

BANK FOR INTERNATIONAL SETTLEMENTS

FOURTEENTH ANNUAL REPORT

1st APRIL 1943 — 31st MARCH 1944

14th Annual Report.

Erratum

**Page 242, last paragraph, third line, last word:
Instead of "through" read "though".**

BASLE

End of 1944

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FOURTEENTH ANNUAL REPORT

OF THE PRESIDENT OF THE

BANK FOR INTERNATIONAL SETTLEMENTS

announced at the

ANNUAL GENERAL MEETING

held at

Basle, 22nd May 1944.

The President has the honour to submit herewith the Annual Report of the Bank for International Settlements for the fourteenth financial year, beginning 1st April 1943 and ending 31st March 1944. The results of the year's business operations are set out in detail in Chapter VII. Net profits, after provision for contingencies, amount to 5,253,903.12 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. 262,695.16 Swiss gold francs, there remain 4,991,207.96 Swiss gold francs available towards the payment of a dividend. This sum together with the balance of 446.53 Swiss gold francs brought forward from the thirteenth financial year — in all 4,991,654.49 Swiss gold francs — permits the distribution of a dividend of 24.95 Swiss gold francs per share. The amount required for this dividend would be 4,990,000 Swiss gold francs leaving 1,654.49 Swiss gold francs to be carried forward to the fifteenth financial year. At the end of the year the balance-sheet total was 467.3 million Swiss gold francs, as compared with 483.4 million Swiss gold francs on 31st March 1943.

The intensification of the war, with increased concentration of commercial and financial interchange in government hands, has further narrowed the field of operations which might come within the scope of the Bank for International Settlements. Apart from a few transactions for the International Red Cross and with certain neutral markets, the main task of the Bank has been to manage its own investments and as far as possible to give these investments the form most likely to safeguard their capital value in the disturbed conditions prevailing. The understanding with which it has met in carrying out this task and, one might add, the continued existence of an international institution during a conflict of such immense proportions, can only be explained by the Bank's adherence in all its activities to the principle of scrupulous neutrality adopted in the autumn of 1939, which has meant the avoidance of all transactions whereby any question could possibly arise of conferring advantages upon one belligerent nation to the detriment of another or of allowing the use of its facilities to circumvent or evade in any way the restrictions and regulations in force.

With the fourth and fifth years of the war, it has become possible to speak of a normal form of war economy in the sense that expedient — but certainly not ideal — methods have been worked out for the direction of production, the handling of domestic and foreign trade, and the supervision of exchange, money and capital markets with a view to financing the military effort at low interest rates. The same degree of success has not, of course, been achieved in all countries — violent inflation, with rapidly mounting commodity prices, bears witness that in some areas, as in the Balkans and the Far East, a fundamental balance has not yet been reached and may, indeed, never be reached so long as the war lasts. An outward sign of finality attained in the sphere of war economy may be found in the budget speech on 25th April 1944 by the British Chancellor of the Exchequer, announcing hardly any changes in taxation or in the types of borrowing; likewise in Germany no tax increases were introduced either in 1943 or in 1944. In fact, almost the only consolation which could be offered to taxpayers in a number of countries has been that the rates of war taxation have reached their peak. As a result, the yield of individual taxes has tended to remain almost constant since 1943, a typical instance being the yield of turnover taxes in those countries where it has been possible to arrest the rise in commodity prices. Years of practice have, as a rule, perfected the methods evolved for controlling prices and especially for holding down the cost of living; the degree of stability attained may be seen from the following table, in which a price rise of less than ten per cent. is shown by the majority of countries after the end of 1942.

Percentage Change in Wholesale Prices and Cost of Living.

Countries	Wholesale prices		Countries	Cost of living	
	Percentage change from the end of 1942 to June 1944	from January- June 1939 to June 1944		Percentage change from the end of 1942 to June 1944	from January- June 1939 to June 1944
Argentina	+ 10	+ 106	Argentina	- 2	+ 10
Australia	+ 1	+ 39	Australia	0	+ 22
Canada	+ 6	+ 40	Canada	0	+ 18
Chile	+ 2	+ 102	Colombia	+ 36	+ 44
China (Shanghai) . . .	+ 411 (?)	+ 10,295 (?)	Denmark	+ 1	+ 57
Denmark	+ 1	+ 98	Eire	+ 7	+ 69
Finland	+ 17	+ 168	Finland	+ 11	+ 101
France	+ 24	+ 153 (?)	France	+ 44	+ 165 (?)
Germany	+ 2	+ 10	Germany	+ 5	+ 13
Great Britain	+ 3	+ 70	Great Britain	+ 1	+ 31
India (Calcutta) . . .	+ 26	+ 203	Hungary	+ 30 (?)	+ 98 (?)
Japan	+ 16	+ 57	Japan	+ 15	+ 46
Manchukuo	+ 26	+ 112	Manchukuo	+ 29	+ 156
Mexico	+ 84	+ 93	Norway	+ 2	+ 53
New Zealand	+ 6	+ 49	Peru	+ 23	+ 67
Norway	+ 1	+ 82	Portugal	+ 19	+ 73
Peru	+ 11	+ 106	Roumania	+ 60	+ 465
Portugal	+ 34	+ 153	Spain	+ 4	+ 73
Spain	+ 7	+ 91	Sweden	0	+ 42
Sweden	+ 1	+ 80	Switzerland	+ 4	+ 53
Switzerland	+ 4	+ 111	Turkey	- 2 (?)	+ 230 (?)
Turkey	- 8 (?)	+ 363 (?)	Union of South Africa	+ 7	+ 29
Union of South Africa	+ 5	+ 56	Uruguay	+ 7	+ 17
United States	+ 3	+ 36	United States	+ 4	+ 27

(?) Up to April 1944.

(?) Up to March 1944.

(?) Compared with August 1939.

(?) Up to April 1944.

(?) March 1944 compared with the average of 1939.

(?) Up to January 1944.

In the first phase of the war a certain rise in the price level, representing the response of prices to the new conditions of supply and demand, may be said to have facilitated the change-over to war production as well as bringing a larger yield from taxation; but, in order to avoid inflation, definite limits had to be set to the price increase. In most countries a close connection was gradually established between movements of wage rates and of living costs, and it then became most important to secure a high degree of stability in the cost-of-living Index even if this meant heavy subsidies to producers and consumers, it being felt that an increase in wage rates would have a more inflationary effect than subsidy payments. Accordingly, once the Index of living costs approached the "danger zone", the watchword became "hold the line" (as the United States put it).

Such a policy no doubt entails many difficult problems for the future, on account of the artificialities which it introduces; but in their decisions the authorities have been primarily concerned with the immediate dangers of the day. The reaction of the public has always been a factor of importance; and in that connection mindfulness of past experience seems to have played a greater rôle than is generally realised. When, in the 'twenties, monetary order was restored after the derangements of the last war, the countries with their currencies at the 1914 gold value were the following: the United States, the United Kingdom, Canada, Australia, New Zealand and South Africa; Norway, Denmark, Sweden, Switzerland, Holland and the Dutch Indies; the Argentine, Colombia, Uruguay, Venezuela, Japan and Thailand. For thirteen out of this list of eighteen countries cost-of-living Index numbers have been available; and it is interesting to note that every one of these countries has been in a position to avoid extreme price rises in the present war: the increase in the cost of living up to the middle of 1944 varied from 10 per cent. for the Argentine to 57 per cent. for Denmark. This group of thirteen countries included six non-European countries belligerent in the last war: the United States, Japan, Canada, Australia, South Africa and Uruguay; six which were neutral: Norway, Denmark, Sweden, Switzerland, the Argentine and Colombia; and only one European belligerent: Great Britain. That these countries were able, after the war, to sustain their currency values was partly due to good fortune, in that neutrality or distance had kept them aloof from the battlefields; but they can mostly claim to have had a tradition of orderly financing.

Effective stabilisation of prices and earnings, restrictions on dividends, prohibitions against strikes and lock-outs, compulsory use of official employment agencies — these and other measures have all involved some encroachment on economic freedom, including the right of labour to press for better conditions, especially through its trade unions. Naturally, restrictions of this kind are apt to produce a certain psychological strain, and dissatisfaction might become serious if certain groups were able to reap large profits while the broad strata of the population suffered a reduction in their standard of living. To avoid glaring inequalities, the schemes which have been introduced in various countries for a stabilisation of costs and prices have usually included a whole series of provisions concerning excess profit taxes, limitations

on wage and salary increases, etc. In so far as such measures have been successful, however, a brake has been put on the natural drive of individuals and groups for an improvement in their standard. Only in cases where it was felt that pre-war earnings were unduly low or that domestic production needed a special stimulus — both these conditions being fulfilled as regards agriculture — has there been a general willingness to allow higher prices to the producers; but even here a point may soon be reached beyond which further increases will be regarded as unjustifiable.

Any attempt to present a general picture would, however, be misleading, since conditions have varied considerably from country to country, especially as regards the rate at which civilian goods have been supplied. The best course is, therefore, to give some typical examples of production and consumption as far as available data permit, it being understood that, as a result of military events, economic conditions in most countries deteriorated in 1944 as compared with the previous year:

1. Where warfare has long been in progress, as in large areas of the U.S.S.R., several Balkan countries and certain parts of Italy, material destruction, accompanied by an interruption in civilian production, has led to acute scarcities, so that the barest necessities of life have been procurable only with the greatest difficulty. But the resilience of human nature has again been demonstrated by the low level of consumption at which life could be maintained, often for protracted periods. It is not possible to give any statistical measure of the dearth of commodities in the areas concerned, especially since it can never be known what relief may have been obtained from stocks hidden in advance.
2. In a few countries which, as far as their main productive areas are concerned, have escaped actual warfare, the mobilisation of manpower has been pushed so far that domestic production has been very greatly reduced. In Finland, for instance, mobilisation was at the rate of 16 per cent. of the total population, and the situation was moreover aggravated by a very considerable decline in foreign trade. What is shown in the graph on page 11 as the Index of production refers only to export industries, which experienced a fall to barely 45 per cent. of the pre-war level (part of the output of these industries being required, of course, for domestic consumption). For 1943, the total volume of output of all industries has been estimated at approximately 70 per cent. of the level attained in 1935, or about 65 per cent. of the level in 1938-39. Since the harvest in Finland was exceptionally poor in the years 1940 to 1942 (mainly on account of very cold winters), consumers have, for a number of years, had to be satisfied with very scanty supplies.
3. France furnishes an example of an occupied country which suffered from a lack of labour (about two and a half million of its able-bodied men being either in Germany — as prisoners of war, civilian prisoners i.e. those deported for political reasons, or specially recruited workers — or else serving in the "maquis") and from the purchases and requisitions of

the occupying power, which in 1943 had at its disposal a total of Fr.fcs 285 milliard (made up of Fr.fcs 63 milliard on the clearing account and Fr.fcs 196 milliard derived from the payment of "occupation costs" at Fr.fcs 500 million per day, the remainder being charges for billeting, requisitions, railway transport etc.). With the progressive depletion of raw-material and other stocks, with machinery worn out and the population affected by dwindling food supplies, current production during the war fell from year to year. It has been estimated⁽¹⁾ that in 1943 the total current output, of which over one-third went to the occupying power, amounted to barely 70 per cent. of the pre-war volume. Less than 50 per cent. of this volume remained for the French population itself.

4. For Germany no production figures are available but it is known that, as part of "total warfare", all men and women who could possibly be spared from other tasks were finally mobilised for service in the armed forces or in production. As a result, there was virtually no manufacture of articles which, for the time being, the population could possibly do without, the suppression extending far beyond the amenities of life. Consumers received only absolute necessities, but they were able to count on the availability of supplies in the quantities announced and at fixed prices, distribution generally working satisfactorily even under difficult conditions caused by bombing, etc. In March 1943 the total working population outside agriculture amounted to 30 million, of which 25 per cent. were women. It is probable that the increased employment of women, together with the prisoners of war and other foreigners at work in Germany, provided full replacement for the German men serving in the forces. In addition, the imposition of occupation costs, together with the clearing system, enabled Germany, during 1943, to obtain supplies to an estimated value of RM 37 milliard from occupied countries. By these various measures the necessary minimum of civilian supplies was procured in addition to the output of armaments.

5. Sweden and Switzerland are two neutral countries which have experienced a considerable decline in their foreign trade and have had to pay roughly double the pre-war prices for articles and materials still received from abroad. In both countries the most active part of the manpower has to a great extent been withdrawn from its ordinary occupations for military service or emergency production. Notwithstanding these difficulties, the supply of commodities has been less reduced than might have been expected — evidence, on the one hand, of the advantages of not being at war and, on the other, of the goods available in a country where prosperity has been widespread for years past, there being all kinds of articles and materials which, in a period of difficulty, can be put to direct use or turned into scrap.⁽²⁾

(1) See "Situation Economique de la France vers le 15 Mars 1943" by the "Institut de Conjoncture" of the "Service National des Statistiques", Paris.

(2) Developments in Switzerland and Sweden have been astonishingly similar during this war, as was, in fact, the case during the last war. This similarity extends even to the birth and death rates, which, for many years and particularly since 1939, have been well-nigh identical in the two countries (the birth rate in Sweden rising from 14.9 in 1939 to 19.3 in 1943 and in Switzerland from 15.2 to 19.2). For Sweden more complete statistical data have been published and may be used to illustrate the trends in the two countries. For 1943 Sweden's import volume was about 46 per cent. of normal (i.e. of the average for 1938-38) and the export volume 36 per cent. Imports from the continent of Europe were about 70 per cent. but from other countries not more than 22 per cent. of normal. Exports to the continent of Europe reached 75 per cent. of normal and to other countries only 4 per cent. There was thus a one-sided orientation of trade; but even in relation to the

6. The great changes which have occurred in the United Kingdom through the concentration of all efforts on the war are reflected in the following table.

Private and Public Expenditure
and Income in the United Kingdom
1938 and 1943.⁽¹⁾

Calendar years.	1938	1943	
		in current pounds	in 1938 pounds ⁽²⁾
		in millions of £ sterling	
Private outlay			
1. on consumption	4,072	4,981	3,224
2. involved in the acquisition and transfer of property and life insurance	66	68	46
3. on maintenance, replacement and increase in domestic capital	645	214	160
Government expenditure ⁽³⁾	837	5,187	3,840
Total expenditure	5,620	10,450	7,270
Covered by			
Net national income	5,225	9,455	6,530
Depreciation etc. allowance . . .	340	340	255
Gross national product	5,565	9,795	6,785
Drafts on foreign investments . . .	55	655	485
Total of gross national income and drafts on foreign invest- ments	5,620	10,450	7,270

(1) Taken from the British White Paper presented to Parliament on 25th April 1944 in connection with the new budget and from an article in "The Economist" of 6th May 1944.

(2) Excluding expenditure covered by lend-lease (cf. page 181).

(3) Pounds of 1938 purchasing power.

While government expenditure in 1938 took roughly one-sixth of the net national income, such expenditure absorbed over one-half in 1943. A comparison between the figures for 1938 and those for 1943, the latter reduced to pounds of 1938 purchasing power, shows that the increase in expenditure has been covered by

(a) an expansion of 22 per cent. in the national income as a result of longer hours of work, disappearance of unemployment, more employment of women and also more thorough rationalisation of the production and distribution of goods and services;

(b) a cut in consumption by about 20 per cent;

(c) reduced outlay for maintenance and replacement (since in 1943 such outlay did not reach the sum allowed for "depreciation, etc.", there was in that year a draft on domestic capital which has been estimated at £126 million);

(d) drafts on foreign investments. In order to carry on the war, the United Kingdom has unstintingly utilised its resources from past investments and has also entered into debt. During the war years to the end of 1943 "total overseas disinvestments" came to £3,000 million; this figure does not include amounts received under lend-lease but comprises, for instance, the repayment of Indian indebtedness in London and liabilities incurred to the Government of India (in all some £1,200 million by the autumn of 1944), the funds thus obtained being used, however, for very much the same purpose as lend-lease aid.

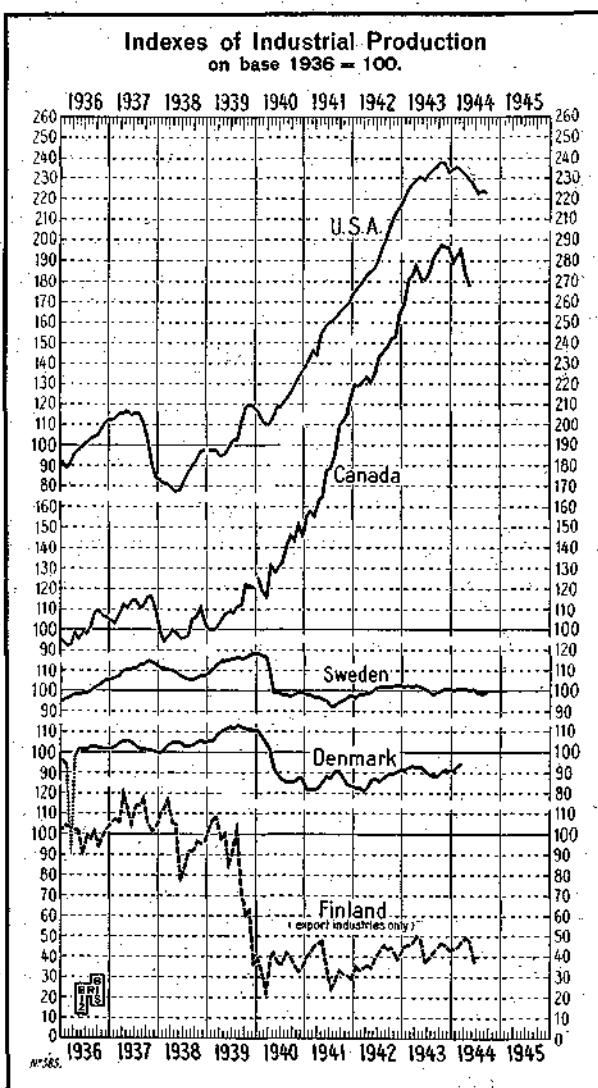
continent of Europe there was a cut in the export volume by some 25 per cent. Sweden's main export industries (especially timber, pulp and paper) experienced a marked decline, but this was largely counterbalanced by intense efforts of rearmament and production of many substitutes for goods previously imported. Detailed investigations show that, in volume, the consumption of food, drink and tobacco in 1942 fell below the 1939 level by 21 per cent., but in 1943 by only 17 per cent. Measured in calories the decline was, however, somewhat smaller, amounting to 13 per cent. in 1942 and 10 per cent. in 1943. Meat and cheese showed the greatest cut in consumption, while more milk and potatoes were consumed.

As regards the cut in private consumption, it should be noted that, within the limits set by rationing, basic needs can usually be satisfied at relatively low prices, thanks partly to the provision of utility goods (often exempt even from the purchase tax, for which the standard rate is 14 per cent.); other goods are also available but, if luxuries, are subject to purchase tax at the rate of 100 per cent.

7. The volume of armaments in the United States having risen at an almost unbelievable rate once a state of war had been declared, government expenditure in 1943 was already absorbing one-half of the gross national income; from under \$9 milliard in 1938-39, total Federal expenditure increased to nearly \$100 milliard in 1943-44. Provisional estimates place the gross national income in 1944 at \$159 milliard, as compared with \$89 milliard in 1939. Allowance being made for the rise in commodity prices, the gross national income in 1944 seems to correspond to \$126 milliard in

"dollars of 1939 purchasing power"; the increase in real income in the five years from 1939 to 1944 would thus be about 50 per cent. — a rate of improvement which, though very high, finds confirmation in the even more spectacular rise shown for the same period by the index of industrial production.

This increase in real income has made it possible to meet all war requirements, including the whole of the lend-lease shipments, without any diminution in the aggregate supply of goods and services available for civilian consumption. The Federal Reserve Bank of New York says in its annual report for 1943 that "despite the fact that there has been much diversion of manpower and resources from civilian to military use, and a virtual elimination of consumers' durable goods, the fact seems to be that American consumption in 1943 was in the aggregate about as high as in any previous war year and



substantially above 1939".* But the average citizen had a much higher income even in real terms and, without any cut in his consumption, was able to increase his savings both absolutely and relatively. It has been calculated that, for every \$1 of income received by the average citizen in 1939, 87 cents were spent on goods and services, 4½ cents went in taxes and 8½ cents to savings, while by the middle of 1943 each dollar of income had increased to \$1.99, of which \$1.26 was spent on goods and services and 21 cents went in taxes, 52 cents being left for various forms of saving. The rate of saving rose, indeed, from 8½ per cent. of individual income in 1939 to about 26 per cent. in 1943, a rate of 27 per cent. being given for the first quarter of 1944. This is one of the highest rates of voluntary saving ever known in history; it helps to explain how it has been possible to avoid a steep rise in prices, although the total of all incomes received by individuals was, even allowing for increased tax payments, substantially in excess of the supply of goods and services on sale to consumers. As a rule the surplus spending power has not been used in an active bid for the available supply of goods but has, in a large measure, been added to the public's holdings of liquid assets, which by the end of 1943 amounted to \$80 milliard in the form of notes and demand deposits, with an additional \$30 milliard in time deposits, and many milliards in government securities (compare page 241).

8. Latin American countries show some common features resulting from the fact that the commodities which they export have generally been in good demand, while their imports have been less than they would have liked, their main suppliers of finished articles, the United States and the United Kingdom, concentrating on the war. In the situation thus arising, almost every Latin American country sought to set up new domestic industries for the manufacture of goods previously imported; but difficulties in obtaining the necessary machinery have often proved insurmountable and industrialisation has thus been delayed. Lucrative exports, together with contraction of imports, tantamount to a kind of "forced saving", have brought additions to the monetary reserves of the Latin American countries: their combined holdings of gold and foreign exchange, which were about \$900 million in 1938, were expected to reach \$4,000 million by the end of 1944.

9. In the Far East, Chungking China has been practically cut off from the outside world except for lend-lease and similar deliveries obtained from Allied countries. Exports have been almost nil.

10. Japan, on the other hand, sought to strengthen commercial relations between the different territories in the area it dominated, but results have to some extent been prejudiced by the long journeys which must be made by sea. In the spring of 1944 measures were adopted within Japan proper to attain a higher degree of "total warfare", compulsory service for

* Although from 1940 to 1943 the armed forces of the United States increased by about 10 million, the number of civilians in employment went up from 45 to 50 million thanks to absorption of unemployed men and an increase from 11 to about 16½ million in the number of women employed. Moreover, working hours in industry rose from 37.5 at the beginning of 1940 to 45.4 in 1944. In the latter year, the armed forces, the staffs of government war agencies and the workers employed in war industries together constituted 36 per cent. of the total numbers in civilian employment and in the armed forces as against 13 per cent. in January 1940.

women being introduced while the government at the same time obtained authority for a more definite direction of the nation's manpower. As regards price policy, the aim has not been to enforce an inflexible "price stop" but rather to allow a certain response to market conditions, higher prices thus aiding in the unavoidable process of cutting down consumption.

The above examples indicate the great difference in certain basic conditions which must be taken as a starting-point in dealing with post-war problems. There are, however, some common features also: one is that everywhere the volume of money is larger than the supply of commodities (not for every individual or group of individuals but for the market as a whole); another is the high proportion of the national product taken by governments for the conduct of the war or to protect a state of neutrality. When it is possible to reduce expenditure under these headings, the task of balancing the national accounts can be undertaken. For quite a number of countries this should not prove too difficult, especially in view of the prevailing high rates of taxation which, if care is taken, should make it possible to discontinue most of the present voluminous borrowing. Other favourable features of the present

Wheat Stocks
in United States,

Canada,
the Argentine and
Australia.

On 1st August	million bushels
1938	300
1939	640
1940	790
1941	1,100
1942	1,400
1943	1,700
1944	1,000
1945 *	950

* Estimated.

situation, such as the large stocks of wheat, cotton and wool available in the main producing areas, must be taken into account.

The decline in wheat stocks from 1943 to 1944, as shown in the table, was due in part to harvest results below the average but more especially to increased use of wheat — particularly in the United States — as a feeding stuff for cattle, pigs and poultry and as a raw material for the production of alcohol, etc. At over 900 million bushels the visible stocks seem, however, amply sufficient to meet whatever requirements may arise in the form of relief and other shipments to Europe; at that figure the stocks would still be more than twice the average size for the five-year period before the present war.

There was an increase in the world's stocks of cotton from 21.6 million bales at the outbreak of the war to about 25 million bales in the course of 1944. It is, however, the stocks held outside the United States which are responsible for the increase. Those in the United States actually fell from some 18 million bales in 1939 to less than 11 million bales in 1944. But even at this figure the stocks correspond to one year's consumption in the United States, and redundancy of supplies continues to weigh upon the markets. Wool has been accumulating at a still greater rate, the stocks in 1944 being about six times as large as those held before 1939. By the end of 1944 it was estimated that the world's stock was 10 million 300-lb. bales, of which 8 million were held in the British Empire, with 6 million in Australia alone. Normally, Europe consumes between 40 and 50 per cent. of the world output of wool, while contributing only 15 per cent.

