15 milliard, say RM 2,000 million, which total has been adjusted to the extent of the value of the property of German

**Migration of German Nationals<sup>(1)</sup>.**

Position at end of 1942.

Date of beginning of emigration	Territory from which emigration took place	Total number of emigrants	Number with fortunes
1939 November . .	Estonia and Latvia (?) . . . . .	80,076	35,000
November . . . .	South Tyrol . . . . .	237,802	62,000
November . . . .	Volhynia, Galicia etc. . . . .	134,950	60,000
1940 September . .	Polish Governor-Generalship	30,756	7,000
October . . . . .	Bessarabia & North Bukovina	137,116	55,000
December . . . .	Dobrudja & South Bukovina .	77,238	20,000
1941 January . . . .	Lithuania . . . . .	50,904	15,000
June . . . . .	France . . . . .	15,353	6,000
November . . . . .	Laibach (Ljubljana) . . . . .	14,810	4,500
December . . . . .	Bulgaria . . . . .	1,925	690
1942 February . . . .	USSR . . . . .	5,314	1,500
April . . . . .	Greece (Herakleia) . . . . .	144	31
July . . . . .	Slovakia . . . . .	551	13
October . . . . .	Croatia . . . . .	18,302	5,000
	Totals . . . . .	806,106	272,000

nationals repatriated from the South Tyrol and brought into the clearing in 1940. What amount has been brought into the Italian-German clearing as a result of this repatriation has not been revealed but nearly 240,000 persons had been transferred from the South Tyrol by the end of 1942, of whom 62,000 had fortunes, as the table shows.

(<sup>1</sup>) From the annual report for 1942 of the Deutsche Umsiedlungs-Treuhand-Gesellschaft, formed in the autumn of 1939 to ensure the orderly transfer of emigrants' property.

(<sup>2</sup>) Including 18,244 emigrants under the later transfer dating from February 1941.

\* Holland is able to invest Reichsmark balances directly in Reich securities. Other countries hold non-interest-bearing Reichsmark balances at the Verrechnungskasse in Berlin, which invests these funds in Reich securities on its own account.

(The transfer of German nationals, which began in the autumn of 1939, had passed its peak in 1942. Although the last resettlements had not yet been completed, the work of the Deutsche Umsiedlungs-Treuhand-Gesellschaft thus entered on a new phase during the year, when it became chiefly a question of helping settlers in their new economic surroundings. By the end of 1942 final settlements of property had been made in 195,000 cases, involving total out-payments of RM 219 million plus RM 260 million for maintenance, advances, etc.)

Denmark is the only country where the costs of maintaining the occupying troops, of fortifications etc. are booked as a claim in Reichsmarks, and this claim is included with the clearing in the figures given in the table. In 1941 the total of RM 425 million was divided equally between the clearing and occupation costs. For 1942 the total increase under the two headings was practically the same as in the previous year, but the rise in the clearing figure was relatively less, particularly in the third quarter, while the occupation costs, which had been running at an average of RM 17-18 million monthly, rose in the last quarter to over RM 30 million a month. Towards the end of 1942 the restrictions on purchases by German soldiers and the customs control for German nationals were lifted. Moreover, the Danish Government agreed that the army of occupation should be supplied from Danish sources, while hitherto foodstuffs had had to be either imported or bought in the country through the clearing account. The total Danish claim in Reichsmarks was about RM 1,250 million at the end of 1942.

In 1941 the Hungarian National Bank and the commercial banks opened a pengő credit in favour of the German clearing office in order to make possible the payment of claims of Hungarian exporters. In view of the further increase of exporters' claims, the Hungarian banks, in the spring of 1942, granted a fresh advance of RM 100 million, raising the amount of claims financed directly by the National Bank and the Hungarian banks together to the equivalent of RM 300 million. The Hungarian banks, for a considerable part of this advance, had recourse to the National Bank in the form of credits on current account. These credits and the advances of the National Bank were shown separately in the return of the latter as "Pengő advances made to foreign countries" and it is this item which is reproduced in the table (in which connection it must be remembered that it does not show the amounts financed by the commercial banks without recourse to the National Bank).

As the result of an arrangement reached with Germany, the Hungarian Government in September 1942 took over RM 161 million from the National Bank and by the end of 1942 had bought RM 225 million within the German-Hungarian devisen compensation. The pengő amounts required for this purchase of Reichsmarks were raised by the issue of Treasury certificates which, however, for the most part, were presented by the banks for rediscount at the National Bank (and booked under the same heading as the refinanced pengő advances,

the title of the item being changed as from 7th December 1942 to "advances made for international payments").

The Reichsmarks taken directly by Hungary and the pengö advances together amounted to RM 540 million at the end of 1942, an increase of RM 357 million on the year. In addition, RM 137 million had been utilised by the Treasury for extraordinary payments. The total claim shown by the National Bank of Hungary at the end of 1942, and included in the table on page 153, was the equivalent of RM 310 million\*.

The rise in the Reichsmark holding of the National Bank of Roumania is shown in the table at RM 115 million for 1942, less than half the increase of RM 275 million in 1941. Actually the National Bank purchased about the same amount of Reichsmarks as in the previous year but in the first two months of 1942 the equivalent of RM 50 million was used to buy gold from Germany and RM 85 million was sold to the government for the repurchase of Roumanian securities from Germany and for other purposes. Again, in the early months of 1943, the clearing claims fell by RM 100 million, of which RM 50 million was utilised to buy gold. The National Bank of Roumania twice suspended its purchases of Reichsmarks for appreciable periods, the first occasion being from the end of October 1941 until January 1942 (before the first purchase of gold) and the second being from the end of October 1942 until January 1943 (immediately before the second gold purchase). At the end of 1942 the total clearing claim was nearly RM 400 million.

The Bulgarian National Bank's holding of Reichsmarks, amounting to nearly RM 700 million at the end of 1942, consisted of some RM 450 million clearing claim and RM 250 million Reichsmark "Investments". These investments consist of Bulgarian Government Treasury bills denominated in Reichsmarks, given to the German armaments and heavy industry in advance payment for orders placed. They have been repurchased by the National Bank as a utilisation of Reichsmark balances. By a later arrangement the National Bank provided Reichsmarks directly to the government against Treasury bills.

The Reichsmark holding of the National Bank of Bohemia and Moravia increased further during 1942 and would be higher still but for two factors, the purchase of Reich securities by the commercial banks and the payment of a "Matrikular contribution" by the Protectorate to the Reich. The accumulation of Reichsmarks arises not only in trade with Germany but also through exports to south-eastern European countries in so far as these countries are allowed to settle their debts to the Protectorate out of their Reichsmark claims on Germany. In 1942 certain bonds of south-eastern European countries in private hands were called for surrender to the National Bank to be offset against clearing debts due to those countries.

\* Further, clearing assets and the corresponding claims against Hungarian exporters are booked under "sundry assets" and "sundry liabilities" in the National Bank's returns until out-payment or formal advance is made (see footnote (1) to the table giving figures of the National Bank's return on page 220).

Statistical information regarding the clearings of other countries with Germany is not so complete, but certain indications can be given. Slovakian claims against Germany rose during 1941 from RM 85 million to RM 170 million, and in 1942 continued to increase\*. In November 1942 the Ministry of Finance was authorised to purchase Reichsmarks to the extent of Ks. 700 million (RM 60 million) from the National Bank, Ks. 500 million to be utilised for payments to Germany in connection with the emigration of Jews from Slovakia and Ks. 200 million to be used to cover deliveries from Germany; in June 1943 a further authorisation was given to the Ministry of Finance to purchase Reichsmarks from the National Bank.

Little information is available regarding the Greek situation. Exports were sent almost exclusively to Germany and figures issued covering the first five months of 1942 showed the following position (converted into Reichsmarks).

**Greek Foreign Trade.**  
January - May 1942.

In millions of Reichsmarks*	Greek imports	Greek exports	Surplus of exports (+) or imports (-)
Germany . . . . .	8.4	22.9	+ 14.5
Italy . . . . .	4.4	1.5	- 2.9
All others . . . . .	12.0	1.2	- 10.8
<b>Total . . . . .</b>	<b>24.8</b>	<b>25.6</b>	<b>+ 0.8</b>

\* At official rate of Dr. 60 = RM 1.

The surplus of Greek exports to Germany was running at the rate of nearly RM 3 million a month in the five months to May 1942, when Greece had a total clearing claim of RM 78 million against Germany; at this rate the clearing claim would have reached some RM 100 million by the end of the year. But Greece went through a period of violent inflation in the second half of 1942;

exports to Germany fell off abruptly and were not revived until after the formation of "Degriges" (see pages 64 and 234). Italy, on the other hand, exported more to Greece than it received. By March 1943, when the Greek debt had grown to Lit. 100 million (say RM 13 million) and Italian exporters had 250 days to wait for the lira proceeds of their exports to Greece, these Italian exporters were paid by means of an Italian Treasury advance, to be gradually amortised from a new clearing account, which was to be kept in equilibrium on the Italian side through the control of export licences. Other countries, including Turkey, Serbia and Roumania, exported to Greece, in the first five months of 1942, ten times as much as they were able to import from Greece.

According to reports from Spain, the debt to Germany contracted during the civil war has been gradually redeemed by payments to the "Blue Division" (serving on the Russian front) and by the taking-over by Spain of the remittances of Spanish workers in Germany. Foreign trade figures published for 1942 show a continuation of the Spanish export surplus to Germany; according to information from the German side, Spain had a considerable Reichsmark claim in the current clearing, so that Spanish exporters to Germany had about three months to wait for the peseta proceeds of their exports to be paid to them.

\* Only part of the clearing claims are financed by the Slovak National Bank; the balance sheet at the end of 1942 shows these claims at Ks. 1,575 million (RM 185 million) against Ks. 845 million (RM 99 million) at the end of 1941.

For most of the countries mentioned above the credits granted to Germany through the clearing mechanism were not limited by agreement as to either amount or maturity. The Hungarian credits described in preceding paragraphs were limited only as to amount, while the maturity remained indefinite. Somewhat similar were the credits granted by Switzerland. In July 1941 it was announced that the Swiss Government would guarantee the country's exporters, within the scope of the clearing agreement with Germany, credits up to Sw.fcs 400 million (in addition to the "normal" amount of about Sw.fcs 50 million outstanding), while a further Sw.fcs 400 million would be made available for the period up to the end of 1942 (forming a total equivalent to about RM 465 million at the official rate of RM 1 = Sw.fcs 1.76); and the waiting time for Swiss exporters was limited to three months. Negotiations for the renewal of the clearing agreement, which expired at the end of 1942, led to no definite result; the existing clearing mechanism was, however, maintained and it was decided, inter alia, that the Swiss exporters to Germany might avail themselves of such balances as had remained unutilised on the previous credit. On 1st October 1943 a new agreement was signed, the principle being that the clearing should, in future, be in the main self-supporting without credits; a gradual prolongation of the delay (before Swiss exporters were paid in their domestic currency) was thus to be reckoned with.

Unlike the credits given to Germany by other countries, those granted by Sweden have carried interest and have been strictly limited both as to time and as to amount. In the autumn of 1941 the Swedish Reserve Stocks Office made a credit of S.Kr. 100 million available to the Clearing Office to finance exports to Germany during the remainder of the year, the credit to be repaid by a first charge on German deliveries of coal, coke and chemical products during the first half of 1942. S.Kr. 90 million had been drawn under this credit by the end of the year; three-quarters of this amount was repaid by the due date in June 1942 and the balance in the second half of the year.

Credits granted directly by Swedish exporters themselves might, moreover, be partially insured through the Government Export Credit Office: in the autumn of 1941 Swedish exporters of cellulose, timber and paper, on contracts of S.Kr. 59 million, gave credits up to March 1942 of S.Kr. 44 million, of which S.Kr. 22 million was guaranteed; these credits also were repaid. For 1942, new credits of some S.Kr. 115 million, generally up to about one year, were granted by Swedish exporters, of which one-half were covered by official guarantees. The total of official and private credits outstanding at the end of 1942, the equivalent of some RM 70 million, was thus at about the same level as a year previously. Apart from the credits, Germany had a surplus balance on clearing account of about S.Kr. 30 million at the end of 1942, which, following the seasonal movement of trade, grew to over S.Kr. 90 million by May 1943 but declined in later months. No new credits, official or private, were granted for the first half of 1943, when S.Kr. 8 million of the outstanding advances was repaid.

In Italy, material was published weekly, showing the date of the last export transaction settled through the clearing and its serial number. These numbers indicated the volume of export transactions, if not their value, with each clearing partner separately. They have been utilised to prepare the following table, showing the number of transactions pertaining to the calendar years 1939-42 (not necessarily paid for during the corresponding year).

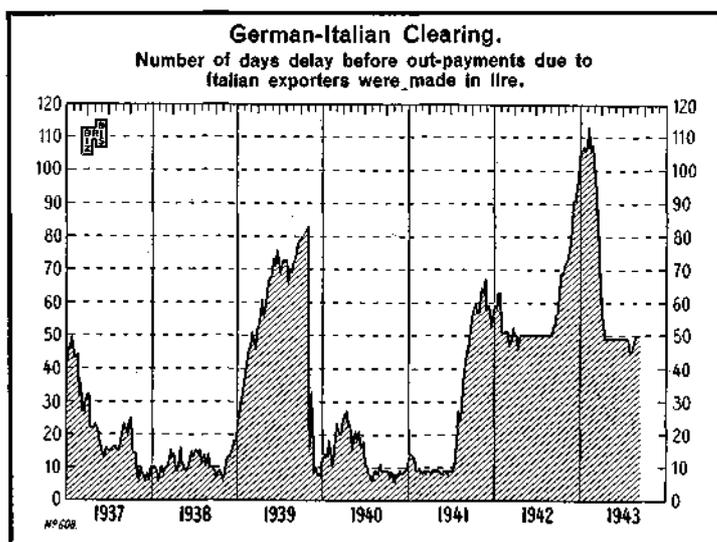
Number of Italian export transactions.

Clearing partner	1939	1940	1941	1942	1939	1940	1941	1942
	Thousands of transactions				Percentage of total			
Germany* . . . . .	107	115	146	109	30	43	56	50
Switzerland . . . . .	69	62	52	28	19	23	20	13
Hungary . . . . .	2	12	16	16	1	4 ½	6	7 ½
Sweden . . . . .	17	12	13	12	5	4 ½	5	5 ½
All others . . . . .	161	67	33	52	45	25	13	24
<b>Total . . . . .</b>	<b>356</b>	<b>268</b>	<b>260</b>	<b>217</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\* Including Bohemia and Moravia.

The number of Italian export transactions through the clearing fell from 356,000 in 1939 (when England was included) to 260,000 in 1941 and 217,000 in 1942. The number of exports to Germany increased both absolutely and relatively until 1941, while those to other countries (with the exception of Hungary) fell off: in 1942 the number of export transactions with Germany fell by one-quarter.\* The German proportion, which had increased from 30 per cent. in 1939 to 56 per cent. in 1941, declined to 50 per cent. in 1942. The four countries heading the list accounted for 75 per cent. of Italian export transactions in 1940, 87 per cent. in 1941 and 76 per cent. in 1942. In the latter year there was a notable increase of export transactions with Roumania,

Bulgaria and Croatia (included under "all others" in the table).



The surplus of Italian exports to Germany and the repatriation of savings by Italian workers in Germany led to a continuous growth of the German clearing debt to Italy. Some indication of this is given by the graph showing the number of days which Italian exporters

\* It has been stated semi-officially that in value the turnover of Italo-German trade rose from RM 650 million in 1939 to over RM 2,000 million in 1941, and in 1942 further increased.

had to wait from the date when the German importer made his payment in Reichsmarks in Berlin until the proceeds in lire were paid out in Rome. By agreement this period was limited to 50 days in the first part of 1942; from September, however, the number of days of waiting rose continuously to over 100 at the end of the year but, as a result of new negotiations early in 1943, fell to 50 days again in the middle of April.

As a result of the political events in September 1943, a number of difficulties arose; although the Verrechnungskasse in Berlin continued to accept payments in favour of Italian exporters, these payments could not be converted into lire since no fully functioning clearing institution remained on the Italian side — nor could wage savings from Italian workers be transferred. The lira was devalued from 7.6 to 10.0 to the Reichsmark as from 15th September 1943 and Reichskreditkassenscheine were temporarily utilised for German military payments (see page 188).

### Italian Clearings.

Waiting period for Italian exporters before receiving proceeds in lire, from date when foreign importer paid domestic currency into his clearing office<sup>(1)</sup>.

Number of days at end of year	1939	1940	1941	1942
Croatia <sup>(2)</sup> . . . . .	29	9	8	202
Greece . . . . .	13	—	—	169
Germany . . . . .	13	11	56	105
Denmark . . . . .	49	65	14	70
Bulgaria . . . . .	59	11	15	63
France . . . . .	—	—	—	42
Turkey . . . . .	85	72	379	36
Finland . . . . .	35	43	72	23
Spain . . . . .	22	22	22	22
Slovakia . . . . .	20	17	15	22
Portugal . . . . .	11	11	11	17
Sweden . . . . .	45	31	11	17
Roumania . . . . .	9	10	42	17
Hungary . . . . .	—	8	11	15
Switzerland . . . . .	7	8	8	13

<sup>(1)</sup> Only the clearings which were still active at the end of 1942 are included. Others are omitted: those with Estonia, Latvia and Lithuania, for instance, were dropped from the official statistics in November 1942 when Italian exporters had waited 539, 561 and 1,027 days respectively for payment (the last payments received applying to May 1941 for Estonia and Latvia and January 1940 for Lithuania).

<sup>(2)</sup> Yugoslavia for 1939 and 1940. The relative importance of Italy and Germany in Croatian trade is reflected in the turnover of their currencies on the Agram (Zagreb) bourse:

In millions of kunas	RM	Lira
1941 July-September . .	416	159
October-December . .	788	344
1942 January-March . . .	899	547
April-June . . . . .	777	358
July-September . . . .	947	216

The accompanying table shows the number of days which Italian exporters had to wait for the lira proceeds of their exports to various countries as at the end of the years 1939-42. The number of export transactions with Switzerland fell in 1942 to little more than one-half of the 1941 figure, and the Italian clearing debt increased; Switzerland still remained by far the most important partner of Italy after Germany. With Hungary the number of transactions was maintained; Hungary opened a credit in the clearing with Italy in 1941 but this was not utilised until December 1942, when Pengö 16 million (the equivalent of, say, RM 10 million) was drawn. For neither Switzerland nor Hungary did the waiting period exceed 20 days throughout 1942, and it was usually 10 or under (i.e. the minimum time necessary for postal communications and normal administrative procedure).

With Sweden, the Italian clearing position worsened somewhat in the second half of 1942; at the end of the year, the Italian debt amounted to S. Kr. 12 million and Swedish exporters had about six weeks to

wait for the krona proceeds of their exports. With other countries transactions were on a smaller scale but in September 1942 it was reported that Roumania had a clearing balance against Italy of Lei 1,000 million (equivalent of, say, RM 17 million); towards Slovakia there was an Italian debt of Ks. 50 million (RM 4½ million) at the end of 1942 but Italy was a creditor of Bulgaria.

The year 1942 was characterised by special efforts made by the creditor countries to utilise their Reichsmark claims. These efforts have taken the following principal forms.

- a) Purchase of gold. As mentioned on page 158, the National Bank of Roumania has made two purchases of gold, totalling RM 100 million, by utilising its Reichsmark holding.

No other repayment of clearing debts in gold has been reported; in fact, in some cases gold appears to have been purchased by Germany against Reichsmarks, e. g. some RM 25 million from Holland at the end of August 1940.\*

At the annual general meeting of the Slovak National Bank on 27th February 1943, the Governor stated that the bank had, with the assistance of the German Reichsbank, acquired free devisen for nearly Ks. 200 million (say RM 17 million), the amount required for the purchase of important raw materials abroad.

- b) Repatriation of securities in German hands. In 1941 German capital played a large part in investment in Balkan and other countries, local currency being obtained in many cases against Reichsmark clearing balances. In 1942 this activity appears to have declined considerably, as it had aroused some disquiet in the countries concerned. A census of foreign investments has been undertaken in both Roumania and Bulgaria; in the latter country a new law on share companies was presented, under which companies with more than half of their capital in foreign hands might be liquidated by order of the court. In Hungary the extent of foreign participation in Hungarian companies has been published for the first time. A decree regarding the investment of foreign capital in Italy was transformed into law in October 1942; it was officially stated that it was not intended to exclude foreign capital altogether but to regulate its influx in accordance with national requirements; in particular, the purchase with foreign capital of buildings or industrial enterprises in Italy or of shares of Italian commercial and industrial companies was to be prohibited in the absence of a special permit.

Besides the Roumanian Government repayments mentioned on page 158, the repayment of further Roumanian debt in relation to

\* Various reductions of the Dutch gold stock over the period August 1940 to June 1943 amounted in all to Fl. 250 million, the equivalent of RM 330 million. On 5th July 1943 certain changes were made in the return of the Nederlandsche Bank and the gold holding rose by Fl. 46 million, apparently through a transfer from the sundry assets item.

Germany was agreed upon and the mobilisation of certain Roumanian bonds in German hands was called for by the Reichsbank in May 1943.

The Hungarian Government in 1942 made extraordinary payments "which under normal conditions would not have taken place"; these payments included, in particular, the redemption of the Hungarian quota of the old government debts of Czecho-Slovakia and Yugoslavia and the repayment of certain Krone and Mark debts of Austria-Hungary dating from before 1918 and placed in Germany. In August 1943, a further mobilisation of Hungarian bonds and coupons in Germany took place. Moreover, it is reported that arrangements have been made between Hungarian and German banks for the repurchase of Hungarian shares in German hands and that these transactions began early in 1943; the scope of the arrangement is not yet known but capital participations appear to be excluded.

In the two and a half months to the middle of August 1942, the Reichsmark holding of the National Bank of Bulgaria fell by some RM 50 million, a movement due, in part at least, to a return of Bulgarian government securities, dating from 1892 to 1909, held in Germany; the mobilisation of these securities was called for by an order of the Reichsbank in September 1942.

- c) The placing of orders in Germany. A method of specifying the utilisation of existing Reichsmark claims has been the placing of large orders in Germany for delivery after the war, e.g. by the Roumanian railways (according to the agreement of 4th December 1940). A further important agreement of this nature was announced in August 1942: special German deliveries of machinery, tools and raw materials etc. were to be made to the Bulgarian authorities for a total present value of Leva 12 milliard (RM 360 million); the plans provided for delivery periods of 2 to 2½ years, so that the material was expected to arrive in Bulgaria by the end of 1944. By April 1943 it was stated that Bulgarian orders placed in Germany had reached Leva 20 milliard (RM 600 million). In September 1943, the Roumanian Ministry of Finance was authorised to take over RM 200 million from the National Bank to settle claims in connection with armament and other orders placed in Germany. The placing of similar orders was also under discussion in Hungary.

Contribution to Germany's war economy was also made by the occupied countries in the form of payments to the German (and, to a much smaller extent, Italian) authorities on account of the costs of occupation and similar charges, such as billeting of troops and requisitions. To give an indication of the importance of this factor also, the table on the following page has been prepared for four countries for which data have become available.

**Growth of Clearing Claims and Payment of Occupation Costs 1940-42.\***

Country	Annual amounts									Totals		
	1940			1941			1942			Years 1940 to 1942		
	Clearings	Occupation costs	Total	Clearings	Occupation costs	Total	Clearings	Occupation costs	Total	Clearings	Occupation costs	Total
In millions of Reichsmarks												
France . .	150	2,000	2,150	600	5,500	6,100	1,650	8,600	10,250	2,400	16,100	18,500
Belgium . .	250	350	600	680	1,300	1,980	1,480	1,500	2,980	2,410	3,150	5,560
Holland . .	160	500	660	1,250	1,600	2,850	1,400	2,000	3,400	2,810	4,100	6,910
Denmark . .	190	200	390	210	210	420	170	260	430	570	670	1,240
<b>Totals . .</b>	<b>750</b>	<b>3,050</b>	<b>3,800</b>	<b>2,740</b>	<b>8,610</b>	<b>11,350</b>	<b>4,700</b>	<b>12,360</b>	<b>17,060</b>	<b>8,190</b>	<b>24,020</b>	<b>32,210</b>

\* Figures are rounded off to the nearest RM 10 million.

Note: Clearing figures have been brought forward from previously-mentioned data. For Holland an allowance has been made for the amount taken over by the Treasury in April 1942.

As regards occupation costs, the table is compiled from the following material. The amounts actually paid on account of occupation costs in France (at the rate of Fr.fcs 400 million daily from 25th June 1940 to 10th May 1941 and Fr.fcs 300 million daily from 11th May 1941), converted at Fr.fcs 20 = RM 1, was RM 4,000 million in 1940, RM 6,075 million in 1941 and RM 5,475 million in 1942. The amounts actually utilised (i.e. drawn off the accounts at the Bank of France) were RM 1,730 million in 1940, RM 5,116 million in 1941 and RM 7,881 million in 1942. Requisitions and billeting costs, etc., have been given as RM 375 million in 1941 and are booked at RM 750 million for 1942. In the table the amounts actually utilised have been taken plus requisitions (with an allowance for requisitions in 1940).

For Belgium, the 1941 budget accounts give RM 1,212 million for occupation costs and RM 92 million for billeting expenses etc. The Dutch figures for occupation costs are derived from the unofficial estimate of Fl. 100 million a month given for 1941. For both Belgium and Holland the figures for 1940 and 1942 are estimates based Inter alia on the data given for 1941. For Denmark, the statistics show the growth of Reichsmark claims on account of advances to the occupying authorities (booked under "sundry assets" in the Nationalbank's return).

The annual amounts contributed by these four countries — France, Belgium, Holland and Denmark — by way of the clearings and by payment of occupation costs rose from RM 3.8 milliard in 1940 (last half-year only) to RM 11.3 milliard in 1941 and RM 17.1 milliard in 1942. Of the total of over RM 32 milliard in the two and a half years to the end of 1942, three-quarters was on account of occupation costs and one-quarter passed through the clearings; two-thirds of the occupation costs were paid by France, the remaining third by the other three countries together. Estimates for the first nine months of 1943 give an annual rate of over RM 20 milliard, as shown in the table below.

Occupation costs are paid by other countries in Europe but information is fragmentary. The total credits contracted by the occupying authorities at the

**Growth of Clearing Claims and Payment of Occupation Costs.**

Estimates for 1943 (nine months).

Country	1943 January-September		
	Clearings	Occupation costs	Total
	in millions of Reichsmarks		
France . . . . .	2,000	7,900	9,900
Belgium . . . . .	1,400	1,300	2,700
Holland . . . . .	1,200	1,600	2,800
Denmark . . . . .	300	350	650
<b>Totals . . . . .</b>	<b>4,900</b>	<b>11,050</b>	<b>15,950</b>

Bank of Norway are estimated in informed circles to have risen from N. Kr. 1.5 milliard in December 1940 to N. Kr. 3.8 milliard in December 1941 and to over N. Kr. 6 milliard in December 1942, that is to some RM 3,500 million; against this is to be set a small debt on clearing account to Germany due, however, to imports made by the army of occupation. The advances of the Bank of Greece on account both of the clearings and of the occupation

costs had risen by the end of 1942 (from April 1941) to some Dr. 200 milliard (which would be RM 3,330 million at the official rate of Dr. 60 = RM 1, an amount swollen by the considerable rise of prices in Greece). The Croatian State Bank in its first published return, for April 1943, showed "claims on foreign countries", due to advances to occupying troops, at Kunas 2,750 million; by the end of September 1943 these claims had risen to Kunas 9,020 million. And occupation costs of unknown amount are also paid by Serbia.

Including the war contributions of the Governor-Generalship of Poland and the Protectorate of Bohemia and Moravia but excluding all levies on the occupied parts of Russia, Germany would seem to have received in the two and a half years up to the end of 1942 some RM 45-50 milliard\*, from European countries as a result of recorded transactions on account of occupation costs and through the clearings. Of the total about two-thirds represent occupation costs, while for the remaining one-third a German liability was incurred on clearing account.

The financing of these vast sums has naturally had important monetary consequences in the countries concerned. To arrive at the total amount of official financing in each country, payments in respect of occupation costs and clearing advances must be added to the expenditure in the national budget, and the crucial point of the financial problem will then be what proportions of the total are covered by taxation (and other current revenue), by expansion of bank credit and by direct calls on the central bank. The proportions vary in the different countries but a dominant part of the charges usually falls on the central bank. It is therefore of some interest to show the degree of parallelism obtaining between the payment of occupation costs and the growth of clearing claims, on the one hand, and the expansion of the note circulation, on the other, where the items in question are recorded in the balance sheets of the central bank; this is done in the table on the opposite page.

In 1942 there was a very close correspondence between the growth of the clearing claims and the rise of the note circulations in Belgium, Holland, Slovakia and in Bohemia and Moravia; for France the parallelism is with the payment of occupation costs.

In Hungary and Roumania the note circulations rose in 1942 considerably more than the clearing claims as shown by the central bank — this implies that central-bank credit was extended for other reasons also; the parallelism would, however, have been greater but for the purchases of Reichsmarks by the Treasuries in these countries. In Denmark and Bulgaria, on the other hand, the note circulations have risen less than the clearing claims — in each of these two countries "other sight liabilities" of the central bank have risen considerably, in Denmark the accounts of the banks and in Bulgaria the account of the Treasury.

\* Dr. Günter Keiser in "Bank Archiv" of 15th February 1942 gave a total of RM 15-17 milliard for all countries in 1941. The four countries shown in the table appear to account for about three-quarters of the total in that year.

Clearing claims, occupation costs and note circulations.

Country	Out-payments on account of clearing claims or occupation costs*		Increase of note circulation		Out-payments as percentage of increase of note circulation		Total clearing claims (or occupation costs) as percentage of note circulation		
	during year		during year		during year		at end of year		
	1941	1942	1941	1942	1941	1942	1940	1941	1942
	in milliards of national currency units				percentages		percentages		
Belgium <sup>(1)</sup> . . . . .	8.6	18.4	13.6	19.4	63	95	9	24	44
Bulgaria <sup>(2)</sup> . . . . .	11.0	8.2	6.9	5.5	159	149	51	107	119
Denmark <sup>(3)</sup> . . . . .	0.98	0.69	0.10	0.14	880	493	109	201	243
France <sup>(4)</sup> . . . . .	42.0	116.2	49.1	112.6	66	103	37	53	55
Holland . . . . .	0.95	0.81	0.56	0.92	170	88	8	49	62
Hungary . . . . .	0.14	0.37	0.60	0.97	23	38	—	7	17
Roumania . . . . .	16.5	6.8	32.3	20.7	51	33	1	18	20
Slovakia . . . . .	0.45	0.73	0.37	0.72	122	101	24	42	57
Bohemia and Moravia . . . . .	5.1	4.4	2.9	4.7	176	94	101	124	114

\* In so far as shown by the central bank. (1) Including Reichskreditkassenscheine withdrawn.  
 (2) Including Reichsmark "investments". Without this item the net clearing claims would amount to 80 per cent. of the note circulation at the end of 1942.  
 (3) Clearing and occupation costs together. (4) Occupation costs (net movement of special advances of Bank of France and account of Reichskreditkassen during year — see page 195).

By the end of 1942 the total clearing claims exceeded the note issue in Denmark, Bulgaria and in Bohemia and Moravia; in Holland and Slovakia clearing claims were around 60 per cent. of the note issue, in Belgium over 40 per cent. and in Roumania and Hungary around 20 per cent. Commenting on this situation\*, one of the Vice-Presidents of the Reichsbank stated that for the present each country must do what it could to lessen the strain due to the war and take the necessary measures to prevent harmful repercussions on its currency. As mentioned in the twelfth Annual Report of this Bank, various efforts have already been made to offset the undesirable monetary effects of direct advances of the central banks to finance clearing claims and occupation costs. In Denmark, where the rise of the note circulation has been least pronounced, steps have been taken to tie up the banks' cash reserves and to float "sterilisation" loans. In Bohemia and Moravia the central bank has for several years issued interest-bearing Kassenscheine to mop up the surplus funds on the market; the Dutch Treasury has taken over part of the Reichsmark claims against Treasury certificates, which the Nederlandsche Bank may sell on the market. In Hungary, part of the clearing claims was financed by the commercial banks and, in Belgium, an effort has been made to check the expansion by the payment of exporters' claims in blocked Treasury certificates. Further details of the various credit measures taken are given for the individual countries in Chapter V.

To counteract the undesirable monetary effects, efforts have been made to check the increase of central-bank advances; thus from time to time the central banks in Hungary, Bulgaria and Roumania, for example, have strictly limited the

\* In an article in the Südost-Echo, 16th October 1942.

amounts of Reichsmarks they would buy (especially those arising from incoming capital). From the point of view of monetary expansion it is of no use merely to exchange one central-bank asset for another; the swapping of clearing claims in the central-bank return for something else, whether it be a Treasury certificate (as in Holland) or even gold (as in Roumania), involves no monetary contraction (although it may be desirable for other reasons).

Some effect in checking surplus exports and, with them, the monetary expansion has been produced by allowing exporters to wait for their money until it becomes unfrozen by the natural play of the clearing, i. e. until offset by imports. As mentioned earlier in this chapter, the delay in the payment of Italian exporters to Germany, which had been limited to 50 days, rose during 1942 to over 100 days; and the agreement which limited the waiting time for Swiss exporters to Germany to 90 days lapsed at the end of 1942<sup>(1)</sup>. Spanish and Slovakian exporters to Germany also had about 100 days to wait for the proceeds of the exports to be paid; and in Sweden and Hungary exporters were not certain to receive immediate payment in their domestic currencies. Early in 1943 negotiations were undertaken by Germany with both Italy and Hungary to speed up domestic out-payments to the exporters in those countries.

The growth of Germany's clearing debts reflects the surplus of German imports including transport and insurance charges etc., payments to contractors for armament orders placed by Germany in occupied countries, payments on behalf of the German army and the repatriation of savings made by foreign workers<sup>(2)</sup> in Germany. The accelerated rate of growth of German clearing debts in 1942 and 1943 is the result not only of the intensification of the war but, to a large extent, of increased prices in the exporting countries.

There is evidently a conflict of interests between the creditors in the clearing, who wish to import, i. e. to turn their Reichsmark claims into goods, and Germany, which seeks the greatest possible contribution from the European economy. To questions on this subject, one of the Vice-Presidents of the Reichsbank has replied<sup>(3)</sup> that Germany recognises that its growing clearing indebtedness towards other countries has given rise to anxiety. But it must be realised, he added, that Germany, in its conduct of the war, is compelled to have recourse to European resources, so that, for the time being, the establishment of equilibrium in terms of goods between the various countries must necessarily be postponed.

There is, however, a further and less evident conflict of German interests amongst themselves. In order that the clearing mechanism should work smoothly

(1) The new agreement signed on 1st October 1943 provided for the gradual prolongation of the waiting period up to nine months, say 270 days.

(2) The transfers of funds by foreign workers through the German devisa banks amounted to RM 120 million in 1940, to RM 363 million in 1941, to RM 606 million in 1942 and RM 230 million in the first four months of 1943: in all, RM 1,339 million. These amounts refer only to transfers through the banks by twelve countries, excluding Holland and Bohemia and Moravia (with no devisa frontier) and Roumania, Croatia and the Baltic States, as also the Ukraine and White Russia (for which other methods of payment were used).

(3) In the article in the *Südost-Echo* already mentioned.

and that payments to foreign exporters be made immediately in their home currency (so that the exporters are not hampered in their activity by having their funds tied up indefinitely in the clearings), the clearings are financed in nearly all countries directly by the central bank. This means that central-bank credit, and generally the note circulation also, rises more or less parallel with the clearing claim (as has been shown above). Owing to the considerable importance of these claims measured in the currency of the creditor countries and to the comparative narrowness of their capital markets, it has become more and more difficult to finance any appreciable part of these claims outside the central bank. Thus the undesirable monetary effects of the accumulation of clearing claims in the creditor countries have become intensified. Note circulations expanded to finance clearing claims (and occupation costs), combined with falling domestic production and declining imports, have been the cause of soaring prices and quotations, a search for Sachwerte and other symptoms of inflation. But rising prices throughout a great part of Europe lead to higher prices for German imports, and the mobilisation of resources for German account may be seriously impaired by the social influences of cumulative inflation.

The measures taken to meet this situation are the price stop and exchange stability. If a European price stop for all prices has proved impossible, at least a price stop for goods entering into foreign trade has been attempted. Most new clearing and commercial agreements (which are often arranged for only a few months at a time) have clauses fixing the prices of the more important commodities exchanged; and, in addition, measures have been taken for price equalisation by special funds. Further, as the annual report of the Reichsbank points out, in spite of loss of purchasing power due to price and wage increases and other causes in a number of countries, foreign exchange rates have not been adjusted, Germany being desirous of assisting these countries in their efforts to maintain the value of their domestic currencies.

There are thus two problems arising from the clearing situation which affect both Germany and the clearing creditors alike: the much-discussed problem of future repayment and the more immediate problem of present inflation.

## V. GOVERNMENT FINANCE, MONEY AND CAPITAL MARKETS AND THE STOCK EXCHANGES.

### 1. GOVERNMENT FINANCE, MONEY AND CAPITAL MARKETS.

The broad lines of war financing methods have undergone no striking changes in the past year, but the long duration of the war imposes considerable strains, signs of which have begun to be evident in certain cases. The ever present problem is the absorption of surplus purchasing power created by government spending; in the United States and Japan new and considerable increases in taxation have been made. In England and Germany, where taxation had already more or less reached practicable limits, emphasis has been placed on other methods of absorption: in England (as indeed in the United States also) "savings campaigns" have been vigorously pursued; and in Germany measures have been taken to obtain special revenue and to relieve the government of advances of working capital to war industries. In these four countries interest rates for government long and medium-term loans have remained stable during the period under review, at around 3½ per cent. in Germany and Japan, 2½ per cent. in England and 2-2½ per cent. in the United States. Signs of strain were more evident in Italy, where a lower proportion of government expenditure was covered by taxation than in other belligerent countries and where early in 1943 a yield of over 6 per cent. free of tax was offered on a new issue of government paper redeemable in three years. Other European countries, besides having their own expenditure to cover, have often had to finance occupation costs and credits to Germany in the clearings, the most extreme case of inflation being in Greece.

A rough measure of the success of the policy of absorbing surplus purchasing power is given by the degree of expansion of the note issues, a study of which is made in Chapter VI. In the following paragraphs financial developments in the more interesting cases are recorded in some detail.

In Germany special measures were adopted which somewhat retarded the expansion of the public debt from the autumn of 1942 to the spring of 1943. The measures took two forms: decrease of expenditure by a reduction of advance payments on armament orders, and increase of revenue by a special composition of the "rent tax".

From the beginning of the war, armament orders had, up to 60 per cent. and more, been financed by government advances without interest, the total of such advances at times reaching some RM 5,000 million (while army promissory notes\*, issued for the same purpose, were of much less consequence, the average amount outstanding being only RM 300 million); partial payments had also been made for partial deliveries.

\* These army promissory notes, or Wehrmachtverpflichtungsscheine, which were sometimes used for pre-financing, were in effect non-interest-bearing Treasury certificates with varying currency periods. They were not eligible for lombarding, but the banks readily discounted them at 3-3½ per cent. for industrial concerns.

The system of partial payments was retained, but from 1st October 1942 advance payments were greatly reduced, their general abolition being contemplated after a transitional period of six months. After the expiry of this six-month period, contractors were to utilise their own resources to the fullest extent and to obtain bank credit for the remainder. In future, all claims in respect of an order might be ceded to a bank in a simplified form as guarantee; if the bank deemed such cession, and other security pledged, insufficient collateral for the credit, it might apply for a government guarantee up to 30 per cent. of the amount of the order (for which the bank would pay to the government 1 per cent. on the guaranteed portion outstanding). It was estimated that about one half of the RM 5,000 million could be provided by the contracting firms from their own resources, while the other half would have to be borrowed from the banks.

The gradual abolition of advance payments during six months should have given relief to the Treasury of some RM 800 million a month for the transitional period. Although no official data have been published, it is reported that, in practice, many exceptions to the rule were made; these applied particularly to those branches of industry where advance payments were customary even in peacetime and to firms which, owing to the smallness of their capital resources in relation to their wartime turnover, might find difficulty in obtaining bank credit. The relief to the Treasury was thus less than the figure mentioned above.

The other exceptional measure was the replacement of the rent tax by a composition payment. This tax was originally imposed in 1926 on house property, after the inflation had diminished the burden of mortgage debts; it was levied by the provinces, or Länder, of the Reich.

By a decree of 31st July 1942 the rent tax was abolished from 1st January 1943; the Länder were henceforth without any source of revenue from their own taxation, and nothing has yet been made known as to compensation\*. By 31st December 1942 houseowners had to make to the Reich a non-recurrent discharge payment in cash amounting to ten times the yearly tax, i. e. to a present value of  $13\frac{1}{4}$  annual payments, subject, however, to certain alleviations. Special taxation privileges were accorded to taxpayers who paid cash from their own resources (by withdrawing bank deposits, selling securities etc.) or borrowed privately from relatives and friends or from banks, or on ordinary mortgage. Otherwise householders might cover all or part of the tax payment by official "composition loans" from mortgage banks and real-estate credit institutions, from savings banks or from insurance companies; these loans would bear interest at  $4\frac{1}{2}$  per cent. and amortisation charge at 4 per cent. of the original loan, so that annual payments would amount to 85 per cent. of the previous annual tax and would continue for 17 years. Insurance companies and savings banks were expected to make such loans from existing resources and from the normal influx of funds by way of premiums and new

\* Total expenditure of the Länder amounted to about RM 3,000 million and net financing requirements after deduction of various receipts to RM 2,600 million, so that the rent tax was of considerable relative importance. The last official figures available for the rent tax are those for 1940, when the total was RM 842 million; Prussia paid RM 511 million, of which Berlin RM 148 million.

deposits. Mortgage banks and real-estate credit institutions, whose receipt of new resources was smaller, were permitted to issue new mortgage bonds on the market.

The total proceeds of the composition would have brought in some RM 8,500 million to the Reich but for the approved exemptions, which took account of war damage and other factors; estimates of the actual yield were placed at RM 7,750 million\*, of which some RM 3,600 million was probably paid through composition loans and somewhat over RM 4,000 million in cash. The first issue of special mortgage bonds was made in October 1942 and in all some RM 1,100 million of 4 per cent. bonds were issued by the spring of 1943 at the fixed price of 102½.

Although the composition payments had to be made by the taxpayer by 31st December 1942, technical measures were taken to relieve the money market at the end of the year, so that a large part of the proceeds (estimated at RM 4 milliard) was paid over to the Reich by the banks only during the first half of January 1943.

Budgetary accounts have not been published in Germany for ten years although certain information regarding receipts has been available, which has made it possible to estimate expenditure with some degree of accuracy. Such estimates, however, became more difficult in the current year: statistics of ordinary taxation have not been published since March 1942, the payment of the rent-tax composition was spread over the end of the year and little information has been published regarding current receipts other than tax payments. Such information as is available on taxation, other current receipts and borrowing has been collected together and an effort made to present a picture as complete as the fragmentary data allow.

By and large, it may be said that the total budgetary receipts of the Reich, and, therefore, total expenditure, rose from RM 75 milliard in 1940-41 to nearly RM 100 milliard in 1941-42 and to over RM 120 milliard in 1942-43, financial years ended March in each case; in September 1941 civil expenditure was officially stated to be at the rate of RM 20 milliard a year. Total receipts from taxation and other current revenue rose from RM 37 milliard in 1940-41 to RM 47 milliard in 1941-42 and RM 68 milliard in 1942-43. Ordinary taxation receipts in 1942-43 at RM 34.7 milliard were 7 per cent. above 1941-42, the annual rate of increase having declined from 33 per cent. in the first year of the war. But the addition of the exceptional receipts from the rent-tax composition in 1942-43 gave an absolute increase of RM 10 milliard over 1941-42 against RM 5 milliard the previous year. Other current revenue also rose considerably, particularly on account of the payment of occupation costs, as the table shows.

\* Some confirmation of this figure is given by the movement of the Reich debt. The total debt rose by RM 5.18 milliard in October and RM 6.59 milliard in November, i. e. RM 11.77 milliard for the two months; the increase in December was RM 4.13 milliard, while in January there was a decline by RM 0.08 milliard, so that the net increase for the two months was RM 4.05 milliard. The difference of RM 7.72 milliard for the two periods corresponds approximately to the rent-tax composition proceeds. In February 1943, the previous rate of increase of RM 6.4 milliard was resumed, an indication that the rent-tax composition was terminated.

**Reich Budgetary Receipts.**

In milliards of RM	Taxation receipts ( <sup>1</sup> )	Other current revenue		Total current revenue	Borrowing	Total budgetary receipts
		internal ( <sup>2</sup> )	external ( <sup>3</sup> )			
<b>Financial years</b>						
1940-41 . . . . .	27.2	3.3	6.5	37.0	37.8	74.8
1941-42 . . . . .	32.3	3.6	11.0	46.9	52.1	99.0
1942-43 . . . . .	42.4	4.0	22.0	68.4	55.8	124.2
<b>Calendar years</b>						
1940 . . . . .	26.2	2.9	4.0	33.1	33.7	66.8
1941 . . . . .	30.7	3.4	10.0	44.1	48.9	93.0
1942 . . . . .	37.8	3.9	19.0	60.7	57.2	117.9

(<sup>1</sup>) Official quarterly statistics cover the period up to March 1942. For the financial year 1942-43 the figure of RM 34.7 milliard given by the Secretary of State at the Finance Ministry in November 1943 has been taken, plus RM 7.7 milliard from the rent-tax composition. Ordinary taxation for the calendar year 1942 would be about RM 34.1 milliard; to this has been added the estimated RM 3.7 milliard of the rent-tax composition received by 31st December 1942, to give the RM 37.8 milliard in the table. As explained on an earlier page, part of the rent-tax composition was in fact covered by borrowing, but it is not easy to make an adjustment for this factor.

(<sup>2</sup>) These figures are estimates, based on known figures of internal current revenue for earlier years.

(<sup>3</sup>) These are round figures (based inter alia on the data given in Chapter IV) of occupation costs paid by the occupied territories, including the war contributions of Bohemia and Moravia and of Poland. Official figures of about RM 14 milliard in 1941-42 and RM 26 milliard in 1942-43 for all current receipts (both internal and external) other than taxation have been given by the Secretary of State at the Finance Ministry.

The total borrowing of the Reich rose from RM 38 milliard in 1940-41 to RM 52 milliard in 1941-42 and RM 56 milliard in 1942-43. The increase of the amount borrowed in 1942-43 was thus lower than previously: this was due to two factors, the smaller increase of expenditure and the greater rise of current revenue (from the rent-tax composition and from occupation costs). The table on the following page gives an analysis of Reich borrowing over the past three years.

The monthly average of Reich "cash" borrowing, which was RM 4.1 milliard in 1941-42 and RM 4.4 milliard in 1942-43, has recently increased more rapidly: it expanded to RM 6.0 milliard monthly in the April-June quarter of 1943 and to RM 6.3 milliard in the July-September quarter. Reich borrowing is in three main forms: long-term Treasury certificates and Liquidity loans and short-term Treasury bills; the proportion borrowed at short term rose from somewhat over 50 per cent. in 1940-41 and 1941-42 to 60 per cent. in 1942-43, and has continued to rise, to 70 per cent. in the July-September quarter of 1943.

No new forms of security have recently been introduced, but "iron savings" and "business-investment deposits", created towards the end of 1941, have been continued. Iron savings, which are savings deposits tied up until at least one year after the war, were made even more favourable to the saver (by increased tax advantages), simplified technically (particularly as to the calculation of interest, which had caused much extra work for the banks) and further extended (as from 1st January 1943); the minimum monthly amount was lowered and the general maximum of RM 26 was increased to RM 39 while the amount of wage bonuses which might be iron-saved was raised to a maximum of RM 1,000 in one year. Iron accounts have, however, tied up only a small fraction of current savings, some RM 70-80 million a month

out of a total increase of RM 1,750 million a month for all savings deposits in 1942; total iron savings at the end of March 1943 slightly exceeded RM 1 milliard. Business-investment and similar deposits at the Treasury, also tied up until after the war, produced RM 710 million by the first tranche, paid in up

**Reich Public Debt increases or decreases (-) <sup>(1)</sup>.**

Periods	Long and middle-term			Short-term				Total cash borrowing	Reichskreditkassenscheine	Total
	Treasury certificates (net)	Liquidity loans (net)	Net Total	Reichsbank working credit	Treasury bills	Tax certificates	Net Total			
	( <sup>2</sup> )	( <sup>3</sup> )	( <sup>4</sup> )				( <sup>5</sup> )			
In millions of Reichsmarks										
1940 April-June . . .	2,000	1,766	3,715	370	3,726	- 387	3,784	7,499	634	8,133
July-Sept. . . . .	2,383	1,696	4,079	- 59	4,738	- 59	4,620	8,699	875	9,574
Oct.-Dec. . . . .	2,717	2,597	5,286	- 46	4,509	- 9	4,514	9,800	-	9,800
1941 Jan.-March . . .	3,777	1,312	4,879	- 400	5,421	- 2	5,019	9,898	411	10,309
1941 April-June . . .	3,479	1,251	4,585	719	5,420	- 1	6,203	10,788	664	11,452
July-Sept. . . . .	2,714	2,721	5,398	- 139	6,700	- 2	6,559	11,957	1,168	13,125
Oct.-Dec. . . . .	3,652	2,553	6,183	134	6,982	- 1	7,115	13,298	764	14,062
1942 Jan.-March . . .	3,829	2,745	7,102	- 445	5,909	- 1	5,613	12,715	751	13,466
1942 April-June . . .	3,784	2,235	6,024	360	8,201	- 367	8,194	14,218	594	14,812
July-Sept. . . . .	2,618	1,461	4,046	123	10,003	-1,144	8,982	13,028	788	13,816
Oct.-Dec. . . . .	4,397	2,558	6,931	- 933	9,414	- 823	7,658	14,889	566	15,155
1943 Jan.-March . . .	1,172	3,470	4,468	873	5,995	- 28	6,840	11,308	688	11,996
1943 April-June . . .	3,453	2,583	5,994	- 83	12,025	- 7	11,935	17,929	361	18,290
July-Sept. . . . .	2,895	2,780	5,631	- 26	13,365	- 5	13,335	18,966	497	19,463
Financial years										
1940-41 . . . . .	10,877	7,371	17,959	- 135	18,394	- 457	17,937	35,896	1,920	37,816
1941-42 . . . . .	13,674	9,270	23,268	269	25,011	- 5	25,490	48,758	3,347	52,105
1942-43 . . . . .	11,972	9,724	21,469	423	33,613	-2,362	31,674	53,143	2,636	55,779
Calendar years										
1940 . . . . .	7,841	8,232	15,880	- 205	17,358	-1,124	16,279	32,159	1,508	33,667
1941 . . . . .	13,622	7,837	21,045	314	24,523	- 6	24,896	45,941	3,007	48,948
1942 . . . . .	14,628	8,999	24,103	- 895	33,527	-2,335	30,447	54,550	2,699	57,249
Total debt outstanding at end of 1942 . . . . .	47,392	32,149	80,307	-	88,742	1,206	91,099	171,396	7,219	178,615 <sup>(6)</sup>

(1) This table is based on detailed statistics of the public debt published regularly every month. The quarterly increases (or decreases) of the main items are given with some modifications of the official data. Firstly, only the "new" domestic debt, i.e. that contracted from 1924 onwards, has been taken into account. Secondly, to obtain the net borrowing for cash, non-cash issues and those made in compensation have been excluded, particularly issues made to compensate German holders of Austrian Government loans (1939) and Czechoslovak Government loans (1939 and 1941). It was not possible, however, to make allowance for the Treasury certificates issued to compensate German shareholders of the Austrian National Bank, the Bank of Danzig, the former Wertpapiersammelbanken, and for the conversion of the German share of the Yugoslav Government loans, as no distinction was made between these bonds and other market issues; the amount involved appears to be small. Thirdly, some reclassifications have been made. Tax certificates (issued in 1939 and deposits at the Treasury (business-investment deposits etc.) which are shown officially "under the line", i.e. outside the published debt totals, are here included in the short-term and long-term debt respectively. The loan from the Rentenbank (against which notes are issued) is in the nature of central-bank credit and, in keeping with the practice adopted in this Report for other countries also, has been transferred to short term (from long term in the published statement). On the other hand, the issue of Reichskreditkassenscheine, shown in the official statistics under "sundry loans" at short term, represents a foreign resource and has been excluded from the ordinary short-term debt and placed in a special column. The effect of these changes is particularly great in 1942-43; as the table shows, the exclusion of Reichskreditkassenscheine and the redemption of tax certificates make a difference together of over RM 5,000 million in the year, short-term borrowing, as shown in the table, being lower than the official statement by that amount.

(2) Conversions and redemptions have been deducted from current issues, including the repayment in 1941 of the 5 per cent. loan of 1927.

(3) The figures for quarterly and annual borrowing are net, i.e. with certain deductions for amortisation and redemptions of special non-cash-producing loans not included in preceding columns. The total includes also, for 1942, RM 765 million of deposits at the Treasury.

(4) Includes also Rentenbank loan: RM 252 million for 1940, RM 65 million for 1941 and RM 150 million for 1942.

(5) The total liabilities of the Reich at the end of 1942 were given officially as RM 185.8 milliard; this total included RM 2.6 milliard old debts, RM 1.2 milliard foreign debts and RM 3.2 milliard non-cash and special issues, which are excluded from this table.

to 10th January 1942. A second tranche called for up to 10th April 1942 secured a further RM 50 million odd and no further deposits have been requested.

In 1942, the German system of government borrowing, described on pages 184-185 of the twelfth Annual Report, made further progress towards complete Stückelosigkeit, or the issue and transfer of Reich loans entirely by book-entries in the register of the Reich debt without the issue of actual bonds or other securities (i. e. Wertrecht instead of Wertpapier). The system was simplified and further extended during the year.

The Berliner Kassenverein, which had specialised in the security deposit and book-entry transfer business for the banks since 1882, was taken over by the Reichsbank from 1st July 1942, and the special business of the ten other Kassenvereine was also centralised in the Reichsbank. From January 1943 the Reichsbank became the only Wertpapiersammelbank in the country, i. e. the sole centre for the collective deposit and "book-entry security" business of the Reich.

Two notable extensions of this business were made in 1942. Firstly, from 10th August, the longer-term Treasury bills (unverzinsliche Schatzanweisungen) were brought within the system of collective deposits, the first money-market instrument to be treated in this way. Secondly, the technique of Treasury certificate issue was modified from 17th August. Previously, subscribers had to state specifically whether they wished to receive actual securities or whether they would be content with a book-entry. For a new series, which began in August 1942, all "certificates" were issued as components of book-entries in the name of the Sammelbank, subscribers who wished to receive actual securities being obliged to make specific application and to wait for them. Thus, with a few minor exceptions, the whole of this loan stands in the Reich debt register with the Reichsbank (Wertpapiersammelbank) as the creditor; the Reichsbank holds accounts for the banks through which subscriptions were received; and the banks, in turn, credit the individual investor in their books with the Treasury certificates they purchased.

It is claimed that, besides a great saving of time, labour and materials for the Reich Debt Administration, book-entry securities have for the investor the advantages of greater convenience, lower cost and better protection against loss or theft than the old method of issuing bonds and coupons as in other countries. Further, it may be noted, the introduction of such book-entry securities on the stock exchange was speeded up, the Treasury certificates of 1942 Series III having been introduced twelve days after the issue was closed whereas four and a half months had elapsed before Series I was quoted.

A new decree of 22nd December 1942 made an important modification in the law of 1937 regarding the deposit of securities; previously, the specific authority of the investor was required before the deposit of securities at a particular bank could be centralised in a "collective deposit". Since 1st February 1943, banks have been authorised to transfer their security deposits for collective deposit at the Reichsbank (Wertpapiersammelbank) without the prior consent of the investor; this measure "for the simplification of security

business" was particularly recommended to banks in the areas endangered by aerial bombardment, as a safeguard against loss or destruction. As a result of the present evolution, the Reichsbank is tending to become the sole depositary for actual individual securities as well as the centre for all book-entry security business.

The German method of issue, transfer, interest payment and redemption of investments simply by centralised book-entries, which has made enormous strides since the beginning of the war — the Reichsbank was first given the character of a Wertpapiersammelbank by the new law of 1939 — must not be considered merely as a wartime expedient but is the result of a continuous evolution stretching over ten years and more.

The total of the German Reichsbank return rose by nearly RM 7 milliard in 1942 against RM 6½ milliard in the previous year; over two-thirds of the increase in 1942 occurred during the last quarter of the year, as the following table shows.

**German Reichsbank.**

At end of month	Assets					Total of assets and liabilities (5)	Liabilities		
	Reich paper				All other assets (4)		Notes	Deposits etc. (6)	All other liabilities
	Reich working credit (1)	Treasury bills (2)	Reich securities (3)	Total					
	In millions of RM								
1939 August . . .	680	10,272	1,308	12,260	1,421	13,681	10,907	1,480	1,294
December . . .	785	11,392	1,197	13,374	1,820	15,194	11,798	2,018	1,378
1940 December . .	580	15,419	389	16,388	1,602	17,990	14,033	2,561	1,396
1941 December . .	895	21,656	391	22,942	1,524	24,466	19,325	3,649	1,492
1942 March . . .	450	21,673	298	22,421	1,402	23,823	19,774	2,762	1,287
June . . . . .	810	22,848	220	23,878	1,468	25,346	20,954	2,990	1,402
September . . .	933	23,996	272	25,201	1,416	26,617	22,037	2,995	1,595
December . . .	—	29,283	297	29,580	1,767	31,347	24,375	5,292	1,680
1943 March . . .	873	27,669	125	28,667	1,567	30,434	24,697	4,340	1,397
June . . . . .	790	30,890	68	31,748	1,494	33,242	26,650	4,881	1,711
September . . .	765	35,010	106	35,881	1,771	37,652	30,099	5,601	1,952

(1) This item is not shown separately in the return but has been taken from the public debt statement.  
 (2) Including also small amounts of other domestic and foreign bills. The total portfolio of the Reichsbank on the outbreak of war, at RM 10-11 milliard, corresponded approximately to the outstanding total of old "special bills" then held entirely by the Reichsbank. The special bills with their prolongations originally had a currency of five years, but it may be assumed that redemption has been adjusted to the practical needs of the budget and central bank (see also footnote to page 162). As ordinary commercial bills have practically disappeared, it may be assumed that the increase of the Reichsbank's portfolio of "Bills and cheques, including Treasury bills" from RM 10 milliard in August 1939 to nearly RM 30 milliard at the end of 1942 was entirely due to the taking-up of Treasury bills.  
 (3) Probably including a small amount of other securities.  
 (4) Including the free gold cover, which has remained practically unchanged at RM 71 million since before the war.  
 (5) Only the main assets and liabilities are published weekly without addition. The total is here added for convenience.  
 (6) Shown as "other sight liabilities".

The rhythm of the expansion in 1942 was greatly affected by the rent-tax composition. Being decreed at the end of July, it led to some sales of Reich securities for liquidity purposes and to a tendency for quotations to decline. The Reichsbank purchased a small amount of these securities on the market, less than RM 80 million in all, up to the end of the year; the whole amount,

and more, was resold early in 1943, and by the end of June the bank's holding of Reich securities was only RM 68 million, an extraordinarily low figure.

The main expansion in 1942 took place through purchases and discounts of Treasury bills, the Reichsbank's holding rising by RM 7,600 million, of which RM 5,300 million was in the last quarter of the year (including RM 3,700 million in the last ten days of December alone), the usual end-of-year pressure being increased by the payment of about RM 3,700 million of the rent-tax composition. The influx of funds to the Treasury was reflected by the complete repayment of the Reich working credit in December, whereas it is usually at its highest around the end of the year; and part, at least, of the considerable increase of deposits to the record high figure of nearly RM 5,300 million was perhaps due to the account of the Treasury, which is not shown separately. A remarkable feature of the return is that this item should remain so high in 1943. The note issue, which had risen by RM 5,300 million in 1941, increased by only RM 5,050 million in 1942, of which RM 2,300 million was in the last quarter of the year. In the first quarter of 1943 the circulation remained seasonally steady but increases (RM 1,950 million in the second quarter and RM 3,450 million in the third quarter) raised the total for the first time above RM 30,000 million in September 1943, some RM 8,000 million higher than a year previously.

The end of 1942 caught the German banking system in a period of transition. Taxpayers' accounts had to be debited with the rent-tax composition payment by 31st December 1942, but most of the commercial banks paid the proceeds over to the Reich largely during the period 2nd to 16th January 1943. On 31st December 1942, when the balance sheets were made up, interim accounts had been opened for the Reich on which a large part of the still outstanding tax proceeds were provisionally booked. These interim accounts were not shown separately by the banks, but are included with other deposits in the table on the following page.

Nine important banks showed an increase in the aggregate balance-sheet total of about one-third in 1942, similar to that in 1941 and 1940. The five Grossbanken, on the other hand, have clearly entered upon a "ritardando" as regards the growth of their deposits and balance sheets, and figures published for one bank show a slowing-up of the turnover since the war<sup>(1)</sup>. Their deposits were RM 2,300 million higher on the year 1942, but around RM 1,100 million of this was estimated to be on the interim account of the Reich, so that the real growth of private deposits would be only RM 1,200 million (against RM 2,900 million in 1941). Of the RM 1,200 million some RM 900 million was accounted for by an increase in savings deposits (at the three banks with a large network of branches). Thus, the savings deposits of these banks rose in 1942 by over 40 per cent., while their primary commercial-deposit business stagnated<sup>(2)</sup>.

(1) The Deutsche Bank, when publishing its annual report for 1942, gave data showing that from 1933 to 1938 the annual turnover was very steady at about 70 times total deposits (excluding banks'), but since the war the turnover has fallen, relatively, and in 1942 it was only 40 times deposits.

(2) This stagnation of commercial deposits at the Grossbanken is reported to have continued in the first quarter of 1943 but to have given way, since about April, to a further expansion (while business advances were repaid from the proceeds of industrial bond issues on the market).

On the other hand, business advances of the Grossbanken have revived; from RM 2,750 million at the end of 1940 (the lowest point for many years) they grew to RM 3,100 million at the end of 1941 and, accelerating, to RM 3,900 million at the end of 1942. This increase seems to be connected mainly with credits given to the official Reichsstelle and other central bodies for the import and distribution of commodities; these tend to be large credits, as shown by the greater average size of new credits granted. With business advances increasing and commercial deposits practically unchanged, other assets were compressed;

**German Banks' balance sheets.**

At end of year	Assets						Total of balance sheets ( <sup>2</sup> )	Liabilities		Percentage increase of balance sheet on previous year	
	Cash	Business advances	Bills ( <sup>1</sup> )	Reich securities				Total	Deposits etc.		
				Treasury bills	Bonds and certificates	Total			Total		of which savings deposits
<b>Five Grossbanken (<sup>3</sup>)</b>											
1938 . . . . .	751	3,365	2,146	1,229	603	1,832	9,012	7,627	866	11.7	
1939 . . . . .	741	3,495	2,039	2,627	347	2,974	10,143	8,804	1,083	12.6	
1940 . . . . .	886	2,748	2,167	5,139	1,171	6,310	12,995	11,699	1,516	28.1	
1941 . . . . .	1,005	3,081	2,166	7,043	1,791	8,834	15,927	14,623	2,178	22.6	
1942 . . . . .	1,084	3,869	2,366	8,823	1,243	10,066	18,259	16,882	3,081	14.6	
<b>Bank der Deutschen Arbeit (<sup>4</sup>)</b>											
1938 . . . . .	62	171	89	57	103	160	513	473	91	16.5	
1939 . . . . .	58	179	45	590	18	608	918	880	99	78.9	
1940 . . . . .	63	266	97	1,108	234	1,342	1,795	1,751	130	95.6	
1941 . . . . .	95	410	120	1,744	259	2,003	2,654	2,597	181	47.8	
1942 . . . . .	133	493	223	2,525	282	2,807	3,681	3,606	280	38.7	
<b>Three special banks (<sup>5</sup>)</b>											
1938 . . . . .	417	90	1,387	700	355	1,055	3,925	2,839	2	9.9	
1939 . . . . .	416	146	941	2,499	356	2,855	5,304	4,248	2	35.1	
1940 . . . . .	495	241	1,407	3,613	528	4,141	7,136	6,122	2	34.5	
1941 . . . . .	579	323	916	6,627	924	7,551	10,198	9,226	4	42.9	
1942 . . . . .	631	605	1,124	11,964	1,160	13,124	16,224	15,284	5	59.1	
<b>Total nine banks (<sup>6</sup>)</b>											
1938 . . . . .	1,229	3,627	3,622	1,986	1,061	3,047	13,450	10,940	959	11.3	
1939 . . . . .	1,215	3,620	3,025	5,716	721	6,437	16,365	13,933	1,184	21.7	
1940 . . . . .	1,444	3,255	3,671	9,860	1,933	11,793	21,926	19,572	1,648	34.0	
1941 . . . . .	1,679	3,814	3,202	15,414	2,974	18,388	28,778	26,446	2,363	37.3	
1942 . . . . .	1,848	4,967	3,713	23,312	2,685	25,997	39,164	35,782	3,366	32.6	

- (<sup>1</sup>) These "bills" may be taken to be largely Reich paper once removed, i. e. Solawechsel and Mefobescheinigungen, which were popular with the banks since they might be shown in the balance sheet as "bills", for window-dressing purposes.
- (<sup>2</sup>) Including other items besides those shown separately.
- (<sup>3</sup>) Deutsche Bank, Dresdner Bank, Commerz Bank, Reichskreditgesellschaft and Berliner Handelsbank.
- (<sup>4</sup>) The Bank der Deutschen Arbeit, although it now may rank as one of the Grossbanken (coming third, after the Deutsche and Dresdner Banks, and before the Commerz Bank) owing to the size of its balance sheet, which has grown by five times since 1938 against the doubling of the aggregate of the other Grossbanken, yet may be classed more as a special bank, on account of its structure and activities: it reflects the financial strength of the German Labour Front, of which it is the "Hausbank", the increased contributions of members against diminished outgoings, the savings money for the purchase of the Volkswagen, etc. In consideration of the growing volume of its balance sheet, this bank doubled its capital from RM 25 million to RM 50 million in 1942.
- (<sup>5</sup>) These are the three "Geldzentralen", i. e. the Deutsche Girozentrale (the central bank of the savings banks), the Deutschlandkasse (the central bank of the cooperatives) and the Prussian State Bank (Seehandlung).
- (<sup>6</sup>) The aggregate resources of the nine banks at the end of 1938 amounted to 44 per cent. of those of all the "reporting banks" which published monthly balance sheets until July 1939.

long-term Reich securities were actually lower by RM 550 million on the year. The increase of the Treasury bill holding by RM 1,800 million in 1942 reflected preparations to meet the rent-tax composition payment in January 1943.