There will also be surplus stocks of other commodities in existence when hostilities cease, and much attention is already being given to the question of the best form of marketing such stocks. Whatever problems have to be faced in that connection, it is an important fact that, as regards the basic needs of food and clothing, the requisite raw materials are available with, so far as one can see, sufficient shipping to deliver them, once it is possible to cut down war transport. To ensure that the existing stocks are put to a satisfactory use will then be primarily a question of organisation and credit.

In other fields also the question of post-war arrangements often hinges on suitable organisation rather than on a lack of productive resources. As the war economy reached its final form in many countries, members of the government and officials were able to give more specific consideration to the numerous problems which will have to be faced when the war is over.

The war has revealed great capacities of production and has, in particular, shown how readily the productive powers of a nation can be diverted from one kind of activity to another. To what extent will mankind succeed in turning these activities to the satisfaction of peacetime needs, once hostilities have ceased? During the war many areas have been seriously affected by material destruction and in private industry much capital equipment has worn out or otherwise become unserviceable; but, notwithstanding the physical deterioration varying in degree from country to country, it will probably be found that, if other conditions essential to reconstruction were fulfilled, technical equipment could be installed fairly quickly for a resumption of peacetime output. But these "other conditions" are of importance: how soon will it be possible to establish the general framework of political stability, balance and confidence required to ensure development of peacetime activities? In a great number of countries, the volume of pre-war production could comparatively soon be attained, or even far surpassed; but such a result presupposes the restoration of a settled order as regards budgets, monetary systems, commercial exchange and general economic policy. War experience can be of some guidance, but it should be realised that for a variety of reasons a war economy, with its multiplicity of restrictions, is in several respects less difficult to handle, at least for a limited number of years, than a more flexible and fluid peacetime order capable of producing real prosperity. Thus in wartime (i) accumulated wealth is drawn upon; (ii) huge amounts are borrowed; (iii) full cost-plus prices are paid; (iv) people submit more readily to sacrifices; (v) one particular set of products is mainly required; and (vi) governments are granted exceptional powers. Here some comments are made in regard to each of these points:

- (i) When a nation's whole future is involved, the war effort has to be sustained at all costs and this means, among other things, that government spending is allowed to eat into the accumulated substance of national wealth. The United Kingdom has, for instance, drawn on its foreign investments almost to exhaustion. When war expenditure is compared with the gross product instead of the net national

income, the reason is that the gross product includes the flow of goods and services devoted to the maintenance and replacement of existing capital and that these resources may be available during a limited period for private consumption or for government purposes. In ordinary times to draw on them would be rightly condemned as unpardonable extravagance; but in a national emergency "disinvestment" — domestic as well as foreign — may be one of the real sources of contribution to the war costs.

- (ii) War economy is reckless also in other ways, as is shown by the wholesale borrowing to which governments have had recourse. Not that the dangers and difficulties inherent in heavy national indebtedness escape recognition; but they have to be disregarded for the time being. (The volume of borrowing in this war has beaten all previous records; in the United States, for instance, each of the six-month periods from the beginning of 1942 to the end of 1944 has added more to the Federal debt than the whole increase in this debt during the First World War.)
- (iii) In war there is no lack of balance in the cost and price structure: governments pay the full cost-plus price for the products they order and, under the price control, farmers, manufacturers and others must be allowed to charge prices which cover the costs of production. But the working of the system is dependent partly upon the abundance of money put into circulation through large government borrowing from the banking system and partly upon such measures as the "wage stop", which is not likely to be maintained for long when peace is restored.
- (iv) When the nation itself and, perhaps, more is at stake, citizens show themselves ready to submit to very high taxation and to accept other sacrifices. In several countries restrictive trade-union practices have been voluntarily abandoned for the duration of the war, the flexibility thus obtained being an indispensable condition for the rapid expansion of war production.
- (v) There are distinct advantages in the fact that it is largely known in advance what products will be needed for the conduct of war: guns, tanks, aeroplanes, etc.; and that these products usually lend themselves to manufacture by the most modern and effective technique of mass production. In contrast, the requirements of the public in normal times comprise a thousand and one articles and services which can never be predetermined with the same accuracy; and only a proportion of the articles thus required can be manufactured by mass-production methods. Still, it is in this second state of affairs that people get what they want and thus add to their material well-being.
- (vi) Constitutional considerations are overridden in wartime, governments being granted wide exceptional powers. As far as the economic sphere is concerned, such powers are almost a necessity, for in wartime it is not possible to wait for the relatively slow effects of differential price and wage changes. But the result of far-reaching government direction is a

host of orders and decrees, restrictions and prohibitions involving much discretionary authority for officials with, it should be added, considerable dangers for the maintenance of business morality and political integrity.

There is no question but that much of the experience gained in the direction of war economy can be usefully applied also to peacetime conditions. A high degree of flexibility will, for instance, be required in the reconversion of industry to civilian lines of production; it would, in particular, be most useful if the suspension of restrictive practices agreed to for the duration of the war were to be prolonged into the transition period, when men demobilised from the forces and workers liberated from armament factories will have to find normal employment. Even beyond that period a suspension would have its uses, for it is certain that the efficiency in production which modern technique makes possible cannot be fully attained without a greater freedom from hampering rules than in the years before 1939; and this applies to regulations imposed by industrial and commercial associations as well as those imposed by labour unions.

In the nineteenth century, when, thanks to the expansion of trade and industry, work was as a rule to be found in most countries, labour did not feel so great a need to seek protection through restrictive practices; but its attitude will necessarily be different when, for instance, workers set free by the introduction of new machines are threatened with unemployment. In the general interest, however, and not least in the interest of labour itself, there would be a strong case for removing restrictions if such action were accompanied by social measures guaranteeing a certain minimum to those who, through no fault of their own, become unemployed and if appropriate steps were also taken to combat cyclical and other unemployment and to retrain such workers as had to seek transfer into new trades.

In the present war, care of soldiers' families and of other persons in need has in several countries been better arranged than was the case in the last war. A series of measures including the general control of prices, government subsidies to bring down prices of necessities, and compensation in the form of an increase in pay for higher living costs, has given people the impression that they are not left to cope single-handed with the results of mighty forces over which they can have little or no influence. These measures have without doubt contributed to the maintenance of social peace even under difficult conditions and they may have had other important consequences. It is indeed possible that the fairly widespread increase in the birth rate between 1938 and 1943, in sharp contrast to the trend in most countries during the last war, is connected with the more effective social care now provided.

If this explanation is at least partly correct, it would seem to follow that social welfare measures contribute a certain survival value as between different nations. Although it is admittedly difficult to express an opinion on such elusive matters as the reasons underlying an increase in birth rates, that phenomenon has in recent years been sufficiently international in character to warrant the conclusion that it depends on forces operating in a number of

Birth Rates
in a number of countries in 1913-18 and 1938-43.
(Rates per 1,000 inhabitants.)

Countries	First World War		Second World War	
	1913	1918	1938	1943
United Kingdom	24.3	18.1	15.5	16.9
Elre	22.6	19.9	19.4	22.3
Australia	28.2	25.0	17.5	20.7
France	18.8	12.1	14.6	16.0
Holland	28.3	25.3	20.5	23.0
Denmark	26.6	24.1	18.1	21.4
Czecho-Slovakia*	28.9	12.9	16.8	20.8
Sweden	23.2	20.3	14.9	19.3
Switzerland	23.2	18.7	15.2	19.2
United States	25.5	24.6	17.6	22.0

* The figures for Bohemia and Moravia have been taken.
N. B. There are certain countries in which the birth rate has fallen in the second world war as well as in the first. In Germany, for instance, the rate was 19.6 per mille in 1938 but 16.0 per mille in 1943. In Belgium, likewise, there has been a decline and also in Portugal, where the birth rate in 1943 was still as high as 24.8 per mille. The general trend is, however, indicated by the figures in the table.

hands, and material progress, as well as the attainment of maximum employment, will primarily depend upon the results achieved by private initiative and enterprise. Without economic expansion there can be no real social security, for there could then be no absorption of young people into remunerative employment and no promotion of the able and active to responsible positions with satisfying work.

Another lesson of the war has been that speedy transformation in wartime may be obtained with the aid of government intervention, and this may be applied also to the reconversion of industry during the transition period. As pointed out above, the main task at the beginning of the war was to concentrate activity on those instruments and services specially required for the conduct of the war, while the task in the transition period will be to disperse productive power among a great variety of peacetime channels, success being determined by the extent to which private persons feel confident to start new businesses and expand old ones. Whether the economy be framed for peace or for war, its proper working presupposes a balance in the cost and price structure, but the manner of attaining such a balance will not be the same in peace as in war. It is not to be expected that in peace — beyond perhaps the first stages of the transition period — workers will agree to a hard and fast "wage stop". A more or less permanent holding down of wages would not of course help to sustain business, for, once the output of civilian goods is clearly expanding, real wages must increase in order to provide an outlet for the growing supplies. (Whether, at the same time, nominal wages should rise or not must be dependent upon the trend of the general price level.)

Still less is the balance in the cost and price structure to be maintained by a continuous heavy increase in public

countries. It can hardly be wrong to say that this rise is a sign of some deep-seated optimism, akin perhaps to recklessness, which is not necessarily the same as irresponsibility.

Social measures, however, constitute a charge on the production of wealth, and care must be taken to ensure that they do not weaken the forces of material progress. In most countries about four-fifths of all business is in private

Indebtedness which, as experience shows, must sooner or later (and, considering the huge indebtedness already accumulated, probably sooner than later) lead to financial chaos, with social and other consequences so disastrous that it would be difficult to exaggerate all the harm which would result immediately and in years to come. In some respects the boundless inflation which occurred in certain European countries after the last war caused more profound disturbances than those which the war itself had produced. Other methods than continuous additions to the public debt must, as in the past, be found to provide the increase in monetary purchasing power required by an economy expanding both in population and in production, and these methods must be such as not to upset the balance between costs and prices.

It should not be forgotten that the process of providing monetary purchasing power involves a number of different problems, each with its own distinctive features. There is the problem of long-trend (secular) movements, which under the gold standard, as one might expect, was largely connected with changes in the current supply of gold; and there is another problem more directly related to the different phases of the business cycle; further, there are the problems likely to arise in the transition period after this war when, for instance, increasing supplies of civilian goods may coincide with a reduction in earnings due to a cessation of armament production and to a general reduction in the out-payments of the state.

The difficulties arising and the remedies to be applied are not the same for each of these different sets of problems and it is, therefore, of importance to keep the three cases just mentioned distinct from one another. But that is not being consistently done. There is, indeed, a particular danger, viz. that the economic disturbances in the coming transition period will be viewed in the light of the "great depression" from 1929 to 1933, which, by its very intensity, burnt itself into the minds of people as no similar disturbance has ever done. That depression was aggravated by an international liquidity crisis and certain other extraneous factors; but, even so, it showed the main features of the downward phase of a typical business cycle, being characterised by an apparent glut in the means of production followed by a shortage of investment opportunities and a tendency for savings to exceed the volume of current investment. In a situation of that kind there is an absence of new demand for credit accommodation, which makes it difficult to sustain the volume of monetary purchasing power through the ordinary machinery of the banking system, even with the aid of cheap money and open-market operations. Hence the proposals to resort to public works, "deficit spending" and other direct forms of outlay in the hope that a recovery would be initiated through the spreading of purchasing power freshly created in this way.

It is, however, by no means certain that the troubles thus affecting the period 1929-33, viz. a contraction in the volume of monetary purchasing power and a lack of investment opportunities, will reappear in the transition period after this war. It may be regarded as almost self-evident that, in the

first phase of the transition period, these troubles will not arise; for at that time governments will still have to borrow to meet their current expenditure, and neither the transformation of industry nor the resumption of foreign trade is likely to have progressed far enough to provide greatly increased supplies for civilian requirements. On the contrary, this first phase may easily witness a scramble for goods and services, since the ordinary consumer may want to buy what he has had to do without for months or years, and business men may be anxious to replenish their stocks and instal new machinery in order not to lag behind in the drive for peacetime trade. It will be remembered that in 1919-20 a further rise in prices succeeded the wartime increase, tempting people into much unwise speculation. To prevent a recurrence of such aberrations it is generally agreed that, for the first year or so after this war, government control of prices, costs and distribution must be maintained in all its essentials, even if individual restrictions can gradually be eased in one sector after another.

As governments are once more able to cover current expenditure by current revenue and peacetime goods are supplied more abundantly, a new situation will arise; and is there not reason to fear that a business decline will then set in, similar to the sharp post-war depression which began in the late autumn of 1920? It may be taken for granted that with the return of peace, prices of some commodities will be reduced as, for instance, the prices of expensive substitutes as soon as the natural product is once more obtainable. It must, however, be emphasised that, in all countries where government control has been successful in preventing shortages from raising the price level, the price situation as it is now differs greatly from what it was in the corresponding period of the last war; and this would seem to warrant the inverse expectation that increases in supplies of ordinary necessities when the war is over will not result in a pronounced fall in prices. Conditions vary, of course, from country to country — price control has not been equally effective everywhere and expensive production of substitutes has in some fields been on a greater scale than in others (according to the extent to which supplies have been cut off); but the price table on page 6 above shows how widespread price stability now is, or recently was.*

As is shown in the fuller discussion on pages 94-95, it appears improbable that any marked decline will occur in the price level as measured by the cost-of-living indexes in the Anglo-Saxon countries. In general, price movements will presumably vary from country to country according to the speed with which supplies can be brought in from abroad, budgets balanced and costs and exchange rates brought into equilibrium. A downward adjustment of prices is usually accompanied by a certain reluctance of the business world to enter into new commitments, and is therefore apt to reduce the demand

* Had there been no price control, changes in supplies might have had a greater influence on the price level than is generally realised. If — without price control — the supply of goods and services in a certain country had been reduced by 20 per cent., the result would be a rise in the price index from 100 to 125. Let it be assumed, in addition, that an inflationary expansion doubles the volume of effective monetary demand. The price index would then stand at 250. Of the increase, 50 points (i.e. one-third) would be due to the exceptional shortage; and to this extent the rise would disappear if the shortage should be overcome — but the inflationary expansion would remain.

for credit. But it seems unlikely that any country could allow a steep fall in its general price level, considering the heavy public indebtedness everywhere incurred and the opposition which a substantial reduction in money wages would provoke. On the other hand, as far as credit conditions are concerned, the depressive influence of a price fall might not be too difficult to overcome in view of the fact that hardly any country will possess the up-to-date capital equipment needed for its peacetime production. In order to rearrange their pattern of production and, in particular, to obtain new machinery, individual firms will either turn to the banks for credit accommodation or, more often, use means already in their possession; in either case the result will be an active employment of liquid funds. It may, indeed, be found that the volume of current savings barely suffices to enable all firms to invest as much as they would like. Account has to be taken of public needs, for governments are likely to be in the market for the funds required to reconstruct devastated areas, build houses and execute other projects forming part of the post-war development programmes. Apart from actual destruction of official and other buildings, the war has left in its wake a "backlog" of unbuilt houses at a time when large numbers of new families, formed during the war years, are anxiously waiting for homes of their own. But not only governments will build houses; private trade — at least in some countries — will be responsible for much of the new construction and will thus make its demands upon the capital market.

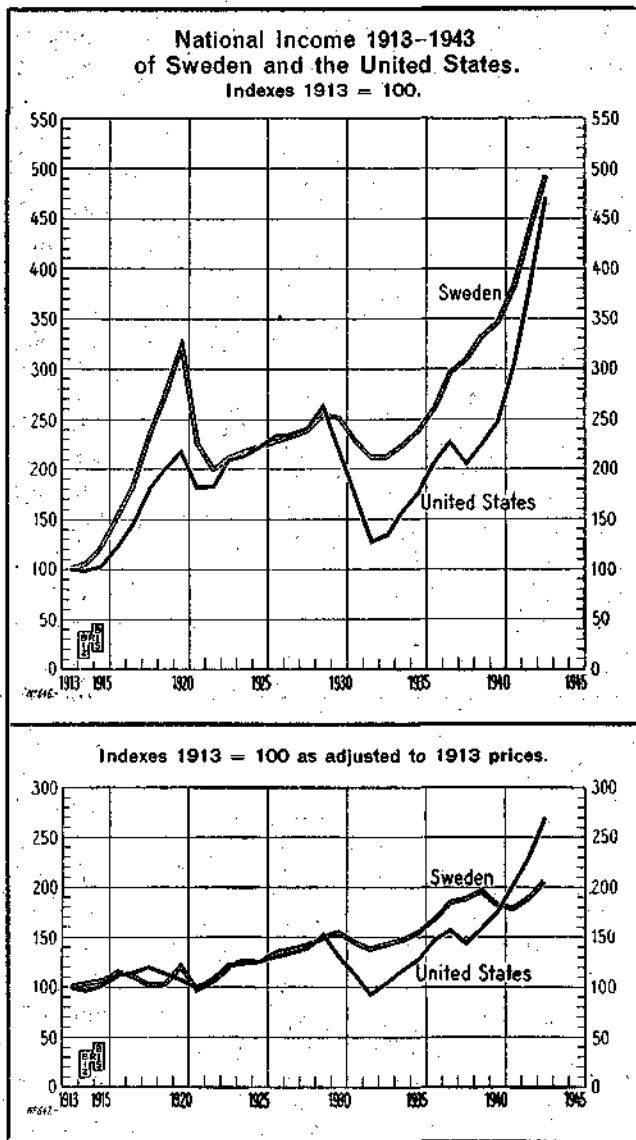
One complication in connection with post-war reconstruction is that imported materials and articles, including machinery, will be badly needed in a certain number of countries which will not have a sufficiency of foreign means of payment. In such cases foreign credits and loans will prove useful, and such credits may be forthcoming, since those countries which produce and normally export the materials and articles in question will themselves require an outlet for their products in order to provide a natural form of employment for their own men set free by the cessation of hostilities. But the provision of such credits will obviously constitute an additional charge on the money and capital markets.

Without plunging into speculation as to what is likely to happen in an uncertain future, it does not seem rash to count upon the existence of many opportunities for capital investment even after the first phase of the transition period. If political security and certain other conditions of a general character are fulfilled, there will presumably be no dearth of openings for the employment of capital for several years after the war; and, so far as this particular difficulty is concerned, there would therefore be no reason to expect anything but fairly good business. Experience shows that, whenever credit is actively in demand by some important sectors of an economy, it becomes a relatively easy matter to sustain the working of the credit system as a whole.

In discussions on post-war tendencies, it has become a common practice to refer to what happened during the last war and in the inter-war period;

and, as long as it is remembered that in many respects (particularly the cheap-money régime and effectiveness of the price control) the present economies differ from those of twenty-five years ago, reference to the past may be helpful. The two following graphs show changes in the national income for the United States and Sweden for the period 1913 to 1943.*

The first index shows the income actually earned each year in U.S. dollars and in Swedish crowns, i. e. the nominal income, while the second graph shows the same index adjusted for price changes, i. e. the real income in terms of 1913 prices.

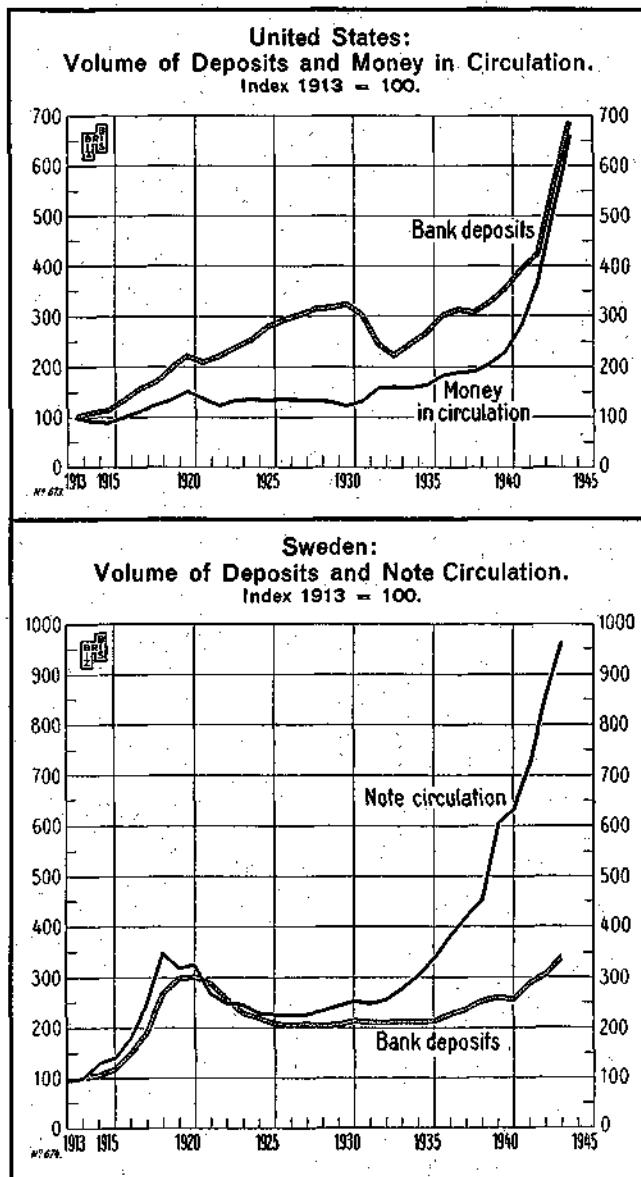


As regards the real income there was surprisingly little difference between the trends in the two countries from 1913 up to 1929. Such slight differences as the graphs show for the years 1916-20 may well be disregarded, since for those disturbed years it is hardly possible to find indexes sufficiently representative to enable comparable adjustments to be made. Real income having developed in very much the same way in the two countries, the changes which occurred in the nominal income are likely to throw light on monetary influences. Up to 1920 the purely monetary expansion went much farther in Sweden than in the United States, a fact which is reflected in the more pronounced rise in the nominal income in Sweden from 1914 to 1920. But when, after the war, the exchange rate between

* In international comparisons the United States and Sweden figure frequently, the reason being that for these two countries fairly complete statistical data are available, including, in particular, carefully compiled yearly estimates of the national income.

the Swedish crown and the dollar had settled down at about the old parity, the consequence was an abrupt fall in the level of Swedish commodity prices (compare pages 97 and 98) together with a violent contraction in the national income.

In comparison, it is remarkable to note how slight were the changes in the nominal income of the United States from 1918 to 1923. This can only mean that all through the period of difficult post-war readjustment the volume of monetary purchasing power in the hands of the American people was comparatively well sustained. Since the principal source of demand is income currently earned, the fact that the income volume was sustained meant that the current demand for goods and services was also kept up. In the United States there was, in fact, only a very temporary setback in the volume of credit as determined by the amount of bank deposits, and this is in conformity with the development of the national income figures.



It is of interest to note that the authorities in the United States took no particular steps to keep up the national income during the years in question. On the contrary, fairly high discount rates were applied and the Federal budget was balanced at an early date. It would seem that money brought into being by large government spending has a tendency to remain in circulation, while private credits may be more suddenly repaid, thus causing a contraction. It should be added that, in the years after the war, there was a considerable foreign demand for American goods, on the strength of credits and loans placed on the American market and of funds obtained from shipments of gold, the United States being at the time

the only country completely on the gold standard and therefore receiving practically all the newly-produced gold.

After this war also, it seems likely that an active foreign demand for American goods will set in and that this demand will help to sustain the volume of income in the United States (foreign countries this time possessing much larger liquid assets on the American market than they had in the years 1920-23). Should these helpful foreign influences come into operation, it is quite possible that the volume of monetary demand in the United States will be kept up without any particular intervention. It is more difficult to foresee developments in other countries, but experience after the last war (e.g. in Finland — compare page 98) suggests that national money income will not decline to any great extent, except in countries where the fixing of a high exchange value for the currency exerts a depressive influence on the domestic price level. In such cases — the country in question then being in the same position as Sweden was after the last war — the policy must either be to correct the exchange rate or to bring down the national income (in money terms) as speedily as possible in order to arrive at a firm basis for recovery (the practicability of such a policy being, *inter alia*, dependent on an early re-establishment of orderly state finances and the extent to which costs, including money wages, can be brought into line with the falling prices).

But whatever line is taken with regard to the volume of purchasing power, it seems certain that, after such an upheaval as this second world war, there will be a large number of maladjustments requiring correction before balance can be restored in the various national economies and in their relation to each other. Some of the corrective measures will be confined to the national sphere, while others will have an international significance as well. The following list, which does not claim to be exhaustive, instances some of the maladjustments in question.

- (1) From a general political point of view the first task will be to create an atmosphere of confidence inspired by belief in a durable peace. As regards the economic aspects of this peace, it is of special importance that a coherent policy should be framed; incompatible courses of action necessarily lead to a breakdown, which would be the case if, for instance, payment of debts were demanded but goods and services not accepted. That "it is the habit of kings to want contradictions" was already observed by Tacitus; amid the complications of modern economic life it has become even more harmful to pursue contradictory policies. Thus, to avoid inconsistency is the negative side of the task ahead; the positive side includes the finding of suitable forms for continuous collaboration in the economic and social field, in addition to the purely political arrangements.
- (2) State finances must be put in order, current expenditure being covered by current revenue, and borrowing limited to amounts required for capital purposes, including post-war reconstruction. Balanced budgets are necessary not only for the purpose of avoiding downright inflation (which may in itself be a compelling consideration for more than one country) but also in order to permit a gradual lifting of wartime restrictions on money and capital markets, exchanges, foreign trade, etc. For only when the monetary purchasing power at the disposal of the public is not unduly abundant can a country maintain a balanced position in relation to other economies without resort to a mass of artificial devices.

- (3) Large public indebtedness (apart from the burden it represents with regard to the national income) may easily lead to excessive liquidity on the money and capital markets, government securities being saleable at about the full nominal price as long as a cheap-money policy is unequivocally pursued. To cope with the difficulties thus arising, each market must gradually find the debt composition most suitable to it (with a preference, presumably, for long-term rather than floating debt) and seek to bring its securities as far as possible into strong hands. Arrangements must also be made to ensure that the existence of foreign liabilities does not prejudice the restoration of exchange stability or impair the proper working of the monetary system at a later date.
- (4) As long as a state of war continues, the high level of taxation, whatever its form, does not as a rule lead to a reduction in general business activity, a powerful impetus being exerted by the great demand directly or indirectly due to government spending, while competition, at any rate from abroad, is much reduced. With the return of peace, a different situation will, however, arise, with important consequences for the tax system. If, for instance, newly-established firms are as heavily burdened as they have been in many countries during the war, the pace of economic progress will very likely be slowed down. Excise duties must, moreover, be arranged in such a way that they do not deter manufacturers from producing articles most suited for export, for instance (cf. the modifications in the British taxation of automobiles).
- (5) During the war capital markets have practically been reserved for public issues, cheap interest rates being ensured by the quasi-monopolistic position assumed by governments in matters of borrowing. When peace returns, private demand for capital will reappear; and, it is in a large measure the intensity of this demand that will determine whether in the long run current savings can be adequately invested. To facilitate a satisfactory flow of funds into private channels, the machinery of the capital markets may need overhauling, whilst a disposition on the part of investors to accept the risks and rewards of enterprise more willingly than the security of prior charges would be most helpful. The fact that equity issues usually prove more difficult and expensive to place than bonds is unfortunate since a preponderance of financing by equities gives flexibility to economic life. Measures taken in some markets to safeguard prospective investors against fraud, etc. may be altogether too cumbersome and may hinder rather than encourage a useful employment of savings. Foreign investments need special attention; here again, legal prohibitions may narrow the field of possible lending in such a way that trade and industry suffer. As between allied countries, financial considerations are not allowed to prevent a movement of goods considered necessary for the conduct of the war; in peacetime other methods have to be used, but it would be most harmful were trade to be restricted by enactments against particular forms of foreign lending. In the period immediately after the war it may often prove difficult to arrange even export credits through ordinary banking channels, on account of the many clearing and other agreements in force between different countries; while specially arranged loan transactions will thus be required for some time, a gradual return to a system of privately-granted credits kept within reasonable limits will probably once more provide the best guarantee of prompt payment, thus restoring confidence and increasing the volume of trade.
- (6) That savings are needed for investment, whatever the economic system, has been convincingly demonstrated during the last twenty years by the U.S.S.R., which before this war enforced what was probably the highest rate of peacetime saving the world has ever seen, the purpose being to achieve a rapid industrialisation, with the springing-up of whole new towns in which there was much construction of houses to provide accommodation for workers, etc. In the Anglo-Saxon countries there was at the time a certain tendency to minimise the importance of savings, it being feared that their volume might become too great for the existing opportunities of investment. It is unfortunately difficult to obtain reliable statistics of the magnitude of current saving in its different forms, but it can hardly be taken for granted that there will be a sufficiency of savings for all post-war needs. One danger is that immediately after the war much of the pent-up purchasing power will be used to buy goods, the increased outlay corresponding to a shrinkage in savings. To guard against

this among other dangers, controls will probably have to be maintained into the transition period; but in all probability it will soon be found that most people are averse to drawing on past accumulations for the sake of current spending. Another danger is that heavy death duties will be paid largely from capital while the proceeds will be used by the government to meet current expenditure, with a consequent inroad into the volume of savings. These dangers will call for great vigilance, especially in countries which, in addition to their home requirements in the way of capital, embark upon investments abroad and need savings for this purpose also.

(7) Perhaps the central problem in restoring a peacetime economy is how to attain a natural balance in the cost and price structure after the convulsions brought about by the war and the artificialities, in the form of subsidies etc., introduced by the governments to hold down the cost of living while giving a stimulus to production. In an economy based on private initiative and enterprise, market prices play a decisive part as a guide to production; but in a collective economy also the relation between costs and prices is important, as is shown by the attention being devoted to cost accounting in the U.S.S.R.

A study of the indexes in almost any country will reveal a number of appreciable price disparities, which will have to disappear step by step with the re-establishment of a peacetime equilibrium. Wage rates in some countries have risen by 30 to 40 per cent., the cost of living by 50 per cent. and wholesale prices by 100 per cent., with an increase of, say, 80 per cent. for domestic goods and of 150 per cent. for imports. The return to normality will not, of course, be a smooth passage in every respect. It will presumably be in the main a result of market forces, perhaps helped to some extent by official direction (although care must be taken that measures officially prescribed do not delay necessary adjustments instead of expediting them). It has been said that "competition is the best price control" and this will no doubt prove to be the case when the wartime shortages of civilian goods have been overcome. During the war large subsidies have been granted to moderate the rise in the cost of living so that money wages could be kept down. But the result has been that retail prices do not reflect the real cost situation, nor does the cost-of-living index. It is important, both for natural expansion at home and for relations with foreign markets, that the particular wartime artificialities taking the form of large-scale subsidies should be eliminated with as little delay as possible.

To do away with subsidies and other artificial means of keeping prices down will no doubt prove easier when real wages resume their upward trend, as the output for civilian purposes increases; but there will still be some thorny problems: agricultural interests will demand continued support for the prices of their products, and in the removal of rent control, for instance, the number of persons affected will be considerable. In various countries the cost of construction seems to have increased by percentages varying between 40 and 100 since 1939, while rents have not been allowed to rise by more than a small percentage. Landlords are necessarily permitted to charge higher rents for newly-built houses than for corresponding accommodation in old houses, except when a part of the cost has been offset by government subsidies (which is often the case). There are at least two respects in which it is important to re-establish a natural market for dwellings of different kinds (houses, flats, etc.). Whenever a high rate of economic activity is attained, the construction of dwellings and other buildings is responsible for fully one-half of total capital investment; thus, obstacles placed in the way of an expansion of the building trade must produce a particularly adverse effect upon the volume of investment and the rate of employment. Secondly, under rent control people go on living in their old dwellings, since a move might involve the payment of a higher rent; but a reluctance to seek new quarters reduces the mobility of labour, and this may be a serious matter when the times call for great industrial changes and a high degree of flexibility in economic life.

The restoration of a proper balance in the cost and price structure within each country forms part of the greater problem of achieving the maximum stability in world prices. This problem must, moreover, be attacked by way of international collaboration in the monetary sphere and, maybe, also by price arrangements covering important raw materials and foodstuffs. Many difficult points arise in this connection:

there must, for instance, be adequate safeguards against possible abuses; it should, in particular, be remembered that market forces cannot be overridden, although they may sometimes be turned to account if attention is paid to the basic conditions governing long-term trends in supply and demand. Stability must not exclude flexibility; prices of individual commodities will continue to move now upwards now downwards. There should, however, be no precipitous fall nor any steep rise in the general level of world prices once these have found their post-war equilibrium.

(8) A difference in the rise in prices has affected the purchasing-power relation between the currencies of the various countries; and the question arises to what extent foreign exchange rates must be adjusted to take account of these alterations. In actual fact, exchange rates are often fixed in a conventional fashion either on the old basis or at a particular parity which for some reason or another has become "significant". As experience proves, however, rates which do not reflect a true equilibrium have a harmful effect on the whole economic development; when a more or less definite rate is adopted, steps must be taken to ensure that, with as little delay as possible, costs and prices as well as the volume of monetary purchasing power fall into line; should the process of adjustment prove too difficult, the wisest course would be, as a rule, to alter the rate to the extent required for the establishment of a true equilibrium (cf. pages 42 and 43).

In judging what exchange rates are appropriate for a country, special attention has to be given to those factors in its economy which are least susceptible to change. Wage rates are important in this connection, as being decidedly less flexible than the general level of wholesale prices; but agricultural prices are often in a class apart in that they are subject to political influences which strongly oppose any downward adjustment. Care must also be taken lest the national income, as measured in money, should be reduced to a point at which the existing volume of public and private debts would weigh too heavily on the country's economy. But the solution cannot be simply to lower the value of a currency whenever difficulties arise; for repeated devaluations (being the cause of many social injustices) are apt to impair monetary confidence and they may even fail to achieve the desired results, since a certain adjustment of costs often forms an indispensable part of a country's anti-depression policy.

A lack of foreign exchange will sometimes impede the pursuit of a reasonable exchange policy — hence the need for financial aid from outside. An alteration in exchange rates, moreover, influences the position of other countries — hence the need for contact between the monetary authorities directly and through an international organisation. Since the experiences of the inter-war period and the second world war, the international aspects of the world's monetary problems have been increasingly recognised.

(9) In foreign trade both public and private efforts are involved, the governments deciding commercial policy, while most of the actual transactions are handled by private firms. During the war governments have themselves been responsible for large movements of goods, their bulk purchases sometimes extending over years. Such arrangements will take a certain time to liquidate and a number of governmental agencies may even continue to trade; but the bulk of foreign trading will most likely be in the hands of private enterprise, upon which the onus of promoting a recovery in trade must therefore chiefly fall. For a few countries, however, there is bound to be a radical change in the relation between exports and imports as a result of the war, and the ordinary price system may be too slow in producing the necessary modifications. In such cases government intervention may be helpful, even indispensable; but to be successful it should aim at establishing conditions likely to fit in with an ultimate equilibrium which market forces themselves will suffice to maintain.

In framing post-war commercial policy an obvious task will be to demolish as many as possible of the hindrances placed in the way of trade during the depression from 1930 onwards and still more during the war. In the course of the last hundred years an expansion in foreign trade has coincided with and contributed greatly to the rise in the standard of living. Generally speaking, the export industries are likely to be the ones for which each nation is specially fitted, being

the essence of its economic strength; anything that hampers the growth of these industries is therefore apt to impair the very activities which afford the greatest economic advantages to the respective countries and consequently to mankind as a whole.

(10) In dealing with foreign trade, housing, capital markets and other sectors of a country's economy, it should be borne in mind that the problems which arise are essentially interdependent. That there is a close connection between foreign trade and conditions on the home market is, as a rule, more easily appreciated in a small than in a large country, since the former lacks the resources which would enable it to continue for long in an unbalanced position vis-à-vis other countries; it is therefore compelled to adjust its domestic costs to a level which can be sustained by its export trade. But no country — big or small — can afford to disregard the need for restoring balance between costs and prices. From the graphs on page 21, showing the trend of the national income in Sweden and the United States, it may be deduced that in the years 1920-22 these two countries adjusted their cost and price structure fairly quickly; in fact, the process took the form of a short, sharp liquidation of weak wartime positions. While in 1920-22 recovery in the United States followed a setback which, if acute, was of short duration, the recovery after the great depression of 1929-33 was slow and hesitating since, notwithstanding greatly increased government spending, it proved difficult for the United States to bring sufficient balance into its cost and price structure to enable the real national income to regain the 1929 level. In fact, that level was only reached when, in 1939, rearmament began to raise the volume of production; and by 1941 the increase in the real income of the United States exceeded that of Sweden. The period from 1914 has, of course, been characterised by violent price changes, the increases and decreases in the general price level often amounting to 40-50 per cent. or even more. Under such circumstances it was naturally difficult to attain, and then maintain, a balance in costs and prices, and a greater stability in the general price level is, therefore, an objective of primary importance. But full stability will probably never be realised and individual prices will in any case fluctuate, so that each particular country will still have to cope with the cost and price problems affecting its own economy.

There is one general aspect of the post-war situation which must not be lost sight of in the mass of detailed measures: there will have to be mental reorientation; in that governments, individual firms and the great body of consumers will once more have to think in terms of a peacetime order. Governments will be forced to accustom themselves to the fact that they are no longer in possession of exceptional powers, and this change will also come home to the many official agencies which handle wartime affairs and, in practice, take decisions in the name of the government. Governments and the public will have to remember that the methods of peacetime finance must forgo further encroachment upon the substance of the national wealth. The business world, in its turn, will be forced to realise that the growth of monetary purchasing power in the hands of the government and the public must have a definite limit; more attention must necessarily be devoted to the export trade and there will be a call for efficient sales managers and for representatives capable of competing with the sales organisations of other countries, whilst credits of a commercial character must be available for foreign as for domestic trade. Released from the regimentation imposed on them during the war, consumers in general will be able to choose more freely among individual shops and commodities; and differences in price and in quality will then regain their full significance. For many people the return to a more humdrum life of peacetime duties will involve a certain mental strain,

and this may also entail economic difficulties; as regards retraining, etc., organised aid by the government and by private bodies may then prove useful, and measures to that end are, indeed, being planned in many countries as part of the demobilisation schemes.

The economic and financial adjustments necessary after the war must, as always, be related to the social and political evolution going on at the time. From a purely business point of view, changes of a social and political character may involve additional difficulties. When the general policy is being framed, it must be the task of the governments to ensure that no essential economic interest suffers. Economic progress, which expands the volume of production and creates more wealth, is also important from a social point of view; for besides bringing a natural solution to the problem of employment it provides that increase in national resources by which a substantial social improvement can alone be realised.

It is now recognised that no country can permit a state of widespread and prolonged unemployment. The worst result would not be the loss of production and income but the pernicious effect, moral and otherwise, to which the working population would be exposed, including the worry of ever-present uncertainty for those actually in work. In a number of countries official investigations have been made into the problems of economic fluctuations with a view to discovering the means of overcoming depressions and it has been found that unemployment may be the result of any one of a number of different causes. It may, for instance, be due to a structural change in demand or to the overvaluation of the currency; it may be a recurrent phenomenon representing the downward swing of the business cycle; it is sometimes most pronounced in the export industries — and in certain countries this is the rule; when it primarily affects the domestic situation, it is often most conspicuous in the building trade. The remedies applied must naturally be adapted to the particular maladjustments of each separate case, the principal aim being to eliminate the root causes. For merely to deal with the symptoms of the disorder affecting a particular economy will not be sufficient, and it may in the end prove futile to concentrate on direct provision of work instead of on the underlying causes of the depression; a satisfactory state of employment should rightly be regarded as a sign of a healthy economy, being the by-product of appropriate policy in different fields of human activity; it may, indeed — like happiness or reputation — be missed if it is too deliberately sought.

In so far as any brief general pronouncement on the subject of business fluctuations is possible, a passage in the thirteenth Annual Report of this Bank may be recalled: there it was observed that 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; and that a combination of financial expansion and cost adjustment is likely to bring about a

revival of economic activity with less real sacrifice and with much greater certainty than would be possible without one or other of these factors. The circumstances in each particular country must naturally determine what steps are required to set on foot a financial expansion and to bring about the necessary cost adjustments, the latter term being interpreted widely enough to cover such measures as a gradual lifting of rent control. With regard to financial expansion, it is quite possible that in many markets the pent-up purchasing power resulting from the war will in itself prove sufficient — perhaps even over-abundant — for all current needs and, if that should be the case, efforts must be concentrated on the different cost adjustments. An extreme case would be presented by any country in which the exchange value of the currency was kept so high as to necessitate not only a lowering of prices but also a definite contraction of the volume of money in circulation; apart from an alteration of the exchange value, the only means of arriving at a balance would then be by a policy quite the reverse of financial expansion, which, to be successful, would presuppose a budget in equilibrium and all that goes with it. It is, however, well-nigh impossible to predict what the volume of monetary demand will be when demobilisation has been carried through and the large budget deficits are being greatly reduced or have disappeared. The steps to be taken must necessarily be adapted to circumstances as they develop, and it is therefore imperative to allow some measure of flexibility in the planning of post-war policy.

For government departments, central banks and the business world in general it will be important to follow most carefully the trend of financial and other affairs; a coordination of efforts in this respect may be found useful, a new departure being the establishment of public bodies in the form of consulting boards or "councils" including, in addition to official delegates, leaders of private industry, banks and labour organisations, as well as independent experts.

In dealing with the problems which will face particular countries and the world in general after this war, the authorities must seek to obtain a comprehensive view of the situation, so that the different tasks in hand may be seen in their true proportions and the available resources allotted in the order of urgency. Only in the light of such a stocktaking can a sound post-war programme be worked out. After the last war it was repeatedly found that, once a comprehensive plan had been agreed upon and put into execution, a relatively small amount of outside aid was sufficient to restore balance both at home and in relation to foreign countries; but that uncoordinated assistance, such as the granting of emergency relief credits, did not greatly contribute to the ultimate reconstruction of the beneficiary countries.

Upon taking stock of the situation, a country will often find that the war has left behind it a tangled web of international and other liabilities, different in character from peacetime loans contracted for productive purposes. The exact nature of those liabilities may often have been

left undefined, and there may be differences of opinion as to the character of the obligations assumed, the return to be expected, etc. Such uncertainties can have a most pernicious effect on economic progress, since they may hold up transactions which would otherwise be possible, with a consequent loss of trade affecting creditors and debtors alike. For political and other reasons it may be difficult to arrive at satisfactory settlements; but there can be little doubt that conditions involving suspense provide a most unreliable basis for economic recovery. If maladjustments are left to drag on uncorrected, they may suddenly produce an explosion, with disastrous consequences. There is something spectacular and heroic in war, while in peacetime the slow persistent work of eliminating one difficulty after the other will often be anything but conducive to the political popularity of those in power, the improvement in the general situation being as a rule difficult to attribute to any particular measure. In the situation of the 1920's there were too many elements of suspense and incertitude. The total of reparation liabilities was long left unfixed; much short-term and other lending was of such a character that it could not continue in the same form or on the same scale, and when suddenly reversed it created a host of problems. This was one of the reasons for the breakdown of the newly-established gold standard and at the same time for the loss of belief in what had hitherto been firmly established monetary and economic principles; and all this had a devastating effect on world trade. One main conclusion to be drawn from these experiences is that more care should be taken to determine whether or not any particular proposal really seems a step towards permanent solution. In some cases it may be difficult to tell what course of action is likely to prove best in the long run; but there will be others in which little doubt can be entertained. What the world will need is not postponement of decisions, hesitation and makeshift measures but real solutions so judicious and wellfounded that they will stand the test of time.

II. EXCHANGE RATES, FOREIGN TRADE AND COMMODITY PRICES.

1. EXCHANGE RATES.

The maintenance of stable official rates has continued to be the primary objective of exchange policy in almost every part of the world. The principal reasons for this policy have often been stated: in addition to the feeling that a depreciation of the national currency would cast a slur on the government which agreed to such a step, it is thought that an alteration in the official rates of exchange would make it increasingly difficult to withstand inflationary tendencies. The preservation of exchange stability has, moreover, been facilitated by a number of circumstances:

- (i) wherever an effective exchange control has been in force, only the official rates have been of importance for settlements with foreign markets;
- (ii) international trade in goods and services has been more and more on account of governments, and often (as in the case of lend-lease deliveries) no cash payment has been involved;
- (iii) equalisation funds, the granting of export and import premiums and other devices have offset inequalities in costs and prices without there being any immediate need to alter the official exchange rates;
- (iv) many countries have accumulated large holdings of gold and foreign currencies (e.g. the Latin American countries in relation to the United States, and sterling area countries in relation to England) or become the owners of large credit balances in their clearing accounts (e.g. most countries on the continent of Europe vis-à-vis Germany); in either case the debtor-creditor relationships involved have made unilateral changes of rates more difficult to carry through;
- (v) finally, an increased stability in commodity prices, enforced since 1942 in a great number of countries, has meant that, between the countries concerned, any divergences which had arisen in their relative cost and price levels have not been further augmented.

There have, however, been some marked exceptions to the achievement of price stability. In the Far East, as in south-eastern Europe, developments have largely been such as to increase the disparities between the intrinsic values of the different currencies, with the result that the existing exchange rates have become more and more fictitious. Even in these cases the "mot d'ordre" has been to preserve the principle of exchange stability, but, in practice, special permission has been required for funds to be converted at the "stable" rates; and care has had to be taken lest conversion at official rates should bring exceptional gains to those in a position to benefit from them.

Owing to the official policy of stability, there were, up to the summer of 1944, relatively few developments to report in the field of foreign exchanges. The technique of exchange control had assumed its final form in most markets

as early as 1942, only minor amendments being introduced later in order to stop leakages, or to provide the authorities with more comprehensive information on the amounts held as foreign balances, or to subject an influx of funds from abroad to detailed supervision (this being the aim of the reinforcements of the Swedish exchange control in October 1944). The main monetary groups remained very much the same until affected by the military developments in 1944.

A. According to the definition current before September 1939, the sterling area comprised the countries which maintained a stable rate in relation to sterling and whose currencies thus followed the variations in the exchange value of sterling. Finland, Sweden, Norway, Denmark, Portugal, Greece, Japan and Bolivia, although outside the British Empire, were all members of the sterling area, but Canada, for instance, was not, the exchange value of its currency being related to the movements both of sterling and of the U.S. dollar. After exchange control had been imposed in London in the autumn of 1939, however, the definition of the sterling area became strictly legal in character; from that moment the area comprised those countries to which a transfer of funds could, at least for certain purposes, be made freely or with less difficulty than under the ordinary rules of the exchange control.* The difference between the two conceptions came to the fore in connection with the monetary relations between the British and the Free French authorities. In the territories of "Free France" (French East Africa, Syria, Lebanon, Madagascar, the French Cameroons, New Caledonia and other South Sea possessions, as well as French India) the rate of Fr.fcs 176.625 = £1 (and a dollar rate of Fr.fcs 43.80 = \$1) was maintained even after February 1943, when the rates of Fr.fcs 200 = £1 and Fr.fcs 50 = \$1 had been fixed in French North Africa. These territories of "Free France" were members of the sterling area but French North Africa was not. As a result of negotiations at the beginning of 1944 between the British and French the rate of Fr.fcs 200 = £1 was made applicable to the whole area in which the authority of the French Committee of National Liberation was exercised (with the exception of Syria and Lebanon, for which a special arrangement was made locally), but at the same time "Free France" ceased (as from 8th February 1944) to be a member of the sterling area in the legal sense of that term.

Whether or not, after the war, the sterling area will be reconstituted with the same significance as it had before September 1939 will depend, at least in part, upon the extent to which the pound is utilisable for international

* The official definition of the sterling area as given in an order dated 8th February 1944 was:

"The territories which, in addition to the United Kingdom, are included in the sterling area are any of the following territories excluding Canada and Newfoundland, that is to say —

- (a) any Dominion,
- (b) any other part of His Majesty's dominions outside the British Islands,
- (c) any territory in respect of which a mandate on behalf of the League of Nations has been accepted by His Majesty and is being exercised by His Majesty's Government in the United Kingdom or in any Dominion,
- (d) any British protectorate or protected State,
- (e) Egypt, the Anglo-Egyptian Sudan and Iraq,
- (f) the Belgian Congo and Ruanda-Urundi,
- (g) Iceland and the Faroe Islands."

settlements. For the time being the tendency has been to strengthen the effectiveness of the exchange control: new provisions were issued in September 1943, restricting the number of institutions entitled to cash dividends and interest or repayments in respect of assets blocked as enemy property.

Among the few modifications affecting the London exchange market in 1943-44 mention may be made of the discontinuance of quotations for the Argentine peso in April 1943. Instead, the rate quoted for sterling in "special account" has been cabled daily from Buenos Aires. In connection with this change the rate was reduced from Pesos $16.95\frac{3}{4}$ -17.13 = £1 to Pesos 15.96-16.05 = £1, which meant an appreciation of the peso in terms of sterling by about 6 per cent., but a slight reaction, to a rate of Pesos 16.14-16.23, occurred in the course of 1944. Under a special arrangement concluded in the late autumn of 1944, British railway companies operating in the Argentine became entitled to obtain foreign exchange for the import of materials, etc. at the rate of Pesos 14 instead of Pesos 15 = £1 and to effect their financial transfers at the rate of Pesos 14.15 instead of Pesos 16.15 = £1. A movement in the opposite direction took place in relation to the peseta when, in 1943, the Spanish authorities altered the rate from Pesetas 40.50 to Pesetas 44 = £1, this being equivalent to an appreciation of sterling in terms of pesetas by about 9 per cent.

The basis of stability in the Anglo-Saxon exchange markets has been the continued application of $\$4.02\frac{1}{2}$ - $4.03\frac{1}{2}$ = £1 as the rate between the dollar and the pound. For British currency supplied to the American armed forces stationed in the United Kingdom the uniform rate $\$4.03\frac{1}{2}$ = £1 has been fixed.

B. The dollar area is a vaguer conception than the sterling area but it may be said to comprise most countries in the western hemisphere, which hold large balances in New York and settle their foreign payments mainly by transfers of U.S. dollars. The Swiss National Bank mentions in its report for 1943 that other countries than the United States "sought to pay in dollars for the products which they bought in Switzerland. The dollar area was thus extended to numerous countries in Central America, South America and Asia".