The Bank der Deutschen Arbeit continued to grow relatively to the Grossbanken, but its development was also slowing down. Unlike the Grossbanken, it transferred the whole rent-tax composition proceeds it had collected to the Reich before the end of the year, so that the increase of RM 1,010 million in its deposits is net and compares directly with RM 850 million in 1941. This bank also shows a rise of business credits, but by only RM 80 million (20 per cent. compared with 26 per cent. for the five Grossbanken); in contrast to the Grossbanken, it slightly increased its holding of long-term Reich securities.

These six banks taken together purchased over RM 2,500 million short-term Reich securities in 1942 and sold over RM 500 million at long term, thus adding some RM 2,000 million net to their holdings, which at the end of the year amounted to RM 12,900 million, nearly 60 per cent. of their total assets.

Of the rise of RM 6,000 million in deposits of the three special banks, RM 4,200 million was in respect of the Deutsche Girozentrale; the annual report of this bank states, however, that of this sum RM 2,300 million was set aside for payment of the rent-tax composition in the new year. Even allowing for this payment, the growth of the Deutsche Girozentrale was far greater than that of the Grossbanken, and this reflected the enhanced importance of the savings banks in the financing of the Reich.

The increase of savings deposits at the savings banks (which account for about three-quarters of all savings deposits) was by 10 per cent. in 1937 and in 1938. For the first time in 1939 the savings deposits of Austria and the Sudetenland were brought into the Reich statistics; were it not for this, the increase in 1939 would also have been by 10 per cent. The big rise of savings deposits came after the outbreak of war, increases being by

RM 6½ milliard in 1940, RM 9½ milliard in 1941 and nearly RM 14 milliard in 1942, i. e. by 30, 33 and 37 per cent. respectively.

Other deposits at the savings banks are largely giro accounts in connection with their credit business, which shows a relative decline. In August 1943, as a result of air bombardments and large-scale evacuations from certain towns, special facilities for the withdrawal of

German Savings Banks\*.

Deposits at end of year	1939	1940	1941	1942
	in milliards of RM			
Savings deposits . . . . .	21.5	28.0	37.3	51.2
Other (giro) deposits . . . . .	.	5.6	7.7	9.0
Total deposits . . . . .	.	33.6	45.0	60.2
<hr/>				
Increase of savings deposits during year	1939	1940	1941	1942
In milliards of RM . . . . .	3.8	6.5	9.3	13.9
In percentages . . . . .	21	30	33	37

\* Total deposits as at the end of September 1943 have been given as RM 73.0 milliard, RM 61.8 milliard being savings deposits and RM 11.2 milliard other (giro) deposits.

savings deposits were accorded to people who had been forced to change their place of residence, a factor which was not without its influence on the expansion of the note circulation at that time; in November, somewhat similar facilities were accorded by the urban and rural credit cooperatives by the issue of "guarantee cheques", enabling the holder to draw on his account at one cooperative through the services of another.

As a supplement to statistics on government finance and the banking system, the formation of money capital in Germany is of particular interest, and the following table reproduces estimates for recent years.

German money capital formation  
and Reich borrowing<sup>(1)</sup>.

In milliards of Reichsmarks	Aug.- Dec. 1939	1940	1941	1942	Total
Note circulation . . . .	3.4	2.3	5.5	5.0	16.2
Bank deposits <sup>(2)</sup> . . . .	2.2	8.9	8.3	5.6	25.0
Savings deposits <sup>(3)</sup> . . . .	0.8	8.9	14.2	21.0	44.9
Insurance etc. <sup>(4)</sup> . . . .	0.8	3.6	4.2	4.5	13.1
Market <sup>(5)</sup> . . . . .	—	3.6	6.0	5.0	14.6
Known internal . . . . .	7.2	27.3	38.2	41.1	113.8
Foreign :					
Reichskreditkassen <sup>(6)</sup>	—	1.5	3.0	2.7	7.2
Verrechnungskasse <sup>(7)</sup>	—	1.5	6.0	7.0	14.5
Known foreign . . . . .	—	3.0	9.0	9.7	21.7
Total known . . . . .	7.2	30.3	47.2	50.8	135.5
unknown <sup>(8)</sup> . . . . .	2.1	1.2	1.6	5.8	10.7
Total money capital formation <sup>(9)</sup> . . . . .	9.3	31.5	48.8	56.6	146.2
Increase of Reich debt <sup>(10)</sup> . . . . .	10.3	33.7	48.9	53.2	146.1

This table is instructive since it brings out several characteristics of German war financing. Of the total Reich debt issued in the period August 1939 to December 1942, 15 per cent. was subscribed with foreign money — plus probably a part of the "unknown" sources (which all together give another 7 per cent.).<sup>(11)</sup> Some RM 114 milliard is known to have been placed internally: 36 per cent. with the banking system (central and commercial banks), the very high proportion of 39 per cent. with the savings banks and 12 per cent. with insurance companies; these institutions

(1) Based on a table given by Günter Keiser in an article in *Bankwirtschaft* 1943, No. 5.  
(2) These are all giro deposits, whether at commercial or savings banks, etc. Foreign deposits have been deducted for 1941 and 1942 and, in the latter year, also RM 4 milliard held in suspense for payment of the rent-tax composition.  
(3) Savings deposits at all institutions, not only at savings banks.  
(4) Liquidity loans purchased by insurance companies and by local authorities.  
(5) Treasury certificates bought by the market, i. e. outside banks but including some purchases by insurance companies and other institutions.  
(6) The increase of the Reichskreditkassen loan to the Reich as shown by the official debt statement.  
(7) The investment of clearing balances by the Verrechnungskasse in Berlin and the direct purchases of Reich securities in Holland and in Bohemia and Moravia.  
(8) Unknown purchases of Reich short-term paper; in 1939 the greater part of this item consisted of tax certificates. Keiser in the above-mentioned article says that the fact that a large part of the unknown purchases took place in 1942 leads to the presumption that some new source of financing has been opened up unknown to the public. He also suggests that part of the unknown source may, indeed, be foreign.  
(9) The whole of the money capital formation need not necessarily correspond to the increase of the Reich debt, but in wartime, when private credit operations are unimportant, the differences are not great. The fact that money capital formation was lower than Reich borrowing in the years 1939 to 1941 appears to indicate a net repayment of private credit. In 1942 there appears to have been a net increase of over RM 2 milliard, of which part was due to rent-tax composition loans.  
(10) According to estimates in the preceding pages, less RM 4 milliard in 1942 on account of the delayed payment of the rent-tax composition. The figures differ very slightly from those of Keiser, who gives a total of RM 145 milliard for the whole period.  
(11) Of the RM 21.7 milliard on account of the Verrechnungskasse and Reichskreditkassen, RM 2.6 milliard corresponds to the circulation of Reichskreditkassenscheine, without which the total outstanding would be about RM 19 milliard; for further details see Chapter IV.

thus account for 87 per cent. of the total, while 13 per cent. only was placed on the market. Indeed, the proportion taken up by institutions was higher, since part of the market purchases were also on their account.

The "market" in this sense is not the same as the "public". The short-term borrowing of the Reich has been almost wholly from institutions: the Reichsbank and the commercial banks account for a large proportion while savings banks and other credit institutions have also taken steps to preserve their liquid positions; other investors in short-term government paper include the Verrechnungskasse, the Konversionskasse and banks in Holland and in Bohemia and Moravia. Further some interesting estimates have recently been published regarding the distribution of the Reich long and middle-term borrowing, to which tax certificates have been added.

Distribution of Reich long and middle-term borrowing<sup>(1)</sup>.

Calendar years	Credit institutions				Other investors	Total ( <sup>2</sup> )
	Banks	Savings banks	Co-operatives	Total		
In milliards of RM						
1940 Treasury certificates . . . . .	2.1	2.4	0.9	5.4	2.85	8.25 ( <sup>3</sup> )
Liquidity loans . . . . .	—	3.7	0.5	4.2	4.1	8.3
Tax certificates . . . . .	0.6	—	0.1	0.7	(-1.8)	(-1.1)
<b>Total . . . . .</b>	<b>2.7</b>	<b>6.1</b>	<b>1.5</b>	<b>10.3</b>	<b>5.15</b>	<b>15.45</b>
1941 Treasury certificates . . . . .	2.0	4.7	1.65	8.35	4.75	13.1
Liquidity loans . . . . .	—	2.8	0.25	3.05	4.85	7.9
Tax certificates . . . . .	—	—	—	—	—	—
<b>Total . . . . .</b>	<b>2.0</b>	<b>7.5</b>	<b>1.9</b>	<b>11.4</b>	<b>9.6</b>	<b>21.0</b>
1942 Treasury certificates . . . . .	0.5	6.8	1.9	9.2	5.85	15.05
Liquidity loans . . . . .	—	3.6	0.6	4.2	4.8	9.0
Tax certificates . . . . .	(-1.2)	—	(-0.1)	(-1.3)	(-1.0)	(-2.3)
<b>Total . . . . .</b>	<b>(-0.7)</b>	<b>10.4</b>	<b>2.4</b>	<b>12.1</b>	<b>9.65</b>	<b>21.75</b>
<b>Three years 1940-42</b>						
Treasury certificates . . . . .	4.6	13.9	4.45	22.95	13.45	36.4
Liquidity loans . . . . .	—	10.1	1.35	11.45	13.75	25.2
Tax certificates . . . . .	(-0.6)	—	—	(-0.6)	(-2.8)	(-3.4)
<b>Total . . . . .</b>	<b>4.0</b>	<b>24.0</b>	<b>5.8</b>	<b>33.8</b>	<b>24.4</b>	<b>58.2</b>

(1) Estimates from Bankwirtschaft No. 15, 1943.

(2) Slight differences between the total figures and those given in the table on page 174 appear to be due to the adjustments made in the latter table.

(3) Figure adjusted for Reichsbank sales of Treasury certificates in 1940.

Of the RM 58 milliard for the three years 1940-42 various credit institutions took up nearly RM 34 milliard, of which the savings banks had RM 24 milliard. Insurance companies, the Reichspost and other similar undertakings accounted for the RM 4-5 milliard of Liquidity loans issued yearly to "other investors"; this left some RM 1 milliard in 1940 and RM 4<sup>3</sup>/<sub>4</sub> milliard in each of the years 1941 and 1942, a net total of approximately RM 10<sup>1</sup>/<sub>2</sub> milliard (Treasury certificates issued less tax certificates presented), about 7-8 per cent. of total Reich

borrowing in the three years. And of this remaining RM 10½ milliard a great part was, in fact, taken by the municipalities as investment for their reserves and also by insurance companies, the Reichspost, Reichsbahn and other official and semi-official bodies; the actual purchase of Reich securities directly by the "public" (as individuals) was thus very small indeed.

On the German money and capital markets interest rates were declining until 1941, but, in spite of an extraordinary turnover of money in 1942, rates displayed marked stability, being under the influence of the so-called interest stop, i.e. the decision of the authorities to allow no further fall of rates, in order to safeguard the smooth working of the credit system; the rate applied to communal loans was, however, reduced to 4 per cent. On the short-term market, bank rate has remained at 3½ per cent. since April 1940; the private discount rate, lowered three times in 1940 and once in 1941, was unchanged at 2⅓ per cent. throughout 1942.

Three-month Treasury bills (Reichswchsel); which were issued at the private discount rate and might be obtained for any required date, came to the fore in 1941 and remained in favour in 1942, as specially suitable for liquidity purposes. Three-month Solawechsel, with a slightly lower yield, 2⅓ per cent., were also bought by the banks, largely for window-dressing purposes at the end of the year; although issued by the Golddiskontbank

Golddiskontbank —  
issue of Solawechsel.

End of month	1939	1940	1941	1942	1943
	In millions of RM				
March . . . .	1,507	306	672	445	382
June . . . . .	1,322	985	539	565	450
September . .	630	1,242	382	557	713
December . . .	637	2,524	1,773	1,847	.

against government paper taken over from the Reichsbank, they might legally be included under "bills" (as distinct from Reich securities) in the balance sheets of the banks. The year 1942 saw a notable gain in importance by the Mefobescheinigung\* issued by the Reichsbank; RM 2,758 million of Mefobescheinigungen were held by

the banks etc. at the end of 1942 compared with RM 1,985 million at the end of 1941. These bills, although not transferable, had the great advantage of being obtainable for any amount and of any maturity from three months to one year and were much employed by the banks in preparation for the rent-tax composition; they might also be included in the banks' balance sheets as "bills". When the issue of Mefo bills was discontinued at the beginning of July 1943, the Solawechsel again grew in importance, the amount

\* In the period of German rearmament, from the beginning of 1935 and until March 1938, government armament orders were paid by six-month bills which were accepted by the Metallurgische Forschungsgesellschaft, the so-called Mefo-Wechsel or Sonderwechsel; these bills, after three months' currency, were rediscountable at the Reichsbank and became an important investment for the banks. When their issue ceased in 1938, the total outstanding, some RM 12-13 milliard, returned to the Reichsbank, which, until the spring of 1939, issued six-month Blockwechsel to the market in their place. By the autumn of 1939 the total issue, which had then been reduced by redemptions to RM 10-11 milliard, again became concentrated at the Reichsbank. It appears probable that, in the meantime, the Reichsbank passed on the bulk of these bills to the Golddiskontbank, the Konversionskasse and the Verrechnungskasse, whose investment requirements had considerably increased. What remained with the Reichsbank was used until June 1943 as a basis for the issue of a money-market instrument, the so-called Mefobescheinigung, or Sonderwechsel-Bescheinigung.

outstanding rising to RM2,276 million in November 1943. The longer-term Treasury bills (unverzinsliche Schatzanweisungen) are of six months to two years, with rates which remained unchanged in 1942 at  $2\frac{3}{8}$  per cent. and  $2\frac{7}{8}$  per cent. respectively. Daily money showed some narrow fluctuations around the average rate of 1.83 per cent.

There was a tendency in 1942 for emphasis to be shifted more to short-term issues in Reich borrowing as a whole; in this connection it is interesting to note that over the end of the year the Reichsbank sold about RM 500 million Reichswchsel to the banks with the exceptionally short maturity of 10-14 days. In spite of the collection by the Treasury of ten years' rent tax within three months, in addition to normal taxation, banking and market preparations were adequate and no undue disturbance occurred at the moments of greatest pressure, either at the year's "ultimo" or during the first half of January 1943.

On the long-term market the interest rate for Treasury certificates was maintained at  $3\frac{1}{2}$  per cent. but through a change in the calculation of commission there was, in fact, an increase of the issue price by  $\frac{1}{4}$  to  $99\frac{1}{2}$  per cent. in April 1943. Similarly the issue price for Liquidity loans was increased by  $\frac{1}{8}$  per cent. Besides these small increases of issue prices, the currency of Treasury certificates and Liquidity loans was slightly extended.

The year 1942 was remarkable for the first big conversions of pre-war Reich loans. The second and third tranches of  $4\frac{1}{2}$  per cent. Treasury certificates of 1937 for RM 800 million and RM 850 million were converted in May and August 1942 respectively; almost the whole amounts were exchanged for  $3\frac{1}{2}$  per cent. certificates, with small conversions into Liquidity loans and cash repayments. The four tranches of  $4\frac{1}{2}$  per cent. Treasury certificates issued in 1938, amounting in all to some RM 6,800 million, were all called for dates in 1943. After the fourth tranche was dealt with in November 1943 there remained no more immediate possibilities for conversions of any importance.

As regards other than Reich loans, the general interest stop was maintained and, in a decree of 10th August 1942, the Reich Minister of National Economy made it obligatory for credit institutions and insurance companies to apply for special permission in each case before reducing interest rates, either generally or on individual loans; exceptions to this rule were made, particularly for the conversion of mortgage and local authorities' bonds, in accordance with the simplified procedure mentioned in the twelfth Annual Report. Private capital issues were higher in 1942: new industrial bond issues (with interest at 4 per cent.) rose from RM 540 million in 1941 to RM 850 million in 1942 and nearly RM 900 million in the first three quarters of 1943; from the outbreak of war up to September 1943, about one hundred industrial loans were issued for a total of RM 3,200 million, an amount which, although it appears of little importance compared with Reich loans, exceeds the entire circulation of domestic industrial loans at the end of 1938 (RM 2,740 million).

It is not possible to give a review of the budgetary situation in Bohemia and Moravia; neither budget accounts nor statistics regarding taxation and borrowing have been published. A "Matrikular" contribution has been paid annually to the Reich, but the amount has not been disclosed. To raise the funds for this imposition two loans amounting to K. 5,500 million in all (the equivalent of RM 550 million) were floated in 1942, K. 3,000 million of 3¾ per cent. 50-year bonds at par and K. 2,500 million 3½ per cent. 20-year certificates at 99. In 1943 a further K. 4,000 million certificates were issued on the same terms in March and K. 2,000 million in September; also, in September 1943, a 3½ per cent. Liquidity loan for K. 1,000 million was put on tap in the German manner.

The monetary position of the country is dominated by the close relationship with Germany and the consequent accumulation of claims in Reichsmarks, which since 1940 have covered the note circulation by over 100 per cent.

#### National Bank of Bohemia and Moravia.

End-of-month figures	Assets			Total of balance sheet ( <sup>2</sup> )	Liabilities		
	Reichsmark claims ( <sup>1</sup> )	Internal credit	Gold and foreign exchange		Note circulation	Current accounts etc.	"Kassenscheine"
In millions of Kronen							
1939 December . . . . .	3,791	1,896	2,402	10,046	6,345	1,054	525
1940 December . . . . .	7,816	24	2,232	11,140	6,453	1,560	1,002
1941 December . . . . .	12,957	840	2,300	16,548	9,398	2,600	1,842
1942 March . . . . .	12,735	840	2,291	16,363	9,755	2,943	1,837
June . . . . .	14,207	917	2,291	17,810	10,409	3,679	1,847
September . . . . .	14,025	917	2,267	17,605	11,404	2,915	1,847
December . . . . .	17,366	845	2,243	20,879	14,089	1,666	1,775
1943 March . . . . .	19,306	896	2,241	22,824	15,408	2,574	1,826
June . . . . .	22,368	944	2,261	25,816	17,450	2,137	2,174
September . . . . .	26,122	1,202	2,287	30,216	20,086	1,960	2,432

(<sup>1</sup>) Shown as "sundry assets" in the return. At the end of 1939 K. 2,831 million out of K. 3,791 million was specified as claims on Germany and it may be assumed that the items normally accounted for under this heading have since remained around K. 1,000 million.

(<sup>2</sup>) Including other items besides those specified.

The growth of claims in Reichsmarks (by K. 4,400 million in 1942 against more than K. 5,000 million in 1941) would have been greater but for the payment of the Matrikular contribution and purchases of Reich securities directly by the commercial banks. In previous years, only a part of the increase of Reichsmark claims was matched by a rise of the note circulation, while part was taken on to current accounts and part absorbed by sales of Kassenscheine by the bank on the market. But in 1942 the note circulation expanded by K. 4,700 million, around 50 per cent., an amount greater than the growth of Reichsmark claims. Current accounts reached their peak of over K. 4,300 million near the end of July 1942, but fell rapidly in the following weeks and were down by over K. 1,100 million on the year, apparently owing to the curtailment of advance payments on government orders, as in Germany.

Deposits with the big commercial banks, largely under German control, were reported to have risen by K. 5,060 million to K. 28,440 million at the end of 1942; an increase of K. 4,450 million in deposits during 1941 was the counterpart of purchases of K. 2,970 million Reich Treasury bills and of K. 1,270 million Protectorate securities, while credit to the private economy remained unchanged on balance, and in 1942 the same influences were at work. Deposits at the savings banks rose by K. 3,840 million to K. 20,863 million. The concentration of the banking system by liquidations and fusions, which had been proceeding in recent years, was completed in the summer of 1943.

In the last quarter of 1942, Reich securities were introduced, for the first time, on the Prague bourse. Bank rate has remained at 3½ per cent., to which it was raised in October 1940 to conform to the Reichsbank level, and other interest rates have been dominated by those ruling in Germany.

Unlike Bohemia and Moravia, now largely incorporated in the Reich, the Governor-Generalship of Poland has remained a "Nebenland". The budget estimates are summarised in the table. Up to 1942-43 expenditure had increased two and a

Governor-Generalship of Poland  
Budget estimates.

Financial year ended March	1940-41	1941-42	1942-43	1943-44
	in millions of zloty			
Expenditure - ordinary . . .	1,004	1,768	2,701	3,656
extraordinary	278	714	477	628
Total . . . . .	1,282	2,482	3,178	4,284
Ordinary revenue . . . . .	974	1,768	2,701	3,656
Deficit . . . . .	308	714	477	628

half times since the foundation of the Governor-Generalship, the amount taken into the ordinary budget, which in the past two years has been covered by ordinary revenue, increasing each year. Extraordinary expenditure

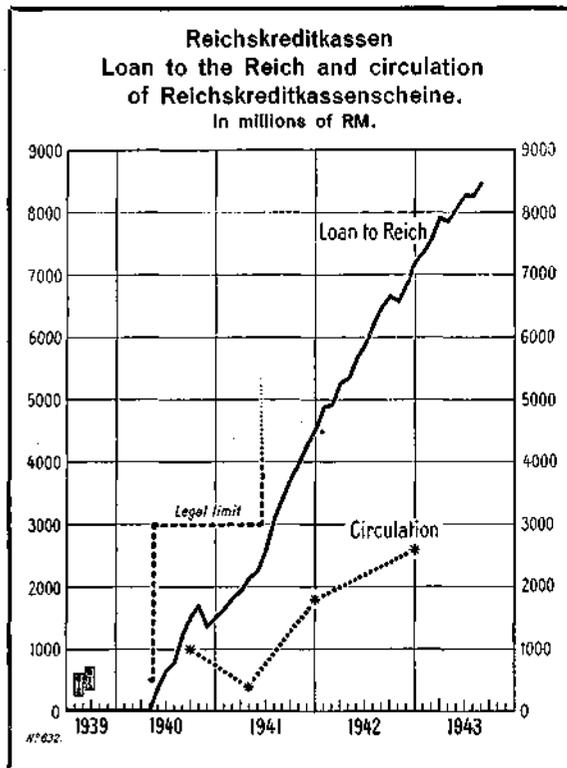
was covered principally by borrowing, the authorisations to borrow amounting to Zl. 258 million in 1940-41 and to Zl. 461, 372, and 594 million in the three following years respectively; in addition, an authorisation to draw on the Bank of Issue for an amount up to Zl. 100 million, as working credit, was granted in 1942-43. In 1942 the territory of the Governor-Generalship was extended by the incorporation of the district of Galicia. The Governor-Generalship has paid an annual "war contribution" to the Reich; the amount has not been disclosed but it is assumed to be included under ordinary expenditure in the budget.

A review of monetary developments is not possible as the Issue Bank in Cracow, which opened for business in April 1940, has published no return or balance sheet. Nor are returns available regarding the position of the commercial banks, whose "old deposits", dating from before the occupation, remained blocked in principle, although some partial out-payments have been made; the greater part of the banking business in the country fell to the

subsidiaries of the German Grossbanken. At the end of 1942 there were 57 savings banks operating in Poland with total deposits of Zl. 578 million, of which Zl. 167 million were "old deposits"; the bulk of deposits were on current account, only Zl. 30 million being savings deposits.

Reichskreditkassen, which originally were merely pay-offices for the German army and issued what were, in effect, German Government (military) notes, called Reichskreditkassenscheine, extended their activities, particularly during the eastern campaign, to become auxiliary central banks in the occupied territories and clearing offices between them and the Reich. Stringent "foreign exchange" regulations were imposed to prevent the issue of Kassenscheine from adversely affecting the value of Reichsbank notes in Germany. Indeed, the issue of Kassenscheine was restricted; as soon as arrangements could be made for the payment of German troops in the currency of the occupied

country, Kassenscheine were withdrawn and the Kassen generally closed. Thus, Danish crowns were put at the disposal of the German army in Denmark against Reichsmark credits at the Reichskreditkassen central administration in Berlin; and in Belgium, Holland, France and, later, Greece, the payment of occupation costs in local currencies through the existing central banks made the further issue of Kassenscheine superfluous; but in Poland, Croatia, Serbia, the Ukraine and the "Ostland" new central banks were founded. In the U.S.S.R. rouble currency was obtained when Russian army pay centres were captured and, later, when savings were resumed, and the issue of Kassenscheine was correspondingly curtailed.



The policy of restricting the circulation of Reichskreditkassenscheine and substituting local currency as soon as opportunity occurred was adopted for practical reasons. Having a fixed relationship to local currencies, Reichskreditkassenscheine varied in purchasing power from country to country but, being scarcer than the local currency and having the prestige of being denominated in Reichsmarks, they were often preferred to the local currency and tended to acquire a premium or to be hoarded.

Although there was some further extension of the activity of the Reichskreditkassen in 1942, the characteristic of the year and of the early months of 1943 was the number of Kassen closed. The extensions in 1942 were chiefly in the U.S.S.R. and in France, where two new Kassen (at Caen and Reims) were opened and one (at Tours) reopened after the crossing of the demarcation line in November. Further, a special Reichskreditkassen authority with full powers for the western territories was instituted with headquarters in Brussels (while the central administration of the Kassen in Berlin directed its attention to the Kassen in the east and south-east). On the other hand, 10 eastern Kassen (in occupied Polish and Russian territory) were converted into branches of the Central Bank of the Ukraine in May and one in September 1942, 2 (in Transnistria) were taken over by the National Bank of Roumania and 16 (including 14 in the former Baltic States) were absorbed into the newly-formed Ostland Central Bank in March 1943.

At the end of 1942 there were 52 Kassen in existence: 16 were in western Europe, one in Holland (Amsterdam), 4 in Belgium (one being in Brussels) and 11 in France (one being in Paris); 5 were in south-eastern Europe, one in each of the following countries, Roumania (Bucarest), Bulgaria (Sofia), Greece (Salonika), Croatia (Agram) and Serbia (Belgrade); of the 31 in the eastern territories at the end of 1942, about one-half were closed in the early months of 1943. In addition to the 52 Kassen at the end of 1942, the organisation had 74 further exchange and other offices (including 16 on troop trains). In all territories where Reichskreditkassenscheine had been in circulation they remained legal tender at a fixed rate to the local currency and they might be reissued at any time should the German authorities consider that military developments made this desirable.

No balance sheets of the Reichskreditkassen have been published but certain data are available, as shown in the table.

#### Reichskreditkassen.

At end of year	Loan to Reich	Circulation of Reichskreditkassenscheine	Debts to central banks
	(1)	(2)	(3)
	in millions of Reichsmarks		
1940 . . . . .	1,500	(700)	(800)
1941 . . . . .	4,500	1,800	2,700
1942 . . . . .	7,200	2,600	4,600

The Reichskreditkassen loan to the Reich indicates a) the issue of Kassenscheine (in so far as they are not covered by other assets, e. g. advances and discounts, which are known to be very small) plus b) the debt of the Reichskreditkassen to other central banks for liabilities incurred

- (1) The total of "sundry loans" at short term as given in the Reich debt statements, less a small allowance for other items which may be included under this heading besides the Reichskreditkassen loan. The legal limit of RM 3,000 million was removed in August 1941.
- (2) Reichskreditkassenscheine actually in circulation. The figures for the end of 1941 and 1942 were given officially in the annual report of the Reichsbank for 1942. For the end of 1940 a figure has been taken half-way between the figures given semi-officially by M. Kretschmann in an article in "Deutsche Geldpolitik" (Schriften der Akademie für Deutsches Recht), i. e. a maximum of around RM 1,000 million in the autumn of 1940 and about RM 400 million at the end of April 1941.
- (3) This is the difference between the two previous columns and includes Reichskreditkassen debts for Kassenscheine withdrawn against local currency and for local currency issued direct to the German military authorities against Reichsmark credits in Berlin. Of the total at the end of 1942, some RM 300 million was owing to the Bank of Issue in Brussels and about RM 650 million to Danmarks Nationalbank. In 1941 and 1942 the bulk of the new debt was towards the newly-occupied eastern territories but south-eastern Europe was also included.

by the German troops in local currencies. The Reichskreditkassen figures do not include the amounts paid as occupation costs in the various countries (except Denmark), nor do they include the clearing debts of the Verrechnungskasse towards foreign countries. The Reichskreditkassen loan to the Reich rose by RM 2,700 million in 1942, against RM 3,000 million in 1941, and totalled some RM 7,200 million at the end of 1942; by September 1943, it had risen to RM 8,760 million. The expansion of the circulation by RM 800 million in 1942 represents, of course, a net figure of total new issues minus withdrawals; a substantial proportion of the RM 2,600 million Reichskreditkassenscheine still outstanding at the end of 1942 were in circulation in the Ostland.

In Sofia and Bucarest, the Reichskreditkassen were opened only as liaison offices. By an agreement reached in January 1942, the local currency supplied by the Bulgarian National Bank to the German army was limited to a maximum of RM 100,000 a week. The earlier "canteen money" of Reichskreditkassen coins, which circulated in Bulgaria at ten times their face value, when used to purchase army stores, was withdrawn from circulation in August 1942 and a new "auxiliary army money" issued in its place; this new currency consisted of 1, 5, 10 and 50 Reichspfennig notes and was also taken at ten times its face value in the canteens (but only at its nominal amount if used for purchases from civilians). In March 1943 auxiliary army money was used also in Greece, for the first time.

Before the capitulation, payment requirements of the German armed forces in Italy were financed by virtue of special arrangements which did not burden the clearing or constitute commitments for the Reichskreditkassen; only a part of German soldiers' pay was made available in lire, the balance being paid in Germany in Reichsmarks. In September 1943, the German military authorities utilised available balances in lire and began the issue of Reichskreditkassenscheine (at the rate of RM 1 = Lit. 10). From 26th October 1943, arrangements for the current supply of lire in the required amounts came into force and the issue of Reichskreditkassenscheine ceased; by 10th November Scheine in circulation were withdrawn by the commercial banks and by 16th November they were handed over to the Banca d'Italia for redemption in lire. Circular cheques, which had been given out for a time by the German military authorities, were also withdrawn.

Owing to the lack of statistics, it was becoming more and more difficult to follow the development of the monetary situation in Italy until, early in August 1943, in a speech after the change of the régime, the Finance Minister made some of the most important figures public; these figures are incorporated with other available statistics in the following paragraphs. The budgetary position in recent years is shown at the top of the next page.

Military expenditure, which was less than Lit. 5 milliard a month during the financial year ended June 1941, rose to about Lit. 7 milliard a month early in 1943 and Lit. 8 milliard a month in the summer. Other expenditure also

Italian Budget Accounts<sup>(1)</sup>.

Financial year ended June	Expenditure			Taxation and other revenue	Budget deficit	Credit operations		
	Military	Other	Total			Borrowing	Increase of Treasury's net liabilities	Total
						(2)	(2)	
	in milliards of lire							
1938-39. . .	15.0	24.9	39.9	27.6	12.3	0.2	12.0	12.2
1939-40. . .	27.7	32.7	60.4	32.4	28.0	21.1	6.9	28.0
1940-41. . .	58.9	39.3	98.2	34.2	64.0	14.2	49.8	64.0
1941-42. . .	71.3	47.3	118.6	41.2	77.4	45.6	31.7	77.3
1942-43. . .	81.0	54.2	135.2	48.9	86.3	48.9	37.4	86.3
1943-44. . .	100.0	48.0	148.0	50.0	98.0			

(1) Closed accounts 1938-39 to 1941-42, provisional results for 1942-43 and estimates for 1943-44. Ordinary and extraordinary accounts are combined in the table.

(2) At long and middle term; during the war essentially by nine-year bonds.

(3) Including the floating debt and borrowing from the Banca d'Italia, plus unpaid arrears of expenditure outstanding.

increased appreciably for two principal reasons: price subsidies and the service of the government debt. For the year 1942-43 subsidies to keep down prices have been given as Lit. 11.8 milliard, while the debt service rose from Lit. 4½ milliard in 1934-35 to Lit. 14 milliard in 1942-43 and was estimated at Lit. 16½ milliard for 1943-44 (when it would absorb one-third of ordinary revenue). Severe economies in expenditure were made in 1942-43, including the abandonment of certain urgent public works for Lit. 3½ milliard. Total budgetary expenditure more than doubled from 1939-40 to 1942-43, the percentage covered by ordinary revenue falling from 53 per cent. to 32 per cent.; according to the Italian Finance Minister, this was the lowest percentage for any belligerent country.

Budget revenue, analysed in the next table, rose by Lit. 14.6 milliard from 1940-41 to 1942-43; of this increase Lit. 9.0 milliard was due to taxation and other ordinary revenue and Lit. 5.6 milliard to the recovery of amounts paid in respect of war expenses.

Italian Budget Revenue.

Financial years ended June	1940-41	1941-42	1942-43
	in millions of lire		
Direct taxes . . . . .	8,914	9,548	10,817
Indirect taxes and duties. . . . .	8,954	11,127	11,330
Customs duties and indirect taxes on consumption . . . . .	6,328	6,135	6,132
Monopolies . . . . .	4,499	6,017	8,213
Lotteries . . . . .	519	584	673
Main sources of revenue. . . . .	29,215	33,412	37,166
Repayments and consortiums . . . . .	700	1,298	1,217
Miscellaneous revenue . . . . .	4,118	3,508	4,644
Total ordinary revenue . . . . .	34,033	38,218	43,027
Recovery of war expenses . . . . .	201	3,006	5,857
Total revenue . . . . .	34,234	41,224	48,884

As shown above, the budget deficit was covered by borrowing at long and middle term, and by the increase of the Treasury's net liabilities, including the floating debt and unpaid liabilities outstanding. The total assets and liabilities of the Italian state and the Treasury's net liabilities at the end of June in recent years are given in the table on the following page.

**Italian State Assets and Liabilities.**

At end of financial year (30th June)	Assets and Liabilities of the State					Treasury's net liabilities (1)
	Assets			Total liabilities (2)	Excess of liabilities	
	disposable (1)	other (2)	total			
	in milliard of lire					
1935 . . . . .	24.3	72.3	96.6	126.0	29.4	16.4
1936 . . . . .	24.5	76.8	101.3	133.4	32.1	22.3
1937 . . . . .	29.4	82.7	112.1	154.0	41.9	33.0
1938 . . . . .	27.3	89.3	116.6	162.9	46.3	42.4
1939 . . . . .	27.5	93.8	121.3	175.2	53.9	54.3
1940 . . . . .	34.4	103.1	137.5	210.4	72.9	61.3
1941 . . . . .	41.9	103.5	145.4	281.8	136.4	110.9
1942 . . . . .	.	.	.	.	.	142.6
1943 . . . . .	.	.	.	.	.	180.0

- (1) Including the assets of the Treasury (last given separately as Lit. 7.3 milliard in 1935) and various real and other property (last given separately as Lit. 16.9 milliard in 1935). Further, some Lit. 30 milliard of industrial property is classed as "disposable" in the official statement.
- (2) This column, in addition to the Lit. 30 milliard of industrial property mentioned above (practically unchanged from 1935 to 1941), includes military material (1935: Lit. 24.2 milliard, 1941: Lit. 51.6 milliard), goods destined for the service of the state (1935: Lit. 4.8 milliard, 1941: Lit. 7.3 milliard) and scientific and artistic materials (practically unchanged at Lit. 14 milliard from 1935 to 1941).
- (3) This column comprises the Treasury's gross liabilities (last given separately as Lit. 23.7 milliard in 1935) plus the government debt (consolidated, perpetual, redeemable and sundry).
- (4) This is the financial part of the previous column — the gross assets of the Treasury were last given as Lit. 7.3 milliard and the gross liabilities as Lit. 23.7 milliard on 30th June 1935, see notes (1) and (2) above. The annual increase of the net liabilities of the Treasury represents that part of the budget deficit not covered by long and middle-term borrowing.

The rapid growth of the Treasury's liabilities is a characteristic of recent years. In Italy's three years of war to June 1943, the aggregate budget deficit of Lit. 228 milliard (as shown by the table on page 189) was covered as to Lit. 109 milliard by long and middle-term borrowing and as to Lit. 119 milliard by an increase of the Treasury's net liabilities, which thus rose from Lit. 61 milliard in June 1940 to Lit. 180 milliard in June 1943.

A statement of the government debt and Treasury liabilities for the end of March 1943, which appeared in a foreign technical journal (and was thus published for the first time since 1935), may be summarised as shown in the table.

**Italian Government Debt and Treasury liabilities.**

At end of March 1943	In milliard of lire
Nine-year bonds . . . . .	123.7
Other funded and redeemable debt (1) . . . . .	86.7
Ordinary Treasury bills . . . . .	43.3
Advances of Banca d'Italia (2) . . . . .	59.9
Other advances on current account (3) . . . . .	53.8
Government notes issued (4) . . . . .	5.8
Annuities . . . . .	38.9
<b>Total debt and liabilities</b>	<b>412.1</b>

- (1) Including credit certificates for the financing of public works.
- (2) Lit. 1,000 million ordinary and Lit. 58,882 million extraordinary advances.
- (3) Mostly from Cassa dei Depositi e Prestiti, the central body for the savings banks.
- (4) The issue of small government notes is described in Chapter VI.

The term "annuities" applies to the arrears of government payments; these are covered by a system of annuity payments and largely refinanced by the Banca d'Italia through the intermediary of the Consortium for the support of industrial securities, as explained in the twelfth Annual Report of this Bank. The arrears grew from Lit. 2.6 milliard in June 1939 to Lit. 16.0 milliard in June 1940; at the end of March 1942 the Ministry of Finance was burdened for the next ten years with annuity payments which had a present value of Lit. 29.7 milliard, arising from the deferred payment of wartime orders (of

which Lit. 10 milliard had been refinanced through the Consortium by the end of 1941); and by March 1943 the annuities were booked at Lit. 38.9 milliard.

Italian government borrowing at longer term during the war had been almost wholly by issues of 5 per cent. tax-free nine-year bonds at 97½ (yielding 5.93 per cent. including prizes etc.); the Lit. 45 milliard of borrowing in 1941-42 was effected through two issues of these bonds in September 1941 and February 1942. Amongst other measures taken in 1942 should be mentioned the creation of special 3 per cent. five-year Treasury bonds as a compulsory blocked investment for funds from three separate sources a) war profits retained by the taxpayer, b) 20 per cent. of new funds deriving from private issues of shares and other capital increases, and c) funds equal in amount to those employed in the purchase of shares on the bourses; as these bonds were created more for purposes of control than to obtain revenue, the proceeds were not expected to be high. Indeed, early in 1943, these measures were modified, that under c) being dropped altogether.

In September 1942 an effort was made to introduce cheaper money rates, when a nine-year issue was made at 4 per cent., the issue price being lowered to 92 (with prizes etc. the yield was, however, still 5.68 per cent.); Lit. 25 milliard was subscribed. Some other interest rates were also reduced, including those for Treasury bills, the twelve-month bills from 5 to 4 per cent. and others correspondingly, one to two-month bills being abolished. Early in 1943, however, the effort at cheap money was abandoned. Although bank rate remained unchanged at 4½ per cent. (as it has done since 1936), the rate of interest paid on bank deposits with the Banca d'Italia was raised in March 1943 from 1½ to 3 per cent., with retroactive effect from 12th December 1942; the rate for private deposits on which no interest had been paid so far was fixed at 1½ per cent. The rates on Treasury bills were restored to what they had been before September 1942 and the one to two-month bills were reinstated (with interest at 3¼ per cent.). In June 1943 an issue of 5 per cent. tax-free five-year bonds at 97 produced Lit. 12 milliard (not including amounts subscribed in Sicily and Sardinia); these bonds could be used after three years for tax payments and for this period of three years the yield, including prizes (worth another ½ per cent. per annum), worked out at well over 6 per cent. tax-free. Later, as a result of the developments in July 1943, the government bond market weakened and quotations were registered which corresponded to yields of up to 12 per cent. (not counting prizes).

In his speech early in August 1943 the Finance Minister stated that the government debt at long and middle term (funded and redeemable) plus the issue of government notes had reached Lit. 256.9 milliard on 30th June 1943, to which must be added Lit. 168.9 milliard floating debt (Treasury bills and debts to the Banca d'Italia and Cassa dei Depositi e Prestiti); this gives a total of Lit. 425.8 milliard, excluding the annuities on account of arrears.

In July 1943 current receipts fell off, he said, and the total of Treasury bonds outstanding declined, so that the greatest recourse was had by the Treasury to the Banca d'Italia in that month, amounting to Lit. 10.4 milliard

and raising the total direct borrowing of the Treasury from the bank to Lit. 58.0 milliard. Allowing, in addition, for the assistance granted by the bank to the Consortium for the support of industrial securities (Lit. 34.2 milliard), for cessions in connection with credit certificates issued by the Treasury and credit claims in respect of military supplies, for the payment of subsistence allowances to soldiers' families and for public works, for the payment of orders for war supplies and services and for the many other occasions on which the bank had provided notes, directly or indirectly, for various purposes, the growth of the note circulation of the Banca d'Italia from Lit. 25.3 milliard on the eve of Italy's entry into the war to Lit. 96.5 milliard on 20th July 1943 was entirely due to government requirements. (The development of the note circulation in Italy as shown by the most recent data is treated on pages 307-308.) In October 1943 restrictions were placed on the withdrawal of bank deposits in the northern section of the country.

As regards the occupied countries in western Europe, it is generally necessary to rearrange the items of the published budget figures, in the interest of uniformity and to afford a clearer insight into the situation than is obtainable from the official statistics. In France, both occupation costs and clearing financing are designated extraordinary "armistice expenditure" outside the budget; in Belgium, the costs of the occupation are treated as budget expenditure, but the clearing is directly financed by the Bank of Issue outside the budget; in Denmark, both payments to the occupying authorities and the financing of the clearing are made directly by the Nationalbank outside the budget. Clearly, the payment of occupation costs and the prepayment of clearing claims in national currency (under government guarantee) are, from a monetary point of view, to be assimilated to budget expenditure. The proportions raised, for example, by taxation or by drawing on central-bank credit have a certain significance if applied to the total of official financing undertaken, but not if compared only with ordinary budget expenditure (excluding occupation costs and the clearing). Although information is not complete and, in some cases, only fragmentary, yet this principle of uniformity has been observed as far as possible in the presentation of statistics in the following pages.

In France the budgetary position in 1942 was dominated by expenditure resulting from the armistice. The monthly Treasury returns, resumed in 1942 after having been suspended since August 1939, show total outlay of Fr.fcs 305½ milliard in the year, of which Fr.fcs 157½ milliard, over one-half, was due to expenses on account of the armistice. To these figures must be added the receipts and expenditure of the Caisse autonome d'amortissement (which covers the debt service out of special fiscal revenue), balancing at approximately Fr.fcs 10 milliard (net). Actually, part of the occupation costs paid in 1941 were utilised only in 1942 and, if account be taken of this fact, the total paid out comes to Fr.fcs 353½ milliard (against Fr.fcs 246 milliard in 1941). Taxation and other current revenue covered 33.6 per cent. of total outlay, including that of the Caisse d'amortissement, but only 29.2 per cent. if the delayed utilisation of occupation costs be taken into account.

Revenue from taxation increased in 1942; complete returns for the year show receipts of Fr.fcs 79 milliard against Fr.fcs 64 milliard in 1941. For 1943 higher rates of taxation have been introduced and estimates were some Fr.fcs 22 milliard higher than those made for 1942. Budget expenditure proper in 1942, on the other hand, was some Fr.fcs 5½ milliard below the estimates. As a result of these developments, the actual budget deficit in 1942 at Fr.fcs 37 milliard was about Fr.fcs 20 milliard lower than was foreseen. But this deficit was less than one-fifth of the total amount to be financed by credit operations.

### French Budget and Treasury Accounts (1).

Calendar year	1941	1942	1943 (2)
	In milliards of Fr.fcs		
Expenditure - budget (3) . . . .	122	133	144
armistice:			
occupation costs (4) . . . . .	130	124½	210
German deficit on clearing (5)	12	33	50
Treasury advances and sundry charges . . . . .	2	15	15
Total Treasury outlay . . . . .	266	305½	419
Taxation and other ordinary revenue . . . . .	79	96	102
Total Treasury credit financing	187	209½	317
Net credit financing (6) . . . .	167	257½	317
Borrowing from Bank of France			
gross . . . . .	71	68	.
net (7) . . . . .	51	116	.
Other sources - total . . . . .	116	141½	.
of which			
long-term borrowing . . . . .	1½	16½	.
short-term borrowing . . . . .	89½	113	.
sundry items (8) . . . . .	25	12	.

Expenditure in connection with the armistice as shown by the Treasury returns (excluding, e.g., expenses borne by the railways and the P. T. T.) rose from Fr.fcs 142 milliard in 1941 to Fr.fcs 157½ milliard in 1942 and for 1943 a total as high as Fr.fcs 260 milliard seems probable. In point of fact, the real increase in armistice expenditure from 1941 to 1942 was still higher, a larger proportion of the provision for costs of occupation having been utilised (see table on page 195), and this remained the dominating factor in the French Treasury position and, indeed, in the country's monetary situation also.

- (1) Realised results for 1941 and 1942; estimates for 1943.
- (2) In August 1943 supplementary credits of Fr.fcs 4.7 milliard were approved, largely for government subsidies with a view to stabilising prices; revenue estimates were also raised by Fr.fcs 2.1 milliard. For the first nine months of the year budget expenditure amounted to Fr.fcs 96.5 milliard, while taxation and other revenue was Fr.fcs 84.7 milliard; the costs of occupation were Fr.fcs 162.6 milliard and the German clearing deficit Fr.fcs 40.0 milliard.
- (3) Ordinary and extraordinary together for 1941 and 1942. For 1943 the distinction was abolished. These figures do not include the Caisse autonome d'amortissement.
- (4) For 1941, the daily rate of payment to the German authorities at Fr.fcs 400 million a day up to 10th May and Fr.fcs 300 million thenceforth would have given Fr.fcs 122½ milliard; other expenses such as the cost of billeting raised the total to Fr.fcs 130 milliard. For 1942, the total at the rate of Fr.fcs 300 million daily would have been Fr.fcs 109½ milliard; other charges increased this total to Fr.fcs 123½ milliard, as given in the Treasury return, to which Fr.fcs 1 milliard, the net outlay for requisitions for account of the German authorities, has been added. These figures include also the payments to Italy, which were, however, on a comparatively small scale; for 1942, they might be estimated at Fr.fcs 2.1 milliard. By law of 9th February 1943 a new Treasury account was opened to which were booked advances made by the French Government to meet the expenses of the Italian troops in France. For 1943 the rate of payments to Germany has been increased to Fr.fcs 500 million a day, less Fr.fcs 200 million a month but plus a total of Fr.fcs 10 milliard in respect of the retroactive application of the rate of Fr.fcs 500 million from 11th November 1942. This gives a total of Fr.fcs 190 milliard, to which must be added billeting costs and the new account for payments to Italy, together making a supplementary amount of at least Fr.fcs 20 milliard.
- (5) Advances by the Treasury to the French clearing office to finance the deficit on the Franco-German clearing.
- (6) Owing to the building-up of the Reichskreditkassen account in 1941 and its withdrawal in 1942, a more realistic picture is given by taking the utilisation of occupation costs rather than their payment. Taking the utilisation at Fr.fcs 101½ milliard in 1941 and Fr.fcs 157 milliard in 1942 plus actual billeting costs and requisitions, given under (4) above, these net credit financing figures are obtained.
- (7) Taking account of the utilisation of occupation costs by the German authorities as under (6) and not merely the date of formal payment.
- (8) Including, for 1942, drawing on the Treasury's accounts for Fr.fcs 3½ milliard and some Fr.fcs 6 milliard in suspense (partly due to operations with overseas territories cut off from the "métropole").

In 1942 the total Treasury expenses not covered by ordinary revenue amounted to nearly Fr.fcs 210 milliard, but actual borrowing brought in slightly under Fr.fcs 200 milliard. The movement of the public debt since the war is shown in the following table. In the total debt, which has risen to nearly three times its pre-war level, the proportion at long term has fallen from over two-thirds to under one-third and the short-term debt has risen correspondingly.

Long-term issues of the government and public bodies since the armistice have been very largely for purposes of conversion; these conversions have covered about Fr.fcs 100 milliard of old loans and brought the effective yields down to a little over 3½ per cent. In January 1943 it was possible for the Caisse autonome to make a conversion of old issues into 3½ per cent. bonds at par.

Middle and short-term issues, Treasury bills, 4-year savings bonds and advances from the Bank of France accounted for about 90 per cent. of the increase of the total public debt in 1942. The most important innovation in government borrowing was the introduction of 3 per cent. 4-year savings bonds in May 1942 in denominations up to one million francs; interest for the first two years was paid by deduction from the issue price and for the last two years by premium on redemption. Prior redemption might be obtained on certain defined conditions, which were later widened. Savings bonds were issued at an average rate of about Fr.fcs 1 milliard a month and by March 1943 some Fr.fcs 10 milliard were outstanding. (In February 1943 a law was passed making it compulsory to deposit with the Treasury "reserves for the renewal of stocks". The system thus introduced differed slightly from the German system of "business-investment" and "commodity-stocks-replenishment" deposits, the reserves being established at a bank and not directly with the Treasury. They bear interest at 2¼ per cent., the rate for one-year Treasury bonds).

French Public Debt<sup>(1)</sup> outstanding.

At end of month	August 1939	Dec. 1941 <sup>(2)</sup>	Dec. 1942	Move-ment in 1942	Sept. 1943	Move-ment in nine months of 1943
In milliards of Fr.fcs						
Long term:						
funded . . . . .	55	55	44	- 11	44	-
redeemable . . . . .	248	278	306	+ 28	344	+ 38
Middle and short term:						
Treasury bills etc.	107	321	421	+ 100	485	+ 64
Bank of France. . .	36	227	295	+ 68 <sup>(3)</sup>	382	+ 87 <sup>(3)</sup>
Total . . .	446	881	1,066	+ 185 <sup>(4)</sup>	1,255	+ 189 <sup>(4)</sup>

(1) Including the Caisse autonome d'amortissement.

(2) Figures published for 1st January 1942.

(3) This item actually covers all banks of issue (including those of the colonies) but is, of course, almost entirely concerned with the Bank of France. According to the end-of-year returns, the advances made by the Bank of France rose by Fr.fcs 67½ milliard in 1942.

(4) Not all fluctuations are due to cash disbursements or receipts; certain factors, such as conversions, fluctuations of exchange rates etc., play a part. In 1942 these factors led to a reduction of Fr.fcs 12 milliard, so that total receipts from borrowing were Fr.fcs 197 milliard.

the introduction of 3 per cent. 4-year savings bonds in May 1942 in denominations up to one million francs; interest for the first two years was paid by deduction from the issue price and for the last two years by premium on redemption. Prior redemption might be obtained on certain defined conditions, which were later widened. Savings

bonds were issued at an average rate of about Fr.fcs 1 milliard a month and by March 1943 some Fr.fcs 10 milliard were outstanding. (In February 1943 a law was passed making it compulsory to deposit with the Treasury "reserves for the renewal of stocks". The system thus introduced differed slightly from the German system of "business-investment" and "commodity-stocks-replenishment" deposits, the reserves being established at a bank and not directly with the Treasury. They bear interest at 2¼ per cent., the rate for one-year Treasury bonds).

The ordinary advances by the Bank of France to the government fell by Fr.fcs 1¼ milliard during 1942, but the special advances to meet the costs of occupation rose by Fr.fcs 68½ milliard. The extent to which the

costs of occupation have been met by direct borrowing from the Bank of France is shown in the following table.

France — Payment of Occupation Costs and other expenses  
in connection with the armistice<sup>(1)</sup>.

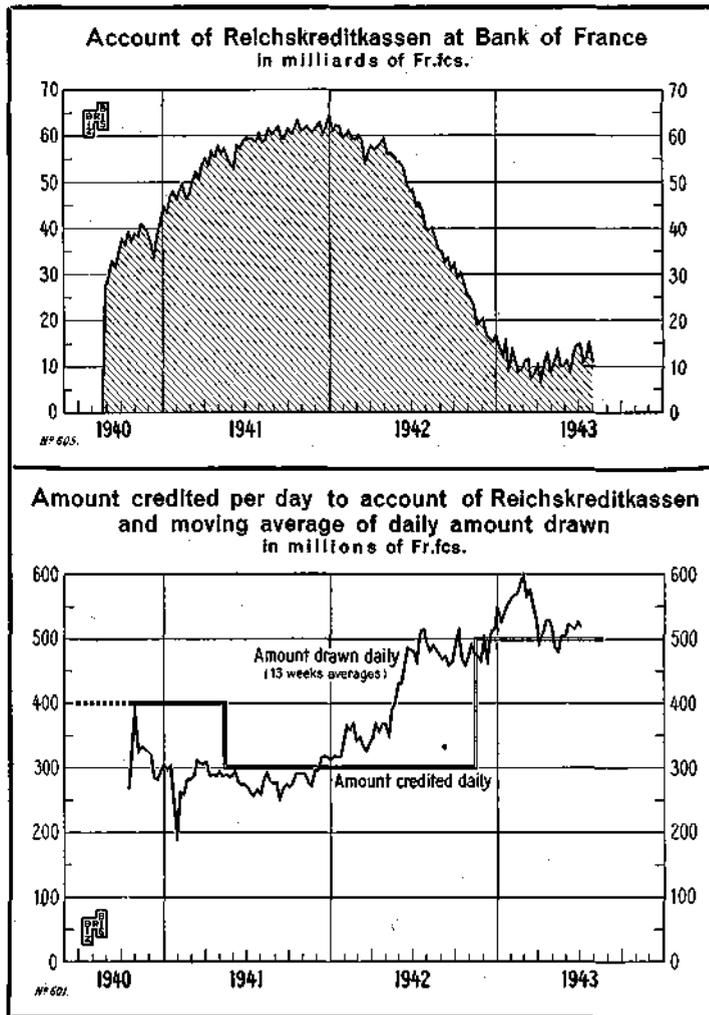
In milliards of Fr.fcs	Total expenditure in connection with the armistice <sup>(1)</sup>			Of which occupation costs properly so called		
	Total expenditure	Covered by		Total payments	Of these payments	
		special advances of Bank of France	Treasury bills	( <sup>2</sup> )	amounts utilised by German authorities ( <sup>3</sup> )	movement of account of Reichs- kreditkassen ( <sup>4</sup> )
1940 . . . . . <sup>(5)</sup>	80.0	80.7	(- 0.7)	80.0	35.2	+ 44.8
1941 . . . . . <sup>(6)</sup>	142.0	61.8	80.2	121.5	101.7	+ 19.8
1942 . . . . . <sup>(7)</sup>	157.5	66.5	89.0	109.5	157.2	(- 47.7)
Totals . . .	379.5	211.0	168.5	311.0	294.1	+ 16.9
1943 (Jan.-Sept.) . . . <sup>(6)</sup>	202.6	84.8	117.8	144.4	145.8	(- 1.4)
Totals . . .	582.1	295.8	286.3	455.4	439.9	+ 15.5

- (1) The total of occupation, billeting costs etc., plus the financing of the surplus of exports to Germany (as shown in the budget accounts).  
 (2) Assuming payments at the daily rates given in footnote (4) to the table on page 193, such payments being made ten days in advance.  
 (3) Actually utilised for payments or for the accumulation of a stock of notes of the Bank of France.  
 (4) Funds were accumulated on the account of the Reichskreditkassen at the Bank of France in 1940 and 1941 (+), but were drawn down in 1942 (-).  
 (5) Period 25th June 1940 to 2nd January 1941. (6) Period from 3rd January 1941 to 31st December 1941.  
 (7) Calendar year to 31st December 1942. (8) 1st January to 30th September 1943.

Up to the end of September 1943 the amounts paid totalled Fr.fcs 582 milliard, the equivalent of RM 29 milliard, 50.8 per cent. of which was covered by advances from the Bank of France and 49.2 per cent. by short-term Treasury loans.

As regards the costs of occupation properly so called, paid to the account of the Reichskreditkassen at the Bank of France, whereas in 1940 only about one-half and in 1941 four-fifths of the amount credited was actually utilised, in 1942 nearly Fr.fcs 50 milliard of the accumulated balance was withdrawn, in addition to the Fr.fcs 109½ milliard received during the year. With the increase of the French payments to Fr.fcs 500 million a day as from 11th November 1942, the amounts utilised by the occupying authorities corresponded approximately to those currently credited, so that the account of the Reichskreditkassen remained fairly stable between Fr.fcs 7 and 16 milliard in the first three quarters of 1943.

It was in May 1942 that the expenses of the occupying authorities began to exceed considerably the daily payments to the account of the Reichskreditkassen. This increase appears to have coincided with the commencement of extensive works by German organisations (the Todt organisation, etc.) and with big armament orders (in the summer, the figure Fr.fcs 100 milliard was mentioned semi-officially in this connection), while at the same time the occupying authorities were, no doubt, accumulating larger reserves of notes.



Note. The account of the Reichskreditkassen has been taken from the weekly return of the Bank of France. The average daily amount drawn has been calculated by comparing the sums credited with the weekly movement of the account.

Thus it is not the official dates and amounts of payments as shown by Treasury statistics but the actual time and method of utilisation of the proceeds by the German authorities which have set the pace of the monetary expansion. The four phases are illustrated in the table on the opposite page.

Except for the first phase, for which the increase of the note circulation cannot be measured exactly (as the publication of returns by the Bank of France was suspended from 10th June) and during which other credit items were important (especially the ordinary advances to the Treasury), the note circulation has risen almost exactly parallel with the financing of

the utilisation of occupation costs through the Bank of France. In the second phase of twelve months to 30th April 1942, the average monthly amount withdrawn by the occupying authorities was Fr.fcs 9.0 milliard: Fr.fcs 4.2 milliard was covered from the Treasury bill issue and Fr.fcs 4.8 milliard from the Bank of France; the note circulation rose by Fr.fcs 4.9 milliard a month. In the third phase of eight months to 31st December 1942, the average monthly amount utilised was Fr.fcs 14.5 milliard: only Fr.fcs 3.2 milliard was covered from the Treasury bill issue and Fr.fcs 11.4 milliard from the Bank of France; the note circulation rose by Fr.fcs 11.4 milliard monthly. Thus the occupying authorities utilised Fr.fcs 5½ milliard more a month from May 1942, but Fr.fcs 1 milliard less was raised by Treasury bills, so that Fr.fcs 6½ milliard more was drawn from the Bank of France and the note issue rose by nearly Fr.fcs 11½ milliard a month in May-December 1942, instead of by less than Fr.fcs 5 milliard

**France — Utilisation and financing of Occupation Costs.**

Phases in the utilisation of occupation costs	First phase	Second phase	Third phase	Fourth phase	Total period
	25th June 1940 to 30th April 1941	1st May 1941 to 30th April 1942	1st May 1942 to 31st Dec. 1942	1st January to 30th Sept. 1943	25th June 1940 to 30th Sept. 1943
	310 days	365 days	245 days	273 days	1,193 days
	In millions of Fr.fcs				
Daily average credited . .	413 <sup>(1)</sup>	300	300	529 <sup>(2)</sup>	392
"    "    withdrawn . .	226	295	475	534	369
"    "    of excess . .	+ 187	+ 5	- 175	- 5	+ 13
	In milliards of Fr.fcs				
Total amounts credited . .	128.0 <sup>(3)</sup>	109.5	73.5	144.4 <sup>(4)</sup>	455.4 <sup>(5)</sup>
"    "    withdrawn	70.1	107.7	116.3	145.8	439.9
Excess of credits (+) or debits (-) . . . . .	+ 57.9	+ 1.8	- 42.8	- 1.4	+ 15.5
Of amounts withdrawn:					
Financed by Treasury bill issue . . . . .	24.3	50.3	25.4	59.5	159.6
Financed from Bank of France: increase of special advances	103.7	59.2	48.1	84.8	295.8
movement of Reichskredit- kassen account <sup>(6)</sup> . . . . .	- 57.9	- 1.8	+ 42.8	+ 1.4	- 15.4
Total . . . . .	45.8	57.4	90.9	86.2	280.4
Increase of note circulation .	57.9 <sup>(7)</sup>	59.3	91.1	85.2	293.5 <sup>(8)</sup>
	In milliards of Fr.fcs				
Monthly averages:					
Amount withdrawn . . . . .	6.9	9.0	14.5	16.2	11.1
Financed by Treasury bill issue . . . . .	2.4	4.2	3.2	6.6	4.0
Financed by Bank of France	4.5	4.8	11.4	9.6	7.1
Increase of note circulation .	5.7 <sup>(9)</sup>	4.9	11.4	9.5	7.4 <sup>(9)</sup>

(1) Payments were made at the rate of Fr.fcs 400 million a day during this phase but the average amount credited slightly exceeds this figure owing to payment ten days in advance.  
(2) Payments were made at a daily rate of Fr.fcs 500 million from 1st January 1943 plus a part of the retroactive payment as from 11th November 1942. See footnote (9) on page 193.  
(3) Including Fr.fcs 4 milliard paid in advance up to 10th May 1941.  
(4) Including Fr.fcs 5 milliard paid in advance up to 10th October 1943.  
(5) Accumulation of funds on the account (-) or excess of withdrawals (+). (9) From 10th June 1940.

as was previously the case. In the first nine months of the fourth phase, which opened at the beginning of 1943, the average monthly amount utilised increased to Fr.fcs 16.2 milliard: Fr.fcs 6.6 milliard was covered from the Treasury bill issue and Fr.fcs 9.6 milliard from the Bank of France; the note circulation rose by Fr.fcs 9.5 milliard a month.

The increased expenses of the occupying authorities and the consequent withdrawal of the balance of the Reichskreditkassen, without any correspondingly increased issue of Treasury bills in the last eight months of 1942, led directly to an expansion of the note issue at more than double the previous rate. Commenting on this situation, the annual report of the Bank of France for 1942 says: "The bank fully realises the weight of the financial charges imposed on France, which risk the frustration of all efforts at recovery".

The stagnation of the business of the Bank of France, except for the drawings on account of occupation costs and the rise of the note circulation, is shown by the bank's return.

**Bank of France.**

Near end of month	Assets				Total of balance sheet	Liabilities			
	Gold	Temporary advances to govt		Other credit items ( <sup>3</sup> )		Notes	Current accounts		
		ordinary ( <sup>1</sup> )	special ( <sup>2</sup> )				Treasury ( <sup>4</sup> )	private ( <sup>5</sup> )	RK Kassen
1939 August . . .	97	21	—	27	166	142	3	19	—
December . . .	97	35	—	17	171	151	2	15	—
1940 December . . .	85	64	72	16	292	218	1	27	41
1941 December . . .	85	69	143	15	365	270	2	25	68
1942 March . . .	85	66	189	15	375	286	1	29	58
June . . .	85	62	178	15	392	309	1	30	49
September . . .	85	68	187	17	409	340	1	33	32
December . . .	85	69	211	16	435	383	1	30	17
1943 March . . .	85	66	236	17	460	410	1	35	11
June . . .	85	70	261	17	486	434	1	31	15
September . . .	85	70	296	17	522	468	1	33	15

- (<sup>1</sup>) Excluding the permanent advance of Fr.fcs 10 milliard, unchanged throughout the period.  
 (<sup>2</sup>) Special advances to the French Government to meet the costs of occupation; the legal limit for these advances was successively raised to Fr.fcs 321 milliard on 30th September 1943.  
 (<sup>3</sup>) Bills discounted, 90-day and other advances and bills purchased on the market.  
 (<sup>4</sup>) Including the account of the Caisse autonome d'amortissement. (<sup>5</sup>) Including other sight liabilities.

Gold has remained booked at Fr.fcs 85 milliard; the ordinary advances to the government have fluctuated somewhat below the maximum of Fr.fcs 70 milliard fixed in June 1940. Developments in North Africa led

**French Bank Deposits.**

At end of quarter	Paris banks			Provincial banks (ten)	Total 24 im- portant domestic banks ( <sup>2</sup> )
	Big banks (six)	Banques d'affaires (two)	Other banks (six) ( <sup>1</sup> )		
1941 December ( <sup>3</sup> ) . . .	96.4	8.0	11.9	16.6	132.9
1942 March . . . . .	98.7	8.8	12.2	17.7	137.3( <sup>4</sup> )
June . . . . .	105.1	9.4	12.6	18.6	145.7
September . . . . .	112.1	9.5	13.8	20.1	155.5
December . . . . .	114.9	10.9	14.7	21.2	161.8
1943 March . . . . .	120.5	10.5	.	.	( <sup>4</sup> )
June . . . . .	127.2	11.8	14.4 ( <sup>1</sup> )	23.5	176.9
September . . . . .	131.0	.	.	.	.

- (<sup>1</sup>) Five banks only on 30th June 1943, a small bank whose deposits had declined to Fr.fcs 320 million at the end of 1942 being excluded.  
 (<sup>2</sup>) Further, amongst the large banks were four foreign banks with deposits of Fr.fcs 5 milliard at the end of 1942 and one colonial bank with deposits amounting to about Fr.fcs 1 milliard. Amongst the foreign banks the most important was the Aéro Bank, under German control, which increased its deposits from Fr.fcs 1.1 milliard on 30th June 1942 to Fr.fcs 3.0 milliard on 30th June 1943.  
 (<sup>3</sup>) The figures given for December 1941 are those established according to the old form and are not exactly comparable with those for 1942.  
 (<sup>4</sup>) The aggregate deposits of 181 domestic and foreign banks amounted to Fr.fcs 155.7 milliard on 31st March 1942 and to Fr.fcs 200.2 milliard on 31st March 1943.

to a certain liveliness of credit in the first half of November 1942: as a result of withdrawals of deposits from the banks, the Bank of France came under some pressure, and the total of the "other credit items" rose from Fr.fcs 17 milliard on 29th October to Fr.fcs 22 milliard on 12th November; but the emergency was soon over and by the middle of December the former position was re-established.