The "freezing" of foreign-owned balances held in the United States does not apply to assets owned by countries in the western hemisphere, an exception being the freezing of the Argentine gold holdings in August 1944 and also the gold and dollar holdings of Bolivia. As a result of negotiations with other countries, U.S. delegates have reinforced the measures designed to prevent enemy subjects from obtaining income directly or indirectly from the United States. The American market, it should be observed, is not subject to exchange control as such, the foreign funds control having been imposed to afford protection in cases of aggression and, once the United States had itself become a belligerent, retained as an instrument of the country's financial warfare.

C. The Reichsmark area comprised the countries in Europe which were occupied by Germany or were allies of Germany, stable exchange rates being maintained in relation to their currencies and some sort of arrangement — however limited in scope — being made for settlements via Berlin in the so-called multilateral clearing. A successful multilateral system presupposes that debit and credit balances could be offset against each other; but this condition was not fulfilled, for Germany became unilaterally indebted to practically all the countries with which trade was possible.

In relation to the countries in which commodity prices had risen considerably, the maintenance of stable exchange rates produced grave inconveniences, exerting, *inter alia*, an upward pressure on prices within Germany. One of the devices employed to offset the existing inequalities was for Germany to quote "elastic" export prices, adapted in each case to the conditions on the particular market to which the German goods were to be sent. But, since such a practice would easily run counter to the maintenance of stable prices in Reichsmarks, it was used only when no other solution could be found.

As from 16th November 1943 the clearing rate between Germany and Neo-Fascist Italy was changed from Lit. 7.60 to Lit. 10 for RM 1. In this way the exchange value of the lira was reduced by 24 per cent. Under an agreement of October 1943 the German military forces in Italy were paid in lire, while the "Reichskreditkassenscheine", which from 25th September 1943 had been legal tender at the rate of RM 1 = Lit. 10, might not be used for payment from November 1943.

In the autumn of 1943 the value of the lira was altered in a number of other European countries also, as shown in the following table.

Lira Rates.

Lit. 100 obtained in the currency of:	Old rate	New rate	Decline in the exchange value of the lira per cent.
France	221.12	200.00	9.6
Holland	9.91	7.54	23.9
Slovakia	152.10	116.30	23.5
Croatia	261.15	200.00	23.4

A rate of Kunas 200 = Lit. 100 was already applied by Croatia from 15th September 1943 (instead of the previous rate of Kunas 261.15 = Lit. 100) but special provision was made for the settlement of commercial transactions effected before 10th April 1941

and for the so-called "reincorporated territories" (along the Adriatic coast). For these territories the rate remained formally Kunas 200 = Lit. 100; but the State Bank of Croatia paid in addition a premium of Kunas 2 for each lira, so that in practice the rate was Kunas 400 = Lit. 100. It should be mentioned that in the autumn of 1943 the quotation of the lira was suspended in several markets, e.g. in Spain and Hungary; and in Switzerland it was decreed in October 1943 that all payments in relation to Italy should be made via a special account with the Swiss National Bank.

As regards other countries within the Reichsmark area, it is of interest to note that the freedom of movement for funds between Holland and Germany, which had been established in 1942 (in conjunction with the abolition of

the customs barrier between the two countries), became more and more circumscribed in the course of the following two years, the authorities being compelled to intervene against an excessive flow of German money into Holland. It was decided in the spring of 1944 that persons wishing to obtain florins against Reichsmarks would have to make a special application and at the same time present proofs of identity.

The exchange stability maintained within the Reichsmark area in relation to the German currency should theoretically have resulted in an official price for gold in conformity with the existing parities; but this was not always the case. For Slovakia, for instance, side by side with the official (parity) price of Ks. 32,041 per kilogramme, there was a semi-official — but more real — price of about Ks. 100,000. And between the different currencies of the Balkan and Danubian area the exchange rates applied by the monetary authorities themselves have in several cases deviated from the theoretical "cross rate", while in some countries the official quotations have been clearly fictitious, as was most emphatically the case in regard to Greece.

D. The yen area. The unequal increases found in the commodity prices of the different countries within this area did not cause the same practical difficulties once trade had been put on a barter basis. Between Nanking China and Japan, as mentioned in the thirteenth Annual Report, the policy of applying different rates to different categories of transactions was discontinued in the spring of 1943 as being too complicated. Instead, a uniform rate of Yen 18 = Yuan 100 was fixed and the trade became a monopoly in the hands of the Barter Trading Corporation. This system seems to have been extended to trade with other areas under Japanese domination.

Moreover, steps were taken to give greater recognition to the Nanking yuan as an "international currency" and at the same time to increase the control exerted by the Central Reserve Bank at Nanking. Under a convention concluded between this institution, on the one hand, and the Yokohama Specie Bank, the Bank of Taiwan and the Teikoko Ginko, on the other hand, all foreign exchange funds were to be transferred to the Central Reserve Bank. The three other banks would continue to carry out foreign exchange transactions (at the basic rate of Yen 18 = Yuan 100) but they would do so for the account of the central bank, which would receive one-half of the commission of 5 per cent. charged by them. A similar agreement was afterwards concluded between the Federal Reserve Bank of North China (in Peiping) and the Yokohama Specie Bank. The rate of Yen 1 = Peiping Yuan 1 was maintained but it was decreed that all bills presented by commercial firms or individuals at the Federal Reserve Bank in Peiping should be expressed in yen.

The yuan of Nanking became legal tender from 30th April 1944 in the province of Huai-hai, replacing the yuan of Peiping. It should further be mentioned that the use of the military yen has been suppressed in the area of the Nanking yuan.

Through the establishment of a central bank in Burma and through various other measures in the different parts of the area dominated by Japan, a basis would seem to have been purposely provided, in monetary matters, for increased local action, which would, in particular, be required if circumstances made it less easy to maintain connections with Japan.

* * *

These are the main currency groups; but there are countries which cannot be said to belong to any one of them, for instance, the U.S.S.R. and the neutral countries in Europe. Through their geographical situation, Sweden and Switzerland have been bound to trade more exclusively with countries on the continent of Europe than they did before 1940, payments being made via clearing accounts except in the dealings of the neutral countries with each other. Both on current and on capital account Sweden and Switzerland have, however, a considerable business with the Anglo-Saxon countries, and this led in 1943, for instance, to an increase in the gold and exchange holdings of the Swiss National Bank by Sw.fcs 630 million and in those of Sveriges Riksbank by S.Kr. 330 million. To meet diplomatic and other payments (including payments to Japan via the Red Cross for prisoners of war) the United Kingdom and the United States have needed substantial amounts in Swiss francs and also — though to a smaller extent — in Swedish crowns, and they have obtained these amounts up to specified limits through an exchange of dollars, sterling or gold against Swiss or Swedish currency at official rates. It has been the aim of the authorities in the respective countries to ensure that the official rates should be effectively applied to the settlement of other transactions also. As regards Sweden, the existing exchange control has made it a comparatively easy matter to achieve that end. Switzerland, without exchange control, has had recourse to a gentlemen's agreement between the National Bank and the other banks, under which the official rates were to apply to a series of specified payments, including all commercial payments. But market rates have been quoted in New York for Swiss francs bought for other purposes and these rates were for a time as low as Sw.fcs 2.40 = \$1, i.e. more than 40 per cent. below the official rate of Sw.fcs 4.30 = \$1, although in the course of 1944 the latter became the effective rate on the New York market also.

As shown by the figures given above, Sweden and Switzerland have added to their holdings of gold and foreign exchange, the new assets being held almost wholly in the Anglo-Saxon countries, indeed mainly in New York. Such additions have, however, been apt to give rise to an undesired expansion in the volume of purchasing power on the home market, particularly when goods were becoming scarcer. These problems have presented themselves in a less acute form in Sweden than in Switzerland, where a series of steps have been taken to keep the monetary expansion as small as possible:

- (i) Under the gentlemen's agreement concluded with the banks in September 1941 the National Bank promised to take over only the sur-

plus of dollars resulting from the import and export of goods and from certain other specified transactions. This surplus showed, however, a tendency to rise as more and more countries began to use dollars for their payments abroad. The National Bank found itself obliged to restrict, in two respects, the amount of dollars it was prepared to convert for the Swiss export industries, viz., as regards the export of watches and as regards exports to the Near East.

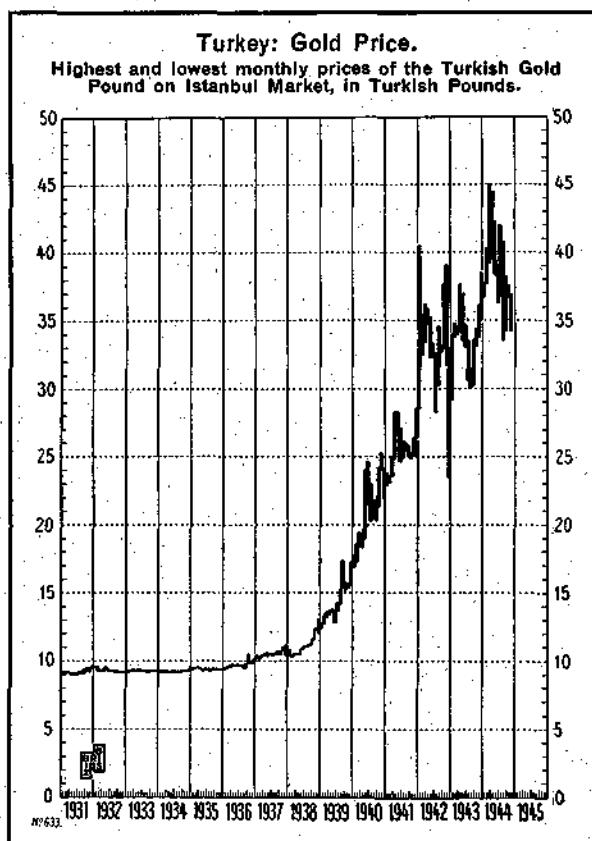
- (ii) The watch industry was, however, anxious to maintain its export position and thus to keep its workers and machinery employed, while at the same time safeguarding its foreign markets with a view, more especially, to the coming peace. The export firms would, of course, need Swiss francs (for the payment of wages, etc.) and an arrangement was made in March 1944 under which a monthly quota of Sw.fcs 16.6 million was fixed for the watch industry, the National Bank taking over the dollars in full up to that amount. Fifty per cent. of the countervalue is paid by the Bank in Swiss francs which are at the recipient's free disposal; forty per cent. is credited to a blocked account (Sperrkonto I), the exporter being entitled to obtain advances on this amount from banks at a rate of 1 per cent. above the official discount rate, while the remaining ten per cent. is credited to another blocked account (Sperrkonto II) and constitutes the charge on the industry itself. For exports to the Near East of textiles and some other products (but not watches) similar arrangements have been made, involving, in all, amounts up to Sw.fcs 3½ million per month.
- (iii) The amounts needed by the Anglo-Saxon (and some other) countries for diplomatic expenses, support of their nationals in need, etc. have been currently obtained through agreements with the Swiss authorities, but in this case the Swiss francs have been provided by the Federal Government from its general Treasury resources.* By the relief thus given to the National Bank, the danger of an inflationary pressure has been reduced.
- (iv) To secure a constant demand for dollars, it was decreed in December 1943 that, before the necessary permit for imports from countries in the dollar area would be granted, the importer had to give a written undertaking that he would effect payment in dollars admitted for such a purpose by the National Bank.

No real solution of the problem arising from the large offers of dollars and certain other currencies will, however, be found before imports are again possible on such a scale as to provide a sufficient demand for the currencies in question. In addition to the commercial and other transactions on current account of the balance of payments, there may, however, be movements on capital account. As far as dollar assets are concerned, such movements have been restricted by the "General Ruling No 17", issued on 20th October 1943.

* As part of this arrangement the Federal Treasury becomes the owner of the dollars and the gold obtained against the Swiss francs which it furnishes, and the holdings thus formed are additional to the reserves of gold and foreign exchange in the possession of the Swiss National Bank.

by the United States Treasury: with regard to investments on the American market by Swiss banks and other financial institutions, a distinction is made between such securities and other assets as are Swiss property and those which belong to nationals of other countries. In the course of this war the Swiss franc has become the currency most readily accepted in Europe for international settlements, notwithstanding the fact that the Swiss monetary authorities have deliberately sought to discourage its use for other settlements than those directly connected with the economic life of Switzerland itself.

Among the other neutral countries it may be noted that the exchange position of Spain has continued to improve, the country's monetary reserves being strengthened through additions to its gold holdings, notwithstanding repayments of past liabilities, including debts remaining from the Civil War. Flight of capital would seem to have practically ceased at least for a time; quotations of peseta notes in foreign centres were becoming firmer until a certain setback occurred in the late autumn of 1944.



Turkey has also been able to increase its monetary reserves, thanks to surplus exports and to credits granted by the United Nations. But commodity prices have risen and the market price of gold has been high.

* * *

Some reference has been made above to the monetary agreements and other monetary changes following in the train of military events after the landing in North Africa in the autumn of 1942, and those ensuing after the landings in Italy in July 1943 and in France in June 1944. For southern Italy rates of Lit. 400 = £1 and Lit. 100 = \$1 were fixed in July 1943 and these rates have continued to be applied in the parts of the country held by the Allied forces. But the volume of Banca d'Italia notes has also been augmented by issues made by the Neo-Fascist authorities in the north, who, in addition to their own requirements, supplied the German command with monthly amounts, increased in the spring of 1944 from Lit. 6 to 10 milliard. In the summer of 1944 the rate for lira notes on the Swiss market fell as low as Sw.fcs 0.50 for Lit. 100 (equivalent to a dollar rate of Lit. 600 = \$1); it improved later on to about Sw.fcs 1.30 = Lit. 100 but again fell back in the latter half of 1944 to Sw.fcs 0.50 = Lit. 100.

Corsica was the first part of "La France métropolitaine" to come under the authority of the French Committee of National Liberation, which introduced some interesting measures for the purpose not so much of controlling the amount of monetary purchasing power in the hands of the public as of being able to decide whether or not individual firms and persons should be entitled to retain the notes in their possession. All notes were to be deposited with the banks; after the notes had been duly delivered, certain limited amounts could be withdrawn at once in new notes; as regards the remainder, when no decision to the contrary was taken, the owner would have the right of gradual disposal of the amounts to his credit (subject to certain upper limits).

In Corsica, an island, it was relatively easy to institute such a control. For the whole of France an agreement was concluded in June 1944 between French and British delegates regarding the adoption of Fr.fcs 200 = £1 as the rate of conversion between the two currencies. Later on an understanding on corresponding lines was reached with American delegates, the rate of Fr.fcs 50 = \$1 being maintained. It has, however, been intimated that these rates must be regarded as provisional, being subject to possible revision at a later date, when the situation can be considered in all its aspects.

For the invasion of France in June 1944 the Allied military forces were provided by their governments with specially printed notes — "francs tricolores" — so called because the French flag was reproduced on them. By a subsequent agreement the francs required by the British and American forces were placed at their disposal by the Provisional French Government at the rate of Fr.fcs 200 = £1 and, in relation to the dollar, at a rate of Fr.fcs 49.57 = \$1, calculated as a cross rate on the basis of \$4.03½ = £1 applied to military payments in the United Kingdom (see page 33). In the autumn of 1944 rates applicable to the purchase and sale of different currencies were fixed, the pound being equal to Fr.fcs 199½-200½ and the dollar to Fr.fcs 49.53-49.72. Instead of the clearing rate of Sw.fc. 1 = Fr.fcs 10 (applied since October 1940), a new rate of Sw.fc. 1 = Fr.fcs 11.48-11.56 was adopted as from 1st December 1944.

In the spring of 1944 the Refugee Government of Czecho-Slovakia concluded an agreement with the U.S.S.R. regarding issues of "invasion notes".

The Refugee Belgian and Dutch Governments, on the other hand, provided the Supreme Command of the Allied Expeditionary Forces with their own notes and coins, these being of the same denominations as, and in appearance only slightly different from, those already circulating in Belgium and Holland.

The Refugee Governments of Holland and Belgium have collaborated with a view not only to coordinating the measures to be taken in connection with the invasion but also to establishing a closer economic and financial relationship between the two countries after the war. As a first step towards implementing this policy, a monetary agreement was signed in London on 21st October 1943 between the Belgian and Luxemburg Governments, on the one hand, and the Dutch Government, on the other, in order to stabilise the monetary relations and to facilitate the mechanism of payments between Holland and the Belgo-Luxemburg Economic Union. The rate of exchange was fixed at B.fcs 16.52 (or Belgas 3.304) = Fl. 1, which is equivalent to Fl. 6.053 = B.fcs 100 (or Belgas 20). No change can be made in this official rate without previous agreement between the two governments. Buying and selling rates will be fixed by agreement between the respective monetary authorities within a maximum margin of $\frac{1}{4}$ per cent. in either direction. It was also decided that the Belgian and Dutch currencies should be kept stable in relation to other currencies, no change in the official rates to be made without previous agreement between the two monetary authorities. These authorities will consult each other from time to time with a view to maintaining flexibility in the balance of payments and to preventing operations incompatible with the monetary and economic policy of Holland and Belgium. Each of the two monetary authorities will provide the other with its own currency, but provision is made for consultation between them, should the debit balances so constituted reach a certain level, the debtor always having the right to make repayments in gold. Third parties may adhere to the agreement. In several respects the new arrangement goes further than the Tripartite Agreement of 1936; thus, the Tripartite Agreement did not fix the exchange rates which were to serve as a starting-point; nor did it make a change in the rates conditional upon agreement, but merely upon consultation. It did not provide for any credit accommodation between the central banks, or for periodic consultations on questions of economic policy.

In September 1944, when the Allied troops were on the point of entering Belgium and Holland, the rates of £1 = Fl. 10.691 and £1 = B.fcs 176.50 were provisionally fixed. Between the Belgian and the Dutch currencies the pre-war rate of Fl. 1 = B.fcs 16.52 remained in force (as laid down in the agreement of 21st October 1943). Corresponding rates were fixed in relation to the French franc; and these rates applied provisionally to the French, Belgian and Dutch notes supplied to the troops.

On 5th October 1944 a monetary agreement was, however, signed between the Belgian and British Governments, reaffirming the rate of £1 = B.fcs 176.625, which was to remain in force until changed after mutual consultation. The agreement covers, on the one hand, the territories of the sterling area and, on the other, the territories of Belgium, Luxemburg and the Belgian Congo.

(the colony thus ceasing to be a member of the sterling area and resuming its monetary attachment to the Belgian franc). Sterling held by residents in the Belgian monetary area would be available for expenditure in the sterling area, and as opportunity offers it would be sought, with the consent of other interested parties, to make sterling available outside the sterling area. The two central banks may acquire balances of each other's currency up to a limit of £5 million and, its franc equivalent (with the possibility of an increase in the National Bank of Belgium's holdings of sterling by an agreed amount equivalent to the sterling balances owned by residents of the Belgian monetary area). The agreement has been concluded for a period of three years but can be rescinded at any time after a month's notice. It may be subject to revision if the governments adhere to a general international monetary agreement.

The following table shows the exchange rates of the French and Belgian francs and of the Dutch florin in August 1939, and as resulting from the arrangements concluded in the course of 1944. It also gives the percentage decline which the adoption of the new rates has entailed in the exchange value of these currencies.

Rates of the French franc, Belgian franc and Dutch florin.

Currency	Sterling rates			Dollar rates		
	1939 August 24th	1944 arrange- ments	Percentage decline (—) in exchange value	1939 August 24th	1944 arrange- ments	Percentage decline (—) In exchange value
French franc	176.715	200.—	— 72	37.755	49,625	— 24
Belgian franc	137.75	176.625	— 22	29.58125	43.8275	— 33
Dutch florin	8.70	10.691 *	— 19	1.86	2.652 *	— 30

* The rate of the Dutch florin in relation to the pound sterling was provisionally fixed in September 1944 at Fl. 10.691 = £1 and the corresponding cross rate for the dollar has been calculated on this basis.

The gold value of the dollar (at \$35 per fine ounce) has remained the same as in 1939 and the percentage change in relation to the dollar can therefore be regarded as a measure of the reduction in the gold value of the French and Belgian francs, as of the Dutch florin. In relation to sterling the percentage change has been less pronounced, owing to the fact that the gold value of the pound was lowered by about 15 per cent. in the autumn of 1939.

Monetary and political events in 1944 led to the fixing of some new exchange rates. Thus, in Roumania a rate of Rouble 1 = Lei 100 was introduced instead of the pre-war rate of Rouble 1 = Lei 26.6 (as calculated via the London quotations); while in Bulgaria the rouble was fixed at Leva 15, approximately corresponding to the pre-war rate (in this case also as calculated via London). In September 1944 a military mark having a rate of \$1 = RM 10 (instead of the previous rate of \$1 = RM 2.50) was introduced by the "Allied Military Government" with regard to the occupied parts of Germany. In December 1944 the French authorities fixed a rate of Fr.fcs 15 = RM 1 for the liberated part of Alsace: amounts which could be shown to have been held before 1940, however, would be exchanged at the more favourable rate of Fr.fcs 20 = RM 1.

Finally it should be mentioned that in Greece, on the proposal of a British financial mission, a new currency — retaining the name of drachma — was put into circulation on 11th November 1944. Old bank-notes were exchanged for the new notes at the rate of 50 milliard = 1 new drachma. The rate in relation to the pound was fixed at Dr. 600 = £1, as compared with Dr. 550 = £1 before the war.

* * *

While most of the monetary arrangements of 1944 remain subject to revision, they indicate a wish to deviate as little as possible from the exchange rates maintained in 1939. In these matters considerations of prestige tie up with earnest endeavours to preserve the confidence of the public in the monetary unit. It is, however, necessary to face the problem whether or not the exchange rates thus adopted can become true equilibrium rates consistent with the purchasing power of the different currencies. It is not sufficient to regard these problems as solely concerned with the balance of payments and, for instance, to imagine that a disequilibrium in that balance can be corrected simply by the granting of credits or even by a modification in the tariff policy of the countries involved. Even when the balance of payments of a country is not exposed to any serious pressure from abroad, a disequilibrium in the cost and price structure or an intolerable burden of excessive public or private indebtedness may force a country to lower the value of its currency. The truth is that exchange values are affected by all kinds of domestic conditions and policies in the various countries, such as the relation between costs and prices, between savings and investment, between debts and the national income, etc. Before 1914 there was a certain uniformity in the economic and financial policies pursued in different countries and also a degree of flexibility in their cost and price structures which, as a rule, made it possible for such maladjustments as arose to be corrected with little delay. And it is as well not to forget how in the nineteenth century, when one currency after the other linked on to gold, the "new" parities corresponded to rates which had already been quoted in the markets for some considerable time, and were thus very likely to be true equilibrium rates. In the 1920's, however, when stabilisation rates for different currencies were chosen hastily, it would indeed have been a miracle if the most appropriate level had been fixed upon in every case. A lack of balance was often found to exist: in some cases serious efforts at adjustment were made to ensure that the rates in force should truly reflect relative costs and prices; but these efforts came to nought, mainly because of the world-wide fall in commodity prices from 1929 onwards, which forced every country either to devalue its currency or, as Germany did, to adopt a system of export premiums and import restrictions designed to neutralise the effects of the disparity between the domestic and the foreign price levels. It would, indeed, seem as if by 1929 the adjustment in the relative cost and price structures had gone a long way towards establishing a world equilibrium at the then existing parities (see graphs on pages 96 and 97); had it not been for the disruption caused by

the fall in prices during the great depression, the pattern of exchange rates which had been established by the financial reconstructions during the 1920's might well have become permanent.

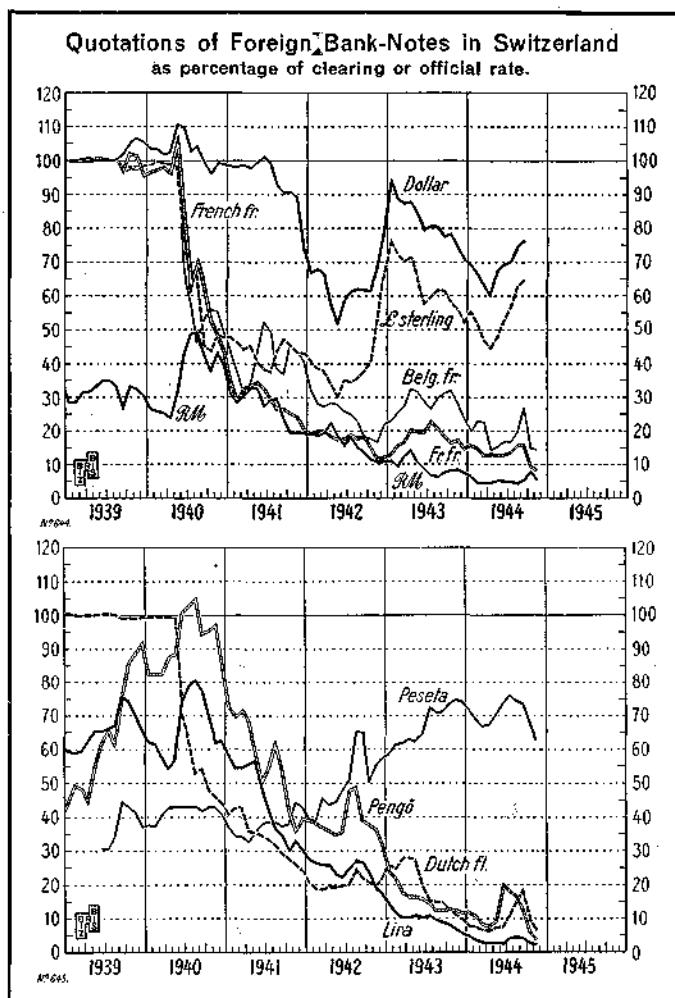
Two lessons are obviously to be drawn from these experiences:

- (i) in order to fix proper exchange rates, it is imperative to take into account the domestic financial and economic policies pursued in the various countries;
- (ii) but, apart from the question of relative exchange values, there are some common problems of world-wide movements in commodity prices, intimately connected with, although sometimes transcending, the problems of booms and depressions. Here again, a proper examination of the points involved necessarily requires a consideration of the domestic policies, especially of the larger countries.