The new banking law of 13th June 1941 obliged all joint-stock banks operating in France to publish balance sheets of a uniform pattern from 31st March 1942, banks with Fr.fcs 500 million deposits or more (of which there are 31) monthly, and smaller banks (some 150) quarterly. The aggregate deposits of the twenty-four banks shown in the previous table rose by Fr.fcs 29 milliard in 1942, i.e. by 22 per cent. (for all commercial banks in the country the increase was Fr.fcs 44½ milliard in the twelve months to March 1943, i.e. by 28 per cent.). The movement gathered momentum in the third quarter, when the increase was nearly Fr.fcs 10 milliard for the twenty-four banks, but slowed down to Fr.fcs 6 milliard in the last quarter.

For the sake of continuity with the twelfth Annual Report the accompanying table summarises the balance sheets of four big banks with head offices in Paris. The increase of deposits at these banks was Fr.fcs 14.5 milliard in 1942 compared

France —  
returns of four big commercial banks<sup>(1)</sup>.

At end of month	Assets			Liabilities
	Cash	Discounts (?)	Advances and overdrafts	Deposits and current accounts
	In milliards of Fr.fcs			
1938 December .	3.9	21.3	7.7	33.6
1939 December .	4.8	29.3	8.1	42.1
1940 December .	6.4	46.1	8.6	62.0
1941 December .	6.9	61.6	8.5	76.7
1942 March . . .	7.2	62.5	9.7	78.8
June . . . . .	6.9	68.1	10.2	84.4
September . .	6.9	73.1	10.2	89.5
December . . .	8.8	72.9	10.6	91.2
1943 March . . .	7.7	73.8	9.6	96.3
June . . . . .	7.5	79.4	9.3	102.0
September . .	7.8	84.2	8.9	104.8

(1) Crédit Lyonnais, Comptoir National d'Escompte, Société Générale and Crédit Industriel et Commercial. These four banks account for 57 per cent. of the total deposits shown in the previous table and about 51 per cent. of those of the 181 reporting banks.  
(2) In the discount portfolios of the banks, Treasury bills now preponderate.

with Fr.fcs 14.7 milliard in 1941 and Fr.fcs 19.9 milliard in 1940; proportionately, the increase in 1942 at 19 per cent. was rather less than that of the total for all banks, but it appears that the rate of increase of commercial-bank deposits in France declined as the rise of the note circulation accelerated. In November 1942 some Fr.fcs 2½ milliard deposits were withdrawn from the four banks shown in the table (and a similar amount of Treasury bills discounted or allowed to run off).

Three large banks have recently taken steps to bring their capital more into line with their increased deposit liabilities: in the third quarter of 1942 the Société Générale raised its paid-up capital from Fr.fcs 312½ million to Fr.fcs 750 million (and its "authorised" capital to Fr.fcs 1,500 million) and the Banque Nationale pour le Commerce et l'Industrie (not included in the table) from Fr.fcs 350 million to Fr.fcs 525 million; in January 1943 the Crédit Lyonnais took powers to increase its capital from Fr.fcs 400 million to Fr.fcs 1,000 million. Even with these increases the proportion of capital (and reserves) to deposits remained relatively low.

In 1941 the increase of the Treasury bill portfolio ran parallel to the rise of deposits but in 1942 the cash reserve was strengthened (in the last

quarter) while there was some revival of advances and overdrafts (particularly in the first quarter). If these four banks can be regarded as typical, then it appears that the commercial banks took up only Fr.fcs 23 milliard Treasury bills in 1942 against about Fr.fcs 31 milliard in 1941. Time deposits at these banks accounted for less than one per cent. of all deposits and their holdings of long-term government securities were negligible.

In these circumstances the growth of savings deposits became of even greater importance. The table shows that the rising tendency in recent years was sharply accentuated at the beginning of 1943, when the maximum allowable for individual deposits was raised.

France —  
movement of savings-bank deposits.\*

In milliards of Fr.fcs	Caisse Nationale	Caisses ordinaires	Total
1940 January–December . . . .	+ 0.6	— 0.6	0.0
1941 " " . . . .	+ 3.3	+ 3.5	+ 6.7
1942 " " . . . .	+ 6.6	+ 7.2	+ 13.8
1942 January–March . . . . .	+ 1.9	+ 2.5	+ 4.4
April–June . . . . .	+ 1.4	+ 1.3	+ 2.6
July–September . . . . .	+ 1.4	+ 1.3	+ 2.6
October–December . . . . .	+ 2.0	+ 2.2	+ 4.1
1943 January–March . . . . .	+ 3.8	+ 5.3	+ 9.1
April–June . . . . .	+ 2.9	+ 3.0	+ 5.9
Total deposits outstanding at end of 1942. . . . .	38.4	52.0	90.3

\* Excess of deposits (+) or withdrawals (—).

1938 to the middle of 1941 commercial-bank deposits more than doubled, while savings deposits rose by only 14 per cent. In 1942 both commercial-bank and savings deposits increased by around 20 per cent.

For 1942 the maximum for savings deposits on an individual account was raised from Fr.fcs 20,000 to Fr.fcs 25,000. The basic interest rate was reduced from  $2\frac{3}{4}$  per cent. in 1940 to  $2\frac{1}{2}$  per cent. in 1941; in 1942 this rate was further reduced to  $2\frac{1}{4}$  per cent., but an additional  $\frac{1}{2}$  per cent. was paid on those "stable" deposits showing withdrawals of less than Fr.fcs 8,000 during the year (making  $2\frac{3}{4}$  per cent. in all). From January 1943 the basic rate was further reduced to  $1\frac{3}{4}$  per cent., but an additional  $\frac{3}{4}$  per cent. was paid on "stable" deposits, which would thus get  $2\frac{1}{2}$  per cent. At the same time the maximum deposit was raised to Fr.fcs 40,000 (and the withdrawals permitted on "stable" deposits to Fr.fcs 10,000).

A feature of the last three years has been the rapid expansion of the postal giro system. Deposits on private accounts, which were only Fr.fcs 4.0 milliard in August 1939, grew to Fr.fcs 13.7 milliard in December 1941 and Fr.fcs 18.8 milliard in December 1942. A factor in the recent growth has doubtless been the law making certain payments by cheque obligatory.

In 1942, as a whole, the increase of deposits at Fr.fcs 13.8 milliard was more than twice as high as in the previous year. But even this relatively large figure was only 43 per cent. of the increase in commercial-bank deposits and 12 per cent. of the rise in the note circulation. Nevertheless, the present expansion of savings-bank deposits, which has been attributed to the agricultural section of the community, is a very significant change of trend. From

**France — Interest Rates.**

Annual averages	Rente 3 pour cent perpétuelle	Bonds		Share yields	Bank of France discount	Treasury bills of 1 year
		on market	new issues			
1938 .....	4.02	6.10	6.93	4.29	2.70	3.13
1939 .....	3.95	4.97	5.71	4.26	2.00	2.75
1940 .....	4.06	4.79	5.91	3.99	2.00	3.00
1941 .....	3.19	3.40	4.50	1.94	1.80	2.51
1942 .....	3.14	3.08	3.73	1.22	1.75	2.25

There was a further tendency for interest rates to fall in 1942. Besides the movement of savings-bank rates mentioned above, the rate for two-year Treasury bills was reduced by  $\frac{1}{4}$  per cent. to  $2\frac{1}{2}$  per cent. in May 1942. The discount rate of the Bank of France remained at  $1\frac{3}{4}$  per cent., to which it was reduced in March 1941. The above table, giving the annual averages of certain rates and yields, shows how considerable has been the general reduction since 1938.

**Belgium —  
taxation and official credit financing.**

Calendar years	1940	1941	1942	1943 nine months
	in milliards of B.fcs			
<b>Financed:</b>				
from central bank				
clearing account <sup>(1)</sup> . . . .	3.2	8.5	18.5	17.9
direct borrowing <sup>(2)</sup> . . . .	6.1	5.8	3.2	(-4.2)
<b>Total</b> . . . . .	9.3	14.3	21.7	13.8
from market - long term . . . . .	0.5	3.5	(-0.1)	2.3
middle term . . . . .	—	5.4	10.1	4.4
short term . . . . .	5.6	4.7	7.3	16.0
<b>Total</b> <sup>(3)</sup> . . . . .	6.1	13.6	17.3	22.7
<b>Total official credit financing</b>	15.4	27.9	39.0	36.5
<b>Taxation revenue</b> . . . . .	8.2	12.3	13.8 <sup>(4)</sup>	11.2
<b>Total receipts from taxation and borrowing</b> . . . . .	23.6	40.2	52.8	47.7
<b>Occupation costs</b> <sup>(5)</sup> . . . . .	4.5	16.3	18.5	15.0
<b>Clearing account</b> . . . . .	3.2	8.5	18.5	17.9
<b>Other expenditure</b> <sup>(6)</sup> . . . . .	16.9	20.3	21.0	17.1
<b>Total expenditure</b> <sup>(7)</sup> . . . . .	24.6	45.1	58.0	50.0
<b>Percentage of total taxation and borrowing financed by:</b>				
central-bank credit . . . . .	39.4	35.6	47.7	28.9
market borrowing . . . . .	25.8	33.8	32.8	47.6
taxation . . . . .	34.8	30.6	26.1	23.5

In Belgium the closed budget accounts for 1942 (and complete estimates for 1943) have not been published, but regular statistics of taxation and of the government debt are available and from these a fair picture of developments can be obtained.

The total of taxation and borrowing (including the financing of the clearing with Germany) at B.fcs 53 milliard in 1942 was four times as high as in 1939 (when it was B.fcs 12½ milliard); in 1943 a total of B.fcs 64 milliard appears probable (on the results for the first nine months).

(1) From the return of the Bank of Issue.

(2) The increase of the public debt held by the National Bank and Bank of Issue according to the special quarterly statement (including open-market purchases). The figures do not agree exactly with those given in a later table of the weekly returns of the two banks, since these returns do not necessarily fall at the end of the month.

(3) The increase of the total debt less the amounts under (2).

(4) The exceptional prolongation, to the end of April 1943, of the period for the accounting of 1942 receipts raised the total to B.fcs 14.4 milliard.

(5) These are closed budget accounts for 1940 and 1941 and estimated figures for 1942 and for the first nine months of 1943.

(6) This total is, of course, somewhat higher than the total of taxation and borrowing, as the latter excludes current revenue other than taxation and certain other Treasury accounts.

The percentage covered by taxation has fallen throughout the period shown in the table, while market borrowing has risen. Expenditure in connection with the armistice (occupation costs and clearing financing) accounted for over one-half of the total official outlay in 1941 and nearly two-thirds in 1942 and 1943.

The Belgian internal public debt more than doubled from 1939 to 1942 and by September 1943 reached B.fcs 111 milliard, excluding B.fcs 3 milliard due to holders of postal cheque accounts and the government's guarantee on the National Bank's advance of B.fcs 44½ milliard to the Issue Bank (to finance the clearing with Germany).

**Belgian Internal Public Debt outstanding<sup>(1)</sup>**  
(and guarantee).

End of quarter	Government debt				Government guarantee to National Bank <sup>(5)</sup>
	Long term <sup>(2)</sup>	Middle term <sup>(3)</sup>	Short term <sup>(4)</sup>	Total <sup>(5)</sup>	
	In milliards of B.fcs				
1939 December .	35.2	0.7	4.4	40.3	—
1940 December .	36.1	0.7	15.7	52.5	1.5
1941 December .	39.5 <sup>(7)</sup>	6.8	25.7	71.9	10.6
1942 March . . .	39.4	7.4	30.5	77.3	11.9
June . . . . .	39.3	10.7	32.6	82.6	15.1
September . . .	39.2	13.0	35.8	88.0	19.7
December . . .	38.9	16.8	36.7	92.4	26.9
1943 March . . .	38.9	18.7	40.6	98.2	33.0
June . . . . .	42.5	20.5	41.2	104.2	36.5
September . . .	42.3	21.2	47.5	111.0	44.5

(1) Excluding the slight debt of B.fcs 3.1 milliard on account of deposits of the postal cheque system. (2) Of over five years' maturity.  
 (3) One to five years' maturity. (4) Under one year's maturity.  
 (5) There is, in addition to the internal debt, foreign debt shown as B.fcs 17.0 milliard in September 1943.  
 (6) On account of advance to the Bank of Issue, which finances the clearing with Germany.  
 (7) B.fcs 1.3 milliard of the increase of the internal long-term debt in 1941 was due to a conversion of foreign debt.

The bulk of the public financing since 1939 has been at short term, but in 1942 middle-term securities became of increasing importance. A 3½ per cent. 5 to 15-year issue was made at par in June 1942 and produced B.fcs 4.4 milliard; these certificates were repayable at 101 in 5 years, at 107 in 10 years and at 115 in 15 years, and thus had a yield rising from 3.7 to 4.2 and to 4.5 per cent., according to maturity; a second tranche issued in December 1942 brought in B.fcs 5.2 mil-

liard. In April 1943, B.fcs 3.6 milliard were obtained from an issue of 3½ per cent. tax-free 44-year bonds at 94. Deliveries to the government of over B.fcs 75,000 and to the German military authorities are paid by means of 3½ per cent. 5-year certificates and these are included in the debt statement (for an amount estimated at B.fcs 1 to 2 milliard in the middle of 1942).

The short-term debt is almost wholly in the form of Treasury bills with a maximum of 120 days to run. At the end of 1942, B.fcs 18.4 milliard, or one-half, was held by the central bank: but the proportion taken by the central bank declined; and in the first nine months of 1943 its holding of government securities actually fell by B.fcs 2.4 milliard. To appreciate the full extension of central-bank credit, however, it is necessary to take the clearing into account, as is done in the next table.

In 1942 B.fcs 3.6 milliard was lent directly to the government, but the financing of the clearing and similar accounts demanded B.fcs 18.5 milliard, making the total of credit granted on official account B.fcs 22.1 milliard, com-

**Belgium — National Bank and Bank of Issue combined returns<sup>(1)</sup>.**

Near end of month	Assets					Total of balance sheet	Liabilities		
	Claims on Germany			Credit granted			Notes <sup>(2)</sup>	Current accounts <sup>(3)</sup>	Postal cheque accounts <sup>(4)</sup>
	clearing account <sup>(2)</sup>	other <sup>(3)</sup>	total	to private economy <sup>(4)</sup>	to government <sup>(5)</sup>				
In milliards of B.fcs									
1940 December . . . . .	0.9	2.3	3.2	1.3	14.0	41.7	34.8	2.6	3.4
1941 December . . . . .	7.9	3.8	11.7	0.9	19.6	55.5	46.5	2.3	3.7
1942 March . . . . .	10.2	3.9	14.1	0.8	22.3	60.4	52.5	2.9	3.8
June . . . . .	13.6	4.7	18.3	0.5	23.0	65.1	56.7	3.5	3.8
September . . . . .	18.2	5.7	23.9	0.4	23.3	70.8	62.4	3.4	3.8
December . . . . .	24.7	5.5	30.2	0.7	23.2	77.6	67.9	4.5	4.0
1943 March . . . . .	31.4	5.3	36.7	0.5	19.1	79.9	70.6	3.8	4.2
June . . . . .	36.8	5.3	42.1	0.4	17.7	83.9	74.5	3.7	4.3
September . . . . .	42.9	5.2	48.1	0.6	20.8	93.4	80.7	4.5	6.6

- (1) The principal items omitted from this table are the gold holding of the National Bank, which has remained booked at B.fcs 21.7 milliard (all but B.fcs 8 million of which is held abroad), and claims of slightly over B.fcs 1 milliard on the Bank of France. The Bank of Issue is financed by a current advance from the National Bank, of which it thus forms, in practice, a specialised department. This advance rose from B.fcs 10.7 milliard to B.fcs 26.9 milliard during 1942 and, further, to B.fcs 44.5 milliard in September 1943.
- (2) Bank of Issue, "créance en devises étrangères" and, from February 1943, Treasury certificates allocated for payments through the clearing.
- (3) Bank of Issue, two accounts of Reichskreditkassen plus "monnaies et billets étrangers" at National Bank (until December 1942 and then transferred to Bank of Issue).
- (4) Almost wholly by National Bank.
- (5) All from National Bank (including securities purchased on the market) except B.fcs 3,060 million (unchanged) held by Bank of Issue against postal cheque accounts. Treasury certificates allocated for payments through the clearing are excluded — see (2) above.
- (6) Circulation of National Bank, less small amounts held by Issue Bank.
- (7) National Bank and Bank of Issue combined. At the Bank of Issue is an account of the Reichskreditkassen (B.fcs 231 million on 31st December 1942 against B.fcs 186 million on 31st December 1941).
- (8) At Bank of Issue.

pared with B.fcs 14.1 milliard in 1941; the rise in the note issue was almost parallel — by B.fcs 19.4 milliard in 1942 against B.fcs 13.7 milliard in 1941. And in the first nine months of 1943 the clearing account rose by a further B.fcs 18 milliard.

**Belgian Commercial Banks<sup>(1)</sup>.**

At end of month	Assets				Total balance sheet	Liabilities	
	Cash <sup>(2)</sup>	Credit granted				Current accounts <sup>(3)</sup>	Time deposits <sup>(4)</sup>
		to private economy <sup>(3)</sup>	to government				
In milliards of B.fcs							
1939 December . . . . .	1.5	9.0	0.7	3.2	20.0	11.5	1.2
1940 December . . . . .	2.2	7.3	4.3	3.3	22.1	14.8	1.2
1941 December . . . . .	2.2	5.8	9.4	3.9	26.4	19.6	2.2
1942 March . . . . .	1.4	5.7	11.2	3.9	27.2	19.3	2.3
June . . . . .	0.8	5.8	13.3	3.9	28.9	20.5	2.9
September . . . . .	0.8	6.0	16.0	3.8	32.1	22.5	3.8
December . . . . .	2.3	6.5	15.8	3.7	33.5	23.0	4.5
1943 March . . . . .	2.2	6.3	20.7	4.0	38.5	27.1	5.3
June . . . . .	0.9	6.2	23.5	3.9	40.0	27.7	6.0
September . . . . .	1.1	5.7	26.6	3.4	44.2	31.4	6.6

- (1) Excluding branches and agencies abroad or in Belgian Congo.
- (2) Including balance at National Bank, shown under "current accounts" in previous table.
- (3) Including advances and overdrafts, commercial bills and acceptances.
- (4) At sight or one month's notice. (5) At more than one month.

The Treasury bill holding of the commercial banks rose by B.fcs 6.4 milliard in 1942 against B.fcs 5.1 milliard in 1941 (and accounted for the bulk of the short-term government securities taken by the market), while long-term government securities declined slightly. In the first nine months of 1943 the banks took up nearly B.fcs 13 milliard Treasury bills, a fact which sheds light on the decline of direct government borrowing from the National Bank. The year 1942 witnessed a reversal of the long-term tendency of savings-bank deposits to decline — the surplus of deposits in 1942 was the first since 1937; at the end of 1942 the total of savings-bank deposits was B.fcs 12.8 milliard.

Belgium — movement of savings-bank deposits\*.

Period	In millions of B.fcs
1939 January-December . . . .	— 1,052
1940 " " . . . .	— 747
1941 " " . . . .	— 233
1942 " " . . . .	+ 841
1942 January-March . . . . .	+ 175
April-June . . . . .	+ 171
July-September . . . . .	+ 181
October-December . . . . .	+ 314
1943 January-March . . . . .	+ 716
April-June . . . . .	+ 536
July-September . . . . .	+ 681
Total deposits outstanding at end of 1942 . . . . .	12,803

\* Excess of deposits (+) or withdrawals (—) at the Caisse Générale d'Epargne (excluding interest added at end of year).

Postal cheque accounts also grew in 1942 by about B.fcs 0.8 milliard to B.fcs 5.7 milliard, rather less than in the previous two years; the postal giro has greatly extended since the war and the volume of accounts has doubled from the B.fcs 2.9 milliard shown at the end of 1939.

Short-term market rates remained practically unchanged; bank rate has been at 2 per cent. since January 1940. The yield of the government 3 per cent. rente fell from an average of 4.4 per cent. in 1940 to 3.7 per cent. in 1941 and 3.5 per cent. in 1942, and the decline continued in the early months of 1943.

From 28th February 1943 the Bank of Issue applied a new procedure to the payment of creditors in the clearing. Instead of prepayment in full and in cash, payments for merchandise and services of over B.fcs 10,000 took place as to 70 per cent. in cash and 30 per cent. in nominative non-transferable certificates of the Bank of Issue, carrying interest at 1½ per cent. From June the proportion paid in certificates was reduced to 20 per cent. and the certificates were accepted by the Treasury in payment of certain direct taxes;

Belgium —  
Bank of Issue in Brussels.

Near end of month	Clearing claims outstanding	
	paid in cash	paid in certificates
	In millions of B.fcs	
1943 February . . . .	28,903	—
March . . . . .	31,361	116
April . . . . .	33,123	206
May . . . . .	35,563	291
June . . . . .	36,775	326
July . . . . .	38,164	353
August . . . . .	41,106	380
September . . . . .	42,846	435

new regulations in August 1943 gave the certificates a maturity of at most one year and made them transferable by endorsement. The counterpart of these certificates was invested by the Bank of Issue in special Treasury certificates and shown separately in the bank's return. The relatively small amounts thus "sterilised" are shown in the accompanying table; actually in the seven months to the end of September 1943 total clearing claims of the Bank of Issue increased by B.fcs 14,380 million, of which B.fcs 13,940 million arose

from payments in cash and under B.fcs 440 million from payments in certificates (less than 4 per cent. of the total).

For Holland also, in the absence of budget statistics, the most comprehensive view of government finances is gained by compiling the total of revenue from taxation and official credit financing. Total expenditure, which was Fl. 1,000 million in 1939, appears to have been about Fl. 3,700 million in 1941 and over Fl. 4,000 million in 1942. In 1942, the clearing required some Fl. 1,000 million, slightly more than in 1941, while the amount paid on account of occupation costs probably rose from the Fl. 1,200 million estimated for 1941 to some Fl. 1,500 million in 1942.

Holland —  
taxation and official credit financing.

Calendar years	1940	1941	1942	1943 six months
	In millions of florins			
<b>Financed:</b>				
<b>from central bank -</b>				
clearing account . . . . .	107	945	1,010 (1)	390 (1)
direct borrowing . . . . .	168	(-248)	—	—
<b>Total . . . . .</b>	<b>275</b>	<b>697</b>	<b>1,010</b>	<b>390</b>
<b>from market -</b>				
long and middle term . . . . .	448	875	869	(-119)
short term: Treasury bills . . . . .	633	608	716	595
other . . . . .	(-137)	292	(-129)	486
<b>Total . . . . .</b>	<b>944</b>	<b>1,775</b>	<b>1,456</b>	<b>962</b>
<b>Total official credit financing . . . . .</b>	<b>1,219</b>	<b>2,472</b>	<b>2,466</b>	<b>1,352</b>
<b>Taxation revenue . . . . .</b>	<b>925</b>	<b>1,219</b>	<b>1,600 (2)</b>	<b>800 (2)</b>
<b>Total receipts from taxation and borrowing . . . . .</b>	<b>2,144</b>	<b>3,691</b>	<b>4,066</b>	<b>2,152</b>
<b>Percentage of total taxation and borrowing financed by:</b>				
central-bank credit . . . . .	12.8	18.9	24.8	18.1
market borrowing . . . . .	44.0	48.1	35.8	44.7
taxation . . . . .	43.2	33.0	39.4	37.2

(1) The increase of the clearing items shown in the Nederlandsche Bank's return is only Fl. 810 million, but some Fl. 220 million were transferred to the government at the beginning of April 1942 in exchange for Treasury bills, the total financing of Reichsmark claims thus amounting to about Fl. 1,030 million. Fl. 20 million of these Treasury bills had been disposed of by the end of the year, so that the net increase at the central bank was about Fl. 1,010 million. The remaining Fl. 200 million were sold on the market during the first half of 1943, so this amount has been deducted from the Fl. 590 million increase of clearing claims in the same period.

(2) Estimates based partly on Fl. 604 million published for the first five months of 1942 (against Fl. 450 million for the same period of 1941).

The relative importance of taxation revenue increased from 1941 to 1942 and the same was the case with borrowing from the central bank, while market borrowing declined; in the first half of 1943 a reverse movement appears to have taken place.

The short-term debt is principally in the form of Treasury bills, the circulation of which on the market rose from Fl. 1,670 million at the end of 1941 to Fl. 2,710 million in October 1942, i. e. by Fl. 1,040 million. Some Fl. 330 million of these bills were then absorbed by a long-term issue, which also consolidated other parts of the floating

debt, notably Fl. 400 million borrowed on current account from various official and semi-official bodies. By the end of June 1943 the Treasury bill issue had risen above Fl. 3,000 million and the total short-term debt above Fl. 4,000 million.

The long-term debt increased by over Fl. 2,000 million from the outbreak of the war to the end of 1942 (account being taken of amortisations and consolidations).

**Dutch Public Debt outstanding  
(and guarantee).**

At end of month (1)	Government debt						Government guarantee on account of clearing advances (2)
	Short term				Long term	Total	
	central bank (3)	Treasury bills (3)	other (4)	total			
In millions of florins							
1938 Dec.	—	221	553	774	3,212	3,986	—
1939 "	83	426	569	1,078	3,140	4,218	—
1940 "	251	1,059	432	1,742	3,588	5,330	110
1941 "	3	1,667	724	2,394	4,463	6,857	1,050
1942 "	199	2,383	595	3,177	5,332	8,509	1,860
1943 June	—	3,014	1,045	4,059	5,213	9,272	2,770

- (1) The actual date of the return is the first day of the following month.  
 (2) Direct borrowing, not including clearing financing. For the end of 1942, the Fl. 199 million represented the balance of Treasury bills placed with the Nederlandsche Bank in exchange for Reichsmarks (and included under "clearings" in the previous table).  
 (3) On market only (i.e. excluding those placed with Nederlandsche Bank).  
 (4) Including the debt on current account to various official institutions, the issue of government notes etc.  
 (5) Approximate figures from return of Nederlandsche Bank.

The 1942 loan for Fl. 1,000 million was the largest single operation effected on the Dutch market up to that time; amortisation was to take place by 20 equal annuities, so that the average maturity was actually ten years. Some Fl. 400 million was taken firm by various official institutions to consolidate current-account advances previously granted to the Treasury; for the Fl. 600 million placed on the market, nearly Fl. 860 million was subscribed, so that allotments were cut down by 30 per cent. A further Fl. 1,000 million loan was floated in

**Dutch Government long-term issues.**

Date of issue	Interest rate %	Issue price %	Maximum maturity in years	Amount of issue in millions of florins
<b>Before the occupation:</b>				
1940 January . . . . .	4	100	30	300
February . . . . .	4	100	40	300
<b>After the occupation:</b>				
1941 February . . . . .	4	100	10	500
November . . . . .	3½	97½	20	500
1942 November . . . . .	3½	99½	20	1,000
1943 July . . . . .	3½	99½	20	1,000

July 1943, the issue price being raised by ¼. Fl. 300 million was taken by official institutions and for the Fl. 700 million placed on the market Fl. 939 million was subscribed, allotments being cut down this time by 26 per cent.

Although no forced loan has actually been made in Holland, an element of compulsion has not been absent. On each occasion when a loan has been issued since the war, a forced loan has been threatened should the "voluntary" loan be unsuccessful. And on each successive occasion the terms of the forced loan were made less attractive to the investor; thus, in 1942, a 2 per cent. 40-year forced loan was held over the market as a threat if the 3½ per cent. loan was not satisfactorily subscribed. Moreover, life assurance companies, savings banks, pension funds and similar institutions have

been instructed to invest the bulk of their funds in government paper and to restrict their purchases of other securities, real estate and mortgages etc. For the 1942 loan certain quotas were laid down which investors were expected to fulfil if they were to escape a forced loan; individuals were to subscribe 2 per cent. of net fortunes of Fl. 20,000, up to 5 per cent. of Fl. 800,000 and 10 per cent. above that sum, share companies 3 per cent. of net business capital, and investment institutions (insurance companies, savings banks etc.) 8 per cent. of total assets. In July 1943, the terms of the threatened forced loan were made even more severe: a 2 per cent. undated issue at par for double the amount of the "voluntary" loan.

The note circulation of the Nederlandsche Bank rose in 1942 at an accelerated rate as a result of the financing of claims on Germany.

### Nederlandsche Bank.

Near end of month	Assets						Total of balance sheet	Liabilities		
	Claims on Germany (1)			Loan to government	Private domestic credit	Gold		Notes	Private accounts	Government special account
	"sundry accounts"	foreign bills	total							
In millions of florins										
1939 December . .	29	2	31	83	238	1,014	1,431	1,152	229	—
1940 December . .	123	15	138	261	211	1,102	1,783	1,552	175	—
1941 December . .	153	930	1,083	18	165	1,026	2,357	2,116	182	—
1942 March . . . .	158	1,128	1,285	(-126)	196	1,026	2,573	2,217	168	—
June . . . . .	161	1,109	1,270	187	151	943	2,616	2,393	160	—
September . . . .	161	1,360	1,521	265	143	925	2,926	2,680	180	—
December . . . .	151	1,742	1,893	176	204	903	3,244	3,034	141	—
1943 March . . . .	188	2,091	2,279	122	180	886	3,506	2,998	437(6)	—
June . . . . .	192	2,292	2,484	—	140	886	3,578	2,596	340	568
September(7).	159	2,623	2,778	2	138	932	3,927	3,041	675	100

- (1) Except for a small amount indicated by the pre-1940 level of these items. The total of Fl. 2,279 million in the table is for 29th March 1943. According to the annual report of the Nederlandsche Bank for the financial year ending 31st March 1943, the total of foreign bills, balances abroad and foreign currency on the latter date was Fl. 2,221 million, of which Fl. 2,206 million was in Reichsmarks.
- (2) Net, i.e. direct advances, plus Treasury bills placed directly with the bank, less credit on current account; in March 1942 there was a net credit. Slight differences as compared with the previous tables are principally due to the date of the returns.
- (3) Excluding Treasury bills placed directly with the bank, but including the loan to the Dutch East Indies (reduced from Fl. 81 million to Fl. 53 million over the period shown in the table).
- (4) Including certain minor items not specified in the table.
- (5) Account opened in connection with the withdrawal of large bank-notes.
- (6) The actual private accounts probably remained at about Fl. 150-200 million, but withdrawn bank-notes were also booked provisionally under this heading until a new item was included in the return of 19th April 1943.
- (7) From 5th July 1943 a number of changes took place in the return; in particular the gold holding rose by Fl. 46 million to Fl. 936 million and the "sundry accounts" on the assets side were reduced from Fl. 192 million to Fl. 7 million while two new items were shown: "foreign correspondents" for Fl. 78 million and "foreign currency" for Fl. 28 million. At the end of September 1943, "sundry accounts" were Fl. 4 million, foreign correspondents Fl. 114 million and foreign currency Fl. 41 million; for purposes of comparison the three items have been amalgamated as "sundry accounts" in the table.

Claims on Germany (principally the credit balance in the clearing, invested in Reich Treasury bills) rose by Fl. 810 million in 1942, there being, in addition, an increase of government borrowing from the central bank to take over Reichsmark assets; in the first three quarters of 1943 the growth of claims on Germany was Fl. 880 million compared with Fl. 440 million during the same period in 1942. Part of the increase of clearing assets appears to have relation to a decline in the gold holding by Fl. 140 million in the twelve months to

March 1943; on the other hand, the gold holding increased by Fl. 46 million in July 1943 as the result of a transfer from "sundry accounts".

The decrease in the note issue and the increase of private accounts in the first quarter of 1943 were due to the withdrawal of bank-notes of large denominations decreed on 13th March (see pages 310-311), and not to an increase in the banks' cash reserves, which rose to a much smaller extent.

#### Dutch Commercial Banks<sup>(1)</sup>.

At end of month	Assets					Total of balance sheet	Liabilities		
	Cash (2)	Treasury bills	Securities (3)	Credit to private economy (4)	All other assets		Deposits		All other liabilities (5)
							sight deposits etc. (6)	time deposits	
in millions of florins									
1939 December . . .	76	226	36	413	183	934	536	40	358
1940 December . . .	51	547	33	290	168	1,089	699	57	333
1941 December . . .	55	793	29	223	144	1,244	872	69	303
1942 March . . .	35	907	22	188	113	1,265	910	82	273
June . . .	47	965	16	165	111	1,304	942	93	269
September . . .	62	997	14	165	109	1,347	964	99	284
December . . .	55	863	20	194	103	1,235	874	101	260
1943 March . . .	83	916	19	176	103	1,298	917	109	272
June . . .	110	978	16	165	107	1,376	991	120	264

(1) Four large banks: Amsterdamsche Bank, Incasso-Bank, Rotterdamsche Bankvereniging and Twentsche Bank.  
 (2) Including daily money. The increase of this item in March 1943 reflects the withdrawal of large denominations of bank-notes.

(3) Including participations.

(4) Advances, overdrafts and commercial bills.

(5) Shown in the returns as "creditors".

These four banks account for about one-half of the commercial-bank deposits in Holland. The evolution of their balance sheets is primarily affected by the repayment of private credit and by government borrowing on Treasury bills (they hold no long-term government securities of any importance).

As the expansion of the note circulation accelerated, the rate of growth of total bank deposits declined from Fl. 185 million in 1941 to only Fl. 34 million in 1942 but rose more rapidly in the first half of 1943. Enterprises other than banks have subscribed to an increasing proportion of the Treasury bill issue and Treasury bills have, indeed, largely taken the place of bank deposits in the balance sheets of industrial and commercial concerns.

In the course of 1941, the persistent excess of withdrawals over deposits at the savings banks came to an end and in 1942 there was an excess of deposits of Fl. 90 million; an increase also of about Fl. 90 million in deposits was estimated for the other big group of savings banks, the Boerenleenbanken. The total of deposits at the post office, the private savings banks and the Boerenleenbanken was about Fl. 1,600 million at the end of 1942, still somewhat below the figure of Fl. 1,640 million at the end of 1939. The substantial increase of savings deposits in the second quarter of 1943 was partly due to the withdrawal of large bank-notes from circulation.

The position of the mortgage banks has been difficult since the devaluation in 1936 owing to the competition of insurance companies and

Holland — movement  
of savings-bank deposits\*.

In millions of florins	Post Office	Private savings banks	Total
1939 January-December . . .	— 26	— 56	— 81
1940 " " . . .	— 169	— 79	— 248
1941 " " . . .	— 49	— 13	— 62
1942 " " . . .	+ 51	+ 40	+ 91
1942 January-March . . . . .	+ 14	+ 17	+ 31
April-June . . . . .	+ 11	+ 10	+ 21
July-September . . . . .	+ 14	+ 10	+ 24
October-December . . . . .	+ 12	+ 3	+ 15
1943 January-March . . . . .	+ 51	+ 32	+ 83
April-June . . . . .	+ 71	+ 35	+ 106

\* Excess of deposits (+) or withdrawals (—).

that the interest rate on new mortgages was not to be below 4 per cent. and that insurance companies, savings banks and pension funds were to curtail their mortgage lending in favour of investment in government securities.

other lenders with surplus funds, and the circulation of the mortgage bonds of 47 Dutch mortgage banks fell from Fl. 1,000 million in 1934 to Fl. 700 million in 1941, parallel with the decline of their mortgage credits outstanding. Early in 1942 an attempt was made to stabilise mortgage rates around  $3\frac{3}{4}$  per cent., while the minimum rate for mortgage bonds was fixed at  $3\frac{1}{2}$  per cent. To relieve the position of the mortgage banks, it was decreed later in the year

Interest rates generally remained steady throughout the year. Bank rate has been at  $2\frac{1}{2}$  per cent. since June 1941, when it was reduced from 3 per cent. The bond yield, however, continued downwards from an average of 4.02 per cent. in 1941 to 3.58 per cent. in 1942.

The Danish budget again closed with a surplus in the financial years 1941-42 and 1942-43. But official financing connected with the occupation of the country by Germany, and accounted for outside the budget, rose from D.Kr. 890 million in 1941-42 to D.Kr. 935 million in 1942-43; the decline in financing required for the clearing with Germany was more than offset by the increase in occupation costs (including expenditure for fortification works).

Denmark —  
budgets<sup>(1)</sup> and official financing.

Year ending 31st March	1939-40	1940-41	1941-42	1942-43
	in millions of D.Kr.			
Revenue . . . . .	648	884	931	1,125
Expenditure . . . . .	639	827	896	1,061
Surplus . . . . .	9	57	34	44
Clearing account . . . . .	—	498	476	343
Occupation costs . . . . .	—	514	414	592
Total official credit financing . . . . .	(— 9)	955	866	891
Financed — from central bank (net) <sup>(2)</sup> in other ways . . . . .	83 (— 92)	932 23	737 119	443 448

(1) Closed budgets 1939-40 to 1941-42; provisional results for 1942-43.

(2) The increase of the items "clearing accounts" and "sundry debtors" plus the "adjustment account" and the movement of the government's accounts at the Nationalbank.

In 1942-43, as in previous years, all payments to finance the clearing and on account of occupation costs were made directly and in full by the Nationalbank. By virtue of the law of 3rd July 1942, however, the Finance Ministry issued debt certificates, Treasury notes and savings bonds, the proceeds of which were transferred to a

special (blocked) account of the Finance Ministry with the Nationalbank. Although there is no legal link between these transfers and the financing of occupation costs and the clearing, there may be justification, from a monetary point of view, for laying stress on the marked change which took place from the middle of 1942: 98 per cent. of the total official credit financing took the form of borrowing from the Nationalbank in 1940-41 and 87 per cent. in 1941-42, but only 50 per cent. in 1942-43; and this change was effected by means of short-term securities sold on the market to offset the influence of the increasing credit granted by the Nationalbank.

Danmarks Nationalbank.

End of month	Assets							Total of balance sheet	Liabilities			
	Claims on Germany			Internal credit granted			Gold and foreign assets		Notes	Deposits and current accounts		
	occup- ation costs (1)	clear- ing account (2)	total	to private economy		to govern- ment				banks etc.	government	
				bonds	other (3)						ordin- ary	special (4)
In millions of Danish crowns												
1939 Dec.	47	—	47	189	394	147	125	952	600	134	—	—
1940 Dec.	466	412	878	174	82	—	126	1,309	741	350	—	—
1941 Dec.	907	849	1,756	148	44	—	125	2,118	842	882	148	—
1942 March	975	974	1,949	53	43	—	124	2,216	815	1,016	156	—
June	1,097	1,052	2,149	36	59	—	114	2,405	844	1,172	145	—
Sept.	1,212	1,104	2,316	80	51	—	114	2,608	847	1,033	193	277
Dec.	1,390	1,181	2,571	88	56	—	115	2,877	983	1,002	242	358
1943 March	1,567	1,317	2,884	71	38	—	115	3,156	964	1,262	229	416
June	1,839	1,547	3,386	62	36	—	118	3,647	1,058	1,571	159	537
Sept.	2,080	1,749	3,829	56	46	—	117	4,093	1,193	1,714	214	619

(1) The figures given relate to the item "sundry debtors" in the Nationalbank's monthly return. The small amount normally included under this heading, generally about the level of December 1939, should be deducted to obtain the actual debt of the Reichskreditkassen to the Nationalbank. For the sake of continuity D.Kr. 61 million has been added from March 1942 onwards, i.e. the book loss on Reichsmarks debited to the "adjustment account" of the government when the Danish crown was revalued in January 1942. At the end of 1942 the figure of D.Kr. 1,390 million given in the table was made up as follows: the German debt on account of payments to the Wehrmacht was D.Kr. 1,284 million, the "adjustment account" was D.Kr. 61 million and the normal "sundry debtors" was D.Kr. 45 million (according to the annual report of the Nationalbank).

(2) The remainder of the "adjustment account", D.Kr. 64 million, has been added to this item from March 1942 onwards. The increase of this item by D.Kr. 332 million in 1942 indicates the Danish surplus on the clearing during the year. According to the Nationalbank's annual report the turnover on all the clearings fell from D.Kr. 2,950 million in 1941 to D.Kr. 2,500 million in 1942.

(3) Total of internal credit items excluding bonds (and shares) and the government overdraft.

(4) New account opened by virtue of the laws of 3rd July 1942 and 8th July 1943, as explained in the text.

By September 1943, the Nationalbank's claims on Germany (which are guaranteed by the Danish Government) amounted to about D.Kr. 3,800 million and constituted over 90 per cent. of the bank's assets. Corresponding to this creation of central-bank credit on official account there were the following movements in other items (from December 1939 to September 1943): credits to the private economy were repaid to the extent of D.Kr. 480 million, the note issue expanded by D.Kr. 590 million, the commercial banks' reserve balances (and other private accounts) rose by D.Kr. 1,580 million, while the government drew back D.Kr. 980 million into the Nationalbank by repaying its overdraft and accumulating a large deposit. The expansion of the commercial banks' reserve balances was thus nearly three times as much as that of the note issue, which itself was only 16 per cent. of the creation of credit on official account.

Although the situation in Denmark compared favourably with other countries in Europe in 1942, yet the basis for a vast expansion of commercial-bank credit had been laid and the Nationalbank observed the monetary development "with the greatest anxiety", as it remarked in its annual report. The problem was twofold: to neutralise, or reabsorb, freshly-created central-bank credit and to tie up that which had been previously created. The counter-measures recommended by the Nationalbank took two lines: (a) to mop up newly-created central-bank credit by government borrowing on the market and (b) to tie up the commercial banks' cash reserves, and thus narrow the basis for an expansion of secondary, or commercial-bank, credit. The result of these recommendations was the voting of two laws on 3rd July 1942 having the following main lines:

- A. The government, through the Minister of Finance, was authorised to issue to investors other than banks up to D.Kr. 200 million 2-year debt certificates at  $1\frac{3}{4}$  per cent; and, particularly for bank subscription, up to D.Kr. 300 million (later increased to 400 million) 6-month Treasury notes at  $\frac{3}{4}$  per cent.; in addition the authorisation included an unlimited amount of  $5\frac{1}{2}$ -year savings bonds with effective interest at 4.1 per cent.; the proceeds of these issues were to be placed to a special account which might be drawn upon only with the agreement of the budget commission of the Rigsdag (or, without agreement, for the purpose of amortising the securities issued in accordance with the same law).
- B. Commercial banks were to maintain reserves in cash and balances at the Nationalbank equal to the sum of the following:
- (i) 40 per cent. of the increase of their deposits and current accounts since August 1939,
  - (ii) 15 per cent. of the total of such deposits and accounts outstanding,
  - (iii) 5 per cent. of savings deposits withdrawable within three months, and
  - (iv) 100 per cent. of the deposit of another bank considered as a reserve balance.

By the end of 1942 the special blocked account of the government amounted to D.Kr. 358 million, being the cash proceeds from the issue of D.Kr. 98 million debt certificates, D.Kr. 250 million Treasury notes and D.Kr. 13 million savings bonds.

The volume of cash reserves required by the banks under the law of 3rd July 1942 is not shown separately, but the Nationalbank's annual report states that the total tied up under the law at the end of 1942 was D.Kr. 670 million, of which D.Kr. 550 million was on special "liquidity" accounts (on which the Nationalbank pays interest at  $\frac{1}{4}$  per cent.) and D.Kr. 120 million on their ordinary non-interest-bearing account at the Nationalbank or as cash in tills.

At the same time as these measures came into force the Nationalbank declared itself prepared to open accounts for banks (and savings banks) at 6 months' notice, bearing interest at  $\frac{3}{4}$  per cent., and by December 1942 D.Kr. 199 million had been deposited on these accounts. Thus by the end of 1942 the "sterilisation" measures taken by the government and by the

Nationalbank together covered D.Kr. 1,227 million of funds (at an annual cost of about D.Kr. 4 million). The President of the Nationalbank stated, however, that the measures taken were insufficient and further steps were foreshadowed.

### Danish Commercial Banks.

End of month	Assets				Total balance sheet	Liabilities			
	Cash	Bills ( <sup>1</sup> )	Advances and over-drafts	Securities ( <sup>1</sup> )		Private deposits			Deposits made by other banks ( <sup>2</sup> )
						current accounts	time deposits	total	
in millions of Danish crowns									
1939 December . . . . .	211	440	1,671	615	3,564	843	1,612	2,455	132
1940 December . . . . .	450	381	1,533	789	3,759	958	1,657	2,615	243
1941 December . . . . .	952	290	1,473	1,006	4,409	1,258	1,857	3,115	396
1942 March . . . . .	1,044	261	1,406	1,063	4,461	1,246	1,951	3,197	436
June . . . . .	1,207	273	1,428	1,070	4,775	1,438	1,962	3,400	462
September . . . . .	839	365	1,471	1,167	4,794	1,407	2,052	3,459	450
December . . . . .	889	360	1,482	1,168	5,011	1,517	2,078	3,595	487
1943 March . . . . .	946	359	1,453	1,209	5,105	1,429	2,188	3,617	580
June . . . . .	1,130	309	1,448	1,286	5,608	1,708	2,224	3,932	689
September . . . . .	1,198	236	1,419	1,316	5,728	1,659	2,310	3,969	806

(<sup>1</sup>) The new Treasury notes appear to have been booked by the banks under both these items. It is probable that about one-third of the bill portfolio and two-thirds of the securities are government paper, which thus represents some 15-20 per cent. of total assets. (<sup>2</sup>) Including savings banks.

Early in July 1943, a further series of "anti-inflation" measures were passed by parliament including war-profits taxes and the introduction of compulsory savings; in addition, two new "sterilisation loans" were floated: D.Kr. 200 million 2½ per cent. 5-year bonds and D.Kr. 200 million 3 per cent. 10-year bonds. In the first three quarters of 1943 central-bank credit creation on official account was on a large scale, some D.Kr. 1,260 million against D.Kr. 560 million in the same period in 1942; but only 18 per cent. was sterilised by the net increase on the government's two accounts and a further 3 per cent. was absorbed through sales of bonds by the Nationalbank. At the end of September 1943 the total funds tied up by the "sterilisation" measures amounted to D.Kr. 2,200 million.

#### Denmark — movement of savings-bank deposits\*.

Period	In millions of D.Kr.
1939 January-December . . . . .	- 33
1940 " " . . . . .	- 63
1941 " " . . . . .	+ 217
1942 " " . . . . .	+ 255
1942 January-March . . . . .	+ 91
April-June . . . . .	+ 49
July-September . . . . .	+ 76
October-December . . . . .	+ 40
1943 January-March . . . . .	+ 123
April-June . . . . .	+ 78
July-September . . . . .	+ 92
<b>Total deposits outstanding at end of 1942 . . . . .</b>	<b>2,589</b>

\* Excess of deposits (+) or withdrawals (-), including interest added.

The change which came over the position of the commercial banks in 1942 reflects the "sterilisation" measures of the government; the fall of the cash holding in the third quarter by D.Kr. 370 million was largely the result of the purchase of Treasury notes and other government securities by the banks. But in 1943 the banks again became very liquid. Savings-bank deposits began to rise sooner than in Belgium and Holland and early in 1943 the increase became more rapid.

There were few changes in short-term interest rates during the year, but the "sterilisation" measures of July 1942 were not without influence on the long-term bond market, which suffered one of the sharpest reversals of recent years. In the first half of the year bond quotations had risen very sharply, reaching their highest level in June, when the yield on the 3½ per cent. government rentes was 3.91 per cent. (the lowest point for many years). The Nationalbank, which had been steadily reducing its bond portfolio by open-market sales, held only D.Kr. 32 million at the end of July, the smallest holding for over ten years. Then quotations fell abruptly, especially in September-October 1942 and again in January and February 1943, so that the yield on 3½ per cent. rentes rose to 4.65 per cent. in February 1943; some relaxation of the pressure occurred in March and, by September 1943, the yield had declined to 4.20 per cent.

A number of conversions were carried out by the government and others during 1942, representing, however, a relatively modest proportion of the outstanding volume of bonds, which generally carry interest at 4½-5 per cent. The Nationalbank remarked in its annual report for 1942 that the fact that certain conversion operations had not been satisfactory was "in part due to the reigning uncertainty as to the development of quotations of long-term bonds and especially the essentially different attitude of the market as regards investments at short term and at long term. Whereas short-term paper has always been easily absorbed by the market, buyers were more reserved on certain occasions as to large offers of long-term bonds."

Published information is scarce regarding financial developments in Norway and regular statistics are practically non-existent. The expenses of the Oslo Government in 1942 were about double the budget expenditure before the war. The government debt, last given officially as N.Kr. 1,450 million at the end of 1939, was estimated to have risen by some N.Kr. 1,900 million to about N.Kr. 3,350 million at the end of 1942 (excluding the debt to the Norges Bank on account of occupation costs). The Oslo Government raised, in all, loans of N.Kr. 725 million and issued some N.Kr. 1,250 million Treasury bills up to the end of 1942; about N.Kr. 675 million Treasury bills and N.Kr. 425 million of the loans were floated in 1942, the latter by two issues of 3½ per cent. 40-year bonds, taken largely by banks and insurance companies for reselling to the public at 99¾. In June 1943 two more loans were floated; N.Kr. 150 million 3½ per cent. 40-year bonds and N.Kr. 100 million 2½ per cent. 7-year bonds, both at 99¾. And at the same time a N.Kr. 50 million 12-year premium issue was made.

To ordinary budget expenditure must be added occupation costs estimated to be running at nearly N.Kr. 200 million a month in 1942. These funds have been applied not only for the upkeep of the German troops but for the maintenance of the German civil administration, for the erection of

fortifications and for investments mainly in aluminium and water power, these industries being financed directly by the Norges Bank. The bank has published no returns since March 1940, but available estimates are reproduced in the table.

Norges Bank.

End of year	Aggregate occupation costs paid	Note circulation*
	In millions of N.Kr.	
1939	—	575
1940	1,500	1,000
1941	3,900	1,500
1942	6,000	2,000

\* The latest figure published in the regular bank returns was N.Kr. 600 million in March 1940.

By the middle of 1943, the aggregate of occupation costs paid reached about N.Kr. 7,000 million, of which some N.Kr. 2,000 million had been financed by the Treasury bill issue; together with the direct government debt mentioned in the previous paragraph (including the two loans floated in June 1943) the total debt must have exceeded N.Kr. 9,000 million.

In 1942 the monthly returns previously published by the Norwegian commercial banks were suspended. But balance sheets of the three largest banks, which have about one-half of the resources of all the banks, are available and have been combined in the table below.

Norway — three large banks\*.

End of year	Assets				Total balance sheet	Liabilities	
	Cash	Securities	Bills	Loans		Deposits	Capital and reserves
	In millions of N.Kr.						
1939	24	137	198	399	910	457	102
1940	230	191	153	322	1,081	730	103
1941	309	265	351	261	1,340	978	104
1942	238	260	596	228	1,495	1,115	105

\* Christiania Bank og Kreditkase, Den Norske Creditbank and Bergens Privatbank.

It is noteworthy that deposits rose in 1942 by N.Kr. 138 million — only half as much as in 1941 — while the banks' cash reserves fell. The three banks shown in the table were estimated to hold N.Kr. 465 million Treasury bills at the end of 1942; all commercial banks in the country probably took up about N.Kr. 500 million out of some N.Kr. 1,100 million government securities issued (long and short) during the year. No information is available as to the development of savings-bank deposits.

There has been little change in interest rates. The discount rate of the Norges Bank has remained at 3 per cent. since May 1940. The three big banks, which in May 1941, had abolished the  $\frac{1}{2}$  per cent. interest they paid on sight deposits, were ordered by the Minister of Finance to pay  $\frac{1}{4}$  per cent. on sight deposits of under N.Kr. 1 million from December 1941 and  $\frac{1}{2}$  per cent. from March 1942. From October 1943 the rate on sight deposits was again reduced to  $\frac{1}{4}$  per cent. but time deposit rates were introduced as follows:  $\frac{1}{2}$  per cent. for four months,  $\frac{3}{4}$  per cent. for eight months and 1 per cent. for twelve months.

Finland was at war with the U. S. S. R. for three and a half months in the winter of 1939-40 and in June 1941 again became a belligerent. Budget deficits of around FM 10 milliard in each of three years 1940, 1941 and 1942, arising entirely from military expenditure, led to a tenfold increase of the public debt from FM 3.4 milliard in December 1938 to FM 36.6 milliard in December 1942.

Finland — Public Finance <sup>(1)</sup>.

Calendar years	Budget revenue and expenditure					Public debt increases <sup>(2)</sup> (or decreases -)					
	Re-venue <sup>(3)</sup>	Expenditure			Deficit	long-term	Internal			Foreign	Total
		civil	military	total			central bank	other	total		
In milliards of FM											
1938	5.0	3.7	1.2	5.0	—	0.1	—	(-0.1)	—	(-0.2)	(-0.2)
1939	4.5	4.0	2.7	6.7	2.2	0.8	0.6	0.1	1.5	0.7	2.2
1940	6.0	5.2	12.3	17.5	11.6	0.5	4.9	4.2	9.6	2.0	11.6
1941	10.9	7.1	13.8	20.9	10.0	1.8	5.2	2.4	9.4	0.6	10.0
1942	17.4	7.5	19.2	26.7	9.3	3.8	3.8	1.1	8.7	0.6	9.3
1943	18.5	8.5	20.0	28.5	10.0	.	.	.	.	.	.
Public debt at the end of 1942 (total) . . . . .						12.6	14.6	4.7	31.9	4.7	36.6

(1) Statistics up to 1941 from article by Dr Matti Leppo in "Wirtschaftliche Untersuchungen" issued by the Bank of Finland; for 1942, round figures of budget results from official statements and debt figures from official statistics. For 1943, estimates; in the first three quarters of the year military expenditure amounted to FM 14.2 milliard.

(2) Ordinary budget revenue plus certain capital receipts, varying from FM 0.3 to 0.5 milliard in the period 1939-41, assimilated to ordinary revenue; in 1942 about FM 13 milliard was received from ordinary taxation and FM 4 milliard from other sources.

(3) The internal debt, which amounted to FM 2.6 milliard at the end of 1938, almost wholly at long term, had risen by the end of 1942 to FM 31.9 milliard, of which FM 12.6 milliard was at long and FM 19.3 milliard at short term (including the central-bank credits). The foreign debt rose from FM 0.8 milliard at the end of 1938 to FM 4.7 milliard at the end of 1942, when FM 3.7 milliard was consolidated and FM 1.0 milliard floating; the most important part of the increase of FM 2.0 milliard in 1940 was due to credits from the United States granted during the winter war of 1939-40 and booked at \$23 million; other credits have been received from Sweden and, in the clearing, from Germany.

Revenue has risen as a result of increased yields, new taxes (including a tax on capital) and higher miscellaneous receipts. Civil expenditure has grown, largely as a result of increases in interest on the public debt and civil servants' salaries (as partial compensation for the higher living costs). Total expenditure as given in the table excludes amortisation of the public debt and the indemnity payments to Carellians, originally estimated as requiring about FM 12½ milliard, but later reduced to not more than FM 7 milliard; these indemnities were partly paid out in 1943, largely by means of special debt certificates.

The major part of the budget deficits has been covered by internal borrowing; in the four years 1939-42 the internal debt rose by FM 29.3 milliard, borrowed one-half from the market and one-half from the central bank. Market borrowing in 1942 amounted to nearly FM 5 milliard: FM 3.8 milliard was raised at long term, principally by the issue, from March 1942 onwards, of the 5½ per cent. Fatherland loan, while FM 1.1 milliard was obtained from tax certificates and other short-term instruments. For 1943, with military expenditure running at FM 1.6 milliard a month in the first three quarters of the

year, special measures were considered necessary, owing to the difficulty of placing loans with the public; these measures included the issue of a 3½ per cent. 5-year forced loan based on income and capital and estimated to produce FM 3.5 milliard.

FM 2.6 milliard of the long-term issues in 1942 appears to have been taken by the commercial banks, as indicated by the increase of their bond holdings. The banks' bill holdings, on the other hand, after rising rapidly to

### Finnish Commercial Banks <sup>(1)</sup>.

At end of month	Assets				Total of balance sheet (4)	Liabilities		
	Cash	Internal bills (2)	Loans and overdraft	Bonds (3)		Current accounts and deposits		
						current accounts	time deposits	total (5)
in millions of FM								
1939 December . . . . .	809	1,904	7,732	1,255	13,178	2,459	6,940	10,766
1940 December . . . . .	1,954	3,826	7,194	1,655	16,076	4,680	7,470	13,488
1941 December . . . . .	2,056	2,528	8,124	3,612	18,113	6,030	7,408	14,829
1942 March . . . . .	1,581	3,420	7,956	4,334	18,995	6,351	7,920	15,889
June . . . . .	1,549	4,131	8,144	4,740	20,437	6,926	8,307	17,041
September . . . . .	1,985	3,663	8,260	5,993	21,815	7,068	8,448	17,620
December . . . . .	1,639	3,070	8,724	6,165	21,668	7,228	8,597	17,931
1943 March . . . . .	2,002	3,512	8,953	6,298	22,869	7,745	9,393	19,499
June . . . . .	1,885	4,302	9,332	6,736	24,636	8,272	10,162	21,169
September . . . . .	1,784	5,470	9,469	6,992	26,132	8,606	10,622	22,270

(1) All commercial banks.                      (2) Including Treasury bills etc.                      (3) Including government bonds.  
(4) Including other items than those specified.                      (5) Including also the accounts of credit institutions.

June 1942, fell by over FM 1 milliard in the second half of the year. Deposits and current accounts expanded in 1942 by FM 3.1 milliard, more than double the increase of 1941, the rise of time deposits being particularly notable after the stagnation of this item in previous years.

### Finland — movement of savings deposits.

Calendar years	New deposits	With-drawals	Movement*
	in millions of FM		
1940	2,220	2,301	— 81
1941	2,487	2,779	— 292
1942	2,993	2,210	+ 783

\* Excess of new deposits (+) or withdrawals (—) at ordinary savings banks (excluding interest added). The total of savings deposits at the end of 1942 was FM 8,856 million; a further FM 1,036 million was held at the postal savings bank.

The acceleration of the increase of deposits and current accounts continued in 1943, the rise in the first three quarters of the year exceeding that for the whole of 1942; amongst the assets, the further expansion of the bill portfolio was especially noteworthy, while the banks' cash reserves declined. At the ordinary savings banks there was a surplus of new deposits over withdrawals in 1942 for the first year since 1938.

New borrowing by the government from the Bank of Finland (booked under "discounts" and "sundry accounts" in the returns) declined from FM 5.2 milliard in 1941 to FM 3.8 milliard in 1942 but the note circulation expanded more rapidly as there was a net withdrawal of funds kept at the bank on current account.

Bank of Finland.

At end of month	Assets			Total of balance sheet (?)	Liabilities		
	"Sundry accounts" (1)	Internal bills discounted (1)	Gold and foreign exchange		Note circulation	Private current accounts	Clearing accounts and other foreign debts
	in millions of FM						
1938 December . . . . .	78	1,042	3,402	5,325	2,086	850	79
1939 December . . . . .	228	2,358 (2)	2,905	6,809	4,039	686	94
1940 December . . . . .	1,540	5,275	1,781	9,492	5,551	834	633
1941 December . . . . .	—	12,225	1,104	14,178	7,317	1,258	2,536
1942 March . . . . .	382	13,010	973	15,168	7,751	1,103	3,292
June . . . . .	449	14,153	926	16,359	7,975	1,166	4,068
September . . . . .	108	14,746	789	16,417	8,501	1,095	3,473
December . . . . .	—	15,873	667	17,576	9,617	1,179	3,362
1943 March . . . . .	95	17,568	580	19,510	10,206	1,265	4,644
June . . . . .	914	15,635	499	18,230	9,087 (1)	1,152	4,502

(1) Government borrowing is booked under these two items and not shown separately; the total borrowed by the government from the bank rose from nil at the end of 1938 to FM 10.7 milliard at the end of 1941 and to FM 14.6 milliard at the end of 1942; it was reported at FM 16.3 milliard at the end of March 1943. Credit granted to the private economy of the country was relatively very small.

(2) Including other items than those specified.

(3) Including FM 315 million rediscounted bills.

(4) By September 1943 the note circulation had again risen, to around FM 9,600 million.

After the record increase of FM 2.3 milliard in the note circulation in 1942 and a further rise at the same rate in the early part of the new year, there was a reflux of notes in the second quarter of 1943 due to a proposal that a forced loan should be imposed by stamping the notes in circulation and replacing them partially by government securities.

In spite of considerable borrowing by the government from the central bank, the market was not particularly liquid, notes being preferred by the public to bank deposits; the check to the increase of the commercial banks' cash holdings in 1942 (and to the current accounts held at the central bank) was evidence of some tightness during the year, conditions which continued into 1943; bank rate has, however, remained at 4 per cent., unchanged for ten years. In February 1943 the Finance Minister ruled that credit institutions might not raise loan rates beyond the level of October 1940 without prior examination of each individual case by the Ministry; and in the same month the Bank of Finland laid down new guiding principles for credits granted by the banks, particularly to exclude speculative purchases of real property and shares.

In south-eastern Europe three countries, Hungary, Bulgaria and Roumania, were subject to similar influences; although they did not add to their territory, as was the case in 1941, they continued to be used in varying degrees for transit and as operational or merely supply bases for German troops, while themselves remaining active belligerents. Thus, in addition to their own war expenditure, they had to finance the clearing with Germany and the outlay in recently attached territories. As their money and capital markets are undeveloped according to western European standards, heavy calls have been made on the central banks.

Although, up to the autumn of 1943, no closed accounts had been published in Hungary since 1939-40, and the budget estimates as presented to Parliament excluded part of the war and other extraordinary expenditure, yet it was possible to obtain some indication of the execution of the five-year programme inaugurated in March 1938 and intended to provide Pengö 1,000 million for "investment", namely Pengö 600 million from special resources, including a tax on capital, and the balance from borrowing (the "Investment" loan of 1938-40). In the programme only Pengö 600 million was originally provided for armaments but the amount was progressively increased, and actual expenditure on armaments amounted in all to Pengö 4,500 million, according to a statement made by the Finance Minister in October 1942; other "investments" (roads etc.) originally estimated at Pengö 400 million actually reached Pengö 1,100 million.

Hungarian Budget Accounts <sup>(1)</sup>.

Financial years	Closed accounts		Estimates			
	1938-39	1939-40 <sup>(2)</sup>	1941	1942	1943 <sup>(3)</sup>	1944 <sup>(4)</sup>
	In millions of pengö					
Receipts . . . . .	1,017	2,053	1,549	2,199	2,769	3,906
Expenditure . . . . .	930	1,822	1,769	2,337	2,920	4,180
Surplus (+) or deficit (—)	+ 87	+ 231	— 220	— 138	— 151	— 274

<sup>(1)</sup> Excluding the state enterprises and extraordinary expenditure.

<sup>(2)</sup> The budget year was changed from July-June to January-December and the transition budget for 1939-40 was for 18 months (July 1939-December 1940).

<sup>(3)</sup> The end of the five-year programme, financed through a separate budget, is reflected by the inclusion of a greater part of war expenditure in the 1943 ordinary budget: the estimated expenditure of the Ministry of Defence was increased from Pengö 580 million in 1942 to Pengö 845 million in 1943, a fact which explains part of the rise of total ordinary budget expenditure. Actual receipts in 1943 were well above the estimates and amounted to Pengö 2,730 million in the first eight months of the year.

<sup>(4)</sup> Ordinary defence expenditure was included at Pengö 1,513 million in the 1944 estimates.

The net deficit on the ordinary budget from 1938-39 to 1942 amounted to only Pengö 40 million, to which must be added the aggregate deficit of nearly Pengö 200 million on the state enterprises; but in the same period the internal public debt rose by nearly ten times to Pengö 3,640 million at the end of 1942. Of the increase of Pengö 3,265 million, Pengö 350 million was due to the revalorisation in 1942 of war loans issued in 1914-18 and Pengö 500 million represented the debt to the National Bank for the withdrawal of bank-notes formerly circulating in territories attached to Hungary in the years 1938-41; cash receipts thus somewhat exceeded Pengö 2,400 million, an indication of the extraordinary expenditure (mostly for armaments and the war) financed by borrowing over the five-year period.

In 1942 net receipts from borrowing for budgetary purposes amounted to Pengö 770 million, the main resources being the 4 per cent. Transylvanian premium loan for Pengö 100 million and two issues of 4½ per cent. Treasury bills of Pengö 200 million and Pengö 500 million, placed chiefly with the commercial banks (Treasury bills placed with business concerns being also largely refinanced by the banks). In addition, the Hungarian Government created Pengö 750 million 4 per cent. Treasury bills (raised in August 1943 to

### Hungarian Public Debt 1942<sup>(1)</sup>.

		Millions of pengö
Internal debt - at end of 1942		
Incurring prior to 1938: total		377
Incurring in period 1938-42: total		3,265
National Bank	754 <sup>(2)</sup>	
Treasury bills	1,210 <sup>(3)</sup>	
5 per cent. Investment loan 1938-40	395	
4½ per cent. Transylvanian loan 1941	230	
4 per cent. Transylvanian loan 1942	99	
Sundry smaller issues	227	
Revalorisation of war loans 1914-18	350	
Total internal debt		3,642
Foreign debt		1,227
Total public debt		4,869

(1) As given by the Finance Minister when presenting the budget estimates for 1943.

(2) This figure was given before the amortisation of Pengö 30 million at the end of the year, which reduced the total to Pengö 724 million, as given in the National Bank's balance sheet: of this total only Pengö 221 million represented the direct drawings of the Treasury, the balance being the advances made in connection with the withdrawal of bank-notes formerly circulating in recently attached territories.

(3) Pengö 1,120 million Treasury bills placed with banks and industrial concerns etc. and Pengö 90 million current overdrafts of the Treasury from the banks.

Pengö 1,000 million) to provide the funds necessary for taking over Reichsmark claims from the National Bank; Pengö 400 million of these bills were placed in 1942 and a further Pengö 180 million in the first half of 1943. The clearing with Germany has been financed by the Treasury, the commercial banks and the National Bank (as explained on page 157); at the end of 1942 the total of the Reichsmark holding and Pengö advances to the German

clearing office was RM 540 million, the equivalent of Pengö 900 million, of which over Pengö 500 million was financed directly or indirectly by the National Bank, some Pengö 300 million by the commercial banks and less than Pengö 100 million (net) by the government (after utilisation of the equivalent of some Pengö 230 million for extraordinary payments in Germany).