As regards the determination of exchange rates and similar matters, an individual country may be disinclined to grant an international organisation the power to take decisions which might lead to interference with its internal policies of a fiscal or social character. It is, on the other hand, unrealistic to declare such policies taboo in the consideration of monetary problems. It may or may not be advisable to give an international organisation only consultative powers; if such powers alone were given, the various countries may be less unwilling to allow full and free consideration of all those factors which, according to past experience, influence the value of money as reflected in the fluctuations of exchange rates and the movements of commodity prices.

In ordinary times, exchange rates have been the rates at which the money of one country could be freely converted into the money of another country. But the exchange control imposed during the great depression, and, more generally, during the war, was implemented by clearings and other methods of regulated payment, which have encroached upon and, indeed, largely eliminated the markets in bankers' drafts and telegraphic orders. Up to the summer of 1944, bank-notes were quoted at rates reflecting supply and demand in fairly active markets but with the peculiarity that the notes could not, as a rule, be reimported into their country of origin except, perhaps, in limited amounts. The consequence was that quotations tended to vary according to political and military events which conveyed hopes (or the contrary) as to the future utilisation of the notes.

When exchange control is in force, a special permit will, as a rule, be required for all except perhaps a few privileged categories of payments in foreign currencies. Moreover, distinctions will almost necessarily be established between different kinds of money, e.g. between notes at home and notes abroad (because of the prohibition against re-entry), and also between bank balances of different kinds, some being "free", others being "blocked" or "frozen" in varying degrees under a great number of provisions. How to get rid of these distinctions will be a problem for the future. It will present itself most definitely for those currencies which have formed the nucleus of a monetary



group. What in the past made countries freely join such a group was partly the leading position of the central country and partly the fact that its currency was unhampered by restrictions, being accepted internationally as a means of payment, not least because it could be used with a minimum of cost and delay for the purchase of gold or other currencies. Business firms selling goods abroad found it natural to invoice them in such a currency. It is the aim of the monetary arrangements under discussion to restore freedom of exchange for commercial dealings; to what extent some control over capital movements will be considered necessary cannot yet be foreseen, nor is it possible to say

whether such a control can be applied without continued discrimination between different kinds of money balances. It is well to remember, however, that in the past exchange restrictions have invariably gone together with a decline in international trade. The immediate monetary problem of the "transition period" after this war will be to find the means of establishing such freedom in foreign exchanges that commercial relations will no longer be stultified by uncertainty as to the uses of the various currencies, but, on the contrary, a basis will be provided for an expansion in the interchange of goods and services between the different nations.

2. FOREIGN TRADE.

Since destruction of the enemy's commerce forms an important part of modern warfare, a veil of secrecy has been drawn over foreign trade statistics, a further consideration being that such statistics, if available in sufficient detail, might provide a valuable clue to economic developments including, maybe, the activity of armament industries. Delay in publication will, as a rule,

make the figures a less accurate guide to the ever-changing conditions, and so it is not surprising to find that foreign trade statistics are usually released much later than other data. But regular trade statistics continue to be published by some twenty-five countries, certain global figures being brought out in half a dozen additional cases; and, in 1944, both Germany and the United Kingdom for the first time allowed certain general data covering the war years to be published.

In the majority of cases the interpretation of foreign trade statistics calls for great caution, especially when comparison is made with pre-war figures. Commodity prices have risen; deliveries of arms and munitions may or may not be included in published export and import figures; certain categories of commodities, for instance supplies for the country's own armed forces, are generally not regarded as exports at all. By and large, profit considerations exert but a minor influence on the direction of trade, the primary aim being to secure the import of supplies vital for the conduct of the war and to furnish such supplies to allied and friendly countries. Moreover, governments themselves have taken over many new activities in the field of foreign trade, in some cases entering into long-term arrangements for bulk purchases of important commodities. As far as civilian supplies are concerned, considerations of quality and variety have little weight in comparison with the paramount need for a minimum quantity of the essentials of life, the people being ready to cut down their standard of living, at least for the duration of the war.

One reason why prices of imported goods in most countries have risen well above the average is that they include transportation and insurance costs, which have proved very sensitive to war conditions. Thus, even less than in the case of exports, do higher values here reflect an increase in weight, imports being usually counted c. i. f. and exports f. o. b. (with the United States, Canada, New Zealand and Australia as the principal exceptions, whose imports also are valued f. o. b.). Full particulars of freight and insurance rates have been difficult to obtain during the war, since they might throw light upon shipping conditions; but it is known that, in order to prevent an indiscriminate rise, underwriters in Great Britain have drawn up scales of war rates and surcharges in marine insurance and have agreed among themselves that these scales should be universally observed.

Owing to the rise in prices the total turnover of foreign trade (imports plus exports) has generally shown a rise in value as compared with pre-war figures (by 10 per cent. for the Argentine and more than 200 per cent. for the United States and Canada); Denmark, Eire and Sweden, however, were exceptional cases in which the value figures for 1943 show a decline by about 20 per cent. Price movements in the different countries are, on the whole, so uneven as to give little indication of the actual changes in the physical volume of trade. Only a few neutrals and certain Latin American countries publish the weight figures of their foreign trade, the fact that such figures would give an indication of the real situation being the main reason for their suppression elsewhere. In the following table the decrease in the weight of foreign trade is given for a few neutral countries.

Foreign Trade
of some Neutral Countries.
Weight of Total Turnover.

Countries	1938	1943	Decrease in percentages
	In thousands of tons		
Argentina	19,024	9,020	— 53
Portugal	3,936	1,953	— 50
Spain	11,459 *	4,384	— 62
Sweden	34,048	19,550	— 43
Switzerland	8,100	4,439	— 45

* 1935.

The decline in the weight of foreign trade is due for the most part, to the conspicuous cleavage of the world commercially. Blockade and counter-blockade measures led to the segregation of three main areas having no communication with one another except through those tiny rivulets of trade which a few neutrals were still allowed to carry on outside their respective geographical blocs. The central points of attraction and radiation in these blocs have been Germany for Continental Europe, Japan for the Far East, and the United States for Latin America and (through the mechanism of lend-lease) for the United Nations as a whole. In 1938, Continental Europe accounted for about one-third and Japan together with South-East Asia for not quite one-tenth of world trade, most of the balance being the share of the British Empire and the United States.

World Trade interrupted by the War.⁽¹⁾

Groups of countries	Total turnover (exports plus imports) in 1938	Trade interrupted by the war ⁽²⁾	Percentage of trade cut off
	in millions of U. S. dollars		
Continental Europe .	17,400	8,000	46
Rest of Europe . . .	6,800	2,400	35
United States	5,000	2,100	42
Rest of North America	1,800	200	13
Latin America	3,900	1,300	33
U.S.S.R.	500	400	80
Japan and South-East Asia ⁽³⁾	3,500	2,200	63
Rest of Asia	3,200	1,400	44
Africa	2,800	1,400	54
Oceania	1,600	400	25
Total for the world .	46,100	19,800	43

(1) In order to simplify the calculations included in the table (the results of which should, in any case, be considered as no more than approximate) some general assumptions and omissions had to be made; they can be summarised as follows:

1. Continental Europe has been considered as entirely cut off from the rest of the world; no allowance has, therefore, been made either for overseas trade of the neutral countries or for trade with North Africa;
2. Trade with Africa has, in fact, been included in that of all countries or groups of countries except Continental Europe, Japan, South-East Asia and the U.S.S.R.;
3. Burma is included in "Rest of Asia", whose trade — with the exception of China, which has been considered as entirely cut off from any commercial relations with the outside world — is supposed to have been interrupted only in relation to Continental Europe, Japan and South-East Asia.

Since such assumptions and omissions involve, in all, no more than a few hundred million dollars, the results appearing in the table should not be greatly affected by them.

The table has been prepared with the help of data given in "The Network of World Trade", published by the League of Nations, Geneva, 1942.

(2) i.e. trade carried on in relation to countries with which commerce was subsequently interrupted as a result of the war.

(3) Japan, Korea, Formosa, British territories, French Indo-China, Dutch Indies, Philippine Islands, Thailand, Portuguese Timor.

A reduction of 40-60 per cent. is indicated by the figures, but any generalisation, especially when extended to belligerent countries, would probably involve too great a margin of error, since it is difficult to judge the extent to which exports or imports of war materials, strategic minerals, foodstuffs, etc. have offset the diminution of those consumption and capital goods which used to be the mainstay of foreign trade.

In the accompanying table an attempt has been made to calculate the extent to which foreign trade was disrupted by the war situation as it was in 1943.

For each separate area the total turnover of exports and imports in 1938 has been compared with the part interrupted by the war, i.e. trade in relation to countries cut off. For the world as a whole it appears that, out of a total turnover of about \$46,000 million, some \$20,000 million has been suppressed, i.e. about four-ninths of world trade. This gives, of course, only a very rough and ready indication, since in order to judge the loss actually sustained it would, on the one hand, be necessary to estimate how far additional adverse factors such as submarine warfare have caused a setback in trade between partners of a particular area and, on the other hand, what amounts may have been made good by deflecting pre-war trade into new channels or by intensifying the deliveries of goods between countries still in contact with each other, for instance, through lend-lease shipments and mutual aid.* But such calculations are impossible for the time being.

* * *

The principal figures of Germany's foreign trade as published in the middle of 1944 are set out in the following table.

Germany: Foreign Trade.

Value	1938*	1939	1940	1941	1942	1943
	in milliards of Reichsmarks					
Imports	5.4	4.8	5.0	6.9	8.7	8.3
Exports	5.3	5.2	4.9	6.8	7.6	8.6
Total turnover.	10.7	10.0	9.9	13.7	16.3	16.9
Balance.	— 0.1	+ 0.4	— 0.1	— 0.1	— 1.1	+ 0.3

* Altreich. Trade with Austria has been omitted. For Grossdeutschland (i.e. including Austria and the Sudetenland) the figures in 1938 would be RM 6.1 milliard for imports and 5.8 milliard for exports. Since it is not known whether, in the following years, allowance has been made for new territories, it has been found preferable to give the figures of the Altreich alone for 1938.

Notwithstanding the interruption caused by the outbreak of war, the amount in Reichsmarks of Germany's trade suffered only a slight reduction in 1939 and 1940 and, since in those years the prices of imported and exported goods rose but little (in some cases they were even reduced), the actual volume would

seem to have maintained almost the peacetime level. From 1941 onwards the table shows a marked increase in both imports and exports; it has been stated, moreover, that, as regards German deliveries of war material, only those based on effective purchase contracts have been included in the published figures, the trade returns omitting armaments and other goods which Germany supplied to its allies in the form of assistance and which, it is understood, amounted to several times as much as the quantity of material actually purchased. Further explanations of the trade figures are lacking but, in view of the stress repeatedly laid by responsible German authorities on the unfavourable repercussions which the upward movement of external prices has had upon Germany's own price structure, it may be assumed that the

* A note of warning was sounded in the autumn of 1944 by the Canadian Ministry of Trade, which pointed out that 80 per cent. of the country's exports were in the category of temporary, abnormal, wartime trade and about 20 per cent. in the class of normal and permanent trade.

increase in the value of the country's foreign trade has been partly due to higher prices and perhaps also in some measure to an increase in the territory covered by the figures.

The pre-war direction of Germany's trade is shown in the following table.

Germany's Foreign Trade in 1938.*

Groups of countries	Imports				Exports			
	in % of total	Food-stuffs	Raw materials	Finished and semi-finished articles	in % of total	Food-stuffs	Raw materials	Finished and semi-finished articles
		in millions of RM				in millions of RM		
Continental Europe (excluding U.S.S.R.) . .	48	1,146	691	728	62	32	447	2,762
Overseas countries	52	965	1,159	710	38	29	57	1,927
Total . .	100	2,111	1,850	1,438	100	61	504	4,689

* The figures in this table do not include reimports (and are for that reason somewhat different from those in the next table).

About 45 per cent of the total turnover was accounted for by overseas countries; in relation to them Germany had an import surplus of over RM 800 million (chiefly in respect of raw materials and foodstuffs) but this was compensated by an excess of exports to Continental Europe (mainly in the form of manufactured articles). The loss of trade with western countries at the outbreak of war in 1939 was at first made good, to some extent, by an increase of trade with the U.S.S.R. (German exports to the latter country in 1940 have been estimated at RM 500-600 million as against RM 34 million in 1938). As the war went on, the field open to Germany's foreign trade was virtually limited to some twenty countries as against more than sixty before the war. The main features of the wartime redirection of trade are shown in the following table.

Germany: Direction of Foreign Trade.

Groups of countries	Imports				Exports			
	1938	1941	1942	1943	1938	1941	1942	1943
in millions of Reichsmarks								
South-eastern countries . .	670	1,340	1,860	1,900	680	1,470	2,020	2,800
Rest of Continental Europe	1,940	5,560	6,840	6,400	2,570	5,330	5,580	5,800
Other countries	2,840	—	—	—	2,010	—	—	—
Total . . .	5,450	6,900	8,700	8,300	5,260	6,800	7,600	8,600

In relation to the countries of south-eastern Europe Germany's trade was very nearly balanced in 1938 while for 1943 an export surplus of RM 900 million is shown. Towards the "rest of Continental Europe" a German export surplus of RM 630 million in 1938 had been turned into an import surplus of

RM 600 million in 1943. These changes, though not unimportant in themselves, are, however, small compared with the large "clearing" debts via the Deutsche Verrechnungskasse, running into some RM 26 milliard up to the end of 1943. Too many elements are missing or incomplete for a comprehensive picture to be drawn of the European balances of payments; but, as far as can be seen, Germany's clearing debts have been mainly due to payments on other accounts than merchandise trade, e.g. transit and transport charges, transfer of savings by workers in Germany, service of financial liabilities and certain investments on capital account.

No information is available regarding Italy's foreign trade in 1943 but the military and political events of that summer must have brought regular imports and exports almost to a standstill. A new clearing agreement with Germany was signed on 30th January 1944 by the Government of northern Italy (as mentioned more fully on page 156 of this Report). As regards southern Italy, some trade, chiefly through official agencies, was set on foot in the course of 1944; it has been officially announced that, from the arrival of Allied troops in Italy up to the end of 1944, exports amounted to over Lit. 1 milliard, with a tendency to increase.

Official statistical material on foreign trade of the countries in the Danubian Basin has been very scanty. The value of Hungary's exports rose from Pengö 1,144 million in 1942 to Pengö 1,289 million in 1943 and imports from Pengö 923 million to Pengö 1,148 million, giving an export surplus of Pengö 221 and 141 million respectively. The total turnover in 1943 was two and a half times that of the last year before the war but prices seem to have increased even more, so that there was probably an appreciable decline in volume. A good harvest in 1943 enabled Hungary to resume its traditional exports of wheat, after an interval of three years, the bulk being absorbed by Germany, Italy, Switzerland and Finland. After a slight decline in 1942, Germany's share in Hungary's foreign trade recovered to about 60 per cent. in 1943 and is likely to have attained as much as 80-90 per cent. in the course of 1944. Italy, which previously ranked second, was eclipsed in the autumn of 1943, while trade with neutral European countries, being of special importance as a source of free currencies and raw materials, approximately doubled from 1940 to 1943. Between Germany and Hungary it was agreed, in the middle of 1942 (in much the same way as with Italy in the previous year), that all reciprocal deliveries should be continued irrespective of the position of the clearing account. Moreover, in view of the increase in transport risks, the Hungarian Government in 1943 undertook to assume the insurance charges on behalf of the importers.

In Slovakia the competent authorities have laid stress on the growing difficulties encountered by the country in its foreign trade, so that the reported expansion in the total turnover from 1942 to 1943 does not seem to reflect any increase in volume but simply higher prices. As a matter of fact, economic relations were maintained with only a very few countries, Germany accounting for 60 per cent. of Slovakia's external trade, while the remaining 40 per cent. was mainly with Italy, Hungary, Roumania and Switzerland. The difficulties

have been largely due to the slow functioning of the clearing and to its trend; thus, the lengthening of the time lag for out-payments to 110 days necessitated further official assistance in the form of advances on clearing account by the Slovak Government.

Croatia has also reported an import surplus on merchandise account of nearly Kunas 3,000 million in 1943, together with an active balance of all payments (see page 157). In 1942, Germany and Italy together accounted for about 90 per cent. of the country's foreign trade, this percentage being probably absorbed by Germany alone as from the middle of 1943. In view of the growing disparity between Croatian and German prices, a contribution based on the situation on 15th April 1944, as key date, was levied on all goods imported from Germany, the sums thus collected being utilised to cheapen Croatian deliveries to Germany.

Bulgarian trade statistics, available only up to August 1943, showed for the first eight months of that year, as compared with the corresponding period of the previous year, an increase in the total turnover by about Leva 5 milliard to Leva 20 milliard and an export surplus of half a milliard leva. In weight, foreign trade likewise expanded, both exports and imports including a higher proportion of commodities with greater bulk and less value. In fact, more tobacco was exported instead of processed farm products and more consumption goods were imported instead of semi-finished articles and capital goods. The majority of Bulgarian commercial agreements have contained a price clause under which any increase introduced by one of the partners would entail an advance by the other. As a result of long trade negotiations with Germany, lasting nine months, the price paid for tobacco exported by Bulgaria was raised by 60 per cent., of which 50 per cent. was allowed without compensation, while the remaining 10 per cent. was offset by a corresponding rise in prices for German deliveries, Bulgaria being entitled to select the articles for which it was prepared to pay higher prices. Thus, of the additional Leva 2,600 million, representing an increase of 60 per cent. on the cost of 39 million kilogrammes of tobacco to be exported to Germany, about Leva 2,200 million was taken over by German importers, while about Leva 400 million was passed on to the Bulgarian consumers.

No complete figures of the value of Roumania's foreign trade have been published since June 1941, but data concerning weight are available up to 1942. As appears from the following table, the quantity of exports fell by roughly one-half from 1938 to 1942; but, since the export surplus in the latter year was still very large, the rise in export prices would seem to have far outstripped the decline in weight; in other words, the terms of trade moved in favour of Roumania.

Roumania: Weight of Foreign Trade.

Weight	1938	1939	1940	1941	1942
	in thousands of tons				
Imports	821	739	522	392	700
Exports	7,409	7,564	5,374	4,135	3,785
Total turnover . . .	8,230	8,303	5,896	4,527	4,485

Germany having acquired a quasi-monopolist position in regard to Roumanian imports (in the first six months of 1943 its share rose to 93 per cent. of the total trade turnover), the question of price disparity became particularly important in trade negotiations between the two countries (the price of wheat, for instance, was fixed at RM 880 per ton, delivery Ratisbon, compared with a German domestic price of RM 210). By an agreement concluded in March 1944, Germany seems to have secured the greater part of the wheat surplus (estimated at 1.2 million tons) which Roumania had previously accumulated, mainly owing to transport difficulties. An interesting feature of the agreement was that German deliveries to the countervalue of Sw.fcs 150 million were to be paid for by Roumania actually in Swiss francs, the arrangement being that, for every Lei 1 milliard passing through the clearing, merchandise with a value equivalent to Sw.fcs 6 million had to be paid for in that currency. In order to enable Roumania to obtain the Swiss francs thus required, Germany agreed to the transport of 20,000 tons of goods per month from Roumania to Switzerland.

Little is known about Serbia's foreign trade, except that exports in the economic year 1942-43 are reported to have risen in value by 120 per cent. and in weight by 40 per cent., while for imports the increases were 70 per cent. and 20 per cent. respectively. A clearing claim on merchandise account is also known to have accumulated in relation to Germany. By the spring of 1943 prices of the principal Serbian export goods seem to have risen pari passu with prices of goods imported from Germany.

In the two and a half years up to the middle of 1944 deliveries through Red Cross organisations to Greece amounted to about 300,000 tons of wheat and 45,000 tons of various other foodstuffs, mostly transported from Canada, the United States and the Argentine in Swedish ships. Apart from these deliveries, Greek foreign trade (after the suspension of "Sacig", which regulated trade relations with Italy) became the virtual monopoly of the "Degrites", formed to promote Greek exports to Germany. Even if this body did not actually enter into trade negotiations, in practice it exerted a predominant influence on the whole of the country's foreign trade by authoritatively fixing the premiums which Greek importers had to pay in addition to the price invoiced by the foreign exporters (see page 158). During 1943, "Degrites" allowed German exports to Greece amounting to 34,216 tons with a value of RM 87.4 million (equal to about one-quarter of total Greek imports in 1938); no information was made available regarding Greek exports to Germany.

Of the five countries in western and northern Europe which remained under German military occupation during 1943, namely, France, Belgium, Holland, Denmark and Norway, regular returns of foreign trade have been published by Denmark alone, while Finland, although belligerent, continued publication of its principal foreign-trade figures.

The appearance of a Danish export surplus in 1943 (the third in this century, the previous ones occurring in 1914 and 1940) is accounted for by increased deliveries to Germany, which in its turn furnished about 80 per cent.

Denmark: Foreign Trade.

Years	Imports	Exports	Balance
	in millions of Danish crowns		
1938	1,626	1,535	— 90
1942	1,210	1,053	— 157
1943	1,225	1,338	+ 113
1944	1,167	1,340	+ 173

exports at not less than three times the value of imports; here Germany supplied 55 per cent. of the imports and absorbed some 80 per cent. of Belgian deliveries, with France and Holland as the remaining trade partners.

At the end of 1944 full data of France's foreign trade during the war years had not yet been published and only a few general indications can be given. Figures covering nearly three years — from the end of 1940 to November 1943 — have been issued by the Exchange Office, and these show that payments into the clearing amounted, in all, to Fr.fcs 214 milliard. Of this amount Fr.fcs 190 milliard were in respect of the Franco-German clearing (including, besides Germany, payments in relation to Belgium, Holland and the Governor-Generalship) and the remaining Fr.fcs 24 milliard were in respect of other European partners. In regard to the latter, the clearing would seem to have been more or less balanced, while the Fr.fcs 190 milliard in relation to Germany, etc. were made up of Fr.fcs 43 milliard mainly representing imports into France from Germany and Fr.fcs 147 milliard representing French exports to Germany plus such transfers as savings of French workers in Germany, together with some other payments under the terms of the armistice. The resulting French clearing claim of some Fr.fcs 100 milliard against Germany in November 1943 thus reflects not only movements of merchandise but also a series of other transfers.

Certain data were published in 1944 from which it would seem that, in weight, French imports during the first five months of that year amounted to only 7 per cent. of the imports in the corresponding period of 1938. On the other hand, French exports were about 50 per cent. below their pre-war weight; the export of foodstuffs had increased more than 30 per cent. (without counting deliveries inside France to the occupying power), but that of raw materials and finished goods had declined by 60-70 per cent.

To understand Finland's foreign trade figures, due account must be taken of the fact that by the middle of 1944 export prices had risen by 125 per cent. and import prices by more than 200 per cent. above the level of August 1939, with the result that the aggregate volume of the country's foreign trade in the first half of 1944 was about one-half of the pre-war figure; this proportion declined further to about one-third for the whole of the year 1944, owing to the shrinkage in the country's foreign trade during the second half of that year. The following table shows the magnitude of the adverse balance of trade and the somewhat smaller deficit in the balance of payments, the

of Denmark's imports. It seems that in the course of 1944 German supplies were curtailed, while Danish exports of agricultural products were intensified, leading to an increased German debt in the clearing on merchandise as well as on other accounts. A rather similar situation occurred in Belgium, where some estimates put the value of

Finland: Foreign Trade and Balance of Payments.

Years	Imports	Exports	Balance of Trade	
	in millions of FM			
1938	8,607	8,398	— 209	+ 400
1940	5,180	2,875	— 2,305	— 3,400
1941	10,201	4,322	— 5,879	— 4,300
1942	11,732	5,991	— 5,741	— 5,000
1943	12,880	8,713	— 4,167	— 3,000
1944	8,886	6,588	— 2,298	—

latter not included in the foreign trade returns, Finland depended entirely on Denmark. On the other hand, Finnish exports of metals would seem to have increased, and Finnish industries manufactured considerable quantities of pre-fabricated houses, mainly for delivery to Germany and south-eastern Europe. An agreement signed between Finland and Sweden in the middle of 1944 provided for payment in cash for deliveries by either party; after the political events of the late summer, however, a new reconstruction credit of S.Kr. 150 million was granted by Sweden, bringing the total of Swedish credits to Finland since 1939 to S.Kr. 600–650 million.

Foreign Trade of Sweden, Switzerland, Spain and Portugal.

Countries	Percentage increase (+) or decrease (—) between 1938 and 1943				
	Weight of Imports		Value of Exports		
	Imports	Exports	Imports	Exports	percentages
Sweden	— 49	— 38	— 13	— 36	
Switzerland	— 46	— 40	+ 7	+ 24	
Spain *	— 57	— 65	+ 4	+ 49	
Portugal	— 39	— 68	+ 43	+ 248	

* 1935 taken as the basic year instead of 1938.

latter amounting to FM 15.7 milliard for the four years 1940–43, largely covered by the growth in indebtedness vis-à-vis foreign countries, especially Germany and Sweden.

From 1941 onwards Germany increased its share in Finnish foreign trade to more than two-thirds, supplying for the most part cereals and armaments (the latter not included in the foreign trade returns), while for the import of fats Finland depended entirely on Denmark. On the other hand, Finnish exports of metals would seem to have increased, and Finnish industries manufactured considerable quantities of pre-fabricated houses, mainly for delivery to Germany and south-eastern Europe. An agreement signed between Finland and Sweden in the middle of 1944 provided for payment in cash for deliveries by either party; after the political events of the late summer, however, a new reconstruction credit of S.Kr. 150 million was granted by Sweden, bringing the total of Swedish credits to Finland since 1939 to S.Kr. 600–650 million.

The accompanying table shows that the four neutral countries in Europe – Sweden, Switzerland, Spain and Portugal – have experienced drastic reductions in the weight figures of their foreign trade (whatever may have happened to the value figures).

In weight, imports have thus been reduced to about one-half of what they were in 1938, while exports reached, at best, only two-thirds of their pre-war magnitude.

Sweden: Foreign Trade.

Years	Weight in thousands of tons		Value in millions of Swedish crowns		
	Imports	Exports	Imports	Exports	Balance
1938	13,670	20,378	2,082	1,843	— 239
1939	15,393	21,804	2,499	1,899	— 610
1942	6,177	12,022	1,780	1,319	— 461
1943	7,000	12,550	1,814	1,172	— 642
1944 *	—	—	1,664	830	— 835

* Preliminary.

With certain interruptions, Sweden has been able to secure such exemptions from the various blockade and counter-blockade measures as have made it possible to maintain some exchange of goods with extra-European – mainly South American – countries; nevertheless there has been a considerable alteration in

Sweden: Direction of Foreign Trade.
(According to value figures).

Percentage distribution of imports from and exports to :	1938	1943	1944*
	percentages		
Germany	20	48	49
Northern countries	12	11	8
Other countries of Continental Europe	21	27	27
Total for Continental Europe	53	86	84
Overseas countries	47	14	16
Total	100	100	100

* January-June.

figure of S.Kr. 677 million reached in 1940), the Swedish balance of payments was still active, on current account, to the extent of almost S.Kr. 200 million (see pages 108 and 109).

In contrast to Sweden, the imports of Switzerland were sharply contracted in 1943, with the result that the import surplus in that year fell to Sw.fcs 98 million, i. e. the lowest figure since 1917. The same trend continued in 1944, when the weight of imports fell to the lowest level since 1888.

Switzerland: Foreign Trade.

Years	Weight in thousands of tons		Value in millions of Swiss francs		
	Imports	Exports	Imports	Exports	Balance
1938	7,485	615	1,607	1,317	— 290
1939	8,772	548	1,869	1,298	— 592
1942	4,422	405	2,049	1,572	— 478
1943	4,071	368	1,727	1,629	— 98
1944	2,621	304	1,186	1,132	— 54

for its supplies of almost all industrial raw materials and of many foodstuffs. The fact that, in 1937, the value of Swiss foreign trade per head of the population was Sw.fcs 741, as against Sw.fcs 675 for Great Britain and Sw.fcs 294 for Germany, indicates the importance of this branch of activity.

As a neutral country situated in the middle of a belligerent continent, at a point of intersection between blockade and counter-blockade measures, Switzerland presents certain peculiarities as regards foreign trade: a passive trade balance with other neutral countries and with the Balkans has had to be settled by releasing gold at home; an active balance in relation to Germany and occupied countries has had as its counterpart advances in the Swiss-German clearing, while an active balance vis-à-vis the dollar and sterling countries has led to an accumulation of blocked reserves; neither clearing assets nor the blocked gold and foreign exchange reserves have, however, been utilisable for the settlement of passive balances in respect of other groups of countries. Thus, as pointed out by the Vice-President of the Swiss National Bank, economic warfare has resulted in the splitting-up of the balance of payments according to groups of countries, a relatively small import surplus

the direction of Sweden's foreign trade. Switzerland has attained the second place in Sweden's foreign trade with a share of about 10 per cent., as compared with only 1 per cent. in 1939.

In spite of the increase in the import surplus to S.Kr. 642 million in 1943 (not far short of the record

Normally, Switzerland has an import surplus of some Sw.fcs 300-600 million, paid for with the proceeds of Swiss services (such as banking, tourist traffic, transit trade, income from Swiss capital investments abroad), the country being dependent on imports

of under Sw.fcs 100 million in 1943 constituting a far more difficult problem than the substantially higher trade deficits of earlier years.

Owing to their neutrality, to their geographical situation and to their economic structure, Portugal and Spain show a certain similarity in their foreign trade trends, as may be seen from the following tables: in each case the weight of the total turnover suffered a considerable decrease (by about one-half for Portugal and two-thirds for Spain) in comparison with the respective base years before the war; but in 1943 both countries were able to bring their imports above the 1942 level in quantity as well as in value, while exports continued to decline in weight though they rose in value.

Portugal: Foreign Trade.

Periods	Weight in thousands of tons		Value in millions of escudos		
	Imports	Exports	Imports	Exports	Balance
1938 . . .	2,396	1,540	2,306	1,146	—1,160
1942 . . .	1,342	616	2,480	3,939	+1,459
1943 . . .	1,458	495	3,341	4,035	+ 694
1943 Jan.-June .	536	229	1,303	1,863	+ 560
1944 . . .	812	252	1,761	1,863	+ 102

especially as from 1941. Thus, German participation in Portugal's total foreign trade turnover between 1938 and 1942 rose only from 16 to 20 per cent., while, in trade with Spain, Germany, though still occupying the first place, did not absorb more than 20 per cent. of the total in 1942 as against 15 per cent. in 1935; for 1943, the relevant percentages calculated on the basis of the available figures regarding trade with Germany do not seem, in either case, to have registered any appreciable change. The great advantage which Spain has derived from its maritime position appears from the fact that fully two-thirds of the total foreign trade was carried in ships.

Products of agriculture and fisheries still predominate among the exports from the Iberian Peninsula, but pyrites, tin, quicksilver and, above all, wolfram have greatly increased in importance. Spain vies with southern Italy for the first place in the world as a producer of quicksilver, while Portugal ranks third after China and Burma in the output of wolfram. Portuguese exports of this latter mineral reached a record figure of nearly 6,800 tons in 1943, against 4,800 tons in 1942 and 3,080 tons in 1939; but, prices having fallen, revenue from this source declined from a peak figure of Esc. 1,250 million in 1942 to Esc. 820 million in 1943 (i.e. a decrease from one-third to one-fifth of the total value of Portugal's exports).

Spain⁽¹⁾: Foreign Trade.

Periods	Weight in thousands of tons		Value in millions of pesetas		
	Imports	Exports	Imports	Exports	Balance
1935 . . .	5,095	6,364	883	589	— 294
1942 . . .	1,999	2,307	610	631	+ 21
1943 . . .	2,166	2,218	914	878	— 36
1943 Jan.-June .	1,035	1,198	411	494	+ 83
1944 . . . ⁽²⁾	976	1,547	325	363	+ 38

(1) Spanish possessions included.

(2) Provisional.

Official figures show an increase in the value of the total turnover of Turkey's foreign trade from £T 246 million in 1939 to £T 460 million in 1943, while the export surplus rose from £T 9 million to £T 54 million. In volume, trade seems to have been fairly well maintained, with important changes, however, as regards direction, though in this respect particulars for recent years are not available. The share of Germany, which in 1939 was somewhat less than one-half of Turkey's total foreign trade, declined considerably in the following years; if the sum of £T 60 million fixed for exports as well as for imports in the Turkish-German agreement of April 1943 was actually attained, it would account for about one-quarter of the total Turkish trade in 1943. On the other hand, trade with the Anglo-Saxon countries, though subject to ups and downs, is known to have increased on balance; furthermore, commercial agreements were concluded to keep up the exchange of goods with Danubian and Balkan countries as well as with European neutrals.

The publication of foreign trade statistics of the U.S.S.R. was suspended as from 1939 but on 11th June 1944 the Commissariat of Foreign Trade in Moscow issued a statement giving certain particulars of the aid extended to the country by the United States, the United Kingdom and Canada from the beginning of the Russo-German war to the end of April 1944 (see table page 129). Of an aggregate weight of 10,100,000 tons despatched to Russia, the total actually received amounted to 8,796,000 tons, which would imply losses amounting to about 13 per cent., evidently due to enemy action, the loss in value as regards the United States being estimated at \$745 million.

The U.S. lend-lease shipments to the U.S.S.R. rose from a million dollars in 1941 to \$1,350 million in 1942 and \$2,930 million in 1943 and \$3,440 million in 1944. According to the White Paper on Mutual Aid, published late in 1944 by the British Government, the total of British deliveries to the U.S.S.R. up to the end of June 1944 was estimated at £270 million, a figure which of course refers primarily to the value of the armaments delivered.

Ordinary trade has practically come to a standstill and this makes it difficult to compare present with pre-war conditions, when Russia exported products of great bulk, such as cereals, wood, coal and oil, and imported mainly capital goods of high value. On the basis of gold prices Russia's foreign trade in 1929-31 was about 70 per cent. of the average for 1909-13. And by 1938 (when, however, prices had fallen) the figures showed a further contraction. It is interesting to note that all through these periods there was, on

U.S.S.R.: Composition of Foreign Trade.

Groups	Average		1938
	1909-1913	1929-1931	
In millions of gold roubles			
Exports:			
Agricultural products . . .	1,051	378	110
Industrial products . . .	437	546	193
Total exports . . .	1,488	924	303
Imports:			
Capital goods	824	913	286
Consumption goods . . .	317	102	99
Total imports . . .	1,141	1,015	325
Total turnover (exports plus imports) . .	2,629	1,939	628

the export side, a relative increase in the importance of industrial goods, with a shift to capital goods on the import side.

In October 1944, the veil of secrecy which had surrounded the foreign trade of the United Kingdom was partially lifted in that certain figures were published covering the period up to the end of 1943; and corresponding data have since been made available for the year 1944. With regard to exports, the figures exclude shipments of "munitions" but comprise all other goods (whether despatched to governments or to private firms), thus including certain shipments under reciprocal aid. The available export statistics for the years 1939-41 include munitions supplied to governments of other countries (though not munitions shipped for the use of British forces abroad); for this reason direct comparison cannot be made with the export figures for the years in question but only with those for 1938.

United Kingdom: Exports.

Exports by groups	1938	1942	1943	1944	Index for 1944 of average values	volume
	in millions of £ sterling				1938 = 100	
Food, drink and tobacco	35.9	18.5	19.0	19.0	171	31
Raw materials and articles mainly unmanufactured	56.9	10.2	9.0	7.7	202	7
Articles wholly or mainly manufactured	365.3	234.7	200.4	226.8	182	34
Animals not for food	0.7	0.2	0.1	0.3	266	15
Parcel post	12.0	5.8	3.7	5.2	*	41
Total	470.8	269.4	232.2	258.0	178	31

* Parcel post is recorded by the customs according to an official valuation.

In value, British exports fell by nearly one-half between 1938 and 1944 but the decline in volume was greater: the average price of British exports having risen by about 80 per cent. the volume of exports in 1944 was less than one-third of what it had been in 1938. The most pronounced fall — to 7 per cent. of the pre-war level — was experienced by the group comprising raw materials and semi-finished products, while exports of foodstuffs and finished articles declined to one-third. Silk and artificial silk formed the only category which showed an increase in both value and weight of exports. Whiskey also

was one of the mainstays of trade, especially with the United States; it represented more than a quarter of total exports to that country in 1942 and nearly a third in 1943; but in 1944 the proportion declined, stocks having been further depleted.

United Kingdom Geographical Distribution of Exports.

Area	1938	1943	1944	Decrease in 1944 compared with 1938	In %
	in millions of £ sterling				
Enemy and enemy-countries occupied	137.8	—	—	— 137.8	— 100
Other countries:					
British	211.9	149.2	169.8	— 42.1	— 20
Rest of world	121.1	83.0	88.3	— 32.8	— 27
Total	470.8	232.2	258.1	— 212.7	— 45

Suspension of shipments to enemy or enemy-occupied countries accounts for more than one-half of the total loss of trade (on a value basis) between 1938 and 1944. Trade has been best sustained in relation to North America, the relevant exports being for £44.6 million in 1938, £50 million in 1942, £43.1 million in 1943 and £40.1 million in 1944.

In addition to the publication of export figures, certain data regarding British imports (up to and including 1943) have been given separately in the White Paper of "Statistics relating to the War Effort of the United Kingdom", presented to Parliament in November 1944.

United Kingdom: Imports and Re-exports.

Areas	1938	1942	1943
	in millions of £ sterling		
Imports from:			
British countries	371.5	482.1	556.9
United States	118.0	535.5	1,099.7
Other countries	430.0	188.0	218.1
Total imports	919.5	1,205.6	1,874.7
Munitions (1)	—	202.5	657.9
Total excluding munitions	919.5	1,003.1	1,216.8
Re-exports:			
Total	61.5	10.7	10.1
Excluding munitions	—	4.6	5.4
Retained imports:			
Total	859.0	1,194.9	1,864.6
Excluding munitions	—	998.5	1,211.4
Indexes 1938 = 100			
Volume of retained imports (2)			
Total	100	84	118
Excluding munitions	100	72	79

(1) i. e. Imports (or re-exports) by government departments of aircraft and other vehicles and parts (except rubber tyres and tubes for road vehicles) and arms, ammunition and military and naval stores.

(2) Calculated on the basis of Imports and re-exports revalued at 1935 commodity prices.

in 1943 (the figures excluding imports from Eire). In the words of the official commentary "imports of both food and raw materials were cut by one-half and imports of finished goods were confined almost exclusively to munitions. Imports in 1942 and 1943 were less than in 1917, when they were nearly 34 million tons of dry cargo, and in 1918 when they were 30 million tons".

British imports as given in the table include the value of lend-lease deliveries from the United States and of mutual aid from Canada, but it is not known to what extent the British valuation of these deliveries differs from that used for the compilation of the lend-lease accounts of the United States or the Canadian figures (especially in view of the fact that the U.S. prices for munitions and similar deliveries appear to be considerably higher than the British).

On the basis of a re-valuation at 1935 prices, the volume of British imports (including munitions) was 18 per cent. higher in 1943 than in 1938, while, excluding munitions, a decline by 21 per cent. occurred. These percentages may be taken as largely reflecting a shift towards increased imports of highly valuable articles, especially munitions. In weight, British imports of so-called dry cargo (i.e. excluding petroleum and other tanker-borne products) had averaged 55 million tons for the years 1934-38 but reached only 23 million tons in 1942 and 26 million tons

In 1943 retained imports (including munitions) into the United Kingdom came to £1,864 million and in the same year exports (but without munitions) amounted to £232 million, the difference being £1,632 million. According to the White Paper submitted in connection with the budget, "overseas disinvestment" of the United Kingdom (i. e. the extent to which British investments abroad have been realised and new indebtedness incurred towards foreign countries) was £655 million during the year 1943. This would leave some £975 million, mainly representing the value of lend-lease and mutual-aid deliveries but also the counterpart of British invisible exports (income from shipping, dividends from abroad, etc.), such invisible exports accounting for perhaps one-quarter of the £975 million.*

Notwithstanding lend-lease and mutual aid, British overseas disinvestment has thus continued — a development which will give rise to many problems when the war is over. It may be recalled that in the past the British trade deficit of, as a rule, £300-400 million a year was met by income from investments abroad at about £200 million a year, followed by shipping receipts ranging from £65 million in a bad year to £150 million in a good year, with receipts from miscellaneous services averaging about £40 million. By the end of the war a considerable proportion of the foreign investments will have been disposed of, and the loss of this amount will have to be made up, in the main, by an increase in exports, the President of the Board of Trade having estimated that the United Kingdom will need to increase its volume of exports by fifty per cent. above the 1938 level.

Originating as a wartime organisation to foster trade with Balkan countries, the United Kingdom Commercial Corporation was gradually developed into an important weapon of economic warfare. With regard to its detailed operations strict secrecy was necessarily observed, but the Corporation is known to have been particularly active in so-called "preventive buying" (especially in Turkey, Spain and Portugal), seeking in that way to reduce the supplies available for Germany. It has maintained cooperation with the United States Commercial Company so as to avoid competitive bidding for materials which were needed by both. As the war changed in character and certain forms of the Corporation's activities lost in importance, it developed more and more into a mechanism through which state trading could be carried on; and the hope has been expressed that it might be of service for the furthering of exports when peace returns.

Shortage of shipping-space remaining a crucial problem, Eire had to make a further cut in its imports, which in 1943 touched a new low level at £26.1 million as compared with £41.4 million in 1938, the reduction between these two years representing 37 per cent. in value and no less than 71 per cent. in weight. Exports on the other hand, rose in value from £24.2 million in 1938 to £27.5 million in 1943, the figure for the latter year leaving a slight

* Compare a note headed "Balance of Payments Mystery" in the "Banker" for January 1945.

export surplus of £1.4 million. In addition, there has been a sharp rise in the country's credit balance on account of invisible exports, especially emigrants' remittances from the much larger number of Irish men and women working in British war industries. During the first nine months of 1944 imports rose more than exports (on a value basis), the result being an import surplus of £1.1 million.

Except Canada, New Zealand is the only British Dominion which has continued to publish its statistics of foreign trade regularly. In 1943 imports rose from £NZ 54 million to the record level of £NZ 94 million, while exports declined from £NZ 81 million to £NZ 71 million, which left an import surplus of £NZ 23 million for the year 1943. This unusual feature in the country's trade balance (which had been consistently active since 1926) seems to have been due partly to changes in the method of accountancy: as from 1943, import figures include goods supplied to New Zealand under lend-lease, while goods supplied by New Zealand to the forces of the United States have not been included in the export figures. It should be added that shortages of fertilisers and of manpower appear to have caused a certain decline in farm production for export. In January 1942 the publication of Australia's foreign trade returns was suspended for the duration of the war, but reports indicate that the trend of the country's foreign trade has been similar to that of New Zealand. The trade balance of Australia had been consistently active since 1930-31, owing mainly to increased exports of newly-mined gold; as from 1941-42, however, an import surplus of £A 27 million appeared, which, following an increase in imports and a decline in exports, rose further to £A 143 million in 1942-43 and £A 126 million in 1943-44, or a total of nearly £A 300 million during the three fiscal years.

With regard to the Union of South Africa, special interest attaches to a sudden increase in trade with Latin American countries, especially the Argentine and Brazil; on the other hand, shipping difficulties have encouraged domestic production of agricultural machinery and implements; whereas the Union formerly covered most of these requirements by imports, it was estimated in October 1943 that about one-third of the current supply was being produced at home.

At the beginning of the war Egypt's foreign trade was characterised by a sudden decline in exports, while imports rose. In 1943, however, this trend was reversed: according to the annual report of the National Bank of Egypt for that year, the value of imports in 1943 was lower and that of exports higher than in 1942. Smaller quantities of textiles, coal and tea were coming into the country and, as a result of the reopening of the comparatively short sea route through the Mediterranean, shipments, especially of raw cotton, had been resumed (the 1942-43 crop having been a record one, both in quality and in yield). The adverse balance of foreign trade was therefore much reduced while the general balance of payments continued to be overwhelmingly in Egypt's favour owing to the steady flow of local disbursements by the Allied forces.

In Canada, economic activity is estimated to have risen in 1943 to twice what it was in 1939, and foreign trade has likewise risen to record levels both in total turnover and as regards the export surplus: in value, imports more than doubled between 1939 and 1943, while exports, including mutual aid deliveries, more than trebled, the active balance of Can. \$1,236 million being the highest in the country's history; moreover, the rise in exports continued unabated in 1944. In relation to the United States, with which more than one-half of Canada's trade was carried on in 1943, there was an import surplus of Can. \$275 million; on the other hand, in 1943 as in former years, trade with countries of the British Empire produced a substantial export surplus, amounting to well over Can. \$1 milliard.

Canada: Foreign Trade.

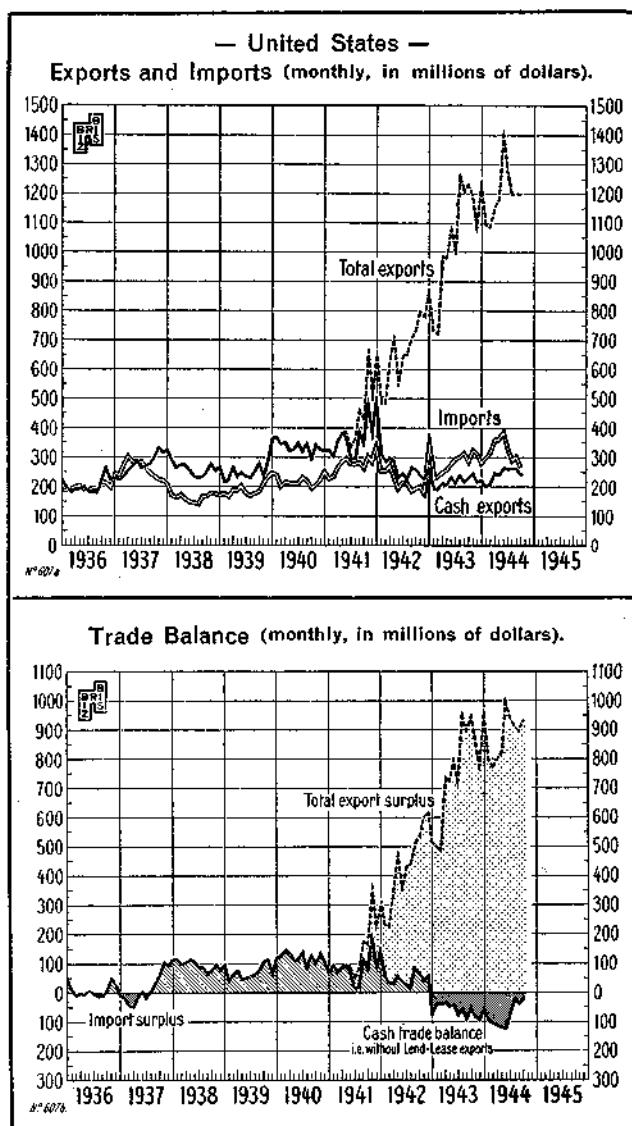
Value	1939	1940	1941	1942	1943	Total 1939 to 1943	January-June 1943	1944
	in millions of Can. dollars							
Imports	750	1,057	1,366	1,644	1,735	6,552	840	865
Exports	897	1,186	1,638	2,364	2,971	9,056	1,288	1,769
Total	1,647	2,243	3,004	4,008	4,706	15,608	2,128	2,634
Export surplus	147	129	272	720	1,236	2,504	448	904

As regards the United States, the most striking feature, brought out by the table and by the accompanying graphs, is the importance attained by lend-lease shipments: from barely \$1 million in March 1941, the first month in which the Lend-Lease Act was operative, these shipments came to average nearly \$1,000 million a month during 1944, representing 80 per cent. of total U.S. exports, i.e. four times as much as the "cash exports". Including lend-lease, the export surplus reached the record figures of \$9,354 million in 1943 and \$10,154 million in 1944; but on a cash basis, i. e. excluding lend-lease deliveries, there was an import surplus of \$755 million in 1943 and of \$1,133 million in 1944 — the first import surpluses, it is interesting to note, since 1893. The emergence of this "cash" import surplus has been the main

United States: Foreign Trade.

Value	1938	1941	1942	1943	1944*	Total 1941 to 1944
	in millions of dollars					
Exports:						
Lend-lease	—	739	4,891	10,109	11,287	27,026
Cash exports	3,094	4,408	3,144	2,609	2,778	12,939
Total exports	3,094	6,147	8,035	12,718	14,065	39,965
Total imports	1,960	3,345	2,742	3,364	3,911	13,362
Balance	+ 1,134	+ 1,802	+ 5,293	+ 9,354	+ 10,154	+ 26,603
Balance between cash exports and imports	+ 1,134	+ 1,063	+ 402	— 755	— 1,133	— 423

* Provisional.



reason for the accumulation of dollars in the hands of countries outside the United States, as shown more fully on page 133.

Up to the end of June 1944 lend-lease exports amounted to \$21,550 million. This figure, however, refers only to goods actually exported, that is to say it includes neither such articles as have been transferred to the ownership of foreign countries but are being used in the United States, nor materials transferred but not yet exported, nor goods purchased outside the United States and sent direct to lend-lease countries; the value of ships leased is also excluded; these various items make up an amount of about \$3,300 million, which, together with an additional sum of \$3,450 million for services rendered, brings the grand total of lend-lease assistance between March 1941 and June 1944 to nearly \$28,300 million (see tables, page 125). Russia's share

of lend-lease rose to 30 per cent. in 1944, while the United Kingdom, having obtained 77 per cent. of lend-lease deliveries from the United States in 1941, received 45 per cent. in 1944.