In 1942 the commercial banks opened a new credit for RM 200 million (equivalent of Pengö 330 million) "for the development of commodity trade" with Germany; in addition, Pengö 300 million of discounts and advances were granted to the private economy of the country during the year and

### Hungarian Commercial Banks<sup>(1)</sup>.

At end of month	Assets						Total of balance sheet	Liabilities		
	Cash	Credit to private economy		Credit in clearing to Germany <sup>(2)</sup>	Government paper			Deposits etc.		Rediscounts and endorsements
		dis-counts and ad-vances <sup>(3)</sup>	secu-rities		short term	long term		current ac-counts	savings depo-sits	
in millions of pengö										
1940 December	143	1,211	288	—	492	100	2,748	848	581	550
1941 December	152	1,821	354	—	428	199	3,343	1,045	581	996
1942 June	123	1,610	369	278	576	189	3,528	1,082	597	1,108
December	173	2,127	386	282	1,169	189	4,706	1,309	698	2,009
1943 June	186	1,962	364	285	1,915	178	5,240	1,479	729	2,350

(1) Ten banks having about two-thirds of the resources of all the banks.

(2) Including bills rediscounted.

(3) At the end of December 1942 the ten banks accounted for Pengö 282 million out of the Pengö 330 million granted by all the commercial banks together. The figures given in the table are gross and include the amount refinanced, which is booked as a contra item, given in the table (with other refinancing) under "rediscounts and endorsements".

Pengö 740 million short-term government paper was taken up, total assets thus increasing by over Pengö 1,300 million in 1942, more than double the increase for the previous year. As current accounts expanded by only Pengö 250 million and savings deposits rose by Pengö 100 million, some Pengö 1,000 million had to be obtained in other ways: rediscounts, made directly or indirectly at the National Bank, doubled to over Pengö 2,000 million, i. e. an amount nearly equivalent to the total portfolio of private discounts and advances; indeed, over two-thirds of the increase of the commercial banks' assets in 1942 were refinanced at the central bank. The expansion of the National Bank's bill portfolio by over Pengö 900 million in the same year was thus due indirectly to government and other official financing (in spite of some amortisation of the direct government debt to the bank); the note issue rose by Pengö 970 million. In 1943 an acceleration of the expansion took place, the increase in the first nine months of the year exceeding Pengö 1,000 million, twice the amount in the same period of 1942.

The policy of placing government securities directly with the commercial banks, while the National Bank acted in a refinancing capacity, prevented the emergence of an excessive liquidity of a kind found on the market in some

### Hungarian National Bank.

At end of month	Assets					Total balance sheet (5)	Liabilities			
	Claims on Germany (1)	"Other assets" (2)	State debt (3)	Dis-counts (4)	Gold and gold ex-change		Notes	Current accounts		"Other liabi-lities"
								public	private	
in millions of pengö										
1939 December .	—	329	312	585	201	1,486	975	100	86	187
1940 December .	—	338	570	710	159	1,843	1,387	84	77	165
1941 December .	140	481	790	1,196	118	2,795	1,984	372	100	267
1942 March . . .	267	412	760	1,117	118	2,734	1,999	316	64	286
June . . . . .	404	514	761	1,205	114	3,054	2,176	325	75	408
September . . .	339	586	761	1,732	101	3,577	2,470	456	73	510
December . . .	506	685	724	2,107	102	4,178	2,958	448	111	594
1943 March . . .	470	861	718	2,196	104	4,404	2,976	479	86	798
June . . . . .	653	905	690	2,183	105	4,573	3,201	370	84	854
September . . .	933	1,151	666	2,919	104	5,811	3,974	546	103	1,127

(1) Until 30th November 1942 booked as "Pengö advances made to foreign countries under Para. g) of Art. 57 of the statutes"; from 7th December 1942, "Advances made for international payments" under same authority. At the end of 1942 Pengö 490 million of the advances had been made to Germany and Pengö 16 million to Italy.

Claims on Germany as shown in the table result from three types of operation: (a) the direct pengö advances of the National Bank, (b) the refinancing of the claims of commercial banks and (c) the rediscount for commercial banks of the special bills placed with them by the Treasury for the purpose of taking over Reichsmarks from the National Bank; the total of all these claims rose in 1942 by Pengö 370 million against Pengö 140 million in 1941. Further, the item "other assets", under which the claims of Hungarian exporters to Germany were booked until a formal advance was made (and balanced by a contra item under "other liabilities"), rose by some Pengö 200 million during the year. Both items together thus rose by Pengö 570 million in 1942. In 1943 the increase of the two items amounted to Pengö 890 million in the first three quarters of the year — three times as much as in the same period of 1942.

(2) See footnote (1).

(3) At the end of 1942 Pengö 221 million consisted of direct long and short-term advances to the Treasury and Pengö 504 million advances in connection with the withdrawal of bank-notes formerly in circulation in recently attached territories.

(4) According to the annual report of the National Bank for 1942, Pengö 941 million discounts at the end of 1942 were of government paper, Pengö 428 million of bills on the Institution for the Regulation of the Money and Capital Market and Pengö 109 million of bills on the Institute for Industrial Work Creation; thus 70 per cent. of the discount portfolio of Pengö 2,107 million was accounted for by these three classes of paper.

(5) Including some other items besides those specified.

other countries where the government has borrowed primarily from the central bank. Beside the financing of government expenditure, the war industries and the clearing with Germany, the normal credit requirements of the private economy have been relatively small, although some considerable new credits were obtained from the banks by Christian firms which took over Jewish businesses. In April 1942 the National Bank requested the banks to examine carefully all applications for new credit and to refuse credits for purposes other than those connected with the war effort and public supply, particularly ruling out credit for speculative purposes. Bank rate has remained unchanged

**Hungary —  
long-term interest rate\*.**

Years	Lowest	Highest
	in percentages	
1939	6.25	8.33
1940	6.10	7.69
1941	4.90	6.25
1942	5.71	7.09

\* The yield of the 3 per cent. forced loan of 1924 as published by the Hungarian National Bank.

at 3 per cent. since October 1940; the market rate for prime commercial bills had a wide spread of 3 $\frac{3}{4}$ -6 per cent., the maximum rate being reduced from 6 $\frac{1}{2}$  per cent. during the year. A representative long-term rate fluctuated as shown in the table, the lowest level in 1942 being in June and the highest in December. A noteworthy innovation was foreshadowed by the Finance Minister in his budget speech in October 1943: a new long-term loan was to be raised with its value defined in terms of wheat, 3 per cent.

25-year bonds denominated in 5, 10, 25 and 100 quintals being issued for public subscription; the price of issue was Pengö 40 per quintal and this price was guaranteed as the minimum for the redemption of the bonds: the first tranche was fixed at Pengö 200 million.

In Bulgaria, the Finance Minister stated in a speech early in August 1943 that, although the totals of the ordinary budgets for the six years 1938-43 aggregated Leva 69.4 milliard, actual expenditure, including the various special

**Bulgarian Treasury Out-payments.**

Calendar years	Published ordinary budget totals	Other Treasury out-payments	Total Treasury out-payments
	in milliards of leva		
1938	7.0	(-0.3)	6.7
1939	7.6	(-0.4)	7.2
1940	8.5	0.3	8.8
1941	10.1	5.1	15.2
1942	14.4	10.3	24.7
1943	21.8	18.7	40.5
Totals . . .	69.4	33.7	103.1

The ordinary budget totals given by the Finance Minister correspond to the published figures. The total Treasury out-payments are published monthly in the Treasury statistics; those for 1943 are based on Leva 10.1 milliard for the first three months of the year. This estimate may be exceeded, as out-payments in the second quarter of 1943 were running at an annual rate of over Leva 60 milliard. The second column, comprising "other Treasury out-payments", is the difference between the two other columns and gives some idea of the size of the special budgets.

budgets, would reach Leva 103 milliard; this figure corresponds closely to the total Treasury outlay, as published in the Treasury returns for 1938-42, plus an estimate for 1943, as shown in the table. On the basis of a peacetime budget of Leva 7 milliard, said the Finance Minister, the war would cost Bulgaria Leva 61 milliard up to the end of 1943.

Internal borrowing, according to the Finance Minister, amounted to Leva 21 milliard, including the proceeds of the forced loan of 1941, the issue of Treasury certificates and two or three loans

obtained directly from the Agricultural and Cooperative Bank; these figures exclude the internal financing of the clearing with Germany, effected through the National Bank.

The official statistics indicate an increase of Leva 18.3 milliard in the internal public debt in the three years 1940-42, excluding the official borrowing from the National Bank.

**Bulgarian Internal Public Debt.\***

At end of year	Consolidated	Floating	Total
	in milliards of leva		
1939 . . . . .	5.9	4.2	10.1
1940 . . . . .	5.9	7.5	13.4
1941 . . . . .	5.9	11.1	17.0
1942 . . . . .	14.0	14.4	28.4
Increase 1939-42 . . .	+ 8.1	+ 10.2	+ 18.3

\* Excluding guarantees and current government borrowing from the National Bank and the financing of the clearings.  
The foreign debt was shown as Leva 12.8 milliard at the end of 1939 and Leva 12.4 milliard at the end of 1942.

As mentioned in the twelfth Annual Report of this Bank, a 5 per cent. 15-year loan was placed, on a compulsory basis, in 1941 and produced about Leva 3.5 milliard in that year; the subscription list was kept open throughout 1942 and was closed in June 1943, when the total had reached Leva 9.5 milliard. A new 5 per cent. 25-year forced loan, to which all persons with a capital in excess of Leva 100,000 must subscribe, was authorised in May 1943; while the first loan was levied on large institutions, the second was a "popular" loan

and reached far down into the mass of the population. This second forced loan was made payable in five equal tranches between May 1943 and June 1944 and was expected to amount in all to Leva 12-15 milliard; the first tranche produced Leva 2.1 milliard. The Treasury has also put 3 per cent. certificates

**National Bank of Bulgaria.**

At end of month	Assets						Total of balance sheet (3)	Liabilities			
	Gold and foreign exchange	Reichsmark claims			Advances and bills	"Other assets" (2)		Note circulation (4)	Current accounts and deposits		
		clearing assets (1)	investments	total					government	banks	others
In millions of leva											
1939 December . . .	2,010	1,782	866	2,648	1,470	136	10,530	4,245	1,479	1,328	1,028
1940 December . . .	2,010	2,336	1,824	4,160	2,243	498	13,220	6,518	1,934	1,059	791
1941 December . . .	2,774	10,447	4,731	15,178	1,693	741	25,078	13,467	5,727	944	1,448
1942 March . . . . .	2,774	11,509	5,460	16,969	562	2,440	27,010	12,823	5,454	2,250	2,053
June . . . . .	2,929	13,962	5,218	19,180	504	3,804	30,370	13,861	5,251	3,494	2,375
September . . . . .	3,089	13,413	7,210	20,623	885	3,414	31,768	16,448	5,390	2,744	3,565
December . . . . .	3,095	15,158	8,648	23,806	1,003	2,451	33,990	18,922	6,222	1,553	3,026
1943 February (5) . .	3,095	14,263	10,105	24,388	580	2,201	33,901	18,464	6,589	2,119	3,017

(1) These are gross assets; the comparatively small clearing liabilities are shown on the other side of the return: they amounted to Leva 33, 26, 17 and 444 million at the end of the years 1939, 1940, 1941 and 1942 respectively.  
 (2) This column does not give all other assets in the return but reproduces a separate item called "other assets".  
 (3) Including some other items than those specified in the table. An asset called "government debt", at Leva 3,333 million at the end of 1942, is the remnant of older borrowing and is being gradually amortised.  
 (4) There are, in addition, Treasury certificates in circulation (see Chapter VI).  
 (5) 15th February 1943, the last return to be published.

in circulation through the intermediary of the National Bank; these certificates are equivalent to a supplementary interest-bearing note issue, as described on page 308.

The main items of the balance sheet of the National Bank are given in the table at the bottom of the opposite page up to 15th February 1943, from which date publication has been suspended. Of the increase in the total balance sheet by Leva 8.9 milliard in 1942, Leva 8.6 milliard was due to Reichsmark claims: Leva 4.7 milliard was added to the clearing balance and Leva 3.9 milliard utilised to repurchase Treasury bills denominated in Reichsmarks (previously given by the Bulgarian Government to German firms in prepayment of orders), booked by the National Bank as "investments". The note circulation rose by Leva 5.4 milliard but, as explained in Chapter VI, this is less than the real expansion of circulating media; the apparent decreases of the note circulation early in 1942 and 1943 reflected the issue of Treasury certificates designed to circulate as bank-notes. The increase of the account of the government appears to be partly due to the placing of such Treasury certificates with the National Bank, which books them under "other assets" until they can be put into circulation.

An interesting feature in 1942 was the considerable expansion of bank deposits, the increase at the important banks shown in the table amounting to Leva 9.2 milliard, compared with only Leva 3.8 milliard in 1941 and Leva 1.6 milliard in 1940.

**Bulgarian Bank Deposits.**

At end of month	Agricultural and Co-operative Bank	Postal savings bank	Popular banks	Big private banks	Total
	In millions of leva				
1939 December ..	6,258	3,613	3,209	2,330	15,407
1940 December ..	7,021	4,047	3,622	2,296	16,986
1941 December ..	7,992	5,061	4,990	2,770	20,813
1942 March . . . .	9,403	5,236	5,325	3,493	22,457
June . . . . .	9,106	5,605	5,658	3,776	24,145
September . . .	9,645	6,060	6,245	4,233	26,183
December . . .	11,428	6,632	7,086	4,840	29,986
1943 March . . . .	12,262	6,852	7,181	4,832	31,127
June . . . . .	13,034	6,976	7,192	4,959	32,161

Bank rate has remained at 5 per cent. and the discount rate of the big private banks was nominally 6-8 per cent. What long-term yields may be is difficult to say, since government securities are practically unmarketable; it seems

certain, however, that the yield of government bonds would be at least double the 5 per cent. interest paid on the forced loans.

Published information regarding the various budget accounts in Roumania is presented in such a way that it is difficult to form a clear picture of developments; thus the figures (reproduced in the table on the following page) do not include all war expenditure, for which a separate fund has been set up outside the budget; special budgets have also been opened for Bessarabia and Bukovina. No recent statistics regarding the public debt are available.

**Roumanian Budget Totals <sup>(1)</sup>.**

Calendar years	Ordinary	Defence	Total
	<sup>(2)</sup>	<sup>(3)</sup>	
in milliards of lei			
1938	30.3	3.6	33.9
1939	32.9	6.9	39.8
1940	39.5	15.0	54.6
1941	56.8	17.9	74.7
1942	99.5	26.6	126.1

<sup>(1)</sup> As given in the Bulletin of the National Bank.

<sup>(2)</sup> Ordinary taxation revenue plus the surpluses of the autonomous Institutions and state enterprises.

<sup>(3)</sup> Including Aviation and Navy Fund.

In June 1941 the National Bank undertook to make advances available to the government up to Lei 12 milliard, to meet the "exceptional needs" of the Treasury. These advances were booked under "sundry accounts" among the bank's assets until June 1942, when they were shown separately; but "sundry accounts" continued to rise after that date and a further credit appears to have been granted; for the sake of continuity, the two items are amalgamated in the table given below.

The expansion of the balance-sheet total by Lei 48 milliard in 1942 compared with Lei 44 milliard in the previous year, but the distribution among the various items of the return was different: in 1941 three items together, the "sundry accounts" (including advances to the Treasury), advances against Reichsmarks in the clearing and the bill portfolio (consisting largely of Treasury bills rediscounted for armament firms through the Caisse autonome d'amortissement et de financement) rose by Lei 39 milliard and provided the bulk of the expansion in that year; in 1942, these three items rose by only Lei 25 milliard. But the gold holding increased by Lei 11 milliard (partly as the result of a purchase

**National Bank of Roumania.**

Near end of month	Assets					Total of balance sheet	Liabilities				
	Gold	Clearing accounts	Bills discounted (and securities)	"Sundry accounts"	All other assets		Note circulation	Deposits etc.			All other liabilities
								public	private	other sight liabilities	
in milliards of lei											
1939 December .	20.8	0.8	20.1	8.5	24.1	74.3	48.8	1.5	7.5	1.3	15.2
1940 December .	32.2	0.6	22.9	5.4	30.4	91.5	64.3	3.0	8.6	3.4	12.2
1941 December .	34.3	17.1	31.8	21.6	30.6	135.4	96.7	5.6	16.1	6.2	10.8
1942 March . . .	37.7	11.8 <sup>(6)</sup>	33.9	27.9	29.4	140.7	96.0	5.5	18.3	9.7	11.2
June . . . . .	39.6	16.7	33.6	28.5	30.2	148.6	97.6	8.2	21.5	8.9	12.4
September . .	42.5	21.6	35.6	30.5	37.3	167.5	102.8	9.2	22.8	10.6	22.1
December . . .	45.5	23.9	40.8	32.1	40.8	183.1	117.4	6.6	23.7	8.4	27.0
1943 March . . .	46.4	19.5 <sup>(7)</sup>	40.1	38.9 <sup>(7)</sup>	42.3	187.2	119.0	6.7	24.0	11.1	27.4
June . . . . .	49.4	23.3	41.3	40.2	41.0	195.2	122.5	9.4	25.5	13.1	24.7
September . .	54.5	25.3	52.9	43.2	38.9	214.8	140.2	7.5	27.5	12.6	27.0

<sup>(1)</sup> Gold was revalued in May 1940, giving a book profit of about Lei 10½ milliard, which was taken by the government.

<sup>(2)</sup> "Devises en comptes de clearing, décomptées".

<sup>(3)</sup> The security holding (including participations in banks) amounted to Lei 2.2, 2.4, 4.7 and 6.3 milliard at the end of the years 1939, 1940, 1941 and 1942 respectively.

<sup>(4)</sup> Including advance to Treasury of Lei 12 milliard shown separately from 20th June 1942.

<sup>(5)</sup> Ministry of Finance, public services and Caisse autonome.

<sup>(6)</sup> A reduction in the clearing accounts from Lei 16.9 milliard on 24th January to Lei 10.4 milliard on 26th February 1942 took place in two steps which corresponded to increases of Lei 3.0 milliard in the gold holding and over Lei 3.0 milliard in the government's advances from the bank. Clearing assets were, therefore, partly utilised for the purchase of gold and partly transferred to the government for repayment of Reichsmark debts or for other purposes.

<sup>(7)</sup> A reduction in the clearing accounts from Lei 23.2 milliard to Lei 19.2 milliard on 20th February 1943 corresponded to an increase of a similar amount in "sundry accounts"; clearing assets amounting to Lei 4.0 milliard thus appear to have been transferred to the government against an increase of its advance from the bank.

of gold from Germany) and in other asset items, which had shown little movement, on balance, in 1941, and are not specified in the table, there was an expansion of Lei 10 milliard: Lei 6 milliard in assets "corresponding to sundry time liabilities" and Lei 4 milliard in "special provisions of foreign exchange" (both of these items probably include clearing assets set aside for special purposes). Thus, although direct lending to the government and advances on clearing account appear to have slowed down, it is probable that the whole expansion of the return in 1942, which was somewhat larger than in 1941, was due directly or indirectly to various forms of official financing.

The note circulation increased by Lei 21 milliard in 1942, against Lei 32 milliard in 1941, and private accounts and other sight liabilities rose by less than in the previous year. But, here again, other liabilities, which had not increased in 1941, rose by over Lei 14 milliard: "time liabilities" by Lei 7½ milliard and "sundry accounts" also by Lei 7½ milliard; the annual report of the bank gives no explanation of these increases.

In December 1942, the Treasury was authorised to put out Treasury bills which were intended to replace part of the bank-note issue, as explained on page 309; by March 1943 over Lei 9 milliard of these Treasury bills had been put into circulation. In spite of this issue, the note circulation rose by Lei 23 milliard in the first three quarters of 1943, nearly four times as much as in the same period of 1942; on the assets side, the bill portfolio increased by Lei 12 milliard, "sundry accounts" by Lei 11 milliard and the gold holding by Lei 9 milliard. A noteworthy attempt to check the expansion was made in the autumn of 1943 when peasants were invited to repay their debts (many having been outstanding since 1934) in wheat, the price of which had more than doubled in two years.

#### Roumanian Commercial Banks.

At end of month	Assets				Total of balance sheet	Liabilities		
	Cash	Bills	Debtors	Securities		Deposits	Creditors	Re-discounts
in milliards of lei								
1939 December . . . . .	5.4	3.5	9.5	3.0	26.4	3.2	12.2	3.8
1940 December . . . . .	6.1	3.3	9.0	3.8	25.6	2.9	12.7	3.3
1941 December . . . . .	7.3	4.7	15.3	3.5	35.7	5.6	17.3	3.9
1942 March . . . . .	5.6	5.3	16.4	3.4	34.8	6.1	17.2	3.3
June . . . . .	8.0	5.9	18.2	3.0	39.6	7.6	18.9	4.1
September . . . . .	8.9	5.9	21.9	3.1	44.7	10.2	20.6	4.2
December . . . . .	11.0	6.0	23.9	2.9	49.6	12.0	21.9	5.0
1943 March . . . . .	11.1	6.0	24.7	2.7	49.3	12.7	22.5	4.7

The balance-sheet total of the eighteen large commercial banks rose by Lei 14 milliard in 1942 against Lei 10 milliard in 1941. There appears to have been, in connection with the rise in prices, a further extension of credits to trade and industry (booked under "debtors"); the banks played a very small rôle in the direct financing of government expenditure — indeed, their security holdings have fallen since 1940. During 1942 the National Bank informed the banks that only three categories of new credits would be authorised: those

granted to assist the war effort, to stimulate industry or to increase agricultural production. Of the deposits of Lei 12.0 milliard shown at the end of 1942, Lei 10.8 milliard were savings deposits.

#### Roumanian Post Office Bank.

End of month	Savings deposits	Postal cheque accounts	Total
	in milliards of lei		
1939 December . . .	3.2	2.1	5.3
1940 December . . .	3.3	2.1	5.4
1941 December . . .	5.4	4.7	10.1
1942 June . . . . .	6.8	6.4	13.1
December . . . . .	9.0	9.1	18.1
1943 June . . . . .	10.8	13.8	24.6

Deposits at the Roumanian post office have increased considerably, particularly the postal cheque accounts, which by June 1943 had risen to nearly Lei 14 milliard. The investment of the new deposits at the post office, Lei 8 milliard in 1942 and Lei 6½ milliard in the first half of 1943, doubtless provides one of the main sources of credit for the government outside the National Bank.

Bank rate has remained at 3 per cent., to which it was reduced in September 1940, and credits granted by the commercial banks are pegged at 4 per cent. above this level, i.e. at 7 per cent., the yield of government bonds on the market being around 9 per cent.

The ordinary budget in Slovakia for 1942 appears to have been well balanced; the estimates gave expenditure at Ks. 2,400 million and revenue (including Ks. 1,600 million from taxation) at Ks. 2,200 million; but tax revenue actually produced Ks. 1,000 million more than the estimates and the state railways closed with a surplus, instead of an estimated deficit of Ks. 100 million. Any surplus arising on the ordinary budget was doubtless carried to the so-called investment budget, in which expenditure was otherwise dependent upon the possibility of market borrowing. The government has not borrowed directly from the central bank, monetary conditions being dominated by the financing of the clearing with Germany; only a part of the total claims, however, was financed by the central bank.

#### Slovak National Bank.

At end of month	Assets					Total of balance sheet	Liabilities		
	"Other assets"*	Dis-counts	Ad-vances	State note debt	Gold and foreign exchange		Note circulation	Deposits etc.	"Sundry liabilities"
in millions of Slovak crowns									
1939 December . . .	698	333	3	469	57	1,787	1,392	208	87
1940 December . . .	1,022	257	260	469	108	2,147	1,657	207	181
1941 December . . .	1,441	242	209	469	97	2,639	2,023	147	364
1942 March . . . . .	1,540	132	124	469	82	2,590	1,957	154	370
June . . . . .	1,710	285	108	460	74	2,878	2,069	334	366
September . . . . .	1,944	323	106	460	66	3,121	2,416	91	505
December . . . . .	2,189	484	200	460	78	3,568	2,742	177	541
1943 March . . . . .	2,205	449	110	453	85	3,470	2,583	236	536
June . . . . .	2,361	451	204	453	50	3,675	2,752	192	616
September . . . . .	2,234	580	447	453	56	3,912	3,185	143	469

\* End-of-year balance sheets show that the clearing accounts included under this item amounted to Ks. 398 million for 1940, Ks. 845 million for 1941 and Ks. 1,575 million for 1942.

Clearing claims (booked under "other assets") increased by Ks. 730 million in 1942 (against Ks. 450 million in 1941) and discounts by Ks. 240 million, while the note circulation rose by Ks. 720 million. The increase in "sundry liabilities" by Ks. 180 million in 1942 reflects the partial payment of clearing claims in Kassenscheine.

The commercial banks increased their advances ("debtors") by Ks. 500 million and purchased Ks. 90 million securities during the year 1942; but current accounts and savings deposits together rose by only Ks. 140 million; indeed, current accounts actually fell by Ks. 90 million in the second half of the year. In the spring of 1942, in order to create favourable conditions for the issue of a government loan, the banks had been compelled to reduce the rate on current accounts

from  $2\frac{1}{4}$  to  $1\frac{1}{2}$  per cent., while the rate on savings deposits remained unchanged. The comparative stagnation of deposits while the banks were forced to buy government securities explains the increase of rediscounts at the National Bank.

#### Slovak Commercial Banks.

At end of year	Assets				Liabilities	
	Cash	Bills	Securities	"Debtors"	Current accounts	Savings deposits
	In millions of Ks.					
1941	425	322	684	2,500	2,226	1,671
1942	430	185	778	3,000	2,274	1,762

The relative tightness which developed on the market in 1942 and persisted in 1943 had four main causes: the payment of clearing claims partly in Kassenscheine, the withdrawal by the government of the greater part of confiscated Jewish deposits from the banks, the obligation imposed upon share companies to place a certain proportion of their reserves in government securities and the evident preference shown by the public for notes rather than bank deposits.

In 1942 two government loans were issued: the  $4\frac{1}{2}$  per cent. Investment loan for Ks. 600 million and Ks. 500 million 3 per cent. Kassenscheine. Part of the proceeds of these loans was utilised to finance the clearing with Germany. A law was passed in June 1943 authorising the Minister of Finance to take over a substantial portion of the National Bank's claims in respect of the German clearing and to raise the necessary funds by borrowing. Banks and credit cooperatives have been obliged to invest 22 per cent., and savings banks 33 per cent., of the increment of their deposits in government paper, insurance companies the bulk of their premium reserves and all share companies certain proportions of their reserves.

In June 1942 an agreement regulating the partition of outstanding assets and liabilities of Yugoslavia was signed in Berlin by the successor states. The internal government debt, which amounted to Din. 30.5 milliard, was divided up into quotas corresponding approximately to the area of the territory taken over, as shown on the next page. The successor states undertook to call in the Yugoslav debt in their territory by 22nd November 1942 with a view

**Partition of Yugoslav government debt.**

Successor States	Percentages
Germany . . . . .	5
Italy (1) . . . . .	8
Hungary . . . . .	8
Bulgaria . . . . .	8
Serbia (2) . . . . .	29
Croatia . . . . .	42
<b>Total . . . . .</b>	<b>100</b>

(1) Including Albania and Montenegro.  
 (2) Including 4 per cent. in respect of the Banat.

to converting it into bonds of their own public debt; should the Yugoslav debt withdrawn by any state fall short of the quota, the difference was to be paid in cash or national bonds to a clearing office set up in Belgrade under German administration, which would eventually distribute such assets amongst those successor states which had withdrawn more than their quota. A list of Yugoslav state debts was appended to the Berlin agreement, which also made arrangements regarding the external debt and entered into considerable detail as to the settlement of other assets and liabilities in the partitioned territory; the agreement also contained a provision that a settlement was to be reached between the successor states regarding the former Yugoslav National Bank, the State Mortgage Bank, the Chartered Agricultural Bank and the Post Office savings bank, the liabilities of which had been guaranteed by the former Yugoslav Government.

also contained a provision that a settlement was to be reached between the successor states regarding the former Yugoslav National Bank, the State Mortgage Bank, the Chartered Agricultural Bank and the Post Office savings bank, the liabilities of which had been guaranteed by the former Yugoslav Government.

Croatia and Serbia (formed as separate states in 1941) inherited the Yugoslav banking system and in both cases the Yugoslav moratorium provisions were maintained; the assets and liabilities of the old National Bank of Yugoslavia (which was put into liquidation) were taken over by two new central banks; and in both cases occupation costs had to be paid and claims in the clearing were run up against Germany.

According to the estimates the ordinary budgets in Croatia balanced at Kunas 10.9 milliard in 1942 and Kunas 16.4 milliard in 1943; military expenditure (including the Ustacha troops) accounted for 33 per cent. of proposed expenditure in 1943 and the Ministry of the Interior (including the police) for a further 25 per cent.

**Croatian Budget Estimates.**

Calendar years	1942	1943
	in millions of kunas	
<b>Expenditure:</b>		
Defence (1) . . . . .	2,874	5,393
Interior . . . . .	1,332	4,113
Treasury . . . . .	1,592	2,826
All other (2) . . . . .	5,093	4,041
<b>Total . . . . .</b>	<b>10,891</b>	<b>16,375</b>
<b>Revenue:</b>		
Direct taxes . . . . .	3,446	6,260
Indirect taxes . . . . .	4,326	4,727
Monopolies etc. . . . .	3,117	5,388
<b>Total . . . . .</b>	<b>10,891</b>	<b>16,375</b>

(1) Including Kunas 2,113 million for the Ustacha troops in 1943.  
 (2) Including the Ministries of Education, of Health etc.

But these figures exclude the extraordinary budgets covered in other ways; for 1943, Kunas 4.75 milliard extraordinary expenditure (with Kunas 3 milliard for defence) was approved during the first four months of the year, Kunas 1.25 milliard to be covered by the realisation of property confiscated from Jews (by a law of November 1942) and Kunas 3.50 milliard by borrowing. According to a statement of the Finance Minister in May 1943, total government expenditure in the two years from 10th April 1941 to 31st March 1943 was covered as to 55.3 per cent. by current revenue and 44.7 per cent. by

borrowing, so that extraordinary expenditure was probably as great as the ordinary budget outlay. And this excludes the financing of occupation costs effected directly by the State Bank.

Government market borrowing has been in the form of Treasury certificates, three issues of which have been made. The first issue, in December 1941, was for about Kunas 2 milliard, a great part of which appears to have been covered by the compulsory consolidation of large packets of bank-notes of the former National Bank of Yugoslavia brought in for exchange.

**Croat Treasury Certificates.**

Maturity	Interest rate	Issue price
3 months . . . . .	3 %	100.00
6 months . . . . .	3¼	99.85
1 year . . . . .	4	99.50
3 years . . . . .	5	98.50
10 years . . . . .	6½	97.00

Three months later a second issue for Kunas 1 milliard was made. There were no further issues until May 1943, when the third tranche brought in Kunas 3.4 milliard; the terms of this issue are shown in the accompanying table. Although an aggregate of Kunas 6.4 milliard appears to have been issued, some certificates of relatively short term have matured and a total of Kunas 4 milliard outstanding was mentioned in July 1943.

In March 1942 bank rate was lowered from 5 to 4 per cent. and the rate for advances from 6 to 5½ per cent., an attempt to introduce lower market rates being later abandoned. In May 1943 the rate for advances was again increased to 6 per cent. although bank rate was maintained unchanged.

The first business of the Croatian State Bank was the withdrawal and exchange of notes of the former National Bank of Yugoslavia. Difficulties were caused by a number of factors, including the smuggling of large amounts of dinar notes backwards and forwards over the practically open frontier between Croatia and Serbia according to rumours as to their treatment in one or the other country; for this reason packets of more than Din. 3,000 were not exchanged for new notes but a receipt was given. (Notes of denominations of Din. 100 and over were regarded as bank-notes but smaller notes of Din. 50 and less were treated as a government issue of divisional currency.)

**Croatian State Bank.**

End of month	Note circulation	Giro accounts
	in millions of kunas	
1941 April . . .	.	196
May . . .	.	364
June . . .	.	2,277
July . . .	.	2,700
August . .	.	2,533
September	.	2,606
October . .	.	2,518
November	.	2,728
December	8,352	1,363

The exchange started in June 1941 and was reflected in the considerable increase of giro obligations of the State Bank. In December 1941 these obligations fell to one-half, when the first tranche of Treasury certificates was issued; at the end of December 1941 the note issue was Kunas 8,352 million. These figures were given in the report of the bank for 1941, published in the summer of 1942.

No statistics for the year 1942 are available but, as mentioned on page 295, the new statutes of the bank prescribed the publication of a fortnightly return; the first return, for 30th April 1943, and end-of-month returns for June and the following months are given in the table on the next page.

**Croatian State Bank.**

At end of month	Assets							Total of balance sheet	Liabilities		
	Gold and foreign exchange	Advances to occupying troops (1)	Clearing claims	Discounts and advances (2)	Old notes exchanged etc. (3)	Overdraft of Finance Ministry (4)	All other assets		Note circulation	Giro-accounts	All other liabilities
	in millions of kunas										
1943 April . . . .	1,276	2,750	—	14,876	7,794	—	1,211	27,907	22,240	3,976	1,691
June . . . .	1,298	4,289	—	13,849	7,813	500	1,260	29,009	24,195	3,086	1,728
July . . . .	2,009	5,589	—	15,776	7,810	1	1,234	32,419	25,692	4,567	2,160
August . . . .	2,194	7,859	—	18,925	7,811	220	1,316	38,325	28,269	7,660	2,396
September . . . .	3,136	9,021	—	20,764	7,859	310	1,259	42,349	31,816	7,848	2,685
October . . . .	114	9,978	2,714	22,690	7,859	348	1,155	44,858	34,316	7,566	2,976

- (1) Shown as advances against claims in foreign countries.
- (2) At the end of 1942 only one Agram (Zagreb) bank had rediscounts, which amounted to Kunas 131 million.
- (3) The Croatian government debt, created to cover the liabilities of the former National Bank of Yugoslavia, taken over by the State Bank; liabilities for notes withdrawn constitute the bulk of this item, which also includes liabilities for deposits and old clearing accounts taken over by the new bank.
- (4) Credits may be granted to the Finance Ministry up to Kunas 500 million on current account.

The total circulation of the National Bank of Yugoslavia had risen, in the twelve months to March 1941, by Din. 5.0 milliard to its highest point of Din. 15.4 milliard (on 31st March 1941, the last return before the outbreak of hostilities); the circulation in the territory which was later called Croatia was estimated at Din. 6.4 milliard. To cover these notes and other liabilities taken over from the former National Bank, the government created a special debt certificate, which is shown as a separate asset item in the State Bank's return and in the table above.

The circulation of kuna notes in April 1943 was Kunas 22.2 milliard, the increase over two years thus being Kunas 15.8 milliard, which more than tripled the circulation. The Minister of Finance in a speech on 6th May 1943 gave three reasons for this considerable increase: lending to the new government, advances to the allied troops in occupation and the financing of the clearings with Germany and Italy.

The exact amount of government borrowing from the central bank was not, however, given by the Finance Minister in May 1943 and it is not shown as a separate item by the State Bank but, as contact between the bank and the general economy of the country was reliably reported to have been insignificant, government borrowing is doubtless shown under "discounts and advances". This borrowing was due, according to the Finance Minister, to the establishment and organisation of a Croat army, to "public works" including the repair of damage done by partisan troops, to caring for refugees from territories where partisans were operating and to the expenses connected with the foundation of the Croat State.

Advances to the occupying troops were made by the State Bank to cover military pay and allowances, the building of barracks and sundry other expenses; these advances are shown as a separate item in the return. The third and least important reason for the increased note circulation, according

to the Finance Minister, was the financing of the surplus in the clearing; the commercial balance of the country was passive with Germany and Italy but a surplus arose through such services as train and other transport, repatriation of wages from workers in Germany, etc. A decree of 14th October 1943 modified the statutes of the State Bank, permitting inter alia the financing of the clearings.

In the six months to October 1943 the note circulation rose by Kunas 12.1 milliard and giro accounts by Kunas 3.6 milliard, the increases being due to Kunas 7.8 milliard government borrowing, the payment of Kunas 7.2 milliard occupation costs and Kunas 2.7 milliard advances on clearing claims (which, until September, had been booked under "gold and foreign exchange"). The expansion has taken place at an ever-increasing speed: rises in the circulation of Kunas 1 milliard in May and June were followed by Kunas 1½ milliard in July, Kunas 2½ milliard in August and Kunas 3½ milliard in September; in October the increase was again Kunas 2½ milliard, making Kunas 12 milliard for the six months, equivalent to an annual rate of expansion of over 100 per cent. The separate issues of notes by the city of Agram (Zagreb) and by the government are mentioned on page 317.

The balance sheets of the most important banks in the country have been published for the end of 1942 and are summarised in the table; the total of deposits and current accounts, including savings deposits, amounted

Croatian Banks.

At end of 1942	Commer- cial banks	Govern- ment banks	Savings banks	Total: 18 banks
	(1)	(2)	(3)	
In millions of kunas				
<b>Assets:</b>				
Cash and liquid resources	1,188	2,003	681	3,872
Securities . . . . .	1,060	2,127	69	3,256
Advances and overdrafts . . . . .	3,228	2,629	294	6,151
Mortgage credits . . . . .	119	1,079	6	1,204
<b>Liabilities:</b>				
Capital and reserves . . . . .	727	63	84	874
Deposits . . . . .	1,501	4,168	1,083	6,752
Current accounts . . . . .	3,963	2,409	689	7,061

to only Kunas 13.8 milliard, a very small figure compared with the note circulation. A new banking law of September 1942 contained provisions intended to ensure the safety of bank deposits. But the modest level of deposits in the country sheds light on the reasons which compel the government to turn to the State Bank in order to cover the bulk of its borrowing.

(1) Six Agram (Zagreb) banks.  
 (2) Three state banks: the Post Office savings bank, the Savings Bank of the Independent State of Croatia and the State Credit Institution (the former Yugoslav State Mortgage Bank).  
 (3) Nine ordinary savings banks.

Little statistical information regarding developments in Serbia has been allowed out of the country since the occupation. The new Serbian National Bank has issued no return or balance sheet and no figures of the commercial or savings banks are available. A statement published for 1942 showed the budget in equilibrium at Din. 3,406 million and estimates for 1943 were put at Din. 5,480 million; but these figures excluded extraordinary expenditure, the payment of occupation costs and the financing of the clearing.

In point of fact, a considerable proportion of government expenditure has been met by advances from the Serbian National Bank, the note issue increasing and the market showing signs of abnormal liquidity. How great the expansion has been it is not possible to judge, in the absence of reliable data. It was reported early in June 1942 that the note circulation had reached Din. 10 milliard, of which Din. 6.8 milliard was on account of the exchange of old Yugoslav notes, the balance being due largely to the payment of occupation costs and the financing of clearing claims; further, interest-bearing accounts at the National Bank amounted to Din. 1.8 milliard and nearly Din. 1 milliard certificates had been issued by the National Bank.

These certificates were the only Serbian paper on the market in 1942. They were issued by the National Bank from March 1942 onwards to mop up surplus funds and they originally bore interest from 2 per cent. for three months up to 3 per cent. for one year. In November 1942 the rates were raised to  $2\frac{1}{2}$  and  $3\frac{1}{2}$  per cent. respectively and in August 1943 the National Bank decided to issue two-year certificates at  $3\frac{1}{2}$  per cent. Certificates issued by the National Bank were rediscountable at all times at par.

In 1943, efforts were made to reduce the calls on the National Bank. From April a number of indirect taxes were raised and railway passenger fares doubled. Special measures were taken against the hoarding of notes and a long-term government issue was made for the first time; in March 1943, a  $4\frac{1}{2}$  per cent. 30-year forced loan for Din. 1,000 million, issued at  $98\frac{1}{2}$ , was taken up by the State Mortgage Bank in Belgrade and by the Post Office savings bank. A further Din. 2,000 million loan in July 1943 was issued in three forms: bonds with interest at  $4\frac{1}{2}$  per cent., lottery bonds carrying  $2\frac{1}{2}$  per cent. and pure lottery bonds without interest but with higher prizes, the bonds being issued at  $98\frac{1}{2}$ .

Bank rate has remained at 4 per cent., to which it had been reduced in December 1941. From July 1943, interest rates on commercial-bank deposits were fixed, ranging from 1 per cent. on sight accounts to 3 per cent. for one-year deposits; at savings banks, 2 per cent. was paid for slight deposits and other rates up to  $3\frac{1}{2}$  per cent. for one year. The moratorium on debts incurred prior to 6th April 1941 has been prolonged until 30th June 1944.

Since the second half of 1942 Greece has suffered a catastrophic inflation such as has not been seen in Europe for nearly twenty years. Statistical and other information is somewhat fragmentary but all the available indications go to confirm the violence of the expansion; National Bank shares of Dr. 1,000 were quoted at Dr. 2,000,000 and over when the Athens bourse opened in the middle of December 1942, while the rate for the "gold pound" on the black market fluctuated between Dr. 170,000 and Dr. 600,000 (the highest rate, in October 1942), against a par rate for sterling of Dr. 600. The circulation of the Bank of Greece, which was only Dr. 7 milliard in December 1938, soared above Dr. 300 milliard in December 1942 and continued its upward course to over Dr. 1,200 milliard in September 1943.

**Bank of Greece.**

End of month	Assets					Total of balance sheet	Liabilities			
	Gold and foreign exchange ( <sup>1</sup> )	Advance to government	Claims on Germany and Italy ( <sup>2</sup> )	Investments	All other assets		Notes in circulation	Deposits		
								govt	banks	other ( <sup>3</sup> )
In milliards of drachmae										
1938 December	3.8	9.8	—	0.5	4.6	18.7	7.2	0.5	1.0	8.1
1939 December	4.2	12.9	—	0.4	5.9	23.4	9.5	0.5	0.4	10.6
1940 December	11.9	16.5	—	0.4	7.8	36.6	15.4	1.1	0.4	15.2
1941 March ( <sup>4</sup> )	20.9	15.7	—	0.5	6.1	43.2	18.1	1.7	0.6	17.7
June ( <sup>5</sup> )	.	.	.	.	.	.	24.0	.	.	.
December ( <sup>6</sup> )	25.9	44.7	.	.	.	.	48.8	17.2	.	.
1942 May ( <sup>7</sup> )	.	.	.	.	.	.	85.2	.	.	.
June ( <sup>8</sup> )	.	.	.	.	.	.	100	.	.	.
December ( <sup>9</sup> )	25.9	105.7	198.4	13.8	.	.	306.0	.	22.3	17.8 ( <sup>9</sup> )
1943 March ( <sup>7</sup> )	.	.	.	.	.	.	400	.	.	.
September ( <sup>7</sup> )	.	.	.	.	.	.	1,276	.	.	.

Note: The war with Italy started in October 1940; hostilities with Germany began in March 1941 and in April the country was occupied by German and Italian forces.

(<sup>1</sup>) Gold, sterling and dollars blocked abroad. At the end of 1942, £1 million was held in gold bars and £2.4 million in gold coin, both blocked in the United States, £43 million was in sterling (from amounts advanced by the British Government in 1940-41 to cover war expenditure) and \$14.5 million in United States banks.

(<sup>2</sup>) Occupation costs and clearing accounts. By an agreement signed in Rome in the spring of 1942, the Greek state was burdened with only a part of the occupation costs; any amount spent in excess was carried on to the Italian-German clearing account, but the Greek state had to advance the extra amount in drachmae.

(<sup>3</sup>) Including International Financial Commission (1938 Dr. 8.1 milliard, 1939 Dr. 9.0 milliard, 1940 Dr. 11.8 milliard and March 1941 Dr. 12.1 milliard). (<sup>4</sup>) 15th March 1941, the last regular return published.

(<sup>5</sup>) In June 1942 the Minister of Finance gave these figures of the note circulation for June 1941 and May and June 1942. (<sup>6</sup>) From the end-of-1941 balance sheet of the bank, as published in the Greek press.

(<sup>7</sup>) From information published in the Greek press. The main items of the return were given for 15th December 1942 and the note circulation on 25th March 1943 was stated to be "a little over Dr. 400 milliard". The note circulation was Dr. 1,276 milliard on 30th September 1943, having risen from Dr. 1,135 milliard on 10th September, when other liabilities of the bank were given as Dr. 265 milliard.

(<sup>8</sup>) Circulation of bank bonds.

The occupation cut off the country from its normal overseas supplies and shortages soon developed, particularly of foodstuffs; at the same time the currency was expanded by the issue of some RM 10 million Reichskreditkassenscheine by the German army, which were later exchanged by the Bank of Greece for its own notes. The Italian authorities also issued notes of the Mediterranean Bank. Government revenue, largely derived from customs duties and tobacco taxes, fell off sharply as imports ceased and the most important tobacco areas were attached to Bulgaria. In June 1942 the Minister of Finance stated that the budget accounts for the financial year 1941-42 closed with revenue of Dr. 16.5 milliard and expenditure of Dr. 30.3 milliard, excluding occupation costs.

An acute economic crisis developed, particularly on the foodstuffs market, and exports to Germany dried up. Emergency steps had to be taken by the Greek Government and experts were appointed by the German and Italian authorities in October 1942. No full account of the proceedings has been published but the following measures were reported to have been adopted, generally from November 1942 onwards:

- (a) Special food imports were made, the contribution of Red Cross institutions being important.
- (b) Forced deliveries of agricultural produce from the 1942 domestic crop were paid for as to 25 per cent. in cash and 75 per cent. in Treasury bills due at the end of March 1943.
- (c) Rates of taxation were increased considerably to correspond with the internal depreciation of the currency, and 60 per cent. of the taxes due in 1943-44 were made payable in advance in 1942-43.
- (d) Other government revenue was augmented by special measures: in particular, all share companies had to increase their capital by 20 per cent. (banks 10 per cent. only) by 15th March 1943, and to make a corresponding revaluation of their assets; the proceeds were to be paid over without compensation to the government (or the new shares issued directly to the government). This measure was considered to have the double advantage of putting pressure on share prices and indirectly taxing shareholders (as owners of Sachwerte) while at the same time providing funds for the government.
- (e) Government salaries and wages were raised to bring them more into line with current prices.
- (f) All unutilised bank credit outstanding on 14th November 1942 was cancelled and the granting of new credit by the commercial banks in excess of Dr. 1 million to private persons and Dr. 10 million to companies was put under the control of a special committee of the Bank of Greece (including German and Italian experts).
- (g) The limit on the withdrawal of bank deposits, which had already been raised from Dr. 30,000 to Dr. 50,000, was further increased to Dr. 100,000 a week from 16th November 1942; the moratorium had previously been largely evaded by a system of discounts for cash payments, amounting at times to nearly 20 per cent. The drawing of cheques payable to "bearer" and transfer by endorsement were permitted (as was not previously the case). Further, from 19th December 1942, new "free" accounts, with no restriction upon withdrawals, might be opened, in payments being exclusively in bank-notes.
- (h) The deposit of funds at the savings banks was encouraged, the upper limit on individual savings accounts at the post office being raised in January 1943 to Dr. 300,000.
- (i) All banks were compelled to maintain a "reserve", in government paper, of 25 per cent. against savings deposits and deposits without fixed maturity, and 50 per cent. against fixed deposits.

In addition, two monopoly companies were formed, "Degriges" and "Sacig" (as mentioned on page 64), to look after German and Italian interests respectively. Previously, a special tax of 100 per cent. of the price had been placed on imports to provide the government with funds and to diminish the excessive profits of importers. This tax was raised to several times its former level, made payable to the monopoly companies and utilised partly to subsidise exports to Germany and Italy and partly to meet the costs of occupation. Prices of imports and exports and the use made of imports were put under the control of the monopoly companies.

Officially the rate of Dr. 60 to the Reichsmark was maintained, although Greek share prices had risen ten times and commodity prices a hundred times and more above those obtaining when the rate was fixed, since it was considered that an adjustment to the purchasing power parity would add fuel to the inflationary process. Actually the technique of Degriges was to arrange deals largely in volumes, quantities of exports being traded for quantities of imports, so that the exchange rate played a minor rôle; and for capital transfers from Greece to Germany a supplement of varying amount was payable (to the German military authorities), generally Dr. 540 per Reichsmark,

the effective rate thus working out at Dr. 600 = RM. 1. A Greek exchange expert<sup>(1)</sup> stated early in 1943 that the Dr. 26 milliard reserve of gold, sterling and dollars shown in the balance sheet of the Bank of Greece would fully cover the note issue when revalued at the new level of the drachma after the war; a rate of Dr. 20,000 to the "gold pound", 16 times the rate of April 1941, was suggested.

In the early months of 1943 some provisional stabilisation of the Greek internal position was reported from German sources as a result of the emergency measures. Exports to Germany were again under way; in three months Degriges had obtained permits, to the equivalent of about RM 120 million, to import from Greece. Bank credit had been curtailed and the quotations for gold, foreign exchange and securities had fallen sharply. But in February 1943 the Minister of Finance announced that budget expenditure, excluding occupation costs, was running at the rate of Dr. 250 milliard per annum, including Dr. 170 milliard for salaries and pensions; and, as further increases of salaries took place in the following months, these figures have further expanded. Moreover, the rise of the note circulation continued at the same rapid pace; the increase in the last six months of 1942 by Dr. 200 milliard was followed in the first three months of 1943 by a further increase of Dr. 100 milliard.

In the next six months the expansion again accelerated and the increase of the note issue was by more than Dr. 800 milliard, the circulation thus tripling in the half-year to September 1943. Further emergency measures were adopted, including the taking-over by the government from the banks of one-half of their security holdings and the appointment of government commissioners at all banks and share companies to supervise their business. In October 1943, the Greek exchange expert already mentioned stated<sup>(2)</sup> that the note issue was still fully covered by gold, sterling and dollars at an exchange rate of only Dr. 100,000 to the "gold pound" (instead of the current market rate, which was then Dr. 400,000<sup>(3)</sup>).

In relation to the belligerents and the occupied countries in Europe, the three neutrals, Switzerland, Sweden and Portugal, present a striking contrast; although Switzerland and Sweden have had to bear considerable defence expenditure, this has been financed internally with little or no aid from the central banks, the relatively moderate increase of the circulation in the two countries and the more considerable expansion in Portugal being largely against gold. None of the three central banks have made direct advances for the financing of clearings.

In Switzerland extraordinary defence expenditure began in 1934 and in the nine years to 1942 amounted to Sw.fcs 4,160 million (of which nearly two-thirds represented expenses of mobilisation); Sw.fcs 260 million pertained

<sup>(1)</sup> Monsieur Philaretos, in an article in the Athens press, as quoted by the "Deutsche Volkswirtschaft" 1943, No. 18, and the "Südost-Echo" of 12th February 1943.

<sup>(2)</sup> As quoted by the "Südost-Echo" of 5th November 1943.

<sup>(3)</sup> In November 1943, the "gold pound" fluctuated between Dr. 800,000 and Dr. 1,900,000.

Central bank returns — Switzerland, Sweden and Portugal.

Near end of month	Switzerland			Sweden				Portugal			
	Gold and foreign ex- change	Note circu- lation	Total depo- sits (1)	Gold and foreign ex- change (2)	Note circu- lation	Deposits		Gold and foreign ex- change net	Note circu- lation	Deposits	
						govt	banks			govt	banks
	in millions of Sw.fcs			in millions of Swedish Kr.				in millions of escudos			
1939 December .	2,623	2,050	789	1,314	1,422	267	153	1,621	2,550	161	603
1940 December .	3,170	2,273	1,178	1,214	1,482	380	324	2,561	2,903	247	851
1941 December .	3,558	2,337	1,236	1,496	1,700	297	417	6,069	4,488	325	2,433
1942 March . . .	3,577	2,238	1,467	1,585	1,549	406	631	7,439	4,475	1,126	2,992
June . . . . .	3,584	2,246	1,477	1,622	1,705	375	544	8,267	4,614	1,141	3,567
September . .	3,572	2,340	1,303	1,675	1,832	661	266	9,452	4,944	1,572	3,949
December . . .	3,628	2,637	1,290	1,736	2,016	744	161	10,598	5,481	1,933	4,189
1943 March . . .	3,738	2,579	1,308	1,789	1,931	653	223	11,358	5,440	2,472	4,441
June . . . . .	3,812	2,642	1,351	1,865	1,969	563	173	11,925	5,679	2,731	4,532
September . .	3,930	2,805	1,455	1,931	2,133	361	307	12,598	6,128	2,337	4,977
Increase December 1939 to December 1942	1,005	587	501	422	594	477	8	8,977	2,931	1,772	3,586

- (1) The figure given for all deposits is the total of sight liabilities. Government deposits, which are comparatively small, are shown only in the annual balance sheets; they amounted to Sw.fcs 11, 7, 195 and 14 million at the end of 1939, 1940, 1941 and 1942 respectively.
- (2) Gold at market price (i.e. as booked, plus the premium account) plus net foreign exchange (at the book price). Differences between this column and the figures given on the same subject in Chapter III are due to the fact that in the latter case the foreign exchange also is given at market price (according to a calculation published only once a year, for December).
- (3) Deposits of state institutions. These are practically balanced by a contra item of "Funds placed at the disposal of the National Debt Office" by the bank, e.g. December 1942 S.Kr. 675 million.

to the pre-war period and Sw.fcs 3,900 million to the war years 1939-42. The deficit on the ordinary budget was small in comparison, an aggregate of some Sw.fcs 200 million in the years 1939-42, but, apart from the budget accounts, official credits of Sw.fcs 800 million were granted to Germany in the clearing, serving to meet passive balances in 1941-43. For 1943, extra-ordinary budget expenditure was estimated at nearly Sw.fcs 1,500 million.

In 1939-42, some Sw.fcs 940 million was raised in extraordinary taxation (over one-half by a tax on capital called the "defence sacrifice"); Sw.fcs 250 million was taken in 1940 from the Exchange Fund, this being equivalent to an extension of central-bank credit; and the balance has been borrowed: nearly Sw.fcs 1,700 million

Commercial bank deposits —  
Switzerland, Sweden and Portugal<sup>(1)</sup>.

End of year	Switzerland	Sweden	Portugal
	in millions of national currency units		
1939	3,015	4,401	2,117
1940	3,095	4,321	2,758
1941	3,162	4,879	4,261
1942	3,344	5,157	5,771
Percentage increase 1939-42	11	17	173

- (1) All deposits at commercial banks, including savings deposits.  
(2) Including Kassenobligationen and Kassenscheine.

at long term, generally at 3½ per cent., over Sw.fcs 800 million through 5 to 7-year Treasury certificates and about Sw.fcs 800 million through 1 to 5-year Treasury bills. Except for the Sw.fcs 250 million from the Exchange Fund, direct calls on the National Bank have been small and temporary. The extension of credit by the commercial banks in Switzerland has also been very small, as the figures for the deposits of the Grossbanken show.

Ordinary budget expenditure in Sweden, plus net expenditure under the capital budget, rose from S.Kr. 2,800 million in the financial year (ended June) 1939-40 to S.Kr. 4,000 million in 1941-42, when about one-half was for military purposes. (The estimates of expenditure for 1942-43 and 1943-44 were each for rather more than S.Kr. 4,000 million, over one-half being for defence.)

Total expenditure in the three years 1939-40 to 1941-42 was S.Kr. 10,700 million, of which S.Kr. 6,200 million was raised by ordinary revenue and S.Kr. 4,500 million by other means. The public debt rose by S.Kr. 4,300 million to S.Kr. 6,900 million; S.Kr. 3,000 million of the increase was in funded debt and S.Kr. 1,300 million floating. About S.Kr. 1,000 million of the long-term debt was raised in 1941-42 by two defence loans at  $3\frac{1}{2}$  and 3 per cent. respectively. Of the floating debt, in June 1942 only S.Kr. 300 million was in the form of Treasury bills and over S.Kr. 1,000 million was owing to the central bank: the Sveriges Riksbank held about S.Kr. 600 million of government securities received in exchange for deliveries of foreign assets (used by the government to make purchases abroad), while S.Kr. 380 million were placed at the disposal of the National Debt Office, as counterpart to the accumulation of deposits by state institutions. Thus the Riksbank, although not called upon for direct credit to the government to cover internal budget requirements, has accepted some government bonds in exchange for foreign assets and has offset any tightening effect on the market through the accumulation of official deposits.

In certain other countries (the example of Denmark has already been given) an accumulation of government deposits at the central bank has been made with the express intention of mopping up funds on the market. Something of this nature also occurred during 1942 in Portugal, where the expansion of notes and bank deposits has been much greater than in Switzerland and Sweden. Although the total Portuguese budget for 1942 was balanced at around Esc. 3,000 million, of which nearly one-third was for defence, the government issued two consolidation loans at  $3\frac{1}{2}$  and 3 per cent. and Treasury bonds at  $2\frac{1}{2}$  per cent. to a total of Esc. 1,400 million, the proceeds of which were placed to the account of the Treasury at the Bank of Portugal, thus absorbing part of the funds coming on the market as a result of the intensified influx of foreign exchange during the year.

The mopping-up action in Portugal appears to have had its chief effect on the note issue, which increased in 1942 by a smaller amount than in 1941, while the expansion in Switzerland and Sweden was then greater than previously. On the other hand, the deposits of the commercial banks in Portugal as well as their cash reserves rose more in 1942 than ever before, while in Switzerland the change was not great and in Sweden the banks' cash reserves declined considerably as a consequence of taking up Treasury bills.

In Switzerland bank rate has remained at  $1\frac{1}{2}$  per cent. since November 1936 and in Sweden at 3 per cent. since May 1941, other market rates tending to become stabilised at low levels. In Portugal, however, market liquidity has continued to increase and rates to decline: bank rate, which

had remained at 4½ per cent. from 1936, was reduced to 4 per cent. in March 1941, to 3½ per cent. in September 1942 and again to 3 per cent. in April 1943.

During the civil war of 1936–39 the Bank of Spain was actually split into two parts, one controlled by the Republican Government and the other by the Nationalists. With the cessation of hostilities, various steps were taken to bring order into the currency and banking system, but it was not until 13th March 1942 that legislation was passed enabling the Bank of Spain to make a formal regulation of its accounts. A simplified statement of the adjustments made in the balance sheet of 31st December 1941 is given in the table. While the advances made to the National Government (Pesetas 7.6

Bank of Spain —  
adjustments to balance sheet.

As at 31st December 1941	Original figures	Written down (net)	Adjusted figures
	in millions of pesetas		
<b>Assets</b>			
Gold <sup>(1)</sup> . . . . .	3,679	3,162	517
Advances to governments:			
National <sup>(2)</sup> . . . . .	10,170	—	10,170
Republican . . . . .	23,158	22,740	418
All other assets . . . . .	8,663	1,045	8,617
Total . . . . .	46,670	26,947	19,722
Special Treasury certificate (law of 13th March 1942)	—	—	4,438
Total . . . . .	46,670	26,947	24,160
<b>Liabilities</b>			
Note issues:			
National Government . . . . .	13,536	—	13,536
Republican Government <sup>(3)</sup> . . . . .	12,755	13,991	(—1,236)
Private accounts:			
National Government . . . . .	5,513	—	5,513
at branches . . . . .	11,512	7,443	4,069
All other liabilities . . . . .	3,354	1,075	2,278
Total . . . . .	46,670	22,509	24,160

(1) The gold stock had been reduced by Pesetas 3,494 million to Pesetas 185 million and revaluation increased this remaining stock by Pesetas 332 million to Pesetas 517 million, as shown in the table.

(2) Including Pesetas 70 million Treasury bills.

(3) Revised estimates, made after 31st December 1941, added Pesetas 1,236 million to the circulation on account of the Republican Government.

milliard during the civil war plus Pesetas 2.5 milliard in the following six months) and the resulting note issues were retained at their full value, advances made to the old Republican Government were written off and the resulting notes in circulation and "red" accounts were repudiated. Further adjustments were made for the gold holding which had been utilised by the Republican Government (the small balance being revalued) and to certain minor items in the return. As a result of these adjustments the balance-sheet total declined by about one-half: the liabilities were reduced from Pesetas 46.7 milliard to Pesetas 24.2 milliard and

the assets from Pesetas 46.7 milliard to Pesetas 19.7 milliard, the resulting deficiency of Pesetas 4.4 milliard being made up by a special Treasury certificate placed with the bank by the government (to be gradually redeemed from the government's share of the profits of the bank).

A report on the operations of the bank from 1936 to 1941 was presented to the shareholders' general meeting at Madrid in November 1942 and the balance sheet for 31st December 1941 was published, the first since 1935; later, balance sheets for December 1942, June and September 1943 were also made available.

**Bank of Spain.**

At end of month	Assets						Total of balance sheet	Liabilities			
	Reserves		Private credit granted	Government debt				Notes in circulation	Accounts		
	gold	silver		advance to Treasury	special Treasury certificates	sundry Treasury items			Treasury	private	
	(1)		(2)	(3)		(4)		free	"unblocked"	(5)	
in millions of pesetas											
1935 December .	2,536	688	4,887	—	—	717	12,782	4,837	283	1,323	—
1941 December .	487	616	2,854	10,170	4,438	441	23,085	13,536	1,650	3,653	2,498
1942 December .	487	624	3,067	10,170	4,417	847	23,032	15,738	1,072	3,450	769
1943 June . . . .	749 <sup>(1)</sup>	626	3,350	10,170	4,417	622	22,741	15,192	3,250	2,762	738
September .	927 <sup>(1)</sup>	626	3,074	10,170	4,417	1,088	23,026	15,610	3,114	2,737	733

- (1) Including gold and exchange with correspondents. (2) Discounts, advances and overdrafts.  
 (3) Including Treasury bills for Pesetas 70 million. (4) Including other items in addition to those specified.  
 (5) From December 1941 on account of the National Government only.  
 (6) These "unblocked" accounts may be utilised for the purchase of government securities.  
 (7) Including also gold from the Instituto de Moneda Extranjera: Pesetas 252 million in June and Pesetas 430 million in September 1943.

As a result of the repudiation of the notes issued on account of the former Republican Government, the active note issue in September 1943 was only slightly more than three times as high as at the end of 1935, a situation which compares not unfavourably with the expansion in other countries over the same period. The fall in the gold reserve was greater than it appears, since it was booked at par value in 1935; the increase in the first three quarters of 1943 was principally due to gold taken over from the Foreign Exchange Institute. In September 1943 two-thirds of the assets consisted of government debt in one form or another, but there were signs of a gradual increase of credit granted to the private economy of the country. As from 1st January 1943 the general moratorium, applied since August 1938 to all debts contracted prior to or during the civil war, was lifted.

A step of considerable interest and importance was taken in Turkey, towards the end of 1942, through the introduction of a lump-sum tax on exceptional war profits, which, by its magnitude, nature and method of imposition, acquired the characteristics of a capital levy on a special section of the population.

The ostensible intention of the law of 11th November 1942 was to tax such persons and firms as, through the special circumstances of the war, or through trading in the black market or by speculation, had made undue profits which for technical or other reasons remained outside the normal tax schedules; theoretically all persons and firms were liable to the tax who were in possession of capital or who paid income tax. It was expected that besides bringing in funds to the Treasury the levy would check speculation, bring down prices and force out hoarded and other hidden stocks of commodities on to the market.

The law did not prescribe a scale of taxation but merely provided upper and lower limits for payments by certain categories of taxpayers. The actual levying of the tax was left in the hands of a special commission and of local committees formed in every vilayet from representatives of the Finance Ministry, of the chamber of commerce, and of the local authorities. The commission had very wide powers of assessment, deciding who was to pay the tax and, in each individual case, the amount to be paid. Taxpayers thus had no forms to fill up but merely received a tax demand for a specified amount. And against the assessment of the commission there was no appeal.

Further, a general prohibition was issued against departure from the country, bank accounts were blocked and payment in full was called for within two weeks. Two further weeks (making one calendar month in all) were eventually allowed, subject to payment of a further 1 per cent. for the first week and 2 per cent. for the second week (i. e. an amount equivalent to interest at an average rate of 78 per cent. per annum). During the process of collection, it was further announced that those taxpayers who paid 20 per cent. of the total at once and in cash might raise bank credits for the remaining 80 per cent. against special security and the payment of interest at 1½ per cent. a month (i. e. 18 per cent. per annum). Such credits were granted, however, only against certain specified assets such as real estate, ships, government bonds and commodities in which the government was interested (e. g. cotton, hides, minerals and agricultural products). In spite of the hard terms, it is probable that without these credits a great part of the tax could not have been paid; credits against commodities had been forbidden a few weeks earlier as a step in the fight against inflation. A further month for payment was allowed to persons who deposited government securities for the full amount or furnished a bank guarantee. Persons assessed who did not pay within the time limit became liable to forced labour in East Anatolia, and to the confiscation of their property and that of their family. Chronologically the main events were:

1942	11th November	Capital levy law passed.
	12th "	Law came into force.
	16th "	Bank balances blocked.
	17th December	List of taxpayers and assessments published; tax became due for payment.
1943	1st January	End of period for payment without interest.
	18th "	End of period for payment with interest.
	20th "	End of period of grace for all payments.

The levy was originally estimated to produce some £T 500 million but this estimate was lowered to £T 422 million. Istanbul was assessed at £T 344 million and the rest of the country at £T 78 million; but, owing to bankruptcies, the closing of businesses and other reasons, some £T 40--50 million of the Istanbul assessment was cancelled. Final assessments were thus about £T 300 million for Istanbul and some £T 380 million for the country as a whole. (Later, some further tax demands were sent out but these appear to have been for comparatively small amounts which probably would not greatly affect the result.) The total assessment for the capital levy was approximately equal to budget

revenue from normal taxation in the current year and equivalent to one-half of the largely expanded note circulation at the end of 1942.

Actual tax payments received were published on certain dates. By 1st January 1943 (the end of the period for payment without interest)

**Turkish Capital Levy Payments.**

Total payment received to date given	Istanbul	Elsewhere	Total
	in millions of £T		
1943 1st January . .	59	52	110
25th February . .	123	57	180
15th March . .	135	60	195
30th June . . .	190	65	255
In percentages of assessment			
1943 1st January . .	19	67	29
25th February . .	41	73	47
15th March . .	45	77	51
30th June . . .	63	83	67

less than one-fifth of the amount assessed in Istanbul had been paid, compared with two-thirds for other parts of the country. But large amounts were collected in the following months and by the end of June 1943 nearly two-thirds of the amount assessed in Istanbul had been paid.

The monetary effects of the capital levy cannot be shown completely as no returns are available for the commercial banks, but a reflection of developments in the central bank's return is shown in the following table.

**Central Bank of Turkey.**

Near end of month	Assets					Total balance sheet	Liabilities			
	Gold	Clearing account	Advances to Treasury		Com-mercial bills		Note issue (net)	Depo-sits in £T	Gold held against advance to Treasury	Clear-ing account
			against Treas-ury bills	against gold						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)		
in millions of £T										
1939 December . . . . .	36	11	141	—	217	499	281	30	—	47
1940 " . . . . .	108	27	139	115	264	745	404	78	78	32
1941 " . . . . .	110	57	137	168	299	861	512	78	78	22
1942 March . . . . .	124	73	137	168	339	926	559	88	78	29
June . . . . .	136	62	135	250	327	1,000	591	118	78	27
September . . . . .	138	48	134	250	367	1,038	647	93	78	27
December . . . . .	142	58	134	250	487	1,178	734	144	78	23
1943 March . . . . .	179	67	134	250	455	1,192	717	182	78	25
June . . . . .	196	63	132	250	410	1,151	734	147	78	22
September . . . . .	201	70	132	250	430	1,177	741	143	78	36

(1) Including gold held abroad. A liability of £T 1 million on account of a gold deposit has been deducted.  
 (2) A new account of advances to the Treasury against a gold deposit was opened in July 1940 by virtue of the law No. 3650.  
 (3) Including some items not specified in the table.  
 (4) Net, i.e. with a deduction of a small amount of notes held in the bank's tills.

The increase of the note circulation, which was at an average rate of £T 9 million a month in 1941 and £T 13 million a month in the first half of 1942, accelerated to £T 19 million a month in the three months to September 1942 (part of the expansion may, indeed, have been due to rumours of the impending tax). The first effect of the capital levy was to intensify this movement — the increase being £T 29 million a month in the three months to

December. In January 1943, however, there was a decline of £T 44 million, while deposits at the bank increased, reflecting the collection of the tax by the government (whose account is not shown separately in the return). By June 1943, however, the circulation was back to the level of December 1942; and in the three months to September 1943 there was a further small increase.

The most important movement of the central bank's assets was the expansion of bills discounted by £T 120 million in the three months to the end of December 1942, an indication of the tightness of the market as a result of the levy; by June 1943 more than one-half of this central-bank credit had been repaid. The increase in the foreign assets of the bank was reported to be at least partly due to the cancellation of imports by firms which feared confiscation of the goods in payment of the levy.

Fiscally, the tax was successful in producing £T 255 million within a few months. From the monetary point of view, no reduction of the note issue was attained, but the expansion of the circulation was slowed down and the exceptional extension of central-bank credit was not great. It is difficult to judge the economic effects: a falling-off of imports was reported to have caused some scarcities and, in the first days of the tax, business was at a standstill; a number of prices fell, at least temporarily, and speculation (e.g. in gold) was checked.

Reports in the foreign press have attributed other than purely fiscal and monetary motives to the application of the capital levy and have pointed to the fact that four-fifths of the total was assessed on Istanbul with its mixed foreign population. Of some 90,000 persons liable to the tax, 66,000 were in Istanbul and it is reported that 4,000 persons paid one-half of the total tax; however, as four-fifths of Turkish industry and commerce was estimated to be in non-Turkish hands and largely concentrated in Istanbul, it is not surprising that a considerable proportion of the tax should be paid by foreigners in what has remained the economic centre of modern Turkey.

Budget expenditure in the United Kingdom rose from £4,780 million in 1941-42 to £5,620 million in 1942-43, i. e. by 18 per cent. compared with an increase of 24 per cent. in the previous financial year; expenditure on the "supply services", which may be counted as war expenditure, amounted to 94 per cent. of the total, the same proportion in the two financial years. Lend-lease aid from the United States is not shown in the British budget, which includes, however, among the expenditure, the reverse lend-lease or reciprocal aid, given to the United States and other members of the United Nations, although detailed accounts for the different recipients are not kept. Budget expenditure also includes the counterpart of the Canadian contribution of £225 million in 1942-43 and the outlay of £400-500 million to meet the local costs of the war "from Tunis to Burma", this sum being, as explained by the Chancellor of the Exchequer in April 1943, borrowed from the countries concerned. (Further information on lend-lease and related questions is given in Chapter IV.)

Taxation receipts rose from £1,962 million in 1941-42 to £2,483 million in 1942-43, i. e. by 27 per cent. compared with 44 per cent. in the previous

United Kingdom — Public Finances.

Quarterly and yearly figures	Budget accounts (cash basis) (1)								War Damage Act (2)	Net borrowing
	Current revenue				Expenditure			Deficit		
	Taxation (3)	Other current revenue (4)	Canadian contribution	Total	War (5)	Other	Total			
in millions of £ sterling										
1940 April-June . . . . .	180	8	—	188	613	62	695	507	—	507
July-September . . . . .	252	12	—	264	875	40	915	651	—	651
October-December . . . . .	290	10	—	300	1,012	86	1,098	798	—	798
1941 January-March . . . . .	637	20	—	656	1,137	22	1,159	503	—	503
1941 April-June . . . . .	302	17	—	319	985	89	1,074	755	—	755
July-September . . . . .	392	26	—	418	1,110	51	1,161	743	30	713
October-December . . . . .	454	30	—	484	1,168	92	1,260	776	2	774
1942 January-March . . . . .	814	38	—	853	1,238	42	1,280	427	(— 12)	439
1942 April-June . . . . .	435	22	98	555	1,198	97	1,295	741	—	741
July-September . . . . .	511	41	57	609	1,229	70	1,299	690	1	689
October-December . . . . .	503	31	70	604	1,364	98	1,461	858	(— 1)	859
1943 January-March . . . . .	1,034	20	—	1,053	1,505	63	1,568	514	—	514
1943 April-June . . . . .	524	13	—	537	1,304	100	1,404	868	—	868
July-September . . . . .	651	31	—	682	1,304	92	1,396	714	13	701
<b>Financial years</b>										
1940-41 . . . . .	1,359	50	—	1,409	3,637	230	3,867	2,458	—	2,458
1941-42 . . . . .	1,962	112	—	2,074	4,502	274	4,776	2,702	20	2,682
1942-43 . . . . .	2,483	113	225	2,820	5,296	327	5,623	2,803	—	2,804
<b>Calendar years</b>										
1940 . . . . .	1,216	41	—	1,257	3,086	247	3,333	2,076	—	2,076
1941 . . . . .	1,784	93	—	1,877	4,401	254	4,654	2,777	32	2,745
1942 . . . . .	2,263	131	225	2,619	5,029	306	5,335	2,716	(— 12)	2,729

(1) Excluding self-balancing items and lend-lease aid from the United States; expenditure also excludes sinking funds, i. e. £17.0 million in 1940-41, £12.2 million in 1941-42, and £14.4 million in 1942-43.

(2) Inland revenue, customs and excise and motor-vehicle duties.

(3) Miscellaneous receipts (from the profits of the Bank of England and Exchange Equalisation Account, etc.) plus net receipts of the Post Office and other sundry revenue.

(4) Total supply services (excluding Post Office).

(5) Net excess of contributions or of payments (—) under the War Damage Act. These contributions, although very similar in effect to taxation, are accounted outside the budget; but, when payments are made, they are entered under expenditure in the budget and an amount sufficient to cover them is taken into "miscellaneous receipts" from the War Damage Accounts. Only the net amounts are shown in this column; the President of the War Damage Committee stated in April 1943 that indemnities so far paid exceeded £100 million.

year. For the first time income tax produced more than £1,000 million, about £200 million coming from seven million wage-earners liable for the tax. A notable feature in recent years has been the increased proportion produced by direct taxes — 62.5 per cent. of the total tax revenue in 1942-43 as against 55.6 per cent. in 1939-40.

The budget estimates for 1943-44 put total expenditure at £5,760 million and current revenue at £2,910 million, giving a deficit of £2,850 million; Canadian "mutual aid" in 1943-44, which is to be provided for all the United Nations, is excluded from these figures. As full capacity is reached both revenue and expenditure tend to expand more slowly but the deficit appears to be stabilised at around £2,800 million. Two items of expenditure deserve special mention: subsidies with a view to keeping down the cost of living rose from £70 million in 1940 to £142 million in 1941, reached £150 million in 1942 and were running at a rate of £180 million in 1943; social services, excluding

**Sources of U.K.  
Government borrowing**  
September 1939—March 1943.

	per cent.
<b>Long term:</b>	
small savings . . . . .	21
long-term loans . . . . .	34
<b>Short term:</b>	
Treasury bills . . . . .	10
Treasury deposit receipts . . . . .	11
tax-reserve certificates . . . . .	5
Extra-budgetary funds etc. * . . . .	19
<b>Total . . . . .</b>	<b>100</b>

\* Including various other sources, such as overseas borrowing and interest-free loans.

unemployment benefit, which came to £160 million in 1938, were estimated to cost £220 million in 1943.

From September 1939 to the end of March 1943 total war borrowing amounted to £8,667 million, which, as stated by the Chancellor in his budget speech, was made up as follows: 55 per cent. from public long-term borrowing, 26 per cent. from public short-term issues and 19 per cent. from extra-budgetary funds, direct overseas borrowing and interest-free loans.

Public borrowing, as published in the Treasury returns, is analysed below.

**United Kingdom — Government Borrowing.**

Quarterly and yearly figures	Long and middle-term borrowing				Short-term borrowing					Total borrowing ( <sup>1</sup> )
	Savings issues	Market issues	"Other debt" ( <sup>1</sup> )	Total ( <sup>2</sup> )	Ways and means advances ( <sup>3</sup> )	Treasury bills	Treasury deposit receipts	Tax-reserve certificates	Total ( <sup>4</sup> )	
In millions of £ sterling										
1940 April-June . . . . .	88	246	5	334	—25	198	—	—	173	507
July-September . . . . .	88	79	15	177	55	295	124	—	474	651
October-December . . . . .	92	213	8	308	45	231	214	—	490	798
1941 January-March . . . . .	182	129	7	315	36	60	92	—	187	503
1941 April-June . . . . .	251	247	10	506	15	145	90	—	250	755
July-September . . . . .	174	143	38	352	60	220	81	—	361	713
October-December . . . . .	207	286	63	571	5	—30	212	17	203	774
1942 January-March . . . . .	355	204	8	563	—57	74	—315	175	—124	439
1942 April-June . . . . .	173	184	181	536	2	18	95	90	205	741
July-September . . . . .	170	140	29	335	34	55	169	96	354	689
October-December . . . . .	147	277	3	423	—2	140	206	93	437	859
1943 January-March . . . . .	282	179	3	473	60	6	3	—27	41	514
1943 April-June . . . . .	311	330	2	641	10	189	—44	71	227	868
July-September . . . . .	155	279	2	433	—40	50	189	69	268	701
<b>Financial years</b>										
1940-41 . . . . .	449	667	35	1,134	111	784	430	—	1,324	2,458
1941-42 . . . . .	987	891	119	1,992	23	409	67	192	690	2,682
1942-43 . . . . .	772	780	216	1,768	94	218	473	252	1,036	2,804
<b>Calendar years</b>										
1940 . . . . .	339	638	28	985	71	682	338	—	1,091	2,076
1941 . . . . .	814	816	118	1,744	116	395	474	17	1,002	2,745
1942 . . . . .	845	805	222	1,857	—23	286	155	453	871	2,729
<b>Total debt outstanding at end of March 1943</b>	<b>2,706</b>	<b>8,210</b>	<b>372</b>	<b>11,288</b>	<b>289</b>	<b>2,839</b>	<b>969</b>	<b>443</b>	<b>4,540</b>	<b>15,828<sup>(6)</sup></b>

(<sup>1</sup>) Including direct external borrowing, as given on page 139. (<sup>2</sup>) Net, i.e. less sinking funds and amortisations.  
 (<sup>3</sup>) These ways and means advances are partly from the Bank of England and partly from government departments. Advances from the Bank of England are interest-bearing, the rate varying between  $\frac{1}{2}$  and 1 per cent. since the beginning of 1939; they generally reach their highest point at the end of the year, having been £86 million on 31st December 1941 and £68 million on 31st December 1942. Advances from the government departments are partly interest-bearing and partly without interest; the rate on interest-bearing advances varied in 1939 between  $\frac{1}{2}$  and  $\frac{3}{4}$  per cent. but since 1940 it has been  $\frac{1}{2}$  to 1 per cent.  
 (<sup>4</sup>) Including small movements of Treasury balances.  
 (<sup>5</sup>) Excluding the old "war debt" of £1,032 million to the United States, which would bring the nominal total up to £16,860 million. This figure does not include the accrued interest on National Savings certificates, estimated at £172 million in March 1942.

Long-term borrowing in 1942-43 amounted to 63 per cent. of total borrowing against 74 per cent. in 1941-42. As regards the so-called savings issues in 1942-43, £204 million came from National Savings certificates, £111 million from 3 per cent. Defence bonds and £457 million from 3 per cent. Savings bonds, all of these issues being non-marketable. A distinction sometimes made between "small" savings and "large" savings includes National Savings certificates, Defence bonds and the increase of savings-bank accounts in the former while Savings bonds are classed with other long-term government loans in the latter category. As regards the market issues in 1942-43, £535 million was raised by the tap issues of 2½ per cent. National war bonds, while £122 million 3 per cent. Funding Loan 1959-69 and £124 million 3 per cent. National Defence Loan 1954-58 were issued direct to the Commissioners of the National Debt for the investment of savings-bank deposits.

The British borrowing programme is noteworthy for the great variety of securities offered to the investor; from January 1943 the maximum of savings certificates which could be bought by one investor was raised from £500 nominal to £750, but for the extra £250 only certificates of a new series, bearing interest at 1.4 per cent. tax free, could be purchased (against 3.2 per cent. on the ordinary issue). In October 1941 a Treasury regulation suspended the issue of government securities as bearer bonds or as inscribed stock, and introduced the principle that all future issues should be in the form of registered stock transferable by deed. The suspension of issues of bearer bonds was understood to be a war measure only, but inscribed stock as a form of security was finally abolished by a new regulation made in December 1942.

Short-term borrowing has been in three main forms, the classic marketable Treasury bill giving way more and more to the two new types of securities introduced during the war: tax-reserve certificates and Treasury

U.K. Treasury Bills Outstanding<sup>(1)</sup>.

End of February	Tender <sup>(2)</sup>	Tap <sup>(3)</sup>	Total
	In millions of £ sterling		
1938 . . . . .	532	273	805
1939 . . . . .	351	500	851
1940 . . . . .	801	622	1,423
1941 . . . . .	845	1,369	2,214
1942 . . . . .	905	1,613	2,518
1943 . . . . .	990	1,830	2,810

(1) This analysis is made as at the end of February since published statistics do not permit the accurate splitting-up of the total at the end of December or March.

(2) These are bills issued by tenders made each Friday for the following week, the results of which are regularly published. All these bills are of three months' currency.

(3) Tap bills may be taken up by government departments and other official bodies at any time. The normal rate is ½ per cent. below the average weekly tender rate but in certain special cases only a nominal rate is paid. They are issued for three months or for such shorter periods as may be convenient.

deposit receipts, both of which are non-marketable. The total of Treasury bills outstanding, £2,840 million at the end of March 1943, still exceeded by over £1,100 million the total of other forms of government short-term borrowing, but their importance was declining, only one-fifth of the short-term borrowing in 1942-43 being made in this way. About one-third of the total Treasury bills outstanding were issued by tender in 1942 (against two-thirds in 1938), the remainder being issued through the tap to government departments and other official bodies (including, since July 1941, Empire central banks); of the bills issued by tender only about one-third were allotted to money market firms. In absolute figures,

however, the holding of the discount houses has risen with the total of tender bills. In recent years the structure of the London money market has been strengthened by a series of amalgamations and, in the first half of 1943, several firms made relatively considerable increases in their capital in response to the wartime growth in the volume of paper handled by them.

Tax-reserve certificates were first issued in December 1941; they are not transferable and are intended to absorb funds held in readiness for taxation payments due not less than two months and not more than two years from the date of purchase; they carry interest at 1 per cent. free of tax (about the same as the gross yield on Treasury bills) but, after running for two months, may be repaid in advance, on request, without interest. They have proved very popular, and the total outstanding grew steadily to £514 million at the end of June 1943.

United Kingdom —  
Tax-reserve certificates and Treasury deposit receipts.

Issues and redemptions half-yearly figures	Tax-reserve certificates			Treasury deposit receipts				Net issues
	Gross issues	Redemp- tions	Net issues	Gross issues	Repayments		Net issues	
					at maturity	before maturity		
in millions of £ sterling								
1940 July-December . . . .	—	—	—	386	—	48	48	338
1941 January-June . . . .	—	—	—	587	313	93	406	181
July-December . . . .	17	—	17	890	466	122	588	292
1942 January-June . . . .	271	6	265	638	534	324	858	(-220)
July-December . . . .	234	46	188	1,029	517	137	654	375
1943 January-June . . . .	253	209	44	1,195	866	370	1,236	(- 41)
Totals . . . .	775	261	514	4,715	2,695	1,095	3,790	925

Of particular interest was the growing importance of Treasury deposit receipts as a flexible instrument for the investment of the banks' liquid funds in the year under review. These receipts, first introduced in 1940, are given to banks for deposits at the Treasury for six months at  $1\frac{1}{8}$  per cent. interest; the receipts are non-negotiable but carry the right to repayment before maturity under rebate at bank rate (currently 2 per cent.) and may be used at any time in lieu of payment in respect of subscriptions to loans for their own or for customers' account. Of the £3,520 million issued up to the end of December 1942, £2,695 million, i. e. over three-quarters of the total, were held until maturity; repayments before maturity were on a particularly large scale in the January to March quarter of 1942 and during the first half of 1943, when savings campaigns caused considerable withdrawals from the banks for investment purposes. Treasury deposit receipts have become second in importance among the assets of the clearing banks, as the following table shows.

While before the war business advances were the banks' most important and most remunerative asset, the system of "progress payments" to government contractors has made the war industries largely independent of bank credit

### London Clearing Banks<sup>(1)</sup>.

End of month	Assets							Total of balance sheet	Liabilities Deposit and current accounts	Liquidity ratios			
	Liquid assets				Investments	Advances	Cheques in course of collection etc.			Pri- mary <sup>(2)</sup>	Sec- ondary <sup>(2)</sup>		
	cash re-serves <sup>(3)</sup>	money at call <sup>(3)</sup>	bills dis-counted <sup>(4)</sup>	Trea-sury deposit re-ceipts								in percentages of total deposits and current accounts	
in millions of £ sterling													
1939 December .	274	174	334	—	609	1,002	106	2,697	2,441	11	21		
1940 December .	324	159	265	314	771	906	117	3,050	2,800	12	26		
1941 December .	366	141	171	758	999	807	146	3,582	3,329	11	32		
1942 March . . .	347	137	163	476	1,050	838	122	3,316	3,072	11	25		
June . . . . .	355	147	292	543	1,058	800	129	3,497	3,263	11	30		
September . . .	349	127	277	693	1,097	774	106	3,591	3,358	10	33		
December . . .	390	142	196	896	1,120	773	165	3,864	3,629	11	34		
1943 March . . .	377	139	172	884	1,132	777	125	3,776	3,542	11	34		
June . . . . .	387	165	236	859	1,159	744	144	3,868	3,630	11	35		
September . . .	389	148	209	1,045	1,160	733	122	3,985	3,737	10	38		

- (1) June and December figures are at end of month; March and September are on varying days of the month.  
 (2) Balances at Bank of England, plus notes and coin in hand.  
 (3) Money lent to the market at call and short notice.  
 (4) Commercial bills have largely disappeared, the holding of the banks probably declining by some £100 million over the period shown in the table and being replaced to that extent by Treasury bills.  
 (5) Cash reserves as a percentage of deposits and current accounts.  
 (6) Liquid assets other than cash reserves as percentage of deposits and current accounts.

and the banks have followed the government's directives in curtailing lending unconnected with the war effort\*. Advances in the banks' balance sheets were surpassed by investments in 1941 and by Treasury deposits in 1942, thus falling to third place in importance among the assets of the banks.

The total government-security holding of the banks at some £2,200 million at the end of 1942 was almost three times as great as the banks' advances

#### London Clearing Banks net increases or decreases (—) of government-security holding<sup>(1)</sup>.

Calendar years	Bills	Treasury deposit receipts	Investments	Total
	in millions of £ sterling			
1940 . . . . .	— 69	+ 314	+ 162	+ 407
1941 . . . . .	— 94	+ 444	+ 228	+ 578
1942 . . . . .	+ 27	+ 138	+ 121	+ 286
Three-year period . . .	— 136	+ 896	+ 511	+ 1,271
Total holding end 1942 . . . . .	198	896	1,120	2,214

(1) Assuming bills discounted and investments to be entirely government paper and excluding government securities held indirectly (by way of cash balances at the Bank of England or money lent at call on the market). Actually the increase is somewhat greater, since the commercial bill holding has declined (see footnote (4) to the first table on this page).

and amounted to 60 per cent. of deposits; and of the government securities taken up in the three years 1940-42 nearly three-quarters were Treasury deposit receipts. In 1942 the government's call on the banks was only one-half of what it had been in 1941 and the expansion of deposits consequently slowed down, being £300 million against £530 million in the previous year.

\* From 1st March 1943 the Board of Trade prohibited instalment purchases of all goods subject to price control, except furniture.

In recent years the expansion of clearing-bank deposits has been accounted for by business concerns and not by individuals, a fact which was brought out in an analysis given in the budget White Paper; this showed that in the two and a half years from June 1940 to December 1942 personal deposits rose by £200 million to £820 million, i. e. 33 per cent., and business accounts by £1,150 million to £2,040 million, an increase of 129 per cent. (Besides ordinary banking accounts denominated in money and shown in the balance sheets, the introduction and growth of "coupon accounts" and "coupon banking" should be mentioned. These services of the banks have arisen from the rationing schemes and in 1942 were extended to cover clothes rationing; all transfers of coupons and documents representing coupons, beyond the purely retail stage, are made through the banks, which honour "cheques", credit or debit accounts and make transfers, all denominated in numbers of coupons.)

Concentration on purchases of Treasury deposit receipts has made the banks very liquid, the ratio of all liquid assets to deposits having risen from 32 per cent. at the end of 1939 to 38, 43 and 45 per cent. at the end of 1940, 1941 and 1942 respectively. The primary cash reserve, as published, remained at 11 per cent. in 1942 and 1943, with a temporary dip to 10 per cent. in September; actually there is some "window dressing" in these figures and the true proportion may be as much as 2 per cent. lower. The expansion has taken place in the secondary reserve, which had risen as high as 38 per cent. in September 1943.

Since the introduction of Treasury deposit receipts the cash position of the banks has generally been adjusted through fluctuations of their holdings of this type of paper, but the practice of direct Treasury bill dealings between the Bank of England and the clearing banks has not been discontinued; and Treasury bills may, of course, be allowed to run off. A further element of elasticity has been available to the bill market through the institution of open-market operations more or less "on tap"; although no formal change has been announced, the bill market knows that in practice the government broker will, at times of pressure, purchase Treasury bills for account of the Bank of England at market rates.

Whereas the rate of increase of clearing-bank deposits slowed down from 19 per cent. in 1941 to 9 per cent. in 1942, the note circulation of the Bank of England, which is covered over 100 per cent. by government securities, continued to expand at the same annual rate of around 22-23 per cent.

No other movement in the return is of particular importance; the Bank of England acquired sufficient government securities to cover the expansion of the note issue and to maintain the bankers' cash reserves at about 11 per cent. of their total deposits and current accounts, as shown above. The withdrawal of the larger denominations of notes from circulation is treated on page 310.

**Bank of England.**

Near end of month	Assets			Total of balance sheet*	Liabilities			
	Govt securities	All other assets	Notes		Current accounts etc.			
					Treasury and public departments	banks	other	total
In millions of £ sterling								
1939 December . . . . .	728	33	761	555	30	117	42	189
1940 December . . . . .	851	34	885	616	17	181	53	251
1941 December . . . . .	1,019	35	1,054	752	11	220	54	285
1942 March . . . . .	931	34	965	759	21	116	51	188
June . . . . .	1,015	37	1,052	801	11	172	49	232
September . . . . .	1,018	36	1,054	839	10	136	52	197
December . . . . .	1,190	33	1,223	923	9	223	49	281
1943 March . . . . .	1,120	40	1,160	935	6	144	57	207
June . . . . .	1,233	34	1,267	946	10	239	55	309
September . . . . .	1,209	33	1,242	986	9	173	55	238

\* The combined returns of the issue and banking departments, omitting duplications due to the holding of a reserve of bank-notes in the banking department.

As in recent years, there was practically no capital issue activity in 1942, except that on account of the government, while a certain number of repayments were made. An interesting indication of conditions is given by the reversal of the steady growth of the building societies, due to the suspension of private building — the increase of total advances by £4 million in 1938 gave way to an excess of repayments of about £24 million in each of the two years 1941 and 1942, leading to increased investment in government securities.

**Building Societies' Advances<sup>(1)</sup>.**

In millions of £ sterling	New advances	Repay-ments (?)	Net movement
1938 . . . . .	44.4	40.7	+ 3.7
1941 . . . . .	2.2	26.4	— 24.2
1942 . . . . .	4.1	29.0	— 24.9

(1) Seven important societies. (2) Including interest.

Interest rates have remained practically without movement: bank rate is at 2 per cent., unchanged since October 1939; the yields on Treasury bills at 1 per cent., Treasury deposit receipts at 1<sup>1</sup>/<sub>8</sub> per cent. and 7 to 9-year National War bonds on tap at 2<sup>1</sup>/<sub>2</sub> per cent. are halved by the deduction of income tax at the standard rate; in fact none of the clearing banks made sufficient profit to become liable to the excess profits tax.

The Chancellor of the Exchequer stated in June 1943 that before the war the average rate of interest on the internal debt had been 3 per cent. and that during the war it had been brought down to 2<sup>1</sup>/<sub>2</sub> per cent.; the average rate on all the new war borrowing in England was 2 per cent., which, after allowing for income tax, represented a cost to the Treasury of slightly over 1 per cent. In his budget speech in April 1943 the Chancellor said: "We have developed a new technique and we have revolutionised public opinion as to what are fair rates of interest on public borrowing. We shall not only pass from war to peace with interest at a low level but in the reconstruction which the country is expecting after the war we shall have the benefit of cheap money. It is the government's intention to maintain its present policy of cheap money after the war."

Canadian budgets since the war have been considerably influenced by British war expenditure in Canada, which has had to be financed in Canadian dollars, no matter how the settlement with the United Kingdom was made (by Canadian acquisitions of sterling, by repatriations of Canadian securities, by the free gift from Canada, etc.) and which must be duly taken into account for a comprehensive picture of the official financing to be obtained.

**Canadian Budget Finance<sup>(1)</sup>.**

Financial years ended 31st March	1939	1940	1941	1942	1943	1944
	in millions of Can. dollars					
<b>War expenditure</b>						
Canadian . . . . .	34	142	819	1,415	2,994	4,890 <sup>(2)</sup>
British in Canada <sup>(3)</sup> . . . . .	—	95	371	1,052	878	.
<b>Total . . . . .</b>	<b>34</b>	<b>237</b>	<b>1,190</b>	<b>2,467</b>	<b>3,873</b>	<b>4,890</b>
<b>Other expenditure . . . . .</b>	<b>515</b>	<b>526</b>	<b>463</b>	<b>513</b>	<b>593</b>	<b>611</b>
<b>Loans and investments . . . . .</b>	<b>25</b>	<b>43</b>	<b>30</b>	<b>39</b>	<b>54</b>	<b>.</b>
<b>Total . . . . .</b>	<b>574</b>	<b>806</b>	<b>1,683</b>	<b>3,019</b>	<b>4,520</b>	<b>5,501</b>
<b>Taxation and current receipts . . . . .</b>	<b>499</b>	<b>535</b>	<b>857</b>	<b>1,469</b>	<b>2,261<sup>(4)</sup></b>	<b>2,752<sup>(4)</sup></b>
<b>Borrowing . . . . .</b>	<b>98</b>	<b>416</b>	<b>737</b>	<b>2,027</b>	<b>1,510</b>	<b>.</b>
<b>Decrease or increase (—) of balances<sup>(5)</sup></b>	<b>(—23)</b>	<b>(—145)</b>	<b>89</b>	<b>(—477)</b>	<b>749</b>	<b>.</b>
<b>Total . . . . .</b>	<b>574</b>	<b>806</b>	<b>1,683</b>	<b>3,019</b>	<b>4,520</b>	<b>5,501</b>

(1) Closed accounts to 1942; 1943 provisional and 1944 estimates.

(2) Including Can.\$ 1,000 million expenditure under the Mutual Aid Act.

(3) An analysis of this item is given on page 137.

(4) Of income tax and excess profit tax collected in 1943 and 1944 it was estimated that Can.\$ 100 million and Can.\$ 250 million respectively will be refunded after the war.

(5) Including certain small miscellaneous items.

In the financial year ended March 1943 total financing requirements were Can.\$ 4,500 million, war expenditure being nearly Can.\$ 3,900 million; 50 per cent. of total expenditure was covered by taxation and other current revenue. War expenditure continues to expand; the estimates for the financial year ending March 1944 place total expenditure at Can.\$ 5,500 million, of which Can.\$ 4,900 million is war expenditure, including Can.\$ 1,000 million for "mutual aid", a figure likely to be surpassed.

Government securities held by the Bank of Canada rose from Can.\$ 232 million in December 1939 to Can.\$ 1,130 million in June 1943, in which are included the \$ 325 million given to the bank in April 1940, when the gold and foreign exchange holding was transferred to the Foreign Exchange Control Board; the net increase was thus Can.\$ 573 million.

As a counterpart to these purchases of government securities stand the increase of the note issue and of the chartered banks' reserve balances. The note circulation as shown in the following table includes the comparatively large amounts held in the tills of the banks; the "active circulation" of Bank of Canada notes rose from Can.\$ 156 million in December 1939 to Can.\$ 256, 372 and 553 million in December 1940, 1941 and 1942 respectively.

**Bank of Canada.**

End of month	Assets					Total of balance sheet	Liabilities				
	Gold ( <sup>1</sup> )	Foreign exchange ( <sup>2</sup> )	Government securities ( <sup>3</sup> )		Other assets		Notes ( <sup>4</sup> )	Deposits			Other liabilities
			short	long				Government	banks	other	
In millions of Can. dollars											
1939 December	226	64	182	50	5	527	233	46	217	18	13
1940 "	—	38	448	127	12	626	360	11	218	10	28
1941 "	—	201	392	217	34	843	496	74	232	6	35
1942 March . .	—	276	387	209	20	892	509	119	242	6	16
June . . .	—	1	494	322	26	843	541	31	221	27	22
September	—	1	629	285	22	936	625	19	246	25	22
December	—	1	807	209	31	1,048	694	52	260	19	24
1943 March . .	—	0	753	276	16	1,045	719	21	261	25	19
June . . .	—	47	817	313	21	1,198	758	90	301	19	29

- (<sup>1</sup>) Transferred to Foreign Exchange Control Board in the spring of 1940.
- (<sup>2</sup>) From April 1940 this item consists almost wholly of sterling pledged temporarily from time to time by the Foreign Exchange Control Board to obtain Canadian dollars. At the end of 1941 Can.\$ 201 million was so pledged — a method of short-term government borrowing from the bank; this holding of the Bank of Canada grew to Can.\$ 474 million in March 1942. It was redeemed in two stages: by part of the proceeds of the second Victory loan in March and by the sale of Can. \$193 million short-term government securities to the Bank of Canada in June 1942.
- (<sup>3</sup>) Dominion (and provincial) government securities. Besides securities placed directly with the bank, open-market purchases have been made in order to maintain the cash reserves of the chartered banks.
- (<sup>4</sup>) Including those held by the chartered banks in their reserves. In addition, notes of the chartered banks are outstanding, the total falling from Can.\$ 85 million in December 1939 to Can.\$ 60 million in December 1942 (see below).

The chartered banks increased their security holdings between December 1939 and June 1943 by slightly over Can.\$ 1,000 million while demand deposits rose by nearly Can.\$ 1,300 million. The banks' loans increased up to the spring of 1942 but subsequently declined; this was partly the result of the strict regulation of instalment buying, but also due to the fact that the banks lent freely to subscribers to the first Victory loan of June 1941 but do not appear to have done so on the same scale during 1942.

**Canada — Chartered Banks<sup>(1)</sup>.**

End of month	Assets					Total of balance sheet	Liabilities			
	Cash reserves ( <sup>2</sup> )	Foreign exchange ( <sup>3</sup> )	Loans and discounts ( <sup>4</sup> )	Securities ( <sup>5</sup> )	Other assets		Notes	Deposits ( <sup>1</sup> )		Other liabilities
								demand	time	
in millions of Can. dollars										
1939 December	292	132	1,141	1,646	612	3,822	85	1,033	1,741	963
1940 "	323	189	1,148	1,531	570	3,731	90	1,163	1,641	846
1941 "	356	168	1,201	1,759	653	4,137	71	1,436	1,669	962
1942 March . .	348	166	1,334	1,881	624	4,352	71	1,755	1,550	976
June . . .	327	181	1,165	1,883	639	4,195	72	1,523	1,598	1,002
September	366	185	1,077	2,340	594	4,561	69	1,738	1,748	1,006
December	387	231	1,199	2,293	667	4,767	60	1,984	1,673	1,049
1943 March . .	377	223	1,027	2,689	599	4,915	54	1,927	1,890	1,044
June . . .	421	204	1,256	2,697	665	5,233	49	2,319	1,782	1,084

- (<sup>1</sup>) Ten chartered banks.
- (<sup>2</sup>) Balances at the Bank of Canada and Bank of Canada notes.
- (<sup>3</sup>) Security loans abroad and net amount due from foreign banks.
- (<sup>4</sup>) In Canada only.
- (<sup>5</sup>) Principally government securities (Dominion and provincial).

Canada's public borrowing has taken two main forms: special issues, generally of Treasury bills, made directly to the banks, and war loans issued on the market. In July 1942 a new form of borrowing from the banks was initiated with an issue of Can.\$ 75 million six-month "deposit certificates" bearing interest at  $\frac{3}{4}$  per cent., and issues on the same terms were made in subsequent weeks, the total outstanding rising to Can.\$ 645 million in October. As the proceeds of the third Victory loan came in, the government redeemed Can.\$ 205 million, so that Can.\$ 440 million were outstanding at the end of 1942.

Government borrowing from the public has taken the form of Victory loans issued as 3 per cent. 14-year bonds and  $1\frac{3}{4}$  per cent.  $3\frac{1}{2}$ -year bonds: the second Victory loan issued in February–March 1942 produced Can.\$ 840 million and the third loan, issued in October–November 1942, brought in Can.\$ 990 million, a total of Can.\$ 1,830 million during the year 1942. In 1943 two further Victory loans were issued: the fifth, in April, brought in Can.\$ 1,100 million and the sixth, in October, 1943 produced Can.\$ 1,200 million.

The year 1942 was for the United States a period of transition to full war activity and this change is reflected in a remarkable way in the budget accounts. War expenditure (which includes the outlay for lend-lease) rose by four times from \$6,300 million in 1940–41 to \$26,000 million in 1941–42 with a further threefold increase to \$72,000 million for 1942–43 (financial years ending June). Thus, in the latter year, average monthly expenditure had risen to the level of annual expenditure two years previously (i. e. in the first year of the defence programme). At the same time civil expenditure, although including the increased debt service, was slightly compressed. Revenue rose by nearly 70 per cent. from \$7,600 million in 1940–41 to \$12,800 million in 1941–42 and again by 70 per cent. to \$22,300 million in 1942–43. The resulting budget deficit jumped from \$5,100 million in 1940–41 to \$19,600 million in 1941–42 and to \$55,900 million in 1942–43. The revised estimates for 1943–44 show total expenditure at \$106,000 million, including \$100,000 million for war activities, and revenue at \$38,000 million, giving a deficit of \$68,000 million to be covered by borrowing. A summary of budgetary revenue and expenditure (on a cash basis) is given in the table on the following page.

The national defence programme was started in June 1940; and war expenditure rose in the geometric progression of four from about \$3,000 to 13,000 and 50,000 million in the calendar years 1940, 1941 and 1942. From the second half of 1942 war activities have accounted for over 90 per cent. of total expenditure. Indeed, there is a striking parallel between 1940–43 and 1916–19: war expenditure in the first half of 1943 was nearly fifty times as great as it was three years previously and a further increase is planned; from 1915–16 to 1918–19 war expenditure also rose by fifty times, from under \$290 million to over \$14,400 million, and a further increase was planned.

As a result of the rising national income and increased rates, the proceeds of taxation tripled from 1940–41 to 1942–43. The Revenue Act of 1942, passed in October of that year, imposed supplementary taxation estimated

**United States — Public Finances.**

Quarterly and yearly	Revenue <sup>(1)</sup>			Expenditure			Deficit	Move-ment of official balances <sup>(4)</sup>	Total borrow-ing <sup>(5)</sup>
	Taxation	Other Internal current <sup>(2)</sup>	Total	War <sup>(3)</sup>	Other	Total			
In millions of dollars									
1940 July-Sept. . .	1,499	50	1,489	663	1,620	2,283	794	+ 599	1,393
Oct.-Dec. . .	1,393	52	1,435	1,199	1,659	2,858	1,423	- 331	1,092
1941 Jan.-March . .	2,276	171	2,447	1,968	1,617	3,585	1,138	+ 989	2,127
April-June . .	2,000	235	2,235	2,471	1,513	3,984	1,749	+ 512	2,261
1941 July-Sept. . .	1,884	60	1,944	3,430	1,571	5,001	3,057	- 84	2,973
Oct.-Dec. . .	2,161	61	2,222	4,835	1,647	6,482	4,260	+ 1,788	6,048
1942 Jan.-March . .	4,810	73	4,883	7,121	1,557	8,678	3,795	+ 43	3,838
April-June . .	3,667	83	3,750	10,627	1,609	12,236	8,486	+ 425	8,911
1942 July-Sept. . .	3,777	84	3,861	14,766	1,540	16,306	12,445	+ 1,437	13,882
Oct.-Dec. . .	3,840	69	3,909	17,348	1,452	18,800	14,891	+ 6,301	21,192
1943 Jan.-March . .	6,765	184	6,949	18,461	1,384	19,845	12,896	- 5,850	7,046
April-June . .	6,978	585*	7,563	21,535	1,693	23,228	15,665	+ 5,170	20,835
1943 July-Aug. <sup>(6)</sup>	4,151	577*	4,728	13,664	1,065	14,729	10,001	- 2,818	7,183
<b>Financial years</b>									
1940-41 . .	7,099	508	7,607	6,301	6,409	12,711	5,103	+ 1,770	6,873
1941-42 . .	12,522	277	12,799	26,011	6,386	32,397	19,598	+ 2,172	21,770
1942-43 . .	21,360	922	22,282	72,109	6,070	78,179	55,897	+ 7,058	62,955
<b>Calendar years</b>									
1940 . . . .	5,579	256	5,835	2,779	6,881	9,660	3,824	- 531	3,293
1941 . . . .	8,321	827	8,848	12,704	6,348	19,052	10,204	+ 3,205	13,409
1942 . . . .	16,094	309	16,403	49,862	6,158	56,020	39,617	+ 8,206	47,823

(1) Net receipts, i.e. total receipts less net social-security employment taxes.  
 (2) Panama Canal dues and other miscellaneous receipts.  
 (3) Before December 1941, National defence. Actually war expenditure was somewhat greater than that shown in the budget statistics, as \$2,200 million war expenditure was borne by government corporations in 1941-42 and a further \$3,300 million was estimated for 1942-43.  
 (4) Movements of the Treasury's general fund and of the balances held by government agencies with the Treasury. <sup>(5)</sup> Increase of government securities outstanding, direct and guaranteed.  
 (6) Two months only; total expenditure in September 1943 was \$7,212 million. \* Preliminary.

to produce \$8,600 million gross in a full year, of which \$1,700 million will be returned as post-war credits, so that the net yield would be \$6,900 million; besides providing for an increase of \$3,000 million in normal income tax, the Act instituted a new Victory tax (deducted at source from salaries and wages) amounting to 5 per cent. on all incomes above \$12 a week and affecting about 40 million taxpayers; it is expected to produce \$3,100 million, of which over \$1,100 million will be returned as post-war credits. These "post-war" credits, which amount to 25 per cent. of the tax paid by single and 40 per cent. of that paid by married taxpayers (with limits of \$500 and \$1,000 a year respectively), may, however, be reclaimed in many cases in the following year as tax credits against regular income tax and against the portion of Victory tax not collected at source. Thus taxpayers, when filing tax returns in March 1944, are permitted to deduct purchases of U. S. government securities, life assurance premiums and the repayment of certain debts, up to an amount equal to the repayable portion of the Victory tax on income of the previous year, instead of waiting for the actual refunds. Somewhat similar provisions apply to excess profits tax; of the \$1,900 million levied under the new law, \$550 million is credited as a post-war refund, but

may be made available currently for retirement of taxpayers' indebtedness. In October 1943, a new tax bill was introduced.

Total expenditure in 1942-43 was \$78,000 million and revenue \$22,000 million, leaving a deficit of \$56,000 million to be met by government borrowing; in fact, not less than \$63,000 million was raised by loans during the financial year, the balance of \$7,000 million going to swell the Treasury's general fund. The following table shows the acceleration of borrowing from under \$13,000 million in the first half of 1942 to over \$35,000 million in the second half of the year and its decline, as a result of higher taxation receipts, to \$28,000 million in the first half of 1943.

Some \$27,000 million, about 43 per cent. of total borrowing in 1942-43, was raised at short term; \$13,500 million was in the form of certificates of indebtedness, a security particularly suitable to the banks. These certificates,

**U. S. Government Borrowing — quarterly increases or decreases (—)  
of interest-bearing debt (direct and guaranteed)  
and total outstanding<sup>(1)</sup>.**

Quarterly and yearly	Long and middle-term						Short-term				Total
	Treasury notes	Treasury bonds	Savings bonds	Special issues	Guaranteed bonds <sup>(2)</sup>	Total <sup>(3)</sup>	Treasury bills	Certificates of indebtedness	Tax notes	Total	
in millions of dollars											
1940 July-Sept. . .	1	680	139	288	289	1,392	1	—	—	1	1,393
Oct.-Dec. . .	-206	725	151	307	114	1,085	7	—	—	7	1,092
1941 Jan.-March. . .	-456	1,572	404	313	4	1,833	294	—	—	294	2,127
Apr.-June . . .	-24	683	715	437	455	2,262	-1	—	—	-1	2,261
1941 July-Sept. . .	—	46	818	538	569	1,928	-298	—	1,343	1,045	2,973
Oct.-Dec. . .	299	3,198	1,008	324	612	4,223	697	—	1,128	1,825	6,048
1942 Jan.-March. . .	-426	2,543	2,296	351	651	4,123	-350	—	65	-285	3,838
Apr.-June . . .	1,118	2,175	1,752	552	-1,118	4,480	856	3,096	479	4,431	8,911
1942 July-Sept. . .	1,269	3,333	2,291	624	4	7,534	2,111	3,115	1,122	6,348	13,882
Oct.-Dec. . .	1,905	7,850	2,571	523	269	12,614	2,008	4,323	2,247	8,578	21,192
1943 Jan.-March. . .	-66	5	2,841	972	67	3,850	2,607	627	-38	3,196	7,046
Apr.-June . . .	-629	8,247	3,365	867	258	11,656	2,630	5,400	1,149	9,179	20,835
1943 July-Aug. <sup>(4)</sup> . .	2,707	—	1,438	1,036	158	5,057	982	936	208	2,126	7,183
<b>Financial years</b>											
1940-41 . . .	-685	3,660	1,409	1,345	862	6,572	301	—	—	301	6,873
1941-42 . . .	991	7,870	5,874	1,765	-1,812	14,754	905	3,096	3,015	7,016	21,770
1942-43 . . .	2,479	19,435	11,068	2,986	456	35,654	9,356	13,465	4,480	27,301	62,955
<b>Calendar years</b>											
1940 . . . . .	-25	1,079	986	1,139	280	3,438	-145	—	—	-145	3,293
1941 . . . . .	-181	5,407	2,945	1,612	416	10,246	692	—	2,471	3,163	13,409
1942 . . . . .	3,866	15,901	8,910	2,050	-2,034	28,751	4,625	10,534	3,913	19,072	47,823
<b>Total debt outstanding</b>											
end of 1942 . . .	9,863	49,268	15,050	9,032	4,283	88,046	6,627	10,534	6,384	23,545	111,591

(1) At the end of 1942 the gross direct debt amounted to \$108,000 million, of which \$107,000 million was interest-bearing. The legal limit for this debt was raised from \$125,000 million to \$210,000 million in April 1943. In addition, over \$4,000 million guaranteed debt was outstanding at the end of 1942.

(2) These are the bonds issued by government corporations (R. F. C. etc.) and guaranteed by the government. Since the last quarter of 1941 these bonds have been systematically replaced by direct government obligations.

(3) Including small amounts of postal savings and pre-war (1917-18) bonds and adjusted service and depositary bonds not shown separately. These may give a plus or, on account of redemptions, a minus item, in no quarter, however, exceeding about \$50 million.

(4) Two months only.

issued at par (with coupon attached) at a fixed rate of interest and not exceeding one year's maturity, were first put on the market in April 1942. In addition, \$9,500 million Treasury bills and \$4,500 million of non-marketable tax-anticipation notes were issued during the financial year 1942-43. Some \$19,000 million, i. e. over one-half of the long-term borrowing, was made through Treasury bonds with maturities generally up to about twenty years. Of the other half, by far the most important item was the issue of \$11,000 million non-marketable savings bonds.

The tremendous acceleration of war expenditure in the United States has thus involved borrowing on a vast scale — the amount borrowed in 1942-43 was nearly four times as great as the total Federal debt of 1930; and still greater sums must be borrowed in 1943-44. In these circumstances considerable efforts have been made to create securities suitable to all classes of investors, and, in particular, with the aid of a series of sales campaigns, to borrow directly from the public, i. e. from investors other than banks. In 1941 two new securities were introduced, defence savings bonds and tax-anticipation notes, both of which were non-marketable; in 1942 new series of tax notes were made to replace the old ones and the maximum for individual subscribers to savings bonds was raised from \$50,000 to \$100,000. A further step was taken with issues in May, August and December of marketable Treasury bonds not available to banks on their own account for a period of ten years; sales were largely made to life assurance companies. Moreover, the technique of issue was changed; instead of closing subscription lists after only 24 or

Distribution of U. S. Government Borrowing<sup>(1)</sup>.

Calendar years	Banking System			Other Investors					Total all investors
	Federal Reserve Banks	Commercial banks <sup>(2)</sup>	Total	Mutual Savings banks	Insurance companies <sup>(3)</sup>	Federal agencies	All others <sup>(3)</sup>	Total	
In millions of dollars									
1940 (twelve months)	(-300)	1,470	1,170	120	600	1,090	310	2,120	3,290
1941 " "	70	4,030	4,100	480	1,100	1,910	5,820	9,310	13,410
1942 " "	3,940	19,550	23,490	960	3,000	2,710	17,760	24,330	47,820
1943 (six months)	1,010	10,660	11,670	720	1,800	2,070	11,620	16,210	27,890
Total holdings at end of 1942 . .	6,190	41,340	47,530	4,560	11,000	12,240	36,260	64,060	111,590
as percentages of total borrowing in each period									
1940 (twelve months)	(-9.7)	44.7	35.6	3.6	18.2	33.1	9.4	64.4	100
1941 " "	0.5	30.1	30.6	3.6	8.2	14.2	43.4	69.4	100
1942 " "	8.2	40.9	49.1	1.8	6.3	5.7	37.1	50.9	100
1943 (six months)	3.6	38.2	41.9	2.6	6.5	7.4	41.6	58.1	100

(1) These figures are based on statistics of the distribution of interest-bearing securities only (direct and guaranteed). Figures for banks and Federal agencies and for the totals are rounded to the nearest \$10 million.

(2) Member banks of the Federal Reserve System accounted for 90 per cent. of the total for all commercial banks at the end of 1942.

(3) In the original statistics (see Federal Reserve Bulletins) these two columns are rounded to the nearest \$100 million; in this table the original figures are given for insurance companies and the odd tens of millions necessary to make the four columns total correctly have been added to "all others".

48 hours, as was previously the case, new loans were open for subscription for several weeks at a time in order to ensure a better distribution of the securities, a method somewhat similar to the continuous tap issues of marketable loans already obtaining in England and Germany. This technique was combined with a number of war-loan "drives" by which a variety of long and short-term government securities were offered for sale within a limited period: the first mixed "war loan" of this type in December 1942, comprising six different types of security, produced \$13,000 million, of which the banks subscribed \$5,000 million; in April 1943, the second war loan brought in \$16,500 million, again including \$5,000 million from the banks; and in September-October 1943 the third drive, from which the banks were excluded, produced \$19,000 million.

Altogether the Treasury sold to investors other than banks over \$24,000 million in 1942; but, even so, the need for bank purchases was very great. In 1942 member banks of the Federal Reserve System nearly doubled their holdings of U. S. government securities and in 1943 the rise continued, as the following table shows.

**United States — All Member Banks.**

End of month	Assets				Liabilities			
	Reserve balances	Loans	Securities		Demand deposits (1)	U.S. Government demand deposits	Time deposits (2)	Total deposits (3)
			U.S. Government	all other				
In millions of dollars								
1940 June . . . . .	13,751	13,969	14,722	5,760	27,877	711	11,459	42,039
December . . . . .	13,992	15,321	15,823	5,982	30,429	616	11,687	46,007
1941 June . . . . .	12,959	16,729	18,078	5,852	32,678	619	11,898	48,076
December . . . . .	12,396	18,021	19,539	5,961	33,754	1,709	11,878	51,192
1942 June . . . . .	12,295	16,928	24,098	5,774	36,966	1,724	11,673	53,434
December . . . . .	13,072	16,088	37,546	5,629	42,570	7,923	12,366	67,276
1943 June . . . . .	12,093	14,823	46,960	5,352	48,957	7,236	13,382	73,465

(1) Adjusted, i.e. other than inter-bank and U.S. Government deposits and less cash items in process of collection.  
 (2) Of individuals, partnerships and corporations.      (3) Gross deposits exclusive of inter-bank.

Other assets on balance have declined. Bank loans, which had risen rapidly by over \$4,000 million from June 1940 to December 1941, fell by \$2,000 million in 1942 and by nearly \$1,300 million in the first half of 1943. This was the net result of contrary movements: the Federal Reserve restrictions of September 1941 on consumer credit were tightened up in May 1942 and bank credits for non-war purposes continued to decline (in part, at least, reflecting the reduced needs of business for such financing, as sales of automobiles and other consumers' durable goods fell off); but considerable calls were made on bank credit as a direct consequence of the war. At all commercial banks in the country the net decline of bank loans exceeded \$2,000 million in 1942; loans to finance war contracts increased by some \$1,700 million, while loans for other than war purposes declined by nearly \$4,000 million.

The provision of working capital<sup>(1)</sup> to American industry for war production has taken three main forms. Firstly, under the Act of 22nd June 1940, the army and navy were authorised to make direct advances up to 30 per cent. of the amount of the contract (and, later, a further 20 per cent. was allowed for sub-contractors); these advances were at first free of interest but subsequently bore interest at 2½ per cent. Secondly, on 9th October 1941, this system of "progress payments" was supplemented by the Assignment of Claims Act, which permitted, for the first time, the assignment of claims on the government; by virtue of this provision, contractors could borrow from the banks on the collateral of a claim on the government. But this Act did not do much, in reality, to expand the banks' lending facilities. Thirdly, an executive order of the President, made on 26th March 1942, authorised the War and Navy Departments and the Maritime Commission to guarantee loans for war production purposes; the bank making the loan pays for the guarantee a fee ranging from 10 to 50 per cent. of the interest collected, according to the size of the guarantee. A number of large bank credits have been obtained in this way<sup>(2)</sup>.

The counterpart to the increase in the banks' lending to the government was a rise of demand deposits, in all by some \$16,000 million in 1942, the rise being relatively greatest in agricultural districts. The distribution of deposits at the end of 1942 was very unusual, those of the public having risen by \$8,800 million to \$42,600 million while the government accounts had increased by \$6,200 million to the very high figure of \$7,900 million. Contrary to the practice in other countries, the U. S. Government has accounts at the most important commercial banks throughout the country, to facilitate the collection and transfer of the proceeds of government loans — and, at the end of 1942, these accounts were exceptionally high owing to the current flotation of the Victory loan, the largest single borrowing operation in U. S. financial history up to that date. Government deposits with the member banks were drawn down in the first quarter of 1943 to only \$2,600 million in March, and other deposits increased; but government deposits rose again and in April and May 1943, when other government loans were in course of subscription, they were around \$10,000 million, a record high level.

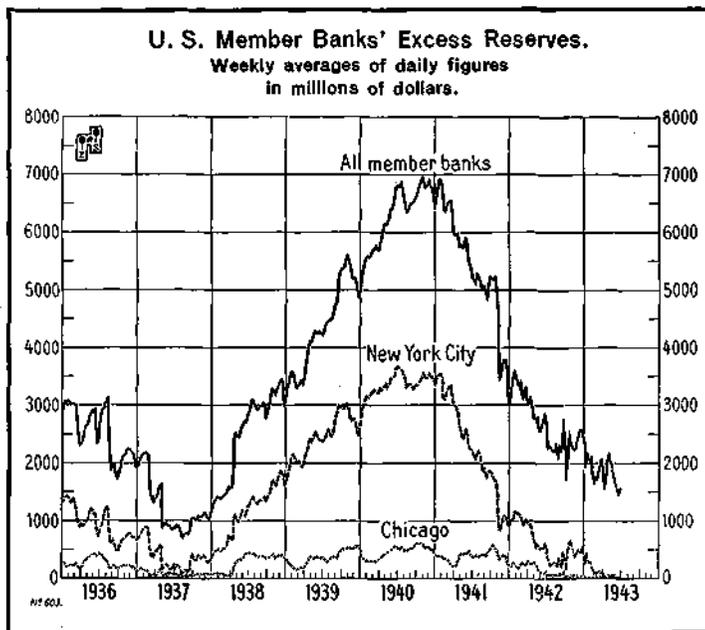
In the fifteen months to March 1943 demand deposits, both business and personal, at all commercial banks in the country rose by \$15,000 million to \$53,000 million. An exploratory survey made by the Federal Reserve System showed that more than two-thirds of the total demand deposits belonged to businesses and less than one-third were personal (including the deposits of farmers); but of the increase of \$15,000 million about three-quarters was due to business deposits and one-quarter to personal deposits; business deposits had grown by one-half and personal deposits by only one-third. A further

(1) Fixed capital, on the other hand, has been provided through the Reconstruction Finance Corporation and its subsidiary, the Defense Plant Corporation.

(2) Up to the end of December 1942, \$2,700 million guaranteed loans had been authorised; of this amount \$800 million were outstanding, \$1,450 million were still available and \$450 million had been repaid. By August 1943, \$5,150 million guaranteed loans had been authorised, of which \$1,650 million were outstanding and \$2,480 million still available while about \$1,020 million had been repaid. About 80 per cent. of the loans outstanding were covered by the guarantees.

survey made of the situation in July 1943 confirmed these results. It was added that such evidence as was available indicated that individuals held the bulk of both the \$19,000 million currency and the \$31,000 million time deposits (at commercial and savings banks); thus the total "cash holdings" of individuals substantially exceeded those of businesses.

From their highest point of \$14,000 million at the end of 1940, the reserve balances of the member banks fell until September 1942, when they dipped for a few weeks below \$12,000 million. The principal reason for the decline was the withdrawal of currency from the banks (while gold imports, the chief factor bringing about the previous increase, had ceased). On the other hand, the reserves legally required, which were about \$7,000 million at the end of 1940, continued to rise steadily, reflecting the increased deposits at the member banks; and in November 1941 the Federal Reserve Board made an all-round increase in the percentage of reserve requirements. The excess of reserves over requirements was thus squeezed between the decline of total reserves and the rise of "required" reserves and fell from nearly \$7,000 million



at the end of 1940 to under \$2,000 million at the end of September 1942. But these "excess" reserves were not evenly distributed; the declines had taken place particularly at New York and Chicago; in these two "central reserve" cities subscriptions to government securities had been very considerable and a substantial portion of the proceeds (and of tax receipts from these centres) was expended elsewhere.

These central-reserve city banks, although they had suffered an exceptional fall in their reserves, continued to purchase government paper. But the cash reserves of commercial banks may be affected by action on the part of the central bank. And the Federal Reserve Banks had three methods of remedying the situation: a) by lowering the reserve requirements, b) by facilitating borrowing and c) by open-market operations. All these measures were applied in 1942.

a) The original reserve requirements for member banks as provided by the Federal Reserve Act remained in force from 1917 until 1936. The Banking Act of 1935 had empowered the Federal Reserve Board to raise member-bank

**U. S.— Member Banks' Reserve Requirements.**

Date of change (1)	Reserve requirements(2) against:			
	Net demand deposits in			Time deposits (all banks)
	central reserve city banks	reserve city banks	country banks	
	(3)	(4)	(5)	
in percentages				
1917 21st June . . .	13	10	7	3
1936 16th August . .	19½	15	10½	4½
1937 1st March . . .	22½	17½	12½	5½
1st May . . . . .	25	20	14	6
1938 16th April . . .	22½	17½	12	5
1941 1st November .	26	20	14	6
1942 20th August . .	24	20	14	6
14th September . .	22	20	14	6
3rd October . . . .	20	20	14	6

(1) Date from which new rates were effective (for 1917, original rates).  
 (2) As percentage of deposits.  
 (3) New York and Chicago member banks only.  
 (4) Member banks in ten other cities, where Federal Reserve Banks have seats.  
 (5) All other member banks.

reserve requirements up to a maximum of double the original percentages, and three increases were made in 1936 and 1937 which raised the percentages to this maximum; after a decrease in 1938 reserve requirements were again raised to the maximum in November 1941. Changes made to that date applied to all the banks in equal proportions. But on 7th July 1942 the Federal Reserve Act was amended to allow reserve requirements for banks in the two central-reserve cities

to be changed separately from those in other reserve cities. This permitted a modification in policy which took account of the special position of New York and Chicago: for these two central-reserve cities the requirements for reserves against demand deposits were reduced in August, September and October 1942, all together releasing about \$1,200 million of reserve funds and leaving reserve requirements at a little less than one and a half times the original percentages (and at the same percentage as in other reserve cities). Further, in April 1943, member banks were granted exemption from reserve requirements in respect of U. S. Government deposits representing the proceeds of war loans.

b) Borrowing by member and other banks was also made simpler and cheaper in 1942. While the Federal Reserve minimum buying rate for 90-day bankers' acceptances, which roughly corresponds to European bank rate, remained at ½ per cent. (unchanged since October 1933), a rate of ⅜ per cent. was established as the buying rate for all Treasury bills offered to the Reserve Banks from 30th April 1942 onwards. And in August the Reserve Banks agreed that the original seller, at his request, might repurchase such bills before maturity, at the same rate. For member banks, this arrangement made Treasury bills practically the equivalent of cash.

During March and April 1942 rates charged to member banks for advances secured by government paper were lowered at a number of Federal Reserve Banks to 1 per cent., and in October all Federal Reserve Banks established a new rate of ½ per cent. for advances to member banks on government securities with less than one year to run. These facilities were little used, however, and the principal intervention by the Federal Reserve Banks was in the form of government-security purchases.

c) Open-market operations, which had been of minor interest for a number of years, the Federal Reserve Banks holding of government securities remaining constant at somewhat over \$2,200 million, became of considerable importance with the entry of the United States into the war. On 8th December 1941 the Board of Governors issued a statement which contained the following passage:

"The system is prepared to use its powers to assure that an ample supply of funds is available at all times for financing the war effort and to exert its influence towards maintaining conditions in the United States Government security market that are satisfactory from the standpoint of the government's requirements."

The Federal Reserve Banks thus had two main objectives of open-market policy, (i) to strengthen the member bank's reserves against the increase of their deposits and to cover withdrawals of currency and (ii) to maintain orderly conditions on the government bond market, especially when large issues were being made.

In addition, the Second War Powers Act, approved on 27th March 1942, amended the Federal Reserve Act to permit the Reserve Banks to purchase securities directly from the government, a form of transaction hitherto prohibited; but the amendment expires at the end of 1944 and the Reserve Banks may not hold at any one time more than \$5,000 million government securities acquired directly. Acting under this authority the Federal Reserve Banks have, from time to time, purchased special one-day certificates, which were redeemed the following day, in accordance with their terms; such certificates were purchased particularly in June, September and November 1942, the largest purchase in the year being \$422 million on 30th November 1942.

#### U. S. Federal Reserve Banks — movement of principal items.

Quarterly movements	Assets			Liabilities			Money in circulation ( <sup>2</sup> )
	Increases or decreases (—) of government security holding			Increases or decreases (—)			
	long-term ( <sup>1</sup> )	short-term ( <sup>2</sup> )	total	member banks' total reserve balances	member banks' excess reserves	Federal Reserve Notes	
	in millions of dollars						
1941 January-March . . .	—	—	—	— 655	— 839	+ 223	+ 192
April-June . . . . .	—	—	—	— 320	— 566	+ 578	+ 688
July-September . . .	—	—	—	+ 176	— 41	+ 497	+ 551
October-December . .	+ 60	+ 10	+ 70	— 777	—2,084	+ 957	+ 997
1942 January-March . . .	—	— 10	— 10	+ 125	— 12	+ 449	+ 406
April-June . . . . .	+ 92	+ 309	+ 401	— 270	— 711	+ 723	+ 817
July-September . . .	+ 71	+ 852	+ 922	— 713	— 672	+1,270	+1,320
October-December . .	+1,732	+ 890	+2,622	+1,525	+ 298	+1,502	+1,707
1943 January-March . . .	—1,155	+ 885	— 270	— 358	— 470	+ 561	+ 840
April-June . . . . .	— 688	+1,971	+1,283	— 674	— 306	+1,104	+1,171
July-September( <sup>3</sup> ) . .	— 74	+2,076	+2,002	+ 402	+ 681	+1,266	+1,293
<b>Totals outstanding end 1942 . . . . .</b>	<b>4,138</b>	<b>2,051</b>	<b>6,189</b>	<b>13,117</b>	<b>1,988</b>	<b>12,082</b>	<b>15,410</b>

(<sup>1</sup>) Treasury bonds (direct and guaranteed) and Treasury notes.      (<sup>2</sup>) Treasury certificates and Treasury bills.  
 (<sup>3</sup>) Total money in circulation besides its chief item, Federal Reserve notes, also includes Treasury currency, i.e. principally silver currency and subsidiary coin.      (<sup>4</sup>) Up to 22nd September.

The table on the opposite page shows that in 1941, in pursuance of their moderative policy, the Federal Reserve Banks hardly intervened in the market at all, allowing the withdrawals of currency to fall directly on the member banks' reserves (and even reinforcing this effect on the excess reserves by the increase of reserve requirements on 1st November).

With the entry of the United States into the war the picture was modified but no big change took place until the second quarter of 1942, when \$300 million odd of short-term securities were purchased, followed by \$850 million in the third and nearly \$900 million in the fourth quarter; purchases of long-term government securities (bonds and notes) were of less relative importance until the last quarter of the year, when \$1,700 million were bought, making a total of \$2,600 million in this quarter. But Federal Reserve notes (and other money in circulation) rose considerably, especially in the second half of 1942, and it was only in the last quarter of the year that the excess reserves of the member banks increased somewhat.

In the first half of 1943 the Reserve Banks were able to unload the long-term securities they had bought in the last quarter of 1942, but they purchased some \$2,900 million of short-term paper, thus adding a further \$1,000 million net to their holdings of U.S. government securities, which attained \$7,200 million in June 1943. Nevertheless, the excess reserves of the member banks declined by a further \$800 million in the half-year to only \$1,200 million in June 1943, excess reserves at New York and Chicago having practically ceased to exist.

The fact that the New York member banks no longer hold any appreciable cash reserves in excess of the legal requirements does not mean, of course,

that these banks have become at all illiquid. On the contrary they have built up large secondary reserves of Treasury bills, which, as already mentioned, have, since August 1942, become practically the equivalent of cash. In addition, since certificates of indebtedness were first issued, in April 1942, a large reserve of such securities, having at most one year to run, has also formed part of the liquidity provision of the banks.

U. S. — New York Member Banks.

Monthly averages	Excess reserves	Treasury Bills	Certificates of indebtedness
	in millions of dollars		
1941 March . . . . .	3,203	227	—
June . . . . .	2,238	582	—
September . . . . .	1,834	495	—
December . . . . .	989	366	—
1942 March . . . . .	962	334	—
June . . . . .	556	391	297
September . . . . .	302	735	962
December . . . . .	416	1,737	1,478
1943 March . . . . .	96	1,814	1,966
June . . . . .	22	2,092	2,539

In spite of war conditions, the expansion of currency and bank deposits and the vast borrowing programme of the government, interest rates did not vary much during the period under review. Short-term yields have stiffened somewhat since 1941 but remain very low; the reductions of some Federal Reserve rates and the fixing of the new rate for the purchase of Treasury bills (and the later resale arrangement) were not drives towards

cheaper money but rather defensive moves against the rising trend of market rates. The rate for 3-month Treasury bills, which dominates the short-term market, rose from an average of 0.014 per cent. in 1940 to 0.103 per cent. in 1941 and 0.326 per cent. in 1942; the Federal Reserve purchase rate effectively prevented a rise above 0.375 per cent. in the first half of 1943.

As regards the rates for commercial-bank loans, a survey undertaken by the Federal Reserve Board in the spring of 1942 showed that, while the average rate was 3½ per cent. for both war and non-war purposes, large borrowers (with assets of over \$5 million) paid, on the average, rates only one-third of those paid by small borrowers (with assets of \$50,000 or less), i.e. 1.8 per cent. against 5.5 per cent. Apparent regional differentials were largely accounted for by differences in size and business of the borrower concerns, although some shifting of the rate structure towards relatively lower rates in the middle west seemed to be evident. A striking fact brought out by the survey was that, in spite of the persistent cheap-money policy, the commonest rates were very similar in 1936 and in 1942; for reasons connected with the collection of the data, however, it seems probable that there was actually some slight reduction of rates over the period. Since the spring of 1942 there has been evidence of some hardening of conditions: the average rate for commercial loans by banks in New York City rose from the record low level of 1.85 per cent. in March 1942 to 2.70 per cent. in June 1943.