No detailed figures of the components of foreign trade have been published since 1942. It is reported that the rise in value of both imports and exports largely reflected an expansion in actual quantities of goods shipped, but price increases, no doubt, again played a certain role. Finished goods (mostly armaments) made up the largest single class of exports, while foodstuffs, followed by strategic minerals and metals, headed the list of imports. Notwithstanding the enormous turnover in war material, "commercial" trading has been growing in importance. In a report to Congress the Foreign Economic Administrator stated that in 1943 goods imported into the United States for private account had a value of \$2,300 million, a figure slightly above total

United States: Composition and Direction of Lend-Lease Exports.
March 1941-June 1944.

Groups	United Kingdom	U.S.S.R.	Africa, Middle East and Mediterranean area	China, India, Australia and New Zealand	Other Countries	Total
	in millions of dollars					
Munitions	4,409	3,177	2,285	1,520	673	12,064
Industrial materials . . .	2,283	1,729	590	758	96	5,456
Agricultural products . . .	2,629	1,026	196	137	27	4,015
Total	9,321	5,932	3,071	2,415	796	21,535

imports in 1939, while exports of goods on commercial account, financed through private sources, amounted to nearly \$2,250 million.

Between 1938 and 1943, the United States trebled its imports from Latin American countries (on a value basis) but did not quite double its exports to them. These increases have been largely due to higher commodity prices, but there has also been a considerable change in the currents of trade, the share of the United States having risen, as well as the trade of the Republics

Foreign Trade of the United States
with twenty Latin American countries.*

Value	1938	1939	1940	1941	1942	1943
	in millions of dollars					
Imports by the U.S.A. . . .	453	518	619	1,008	1,977	1,310
Exports from the U.S.A. . . .	481	549	683	902	718	819
Total	934	1,067	1,302	1,910	1,695	2,129
Balance for Latin America . . .	—28	—31	—64	+106	+289	+491

* According to U.S. statistics.

with one another. Thus, either the United States or "the rest of Latin America" has now advanced to the first place in the trade returns of each individual Latin American country, with the notable exception of the Argentine, for which Great Britain has remained by far the largest outlet. The substantial export surpluses in relation to the United States have led to a rapid accumulation of gold and foreign exchange in the hands of most Latin American countries, the amount held by them being likely to reach \$4 milliard at the end of 1944 (see page 107). This abundance of liquid resources accounts for the fact that, as in the previous year, only a fraction of the total credit facilities placed at the disposal of these countries by the United States was actually utilised, the report of the Export-Import Bank for 1943 mentioning a figure of \$116 million out of credit allocations totalling \$436 million.

Of the countries shown in the table only Mexico and Peru had a higher export surplus in 1938 than in 1943. In most Latin American countries there has been a structural transformation, goods of higher value but smaller bulk now being exchanged. This process may be exemplified by the figures given overleaf for the Argentine, which, however, also reflect the rise in prices.

Argentine: Foreign Trade.

Percentage change from 1938 to 1943.

	Weight	Value
	percentages	
Exports . . .	— 42	+ 65
Imports . . .	— 53	— 40

For imports, a reduction in weight was coupled with a decrease in value; but exports, though declining in quantity, continued to rise in value, with the result that the trade balance in 1943 reached the abnormally high figure of Pesos 1,438 million. Pastoral products (meat, hides and skins, and wool) together with some other agricultural commodities (especially wheat and linseed) still accounted for about three-quarters of the Argentine's exports, although the share of manufactured goods has risen in recent years. Owing to the decline in British and U.S. shipments, Brazil stepped in as the principal source of supply, but the United Kingdom remained the chief buyer of Argentine products. Sweden and Spain have been the only other European countries of any importance for Argentine exports. During the first nine months of 1944, foreign trade of the Argentine developed very much on the same lines as in the previous year, with an export surplus reaching a new record of about Pesos 1,200 million, as compared with Pesos 940 million in the corresponding period of 1943. There was, in fact, an increase by some 1 million tons (mostly on account of the export trade) in the weight of goods exchanged.

The most noteworthy structural change in Brazil's foreign trade during the last ten years has been the progressive reduction of coffee shipments from about three-quarters of total exports in 1933 to about one-third in the first half of 1944, while cotton has gained steadily in importance, the estimated output rising to 600,000 tons in 1944, as compared with an average of about 400,000 tons in the previous five years. Fifty per cent. of the cotton textiles exported were, in 1943, taken by South Africa. Although exports to the Argentine and Uruguay have doubled in recent years, more than one-half of Brazil's foreign trade is, however, with the United States; there has been a

Foreign Trade of Latin American countries.

Countries	Value in	Imports			Exports			Balance		
		1938	1942	1943	1938	1942	1943	1938	1942	1943
		in millions of national currency units								
Argentina . . .	Pesos p.	1,461	1,274	942	1,445	1,982	2,380	— 16	+ 708	+1,438
Brazil	Cruzeiros	5,195	4,644	6,073	5,097	7,500	8,729	— 98	+2,856	+2,656
Chile	Pesos or	499	622	636	675	863	867	+ 176	+ 241	+ 231
Colombia	Pesos	159	105	147	163	192	219	+ 4	+ 87	+ 72
Cuba	Pesos	106	147	177	143	182	351	+ 37	+ 35	+ 174
Dominican Rep.	U.S.\$	11	12	14	15	20	36	+ 4	+ 8	+ 22
Ecuador	Sucre	148	200	218	169	299	393	+ 21	+ 99	+ 175
Haiti	Gourdes	38	41	55	35	41	53	— 3	0	— 2
Mexico	Pesos	494	753	903	838	990	1,130	+ 344	+ 237	+ 227
Panama	Balboas	18	38	40	4	2	2	— 14	— 36	— 38
Paraguay	Pesos or	13	17	21	12	16	20	— 1	— 1	— 1
Peru	Soles	260	339	449	342	495	460	+ 82	+ 156	+ 11
Uruguay	U.S.\$	61	64	64	62	58	100	+ 1	— 6	+ 36

heavy demand for strategic metals, foodstuffs and certain manufactured articles (especially textiles), such articles representing about 20 per cent. of the country's total exports in 1943 as against barely 1 per cent. in 1939. But, for Brazil, as for other Latin American countries, imports both of capital and of consumers' goods remained inadequate; as elsewhere in Latin America, the central bank had to continue its purchases of export drafts from private traders, thus adding to the amount of internal circulation. In Brazil taxpayers may, as an alternative to payment of excess profits duty (which ranges from 20-50 per cent. of the surplus above basic profits), invest double the amount thereof in equipment certificates, redeemable in foreign currency at such time as the holders are able to import machinery and implements for the purpose of re-equipping national industries.

The ban on the publication of foreign trade statistics has continued throughout the Far East and even the more or less sporadic indications in official statements concerning current trends have become very scanty. In a Japanese economic journal the total value of trade which, before the war, passed through Hong Kong and Singapore has been estimated at Yen 8,000 million, of which Yen 3,500 million represented goods directed towards or coming from territories outside "Greater East Asia". This means that somewhat less than one-half of the foreign trade of these two commercial centres has been cut off by the wartime severance of relations. But the table on page 46 above shows a cut of as much as two-thirds for all the countries in East Asia. The difference is apparently due to the fact that much of the trade with certain territories, such as those served by Shanghai, used not to pass through either Hong Kong or Singapore.

The major problem thus facing Japan, as the main industrial power among the territories which have come under its domination, has been to find an alternative for those goods which were previously sold to or bought from countries outside Greater East Asia. As a partial solution, special efforts have been made by the Japanese authorities, in the territories under their administration, to encourage certain lines of domestic production (agricultural as well as industrial) in order to reduce that dependence on the outside world which is a characteristic feature of most raw-material-producing countries. Apart from the difficulties attending any abrupt change in long-established conditions of production and trade, the fact that the transformation had to be made under pressure of war must have considerably hindered the carrying-out of the plans, scarcity of shipping-space being admittedly one of the major obstacles. A position somewhat similar to that which Germany has occupied on the continent of Europe seems to have developed in Asia between Japan and the other Far East countries: it is reported, in fact, that Indo-China, Thailand, Burma, Java and the Philippines continued to have an export surplus in relation to Japan, and that China and Manchukuo, which in their trade with Japan used to import more than they exported, developed an active trade balance with most pronounced increases in exports of raw materials, foodstuffs and iron products. As a result, Japan's indebtedness on commercial account is likely to have risen considerably since the beginning of the war.

That it has been difficult, under the prevailing circumstances, to maintain the pre-war turnover of foreign trade is shown by a statement in the annual report for 1942 of the Bank of Indo-China. In that year the total value of the principal products exported by the country amounted to only Fr.fcs 1,800 million as against an aggregate value of Fr.fcs 3,500 million in 1939. This constitutes a reduction of practically fifty per cent. on a value basis; as regards weight, export of rice, the principal item, amounted to 940,000 tons in 1942 against 1,700,000 tons in 1939. Japan proper absorbed about 80 per cent. of the total foreign trade of Indo-China.

In Japan, some important steps were taken in 1943 towards a complete transformation of the country's foreign trade structure: on the one hand, a scheme was adopted under which the number of trading companies would be reduced from 6,000 to 600 and, on the other hand, a Barter Trading Corporation was created, with a capital of Yen 300 million (of which Yen 250 million was subscribed by the government), to serve as a semi-official institution entrusted with the control and management of trade and with the storing of important materials within the "co-prosperity sphere". For the time being, however, certain practical limits were imposed on the functions of the Corporation: thus, its competence would not extend to certain areas still under military administration, such as Burma, Malaya, the East Indies and the Philippine Islands, and to certain commodities, such as rice, wheat, fertilisers and fodder, or monopoly products, such as salt, petroleum, alcohol and tobacco. Since losses would very likely arise from the greater increase in prices in most of the regions outside Japan, a sum of Yen 470 million was provided for in the fiscal year 1943-44 and was credited to an Exchange and Trade Adjustments Special Account; for the same reason the Trading Corporation was authorised to draw upon the Treasury up to Yen 750 million during the fiscal years 1943-45. From 1st May 1944, customs duties were abolished between Japan and Manchukuo as part of a comprehensive programme aiming at a simplification in the commercial and monetary relations between the two countries.

* * *

Such trade returns as are published show as a rule an increase from 1942 to 1943 in the value of both imports and exports, with a further increase in the first half of 1944. To some extent these increases reflect a continued rise in the price level; so many countries, however, had succeeded in imposing a stricter control of both export and import prices that the increases do not seem to have been entirely nominal but in part accompanied by an expansion in the actual physical volume of trade — this was most decidedly the case, for instance, between Latin America and the United States. On the continent of Europe military developments in the summer of 1944 led to a sudden reduction in foreign trade, entailing for some countries the disappearance of practically all international interchange of goods and services.

In a large measure official agencies have taken the place of private firms, and it is hardly surprising that customary methods of financing, presupposing

the continuance of a relationship in which commodities are exchanged for commodities and money merely facilitates the movements, have been relegated to the background. In actual fact, there has usually been a widening gap between deliveries and counter-deliveries, goods then finding their counterpart in money claims (e.g. clearing liabilities) or in more or less vaguely defined forms of assistance (e.g. lend-lease). To what extent the various government agencies should be maintained, for the purpose of fostering trade under peacetime conditions, is a question which has been raised but to which no general answer is likely to be forthcoming, since circumstances may vary from case to case. It can hardly be doubted, however, that an expansion of trade must be largely the result of private initiative and enterprise; past experience has shown that all-round state control of foreign trade is liable to be followed by a decline in the volume of goods exchanged. But, whatever system is adopted, the state will remain responsible for the broad lines of commercial policy, having to decide such questions as the level of tariffs, the maintenance or abolition of commercial restrictions, and the form of monetary control, which may indeed have important repercussions on the trade of the countries concerned. It is often — and rightly — stressed that the establishment of stable monetary conditions presupposes a return to "freer trade", it being asked, however, what chance there is that governments will propose, and parliaments approve, measures for even a gradual dismantling of trade barriers. There was a time when it seemed as if any fall in the value of currencies and any rise in the level of tariffs must needs bring embarrassment to traders and disruption to the world economy. But those who take a pessimistic view of these matters may have underrated the influence which changes in the purchasing power of money may have in bringing about a certain quasi-automatic reduction in tariff barriers. Tariffs are mostly made up of so-called "specific duties", certain amounts in pounds, shillings and pence, dollars and cents, Reichsmarks and pfennigs being fixed for certain quantities of the dutiable goods. When commodity prices rise, the specific duties, if left unchanged, will constitute a smaller percentage of the market value of the commodities on which they are levied, i.e. the effective weight of the tariff will have been reduced. Such a reduction occurred, in some countries, as a result of the higher prices which prevailed for a number of years after the first world war.

As part of the preparation for the World Economic Conference convoked by the League of Nations in 1927, a memorandum on the index of tariff levels was published in Geneva, showing the height of tariffs for 1913 and 1925 as percentages of the value of a chain of goods exchanged in international trade. Various methods of calculation were used; the one to which the memorandum itself appears to give most prominence, as regards comparison between the two years, is shown in the table on the following page.

Although the method employed can at best furnish only an approximate indication of the tariff levels in 1913 and 1925, the results may be regarded as sufficiently reliable for the following conclusions to be drawn:

In six of the twenty countries included in the table overleaf the tariff was lower in 1925 than in 1913; Austria and Denmark had maintained their pre-1914

Index of Tariff Levels.⁽¹⁾

Country	1913	1925	Approximate percentage increase (+) or decrease (-) between 1913 and 1925
	percentages		
Austria (?)	18	12	— 35
Denmark	9	6	— 30
France (?)	18	12	— 30
Sweden	16	13	— 20
Canada	18	16	— 15
United States (?)	33	29	— 10
Argentina	26	26	(no change)
Italy	17	17	(" ")
Czecho-Slovakia (?)	18	19	+ 5
Germany (?)	12	15	+ 25
Holland	3	4	+ 30
Hungary (?)	18	23	+ 30
Spain	33	44	+ 30
Belgium	6	8	+ 35
Australia	17	25	+ 45
Switzerland	7	11	+ 70
India	4	14	+ 260
United Kingdom (?)	—	(4)	—
Poland	—	23	—
Yugoslavia	—	23	—

(1) The object of the calculation has been to express the average of the duties in force as a percentage of the market prices of a catena of commodities entering into foreign trade.

(2) The 1913 figures are those of the pre-war Austro-Hungarian tariff.

(3) For France, 1925 cannot be considered typical of post-war tariff conditions. In the following year the French tariff was raised twice but the French currency was reduced below the 1925 value. If these various changes are taken into consideration, together with reduction in duties through commercial agreements, the result would seem to be that the French tariff was, say, in 1927 perhaps 10 per cent. below the 1913 level.

(4) In the United States the figure for 1913 is calculated according to the 1913 tariff. But in 1914 a new tariff introduced a considerable reduction in the duties, which would bring down the index figure from 33 (as shown for 1913 in the above table) to 16. In comparison with this later tariff the post-war increase in the U. S. tariff was, of course, considerable.

(5) A new German tariff was introduced in October 1925 and the percentage in the table refers to this tariff, with allowance for certain reductions through commercial agreements.

(6) The figure given for the United Kingdom has little significance since the vast majority of goods were admitted duty-free.

cent.; their purpose was obviously to bring domestic industries, after the example of the Argentine and Australia, while the smaller European countries, Holland, Belgium, Denmark, Sweden and Switzerland, were satisfied with relatively low duties — below 15 per cent. on an average — and this group was also joined by Austria.

By 1925-26 monetary order had been more or less restored in Europe, and up to 1930 the great mass of commodity prices remained comparatively stable at about 40-50 per cent. above the 1913 level. Thanks to this, great progress was made in getting rid of import and export prohibitions and other quantitative trade restrictions. The result was a very remarkable expansion in the

duties almost unchanged, while in France, Sweden and Canada the increases which had been adopted were more than counterbalanced by the rise in prices. The post-war increase in the United States involved a marked rise as compared with the "democratic" tariff of 1914, but the level was still below that of the tariff for 1913 (see footnote (6) to the table). And in three countries, the Argentine, Czecho-Slovakia and Italy, the rise in the duties was almost entirely offset by price changes.

Among the remaining countries, such increases as had been made in Germany, Holland, Belgium, Switzerland, India and the United Kingdom, although substantial as percentages, still left these countries with comparatively low tariffs, since in no case was the index in 1925 higher than 15 per cent. It is indeed noteworthy that, out of the twenty countries included in the table, thirteen had an index number of less than 20 per cent. On the other hand, Hungary, Poland and Yugoslavia — countries which had not possessed tariff autonomy before 1919 — introduced relatively high duties, the index being about 20 per

about a rapid development of domestic industries, after the example of the Argentine and Australia, while the smaller European countries, Holland, Belgium, Denmark, Sweden and Switzerland, were satisfied with relatively low duties — below 15 per cent. on an average — and this group was also joined by Austria.

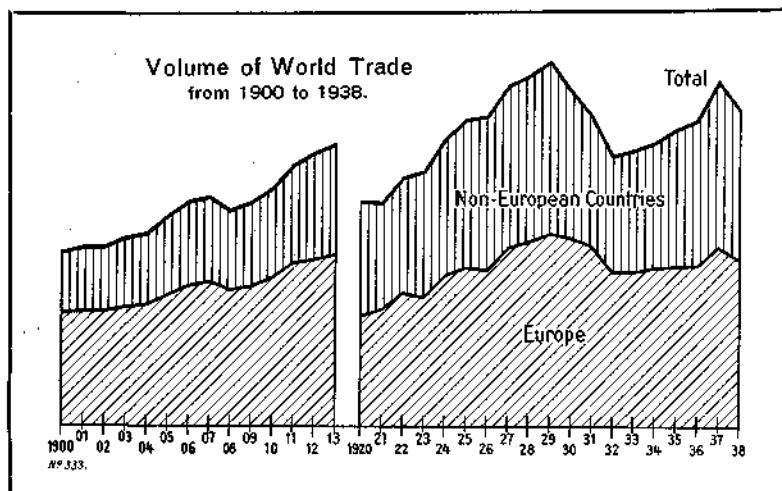
interchange of goods and services: after allowance for price changes, world trade in 1929 had risen, in physical volume, by 30 per cent. above the 1913 level. At the time there was a great improvement in general well-being; but the hopes thus raised were soon to be cruelly shattered in the great depression of 1929-33. The dominant characteristic of this depression was the sharp fall in commodity prices (on a gold basis, they went down by fifty per cent.); and, even in countries whose currencies were depreciated, the level of "paper prices" fell, as a rule, by some 15 to 20 per cent. As far as trade barriers were concerned, the result was in two respects most unfortunate:

Firstly, the tendency of the relatively high commodity prices to alleviate the real burden of tariff duties was reversed as prices fell.

Secondly, in order to protect home industries against the more intensive competition in the depression, old tariffs were increased, new tariffs introduced and other trade restrictions imposed, while monetary control began to act as another obstacle to trade. When the United Kingdom turned its back on free trade in 1932 and adopted a tariff, it did not follow the practice of those industrial countries in Europe whose tariffs were on an average below 20 per cent. but looked more to the United States and to such overseas countries as the Argentine, which wanted to increase the industrial sector of their economies.

The fall in commodity prices, with all its direct and indirect effects in

matters of trade restriction, led to a contraction which by 1932 had brought world trade to a lower point than in 1913. Some recovery occurred in the following years, but the volume in 1938 was still about 13 per cent. less than it had been in 1929.



During this Second World War commodity prices have again risen, but in a more orderly and restrained fashion, thanks to more effective forms of taxation, price control and a series of other measures. It seems on the whole unlikely that, when the war is over, prices on world markets will return to the 1939 level; they may settle down at perhaps 40 or 50 per cent. above that level. If the specific duties were then left unchanged, the result would be a

reduction by some 30 per cent. in the real potency of the tariffs. Considering how difficult it is to get tariff reductions adopted by the ordinary parliamentary methods, this opportunity of a quasi-automatic alleviation should not be missed. In the case of ad valorem duties, it might even be considered whether some way could not be found of bringing them into line with this general reduction.

Enough has been said to show the close connection between the general trend of the price level and tariff policy as well as other forms of trade restriction. Monetary and other action designed to prevent a drastic deflation, once the price level has settled down, is evidently most desirable from a world trade point of view. Fortunately, these matters are now more fully understood, and there is in particular, a widespread opposition to deflationary developments. It may thus be hoped that any recurrence of such a price fall as set in during 1930-32 would be most strongly resisted. If success is secured in this field, the question of the world's trade barriers may not prove so intractable as it often appears.

3. PRICE MOVEMENTS.

After the disturbances due to the first world war and, again, after the currency depreciations in the years 1931-36, prices gradually settled down to follow a world trend, with a marked tendency to return to levels corresponding to the "purchasing-power parities" of the various currencies (compare the graph on page 96). Even in wartime international influences may make themselves felt, as was the case in 1939, when the higher price level in Germany pulled up prices in other countries on the European continent. But a modern war leads to such a severance of relations that price movements are largely determined by domestic factors, especially the magnitude of supplies, the methods of financing, the efficiency of controls and the granting of subsidies. Governments apply, however, very much the same methods of intervention in handling price problems — a similarity which is to be found on both sides in the war; the result is that, notwithstanding the influence of domestic factors, actual price movements reveal many common features, the divergences being smaller than might be expected.

The slackening in the upward movement of prices, which had become noticeable during the second half of 1942, continued both in 1943 and in 1944, and may be said to have been, throughout those two years, the outstanding characteristic of the price trend. There are exceptions, but these have been sporadic and due to special circumstances; some countries in the Far East have been caught by inflation, and so has Greece and, in a measure, Italy — to mention only the most important. For the great majority of countries the following list enumerates the principal conflicting forces which influenced prices in the situation obtaining in 1943-44:

Upward influences which have ceased to operate:

- (i) Adaptation to the higher German price level (in Europe);
- (ii) the increase in costs from rising freight and marine insurance charges.

Upward influences still in operation:

- (i) The widening gap between available goods and money in the hands of the public, accentuated by the growing weight of the piled-up buying power, as evidenced by larger note circulations and swollen bank deposits;
- (ii) undefeatable needs, especially in connection with war production and food requirements;
- (iii) social and political factors, including a desire to improve conditions for the agricultural population and to stimulate by every possible means the output of foodstuffs;
- (iv) higher costs of production of substitute materials;
- (v) deterioration of the land transport system (on the continent of Europe).

Stabilising influences:

- (i) Financial measures, including taxation, borrowing, skimming-off of buying power and freezing of liquid resources;
- (ii) price control in its varying forms, including wage control and rationing;
- (iii) granting of subsidies to consumers and producers;
- (iv) practical devices such as the manufacture and sale of utility goods;
- (v) simultaneous application of "price stop" and similar methods in a number of countries, through which certain price-raising tendencies of an international character had become less accentuated or had almost ceased.

Downward influences:

- (i) The completion of large-scale programmes for the expansion of output of raw materials and foodstuffs;
- (ii) good — in several areas, record — crops;
- (iii) drawing on stocks not only from necessity but on the assumption that, with the end of the war nearer at hand, prices would soon fall;
- (iv) psychological reactions of the consumer, who had learnt, in particular, to make durable goods last longer, and who sought to postpone purchases until he could obtain better quality at lower prices.

This list does not claim to be complete but it gives some idea of the variety of conflicting forces which act on prices, and of the difficulties thus confronting the authorities in this field.

The figures commonly used to measure the price changes are, with few exceptions, official indexes. But do these indexes give a sufficiently accurate picture of price developments to be regarded as reliable for national or international comparisons? The wholesale price indexes probably reflect the actual price movements more truly than the cost-of-living indexes can claim to do; more than the latter, they are based upon quotations in fairly wide markets and are concerned with standard qualities of commodities, being also freer from political and social implications. The rise in the cost of living has in a number of countries been limited to about one-half of the increase in wholesale prices, this result having been obtained partly through the freezing of rents at their pre-war level and partly through the granting of subsidies to cheapen the retail price of a number of essential commodities important in the calculation of the index numbers for the cost of living. A part of the burden of rising

prices has thus been shifted from the individual consumer to the community as a whole, the pressure on the lower income groups being thereby relieved. In doing this the authorities have not been prompted solely by considerations of social justice but also by the hope of avoiding the vicious spiral of price and wage increases.