On the long-term market the average rate for tax-exempt Treasury bonds (of more than twelve years' maturity), which had fallen from 2.21 per cent. in 1940 to 1.95 per cent. in 1941, rose to 2.02 per cent. in 1942. But the best measure of the trend of long-term rates is given by the terms of recent issues of taxable Treasury bonds for cash. Before December 1941 the interest rate on these bonds was maintained at 2½ per cent., while the maturities were lengthened. An attempt to improve loan conditions was made at

**U. S. Treasury Bond Issues.**

Date of Issue	Rate of interest per cent.	Maturity in years	Issued to public	Public cash sub- scriptions tendered
			in millions of dollars	
1941 March . . . .	2½	11-13	530	6,140
June . . . . .	2½	15-17	660	8,270
October . . . . .	2½	26-31	1,310	10,450
December . . . .	2	10-14	530	4,730
"    (?) . . . .	2½	26-31	1,070	6,980
1942 February . . .	2½	10-13	1,510	4,700
May (?) . . . . .	2½	20-25	880	880
"    . . . . .	2	7-9	1,290	3,280
July . . . . .	2	7-9	2,100	3,850
August (?) . . . .	2½	20-25	1,240	1,240
October . . . . .	2	7-9	1,960	1,960
December (?) . . .	2½	21-26	2,830	2,830
"    . . . . .	1½	5	3,060	3,360
1943 April (?) . . .	2½	21-26	3,760	3,760
"    . . . . .	2	7-9	4,930	12,760

(?) A further tranche of the October issue. (?) Issue not available to banks.

the beginning of December 1941 (before the outbreak of hostilities in the Pacific) with an issue at 2 per cent. having 10-14 years to run; but this rate was afterwards maintained only in the case of issues for 7-9 years. For longer issues 2½ per cent. was paid. Public cash subscriptions exceeded the totals issued by amounts which were considerable in 1941 but less so in 1942. There appear to be three principal reasons for this recession: a) the loans were much

larger b) they were so priced as to offer little profit on prompt resales and thus did not attract speculative money and c) the issues, in some cases (as for the 2½ per cent. bonds of May 1942), were not specifically limited and all subscriptions received allotments. A record oversubscription was made to an issue available to banks in April 1943.

A Financial Control Association was set up in Japan in May 1942 to work in close cooperation with the Bank of Japan and the Ministry of Finance, in the drawing-up of plans for the covering of the government's financial requirements and the carrying-out of these plans. The Association prescribes the amounts to be "saved" by various institutions in each quarter of the year and allocates the amount of government bonds to be taken up. The plans are based on estimates of the national income, the main lines for the distribution of which are given in the table. Thus, in 1942-43, it was planned to

Japanese National Income — distribution<sup>(1)</sup>.

Financial years ending March	Government needs			Capital investment ( <sup>(4)</sup> )	Private consumption	Total
	Taxation and other receipts ( <sup>(2)</sup> )	Borrowing ( <sup>(3)</sup> )	Total			
	In milliards of yen					
1941-42 . . .	5	13	18	5	17	40
1942-43 . . .	7	17	24	6	15	45
1943-44 . . .	10	21	31	6	13	50

- (1) The method of calculating the national income is not known and the figures are probably not directly comparable with those for western countries.  
 (2) This item corresponds approximately to the ordinary budget of the 13 ministries, which is, however, partly covered by borrowing.  
 (3) This is the aggregate of military expenditure, spread over some 49 special budgets, mostly covered by borrowing.  
 (4) For the strengthening of the war economy and covered by borrowing.

raise Yen 7,000 million by taxation while Yen 23,000 million (direct government borrowing plus the investment item) was to be covered by savings. Actually taxation and other receipts of the Treasury produced Yen 6,570 million in 1942-43 and figures have been published to show the amount "saved" at Yen 23,460 million.

These figures, which apply to "money-capital formation", are reproduced in the following table, together with the quotas fixed to cover the

Japanese "savings"<sup>(1)</sup>.

Financial years ending March	1942-43	1943-44
	In milliards of yen	
<b>Through institutions:</b>		
Bank deposits . . . . .	9.21	10.3
Postal savings deposits . . . . .	3.35	4.2
Credit cooperatives . . . . .	2.31	2.7
Other institutions . . . . .	2.87	3.5
<b>Total . . . . .</b>	<b>17.74</b>	<b>20.7</b>
Private purchases of securities.	5.72 ( <sup>(2)</sup> )	6.3
<b>Total "savings" . .</b>	<b>23.46</b>	<b>27.0</b>

- (1) I.e. money-capital formation (excluding the Bank of Japan).  
 (2) Postal life assurance Yen 0.54 milliard, postal pension fund Yen 0.29 milliard, trust companies Yen 0.55 milliard, insurance companies Yen 1.27 milliard and finance companies Yen 0.22 milliard.

Yen 27 milliard considered necessary for 1943-44. For the first half of the financial year, April to September 1943, total "savings" have been given as Yen 13,750 million.

The budget estimates for 1943-44 show total expenditure at Yen 40,280 million; but, of this total, Yen 4,200 million represents transfers between the budgets; and

Yen 3,300 million of the military expenditure is to be met by "borrowing" in the occupied territories — a term which covers the issue of notes by

**Japanese Budget Expenditure.**

Estimates for 1943-44	In millions of yen
Ordinary budget expenditure . . . . .	10,000
first supplementary . . . . .	2,350
second supplementary . . . . .	930
Sub-total . . . . .	13,280
Military expenditure . . . . .	21,000
Sub-total . . . . .	34,280
Military "reserve fund" . . . . .	6,000
Total budget expenditure	40,280

the South Seas Development Bank\*. Revenue to be raised in Japan is thus around Yen 33 milliard (rather higher than that shown in the table on page 263, probably as a result of the two supplementary budgets; a third supplementary budget, for Yen 620 million, was passed in June and a fourth, for Yen 129 million, in November 1943).

The accumulation of the budget deficit since the opening of the "China incident" in the middle of 1937 is best shown by the issues of government bonds since that time.

**Japanese Government internal bond issues and totals outstanding.**

Quarterly	1937	1938	1939	1940	1941	1942	1943
	In millions of yen						
January-March . . . . .	185	932	1,130	1,375	1,603	3,149	3,966
April-June . . . . .	7	905	1,103	1,418	2,048	3,837	4,700*
July-September . . . . .	212	1,112	1,417	1,329	2,170	3,304	3,800*
October-December . . . . .	1,109	1,401	1,669	2,633	3,271	3,866	.
Issued during year . . . . .	1,513	4,350	5,319	6,755	9,092	14,156	.
Total outstanding at end of year . . . . .	10,585	14,935	20,254	27,008	36,101	50,256	.

\* Preliminary.

The total internal bonded debt has risen from Yen 9,000 million at the end of 1936 to Yen 50,000 million at the end of 1942 and was increasing in 1943 at a rate of over Yen 15,000 million a year. This vast expansion of the public debt lends interest to the table on the opposite page, which shows the principal holders of government bonds and indicates how the new issues have been placed.

Over the six-year period some 70 per cent. of the issues have been placed with the various institutions shown (and further amounts with insurance and trust companies); the Bank of Japan has taken 12-13 per cent. of the total issues.

Japanese government borrowing has been almost exclusively by the issue of 3½ per cent. bonds at 11-17 years. These bonds are taken up in the first

\* In the course of the budget debate the Minister of Finance stated that a further Yen 1,600 million would be raised in the occupied territories from the sale of requisitioned goods.

Japan — principal holders of government bonds.

Yearly figures	Bank of Japan	Other institutions					Total institutions	Other investors <sup>(2)</sup>	Total
		Other special banks	Commercial banks	Treasury Deposit Bureau <sup>(1)</sup>	Savings banks	Total			
in millions of yen									
Total outstanding at end of year									
1936	829	323	2,561	1,910	1,016	5,810	6,639	2,433	9,072
1937	1,387	342	2,500	2,248	1,148	6,235	7,622	2,963	10,585
1938	1,841	708	3,634	3,177	1,424	8,943	10,784	4,151	14,935
1939	2,417	1,082	4,618	4,674	1,873	12,247	14,664	5,590	20,254
1940	3,949	1,084	5,957	6,465	2,583	16,069	20,038	6,970	27,008
1941	5,340	1,634	7,944	8,129	3,307	21,014	26,354	9,747	36,101
1942	5,842	2,143	11,329	11,251	4,712	29,435	35,277	14,979	50,256
Increase during year									
1937	558	19	(- 61)	338	129	425	983	530	1,513
1938	454	366	1,134	929	279	2,708	3,162	1,188	4,350
1939	576	374	984	1,497	449	3,304	3,860	1,439	5,319
1940	1,532	2	1,339	1,791	710	3,842	5,374	1,380	6,754
1941	1,391	550	1,967	1,654	724	4,925	6,316	2,777	9,093
1942	502	509	3,385	3,122	1,405	8,421	8,923	5,232	14,155
Total increase 1937-42	5,013	1,920	8,768	9,341	3,696	23,625	28,638	12,546	41,184
Percentage of bond issue taken by various investors									
1937	36.9	1.3	—	22.3	8.5	28.1	65.0	35.0	100
1938	10.4	8.4	26.1	21.4	6.4	62.3	72.7	27.3	100
1939	10.8	7.0	18.5	28.2	8.4	62.1	72.9	27.1	100
1940	22.7	0	19.8	26.5	10.5	56.9	79.5	20.4	100
1941	15.3	6.0	21.9	18.3	8.0	54.2	69.5	30.5	100
1942	3.5	3.6	23.9	22.1	9.9	59.5	63.0	37.0	100
Average for period 1937-42	12.2	4.4	21.3	22.7	9.0	57.4	69.6	30.4	100

(1) Recipient and investor of the Postal Savings Bank's funds.

(2) Including trust companies and insurance companies, which together held about Yen 1,130 million at the end of 1939 and for which no later figures are available.

place by the Bank of Japan, which sells them to other investors. The evolution of the balance sheet of the bank thus depends primarily on the proportion of the bonds issued which are not absorbed by the public but left remaining in the bank's portfolio.

In 1941, the Bank of Japan took up Yen 1,400 million government bonds and the note circulation rose by Yen 1,200 million; in 1942, the bank took up only Yen 500 million government bonds; but the note circulation rose again by Yen 1,200 million, while the government built up its deposit account by some Yen 1,200 million odd. The explanation lies in an expansion of central-bank credit mainly to the banks (against discounts or advances) in order that they might purchase their quota of government bonds; a noteworthy counterpart to these purchases was the even greater accumulation of government deposits; these two influences continued in the first quarter of 1943. In the six-year period from the end of 1936 to the end of 1942 the Bank of Japan took up Yen 5,000 million government bonds, while the note circulation rose by Yen 5,300 million (to nearly four times its former level).

Bank of Japan<sup>(1)</sup>.

Near end of month	Assets				Total balance sheet	Liabilities			
	Gold and foreign exchange <sup>(2)</sup>	Dis-counts and advances	Government bonds <sup>(3)</sup>	Agencies' accounts		Note circulation	Government deposits	Guaran- teed deposits <sup>(4)</sup>	Current accounts
In millions of yen									
1936 December . . . . .	599	745	829	34	2,512	1,866	227	—	129
1937 " . . . . .	853	628	1,387	57	3,039	2,305	303	—	132
1938 " . . . . .	556	509	1,841	110	3,477	2,755	286	—	131
1939 " . . . . .	553	1,065	2,417	198	4,725	3,679	547	—	162
1940 " . . . . .	566	819	3,949	289	6,141	4,777	738	—	229
1941 March . . . . .	593	652	3,572	286	5,623	4,197	938	—	121
June . . . . .	585	575	4,025	322	6,021	4,216	839	170	205
September . . . . .	572	518	4,119	373	6,086	4,484	877	200	121
December . . . . .	550	904	5,340	466	7,751	5,979	824	260	186
1942 March . . . . .	546	497	5,018	411	6,855	5,143	881	221	166
June . . . . .	564	373	5,887	492	7,950	5,419	1,298	220	237
September . . . . .	675	386	5,672	536	8,002	5,370	1,615	245	244
December . . . . .	566	1,586	5,842	1,001	10,306	7,149	2,045	302	356
1943 March . . . . .	579	1,605	5,641	1,633	10,234	6,568	2,542	264	378
June . . . . .	602	862	7,387	1,777	11,036	7,155	2,525	169	362

- (1) The December figures in the top part of the table are from the balance sheets made up at the end of the year. Quarterly figures for 1941 and 1942 are made up from the weekly returns, the nearest available to the end of the month.
- (2) Shown as two items, gold coin and bullion and foreign agencies' accounts, up to the end of 1940 and since then as one item, bullion and foreign accounts.
- (3) "Government bonds" only in the balance sheets, but the weekly returns give "government bonds and other securities". The holding of other securities must be very small.
- (4) The reserves of the Banks of Chosen and Taiwan, held up to 1941 in the form of notes of the Bank of Japan. These two banks had an aggregate note issue of Yen 1,198 million at the end of 1942 against Yen 984 million at the end of 1941.

The development of the situation of the Japanese commercial banks is shown in the following table.

Japanese bank deposits etc.

End of month	Commercial banks			Deposits in other banks <sup>(2)</sup>	All bank deposits	Money in trust <sup>(3)</sup>	Treasury Deposit Bureau <sup>(4)</sup>
	Advances	Invest-ments	Deposits <sup>(1)</sup>				
In millions of yen							
1937 December . . . . .	7,712	4,645	12,352	3,395	15,747	1,865	3,905
1938 " . . . . .	8,716	6,123	15,073	4,044	19,117	2,048	4,715
1939 " . . . . .	11,152	7,791	19,794	5,298	25,092	2,323	6,082
1940 " . . . . .	13,554	9,624	24,390	6,800	31,190	2,603	8,148
1941 March . . . . .	13,363	10,298	23,739	7,125	30,864	2,710	8,671
June . . . . .	13,727	11,717	26,818	7,703	34,521	2,861	9,260
September . . . . .	13,817	12,155	26,069	8,044	34,113	2,943	9,813
December . . . . .	15,143	12,781	29,406	8,395	37,801	3,047	10,169
1942 March . . . . .	15,275	13,645	28,939	8,782	37,721	3,150	11,079
June . . . . .	16,335	14,864	32,800	9,622	42,422	3,280	12,124
September . . . . .	16,594	15,292	31,926	10,172	42,098	3,406	13,103
December . . . . .	17,658	16,979	35,738	10,831	46,569	3,518	13,816
1943 March . . . . .	18,446	17,312	36,058	12,072	48,130	3,690	15,155
May . . . . .	19,020	18,108	37,564	11,996	49,460	3,814	.

- (1) Of the Yen 37.6 milliard in May 1943, Yen 19.0 milliard were time deposits bearing interest at 3.3 per cent.
- (2) Special banks (excluding the Bank of Japan) accounted for Yen 3,350 million and savings banks for Yen 7,480 million at the end of 1942.
- (3) At trust companies, which are closely connected with the private banks.
- (4) Deposits from Postal Savings Bank.

In 1942 the security holding of the commercial banks rose by Yen 4,200 million and advances, largely to the armament industry, expanded by Yen 2,500 million; the increase of deposits was by only Yen 6,300 million. Contrary to developments in many other countries, the government's war financing has not led to a high degree of liquidity of the market and repayment of business credit; this characteristic feature of Japanese conditions is doubtless due in a large measure to the fact that the whole of the government's borrowing has been at long term while the banks have been called upon to satisfy the growing credit needs of the war industries. The tightness of the market was indicated by the borrowing of the banks at the Bank of Japan in order to take up their quota of government securities at the end of 1942. The commercial banks have maintained their position with nearly 80 per cent. of all bank deposits in the country.

Further steps in the large-scale plan of simplification and rationalisation of banking in Japan were taken in 1942; two notable fusions of old-established "banques d'affaires" with modern deposit banks were those of the Mitsui Bank with the Daischi Bank and of the Mitsubishi Bank with the Daihyaku Bank. Of the seven leading Japanese banks it is planned that four shall survive the process of concentration while many of the small and medium-sized banks will be absorbed. A decree of 20th May 1943 permitted the ordinary banks to accept savings deposits and transact trustee business, thus further tightening the links between these classes of business and favouring the concentration of the banking system. The reorganisation of the Yokohama Specie Bank is mentioned on page 53.

The Wartime Financing Bank was created early in 1942 to undertake financing which was vital to the war effort but of a nature unsuited to existing institutions. No returns have been published but it was stated in October 1942 that the bank had granted credits of Yen 400 million, mainly without security; the usual rate of interest for ten-year credits was 4.8 to 5 per cent. The bank's requirements of funds for 1943 have been placed at Yen 1,500 million, of which Yen 1,000 million was to be obtained by the issue of bonds and Yen 500 million from the Industrial Bank or Treasury Deposit Bureau; Yen 1,300 million was to be utilised for advances to the Barter Trading Corporation and to the principal key industries, and Yen 200 million was earmarked for investments.

Japan - Internal Bonds Issued and Redeemed.

Calendar years	Local government bonds	Bank bonds	Corporation bonds	Total
	in millions of yen			
	New Issues*			
1937 . . . . .	252	654	337	1,243
1938 . . . . .	180	845	665	1,690
1939 . . . . .	261	539	1,285	2,085
1940 . . . . .	227	1,391	1,325	2,943
1941 . . . . .	170	1,767	2,105	4,042
1942 . . . . .	299	2,733	2,338	5,370
	Internal Loans Redeemed			
1937 . . . . .	222	206	283	711
1938 . . . . .	147	559	172	878
1939 . . . . .	143	275	191	609
1940 . . . . .	167	256	242	665
1941 . . . . .	148	281	290	709
1942 . . . . .	186	539	357	1,082

\* Including refunding.

In addition to the huge bond issues of the government the capital market has taken up an increasing amount of private bond issues, particularly those of the banks and industrial corporations as the previous table shows. Interest rates have remained without any notable changes. Government bonds of 11-17 years bear interest at  $3\frac{1}{2}$  per cent. and are issued at 98. Bank rate has been unchanged at 3.285 per cent. since April 1936; at this rate also the bank lends against the collateral of government bonds, i.e. at a rate below the yield of the bonds themselves. The Central Bank of Manchou lowered its discount rate from 4.2 to 4 per cent. in April 1943 (while the issue price of government bonds was raised from 96 to 98).

In a discussion of the financial sources covering war expenditure in the Introduction of this Report (page 15 onwards) the different methods of meeting budgetary expenditure have been arranged as a sort of "hierarchy" from the point of view of their efficacy in resisting inflation. The illustration of these methods by specific examples is attended by some difficulty since "genuine savings" are not easy to define and still less so to measure directly. But some approximation can be made. Total government expenditure is known for many countries and also the amounts covered by taxation (and other current revenue) and by borrowing. Further, the amounts borrowed by the government from the commercial banks and from the central bank can generally be found in published statistics so that the amount borrowed "from others than banks" may be ascertained.

In normal times the residual item thus obtained does not give even an approximate measurement of the aggregate genuine savings of a community, as private credit operations are then of considerable importance; this was true of the United States, for example, even in the years 1940 and 1941. But in countries which have been at war for some years, such as the United Kingdom and Germany, private credit operations unconnected with the war effort have practically ceased: the increase of the note circulation and of commercial-bank deposits can be taken as approximately equivalent to government borrowing from the central and commercial banks respectively. (It is true that some repayment of the banks' business advances may continue, but this is to a great extent offset by the larger cash reserves held by the banks.)

In other words, the total formation of "money capital" is approximately equal to government borrowing; this is confirmed by careful estimates of "money-capital formation" made in Germany since the war and reproduced on page 180 of this chapter. Borrowing from other investors than banks then gives some approximation to genuine savings in money form\*. The addition of taxation (and other current revenue) to these statistics of money-capital formation and their reproduction in the form of the hierarchy is shown in the detailed tables, which also give similar figures for the United Kingdom.

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\* Genuine savings may, of course, also be held as commercial-bank deposits in both England and Germany but this would hardly affect the comparability of the figures.

**United Kingdom and Germany —  
Analysis of Government Financing 1940-42.**

Sources covering government expenditure	United Kingdom				Germany			
	1940	1941	1942	Total 1940-42	1940	1941	1942	Total 1940-42
	in millions of £ sterling				in milliards of RM			
<b>Internally financed:</b>								
Taxation and other current Internal revenue . . . . .	1,259	1,828	2,343	5,430	29.1	34.1	45.7	108.9
Non-bank borrowing:								
savings issues . . . . .	316	380	353	1,049	—	—	1.0	1.0
other (residual item) . . . . .	413	644	1,021	2,078	10.6	11.9	11.9	34.4
<b>Total taxation and non-bank borrowing . . . . .</b>	<b>1,988</b>	<b>2,852</b>	<b>3,717</b>	<b>8,557</b>	<b>39.7</b>	<b>46.0</b>	<b>58.6</b>	<b>144.3</b>
Borrowing from savings banks . . . . .	128	221	298	597	8.9	14.2	20.0	43.1
<b>Total other than commercial banking system . . . . .</b>	<b>2,116</b>	<b>3,073</b>	<b>3,955</b>	<b>9,144</b>	<b>48.6</b>	<b>60.2</b>	<b>78.6</b>	<b>187.4</b>
Borrowing from commercial banks . . . . .	405	611	345	1,361	8.9	8.3	5.6	22.8
central bank . . . . .	62	135	171	368	2.3	5.5	5.0	12.8
<b>Total banking system . . . . .</b>	<b>467</b>	<b>746</b>	<b>516</b>	<b>1,729</b>	<b>11.2</b>	<b>13.8</b>	<b>10.6</b>	<b>35.6</b>
<b>Total expenditure internally financed . . . . .</b>	<b>2,583</b>	<b>3,819</b>	<b>4,471</b>	<b>10,873</b>	<b>59.8</b>	<b>74.0</b>	<b>89.2</b>	<b>223.0</b>
<b>Externally financed:</b>								
Current revenue . . . . .	—	—	225	225	5.5	13.0	21.7	40.2
Borrowing . . . . .	756	797	632	2,185	1.5	6.0	7.0	14.5
<b>Total externally financed . . . . .</b>	<b>756</b>	<b>797</b>	<b>857</b>	<b>2,410</b>	<b>7.0</b>	<b>19.0</b>	<b>28.7</b>	<b>54.7</b>
<b>Total expenditure . . . . .</b>	<b>3,339</b>	<b>4,616</b>	<b>5,328</b>	<b>13,283</b>	<b>66.8</b>	<b>93.0</b>	<b>117.9</b>	<b>277.7</b>
<b>As percentages of expenditure</b>								
<b>Internally financed</b>								
Taxation and other current Internal revenue	48.7	47.9	52.4	49.9	48.7	46.1	51.3	48.9
Non-bank borrowing:								
savings issues . . . . .	12.2	9.9	7.9	9.6	—	—	1.1	0.4
other (residual item) . . . . .	16.0	16.9	22.8	19.1	17.7	16.1	13.3	15.4
<b>Total taxation and non-bank borrowing . . . . .</b>	<b>76.9</b>	<b>74.7</b>	<b>83.1</b>	<b>78.7</b>	<b>66.4</b>	<b>62.2</b>	<b>65.7</b>	<b>64.7</b>
Borrowing from savings banks . . . . .	5.0	5.8	5.3	5.4	14.9	19.2	22.4	19.3
<b>Total other than commercial banking system . . . . .</b>	<b>81.9</b>	<b>80.5</b>	<b>88.5</b>	<b>84.1</b>	<b>81.3</b>	<b>81.4</b>	<b>88.1</b>	<b>84.0</b>
Borrowing from commercial banks . . . . .	15.7	16.0	7.7	12.5	14.9	11.2	6.3	10.2
central bank . . . . .	2.4	3.5	3.8	3.4	3.8	7.4	5.6	5.8
<b>Total banking system . . . . .</b>	<b>18.1</b>	<b>19.5</b>	<b>11.5</b>	<b>15.9</b>	<b>18.7</b>	<b>18.6</b>	<b>11.9</b>	<b>16.0</b>
<b>Total expenditure internally financed . . . . .</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

These statistics are a combination of material regarding government financing and money-capital formation; although the comparison is particularly of sources covering expenditure internally financed, external sources have been added to give a complete picture. For the United Kingdom the figures are mostly based on data given earlier in this chapter, but with the slight adjustments to revenue and expenditure made in the budget White Paper analysis. To make comparison with Germany possible, government borrowing from the central and commercial banks is taken as equal to the increases of currency in circulation and of all commercial-bank deposits respectively. Savings-bank deposits and savings issues are taken from the Bank of England's Statistical Summary. "Other" internal borrowing is the residual item and therefore comprises errors and omissions also. External current revenue in 1942 is the Canadian contribution and external borrowing corresponds to overseas disinvestment; although the Canadian contribution is similar in effect to United States lend-lease (which is excluded), it appears appropriate to include it for the sake of comparability with previous years (when payments to Canada were included as overseas disinvestment). The German figures are based on the statistics given earlier in this chapter, including the analysis of money-capital formation as estimated by Dr. Keiser. To the known internal sources other than banks (insurance companies, market etc.) have been added the residual, or "unknown", sources, which, as Dr. Keiser remarks, may, however, be partly foreign; but this addition only raises the total internal borrowing by 3½ per cent. and hardly affects the percentages based on this total. Internal current revenue is taken from the table on page 173 of this chapter; for 1942 the whole of the RM 7.7 milliard of the rent-tax payment has been included as taxation (although a certain part of this total was raised by private borrowing) and the RM 4 milliard paid only in the first half of January 1943 has been deducted from total borrowing and from borrowing from the commercial banks. External current revenue consists of occupation costs (given on page 173) plus Reichskreditkasse (page 174); external borrowing applies to the Verrechnungskasse (page 180). The total expenditure corresponds to the table on page 173.

As regards comparability of the figures it should be noted that "borrowing from the commercial banks" for the United Kingdom represents the increase of all commercial-bank deposits (of which the clearing banks account for somewhat over 80 per cent.); for Germany the figures are the increase of all "giro" accounts at banks, at savings banks and on postal cheque accounts etc. "Borrowing from savings banks" in the United Kingdom is the increase of savings deposits at the postal savings and trustee savings banks but for Germany applies to all savings deposits in the country, whether at the savings banks or not.

In making an analysis of this nature a number of difficulties arise, as regards both methods and material, and certain reservations must be made which are evident from the footnote to the table. Thus for England the Canadian contribution is included as current external revenue and for Germany the whole of the RM 7.7 milliard rent-tax composition is classed with internal current revenue in 1942 although, for technical reasons, some RM 4 milliard of the tax was finally paid over to the Treasury in January 1943 and a certain fraction of the funds was actually raised by private borrowing. However, in spite of such difficulties and of the minor errors inherent in the material used, it is believed that, by and large, the analysis gives a reasonably correct view of developments up to the end of 1942.

In addition to the broad lines of comparison made in the Introduction, the table brings out a number of interesting features of war financing in the two countries. In the three years 1940-42, somewhat under one-fifth of total budget expenditure was "externally financed" in both Germany and the United Kingdom — but this excludes lend-lease aid received by the United Kingdom and German requisitions and other levies in the U.S.S.R.

As regards expenditure "internally financed", the tables point to one considerable difference in financing methods: in Germany, no special issues of government securities have been made for "small savers", a consequence of the "noiseless" financing through banks and other institutions — the RM 1 milliard placed under this heading in the table for 1942 represents the volume of "iron savings", the nearest German equivalent to a savings issue: but in the United Kingdom savings securities accounted for nearly 10 per cent. of internally financed government expenditure. Ordinary savings deposits are three to four times more important in Germany, as a source of government financing, than they are in the United Kingdom. And, as these deposits are made for periods of at most one year, the money is not tied up as it is in a special savings security; savings deposits which may be withdrawn thus tend to "deconsolidate" the government long-term debt. All "small savings" together (savings deposits and savings securities) accounted for 15 per cent. of the total internally financed in the United Kingdom and nearly 20 per cent. in Germany; for "other investors", that is insurance companies, other institutions and private individuals, the percentages are roughly reversed: 15 per cent. in Germany and 21 per cent. in the United Kingdom.

For reasons already mentioned, it is not possible to make an analysis of government financing in the United States in the same form as for the United Kingdom and Germany; but statistics are regularly published regarding the principal holders of government securities in the United States and these may be combined with the budget figures as in the following table.

It will be seen that the expansion of currency and credit in the three years, at almost \$38 milliard, was appreciably greater than the purchases of government securities by the banking system as a whole at nearly \$29 milliard. But in the three-year period the United States was actually at war for only

**United States — analysis of government financing 1940-42.**

Sources covering government expenditure	1940	1941	1942	Total 1940-42	1940	1941	1942	Average 1940-42
	in millions of dollars				in percentages			
Govt securities taken by Federal Reserve Banks . .	(-300)	70	3,935	3,705	(-3.1)	0.3	7.0	4.4
All commercial banks . .	1,465	4,030	19,550	25,045	15.7	21.2	34.9	29.5
<b>Total . . .</b>	<b>1,165</b>	<b>4,100</b>	<b>23,485</b>	<b>28,750</b>	<b>12.0</b>	<b>21.5</b>	<b>41.9</b>	<b>33.9</b>
Other investors . . . . .	2,128	9,308	24,338	35,774	22.1	48.9	43.4	42.2
<b>Total government borrowing</b>	<b>3,293</b>	<b>13,408</b>	<b>47,823</b>	<b>64,524</b>	<b>34.1</b>	<b>70.4</b>	<b>85.3</b>	<b>76.1</b>
Taxation and current internal revenue . . . . .	5,835	8,848	16,403	31,086	60.4	46.4	29.3	36.7
Movement of official balances . . . . .	531	(-3,205)	(-8,206)	(-10,880)	5.5	(-16.8)	(-14.6)	(-12.8)
<b>Total expenditure . . . . .</b>	<b>9,660</b>	<b>19,052</b>	<b>56,020</b>	<b>84,732</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
	in millions of dollars				in percentages			
Expansion of currency and credit - annually								
Money in circulation . . .	1,134	2,428	4,250	7,812	14.9	29.7	19.5	20.6
Bank deposits* . . . . .	6,632	5,904	17,505	30,041	85.1	70.9	80.5	79.4
<b>Total annual increases . . .</b>	<b>7,796</b>	<b>8,332</b>	<b>21,755</b>	<b>37,853</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\* All banks except Mutual Savings banks.

one full year. And in this year an important change took place: in 1940 and 1941 together \$5.3 milliard government securities were taken by the banking system but the expansion of currency and bank deposits was \$16.0 milliard — in other words, the extension of credit on private account was still very great; in 1942 the banks bought \$23.5 milliard government securities but currency and credit expanded by only \$21.9 milliard — thus private credit was repaid on balance in this year. In the first six months of 1943 the latter trend continued: the banking system took up \$11.8 milliard of government securities but currency and credit expanded by only \$9.4 milliard, and there can be little doubt that net money-capital formation fell well below the figures for government borrowing.

The table given above is somewhat imperfect, since the real utilisation of central-bank credit in the United States was greater than the Federal Reserve Banks' purchases of government securities during the period. Gold acquisitions and open-market purchases of securities in earlier years had led to an increase of member-bank reserve balances, greatly in excess of requirements; central-bank credit was thus created which lay dormant for some years. The actual utilisation of this previously created credit corresponds approximately to the net decline of member banks' excess reserves. The table on the following page shows that in the two years 1941 and 1942 newly created Federal Reserve credit amounted to only \$4.4 milliard but, in the same period, the utilisation of previously created credit came to \$4.6 milliard, giving a total of \$9.0 milliard. Together with an increase of nearly a milliard in the gold stock (and the movement of sundry other items) this total utilisation of central-bank credit covered an increase of the member banks' required reserves by \$3.7 milliard and an expansion of money in circulation by \$6.7 milliard in the two years 1941 and 1942.

**United States — Total utilisation  
of Federal Reserve credit.**

Calendar years	Previously created ( <sup>1</sup> )	New ( <sup>2</sup> )	Total
	in millions of dollars		
1940 (twelve months)	(-1,410)	(-320)	(-1,730)
1941 " "	2,330	90	2,420
1942 " "	2,300	4,320	6,620
1943 (nine months)( <sup>3</sup> )	90	3,040	3,130

(<sup>1</sup>) The decline, or increase (—), of member banks' excess reserves. An adjustment has been made to this column to take account of the changes made in the percentages of required reserves in 1941 and 1942, \$1,200 million (the estimated effect of the changes) being deducted from 1941 and added to 1942.

(<sup>2</sup>) Including certain miscellaneous items, in addition to the purchases, or sales (—), of government securities shown in the previous table.

(<sup>3</sup>) 1st January to 22nd September 1943.

With the decline of excess reserves to little over \$1,000 million in the summer of 1943 the total of previously created credit was practically exhausted and the commercial banks became more dependent upon Reserve Bank credit freshly created, i.e. upon Reserve Bank purchases of government securities.

Government borrowing from the banks was still running very high in the United States in 1942; one reason for this was the very rapid expansion of Federal expenditure. Whereas from 1940 to 1942 government expenditure

(internally financed) rose by 50 per cent. in Germany and 75 per cent. in the United Kingdom, the increase in the United States was at the rate of 480 per cent. But it must be borne in mind that these figures refer to central-government expenditure only and that the United States is a federation of States, each with a separate budget. Whereas in the United Kingdom and in Germany the aggregate of local-government expenditure is barely one-twentieth of the central-government expenditure\*, in the United States the situation has been very different: Federal budget expenditure, although having doubled in the years 1932 to 1939, became equal to the aggregate of State and local authorities' expenditure only in the latter year, and it was from the inception of the defence programme in 1940 that Federal expenditure definitely drew ahead; although by 1942 State and local expenditure had fallen to only 14 per cent. of Federal expenditure, it was, proportionately to the central budget, still three times as great as in Germany and the United Kingdom.

While the expansion of Federal expenditure from 1940 to 1942 was by 480 per cent., the expansion of total government expenditure (central and local) was by 250 per cent. only. In the accounts of the Federal Government,

**United States — Federal, State and local budgets.**

Calendar years	Expenditure				Revenue				Deficit			
	1939	1940	1941	1942	1939	1940	1941	1942	1939	1940	1941	1942
in milliards of dollars												
Federal . .	8.9	9.7	19.1	56.0	4.9	5.8	8.8	16.4	4.0	3.9	10.2	39.6
State and local	8.9	8.6	8.5	8.0	8.7	9.1	9.5	9.7	0.2	(+0.5)	(+1.0)	(+1.7)
Total . . .	17.8	18.3	27.6	64.0	13.6	14.9	18.3	26.1	4.2	3.4	9.2	37.9

\* This relationship is, of course, largely due to war conditions: since the last complete year of peace, budget expenditure in the United Kingdom and Germany has expanded by 4-5½ times while local-government expenditure has been compressed; thus local-government expenditure (excluding extra-budgetary funds) has fallen in relation to expenditure of the central budget in the two countries from around 20 per cent. in 1938 to about 4 per cent. in 1942.

current revenue fell from 60 per cent. of expenditure in 1940 to only 29 per cent. in 1942, but total revenue (central and local) declined from 81 per cent. to 41 per cent. of total expenditure.

The degree of expansion of currency and credit which government borrowing from the banks provokes in a country depends not only on the percentage of government expenditure financed in this way but also upon the relative size of the banking system. As shown in the Introduction, the banking and currency structure is, in relation to budget expenditure, proportionately twice as large in the United Kingdom as in Germany\*, so that the same per-

Expansion of bank deposits 1939-42.

In millions of national currency units	England	Germany	United States
	Eleven clearing banks' deposits	Six Gross-banken deposits	Member banks' deposits
1939 December. . .	2,441	9,684	39,930
1940 " . . .	2,800	13,450	46,007
1941 " . . .	3,329	17,220	51,192
1942 " . . .	3,629	20,488	67,276
Percentage Increase 1939-1942 . . . .	49	112	68

centage of expenditure financed by borrowing from the banks in the two countries would cause an expansion of currency and credit in Germany twice as large as in the United Kingdom. That something of this nature has actually happened is confirmed by the accompanying table, which shows that bank deposits from 1939 to 1942 rose by nearly 50 per cent. in the United Kingdom and more than doubled in Germany.

In the United States, however, the expansion of bank deposits has been greater than in the United Kingdom, partly because the proportion of budget expenditure financed through the banks has been larger and partly as a result of the expansion of private credit in 1940 and 1941.

The financing of government expenditure through the banking system raises the question, so vital for the banks, of the extent to which the assets of the banks consist of government securities, a factor determining their earning power and their power to grant credit to the private economy of the country. Government securities held directly by the commercial banks represent nearly 50 per cent. of total deposits in the United States and over 60 per cent. in England and Germany; but the American percentage is rising more rapidly than that of the other two countries. If government securities held indirectly (through balances at the central bank, lending to the money market etc.) were added, the proportion would reach two-thirds of deposits in the United States and three-quarters in England and Germany. And such proportions are not unrepresentative for the banking systems of the world as a whole; indeed, in certain European countries government securities represent as much as 80 or even 90 per cent. of bank deposits. It may be mentioned, incidentally, that the large purchases of government securities by the banks have everywhere had the result of considerably reducing the ratio of capital and reserves to deposits. This has led in many countries to a wave of capital increases by banks in order

\* An important reason for the relative smallness of the banking structure in Germany compared with the United Kingdom and the United States appears to reside in the fact that in the latter two countries the "money capital" created in 1914-18 remained intact when the war was over, whereas in Germany it was destroyed in the post-war inflation and the banking system was reconstructed from 1924 onwards.

**Commercial banks' holdings  
of government securities.**

Position at end of 1942	England	Germany	United States
	Eleven clearing banks	Six Gross-banken	All member banks
	in millions of national currency units		
Government securities held directly			
short term . . . . .	1,094	11,348	10,648
long and middle term . . . . .	1,120	1,525	26,897
total . . . . .	2,214	12,873	37,546
Total assets . . . . .	3,864	21,940	84,917
Total deposits . . . . .	3,629	20,488	78,277
	in percentages		
Government securities as percentage of			
total assets . . . . .	57	59	44
deposits . . . . .	61	63	48

to improve the ratio between the banks' "own resources" and their liabilities to the public. In some cases, where such ratios are fixed by law, a revision of the legal provisions has been made in order to free the banks from the restriction which these provisions would otherwise place on their purchases of government securities.

A striking difference brought out by the table is that, whereas short-term paper accounts for nearly 90 per cent. of the government securities held by German banks, in England the proportion at short term is under 50 per cent. and in the United States under 30 per cent. This difference is evident also as regards the total government borrowing in the three countries.

Of the total internal borrowing in the three years 1940-42, 34 per cent. was at short term in the United States, 39 per cent. in the United Kingdom and 54 per cent. in Germany (excluding the short-term debt to the Reichskreditkassen); the German percentage increased slowly over the three years, the

American more rapidly; the British proportion declined and in 1942 was 32 per cent. A further interesting movement is the increase of the proportion of non-marketable debt in total borrowing in the United Kingdom to 60 per cent. in 1942, the average for the three years being 52 per cent.; in the United States the average was 37 per cent. and in Germany 17 per

**United States —  
Analysis of government borrowing 1940-42  
in percentages of total borrowing.**

United States*	1940	1941	1942	Average 1940-42	1943 Jan.-June
<b>Non-marketable</b>					
long term . . . . .	64	34	23	27	29
short term . . . . .	—	18	8	10	4
total . . . . .	64	53	31	37	33
<b>Marketable</b>					
long term . . . . .	40	42	37	38	27
short term . . . . .	(-4)	5	32	24	40
total . . . . .	36	47	69	63	67
<b>Total borrowing . . . . .</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
long term . . . . .	104	76	60	66	56
short term . . . . .	(-4)	24	40	34	44

\* Non-marketable: Savings bonds and special issues etc. (long term) and tax notes (short term).  
Marketable: Treasury notes, Treasury bonds and guaranteed securities (long term), Treasury bills and certificates of indebtedness (short term).

**United Kingdom and Germany —  
Analysis of government borrowing 1940-42  
in percentages of total borrowing.**

United Kingdom <sup>(1)</sup>	1940	1941	1942	Average 1940-42	1943 Jan.-June
<b>Non-marketable</b>					
long term . . . . .	18	34	39	31	43
short term . . . . .	20	22	21	21	5
total . . . . .	37	56	60	52	49
<b>Marketable</b>					
long term . . . . .	30	30	29	30	37
short term . . . . .	33	14	11	18	14
total . . . . .	63	44	40	48	51
<b>Total borrowing . . . . .</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
long term . . . . .	47	64	68	61	81
short term . . . . .	53	36	32	39	19
<b>Germany<sup>(2)</sup></b>	<b>1940</b>	<b>1941</b>	<b>1942</b>	<b>Average 1940-42</b>	<b>1943 Jan.-June</b>
<b>Non-marketable</b>					
long term . . . . .	25	17	18	20	21
short term . . . . .	(-3)	1	(-6)	(-3)	2
total . . . . .	22	18	12	17	23
<b>Marketable</b>					
long term . . . . .	24	29	26	26	15
short term . . . . .	54	53	62	57	62
total . . . . .	78	82	88	83	77
<b>Total borrowing . . . . .</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
long term . . . . .	49	46	44	46	36
short term . . . . .	51	54	56	54	64

cent., both showing a declining trend in the three years, while, conversely, the issue of marketable securities rose.

The graphs on the following page show the growth of central-government debts in the United States, the United Kingdom and Germany since 1910 on a conventional scale (£1 = \$5 = RM 20) and the proportions of the total at short term. These graphs are based on data applying to the end of the financial years until 1927, and thereafter to the end of the calendar years. Although the Treasury bill was invented in England in the 'seventies of the last century it was utilised in a very sparing way until

1914 — before the last war government debt at short term hardly existed. During the war of 1914-18 all governments had recourse to this type of security and by the end of the war short-term indebtedness represented 14 per cent. of the total in the United States, nearly 20 per cent. in the United Kingdom and 40 per cent. in Germany. In the following years some repayments of short-term debt took place in the United States and the United Kingdom; but as the situation deteriorated in Germany the proportion rose to practically 100 per cent. in 1923. Again, in the present war, Germany has had greater recourse to short-term borrowing than the other two countries and, at the end of 1942, over 50 per cent. of the total debt, as shown by the official statement, was at short term.

As regards the total public debts, there was an unprecedented rise during the war of 1914-18 to \$25,000 million in the United States and to nearly

<sup>(1)</sup> **United Kingdom**

**Non-marketable:** Savings certificates, savings bonds, defence bonds and "other debt" (long term), ways and means advances, Treasury deposit receipts and tax certificates (short term).

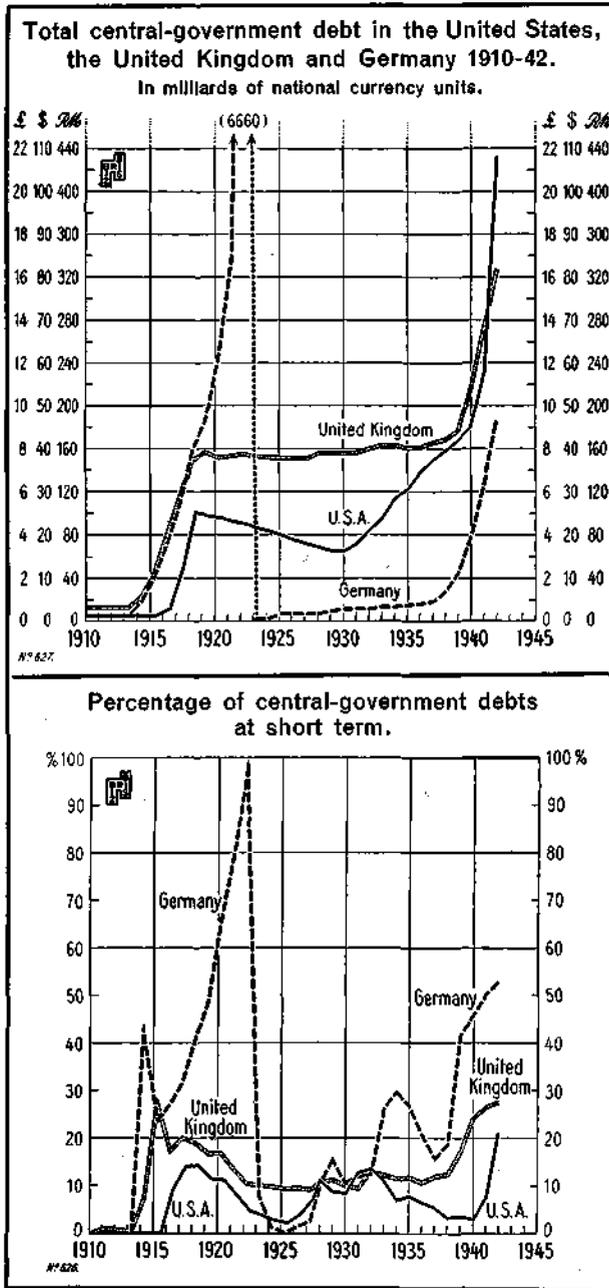
**Marketable:** National war bonds and other market securities (long term) and Treasury bills (short term).

<sup>(2)</sup> **Germany**

**Non-marketable:** Liquidity loans and deposits at the Treasury (long term) credits from the Reichsbank and Rentenbank, and tax certificates (short term).

**Marketable:** Treasury certificates (long term) and Treasury bills (short term).

Note that for Germany the short-term debt to the central administration of the Reichskreditkassen has been excluded, a factor which slightly decreases the percentage at short term as compared with the official debt statement. On the other hand, the credit from the Rentenbank, which is in the nature of central-bank credit, has been included as short-term borrowing, although it is classed as long-term in the official debt statements.



£8,000 million (including the foreign "war debt" of about £1,000 million) in the United Kingdom; the German debt at Marks 160,000 million in 1919 roughly corresponded to that of the United Kingdom (at £1 = M 20), but by 1923 it had risen to over Marks 6,600,000 million and was wiped out by the inflation. By June 1943 the British debt amounted to £17,700 million, the United States debt to \$140,000 million and the German debt to RM 215,000 million; if, instead of the conventional rates on which the graph is based, the rates of £1 = \$4 = RM 13 be taken, then the German debt amounted to almost the equivalent of the British debt, which itself was only one-half that of the United States. On a per-capita basis the British debt was the greatest, but the others were reducing the difference.

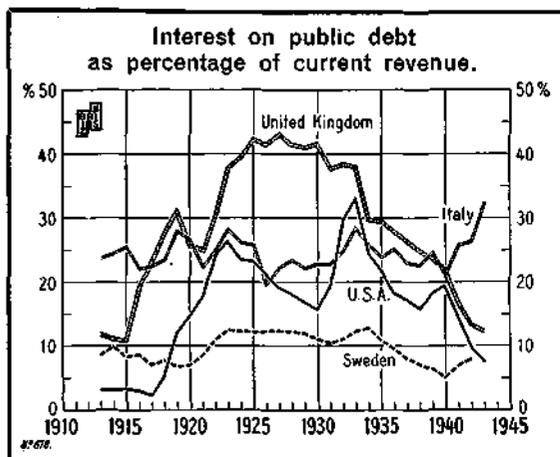
How long can this go on? What limit is there to the growth of public debts? These questions have been asked with increasing frequency in recent years. The answer depends upon a number of factors, some of which are variable. Obviously, confidence in the currency is

one, but, given this factor, then the "burden", in a fiscal sense, will depend upon the size of the debt and the rate of interest, on the one hand, and upon commodity prices and the other components of the national income on the other. A sidelight on the magnitude of the burden may be obtained by comparing the interest paid on the public debt with taxation and other current internal revenue in the budget.

The graph opposite shows for the United States, the United Kingdom, Sweden and Italy the proportion which interest payments on the public debt in

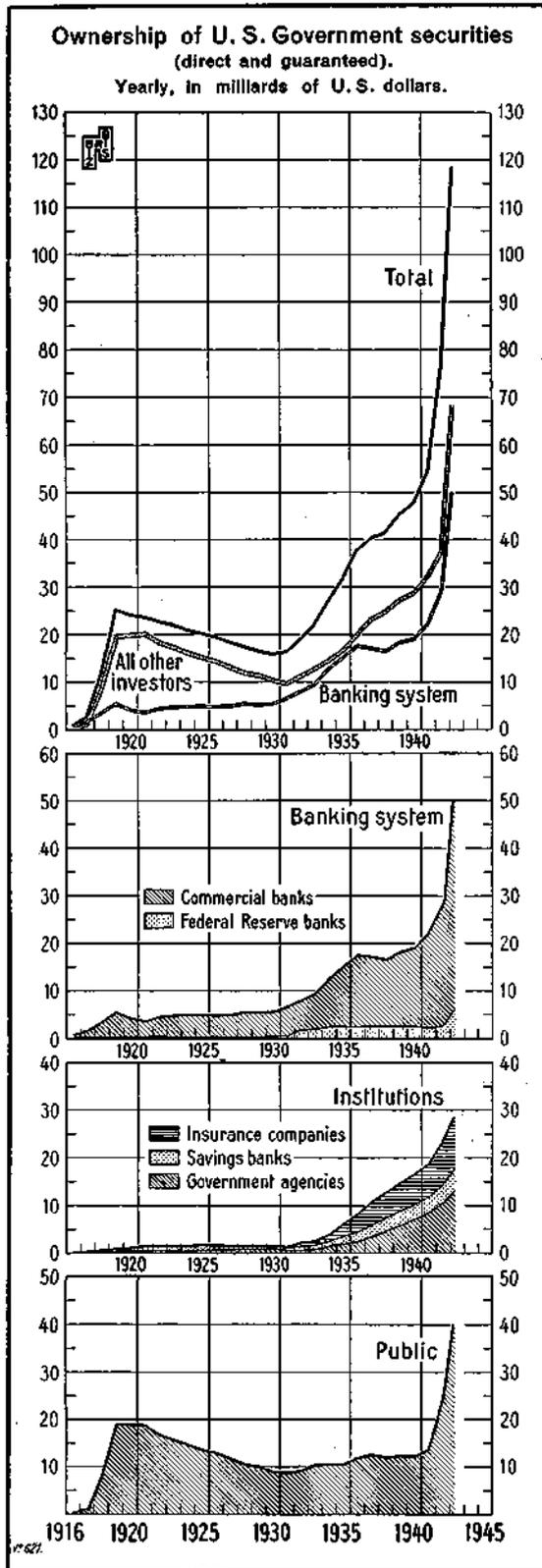
the national budgets bear to taxation and other current internal revenue in the financial years from 1913 to the present time. The increase of the public debt in the United States from 1917 and high interest rates after the war raised the proportion which the debt service bore to taxation receipts from 3 per cent. in 1916 to 26 per cent. in 1923; there was a further high point at 33 per cent. in 1933 (due to the halving of taxation receipts in the three years from 1930), from which time the proportion declined, to under 10 per cent. in 1941-42, and to only 8 per cent. in 1942-43. For the United Kingdom, payments on the war debt to the United States from 1924 to 1931 made the proportion about 4 per cent. more than it would otherwise have been; on the internal debt the interest service amounted at its highest point in 1927 to 39 per cent. of current revenue. A continuous fall brought the percentage down to little over 12 in 1942-43 and estimates for 1943-44 give about the same level. For both the United Kingdom and the United States the effect of the cheap-money policy is very evident from the early 'thirties; and the further fall since 1940 is striking; taxation receipts during the war have increased more rapidly than public debts, while interest rates have remained unchanged. Sweden is given as an example of a neutral country: the proportion fluctuated

around 8-12 per cent. over the period prior to the war; in 1940 it was exceptionally low at 5 per cent. but rose to 7 and 8 per cent. in 1941 and 1942 respectively; in 1942-43 revenue from public undertakings (state railways, post and telegraph, forests, etc.), included in the current budget receipts, still more than covered interest on the national debt (although the debt at the end of 1942 exceeded the book value of the state's assets for the first time).



In Italy the proportion fluctuated between 20 and 30 per cent. before the present war: in the year ended June 1940 the percentage fell below 21 for the first time since 1926; in 1940-41 and 1941-42 it was 26 per cent. and provisional figures for 1942-43 give 32 per cent., based on actual normal revenue including miscellaneous receipts; based on taxation alone the percentage in 1942-43 was as high as 37 and would be over 40 on the estimates for 1943-44. For Germany no budget figures are available, but on the total internal debt of some RM 160 milliard in the autumn of 1942 an average interest of 3 per cent. would give an interest cost of about RM 4,800 million, say 12 per cent. of normal taxation and internal current receipts totalling RM 38.7 milliard in 1942-43.\* In Japan, where the public debt is almost wholly at long or middle term, the interest service absorbs about one-third of ordinary budget revenue.

\* The turnover of the Reichsschuldenkasse, which as an office of the Reich Debt Administration effects the service of the Reich debt as to interest and amortisation, increased from RM 15 milliard in the financial year 1938 to RM 310 milliard in the financial year 1942.



In all cases the absolute amount of the debt service has, of course, increased. Comparing the financial year ended in 1943 with that ended in 1939, the debt service in the United Kingdom has risen by 50 per cent. and in the United States by 90 per cent.; in Italy and Sweden it has doubled, while in Germany, in spite of conversions and reductions of interest rates, it must have risen by four to five times, since the total debt increased from the comparatively low figure of RM 30 milliard on the outbreak of war in 1939 to over RM 200 milliard in the middle of 1943.

A further question which often arises is: How far will government internal debts contracted during the war be repaid when the war is over and how far can such repayments be expected to reduce the volume of currency and credit outstanding? Again, reference can be made to past experience, though this may not be conclusive as new factors emerge. A graph given on page 214 of the twelfth Annual Report of this Bank showed that in the United Kingdom the purchasing power created during the war of 1914-18 remained outstanding when the war was over. It may be objected that in that country the amount of the public debt repaid was very small, being only about £300 million, or less than 5 per cent. of the total in the ten years after the war, and that if the debt repayments had been pursued more seriously the reduction of purchasing power created during the war would have been greater.

But in this respect the position of the United Kingdom was, in fact, a very favourable one. In no other country which was belligerent in the war of 1914-18 was any debt repayment made at all, except in the United States, which had a budget surplus in each of the eleven years from 1920 to 1930. During this period the aggregate budget surpluses amounted to \$8,360 million (including some \$2,000 million received as interest and repayment in respect of war debts) and official balances were drawn down by \$950 million; as a consequence, \$9,310 million of the domestic public debt was repaid. The amount thus repaid over eleven years, however, scarcely amounted to one year's war borrowing (\$9,270 million in 1917-18 and \$13,250 million in 1918-19). Further, the incidence of the repayments was very significant: \$9,450 million was repaid to the public (including institutions) while the banking system, after some realisations in 1920 and 1921, increased its holding on balance by a further \$140 million. Thus, in this case also, the purchasing power created during the war remained when the war was over.

**Public debt in the United Kingdom and  
United States 1919-24.**

At end of financial years *	United Kingdom			United States		
	short term	long term	total debt	short term	long term	total debt
	in millions of £ sterling			in millions of dollars		
1919	1,412	6,023	7,435	3,625	21,857	25,482
1920	1,312	6,517	7,829	2,769	21,529	24,298
1921	1,275	6,299	7,574	2,699	21,277	23,976
1922	1,025	6,629	7,654	1,828	21,136	22,964
1923	810	6,932	7,742	1,032	21,318	22,350
1924	775	6,866	7,641	808	20,443	21,251
<b>Movement 1919-24</b>	- 637	+ 843	+ 206	- 2,817	- 1,414	- 4,231

\* United Kingdom 31st March; United States 30th June.

It is of interest to note, however, that in both the United Kingdom and the United States large repayments of the short-term debt were made after the war. In the five years to 1924, 45 per cent. of the British and 78 per cent. of the U. S. short-term government debts were paid off.

Also in the following respect past experience is worthy of notice. Annual budget expenditure in the United Kingdom rose from £200 million before the war (1913-14) by thirteen times to £2,600 million at the end of the war (1918-19), falling to £800 million six years after the war (1924-25) and thereafter remaining at four to five times the pre-1914 figure until the present war. Annual budget expenditure in the United States expanded more rapidly; from under \$750 million before the war (1915-16) it rose by twenty-five times to over \$18,500 million at the end of the war (1918-19), falling to \$3,000 million after the war (1923-24) and remaining below \$4,000 million until 1930-31. In the first year of peace (1919-20) government expenditure in the United Kingdom was reduced by nearly one-third and in the United States by nearly two-thirds from the war-time peak. But in each case, partly as a result of the increased debt service, government budgetary expenditure remained four times and more what it had been before the war.

These experiences of the last war and post-war period may not be conclusive as regards the conditions which will follow this war, since the methods of war financing and price control have this time been largely different. But it must not be assumed that the difficulties of effecting repayments of dead-weight liabilities or of "tying up" purchasing power will be easily overcome; and the history of the past is therefore not without its lesson for today.

## 2. SHARE MARKETS.

The development of share quotations on a number of markets where adequate indexes are available is shown in the graphs on page 282, and in the table below which gives a summary of the data on which the graphs are based; the original indexes used are those calculated and published officially or semi-officially and they have been recalculated on a pre-war basis (January-June 1939 = 100). International comparisons should be made with caution but it is believed that the material presented is as reliable as can be obtained.

Indexes of Share Quotations <sup>(1)</sup>.

On basis of January-June 1939 = 100	1927- 1929 highest ( <sup>2</sup> )	1937 highest	1939 Dec.	1940 Dec.	1941 Dec.	1942				1943	
						March	June	Sept.	Dec.	March	June
Bucarest <sup>(3)</sup> . . . . .	669	115	173	148	290	441	380	442	606	.	.
Paris <sup>(4)</sup> . . . . .	239	116	116	191	353	453	453	508	594	553	521
Budapest . . . . .	318	214	129	134	327	299	275	303	384	474	486
Prague . . . . .	154	205	146	253	342	.	375	369	364	381	381
Brussels . . . . .	388	168	84	182	322	271	290	315	339	306	307
Lisbon . . . . .	122	112	100	95	121	143	184	228	261	256	234
Milan . . . . .	134	108	134	151	197	205	184	212	216	224	299
Helsinki . . . . .	95	122	90	110	155	197	189	198	179	188	198
Oslo . . . . .	74	112	102	120	158	158	165	179	171	165	171
Berlin . . . . .	172	112	103	135	144	149	151	150	152	153	153
Amsterdam . . . . .	225	125	92	127	156	135	146	149	148	164	167
Tokio . . . . .	112	114	126	105	119	117	123	123	120	119	120
London . . . . .	162	151	93	87	98	94	96	107	116	121	122
Copenhagen . . . . .	99	114	94	94	113	116	121	120	115	116	122
Zurich . . . . .	122	106	87	82	102	103	102	108	110	110	105
Stockholm . . . . .	131	106	75	82	97	106	108	113	106	107	106
New York . . . . .	296	152	108	96	82	75	76	81	88	104	114
Montreal . . . . .	216	146	101	77	73	68	69	69	78	67	91

(1) The indexes are classed according to the height of quotations in December 1942.

(2) The New York market reached its highest point in September 1929 and most other stock exchanges also were strong in the period 1927-29 (when world production and trade had reached an all-time peak, after the setback during the war of 1914-18, and American capital was pouring into Europe). As the period is a long way from the base of January-June 1939 and the calculations, in some cases, involved the joining-up of various indexes, the figures are given by way of indication only and meticulous accuracy cannot be claimed for them.

(3) No index has been published since December 1942 but the boom continued into the early months of 1943 (see table on page 284).

(4) For the period 1940-41, when the Paris market was closed, the index has been based on data available for Lyons.

Only on the New York and Montreal stock exchanges were share quotations still below the pre-war level at the end of 1942 — an astonishing fact, in its way, considering the unprecedented increases of production in

the two countries; but taxation was high and net profitability had generally not increased; indeed, it had fallen in many cases. In the spring of 1943, however, the index for New York moved up into the 100-125 range, which London had already reached in the summer of 1942. Both these indexes took a definite upward turn from the spring of 1942 — from March 1942 to June 1943 the index for the London market rose by 30 per cent. and that for New York by some 50 per cent.; turnovers, which in both markets had been exceptionally low, about doubled in volume from the first half of 1942 to the first half of 1943 and brokers' loans in New York showed a distinct tendency to rise, for the first time in many years.

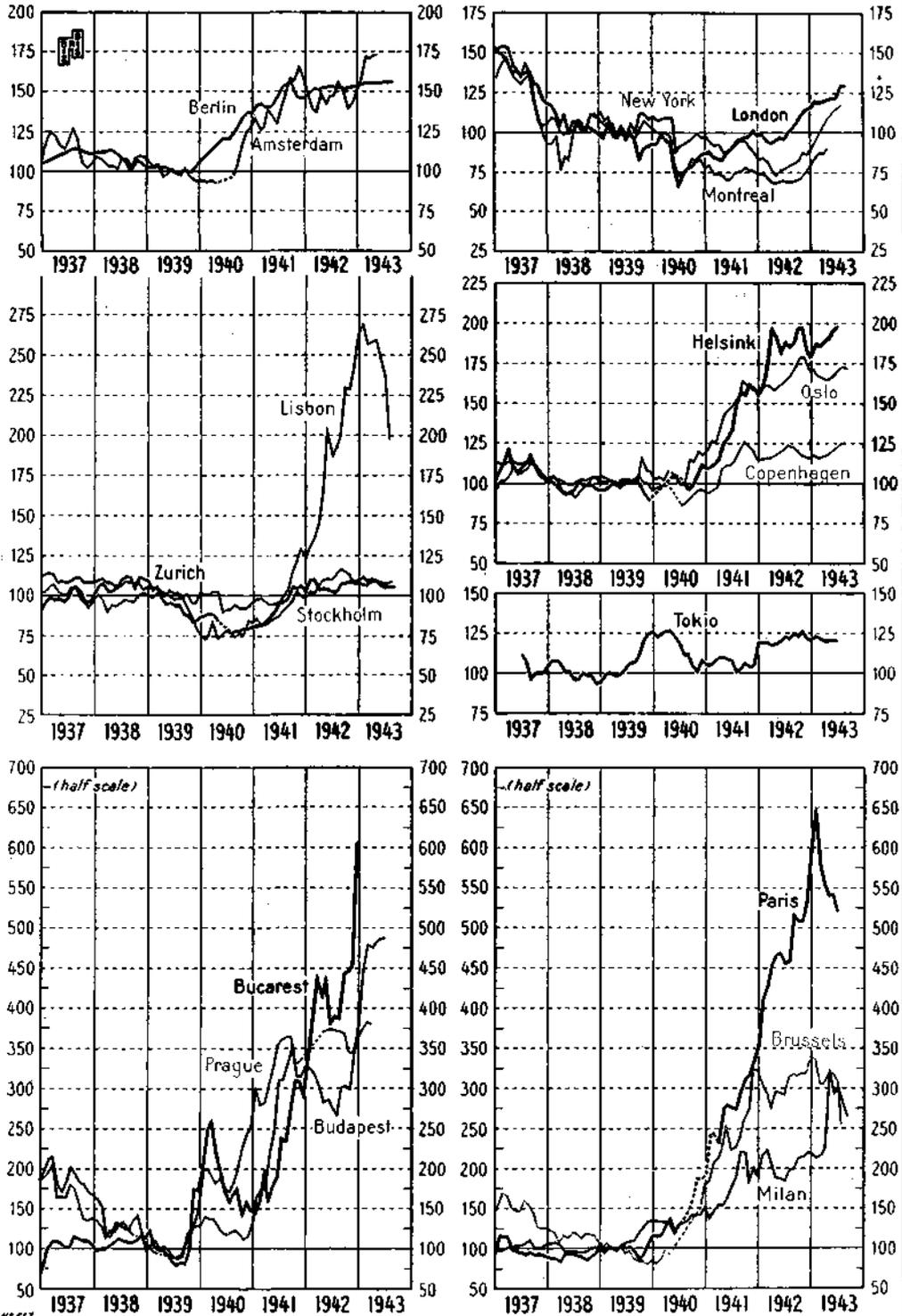
The only other overseas stock exchange included in the graphs, Tokio, also came within the 100-125 group; rigid control measures prevented any appreciable increase (or decrease) of the index after the end of 1941. The Japanese stock exchanges were completely reorganised under a new law of March 1943. In place of eleven independent private enterprises in the chief towns, the stock exchanges were reduced in number by amalgamations and from 1st July 1943 operated as branches of the Nippon Stock Exchange Company, a newly-formed public corporation under the supervision of the Finance Minister; the leading officials of this company were appointed by the government, which also subscribed one-quarter of the capital of Yen 200 million. All dealing was strictly controlled with the object of ensuring that purchases represented genuine investment of disposable capital; quotations were no longer allowed to reflect the weight of supply and demand but "reasonable prices" were officially fixed.

In Europe, the bourses of the neutrals, Zurich and Stockholm, and occupied Copenhagen also came within the 100-125 range; little or nothing was needed by way of supervision to keep the markets relatively moderate in their valuations.

Severe control imposed in the spring of 1942 held the market of Berlin around the level of 150, which it had then attained. The rise on the year, almost wholly in the first half, was only 5 per cent. and the highest point, in December, remained slightly below the peak reached in September 1941. Amsterdam, under much the same influences, fluctuated more widely around the 150 level; the material for dealing had already been substantially reduced by the prohibition on trading in American shares imposed in 1940 and, when Japanese troops occupied Dutch possessions in the Far East early in 1942, many market leaders (colonial, petroleum and shipping shares) became speculative in nature. Oslo and Helsinki remained throughout the year within the range of 150-200, with an irregular tendency to rise. In Oslo a committee has been formed by the Department of Trade to supervise the market.

Lisbon was outstanding in 1942, having an active boom with rising turnovers, which carried the index from a level below the pre-war 100 in the spring and summer of 1941 to nearly 270 in January 1943, an advance due to the extreme liquidity of the money market and to the considerable

Share Indexes, January-June 1939 = 100.



N° 617

**Lisbon Share Indexes<sup>(1)</sup>.**

Classes of shares:	Banks	Insurance	Mining	Transport	Colonial
1941 May <sup>(2)</sup> . . .	76	189	91	76	73
December . . .	96	280	105	182	103
1942 December . . .	156	425	148	652	253
1943 January . . .	161	484	156	670	273
July . . .	129	477	151	554	182

(1) Index as published by the Lisbon bourse on basis January 1929 = 100. (2) Lowest point of general index.

increase of profits, at least for the time being, in certain branches — insurance shares rose by two and a half times and transport shares by nearly nine times between May 1941 and January 1943. A reaction setting in during February, however, carried the general index on which the graph is based below 200 in July 1943.

Other continental European markets have risen to even higher levels and the indexes are shown on only half scale in the graphs. In these markets numerous measures have been taken to check speculation by making dealing costly and unprofitable, by limiting daily price increases and in diverse other ways; few of these measures had anything more than passing effect and all the indexes were higher on the year. Milan, which rose from under 150 to over 200 during 1941 and fluctuated irregularly between 180 and 220 in 1942, jumped abruptly in April 1943 to above 300, falling back part of the way in later months. Amongst many others, one particular measure of control deserves mention because it was effective — by bringing the whole market to a standstill and reducing activity to a minimum. Under a decree of 21st November 1942 an amount equal to that utilised for the purchase of shares on the official market had to be invested in special 3 per cent. nine-year Treasury certificates which might not be sold or transferred until maturity. The turnover of shares on the Milan bourse, at about 53,000 a day in the first six months

**Milan Bourse Turnover.**

Daily average turnover during:	Number of shares
1942 September . . .	30,950
October . . . . .	38,400
November . . . . .	43,480
December . . . . .	700
1943 January . . . . .	1,480
February . . . . .	1,670
March . . . . .	1,890
April . . . . .	14,950
May . . . . .	23,030
June . . . . .	18,280
July . . . . .	20,050

of 1942, was already low (less than one-third of that in the first half of 1941) but, on the publication of the decree of 21st November 1942, it fell to practically nothing: in eleven out of twenty-two sessions of the bourse in December not a single share changed hands and in the whole month the turnover was less than 2 per cent. of what it had been in the previous month. What little activity remained in December and the following months was largely in options, which were not touched by the decree — and business outside the stock exchange, which had also been left unaffected, revived considerably. In April 1943 the linking of share purchases to purchases of government

securities was abolished and replaced by severe taxation on share turnover, with the result that the market resumed a certain activity with a strong rise.

In Brussels, where several measures of control have been taken on German initiative, there was no great advance in 1942, the index remaining, with some fluctuations, around 300; in the summer of 1943 a sharp setback took the index down towards 250. In Prague also, where measures on German lines were in force, the index showed no great rise but fluctuated around 350.

Budapest fell during the first half of 1942, under the influence of various measures of control adopted up to that time, but became stronger in the summer; and then came a spectacular rise, by 60 per cent. in four months, from under 300 in October 1942 to 480 in February 1943 with a rapidly rising turnover. The movement was, however, abruptly checked, with the index not far short of 500 in the latter half of February, when "stop prices" were introduced.

But the greatest increases during 1942 occurred in Paris and Bucarest. The index shown in the graph for Paris rose from 350 to 600 and continued its advance to 650 in January 1943; a reaction in later months took the index back to 520 in June 1943. The bourses in France were reorganised under a law of February 1942 and a stock exchange committee was set up, headed by the Governor of the Bank of France and including a government commissioner. All classes of shares have participated in the rise, even "money shares" like those of banks (with relatively slight Sachwert value) attaining some four times their pre-war price, while certain classes, e. g. construction materials, textiles and navigation shares, increased by ten times and more. The Bucarest index more than doubled, from under 300 in December 1941 to over 600 in December 1942; no index has since been published by the National Bank of Roumania but share quotations continued to rise rapidly in January and February 1943,

Bucarest Stock Exchange.

Monthly average figures	Monthly average quotations in lei					Share index (Jan.—June 1939 = 100)	Turnover in millions of lei
	National Bank	Astra Română	Steaua Română	S. T. B.	S. A. R. de telefoane		
1940 December . . . . .	5,308	780	382	1,090	974	148	61
1941 December . . . . .	7,913	1,749	849	1,762	1,528	290	129
1942 December . . . . .	12,588	3,318	1,899	3,284	2,071	606	750
1943 January . . . . .	15,286	4,642	2,298	4,719	2,472	.	633
February . . . . .	16,570	4,153	1,927	4,375	2,077	.	394
March . . . . .	14,100	4,293	2,032	4,427	2,401	.	481
April . . . . .	14,318	4,095	2,113	2,354	2,311	.	252
May . . . . .	13,888	4,013	2,218	2,184	2,391	.	283
June . . . . .	12,857	3,868	2,077	2,109	2,306	.	221

relapsing somewhat in later months. The share turnover, which averaged somewhat over Lei 200 million a month in the first ten months of the year (about the same as in 1941), rose to Lei 300 million in November and Lei 750 million in December 1942, falling back in the following months; all classes of shares participated in the boom, especially petroleum, mining and heavy industry. The index published by the National Bank, with January 1926 equal to 100, had risen above 2,000 at the end of 1942.

In these latter countries, with market prices three to six times pre-war quotations, in a period of generally declining production and profitability and notwithstanding all efforts at control, the bourses reflect in varying degrees inflationary developments (described in some detail earlier in this chapter). In a few countries inflation has gone even further; but either

the security market has not been reopened, as in Agram (Zagreb), or regular stock exchange indexes are not available, as in Warsaw and Bratislava (Pressburg). For the extreme case of Athens some typical quotations have been collected in the following table.

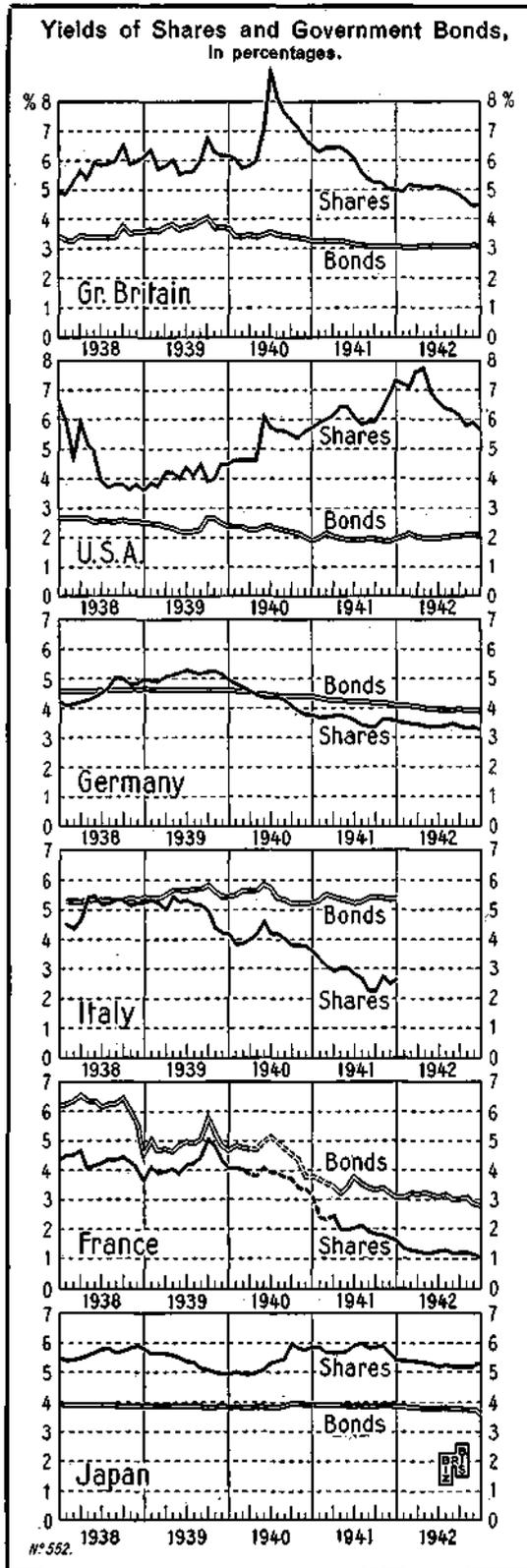
**Athens Stock Exchange.**

Quotations on certain dates	Nominal value	Last month of peace	Reopening of bourse	Second reopening of bourse	Quotations in
		October 1940 (average)	December 1940	December 1942	June 1943
in drachmae					
<b>Government loans</b>					
<b>(a) Internal Drachmae bonds</b>					
8 % Refugee Indemnity 1926-28 . . . . .	Dr. 1,000	680	720	5,950	8,350
5 % Internal loan 1920 . . . . .	Dr. 200	100	110	800	1,100
<b>(b) External "gold bonds"</b>					
Gold					
4 % Monopoly loan 1887 . . . . .	Dr. 500	1,650	2,050	27,000	62,000
5 % External loan 1914 . . . . .	Dr. 500	2,150	2,600	35,000	80,500
4 % Water Works loan 1925 . . . . .	\$ 1,000	92,200	91,800	1,700,000	3,400,000
<b>Shares</b>					
Bank of Greece . . . . .	Dr. 5,000	7,290	7,520	135,000	285,000
National Bank . . . . .	Dr. 1,000	58,600	58,900	1,900,000	4,150,000
Prod. et Engrais Chimiques . . . . .	Dr. 100	1,120	1,105	38,000	56,000
Hellenic Electric Railway . . . . .	£ 1	790	800	32,000	57,000
Matières Colorantes du Pirée . . . . .	Dr. 100	860	865	28,000	43,000
Heracles (construction) . . . . .	Dr. 100	1,060	1,075	35,000	65,500
Atlas (construction) . . . . .	Dr. 100	150	155	3,500	9,600
Etma (artificial silk) . . . . .	Dr. 100	—	685	13,000	37,000

Note: The stock exchange was closed on 28th October 1940, when Greece was invaded by Italian troops, but was reopened on 19th December 1940. With the commencement of hostilities by Germany in March 1941, the stock exchange was again closed and remained so until 16th December 1942, when it was once more reopened as part of the plan for coping with speculation and inflation, described on page 234.

By the middle of 1943 Greek government loans denominated in drachmae were about 10 times their last peacetime prices (evidently owing to hopes of rehabilitation); so-called "gold bonds" were at 30-40 times and shares 40-80 times their pre-war prices; National Bank shares were as much as 4,000 times their nominal value. In September and October a further inflationary wave swept over the market, quotations again rising violently and irregularly; "gold bonds" attained fifty times their pre-war prices. The bourse was again closed for a few days in October 1943; during this interval a decree was issued under which all banks and share companies were obliged to surrender one-half of their security portfolios to the government as a non-interest-bearing "loan" to provide the material for official intervention.

All over the world, share yields have further declined as a result of continuously rising quotations, accompanied by unchanged or even falling dividends. In the United States (and in Canada) the average yield still remained above 5 per cent. in 1942 — and the same was true of Japan; by the end of the year the average yield in England was down to 4½ per cent. In all these countries the share yield maintained its usual position above the bond yield; in the United States, the abnormal margin of 5.8 per cent. in April 1942 had been reduced to 3.6 per cent. by the end of the year.



In Continental Europe the usual relationship is now very rare and a higher yield for shares than for bonds is found only in neutral countries such as Sweden and Switzerland; elsewhere share yields have fallen below, in some cases well below, bond yields — an indication of abnormal valuations. In Germany the average share yield was still just over 3 per cent. at the end of 1942, but in Italy it was nearer 2 per cent. and in France 1 per cent., the lowest level in that country since records have been kept; and in many continental European countries, e. g. Belgium, Bohemia and Moravia, Hungary, Norway, conditions were not very different from those in France, yields being often so small as to be practically non-existent. In such cases shares were bought on a speculative estimate of the real value of a concern in property and machinery etc., that is, purely as *Sachwerte*.

The wartime boom on the share markets of Continental Europe has caused considerable anxiety in official circles; from 1940 onwards direct control was gradually imposed on share dealing and the fixing of quotations on most continental bourses, and this control has since been progressively tightened: many of the measures imposed up to the middle of 1942 were described in some detail in the twelfth Annual Report of this Bank. None of these measures was really effective so long as it allowed some liberty for dealing and for the marking of current quotations.

The period now under review was characterised in Germany, by the abandonment of a "dynamic" policy of control and the adoption of a "static" line: two classes of measures illustrate this change (i) the compulsory declaration and eventual sale of large private share holdings acquired since the war and (ii) the fixing of "stop rates" above which quotations were forbidden.

On 26th February 1942 it was decreed that all shares purchased since 1st September 1939 in excess of RM 100,000 and not sold by 15th March 1942 were to be declared to the Reichsbank on the basis of market prices on 31st December 1941. By a further decree of 9th June 1942 declarations were to be made, on a monthly basis, if new purchases caused this limit to be attained, and the Reichsbank was empowered to call on owners of declared holdings to sell them to the bank at the price quoted on 31st December 1941 against payment in blocked Treasury certificates. The amount declared was officially stated to be less than 5 per cent. of all marketable shares; unofficially declarations were estimated to have an aggregate value of nearly RM 1 milliard. Out of a total of RM 29 milliard share capital of all German companies only about RM 5 milliard were estimated to be in private hands and the amount declared thus represented a considerable proportion of the actual volume of shares available for market dealings. And these data showed, moreover, that private owners have been willing to sell, while neither the big concerns\* nor public holders have parted with their participations.

Towards the end of June 1942 a few of the most important market leaders held by industrial firms were called for sale to the Reichsbank and, later, certain of the larger holdings in the hands of individuals were also called; the market value of the manipulation fund, formed from these called shares and used by the Reichsbank and Seehandlung to regulate the market, was estimated at RM 100 million. This fund made repeated interventions on a limited and cautious scale during the second half of the year to amplify the material available on the market, being in some cases the only source of supply. From 25th February 1943 onwards, but without retroactive effect, the limit for the declaration of holdings was lowered to RM 50,000.

\* The growth, during the past ten years, of large concerns with an average capital of over RM 100 million is shown by statistics published by "Wirtschaft und Statistik".

German share companies — number and aggregate nominal capital.

Nominal capital at end of year	1931		1936		1940		1942		Decrease 1931-1936		Increase 1936-1942	
	number	million RM	number	million RM	number	million RM	number	million RM	number	million RM	number	million RM
Under RM 50 million.	10,366	14,762	7,149	12,262	5,326	12,626	5,297	14,920	3,217	2,500	(-1,852)	2,658
RM 50 million and over	71	9,891	55	6,982	71	8,868	107	14,141	16	2,929	52	7,179
Totals . . .	10,437	24,653	7,204	19,224	5,397	21,494	5,404	29,061	3,233	5,429	(-1,800)	9,837

From 1931 to 1942 the large concerns grew in number from 71 to 107; their aggregate capital rose from under RM 10 milliard to over RM 14 milliard while the aggregate capital of all other share companies remained practically unchanged on balance, falling proportionately from 60 per cent. to a little over 50 per cent. of the total capital of all companies. Of the increase of RM 7.6 milliard in the nominal capital of all companies in the two years 1941 and 1942, RM 3.9 milliard was due to capital increases in connection with the dividend-limitation decree.

These measures represented the dynamic side of the policy adopted, but already in the spring of 1942 a different line was becoming evident. From 12th May 1942 onwards, the prices quoted on that day were officially regarded as "guiding quotations" (Richtkurse), thus introducing a sort of price stop of a general and somewhat elastic nature; for certain leading shares, however (e.g. I. G. Farben and Siemens) actual "stop rates" were enforced. Brokers were no longer allowed to raise share prices automatically to bring about equilibrium between supply and demand, price increases being permitted only for special reasons (e.g. increase of dividend) and after consultation with the quotation commissioners.

For eight months these measures appeared sufficient but on 25th January 1943 a rigid "stop price" for all officially quoted shares was introduced, any advance above the quotations of that day being forbidden; monthly adjustments were later permitted in order to take account of the dividend included in the price. Downward movements were, of course, allowed but were very rare. In February 1943 it was decreed that all current price quotations would be suspended on the German bourses from the 13th of that month until further notice. From 9th April 1943 the Reich Minister for National Economy was authorised to take measures for the fixing of security prices for the duration of the war; this decree applied to all securities, including those not officially quoted, and also to deals between private individuals. And on 29th September 1943 upper price limits were fixed for practically all securities, including bonds, except those issued by the government.

As a consequence of these announcements of guiding and, later, stop quotations, without regard to the equilibrium of supply and demand (such disregard being, of course, the essence of all "price control"), it soon became necessary to resort to partial allocations, or "rationing", in an effort to make an equitable distribution amongst would-be buyers of the inadequate volume of material on offer.

These drastic German measures were followed in Prague, Budapest and Amsterdam, with some modifications. In Prague, the declaration of shares purchased during the war was decreed on 11th May, the limit being lowered from K. 1 million to K. 500,000 from 23rd June 1942. No guiding prices were introduced in 1942 but fluctuations were allowed only on a sliding scale, declining as the size of the deal increased; stop prices were introduced on 26th February 1943. In Budapest the declaration of large share holdings (but not their surrender) was decreed in March 1942: holdings of shares officially quoted became liable for declaration by 31st March if they exceeded 2 per cent. of the company's capital or had a market value of Pengö 200,000 or upwards; all holdings were notifiable, not only those acquired since the war, and declared holdings might not be further increased without permission of the Ministry of Finance. Stop prices were introduced on 11th February 1943.

In Amsterdam, a decree was issued in September calling for the notification by 1st November 1942 of all shares bought after 31st December 1941, if their aggregate market value exceeded Fl. 100,000 (a limit which was reduced

to Fl. 50,000 in February 1943); the Nederlandsche Bank was authorised to require holders of certain shares to sell them on the stock exchange within a fixed period or to surrender them to the bank at the market price of 2nd March 1942 (in many cases the lowest for the year) against payment in Dutch Government bonds. To prevent evasion of these regulations the provision regarding bank secrecy was suspended in respect of bourse transactions. In November 1942 it had been decided to quote only a single price for each share per session, allowing no increases beyond the prices of 9th November; but this measure, which, in fact, amounted to a general price stop, was fully enforced for only a few days: it was maintained for colonial, petroleum and shipping shares, but Dutch home industrial and other securities were released on 13th November. From 2nd March 1943, however, the price stop was extended to all shares (and from 11th March to bonds, with the exception of those issued by the government and by local authorities). In this instance quotations weakened for about a month as speculative holdings were disposed of, the market afterwards returning to the stop level.

The logical end of stock market control was thus reached in the early months of 1943 with rigid stop prices imposed for all shares in Berlin in January, in Prague and Budapest in February and in Amsterdam in March. In each case the "compensation" of purchases and sales by banks or brokers outside the market was forbidden and all deals had to pass through the bourse.

But on all four markets buying orders largely exceeded sales and rationing of purchases became necessary; in these cases, where stop prices were in force, the upward pressure was indicated by the smallness of the "ration" or, in other words, the decline of the turnover. Although statistics of turnover have been compiled in Berlin in recent months, they have not been published, but information is available for the three other markets. In Prague, where the turnover in 1942 was

#### Value of Share Turnovers.

Value of turnover monthly	Amsterdam	Budapest
	( <sup>1</sup> ) million florins	( <sup>2</sup> ) million pengö
1943 January . .	54	64
February . .	60	39
March . .	24	29
April . . .	18	18
May . . .	9	16
June . . .	5	6

(<sup>1</sup>) Dutch and colonial shares only; the turnover of German shares in Amsterdam was small — less than Fl. 3 million in the six months. (<sup>2</sup>) Sales only.

only a fraction of the pre-war volume, it fell further, between January and June 1943, by over 70 per cent.; and in Amsterdam and Budapest the fall in the same period was by over 90 per cent. For Berlin there were indications of similar conditions. Rationing was introduced as early as May 1942, when guiding rates were first fixed; quotations were suspended if the offer was so small that no distribution to purchasers could be made. It has been officially reported that on certain inactive days

the turnover fell to a mere RM 300,000 and distributions to a fraction of one per cent. of the demand, three-quarters of the shares listed being, at times, unquoted; indeed, the quotations of some leading shares were suspended

for months, in spite of the intervention of the manipulation fund. With the introduction of stop prices in January 1943 the turnover shrank still further; sales were often so small that no distribution could be made, the manipulation fund intervening to take up the amounts offered. At first some 50 out of the 450 listed shares remained below the stop rates — particularly those adversely affected by war conditions: shipping, colonial and building shares, for example — and some dealing in these shares continued. But their number was gradually reduced: from February to April about three-quarters of listed shares remained without quotation; and in the following months the proportion unquoted increased, up to about 85 per cent. in September 1943.

In all these markets the number of brokers has been severely cut down. In Germany, stock exchanges outside Berlin were allowed to open only on three days of the week from February 1943 onwards, and the session was cut down from two hours to one. These measures were extended to Berlin in March, and later adopted also in Prague.

The history of the stock exchanges of Continental Europe in 1942 showed that official control was ineffective in those countries where any activity remained, e. g. in France, Hungary, Italy and Roumania. The reorganisation of the bourses in France and Hungary, the compulsory registration of shares and taxation of capital gains in France and Italy, increased taxation on dealing and higher commissions in many countries did not stop the upward movement. Instead there were violent fluctuations, stagnation being followed by a wild thrust upwards or a temporary cascade of prices downwards — but with quotations always getting higher on balance, generally much higher.

And early in 1943, control tightened into a stranglehold on some continental markets, life becoming practically extinct; as in certain other sectors of the economy, success in "stabilising the index" was obtained only by depriving it of any real meaning, since it no longer had reference to any appreciable volume of actual transactions. The description given of the Paris bourse in 1941 thus acquired a wider application in Continental Europe, more than one stock exchange degenerating into "an institution where quotations were registered for deals which did not take place".

## VI. CENTRAL BANKING AND CURRENCY DEVELOPMENTS.

In Europe some changes have been made in the laws governing central banks, particularly in Holland; new central banks have been founded in Eire and in Croatia and the Caisse Centrale de la France Libre was set up in London. Further east, the Ukraine Central Bank opened for business in June 1942 and the Ostland Central Bank in April 1943. In the Far East the reform of the Central Bank of Manchou followed that of the Bank of Japan, and the South Seas Development Bank, created early in 1942, was authorised to issue notes in April 1943. Note circulations throughout the world have continued to rise, in some cases at an accelerated pace, and considerable shortages of divisional coin have made themselves felt. The development of transfers, or "cashless payments", in Europe has made further progress, the postal giro deserving particular mention.

Of recent central-banking changes in Europe by far the most important were those in Holland. Towards the end of June 1943 a decree, published in the official bulletin of the German Commissioner for the Occupied Dutch Territory, declared the former central-bank law of 1937 invalid, made the Nederlandsche Bank a public corporation and put the bank on a completely new footing as from 1st June 1943. The bank came under the direct control of the German Commissioner, while the President and other members of the management were reduced to administrative activities, acting on the instructions and under the supervision of the German Commissioner; but, in the management, decisions rest with the President. Previously, the management had four members; the president and the secretary, originally crown appointments, and two members appointed by the shareholders. At the general meeting of shareholders on 29th June 1943 the two Managers appointed by the shareholders were relieved of their functions at their own request. By the new law, an advisory committee, formed by the President, who acts as chairman, took the place of the former board of directors, elected by the shareholders. As regards the business of the bank, the most important innovation was the authorisation to undertake "open-market operations" through the purchase and sale of long-term securities quoted on the stock exchange; previously, only bills and short-term Treasury certificates could be so purchased. The general meeting of shareholders has no functions except to receive the annual balance sheet and report and, on the proposal of the President, to change the authorised capital. The distribution of profits was considerably modified to the advantage of the Treasury; the dividend to the shareholders was limited to 5 per cent. New statutes for the bank are to be drawn up by the President. This was the first instance of the German authorities' assuming the supreme direction of an existing bank of issue in an occupied country; in other cases the existing bank was allowed to continue business (as in France), was supplemented by a new bank attached to the old central bank (as in Belgium) or was replaced by a new bank (as in Poland).

By a law of 22nd August 1942 the National Bank of Roumania was made subordinate to the new Ministry of National Economy, so that the principle of autonomy, hitherto in force, has been abolished.

When Poland was invaded by German troops in September 1939 the leading members of the administration of the Bank Polski escaped with the gold reserves. The bank was then closed and its operations were confined to the administration of its remaining assets; on 1st April 1940 the new Bank of Issue was opened for business and on 26th April 1940 a German Commissioner was attached to the office of the Bank Polski. A decree of the German Governor-General dated 15th September 1942 contained new regulations concerning the administration of the Bank Polski; the competence of the general meeting, the president, the board and the audit committee was abolished; control was assumed by the German head of the banking control office, who was vested with far-reaching powers. The new decree gave detailed regulations regarding the winding-up of the bank's affairs and, in particular, granted a respite in respect of all liabilities incurred before 5th October 1939\*. The liquidation of the Bank of Danzig was completed in 1942 and by a decree of 9th October 1942 the shares of the bank were exchanged for 3½ per cent. Reich certificates at the rate of RM 95 nominal for Gulden 100 shares.

The Irish Currency Commission was superseded on 1st February 1943 by the Central Bank of Ireland (Banc Ceannais na hEireann). Under the Currency Act of 1927 the Saorstát pound was covered 100 per cent. by assets in £ sterling, to which it was held at par; by the Central Bank Act of 1943 the new bank took over the assets and liabilities of the Currency Commission and the right of note issue, and was given the duty of "safeguarding the integrity of the currency". Three members of the Currency Commission were elected by the banks, three nominated by the Minister for Finance, the seventh, the chairman, being elected by the other six; the new bank has a governor,

**Eire — Note Issue.**

Near end of month		Assets				Total balance sheet	Liabilities
		Gold	Sterling holding				Notes outstanding
			cash	balances	securities		
in millions of £							
Irish Currency Commission	1938 December	2.0	0.0	0.1	8.8	10.9	10.9
	1939 "	2.6	0.0	0.3	9.1	12.0	12.0
	1940 "	2.6	0.0	1.6	10.9	15.2	15.2
	1941 "	2.6	0.1	2.4	13.4	18.5	18.5
	1942 "	2.6	0.1	1.6	19.5	23.9	23.9
	1943 January	2.6	0.1	0.2	20.0	22.9	22.9
Central Bank of Ireland	1943 February	2.6	0.3	0.9	18.9	22.8	22.8
	March . . .	2.6	0.1	1.2	19.1	23.0	23.0
	April . . .	2.6	0.1	1.4	19.3	23.5	23.5
	May . . .	2.6	0.1	0.9	19.5	23.2	23.2
	June . . .	2.6	0.1	1.1	19.5	23.4	23.4

\* Members of the administration of the Bank Polski who escaped with some of the assets have continued the activities of the bank, with an office first in Paris and then in London.

appointed by the President of Eire on the advice of the government, three directors appointed by the Minister for Finance from a panel prepared for the purpose by the commercial banks and a maximum of five further directors otherwise appointed by the Minister for Finance. The bank, unlike the Currency Commission, was given the general central-banking functions of receiving deposits from the commercial banks and public authorities and extending credit by rediscounts and advances; further, the bank was authorised to conduct open-market operations by the purchase and sale of government securities quoted on the stock exchanges. The capital was subscribed by the Minister for Finance, while that of the Currency Commission, held by the commercial banks, was repaid.

The former Chairman of the Currency Commission was appointed Governor of the new bank. As the table on the opposite page shows, the returns of the bank from February 1943 onwards are in the same form as those of the old Currency Commission; and the Irish pound has continued to be maintained at par with sterling.

The Caisse Centrale de la France Libre was set up by an "ordonnance" of 2nd December 1941; it was created as a public institution, governed by the laws in force in territories placed under the authority or the mandate of La France Libre and had a capital of Fr.fcs 100 million, advanced by the Finance Commissioner of the French National Committee. The bank was empowered to issue its own notes in the above-mentioned territories (as in French Equatorial Africa) or to exercise control through existing banks of

**Caisse Centrale de la France Libre.**

End of month	Assets							Total of balance sheet	Liabilities				
	Gold		Foreign exchange	Notes withdrawn	Ofices des changes	Office Syrien	Treasury advances		Notes in circulation	Deposits		Gold premium	Capital and reserves
	Art. 2	at purchase price								gov-	banks		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)			
in millions of Fr.fcs													
1942 January (10)	—	—	201	—	—	—	2	204	30	73	—	—	100
March . . .	—	42	538	—	—	—	2	582	30	450	—	—	100
June . . . .	72	119	980	—	100	200	—	1,471	61	1,032	225	48	100
September . .	72	103	1,431	152	100	800	6	2,664	253	2,018	238	48	100
December . . .	72	128	1,918	417	100	904	4	3,543	519	2,614	257	48	102
1943 March . . . .	105	174	2,554	464	170	624	43	4,135	569	2,710	670	70	102
June (11) . . . .	156	193	2,842	498	215	707	91	4,753	635	3,165	675	104	102

(1) Under Art. 2 of the statutes gold is valued at three times the purchase price; the difference between this valuation and the purchase price is carried in the gold premium account amongst the liabilities.  
 (2) Gold valued at the purchase price of 47,700 francs per kilogramme fine.  
 (3) Government bonds, Treasury bills and bank balances.  
 (4) Notes of the Banque de l'Afrique Occidentale withdrawn by the Caisse Centrale.  
 (5) Advances to the Offices des Changes in view of the application of the Franco-British agreement of 19th March 1941.  
 (6) Advances made to the Office Syrien des Céréales.  
 (7) The return, which is divided into two sections, issue department and banking department, is here combined (omitting the small duplication due to the holding of notes in the banking department).  
 (8) See explanation under (1). (9) "Dotation" of Fr.fcs 100 million plus reserves. (10) The first return published.  
 (11) In the May and June 1943 statements, in addition to the items specified, there appeared two new items: a suspense account of Fr.fcs 42.0 million (on both sides of the return) resulting from the reorganisation of the note issue in French Somaliland, the primary liability remaining with the Banque de l'Indochine, which still has the privilege of note issue in this territory; and an engagement in the form of a banker's guarantee (also on both sides of the return) for Fr.fcs 3.8 million on behalf of the National Committee.

issue (as in Syria). The note cover consists of gold (valued at three times its purchase price), of foreign exchange, and of notes previously issued by colonial banks and withdrawn by the Caisse Centrale.

Apart from currency regulation, the chief function of the new institution is the coordination of the external exchange of payments of the territories concerned and the maintenance of exchange stability with sterling. Monthly returns, which are drawn up in French francs at the fixed rate of 176.625 to the £ sterling, are given in the previous table.

The Banque de l'Afrique Occidentale, with its head office in Paris (and thus carrying on its administration under the Vichy Government), had a branch in Dakar and agencies in the chief towns of French West and Equatorial Africa. The last complete statement of the note issue was made on 30th June 1940;

Banque de l'Afrique Occidentale  
note circulation.

In millions of Fr.fcs	June 1940	June 1941
Senegal . . . . .	520	675
Guinea . . . . .	100	136
Ivory Coast . . . . .	284	373
Dahomey . . . . .	89	137
Togo . . . . .	139	134
Cameroons . . . . .	83	(83)
French Equatorial Africa . .	236	(236)
Total . . .	1,451	1,774

In later balance sheets the figures for the Cameroons and French Equatorial Africa were repeated unchanged, "communications being interrupted" with the head office. By ordonnance of La France Libre dated 24th July 1942, the Banque de l'Afrique Occidentale was temporarily deprived of its note-issuing privilege in the Cameroons and French Equatorial Africa from 1st August 1942 and its notes were called in for redemption by the Caisse Centrale, at par, by 1st October 1942, since when only the

notes of the Caisse Centrale have been legal tender in these territories. The return of the Caisse Centrale shows that Fr.fcs 498 million notes of the Banque de l'Afrique Occidentale had been withdrawn by June 1943.

The increase of the gold holding of the Caisse is explained by the purchase of the gold output of the mines in the French Congo; the foreign exchange holding of Fr.fcs 2,842 million at the end of June 1943 was the equivalent of £16 million. (Other currency developments in North Africa are mentioned in Chapter II, page 44.) From 24th May 1943, notes of the Caisse were issued in French Somaliland by the Djibouti branch of the Banque de l'Indochine.

By decree of the German military commander the National Bank of Yugoslavia was put into liquidation from 29th May 1941. On the same day the decree establishing the Serbian National Bank was issued and statutes for the new bank, under German auspices, were published, as indicated in the twelfth Annual Report of this Bank. In Croatia, under Italian auspices, a State Bank was founded by a decree of the Chief of the "Independent State" dated 10th May 1941; but the new name was merely applied to the branches of the former National Bank of Yugoslavia in Agram (Zagreb) and other towns in the new State of

Croatia; the bank had to work without legal statutes, according to the laws governing the old National Bank supplemented by instructions from the Finance Ministry. New statutes for the State Bank were not drawn up and published until two years later — on 4th May 1943.

The State Bank was then given the sole right of note issue and organised as a share company with a capital of Kunas 300 million. The president and vice-president of the bank were appointed for three years by the Chief of State; in addition, the board of directors had three members, two of whom were appointed by the shareholders. In practice, according to the Finance Minister, this meant that the bank had the rank of a government ministry; the president might sit at cabinet meetings in an advisory capacity. An advisory board of the bank was composed of ten members selected by the president among representatives of the economic life of the country. The twenty-eight articles of the new statutes gave details regarding the administration and business of the bank; as a matter of fact, its business has been practically confined to the exchange of notes of the old National Bank, lending to the government and financing the occupation costs. The bank has published fortnightly returns from the end of April 1943, details of which are given on page 230 of this Report; the share capital was issued to the public in the first half of August 1943. By a new decree of 14th October 1943 considerable changes were made in the statutes of the State Bank, which took over the financial business of the various government departments; in particular, the bank was authorised to purchase and sell claims in the clearing (and a new item covering clearing claims was opened in the return of 15th October 1943).

In the rear of the area under military authority, the eastern territories occupied by Germany were divided into two parts for civil administration, both in the form of a Reichskommissariat, the Ukraine in the south and the Ostland in the north. By decree of 28th May 1942, all property of the U.S.S.R. in these territories was taken over and administered in the form of a trusteeship.

The creation of the Ukraine Central Bank, with statutes dated 5th March 1942, was mentioned in the twelfth Annual Report of this Bank; these statutes were modified on 25th May 1943 to give the bank wider powers. The bank opened for business on 1st June 1942 with 16 branches besides its head office in Rovno. No returns or balance sheets have been published, but some information has been made available from German sources.

Rouble notes and coins of 3 roubles or less were maintained in circulation but all larger rouble notes had their legal-tender status withdrawn and were exchanged for carbovanez, the new currency introduced by decree of 4th July 1942; this operation was completed by the middle of November 1942, when about Roubles 2,000 million had been withdrawn. Notes deriving from funds necessary for the business life of the country were exchanged at once but other moneys were blocked on a special account at the bank and only

gradually released. In the middle of November 1942, Roubles 425 million were still blocked but the greater part was released in two steps, in December 1942 and May 1943; the funds of persons considered not politically dependable remained blocked.

Besides the exchange of notes, the bank's business has consisted chiefly of three classes of operation: the discount of Treasury certificates to meet the war expenditure of the Reichskommissariat (ordinary expenditure only being covered by taxation), the provision of working funds for the railways and the financing of the clearing with Germany (and the Governor-Generalship of Poland). The currency needs of the German army were naturally considerable and, although Reichskreditkassenscheine had been largely withdrawn, some still remained in circulation alongside the carbovanez (at the rate of RM 1 = Car. 10) and the small rouble currency (at the rate of Rouble 1 = Car. 1). It was stated from German sources that the circulation had expanded in connection with wartime requirements. Interest rates were practically the same as those in the Reich.

Contact between the central bank and the private economy of the country was comparatively slight and consisted principally in accepting the deposit of funds from the Zentralwirtschaftsbank and their investment in Reich certificates. The Zentralwirtschaftsbank was the central institution of the Wirtschaftsbanken or "business banks", the only type of bank allowed in this territory, under the decree of 18th March 1942; by the end of 1942 there were 21 of these banks (with German managers) having 330 branches (with Ukrainian managers). The banks derived their deposits for the most part from the industrial and agricultural enterprises of the U. S. S. R. (under trustee administration for the German Commissioner) and from the German Ostgesellschaften; Ukrainian deposits were very small. The banks undertook all types of banking business including the granting of long-term credits.

The balance-sheet total of the Zentralwirtschaftsbank, which had its head office at Rovno and branches at Kiev and Dnjepropetrovsk, had risen from Car. 1,380 million on 30th June 1942 to Car. 4,683 million on 31st December 1942; deposits then amounted to Car. 4,400 million, of which Car. 3,390 million were from the Wirtschaftsbanken and Car. 1,010 million from others, while savings deposits reached only Car. 32 million; on the assets side, Treasury certificates accounted for Car. 1,820 million, discounts and advances Car. 1,980 million and cash reserves Car. 825 million. The capital of Car. 200 million was held by the German Commissioner. In the first half of 1943 the balance-sheet total rose further to some Car. 7,000 million.

Developments in the Ostland were slower than in the Ukraine. An Ostland Central Bank was created by decree of 30th July 1942. The new statutes were practically identical with those of the Ukraine Central Bank (including a general mortgage claim on all real estate in the territory), and were authorised in the same way by the German Minister for the Occupied

Eastern Territories in agreement with the Commissioner for the Four-Year Plan. The new bank started operations only on 1st April 1943 with a Reichsbankdirektor as President; the head office was at Riga and 26 branches were opened in other towns (generally where Reichskreditkassen had been taken over). Although the Bank was given the exclusive right to issue bank-notes denominated in Ostland marks (equal to the Reichsmark), no new currency was in fact issued and Reichskreditkassenscheine remained in circulation as sole legal tender; the central bank thus conducted its operations in Reichskreditkassenscheine, which it obtained by means of a credit from the administration of the Reichskreditkassen. Of the Roubles 900 million circulating in Estonia and Lithuania 650 million were exchanged and a substantial proportion of the RM 2.6 milliard Reichskreditkassenscheine outstanding at the end of 1942 was on account of the Ostland. Currency and other business transactions with Germany, previously conducted directly by the Reichskreditkassen, were passed through the clearing between the new central bank and the Deutsche Verrechnungskasse in Berlin. As in the Ukraine, the central bank discounted Treasury certificates for the German Commissioner and the railways.

But, contrary to developments in the Ukraine, existing savings banks and cooperatives (with the Gemeinschaftsbank as central institution) and also the private banks, largely under the control of the German Grossbanken, were maintained in the Ostland; and the reintroduction of private property in the Baltic States became the declared policy. The Gemeinschaftsbank Ostland was created at the end of February 1942 with its head office in Riga; by July 1943 its balance-sheet total had reached RM 270 million. As district branches there were the Gemeinschaftsbank of White Ruthenia, formed in Minsk in September 1942, and the Gemeinschaftsbank Estland, created in Reval from the former Eesti Pank in January 1943. These Gemeinschaftsbanken differed from the Wirtschaftsbanken of the Ukraine in that they did not undertake general banking business but merely combined the activities of giro centres and cooperative banks.

In Transnistria, under Roumanian civil administration, the government-owned Bank of Transnistria opened for business with a head office in Odessa and 12 branches on 1st February 1943. This was the only bank in the territory, its operations being conducted in Reichskreditkassenscheine.

During 1942, the first year of war in the Pacific, further steps were taken to organise the "co-prosperity sphere" which, besides Japan, included Manchukuo, the occupied parts of China, Thailand (Siam), French Indo-China and occupied enemy territory in the Philippines (U. S. A.), Burma and Malaya (British) and Java (Dutch). The sweeping reorganisation of the Bank of Japan early in 1942, to meet the new conditions of war and for the supervision of the newly-occupied areas, was described in the twelfth Annual Report of this Bank and recent statistics concerning the bank's activities are given on page 266.

In October 1942 the reorganisation of the Central Bank of Manchou was announced. This bank of issue, with head office at Hsinking, was founded under Japanese auspices in 1932 (when the Manchukuo yuan was created at par with the Japanese yen); besides its official business, it has greatly expanded its private commercial business in recent years, as the table shows.

**Central Bank of Manchou.**

End of year	Assets				Total balance sheet	Liabilities		
	Specie reserve ( <sup>1</sup> )	Advances to government	Government bonds ( <sup>2</sup> )	Private credit granted ( <sup>3</sup> )		Notes issued ( <sup>4</sup> )	Government deposits	Private deposits
in millions of M. Yuan								
1935	92	53	60	118	412	179	74	78
1936	177	62	189	135	514	254	114	112
1937	208	37	194	176	669	307	133	132
1938	216	109	324	310	914	426	165	222
1939	154	390	417	481	1,510	624	455	297
1940	65	98	851	774	1,853	947	145	380
1941	167	185	1,222	573	2,219	1,262	210	465

(<sup>1</sup>) Gold, silver and yen balances. The presentation of the return was changed in 1939 and from that year the figures may not be comparable with earlier years.

(<sup>2</sup>) Including a small amount (in recent years about 10 per cent.) of other securities.

(<sup>3</sup>) Loans, overdrafts and bills discounted.

(<sup>4</sup>) The note circulation increased to M. Yuan 1,670 million on 31st December 1942 and M. Yuan 1,688 million on 30th June 1943; on the latter date the government bond holding was M. Yuan 1,728 million. By the middle of September 1943 the note circulation had risen to M. Yuan 2,006 million.

The reorganisation, which was expected to be completed by the end of 1942, made the bank a purely government body, in close touch with the Ministry of Finance and with wide powers of control over other financial institutions, on the lines of the reorganised Bank of Japan; the capital was raised from Yuan 30 million (one-half paid up, by private shareholders) to Yuan 100 million (one-quarter paid up, by the government) on 26th October 1942. The bank was to give up entirely its private banking business, which was to be taken over largely by the Industrial Bank. New statutes and a special charter for the bank were to be drawn up.

As regards the monetary reorganisation of the newly-occupied southern territories,\* the treatment of individual countries showed similarities and distinctions. The similarities concerned the general principles applied throughout the area of Japanese supervision in economic and monetary affairs, the closest possible economic relationship with Japan and devaluation of the local currencies to parity with the Japanese yen. A distinction was made in favour of the "friendly" countries which "cooperated" with the Japanese and which were, therefore, allowed to retain their own note issues (French Indo-China and Thailand) or given the right to organise a new currency (Burma), while in most of the other territories (Hong Kong, Java etc.) the former issuing authorities were suspended and note issue activities taken over by the South Seas Development Bank.

\* Information regarding currency developments in the parts of China occupied by the Japanese is given on pages 50-52.

The balance sheet of the Bank of Indo-China has expanded considerably since the occupation of the country by the Japanese. As presented to the general meeting in Paris in August 1942 it showed the following situation for the end of 1941 compared with earlier years.

**Banque de l'Indochine<sup>(1)</sup>.**

End of year	Assets				Total of balance sheet	Liabilities			
	Correspondents	Bons de la défense nationale	Office des changes (piastres) <sup>(2)</sup>	All other assets <sup>(3)</sup>		Note circulation	Current accounts	Office des changes (devises) <sup>(2)</sup>	All other liabilities
In millions of Fr.fcs									
1938	1,692	2,391	—	767	4,850	1,839	1,910	—	1,101
1939	1,614	3,127	—	892	5,633	2,289	1,998	—	1,346
1940 <sup>(4)</sup>	.	.	—	.	.	2,964	.	—	.
1941	4,615	3,341	3,469	956	12,381	3,665	3,690	3,839	1,187
1942 <sup>(5)</sup>	6,086	.	4,300	.	.	5,148	.	5,600	.

(1) As drawn up by the head office in Paris.

(2) These are Treasury accounts through which the Exchange Office conducts its operations.

(3) Including "financial participations" practically unchanged at Fr.fcs 30 million. According to the annual report for 1941, however, the bank acquired important interests in the capital of the Banque de Paris et des Pays-Bas, of the Caisse Centrale de Récompte and of the Nederlandsche Handel Maatschappij; these interests were taken over from Lazard Frères (in liquidation).

(4) It was not possible to draw up a balance sheet for 1940 owing to the fragmentary nature of information received at the head office. The figure for the note circulation in 1940 was given (in piastres) in the annual report for 1941.

(5) Preliminary figures (from annual report published in Paris in November 1943).

The balance-sheet total more than doubled in the two years from 1939 to 1941; particularly remarkable was the growth of "correspondents" by Fr.fcs 3,000 million (with its counterpart in the note circulation and current accounts) and the two new items of around Fr.fcs 3,500 million each on account of the Indo-Chinese Exchange Office. This office, which worked through Treasury accounts but was managed by the bank, obtained advances in Indo-Chinese piastres for the purchase of foreign currencies. Preliminary figures available for the end of 1942 indicate a further considerable expansion of the balance sheet.

The annual report for 1941 stated that the bank itself, upon instructions from the French Government, had taken over the functions of a clearing office with foreign countries. In July 1941 an agreement was signed between the bank and the Yokohama Specie Bank whereby settlements between Indo-China and Japan took place in yen only through accounts at the two banks. In November 1942 it was announced that, owing to the increasingly close economic relations of Indo-China with Japan, the bank was opening branches at Tokio and Yokohama; on the other hand, the bank's branches in Hong Kong and Shonan (Singapore) have been closed.

The note issue in Thailand, made by the Ministry of Finance, rose from Bahts 177 million in December 1939 to Bahts 215 million in December 1940, i.e. at the monthly rate of Bahts 3 million; on the outbreak of war in the Pacific the issue jumped by Bahts 20 million monthly and emergency measures were necessary, including a restriction on withdrawals from bank deposits.

By March 1942, when these measures were relaxed, the note circulation was Bahts 316 million. Although later figures are not available, it is known that the circulation increased further in 1942 and 1943, partly as a result of the mounting budget deficits. On 10th December 1942, a new central bank was

**Thailand Budget Results.\***

Financial year ended 31st March	1941	1942	1943
	in millions of bahts		
Revenue . . . . .	138	125	148
Expenditure . . . . .	204	219	278
Deficit . . . . .	66	93	130

\* Military expenditure accounted for Bahts 102 million in 1942-43. Estimates for 1943-44 place total expenditure at Bahts 400 million.

established at Bangkok (in the building of the Hong Kong and Shanghai Banking Corporation), with a capital of Bahts 20 million subscribed by the government; the currency had already been devalued by about one-third in April 1942, to fall into line with the yen parity, and the yen was admitted as note cover. Before the occupation the baht had been covered over 100 per cent.,

the reserve being largely deposited in London; in June 1942 the Japanese filled the gap in the note cover with a "book credit" of Yen 200 million. Exchange payments between the two countries take place entirely in yen through accounts at the Bank of Japan. By a decree which came into force in June 1943, the Central Bank of Thailand was to fix the reserves, in cash and balances at the central bank, to be held by all banks, insurance companies and other financial institutions in Thailand; and, in September 1943, the "emergency credit-control law" was promulgated, which, in an attempt to obtain a full "absorption" of government borrowing, obliged all banks to hold 40 per cent. of their deposits in government bonds.

In the early months of 1942 the South Seas Development Bank was created for the exploitation of the newly-occupied enemy countries, as explained in the twelfth Annual Report of this Bank. At first, this bank acted on lines somewhat similar to those of the German Reichskreditkassen, conducting its business in military notes, or gumpyo, denominated, however, not in yen but in the currencies of the occupied countries, viz. the Philippine peso, the Dutch East Indies florin, the Straits Settlements dollar and the Burmese rupee, military notes being made legal tender at parity with the local currencies. For Hong Kong the local currency, the Hong Kong dollar (which also had a wide circulation in southern China), was replaced by the military yen and, from 1st August 1942, its status as legal tender was cancelled. And in the Philippines the circulation of U. S. dollar notes was prohibited.

Branches of the South Seas Development Bank were opened in the chief towns of the occupied enemy territories, in Shonan, Manila, Batavia etc. Early in 1943 it had in all 17 branches and 5 agencies which, except for the three mentioned above, were administered by the Yokohama Specie Bank or the Bank of Taiwan (Formosa). Commercial business was generally left in the hands of local banks. British, American, Dutch and other enemy banks were closed by the Japanese troops when the occupation took place, their entire business being taken over by the military authorities, and passed gradually to new branches of Japanese banks, in particular to the Bank of Taiwan (in the

neighbouring islands) and the Yokohama Specie Bank (in the remaining territories); the latter bank thus largely acquired the business of the Hong Kong and Shanghai Banking Corporation. Some idea of the rapid expansion of the Japanese banks, as a consequence of these proceedings, is given by the fact that early in 1943 the Yokohama Specie Bank had 50 branches in south-eastern Asia as against its previous 6, while the Bank of Taiwan had 17 against 5. The South Seas Development Bank supplied these two banks with the military currency necessary for their business by making short-term credit available.

A new phase was opened when the South Seas Development Bank received authorisation to issue its own notes in unlimited amounts as from 1st April 1943. The military currency would no longer be issued but notes of former issues would remain temporarily in circulation until exchanged or withdrawn. The change appears to be merely a formal one, since the new bank-notes were to be denominated, as were the military notes, in the currencies of the occupied territories. No statistics regarding the circulation of military notes have been published; the anticipated new issue of South Seas Development Bank notes for the equivalent of Yen 3,300 million has been taken as revenue into the Japanese budget for 1943-44.

On 20th October 1942 the Japanese military authorities ordered the liquidation of the Bank of Java. This bank, which was founded in 1828, had offices in Sumatra, Borneo and Celebes as well as in Java; the head office was at Batavia. The last weekly return published, on 7th February 1942, showed a gold reserve, of Fl. 407 million (known to be largely held abroad), considerably in excess of the Fl. 345 million notes in circulation. The notes were to remain temporarily in circulation but an eventual exchange for yen currency was contemplated. Eight other Dutch Indies banks (including the Nederlandsche Handel Maatschappij, the Nederlandsch-Indische Handelsbank and the Nederlandsch-Indische Escompto Maatschappij), which had been closed since the occupation and whose assets had been confiscated, were also put into liquidation. The moratorium, which had been in force since the occupation, was raised from 20th October 1942.

For the time being, regulations regarding the cover of the note issue of central banks play no very important rôle. In a few countries (e.g. the United States, Switzerland and Sweden) the cover is so high in relation to the note circulation (and other sight liabilities) as to place no practical restriction on the issue. In other cases, where such regulations would have become restrictive, they have been suspended (e.g. in Belgium), abolished (e.g. in Germany) or adapted to fit the new situation (e.g. in Holland, so as to include Reichsmarks\*, or in Roumania, so as to include "claims to gold" blocked in enemy countries). The "fiduciary issue" in England was raised from £300 million to £580 million on 5th September 1939, when the gold holding

\* The inclusion of Reichsmarks as well as gold raised the "surplus cover", i.e. that above the legal 40 per cent., as shown by the Nederlandsche Bank return, from Fl. 61 million to Fl. 1,218 million in the week to 30th March 1942; in other words, the ratio jumped from 42 per cent. to 88 per cent.

was transferred to the Exchange Equalisation Account; since then practically the whole issue has been "fiduciary", i. e. issued without gold cover, and the maximum has been raised from £580 million by nine steps to £1,050 million, from 6th October 1943.

In Bulgaria, where the regulations prescribe that notes and other sight liabilities outstanding must be covered by a reserve of at least 25 per cent. in gold and free foreign exchange (net), a modification of the statutes in May 1941 made it possible to count Reichsmarks as a free currency for this purpose. If the entire Reichsmark holding had been included, a cover of about 100 per cent. could have been shown. But, as a matter of fact, the National Bank was very sparing in the amount of Reichsmarks included in the cover calculations and throughout 1942 the ratio only just exceeded the minimum, fluctuating within the narrow limits of 25.10 and 26.86 per cent.

A more picturesque solution was found for some years in Iran where, by the law of 16th November 1936, the crown jewels had been deposited to make good any deficiency of the metallic (gold and silver) reserve, which should amount to 60 per cent. of the notes. Until 1940 the metallic cover exceeded the legal percentage but in 1941 and 1942 it fell below it and the crown jewels were then valued at an amount sufficient to fill the gap.

Banque Mellié Iran<sup>(1)</sup>.

End of financial year (20th March)	Notes issued ( <sup>(2)</sup> )	Metallic cover ( <sup>(3)</sup> )		Crown jewels ( <sup>(4)</sup> )	
		In millions of rials (and percentages)			
			%		%
1940	1,114	720	64.6	—	—
1941	1,350	670	49.6	140	10.4
1942	1,995	670	33.6	527	26.4

(<sup>(1)</sup>) Formerly National Bank of Persia.

(<sup>(2)</sup>) Notes delivered to the bank by the Control Committee, including notes in circulation and also those in the tills of the bank.

(<sup>(3)</sup>) Gold and silver placed with the Control Committee.

(<sup>(4)</sup>) Deposited as cover but not shown in the bank's balance sheet.

The annual report of the Banque Mellié Iran for the financial year ending 29 esfand 1320 (20th March 1942) stated that the legal metallic cover was Rials 670 million and said "the ratio in relation to the note circulation is 33.59 per cent., the difference (26.41 per cent.) in relation to the legal minimum (60 per

cent.) being represented by the crown jewels ...". Actually the whole calculation in Iran was a pure formality as the gold in the reserve was valued at a legal price less than one-half the market price; the real value of the reserve did, in fact, exceed the legal 60 per cent.

A new law was passed on 19th November 1942 whereby notes issued from that date onwards should have a cover of 100 per cent.: 60 per cent. in gold revalued at the market price of that day and in sterling or dollars convertible into gold, plus 40 per cent. in sterling or dollars guaranteed against depreciation in terms of gold. The total note issue rose from Rials 3,500 million on 19th November 1942 to Rials 4,647 million on 21st March 1943; the increase of Rials 1,147 million was covered by Rials 1,190 million in gold (831 million), sterling (103 million) and dollars (256 million). The total reserve in March 1943 consisted of Rials 2,628 million gold and silver (as revalued) and Rials 1,006 million

in foreign securities. It should be mentioned that the total "issue" included notes held in the bank's tills; excluding these notes, the net circulation more than doubled from Rials 1,737 million in March 1942 to Rials 3,723 million in March 1943. In the latter month the convertibility of the notes into silver was suspended.

There was already a general upward trend of note circulations throughout the world before the war, as described in earlier Annual Reports of this Bank; and since 1939 the expansion has gathered momentum\*. The increase from the average of the first half of 1939 to the end of 1942 ranges from a little over 40 per cent. for the Argentine to 4,000 per cent. for Greece (the index for Greece soaring above 17,000 in September 1943).

### Index of Note Circulations <sup>(1)</sup>.

Country	Position of index at end of					Annual percentage increase			
	Dec. 1939	Dec. 1940	Dec. 1941	Dec. 1942	June 1943	Dec. 1939 to 1940	Dec. 1940 to 1941	Dec. 1941 to 1942	June 1942 to 1943
	on basis of January - June 1939 = 100								
Greece . . . . .	127	207	657	4,118	5,363 <sup>(2)</sup>	63	217	526	369 <sup>(3)</sup>
Iceland . . . . .	118	216	436	924	1,059	83	102	112	81
Bulgaria . . . . .	148	228	471	662	.	54	107	41	.
Finland . . . . .	184	253	334	439	415	37	32	31	14
Italy . . . . .	128	164	255	380	450	28	56	50	44
Egypt . . . . .	129	182	247	367	421	41	36	49	33
Turkey . . . . .	139	199	253	362	361	44	27	43	24
Hungary . . . . .	113	161	230	342	370	42	43	49	47
France . . . . .	127	185	226	321	364	46	22	42	40
Australia . . . . .	135	156	205	321	383	16	31	57	46
Roumania . . . . .	130	172	258	314	327	32	50	22	25
Canada . . . . .	122	169	223	313	334 <sup>(4)</sup>	38	32	41	31 <sup>(5)</sup>
Belgium . . . . .	127	158	219	307	337	24	39	40	31
Japan . . . . .	163	205	256	306	306	26	25	20	32
Germany . . . . .	147	174	237	295	322	19	36	25	26
Holland . . . . .	112	150	205	294	252	34	37	43	8
Portugal . . . . .	121	138	213	260	269	14	55	22	23
Denmark . . . . .	139	172	195	228	245	24	14	17	25
United States . . . . .	111	127	163	225	254	15	28	38	41
South Africa . . . . .	111	130	161	213	246	16	24	32	35
Sweden . . . . .	139	145	166	197	193	4	15	19	15
United Kingdom . . . . .	112	126	154	189	194	12	22	23	18
Switzerland . . . . .	119	132	136	153	154	11	3	13	18
Argentina . . . . .	102	108	124	144	148	7	14	16	15

(1) Only central-bank note circulations are taken into account, except for the United States for which the total "money in circulation" is more appropriate. The countries are arranged according to the height of the index in December 1942. (2) March 1943. (3) By September 1943 the index had risen to 17,172. (4) May 1942 to March 1943. (5) May 1943. (6) June 1942 to May 1943.

Apart from the general effects of war financing and the rise in prices, the reasons for the increases of note circulations may be conveniently divided into four classes: a) increased need of currency, b) the hoarding,

\* The only exception to this rule would appear to be in the eastern territories occupied by the Japanese, where, owing to special reasons, the circulations in some cases are said to have declined. Thus, it was reported from Shanghai that the circulation of Straits dollars in July 1942 was only 140 million against 220 million before the outbreak of war in the East; the reduction was partly due to destruction caused by the war and partly to a "gift" of 50 million Straits dollars made by Chinese merchants to the Japanese military and naval authorities. Similarly in Java, where the circulation of notes and coin, including the gumpyo currency, was reported at Fl. 400 million in the middle of 1943 against about Fl. 500 million before the occupation.

or saving, of notes, c) larger bank reserves and d) other reasons, varying in importance from country to country.

a) The chief causes of the increased need of currency are the full employment of a greater number of workers, the higher wages they generally earn and the larger proportion of the national income they receive; farmers too, who get good prices in wartime, tend to effect a large proportion of their transactions in cash. In addition, the rise in the cost of living, as a result of more expensive imports, higher costs of transport and other causes, leads to larger currency requirements.

b) Workers and farmers, with more considerable amounts to save, are sometimes without, or unaccustomed to, banking facilities, and their genuine savings often take the form of holding bank-notes. The difference between saving and hoarding is difficult to define, but generally hoarding has come to mean the withholding of notes beyond the requirements of "pocket money" for current payments, sometimes with some illegitimate purpose in view (e. g. tax evasion).

Saving or hoarding of notes is often taken as a sign of confidence in the value of the currency. But it also shows a preference for notes to government securities, a desire to hold money in the most liquid form, and a reluctance to have savings "tied up" in a more permanent manner; this may be due, in some measure, to the low rates of interest paid in many parts of the world. But, because people for one reason or another hold more notes than they need for currency purposes, governments are forced to borrow from central banks; and, the more they borrow in this way, the more they tend to increase the note issue above the genuine need for currency. In a few cases, such as Swiss francs and U. S. dollars, the hoarding of notes outside the country is not without significance.

c) In so far as deposits increase (because industry and trade, as well as the public, hold larger amounts as bank deposits), the banks need to have higher cash reserves, part of which are in the form of notes. And, because the new deposits may be more unstable than the old ones and more subject to sudden withdrawal, bank reserves may be increased more than proportionately to the rise of deposits.

d) Further, there are a number of reasons which have had influence of very different weight in various countries. Illegitimate transactions on the black markets are generally conducted in bank-notes in order to avoid leaving traces; and notes may be favoured as facilitating evasion of taxation and foreign exchange restrictions. A reason of quite a different character is an extension of the territory in which the domestic currency circulates, such increases having been of importance for Germany, Hungary and Bulgaria in 1941, but not in 1942. Further, in England, as elsewhere, the curtailment of banking facilities as a consequence of the war has doubtless had some influence: the Chairman of the Midland Bank stated in January 1943 that roughly one-fifth of the bank's branches had been destroyed or had suffered appreciable damage as a result of enemy air attacks; most of this damage had been repaired

but, chiefly in order to release manpower, the number of branches had been cut down by one-sixth; this, he added, "may well be one factor among many in the enlargement of the amount of currency retained in the hands of the public." An additional factor in the expansion of currency in England in 1943 was the large number of allied troops stationed in the country. Finally, the methods of financing clearings and occupation costs in Europe, and advances through central banks outside Europe, contributed in particular to an expansion of note issues.

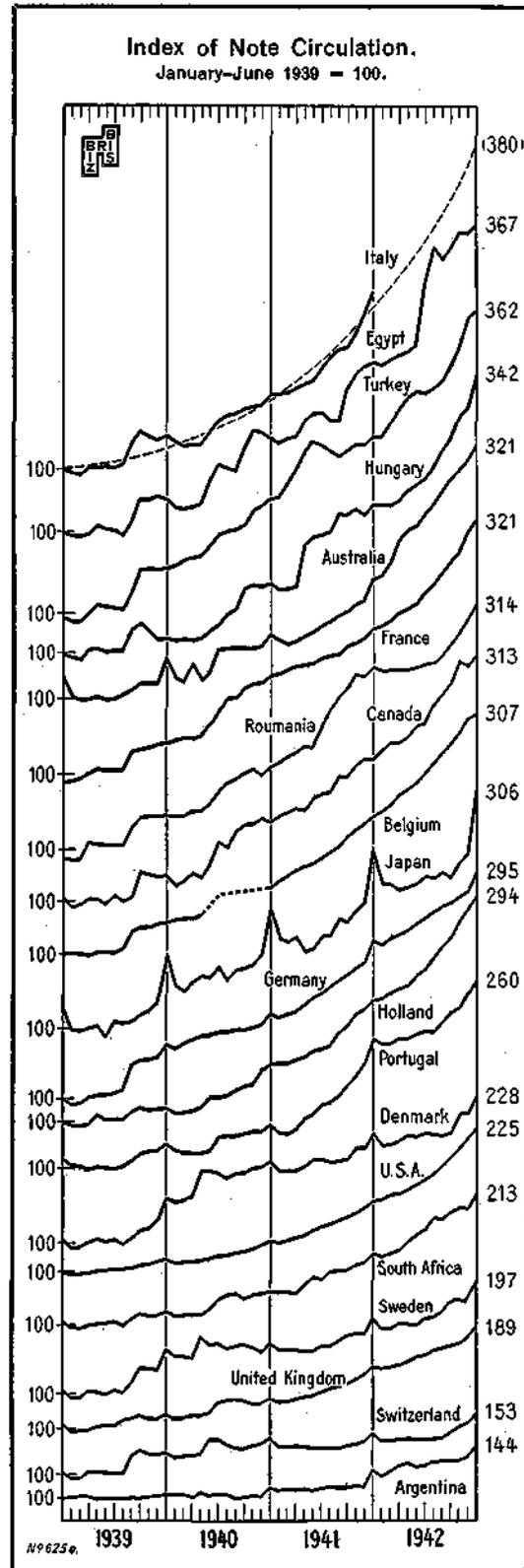
The countries indicated in the table on page 303 and in the graphs on pages 306 and 307 provide representative examples as far as data are available. Some European countries have been omitted owing to lack of statistics, either for the base period in 1939 (e.g. Spain) or for more recent dates (e.g. Albania and Norway). The circulation of the Bank of Spain in June 1943, after the repudiation of notes issued on account of the Republican Government during the civil war, was slightly more than three times as high as it was at the end of 1935; this expansion compared not unfavourably with the increases in many European countries. But other countries omitted for lack of data would appear high in the table. The monthly returns of the National Bank of Albania ceased in October 1940 when Italian troops invaded Greece from Albanian soil; at the end of September 1940 the index would have stood at 336, higher than for any country in the table at that time (the note circulation being covered over 100 per cent. by Italian lire). And no weekly return or balance sheet for the Norges Bank has been published since the occupation of the country by Germany in April 1940; the estimate of the circulation given on page 214 would place Norway on the same level as Finland at the end of 1942. In Yugoslavia, the index number on the base January-June 1939 would have been 220 in March 1941, the last month in which the National Bank published a return; from this date until September 1943 the note issue in Croatia rose by five times, so that the index would have risen to well over 1,000; on the other hand, no recent information permitting a similar calculation for Serbia is available. And no data are published regarding the note circulations in Poland, the Ostland or the Ukraine; the issue of Reichskreditkassenscheine is mentioned on pages 186-188.

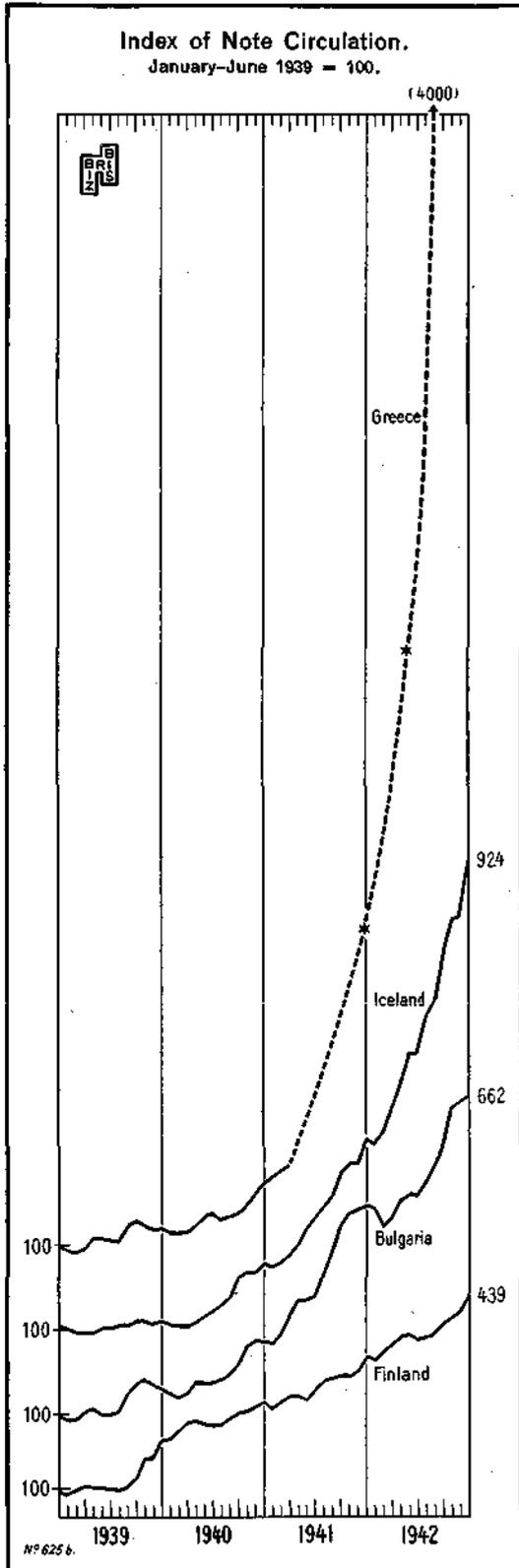
As regards the position at the end of 1942 of the groups of countries as given in the table: in the United Kingdom and the three neutrals, Sweden, Switzerland and the Argentine, the index was less than 200; but in all four countries the rate of increase was greater in 1942 than in 1941 (in the United Kingdom only slightly so). Statistics published in the budget White Paper showed that in the United Kingdom the note circulation has remained fairly constant at around 10 per cent. of the national income, as it did before the war.

At the bottom of the 200-300 group are the Union of South Africa and the United States, in both of which the rate of increase is comparatively high and still rising; in Portugal, the total increase is greater than for the other European neutrals.

Germany is at the top of the 200-300 group; the increase in 1941 was partly due to the incorporation of new territory into the Reich. In June 1943 the President of the Reichsbank characterised the slow but steady expansion of the currency as being something more than a "Schönheitsfehler"\*. During 1942 and early in 1943, the note circulation of the Reichsbank had, in fact, expanded at an even rate of about RM 5 milliard above the figures of the previous year; from that time, the expansion accelerated in speed: the note circulation at the end of March 1943 was RM 4.9 milliard above what it had been in March 1942 — but at the end of June, July, August and September 1943 the figures were respectively RM 5.7, 6.3, 7.2 and 8.1 milliard higher than at the end of the corresponding months of 1942. This acceleration was doubtless connected inter alia with the freedom accorded as to withdrawal of savings deposits (mentioned on pages 179-180), made necessary by the air bombardments and mass evacuation of the population from towns. This 200-300 group also includes Holland and Denmark, which, with Belgium, Roumania, France and Hungary in the 300-400 group and Bulgaria and Greece higher up in the table, are the countries where the circulation has been affected by the payment of occupation costs, the financing of the clearing with Germany, or both together.

The apparent slowing-up of the expansion in Japan, at the bottom of the 300-400 group, is partly due to the fact that the Banks of Chosen





and Taiwan no longer hold their reserves in notes of the Bank of Japan (which they paid into special accounts at that bank). Canada and Australia, in the same group, are characterised by increasing rates of expansion. In Turkey also, the rate of expansion grew until the end of 1942 but, under the influence of the capital levy, described on pages 239-242, the circulation actually fell in the first half of 1943.

At the top of the 300-400 group is Italy; the Banca d'Italia has issued no weekly returns since 1935, but end-of-year balance sheets were published until 1940 and material is available on which certain estimates, shown in the table on the next page, are based. Near the end of July 1943 the Finance Minister gave data regarding the circulation "on the eve of Italy's entry into the war" (end of May or early June 1940) and for 20th July 1943 (mentioning also the expansion during the latter month). The trend of the expansion, as shown by these figures, indicated an increase of about 50 per cent. per annum in 1941 and 1942. This increase appears to have continued, with a slight tendency to decline in speed, during the first half of 1943, but a sharp acceleration took place in July. (Notes of the Banca d'Italia circulated not only in Italy but in the colonies and the bank had branches in Eritrea, Abyssinia, Libya and Rhodes. The proportion of the note circulation appertaining to the colonies has not been made known. By a decree of 25th November 1942 the notes of Lit. 50, 100, 500 and 1,000 which the Banca d'Italia had prepared for issue in Italian East Africa were made

Note Circulation of Banca d'Italia.

End of month	In millions of lire	Index Jan.—June 1939 = 100
1938 December (1) . . . . .	18,955	99
1939 March (2) . . . . .	17,967	94
June (2) . . . . .	19,350	101
December (1) . . . . .	24,432	128
1940 March (1) . . . . .	22,643	119
June (2) . . . . .	27,190	142
December (1) . . . . .	31,308	164
1941 June (2) . . . . .	36,000	190
December (2) . . . . .	49,000	255
1942 June (2) . . . . .	60,000	310
December (2) . . . . .	73,000	360
1943 June (2) . . . . .	96,158	450
July (2) . . . . .	96,541	505

(1) Figures from published balance sheet. (2) Estimates.  
 (3) Last week of March. (4) 22nd March.  
 (5) In July 1943 the Finance Minister gave the figure of Lit. 96,541 million for 20th July 1943, stating that during July the Treasury had had recourse to note issue to the extent of Lit. 10,383 million; and the circulation "on the eve of Italy's entry into the war" was given as Lit. 25,344 million.

legal tender for circulation in Italy itself.) In October 1943 it was reported that the commercial banks in Milan were issuing circular cheques to supplement the currency.

Egypt and Iceland, where troops of the United Nations were stationed, are high up in the table on page 303 and notable increases took place in 1942, in Egypt by nearly 50 per cent. and in Iceland by over 100 per cent. In both cases the excess of commodity exports characteristic of earlier years was turned into an import surplus in 1942; and in both cases the United States became the chief supplier in place of the United Kingdom, large deliveries being made on lend-lease terms.

As regards Iceland, it must be borne in mind that the army stationed in that country was larger in proportion to the local population (of some 120,000) than in any other occupied country.

Finland has been affected by two wars with the U.S.S.R., the winter war of 1939-40 and the war begun in June 1941; the decline of the circulation in the second quarter of 1943 was due to the threat of stamping the notes and thus reducing their value, see page 217. The violent inflation in Greece, which began in the second half of 1942 and continued during 1943, is described in Chapter V, where more details regarding the factors responsible for the expansion of circulations in individual countries are given.

It is believed that the indexes shown in the table and illustrated by graphs give a reasonably correct picture of developments in the countries concerned. The only exception is Bulgaria. Although by the end of 1942 the index, at 662, stood higher than that of any other continental European country except Greece, it understates the real expansion. As described in the twelfth Annual Report of this Bank, the Bulgarian Government by decree of 9th February 1942 began the issue through the National Bank of 3 per cent. Treasury certificates in small denominations which, although nominally of one and two years' maturity, were designed to circulate as interest-bearing bank-notes; they could at any time be cashed at the National Bank at par plus accrued interest\* and they were accepted in government offices in payment of taxes and other debts to the state. According to a statement of the Minister of Finance in January 1943, some Leva 1,850 million of these Treasury

\* To facilitate circulation, the value of the certificates plus accrued interest to the 5th, 15th and 25th of each month was shown in a table printed on the back of each certificate.

certificates were put into circulation in the year 1942\*. In December 1942, the National Bank announced that in future Treasury liabilities exceeding Leva 200,000 vis-à-vis firms and private individuals would be paid one-half in cash and one-half in Treasury certificates.

And in 1943 events moved quickly as the expansion gathered momentum. After new issues of these certificates and the suspension of the publication of the National Bank's return in the middle of February, the certificates fell to a discount of 10 per cent. or more on bank-notes. From 20th May 1943 it was decreed that Treasury certificates must not be bought at a lower price than that paid by the National Bank itself, nor could acceptance of Treasury certificates as means of payment at the price paid by the National Bank be refused; this law practically gave Treasury certificates the status of full legal tender, which they had not previously enjoyed. In June 1943 banks were authorised generally to make payments entirely in Treasury certificates; in some special cases 50 per cent. might be paid out in notes. In the same month the National Bank called in its two highest denominations of notes, those of Leva 1,000 and 5,000, of which Leva 15 milliard were in circulation, two-thirds of the total note circulation at that time; holdings up to Leva 4,000 were exchanged in full against smaller bank-notes while Leva 500 notes of a new series were given in exchange for 60 per cent. of larger holdings, the remaining 40 per cent. being paid out in Treasury certificates; large notes not exchanged by 20th September 1943 became invalid and lost their status as means of payment. Towards the end of September the National Bank began the issue of a new series of Leva 1,000 notes.

In Roumania also, the issue of a supplementary currency was prepared. By decree of 16th December 1942 the Ministry of Finance was authorised to put 4 per cent. 6-month Treasury bills (Kassenscheine) into circulation up to a maximum of Lei 10 milliard; these bills were payable to bearer and transferable without formalities; they might be used for the payment of taxes and other debts to the state; banks and other institutions which were required to hold a certain volume of cash among their assets were entitled to include these certificates in their cash holdings; the National Bank was obliged to repurchase them at any time with accrued interest and they were specifically intended to replace bank-notes in circulation, especially for large transactions. Their acceptance in payment by private persons was not made obligatory at the time of issue but the possibility of a forced circulation at a later date was not excluded.

In other countries efforts have been generally directed towards the strict exclusion of anything which might serve as a supplementary currency. In Germany the issue of army promissory notes averaged only about RM 300 million, recourse to this type of instrument being restricted since it was feared that a larger circulation of these notes might become a kind of currency. And in England postal orders, which were made legal tender on the outbreak of war,

\* By March 1943 the total placed was reported to be Leva 2,380 million. In August 1943 the Minister of Finance denied that it was intended to create a supplementary currency and stated that of Leva 28 milliard Treasury certificates put into circulation Leva 24 milliard had already returned to the National Bank; this applied to the period before the withdrawal and exchange of large bank-notes.

when a shortage of currency was feared, were deprived of this status after a few weeks, when the immediate emergency was past. Even in countries like Greece where, in 1942, part of the crop was paid for in discountable Treasury bills, these bills might not circulate as currency.

In three countries, the United Kingdom, Holland and Brazil, notes in circulation have been withdrawn with the general idea of reducing the amounts in circulation and preventing illegitimate transactions. But the modes of withdrawal have been very different.

Until 1928 the Bank of England issued notes only of £5 and upwards; the circulation of currency notes of 10s. and £1, first issued by the Treasury in 1914, had grown considerably and constituted 72 per cent. of the total average circulation when the note issue was unified in 1928. The notes of £10 and upwards rose from 17 per cent. of the total in 1928 to 23 per cent. in 1938 (the latest analysis published) the increase being particularly marked from 1936 onwards; by the early part of 1943 such notes probably amounted to at least one-quarter of the total note circulation, say about £250 million.

Towards the end of April 1943 the Chancellor of the Exchequer announced that the Bank of England would issue no further notes of denominations of £10 and upwards and would withdraw those already issued, as opportunity offered. The notes were not called in and their legal-tender status has in no way been impaired; but as they come back to the banks in the ordinary course of business

they are not reissued. The circulation of the Bank of England will thus eventually be confined to the three smaller denominations, viz. 10s., £1 and £5. The reasons given by the Chancellor for the decision included the simplification of the note issue and the desire to place difficulties in the way of those who, by utilising the larger bank-notes, might escape exchange control or other regulations. No information has been published as to the volume of notes withdrawn but some indication was given by the contraction of the note circulation by £7 million in the nine weeks from the end of April to the end of June 1943 compared with an expansion of £30 million in the corresponding period of 1942.

Bank of England  
note circulation.

Wednesday figures in millions of £ sterling	1942	1943
April 28/29 . . .	771.2	953.4
May 5/6 . . .	776.9	953.9
12/13 . . .	780.2	951.6
19/20 . . .	782.5	947.3
26/27 . . .	788.6	945.0
June 2/3 . . .	792.9	946.4
9/10 . . .	793.7	946.9
16/17 . . .	793.2	949.4
23/24 . . .	796.0	947.7
30/1 July . . .	801.6	946.3
July 28/29 . . .	824.1	968.1
Aug. 25/26 . . .	828.6	974.9
Sept. 30/1 Oct. .	838.0	966.5

Before March 1943 about one-quarter of the circulation of the Nederlandsche Bank was composed of big notes of Fl. 500 and 1,000 and three-quarters of notes in denominations of Fl. 100 down to 10. By a decree of the German Commissioner for the Occupied Dutch Territory, published on 14th March 1943, all notes of Fl. 500 and 1,000 were declared invalid and called in immediately; holders were obliged to deposit them with the fiscal authorities by

31st March. The Nederlandsche Bank was no longer required to exchange these notes on the request of private persons and its obligation to do so for the fiscal authorities and the German Commissioner ceased on 15th April 1943. The object of this decree was to uncover hoarded notes and to check the utilisation of large notes on the black market, for tax evasion and for other illegal transactions. Holders, upon surrender of the notes, obtained a receipt; before the counterpart was paid out, any taxes due or payable in the current year or any other debts to the government were deducted; and, in cases where the authorities deemed it desirable, the entire counterpart was retained pending enquiries into the financial position of the holder and possible liabilities on account of tax evasion, charges, fines etc.

In order to simplify the technical procedure, the commercial banks were called upon to act as intermediaries for the delivery of the notes to the fiscal authorities. Their accounts (and other private balances) at the Nederlandsche

Dutch Note Withdrawal<sup>(1)</sup>.

Date of return 1943	Notes in circulation	Bankers' balances <sup>(2)</sup>	Special account of Treasury
1943			
March 8th . . .	3,244	151	—
15th . . .	3,295	159	—
22nd . . .	3,258	155	—
29th . . .	2,998	437	—
April 5th . . .	2,667	728	—
12th . . .	2,659	778	—
19th . . .	2,520	175	686
27th . . .	2,507	183	686
May 3rd . . .	2,545	202	616
10th . . .	2,539	207	616
17th . . .	2,508	243	616
24th . . .	2,445	327	616
31st . . .	2,492	370	589
June 7th . . .	2,525	318	576
15th . . .	2,537	335	574
21st . . .	2,554	346	570
28th . . .	2,596	340	568
July 26th . . .	2,738	313	454
Aug. 30th . . .	2,905	405	329
Sept. 27th . . .	3,041	675	100
Oct. 25th . . .	3,156	674	100
Nov. 29th . . .	3,326	642	101

(1) Items from the weekly return of the Nederlandsche Bank.  
 (2) Including other private accounts.

Bank jumped from the normal level of about Fl. 150 million early in March 1943 to nearly Fl. 780 million on 12th April; on 19th April a transfer took place to a new special account of the Treasury, which was credited with Fl. 686 million. This special account later slowly declined as the counterpart of the notes was paid out (but in the meantime the market was tight and some banks were forced to borrow funds). By the end of April 1943, when the special account of the Treasury was at its highest, the circulation had fallen by more than Fl. 700 million from its level in the first half of March: the President of the Nederlandsche Bank stated in June 1943 that of a total of Fl. 870 million in large notes, when the invalidation decree was issued, Fl. 140 million had not been handed in.

In Brazil, where notes are issued by the government through the Bank of Brazil, the note circulation, which was Milreis 4,970 million in December 1939, rose to 5,185 million in December 1940 and 6,647 in December 1941 and then, more rapidly, to 8,500 million in September 1942; this acceleration followed the entry of the United States into the war and a run on the Brazilian banks when European balances were placed under control. The government declared a moratorium for one week from 29th September 1942 and, amongst other measures, announced the substitution of the "cruzeiro" (subdivided into

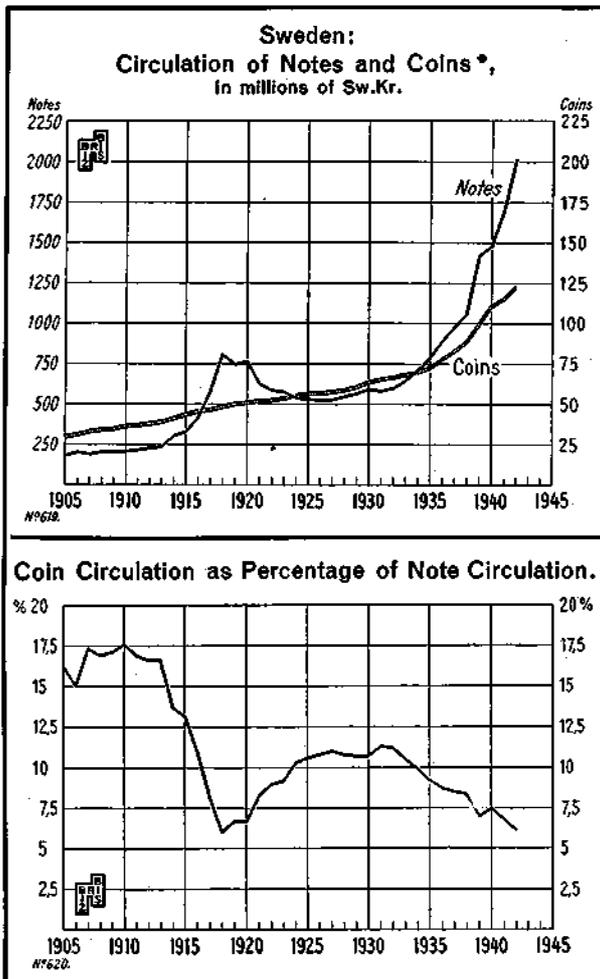
100 centavos) for the former milreis currency. From 1st November 1942 all public accounts, including those of the banks, were to be kept in the new unit (which has the same value as the milreis). The notes outstanding may eventually be replaced by a new issue, but for the time being the old milreis notes have remained in circulation with an overprint. By December 1942 the circulation had fallen to 8,240 million and it remained at about this level in the early months of the new year, rising, however, to 9,330 million in June 1943.

Amongst the measures which, in other countries, directly contributed towards a reduction of the note circulation may be mentioned the capital levy in Turkey and the threatened stamping of notes in Finland. In south-eastern Europe wheat as a measure of value made its appearance in the autumn of 1943: in Hungary a government loan was denominated in quintals of wheat, 3 $\frac{1}{2}$  per cent. 25-year "wheat bonds" for 5, 10, 25 and 100 quintals being created which it was hoped would be popular with farmers and succeed in attracting hoarded notes; and in Roumania the repayment, in wheat, of old agricultural debts was invited.

The increased purchasing power in the hands of the public, as shown by the expansion of bank-note circulations, has led to a shortage of divisional coin, which is almost universal. And in 1942 this shortage in many cases became acute. Experience has demonstrated that the circulation of divisional coin, in its relation to the circulation of bank-notes, may vary fairly widely from time to time and from country to country; but when the coin circulation falls below a certain minimum proportion, as it is apt to do when the bank-note circulation is rising rapidly, shortages of small change appear which cause tiresome inconvenience in retail purchases and the settlement of other small transactions.

The evolution of the situation in Sweden, where the expansion of the note circulation since 1939 has been moderate, compared with other countries (see table on page 303), is illustrated in the graphs on the opposite page. Fluctuations in the circulation of coin are very sluggish compared with those of the note circulation, partly owing to the time and material needed for the minting of new coin. As the graphs show, the proportion of coin in Sweden fell during the last war to its lowest point at 6 per cent. of the note circulation in 1918; in fact, one-krona notes were put into circulation in 1914 and, if they were included with the coin, the proportion for 1918 would be raised to 6.7 per cent. One-krona notes, although printed, have not been put into circulation during this war, and the proportion of coin fell to 6.1 per cent. in 1942.

In other countries similar shortages have appeared and everywhere mints have been kept busy attempting to cope with the demand. In England the Royal Mint struck 355 million silver, bronze and nickel-brass coins of a total value of over £12 million during 1942; this was a minting record for divisional



coin, four times as much in value as the average for the ten years before the war and one-fifth higher than the previous record of £10 million in 1918. Early in May 1943 the United States agreed to send to England 3.1 million ounces of silver on lend-lease terms, while Canada agreed to supply 1.9 million; of the 5 million ounces, one-third was needed by England for industrial purposes and two-thirds for coinage.

Very few countries have, however, minted new silver coins, such minting being confined to countries with home production of silver (e. g. Sweden), large stocks (e. g. India) or special sources of supply (e. g. England and Australia on lend-lease). As copper and nickel are also in short supply for coinage purposes (even in producing countries), new coins have for the most part been of such metals as iron (in Bulgaria

and Finland), zinc (in Poland and Roumania) or aluminium (in France and Hungary). In the United States the issue of new small coins made of plastic material and of glass has been under consideration.

In some cases a higher demand for small coins has arisen for special reasons, particularly on account of taxes on retail sales. In Switzerland, for example, the turnover tax, levied as a percentage of the retail sale price, has provoked an enormous demand for "Rappen" and the number of these small pieces minted exceeded that of all other coins together in 1941 and 1942.

Number of pieces in thousands	One-centime pieces	Two-centime pieces
1939	10	65
1940	3,027	1,303
1941	12,794	3,447
1942	18,000	9,000

Whether or not it is necessary to put new small notes into circulation naturally depends to a large extent on the

\* From the Skandinaviska Banken Quarterly Review, April 1943. End-of-year figures — In the first graph the coinage is on ten times the scale for notes. One-krona notes issued during 1914-1918 are excluded from the note issue. The coin circulation represents total coinage after deducting coin withdrawn from circulation; it may, therefore, be somewhat on the high side as no allowance has been made for coin melted down or lost.

denominations already in existence. Central-bank practice differs very widely and, to give an idea of the comparative value of the denominations of bank-notes outstanding, the following table has been prepared, which shows, for certain European countries, the various denominations, converted into Swiss francs at official rates and given as a percentage of the value of the total circulations at the end of 1942.

**Denominations of Notes of European Central Banks in 1942.**

The value of the circulation of each denomination as a percentage of the total circulation.

Denominations as converted into Sw.fcs	Denmark	France	Germany	Holland	Hungary	Sweden	Switzerland	Average
1,000 and over . . . . .	—	—	1	24	—	13	27	9
450-500 . . . . .	17	18	—	—	—	—	8	6
150-250 . . . . .	—	—	21	34	—	—	—	8
80-120 . . . . .	38	83	40	5	70	46	43	42
16-60 . . . . .	12	11	38	37	20	16	20	22
15 and under . . . . .	33	18	—	—	10	25	2	13
Total . . . . .	100	100	100	100	100	100	100	100

This table brings out several interesting points: that among these European countries only in Sweden and Switzerland are very large notes an appreciable part of the circulation (in Holland, the large notes, of Fl. 500 and 1,000, were withdrawn in March 1943, as already described); that about one-half of the circulation in many countries comes within the range equivalent to Sw.fcs 80-120, etc.

But it shows that there were no central-bank notes the equivalent of Sw.fcs 15 or under in Germany or Holland at the end of 1942 (as there were practically none in Switzerland before 1939), whereas such small denominations amounted to one-quarter of the circulation in Sweden, one-third in Denmark etc. The need for small currency in addition to the coinage in the latter countries is thus already supplied by the central bank, which can easily expand its issue of such denominations. In other countries new small notes have sometimes been issued by the central banks or, more usually, by the governments.

New bank-notes of Sw.fcs 5 were issued by the National Bank of Switzerland in 1939 and by the end of 1942 Sw.fcs 56 million were outstanding, about 2 per cent. of the total note issue, the five-franc silver coin being the more popular means of payment. The lowest denomination of notes issued by the National Bank of Bulgaria before the war was Leva 500 (equivalent to about Sw.fcs 27); in 1940 notes of Leva 250 and in 1941 of Leva 200 were put into circulation; and in 1943 it was decided to issue notes of Leva 100, 50 and 20, i. e. equal to the highest denominations of divisional coin. In July 1943, the Serbian National Bank began the issue of a new Din. 100 note (the equivalent of Sw.fcs 8 at the official rate).

All these examples of new issues of small denominations are in the form of bank-notes and are included in the circulation of the central banks. But in

many countries small government notes have been issued to supplement the coinage. Some statistics regarding European issues in recent years are given below.

**Government Note Issues.**

At end of month in millions of national currency units	Belgium		Holland		Roumania	Italy		Germany(?)	
	total authorised	total circulation (?)	total authorised	total circulation	total circulation	total authorised	total circulation	total issue	net circulation
	B.fcs		Fl.		Lei	Lit.		RM	
1938 Dec.	1,500	1,219	100	1	—	2,500	.	409	382
1939 Dec.	1,500	.	100	1	—	3,950	.	1,083	957
1940 Dec.	2,200	1,919	100	41	—	3,950	.	1,335	1,102
1941 March	2,500	.	100	60	—	3,950	.	1,335	1,044
June	3,000	2,729	100	86	—	4,150	.	1,400	1,068
Sept.	—	.	100	97	907	4,150	.	1,400	1,117
Dec.	—	3,280	150	117	2,793	4,650	.	1,400	1,252
1942 March	—	.	150	120	4,011	4,650	4,534	1,550	1,227
June	—	3,377	150	120	4,397	4,650	.	1,550	1,285
Sept.	—	.	150	127	4,483	5,150	.	1,550	1,242
Dec.	—	3,748	150	138	4,249	6,300	.	1,550	1,264
1943 March	—	.	150	153	.	6,300	5,762	1,550	1,218
June	—	3,892	400	218	.	7,300	.	1,550	1,309

(1) Total circulation of the so-called "Fonds monétaire", which, however, includes some coin but excludes B.fcs 525 million notes circulating directly on Treasury account (since 1940).

(2) The issue of the government-controlled Rentenbank. The total issue corresponds to the total of Rentenbank loans to the government. The net circulation excludes those Rentenbank notes held by the Reichsbank.

The Belgian issue dates from October 1926, when the Treasury took over about B.fcs 700–750 million of National Bank notes of the 5 and 20-franc denominations (to be replaced eventually by coin). The limit to this Treasury issue was raised from B.fcs 1,200 million to B.fcs 1,500 million in 1935, when notes of the B.fcs 50 denomination were also taken over from the National Bank; in 1940 the limit was raised three times, to B.fcs 2,200 million in November, and in 1941 twice, to B.fcs 3,000 million in April. In July 1941 it was decreed that the limit of the "divisional issue" might exceed the maxima according to needs; and, in March 1943, the limits were suspended retroactively from December 1941.

In Holland, so-called "silver bills" (government notes of Fl. 1 and 2½, theoretically convertible into silver) were first put into circulation in 1914, the legal maximum being raised from the original Fl. 25 million to Fl. 100 million at the end of 1918; this maximum was maintained in the years before the present war although the circulation was insignificant. A new issue of silver bills began in 1940 and the maximum was raised to Fl. 150 million in September 1941. When the large notes of the Nederlandsche Bank were withdrawn in March 1943, a shortage of currency made itself felt and the legal maximum issue for silver bills was raised to Fl. 250 million in April and again to Fl. 400 million in June 1943.

By a decree of 30th July 1941 the National Bank of Roumania was authorised to issue small notes of 1, 2, 5, 20 and 100 lei up to a maximum of Lei 1,000 million, to be utilised for the exchange of roubles; and by a

decree of 12th August 1941 a further Lei 3,500 million of Lei 100 notes were authorised, to be given in exchange for coins of Lei 50 and 100, which were to be withdrawn from circulation: both these issues were for and on behalf of the Ministry of Finance and were to be replaced by coin when circumstances permitted; they do not figure as part of the circulation of the National Bank.

In Italy, the denominations of notes issued by the Banca d'Italia were of Lit. 50, 100, 500 and 1,000 only; the need for smaller notes was met by the Italian Treasury, which in 1935 was authorised to issue notes of Lit. 10 and in 1939 notes of Lit. 1, 2 and 5 also. The legal maximum, which was fixed at Lit. 850 million in 1935, had been raised to Lit. 2,500 million (for all issues) by 1938 as shown in the table on the preceding page. In 1941, the maximum was raised twice and in 1942 four times, while a further increase to Lit. 7,300 million was made in April 1943. Near the middle of 1943 the actual circulation of Treasury notes was published as having been Lit. 4,534 million at the end of March 1942 and Lit. 5,762 million at the end of March 1943, an increase of 27 per cent. on the year, about half the rate of increase of the circulation of the Banca d'Italia.

In Germany it was decided in 1939 to supplement the coinage not with Reichskreditkassenscheine (which had originally been printed for that purpose) but by extending the issue of the government-controlled Rentenbank. Rentenbank notes had first been issued in 1923 and their total circulation slightly exceeded RM 2,000 million when the Reichsbank was reorganised in 1924 and their withdrawal undertaken; in 1930, when RM 430 million were still outstanding, the final date for their withdrawal was postponed from 1934 to 1942; and in September 1939 the withdrawal was suspended. The issue of Rentenbank notes, which had fallen to RM 409 million (the amount of the outstanding loan to the Reich) was extended, by a new loan of RM 400 million made to the Reich in September 1939 and by various additions, to RM 1,141 million in January 1942, thus making a total loan of RM 1,550 million. The net circulation is somewhat lower as some Rentenbank notes are held by the Reichsbank.

Although the total issue of Rentenbank notes has not been raised since January 1942, arrangements have been made to increase the volume of smaller issues which supplement the coinage. At the end of 1941 the Rentenbank had

RM 195 million notes outstanding of the same denominations as those of the Reichsbank (RM 10 to 1,000); during 1942 these notes were withdrawn and replaced by notes of the Reichsbank, so that at the end of the year the Rentenbank issue was of RM 1, 2 and 5 only, as shown in the table. The net circulation of the Rentenbank rose only from RM 1,252 million to RM 1,264 million during 1942 but the issue of notes of RM 1 to 5 rose from RM 1,057 million to RM 1,264 million. In June 1943

Reich Currency Circulation  
at end of December 1942.

Denominations of notes	Reichsbank	Rentenbank	Coin	Total
	In millions of RM			
1,000 RM	194	—	—	194
100 "	5,180	—	—	5,180
50 "	9,763	—	—	9,763
20 "	6,845	—	—	6,845
10 "	2,393	—	—	2,393
5 "	—	747	1,061	1,808
2 "	—	227	217	444
1 "	—	290	—	290
1 to 50 Pf.	—	—	426	426
Totals	24,375	1,264	1,704	27,343

it was decided that the Reichsbank should make a new issue of notes of RM 5, notes of this denomination of the Rentenbank being withdrawn to the same extent, releasing over RM 700 million for the issue of RM 1 and 2 notes (the circulation of which could thus be more than doubled) without any increase in the total of the Rentenbank's issue.

Other countries besides those shown in the table on page 315 have issued small paper to replace or supplement the coinage, but details are not always available or are incomplete. For example, the limit on the issue of government notes of small denominations (Ks. 10 and 20) in Slovakia was raised from Ks. 100 to 200 million in November 1943, but the actual circulation was not published. Further, the issue of emergency notes of 1 öre and over has been reported from various places in Norway. And, in Croatia, the Mayor of Agram (Zagreb) was authorised in September 1942 to relieve the shortage of divisional coin by issuing Kunas 3 million notes of denominations of Kunas 0.5, 1 and 2, these notes to be legal tender only within the territory of the city of Agram; this seems to be the first "town currency" to have been put into circulation during this war. In October 1942 the Finance Minister of Croatia was authorised to issue small notes of Kunas 0.25, 0.5, 1, 2 and 5 up to a total of Kunas 335 million in all; in November the first of these notes were issued and it was decided that the emergency currency in Agram was to be gradually withdrawn and replaced by the new notes.

The expansion of the note circulations and the shortage of divisional coin have led to attempts, in some countries, to encourage the development of payments by cheque, or "cashless transfers", which would

**Bank of France — Note Circulation.**

Denomination of notes	1938	1939	1940	1941	1942
	At end of year in millions of Fr.fcs				
5,000 Fcs	2,118	12,053	32,371	46,589	68,337
1,000 "	62,491	83,086	111,147	134,583	202,413
500 "	12,225	16,199	20,359	26,614	40,445
100 "	28,320	33,363	45,629	47,752	55,681
5-50 "	3,625	4,754	6,877	10,109	12,026
<b>Total</b>	<b>108,779</b>	<b>149,455</b>	<b>218,383</b>	<b>265,647</b>	<b>378,902</b>
Denomination of notes	Percentage increase from December to December				
	1938-1939	1939-1940	1940-1941	1941-1942	1938-1942
5,000 Fcs	+ 469	+ 169	+ 44	+ 47	+ 3,126
1,000 "	+ 33	+ 34	+ 21	+ 50	+ 224
500 "	+ 33	+ 26	+ 31	+ 52	+ 231
100 "	+ 18	+ 37	+ 5	+ 17	+ 97
5-50 "	+ 31	+ 87	+ 14	+ 19	+ 232
<b>Total</b>	<b>+ 37</b>	<b>+ 46</b>	<b>+ 22</b>	<b>+ 43</b>	<b>+ 248</b>

economise the use of bank-notes. The French law of October 1940, which made payment by cheque or transfer compulsory for all amounts exceeding Fr.fcs 3,000, except agricultural payments at the fairs and markets, was mentioned in earlier Annual Reports of this Bank. This law, which practically gave cheques legal-tender status for large payments, was not, however, successful; as the table shows, there was a further considerable

increase in 1942 in the volume of Fr.fcs 5,000 notes outstanding, although payment by means of such notes was restricted by the law. In February 1943 a new decree raised the limit for cash transfers from Fr.fcs 3,000 to Fr.fcs 5,000, so that single payments by means of Fr.fcs 5000 notes became free from restrictions. Payment by cheque was, however, encouraged by a series of new measures: cheque forms were to be issued free of charge, the stamp duty of 50 centimes on cheques and transfers was abolished, married women might open accounts without the authorisation of their husbands, etc. Further, various classes of payments were listed for which cheques or transfers were compulsory.

In Holland the stamp duty of Fl. 0.10 was abolished on all bank cheques, transfers and in-payments as from 15th April 1943. An important step for the evolution of "cashless transfers" in Germany was taken by the Deutsche Reichsbahn when it was decided that from 1st January 1943 all salaries and wages without exception would be paid, not in cash, but by transfers to an account at one of the 29 Reichsbahn savings and loan banks; previously about 75 per cent. of the Reichsbahn personnel had voluntarily agreed to this method of payment. In May 1943, by an agreement between the German banks and insurance companies, extensions were made to the system of cashless transfers of insurance premiums. And a decree of 27th July 1942 in Roumania made the postal giro obligatory for payments above a certain amount by the government, public bodies and local governments.

The development of the giro mechanism is an essential characteristic of the evolution of the payments system in Continental Europe, for which there is no parallel in Anglo-Saxon countries; this is true, in particular, of the postal giro, which provides for cashless transfers of small amounts — of great importance in the retail trade and for salaries, pensions and similar payments.

The postal giro had its origin in Austria in 1883 and was introduced in Hungary in 1890, Switzerland in 1906 and Germany in 1909; in 1910 the first international postal giro was formed by these four countries to facilitate transfers from one to another. Later, many other European countries adopted the postal giro system, including Belgium (1913), Denmark, France, Holland and Italy (1918-19), Sweden (1925), Bulgaria (1931), Roumania (1933) and Finland (1940).

In all countries the postal giro is now completely separated from the postal savings bank and forms a special department of the post office, utilising all the facilities of the postal system. The postal giro may be likened to the current-account business of a commercial bank, but it is not a bank in the ordinary sense of the term. It does not grant credit nor has it any mechanism for the collection of bills and bank cheques; it does not perform trustee work or investment business nor does it provide any of the facilities required in large-scale trading. It is essentially supplementary to the commercial banking system.

From the banking point of view the operations of the postal giro are exceedingly simple and amount to little more than correct book-keeping. As advances or loans are not granted and no provision is made for the purchase and deposit of securities, the large specialised staff of an ordinary bank is not needed. Generally, a minimum deposit is required from each depositor to cover running expenses, which are low; in most countries deposits are non-interest-bearing; funds deposited are automatically invested directly in government securities, while a small cash reserve is held with the central bank; postal cheques and giro transfers are mostly free of stamp and other taxes. The growth of the system on the continent is shown in the following table.

**Postal giro accounts in various countries.**

Year	Germany	France	Switzerland	Belgium	Holland	Sweden	Denmark	Hungary
Number of accounts -- in thousands -- at end of year								
1910	60	—	10	—	—	—	—	21
1920	622	74	39	36	33	—	3	37
1930	992	497	65	274	168	41	26	35
1940	1,349	902	137	462	392	128	57	44
1941	1,501	—	142	457	427	137	59	48
1942	1,629	1,314 <sup>(1)</sup>	150	473	468	148	62	50
Balance on accounts -- in millions of national currency units -- at end of year								
1910	111	—	22	—	95	—	—	115
1920	7,571 <sup>(2)</sup>	505	140	367	—	—	6	28
1930	616	5,245	238	2,094	119	55	28	119
1940	1,827	16,408	643	5,198	463	317	105	456
1941	2,353	—	701	7,533	569	392	186	690
1942	2,769	28,701	784	7,717	635	498	218	815
Turnover of accounts -- in milliards of national currency units -- during year								
1910	21.8	—	3.3	—	—	—	—	8.8
1920	683.9 <sup>(2)</sup>	56.9	19.9	34.2	4.9	—	1.4	1.5
1930	141.4	440.0	28.5	394.7	11.6	6.6	4.9	14.8
1940	267.7	760.6	44.4	305.2	26.1	44.2	11.3	35.2
1941	342.1	<sup>(3)</sup>	50.2	482.4	30.5	51.9	13.2	48.2
1942	386.9	<sup>(3)</sup>	53.4	533.1	32.6	62.5	15.1	68.4

<sup>(1)</sup> January 1943.

<sup>(2)</sup> Figures swollen by the inflation of the Mark at that time.

<sup>(3)</sup> The total turnover for 1941 and 1942 is not available, but the total non-cash transfers rose from Fr.fcs 597 milliard in 1940 to Fr.fcs 886 milliard in 1941 and Fr.fcs 1,159 milliard in 1942.

There are over a million and a half accounts in Germany, somewhat under a million and a half in France, half a million each in Belgium and Holland, about 150,000 in Switzerland and Sweden, and so on. The continuous expansion of the number of accounts and their turnover are indications of the ever growing popularity of the system.

The development of the postal giro during the past thirty years has had a revolutionary influence on the habits of payment and upon the mechanism of monetary intercourse in the countries where it has been introduced. On the continent of Europe the practically unanimous opinion has come to be that, compared with the bank-cheque system, the postal giro saves considerable time and labour, especially as regards payments of small amounts. So far the

postal giro does not exist outside Continental Europe, except in Japan and in certain territories closely connected with Europe, e. g. Tunis and the Belgian Congo. Incidentally, comparisons of continental European with Anglo-Saxon banking, especially with regard to the development of cheque payments, are generally vitiated by lack of attention to the importance of the postal giro in the former countries. (It may be recalled that, in October 1942, the Kennet Committee in England made the somewhat surprising recommendation that the use of cheques should be reduced and small payments made in cash.)

In conclusion, the velocity of note circulations should be mentioned. There is no really satisfactory method of measuring the speed of circulation of bank-notes but available evidence generally goes to show a marked slowing-down of the average velocity in most countries as the total issues have expanded; owing to restrictions and other war conditions, people are unable to use their income as they like and when they like, and so notes are hoarded, that is, temporarily held off the market. Or they may be placed on current account at the banks, where they have a "waiting rôle" for the time being.\* The Kaufkraftüberhang as it is called in Germany (or purchasing power "hang-over") poses a question of increasing gravity the longer the war lasts. And, when the war is over, the problem of preventing the surplus of spending power from exerting an active influence in raising prices will become more acute; in other words, every effort must be made to absorb the redundant note issues before the velocity shows signs of rising and before the circulations are further augmented by the withdrawal of temporary bank deposits.

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\* The Deutsche Bank, when indicating the decline of turnover during the war (see footnote to page 177), commented that, at the present time, a large part of the outstanding volume of bank deposits appear to have a "waiting rôle", to be "sleeping" until their owners call for them.

## VII. CURRENT ACTIVITIES OF THE BANK.\*

### 1. OPERATIONS OF THE BANKING DEPARTMENT.

The balance sheet of the Bank as on 31st March 1943, examined and found correct by the auditors, is reproduced in Annex I to the present Report. It shows a total of 483.4 million Swiss gold francs (of 0.2903... grammes of fine gold) against 476.6 million on 31st March 1942 and 495.8 million on 31st March 1941. As before, the method of conversion of the currencies represented in the balance sheet is based on the exchange rates quoted for the various currencies against dollars and on the U.S. Treasury's official selling price for gold on the date of the closing of the Bank's accounts. Such variations as have occurred in the exchange rates between 31st March 1942 and 31st March 1943 have affected currencies which have very little influence on the accounts of the Bank.

The scrupulous adherence to the principles of strict neutrality applied by the Bank since the outbreak of hostilities, the course of events during the year, and the tightening of the economic control exercised by the authorities in most countries have led to a further decline in the volume of the Bank's operations, the total turnover having, in fact, fallen to about two-thirds of the figure reached in the previous financial year. The most marked reduction is in the volume of gold operations, while movements on deposit accounts have remained on the same scale as last year.

The activities of the Bank have, however, been sufficient to keep it in contact with the various markets and to furnish it with practical experience of the increasingly complex financial machinery characteristic of the present time.

In the field of economic studies, the regular work of following monetary and financial developments in different parts of the world has been kept up in spite of growing difficulties. In addition to the Annual Report, the Bank has continued to publish collections of exchange restrictions and other current regulations concerning monetary matters, these publications being in great demand.

As in the past, attention has constantly been paid to the maintenance of the greatest possible liquidity in the assets of the bank. At the end of the financial year the Bank's assets in gold for its own account reached a higher figure than at any time except during a short period before the outbreak of war.

During the financial year under review, the movements in the Bank's statement of accounts, showing the position as at the end of each month,

\* This chapter was submitted to the thirteenth Annual General Meeting of the Bank on 16th June 1943.

remained within narrow limits. From 476.6 million Swiss gold francs on 31st March 1942, the total rose to its maximum for the year, 484.8 million, on 30th June, fell to its minimum for the year, 472.6 million, on 31st August, and thereafter remained in the neighbourhood of 480 million, finishing the year at 483.4 million Swiss gold francs on 31st March 1943.

Earmarked gold, not entered in the balance sheet, totalled 51.6 million Swiss gold francs on 31st March 1942. Since the end of April the figure has remained unchanged at 49.3 million.

A comparison of the principal items in the Bank's balance sheet on 31st March 1942 and on 31st March 1943 calls for the following observations:

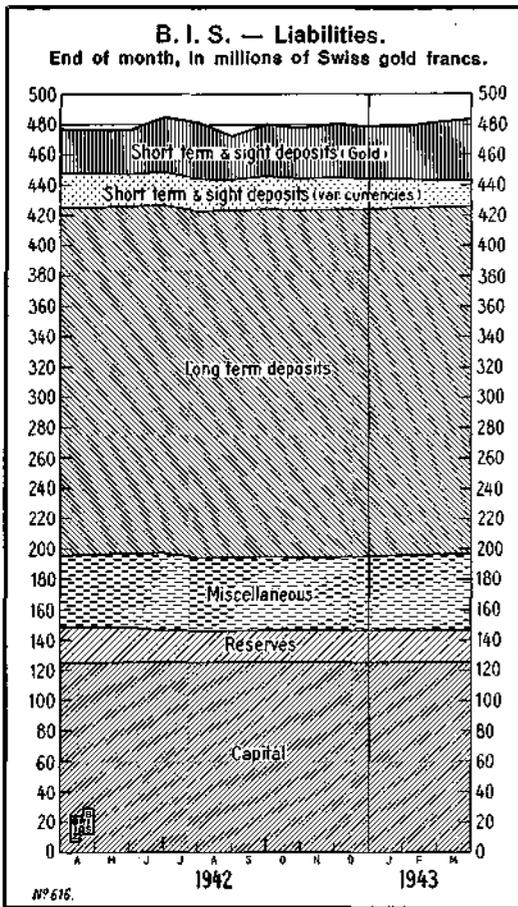
#### A. Liabilities.

The payment of the dividend for the financial year 1941-42 entailed a reduction of the reserves from 23.3 million to 21 million Swiss gold francs. Apart from certain fluctuations in the item "Miscellaneous", the chief movements among the liabilities during the year are found in the volume of short-term and sight deposits.

Sight deposits of central banks for their own account shrank from 13.4 million at the beginning of the financial year to a minimum of 11.1 million on 28th February 1943, the figure on 31st March being 11.2 million.

Sight deposits of central banks for account of third parties remained more or less stationary round 1.3 million. Deposits of other depositors, consisting almost exclusively of sight funds, registered a slight rise, from 4.6 million to 5.7 million Swiss gold francs, between 31st March and 30th September 1942. After that a steady decline brought the figure down to 1.3 million on 31st March 1943.

Deposits expressed in a weight of gold show a more irregular movement. During the two first months of the financial year the figure for these deposits remained at about 29 million Swiss gold francs, rising to 37.7 million on 31st July to return to 29.1 million on 31st August. From then onwards a steady upward movement brought the total to 33.8 million on 30th September, 35.4 million on 31st December and 39.7 million on 31st March 1943. A recrudescence of activity in the settlement of international postal payments caused an appreciable increase not only in the volume of business but in the number of transfers effected during the year. The gold sight deposit accounts serving this purpose offer the Bank's correspondents special technical advantages, since any fractional amount of fine gold can be transferred by a mere book entry (virement). Thus the machinery ensures a high degree of flexibility in the payments. During the ten years that the Bank has kept accounts of this kind there has been a continual increase in their number. Gold sight deposit accounts are at present in operation for twenty-six different depositors (central



banks or international institutions). These accounts seem to meet a real need in the field of international transactions for which gold serves as a common measure.

In solving the technical questions involved, the Bank has had to take account of the fact that each gold commitment has to be locally defined, since gold in one centre cannot be regarded as exactly equivalent in value to the same weight of gold in another centre. A reference to this technical matter may be of interest now that the idea of an international unit of account more or less connected with gold has again been put forward.

The accompanying graph shows the movement of the principal items on the liabilities side, month by month from 31st March 1942 to 31st March 1943.

### B. Assets.

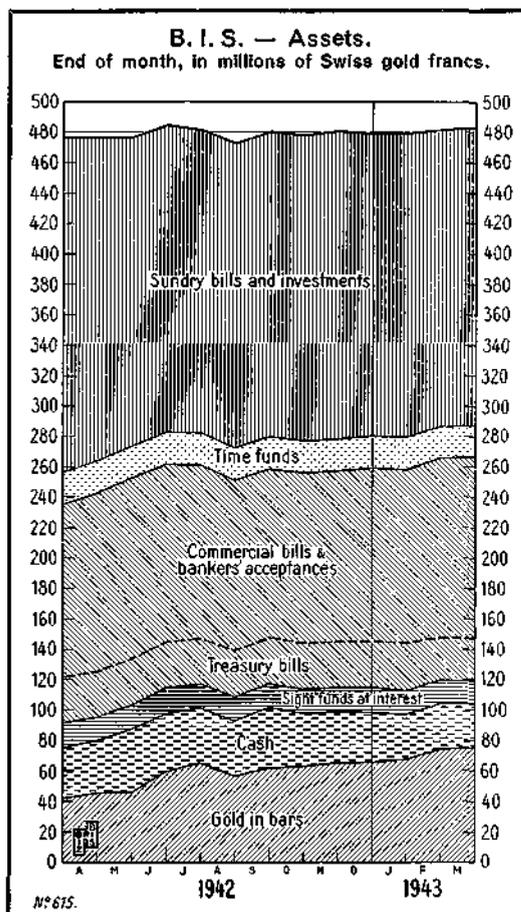
On the assets side, the total of gold in bars held by the Bank increased during the year by the equivalent of 33 million Swiss gold francs.

From 42.1 million Swiss gold francs on 31st March 1942 the figure rose to 65.2 million on 31st July, while the corresponding increase in commitments expressed in gold was only from 29 to 37.7 million. Consequently the Bank's own stock of gold was more than doubled during that period, passing from 13 to 27.5 million gold francs. A reduction of the Bank's gold commitments from 37.7 to 29.1 million, in August, brought with it a decrease in gold assets from 65.2 to 56.6 million, the Bank's own stock of gold being unaffected. During the rest of the financial year there was a more or less regular monthly increase in this stock, so that at 31st March 1943 it reached its maximum for the year with the equivalent of 35.4 million Swiss gold francs, being the difference between total gold commitments at 39.7 million and total gold assets at 75.1 million Swiss gold francs. For an international institution whose accounts are expressed in a weight of fine gold it is naturally of particular importance to maintain a proper balance between its assets in currencies and those in gold.

After an increase from 33 million Swiss gold francs on 31st March 1942 to 42.1 million on 31st May, the cash held in different currencies declined more or less steadily from then onwards, reaching its minimum for the year at 28.7 million on 31st March 1943. The reduction was very largely due to purchases of gold by the Bank. At the end of the financial year the aggregate amount of the Bank's gold and cash holdings was 103.8 million Swiss gold francs against 75 million on 31st March 1942 — an increase of nearly 40 per cent.

The total of sight funds invested at interest never exceeded 16.8 million Swiss gold francs, registered on 30th June 1942; the figure for 31st March 1943, 15.4 million, is not much higher than the minimum for the year, namely 15.3 million on 28th February.

After having increased from 144 million Swiss gold francs on 31st March 1942 to 149.4 million on 31st May, the total of the rediscountable portfolio fell to 141.5 million on 30th September, after which it rose steadily, finishing the financial year at 147.2 million. During most of the year, Treasury bills totalled slightly more than 30 million Swiss gold francs; on 31st January 1943 the figure was 31.3 million and on 31st March 28 million. The variations in the total of bills and acceptances were as follows:



114.2 million on 31st March 1942  
119.1 million on 31st May 1942  
111.1 million on 30th September 1942  
119.2 million on 31st March 1943.

As regards time funds invested at interest, there is no great difference between the initial and the final figures and there has been little divergence from them during the year.

There was a reduction in the aggregate figure for "sundry bills and investments" and also in the subtotal for securities of this kind at more than six months. In the first case the reduction amounted to some 24 million Swiss gold francs, in the second case it was about 30 million. These changes are the result of contractual repayments and they are also in line with the Bank's liquidity policy.

The graph shows the movement of the principal items on the assets side, month by month from 31st March 1942 to 31st March 1943.

The Bank's liquidity position is shown in the following table (in percentages of the respective balance-sheet totals):

	31st March 1942	31st March 1943
Gold in bars . . . . .	8.9	15.6
Cash, sight funds and rediscountable portfolio	40.6	39.6
Time funds, sundry bills and investments, other assets . . . . .	<u>50.5</u>	<u>44.8</u>
	<u>100.0</u>	<u>100.0</u>

In spite of the difficulties referred to at the beginning of this chapter, the Bank has regularly found investments for its funds, thanks to the assistance of all the central banks concerned. As in the preceding year, it has received and been able to transfer the interest due on its investments in various markets, with a single notable exception.

The Bank has also received various capital repayments during the financial year. The redemptions carried out by the National Bank of Hungary under the arrangement concluded in 1940 have had the effect of further reducing its debt to the Bank for International Settlements by nearly one-quarter. In a number of other instances repayments have been obtained as a result of the transfer facilities procured for the Bank by the payment of its dividend on the various markets.

The volume of gold operations in the year under review registered a further substantial reduction, connected with the present circumstances.

Operations for the purpose of facilitating the financing of international trade are naturally still limited to very small amounts. Various negotiations have nevertheless been set on foot at the request of the Bank's correspondents, and credits placed at the disposal of neutral central banks have been utilised to more or less the same extent as last year.

The maintenance of such operations even on a reduced scale has been found desirable. The credit machinery gradually built up by the Bank before the war on the basis of its varied experience in this field may be one of the means of meeting real needs which will make themselves felt when the wartime restrictions on international trade begin to be relaxed. The principal end in view is to enable central banks to procure for firms engaged in international trade certain credit facilities which they could not easily obtain in any other way. "Reciprocal credits" arranged by the Bank between different central banks along the lines described in the eighth Annual Report may permit the covering of exchange risks which could not be normally provided for by forward exchange transactions or otherwise. It is obvious that special arrangements may prove particularly useful in a disturbed period before the ordinary credit machinery has begun to function regularly once more.

The increase in the aggregate amount of gold and cash holdings, the shortening of the average term of investments, the repayments of capital for which it is practically impossible to find another employment offering the same

yield, the fact that on one market interest has not been transferred, and the general decrease in the volume of business — all these factors have necessarily had an effect upon the profits for the financial year, as Section 3 of the present chapter shows.

The decision taken by the French Minister of Finance to repay, on 1st July 1942, holders in Switzerland of the French National Security 4½% Loan 1937 led to the closing of the account kept by the Bank for the purpose of supplying funds to the paying offices entrusted with the service of this loan in Switzerland. Furthermore, in consequence of the conversion or repayment of the loan in question, the Bank, which had acted merely as an intermediary between the French Treasury and the paying offices in Switzerland, was relieved of that function on the same date.

The help given by the Bank to the international Red Cross organisations operating from Switzerland has taken a number of different forms. Besides acting as banker for these organisations, the Bank has been happy to render them technical assistance. In the present circumstances, these activities, being by their very nature restricted to a plane of absolute neutrality, are among those most in harmony with the general aims of the Bank.

## 2. TRUSTEE AND AGENCY FUNCTIONS OF THE BANK.

During the year under review, there has been no change or development in the Trustee and Agency functions of the Bank, which were described on pp. 155 and 156 of the Bank's tenth Annual Report.

## 3. NET PROFITS AND DISTRIBUTION.

It is for the present General Meeting to consider the declaration of a dividend. The net profit for the year, after making allowance for contingencies, is 4,508,953.89 Swiss gold francs, the Swiss gold franc being as defined by Art. 5 of the Bank's Statutes, i. e. the equivalent of 0.290 322 58 . . . . grammes fine gold. This compares with a figure of 5,185,685.90 Swiss gold francs for the twelfth fiscal year. For the purpose of the Balance Sheet as at 31st March 1943, the foreign currency amounts of the assets and liabilities have been converted into Swiss gold francs on the basis of the quoted or official rates of exchange for the respective currencies on that date, and all assets are valued at or below market quotations, if any, or at or below cost.

After providing for the Legal Reserve that is required by Article 53 (a) of the Statutes, to an amount equal to 5 per cent. of the net profits, i. e. 225,447.69 Swiss gold francs (1942: 259,284.30 Swiss gold francs), there remain 4,283,506.20 Swiss gold francs available towards the payment of a dividend. This sum, together with the remainder of the Dividend Reserve Fund amounting

to 1,626,940.33 Swiss gold francs, is not sufficient to pay the dividend of 6 per cent. referred to in Art. 53 (b) of the Statutes. It would appear that in these circumstances the Statutes must be regarded as requiring that the total amount available, i. e. 5,910,446.53 Swiss gold francs, should be applied to the payment of a dividend. Consequently, the dividend must be fixed at the number of Swiss gold francs per share which can be paid out of the total amount available, subject of course to fractions which, as a practical matter, cannot be distributed. The maximum amount, therefore, which could be distributed as dividend is 29.55 Swiss gold francs per share, and after this distribution there would remain a surplus of 446.53 Swiss gold francs to be carried forward to the fourteenth fiscal year. It is recommended that the General Meeting declare a dividend of 29.55 Swiss gold francs per share in respect of the thirteenth fiscal year and that the remainder of the Dividend Reserve Fund, amounting to 1,626,940.33 Swiss gold francs, should be utilised towards this purpose. After giving effect to these recommendations, the Legal and General Reserves at the end of the thirteenth fiscal year would amount to a total of 19,607,585.27 Swiss gold francs.

The accounts of the Bank and its thirteenth Annual Balance Sheet have been duly audited by Messrs Price, Waterhouse & Co., Zurich. The Balance Sheet will be found in Annex I, as well as the certificate of the auditors to the effect that they have obtained all the information and explanations they have required and that in their opinion the Balance Sheet, together with the note thereon, is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of their information and the explanations given to them and as shown by its books. The Profit and Loss Account and the Appropriation Account are reproduced in Annex II.

#### 4. CHANGES IN THE BOARD OF DIRECTORS.

The Board, acting by correspondence, unanimously decided to elect Herr Ernst Weber, President of the Direktorium of the Swiss National Bank, as Chairman of the Board of Directors, effective 1st December 1942. Herr Weber accepted election as Chairman, under Article 39 of the Statutes, on the understanding that, if the Board were able to resume its regular meetings before the expiry of his normal term of office, he would place his appointment at the disposal of his colleagues.

The terms of office of Dr L. J. A. Trip and Mr Ivar Rooth having expired on 31st March 1943, both were re-elected by correspondence for a further period of three years. With effect from 1st June 1943 the Governor of the Bank of Japan reappointed Mr H. Kano for a further term of office as Director.

## CONCLUSION.

The expansion of industrial output achieved by the principal belligerent countries has provided further proof, if such were needed, that the great advance in manufacturing technique has continued at a rate fully as high in the present century as at any time during the previous hundred years. The war has stimulated invention which has added considerably to the fund of constructive ideas — many of the lessons now learnt may bring a lasting contribution to the solution of problems of production and distribution in the future.

The lack of basic materials and foodstuffs at present experienced in different degrees in practically all countries is a consequence of that deliberate obstruction of international trade which forms part of warfare. Before the outbreak of war in 1939 there was an abundance of supplies on the world markets; thanks to improved methods of extraction and production, materials and foodstuffs could be obtained with less expenditure of labour than ever before; but, even so, prices tended, on the whole, to be too low to provide the producer with a fair remuneration, rather than too burdensome for the purchaser. The cost of materials had, indeed, become progressively a less important factor in production, such articles as motor cars and radios being typical examples. The tendency for the relative value of materials to decline is, of course, only the latest phase of a process which has stretched over centuries. Francis Bacon wrote about the year 1600 that: "it cometh many times to pass that *materiam superabit opus*, that the work and carriage is more worth than the material and enricheth a state more". The growing importance of the "value added in manufacture" makes it now more than ever before imperative to advance the industrial efficiency of the working population and to secure orderly production and distribution — tasks which have become more difficult through the increasingly complicated character of modern society.

A hundred years ago it was the confident belief of an age busy with the reshaping of the economic system that a natural harmony would result if only the mass of hampering trade regulations were swept aside so that the able and active could make their full contribution to the increase in wealth and welfare. This was, no doubt, the appropriate philosophy for a period of great transformation, when strong dynamic forces were bringing about a rapid increase in industrial production and a consequent improvement in the standard of living, with a trebling of real wages between 1850 and 1914. But full freedom from regulations was never achieved and as time went on "laissez faire" proved an insufficient precept for economic policy; since 1914-18 it has given way to a growing measure of governmental intervention, whose proper limits, however, remain a matter of controversy. The state can obviously not escape responsibility in matters such as foreign-trade policy and monetary legislation.

And the government (either central or local) has further assumed an increasing number of functions in the economic field: it runs public enterprises, it provides social services and, as part of its concern with the problem of unemployment, it intervenes to mitigate the cyclical fluctuations of business. Finally, the heavy burden of modern taxation has given the decisions of governments a greater consequence than ever before from an economic point of view.

In all these matters it is, of course, of the highest importance that the measures taken should be not improvised but well considered — In other words, that there should be proper planning. This may appear self-evident, but the very word "planning" has come to be surrounded by a number of complexes. There are some who extol it as the watchword for a new economic era, while others see in it a cloak for much they consider harmful and suspect. However one may regard the question, it is of practical importance to understand some of the reasons for the distrust of planning. There are, in the first place, certain arguments specifically political in character, as, for instance, that increased regulation will lead to strong concentrations of economic and political power and that these will prove detrimental to the maintenance of individual freedom. There are, further, the fears that planned economy will in practice amount to little more than planned spending; and there are two other objections: that planning will be abused for the promotion of particular group interests at the expense of the community as a whole and that government intervention will be pushed so far that too little scope will be left for private initiative and enterprise.

These objections cannot all be lightly dismissed. If planning is to succeed, care must be taken to avoid the pitfalls and shortcomings only too often associated with it; in particular, government action cannot with impunity run counter to the principles of the price system, according to which the real value of goods and services depends ultimately upon scarcity in relation to utility. That costs and prices should balance; that, whatever measures be taken to prevent violent short-run fluctuations, supply and demand must in the long run be allowed to determine prices — these are precepts which governments themselves must observe if their plans are not to be defeated by hard and obstinate facts. In a sense, planning has no doubt come to stay; but planning itself must conform to the fundamental requisites of economic progress, if it is to achieve that harmony of interests between nations and classes without which there can be no solid basis for expansion and for the welfare that goes with it. Such harmony is never easily attained; yet there is, even in the midst of this war, an unmistakable endeavour to find solutions for the many new problems confronting our present age. It is, then, well to remember that man's material welfare need be held back neither by lack of technical knowledge nor by insufficiency in nature's gift of basic materials. On the contrary, after the war the main difficulty, and therefore the main problem, in this field will be how to secure a sufficient degree of harmony internationally and socially without stifling initiative and enterprise or impairing the flexibility essential for sustained economic progress.

# ANNEXES

# BALANCE SHEET

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

ASSETS			
I—GOLD IN BARS . . . . .		75,136,419.77	15.6
II—CASH On hand and on current account with Banks . . . . .		28,675,281.18	5.9
III—SIGHT FUNDS at interest . .		15,389,882.95	3.2
IV—REDISCOUNTABLE BILLS AND ACCEPTANCES			
1. Commercial Bills and Bankers' Acceptances . . . . .	119,261,524.17		24.7
2. Treasury Bills . . . . .	27,975,994.11		5.8
		147,237,518.28	
V—TIME FUNDS at interest			
1. Not exceeding 3 months . .	20,923,430.24		4.3
2. Between 3 and 6 months . .	5,680.95		0.0
		20,929,111.19	
VI—SUNDRY BILLS AND INVEST- MENTS			
1. Treasury Bills . . . . .	75,073,006.12		15.5
2. Railway, Postal Administration and Other Bills and Sundry Investments . . . . .	120,818,343.50		25.0
		195,891,349.62	
VII—OTHER ASSETS . . . . .		123,099.66	0.0
NOTE — The Bank holds assets in gold at each of the places where gold deposits are repayable and in short-term and sight funds in the same currencies as the corresponding deposits, in all cases substantially greater than the deposits in question (Items IV and V — Liabilities). The use of dollar assets and bar gold held in the U. S. A. is subject, under wartime regulations, to U. S. Treasury license. As regards assets held in countries whose currencies are subject to exchange restrictions, the Governments concerned have, either as signatories of the Hague Agreement of 1930 (Article X) or by special measure, declared the Bank to be immune "from any disabilities and from any restrictive measures such as censorship, requisition, seizure or confiscation, in time of peace or war, reprisals, prohibition or restriction of export of gold or currency and other similar interferences, restrictions or prohibitions". Moreover, after providing for the German Government Deposit out of investments in Germany, nearly 60% of the assets then remaining are covered by special contracts guaranteeing their gold value. The Bank's commitment in respect of the Annuity Trust Account Deposits is not clearly established, but it is stated at its maximum amount in Swiss Gold Francs. For Balance Sheet purposes the currency amounts of the assets and liabilities have been converted into Swiss Gold Francs on the basis of quoted or official rates of exchange for the respective currencies.		483,382,662.65	100.0

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

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

ZURICH, April 29, 1943.

## AS AT MARCH 31, 1943

GRAMMES FINE GOLD — ART. 5 OF THE STATUTES)

LIABILITIES			
			%
<b>I—CAPITAL</b>			
Authorized and issued 200,000 shares, each of 2,500 Swiss gold francs . . . . .	500,000,000.—		
of which 25% paid up . . . . .		125,000,000.—	25.9
<b>II—RESERVES</b>			
1. Legal Reserve Fund . . . . .	6,039,487.45		
2. Dividend Reserve Fund . . . . .	1,626,940.33		
3. General Reserve Fund . . . . .	13,342,650.13		
		21,009,077.91	4.3
<b>III—LONG TERM DEPOSITS</b>			
1. Annuity Trust Account Deposits . . . . .	152,606,250.—		31.6
2. German Government Deposit . . . . .	76,303,125.—		15.8
		228,909,375.—	
<b>IV—SHORT TERM AND SIGHT DEPOSITS (various currencies)</b>			
1. Central Banks for their own account:			
(a) Not exceeding 3 months . . . . .	3,968,900.—		0.8
(b) Sight . . . . .	11,247,655.36		2.3
2. Central Banks for the account of others:			
Sight . . . . .		1,270,259.99	0.3
3. Other depositors:			
(a) Not exceeding 3 months . . . . .	24,381.01		0.0
(b) Sight . . . . .	1,244,245.17		0.3
		1,268,626.18	
<b>V—SHORT TERM AND SIGHT DEPOSITS (Gold)</b>			
1. Not exceeding 3 months . . . . .	947,479.37		0.2
2. Sight . . . . .	38,764,050.83		8.0
		39,711,530.20	
<b>VI—MISCELLANEOUS</b> . . . . .		46,488,284.12	9.6
<b>VII—SURPLUS</b>			
Profit for the financial year ended March 31, 1943 . . . . .		4,508,953.89	0.9
		483,382,662.65	100.0

of the Bank for the financial year ending March 31, 1943, and we report that we have obtained all the information with the Note thereon, is properly drawn up so as to exhibit a true and correct view of the state of the by the books of the Bank, as expressed in the above-described Swiss gold franc equivalents of the

## PROFIT AND LOSS ACCOUNT

for the financial year ended March 31, 1943

	<u>Swiss gold francs</u>
Net Income from the use of the Bank's capital and the deposits entrusted to it, after necessary allowance for contingencies . . . . .	6,389,808.56
Commission earned as Trustee (or Fiscal Agent to Trustees) for International Loans Transfer fees . . . . .	66,000.42 13.67
	6,455,822.65
Costs of Administration:—	
Board of Directors — fees and travelling expenses . . . . .	76,576.02
Executives and staff — salaries and travelling expenses . . . . .	1,507,144.28
Rent, insurance, heating, light and water . . . . .	102,754.19
Consumable office supplies, books, publications . . . . .	113,873.54
Telephone, telegraph and postage . . . . .	36,688.71
Experts' fees (Auditors, interpreters, etc.) . . . . .	12,353.98
Cantonal taxation . . . . .	35,421.51
Tax on French issue of Bank's shares . . . . .	26,106.89
Miscellaneous . . . . .	35,949.64
	1,946,868.76
NET PROFIT:—	4,508,953.89

## APPROPRIATION ACCOUNT

NET PROFIT FOR THE FINANCIAL YEAR ENDED MARCH 31, 1943 . . . . .	4,508,953.89
To the Legal Reserve Fund in accordance with Article 53 (a) of the Statutes, — 5 % of 4,508,953.89 . . . . .	225,447.69
Available towards a dividend for the year . . . . .	4,283,506.20
From the Dividend Reserve Fund . . . . .	1,626,940.33
	5,910,446.53
Dividend of 29.55 Swiss gold francs per share . . . . .	5,910,000.—
Carried forward . . . . .	446.53

## BOARD OF DIRECTORS\*

Ernst Weber, Zurich	Chairman
Dott. V. Azzolini, Rome	
Y. Bréart de Boisanger, Paris	
Baron Brincard, Paris	
Walther Funk, Berlin	
Alexandre Galopin, Brussels	
Prof. Francesco Giordani, Rome	
Hisaakira Kano, Tokio	
Sir Otto Niemeyer, London	
Montagu Collet Norman, London	
Ivar Rooth, Stockholm	
Dr. Hermann Schmitz, Berlin	
Kurt Freiherr von Schröder, Cologne	
Dr. L. J. A. Trip, The Hague	
Marquis de Vogüé, Paris	
Yoneji Yamamoto, Berlin	

### Alternates

Dott. Giovanni Acanfora	} Rome
Dott. Mario Pennachio	
Cameron F. Cobbold, London	
Emil Puhl, Berlin	

## EXECUTIVE OFFICERS

Thomas H. McKittrick	President
Roger Auboin	General Manager
Paul Hechler	Assistant General Manager
Dott. Raffaele Pilotti	Secretary General
Marcel van Zeeland	Manager
<hr/>	
Dr. Per Jacobsson	Economic Adviser
Dr. Felix Welser	Legal Adviser

\* The question of the Belgian ex-officio Director and his Alternate is in abeyance.

16th June 1943.