The purpose of the cost-of-living index is to measure the change in the money cost of maintaining a defined standard, and the bundle of commodities used for its construction reflects, as a rule, the consumption of a typical working-class family, the weight attached to each commodity being that which it possesses in the budget of such a family. Since, however, tastes and needs change faster than is generally admitted, a cost-of-living index may easily become obsolete. The index published by the Ministry of Labour in Great Britain was, for instance, "designed to measure the average increase in the cost of maintaining unchanged the standard of living prevailing in working-class families prior to August 1914, no allowance having been made for any changes in the standard of living since that date".* But, before the last war, food accounted for three-fifths of all working-class expenditure, while an enquiry initiated in 1936 (with results published in a summary form in December 1940) showed that much less than before was spent on food (not quite two-fifths), a little less on rent, about the same proportion on clothing and fuel but much more on household goods and different services. Indeed, 30 per cent. of the expenditure of industrial workers' families came under the heading "other items", as compared with only 4 per cent. in the budget assumed to be typical in 1914. In wartime, shortcomings of this kind are further increased by other factors, e.g. the frequent failure to take into account deteriorations in the quality of the products on the market or to make sufficient allowance for forced changes in consumption. These factors may actually be of greater importance than the shifting appropriations in the family budgets. A rough calculation made in 1944 suggests that, on the basis of new family budgets, the increase in the British cost of living since August 1939 would amount to approximately 32 or 34 per cent., as compared with the 29 per cent. shown by the official index. But, as was pointed out, "though the difference between the two is not very great, neither the official index nor an index based on the new family budgets can take account of the fact that in wartime many commodities are rationed and others are not available at all, so that the maintenance of a given 'standard of living' has only a restricted meaning, and the proportions of expenditure on various items are different from the proportions of peacetime spending".

For those groups of the population whose money income during the war lagged considerably behind the increase in the cost of living, the consequent lowering of the standard is naturally reflected in the expenditure of a higher proportion of income on the necessities of life (food, heating, etc.). Since bread is of great importance especially for households with small incomes, nearly all governments have felt themselves particularly

* See an article on "The Family Budget" in the London "Times" of 14th August 1944.

called upon to keep the rise in the price of bread within bearable limits. The bread ration has, however, often been fixed at a quantity considerably below the normal consumption, and still further below the amount the public would have bought if purchases had been free. Consumers have accordingly been compelled to have recourse to other, usually more expensive, foodstuffs. The way in which the cost of living is influenced by changes in the rations was well illustrated by an enquiry in Hungary during the summer of 1943, when the bread ration was increased simultaneously with a general raising of the wage and price level, including the price of bread. If no allowance were made for the improvement in the bread and flour ration, the result would be a rise in the cost of food by 35 to 40 per cent. If, however, account be taken of the fact that the same number of calories could be consumed by eating more bread and less of other foodstuffs, the additional cost would work out at only 13 per cent. But it becomes even more difficult to find an adequate measure of the real changes in living costs when the rations officially announced are unavailable for consumers through a failure in the official supply system. Purchases in markets half-grey, grey or black then become unavoidable, and for these purchases it is not easy to obtain reliable quotations, even if the prices charged in such markets also tend to present a curiously high degree of uniformity. Here we meet one of the main problems for the post-war period: the task of restoring a natural cost-and-price structure, in which the index numbers will truly measure the purchasing power of the various currencies.

* * *

In Germany the familiar picture of price stability continues to be reflected in the official indexes. No substantial change has been made in the system of control; but increased attention has been devoted to measures of simplification, including, in particular, an extension of the so-called system of uniform and group prices, which had been introduced at the end of 1941 for armament contracts and by the middle of 1944 was applied to no fewer than

Germany: Price Movements.

Percentage price increase during:	1939 2nd half	1940	1941	1942	1943	1944 1st half	June 1939 to Dec. 1943	June 1944
Wholesale prices	+ 1	+ 3	+ 2	+ 2	+ 1	+ 1	+ 9	+ 10
Cost of living	0	+ 3	+ 2	+ 2	+ 2	+ 3	+ 9	+ 12

22,000 different military products. The pressure on textiles, which had previously led to the greatest price increases, seems to have abated, the sales of such goods being practically restricted to the requirements of children and victims of air bombardments. On the other hand, prices of agricultural products rose somewhat during 1943, probably in consequence of the higher prices which had to be paid to supplier countries, and a further rise of nearly

5 per cent. up to July 1944, though partly of a seasonal character, was the largest advance recorded since the outbreak of the war.

The foundation of Germany's price and wage policy was laid in 1936, the following tables showing the movements since that year:

Percentage Increase in German Prices.

Index figures 1936 = 100	Percentage increase from 1936 to						
	Sept. 1939	1939	1940	end of 1941	1942	1943	June 1944
Wholesale prices	+ 3	+ 3	+ 7	+ 9	+ 11	+ 12	+ 13
Cost of living ..	+ 1	+ 2	+ 5	+ 7	+ 9	+ 11	+ 14

source of demand for goods and services. From September 1939 to March 1943, the last date for which wage statistics are available, the remuneration of workers had risen in Germany as in other countries, though at a much more moderate rate, the index for nominal wages showing, for the whole period, an

Gross Earnings of Workers in Germany.⁽¹⁾

Index figures 1936 = 100	Hourly earnings		Weekly earnings	
	nominal	real	nominal	real
September 1939	107.3	106.2	110.6	109.5
Average 1940	111.2	106.4	116.0	111.0
" 1941	116.4	109.2	123.6	116.0
" 1942	118.2	108.6	124.3	114.2
March 1943 (?)	119.3	108.0	126.5	114.5
Percentage Increase Sept. 1939—March 1943	+ 11.2	+ 1.7	+ 14.4	+ 4.6

(1) The real earnings are obtained by dividing the nominal earnings by the official cost-of-living index. (2) No later figures published.

Resistance to price increases would not be possible without a limitation of private incomes, including stability of wages, which in their aggregate constitute the main increase by 11 per cent. (hourly earnings) and 14 per cent. (weekly earnings), while real wages had risen by 2 and 5 per cent. respectively. Since 1941 real wages, however, have shown a slight decline, this fact being apparently due to an increased employment

of women, whose remuneration is generally lower. In January 1943 the number of women employed in the German war economy (excluding agriculture and such other occupations as domestic service) was over 10 million (about 1 million being non-German women); since then this number is likely to have greatly increased. The mobilisation measures decreed in 1943 resulted in an increase in the number of workers and employees by 2 million to about 30 million (excluding agriculture and, presumably, the foreign workers). No data have been made known as to the results of the further mobilisation measures adopted in the summer of 1944. Although details of wage developments during 1944 are lacking, it may be assumed that weekly earnings have risen considerably, since in August 1944 the number of normal working hours in industry was raised from 48 to 60 hours a week. In order to minimise repercussions on prices from this measure, it was decided that the consequent increase in costs should be borne by the enterprises themselves, except in special cases requiring official authorisation.

In Italy the last available index figure of wholesale prices dates from June 1942, with a rise of 50 per cent. above the pre-war level; but it is known that

prices continued to rise under the influence of further note issues, the situation being aggravated by a poor harvest in 1942-43, estimated to have been only 65 per cent. of normal. From the middle of 1943 some scattered information is available, and it seems to be a fact that, both in the southern and the northern parts of the country, the cost of living varied considerably from district to district (largely owing to transport difficulties). In southern Italy a price of Lit. 1,000 per quintal was fixed for hard wheat from the crop of 1943-44 and Lit. 900 for soft wheat, as against an average of about Lit. 300 for the previous crop. In northern Italy a price commissioner was appointed, who established fixed ceilings for prices and issued new regulations governing the distribution of commodities, etc. For the crop of 1943-44 the price of wheat was, for instance, fixed at Lit. 350 per quintal (as against Lit. 235 for the crop of the previous year) but the black market prices were many times higher — as much as Lit. 10,000 per quintal being quoted (in the northern as well as in the southern part of Italy). The following table shows the price

Northern Italy: Price Movements.

Years	Yarns		Silk materials per metre	Chrome leather per sq. dm.	Timber per cbm.
	Cotton and artificial wool per kg	Artificial silk			
1939	11-15	20-26	12-34	0.94-1.00	340-600
1940	12-16	21-27	13-37	1.14-1.20	370-670
1941	15-17	22-28	18-54	1.19-1.25	380-580
1944, official prices	32-58	41-45	(170-500)	1.85-1.94	1,300-1,760
1944, black market	(300-700)	(420-450)			

increases of some important articles. In December 1943 wage-earners in the north received all-round increases of 30 per cent. and, in addition, grants in various forms, such as family allowances, Christmas bonuses, payments in kind, etc.; but further increases were granted during 1944 with the result that the upward spiral in costs and prices did not show any signs of slackening. Early in 1944 it was officially admitted that the amount of food obtainable on a ration card would cover not quite two-thirds of normal consumption and that at officially fixed prices the cost would work out at Lit. 72 per month. To cover minimum food requirements it would still be necessary to get hold

**Milan:
Cost of Living.**

Years	Index 1938 equal to 100
1939	123
1940	152
1941	189
1942	216
1943	297
1944 (July)	493

of the remaining third, which would entail an outlay of Lit. 700-800. This meant that, roughly speaking, the cost of acquiring a "food unit" otherwise than by the ration card would be approximately twenty times as high as at the officially controlled prices. Unofficial estimates put the cost of living in Milan by the middle of 1944 at five times the pre-war figure.

In central and south-eastern Europe the situation during 1943 and 1944 benefited from an increase in the supply of cereals, thanks to better

crops in Hungary, Bulgaria, Roumania, Croatia and Turkey, but the whole area continued to suffer from shortages of industrial raw materials and manufactured products and from the intensification of military operations, which increasingly hampered government action and was, *inter alia*, reflected in a more pronounced recourse to inflationary financing.

Price Movements in Danubian and Balkan countries.

Percentage price increase during:	1939 2nd half	1940	1941	1942	1943	1944 1st half	June 1939 to Dec. 1943	June 1944
Roumania: Retail prices	+ 16	+ 24	+ 67	+ 48	+ 37	+ 17	+ 382	+ 465
Bulgaria: Wholesale prices	+ 5	+ 26	+ 27	+ 20	+ 15 ⁽¹⁾	-	+ 133 ⁽¹⁾	-
Cost of living ⁽²⁾	+ 3	+ 17	+ 37	+ 28	+ 12 ⁽¹⁾	-	+ 126 ⁽³⁾	-
Hungary: Wholesale prices	+ 5	+ 22	+ 26	+ 16	+ 52 ⁽⁴⁾	-	+ 185 ⁽⁴⁾	-
Cost of living	+ 1	+ 15	+ 21	+ 9	+ 30	-	+ 97	-
Turkey: Wholesale prices	-	+ 51 ⁽⁵⁾	+ 46	+ 134	- 9	+ 1 ⁽⁶⁾	+ 366 ⁽⁵⁾	+ 370 ⁽⁶⁾
Cost of living	-	+ 25 ⁽⁵⁾	+ 24	+ 116	- 0	- 1 ⁽⁷⁾	+ 235 ⁽⁵⁾	+ 230 ⁽⁷⁾

(1) August 1943.

(2) New index from 1942.

(3) August 1943 compared with 1939 average.

(4) October 1943.

(5) Compared with 1939 average.

(6) April 1944.

(7) March 1944.

In Roumania the bumper crops in 1943 led to a reduction in the prices paid for wheat below those officially fixed and also made it possible to abolish the rationing of certain foodstuffs, though, in the spring of 1944, such rationing had to be reintroduced owing to the turn taken by military events. The reduced official price of wheat and some other agricultural products, though left unchanged for the 1944 crop also, was insufficient to compensate the continued upward pressure in the industrial sector; the average per ton of imported goods had, indeed, more than doubled, from Lei 40,500 in 1942 to Lei 108,400 in 1943. Prices for exported goods were also raised; in a new agreement with Germany the price of oil was, for instance, increased by 30 per cent. from 15th March 1944. As from May 1944, a new upward surge set in; the index for retail prices as calculated by the economic journal "Argus" had up to that month remained at about the level reached by the end of 1943 (i. e. at about 500, with 1939 = 100) but in June 1944 was as high as 565.

No index figures have been available for Bulgaria since August 1943, when the cost of living was shown to have increased by 126 per cent. and wholesale prices by 133 per cent. since 1939. It is, however, known that, in spite of excellent crops, commodity prices have continued to rise, equalisation funds and similar devices being unable to arrest the upward pull. To reach a more balanced position, the Bulgarian Government decreed, in the summer of 1944, an all-round increase in agricultural prices ranging from 21 per cent. for maize to 125 per cent. for sunflower seed, wages and salaries being raised by 30-50 per cent.

Hungary is one of the few countries in which the rise in prices was more conspicuous during 1943 than in the previous year. New regulations had been issued in the middle of 1943, allowing substantial increases (up to 40 per cent.) for the purpose of arriving at a better balance in the cost and price structure and thus at a solution of the price problem which would hold good for at least one year. These expectations do not seem to have been fulfilled: it is true that, at the beginning, little change was shown in the cost-of-living index, but wholesale prices, during the autumn of 1943, continued to register an increase, which seems to have grown in intensity throughout 1944, especially with regard to industrial articles. From the end of 1943, index numbers have no longer been published and this can probably be regarded as a sign of unwillingness on the part of the authorities to reveal the actual trend of the price movements, in particular since drastic new measures affecting prices were announced late in 1944.

The state of unrest, involving actual warfare, which has never ceased to exist in the interior of that part of Yugoslavia referred to as Serbia, has frustrated all efforts by the German military authorities to establish a satisfactory price control: by the spring of 1944 agricultural prices were 200 to 400 per cent. and industrial prices 400 to 500 per cent. above the stop level decreed immediately after the occupation in April 1941, when wholesale prices had already risen by 100 per cent. since August 1939. In order to stimulate the production of cereals, the official prices payable for the 1944 crop were increased by a maximum of 50 per cent. in September of that year.

Within Croatia an attempt was made early in 1944 to establish a regular barter trade through special government agencies. Industrial enterprises were to obtain from the farmers, at fixed prices, lard, butter, eggs, etc. for distribution among their employees; and the farmers would acquire manufactured articles and certain products furnished by the state monopolies, in particular, sugar, tobacco and matches. Thus, measures were officially taken involving an admission that the currency no longer fulfilled its function of serving as an adequate means of exchange.

In Slovakia, on the other hand, the price situation would seem to have been kept more or less under control. While no official indexes were published, it is estimated that from 1939 to March 1944, the last month for which data are available, wholesale prices doubled, while retail prices and prices of vital foodstuffs showed a somewhat greater rise.

It is in Greece, for three years in the throes of wild inflation, that the situation of the people has been most tragically affected by the war, prices increasing as much as a hundred times within a few months. It was reckoned that by September 1944 prices of foodstuffs were on an average a million times the pre-war figure. Red Cross supplies brought some relief (see page 51) but agricultural production was down by more than 50 per cent. in 1943, as compared with the pre-war level. Under a decree issued in February 1944 all wage and salary earners had to be given part of their remuneration in kind, in the form of foodstuffs or of canteen meals.

Greece: Retail Prices.

Date	Bread	Meat	Oil	Sugar	Milk	Butter	Eggs	Clothes	Shoes
	1 oka (= 1,280 grammes)						each	1 suit	1 pair
	In thousands of drachmae						In millions of drachmae		
1940 Oct. 28	0.01	0.05	0.05	0.02	0.01	0.11	0.002	0.003	0.0004
1942 May 22	1.65	1.35	3.9		0.75	8.4	0.24		
1943 Febr. 6		14	9	20		50			
Aug. 24	7	36	30	24	7	90	1.8	1	0.3
Oct. 11	13	40	80	32	10	120	3	3	0.8
Nov. 17	40	180	180	80			10		
Dec. 1	34	160	137	110	30	600	10	4.5	1.2
1944 Jan. 1	34	300	200	160	40	600	13	10	2
Febr. 25	132	480	688	500	90	1,080	20	20	7
March 10	196	650	940	730	100	1,720	31	35-40	10-15
April 28	460	3,200	2,800	1,600	400	6,000	90	150	40
June 3	1,600	7,000	9,200	3,800	1,400	20-24,000	325	500	200
July 1	2,000	12,800	26,000	10,000	2,000	32-40,000	500	700	200
Aug. 15	18-20,000	140,000	280,000	140,000		700-800,000		4,750-8,000	980-1,250

The official index figures for Turkey show a great degree of stability in 1943, but it should be observed that this result was partly due to the fact that, in the data on which the index is based, certain new categories of cereals and foodstuffs were included at official prices relating to Istanbul, while considerable fluctuations are known to have occurred in some of the provinces. Unofficially it is reckoned that, from the outbreak of the war to the beginning of 1944, the average level of wholesale prices had risen by about 500 per cent., while the cost of living had advanced by 300 to 400 per cent. According to a government price commission, none of the official measures of regulation has so far been successful, the application of rationing schemes proving particularly difficult in a country where habits vary greatly from district to district.

In France the wholesale price index (weighted according to consumption in 1942) and the cost-of-living index showed almost the same degree of increase up to the end of 1943, namely 135-137 per cent. above the pre-war level — an unusual phenomenon, since wholesale prices have generally moved

France: Price Indexes.⁽¹⁾

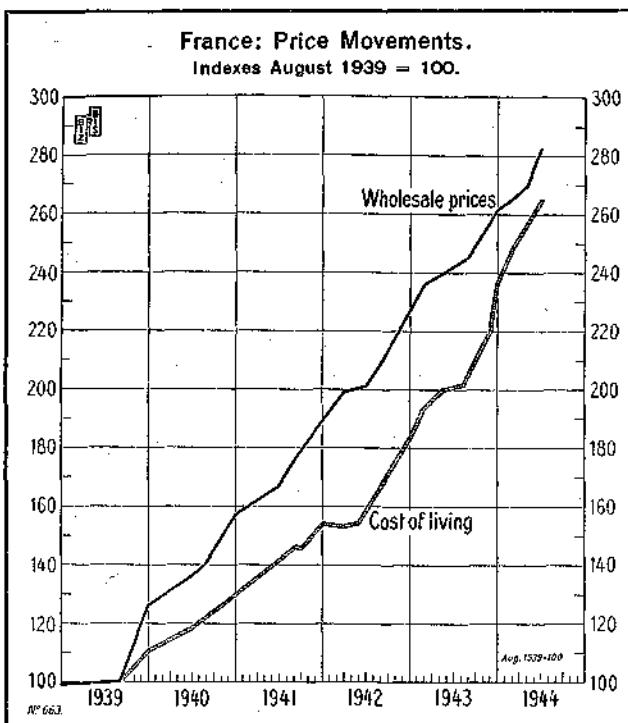
Base: August 1939 = 100	Wholesale prices		Retail prices	Cost of living
	A	B		
1939 August . . .	100	100	100	100
December . . .	126	121	110	111
1940 December . .	167	148	132	130
1941 " . . .	190	174	151	154
1942 " . . .	227	204	178	184
1943 " . . .	262	236	235	237
1944 June ⁽²⁾ . . .	293	253	260	265

(1) Indexes calculated by "La Conjoncture Economique et Financière". A = weighted according to consumption in 1938. B = weighted according to consumption in 1942.

(2) Provisional.

in advance of the cost of living. It might, indeed, have been expected that in France as elsewhere the cost of living would have been lower as a result of fairly substantial subsidies — in all Fr.fcs 35 milliard out of an ordinary budget of Fr.fcs 159 milliard in the estimates for 1943 — granted to keep the price increases of coal and of certain vital foodstuffs, such as bread and meat, within comparatively narrow limits. The index is, it

should be noted, based exclusively on regulated prices. It is reckoned that, including goods bought outside the official markets, the increase in the cost of living from the beginning of the war to the spring of 1944 came to about 225 per cent. (giving an index figure of about 325 when August 1939 is set equal to 100). By various increases allowed from time to time, including an arrangement in March 1944 affecting the whole country, hourly wage rates would seem to have risen, by the spring of 1944, on an average by 45 per cent. above the pre-war level, while the rise in actual earnings would seem to have been about 100 per cent., account being taken of "efficiency premiums" and other allowances as well as higher rates paid to more skilled workers and, above all, a lengthening of the working week from 40 to 48 or even 54 hours. But, even so, wages were lagging behind the cost of living and one of the first measures taken by the Provisional Government was to prescribe, by a decree of 14th September 1944, a general increase in wages and salaries at the rate of 40 per cent. in Paris and 35 per cent. in some of the provinces, the increase applying to persons in receipt of fixed remuneration not exceeding Fr.fcs 6,000 a month or Fr.fcs 30 an hour for a 40-hour week. Special provisions were, moreover, made for state and local officials.



No price indexes are available for Holland but it is known that adaptation to the German economy continued, the main features of this process being the introduction of "uniform and group prices" and the setting-up of a "price policy fund". The measures, however, stopped short of complete amalgamation: the group prices fixed for German goods were not applied automatically in Holland but each case was considered separately, account being taken of differences in costs and remuneration. The new fund was to serve, in the first place, as an instrument for the unification of a variety of existing measures — twenty different funds were already operating at the time. Its sphere of activity was, in particular, the promotion of exports to Germany; according to the basic principle of price control governing Dutch-German trade, the admissible prices in Germany, higher as a rule than those in Holland, constituted a ceiling for deliveries in both directions. Since the main purpose was to lower the prices of certain deliveries to Germany, the resources

of the fund were derived from a levy on the export of such Dutch industrial products as were manufactured in Holland more cheaply than in Germany. The goods were sold in Germany at normal German domestic prices, the difference between the lower Dutch production costs and the higher selling prices going to the fund.

For Belgium no general official price index is available but separate indexes for a number of important items, such as wheat, rye, barley, coal and sugar, are published. These indexes showed, in 1944, about the same level as at the end of 1942, when agricultural prices and the retail prices for foodstuffs stood at about 60 per cent. above the level in July 1940, i.e. the month in which a general price stop was introduced by the German authorities. No detailed information is available regarding the movement of wages; officially an increase of 8 per cent. was allowed on the level prevailing in May 1940; but, according to an index calculated by the National Bank of Belgium, the actual rise, by March 1944, had attained about 16 per cent. If account is taken, however, of various grants and facilities (such as the reselling, at official prices, of foodstuffs bought on the black market), the increase is probably somewhat larger, though not quite keeping pace with the price movements (and certainly not with those on the black market).

In Denmark and Norway the official indexes point to a high degree of price stability, but this stability would seem to have been more real in the former than in the latter country, since in Norway shortages have been more pronounced and black markets have therefore played a greater rôle. But also in Denmark deficiencies in the supply of consumers' goods and deterioration in quality have occurred without a corresponding indication in the index figures.

Price Movements: Denmark, Norway and Finland.

Percentage price increase during:	1939 2nd half	1940	1941	1942	1943	1944 1st half	June 1939 to Dec. 1943	June 1944
Denmark:								
Wholesale prices	+ 30	+ 34	+ 10	+ 2	0	+ 1	+ 95	+ 97
Cost of living	+ 10	+ 28	+ 7	+ 3	0	+ 1	+ 56	+ 57
Norway:								
Wholesale prices	+ 19	+ 26	+ 16	+ 3	+ 1	+ 1	+ 80	+ 81
Cost of living	+ 6	+ 22	+ 10	+ 4	+ 2	+ 1	+ 51	+ 52
Finland:								
Wholesale prices	+ 19	+ 28	+ 19	+ 25	+ 11	+ 4	+153	+164
Cost of living	+ 8	+ 21	+ 16	+ 20	+ 9	+ 1	+ 99	+102

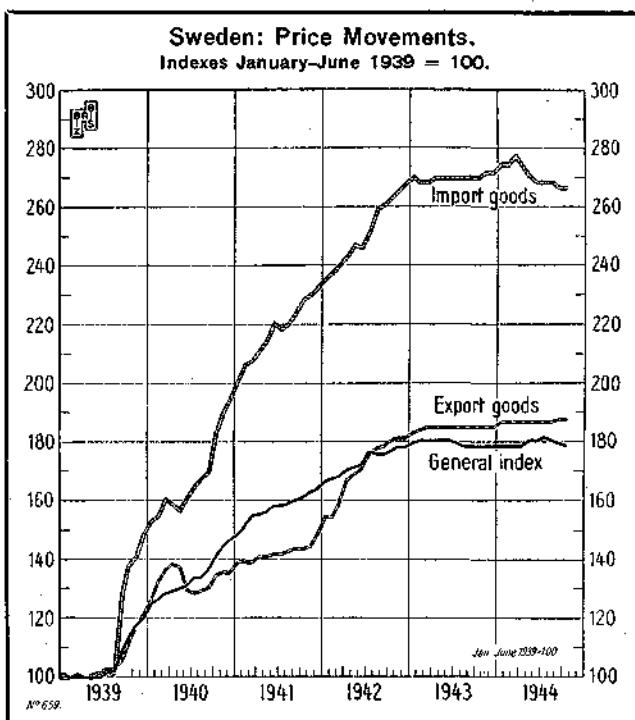
The war, with its shortages in raw materials and manpower and with its wear and tear of machinery, has put a great strain on Finland's economic structure. The harvest was, however, somewhat better in 1943 and Germany is reported to have supplied 246,000 tons of cereals for human consumption, as compared with the 400,000 tons which represent the country's average requirements for one year, about one-half being normally imported. Taxation and other current revenue covered two-thirds of the total government expenditure but prices nevertheless advanced about 10 per cent. in the year,

with even sharper increases in black markets. Rents, which in Finland, contrary to the practice in most countries, have been allowed to rise within moderate limits, showed, by the middle of 1944, an increase of about 20 per cent. above the pre-war level. After the rupture of relations with Germany in September 1944 and as a result of less favourable crops, the supply situation of Finland, especially as regards coal and wheat, became more difficult, notwithstanding certain deliveries from Sweden.

Among the few neutral countries, Sweden and Switzerland arrested the upward movement in their price levels as from the end of 1942, the former country somewhat more completely than the latter. In both, the main difficulties in the price structure were caused by agricultural problems. Notwithstanding

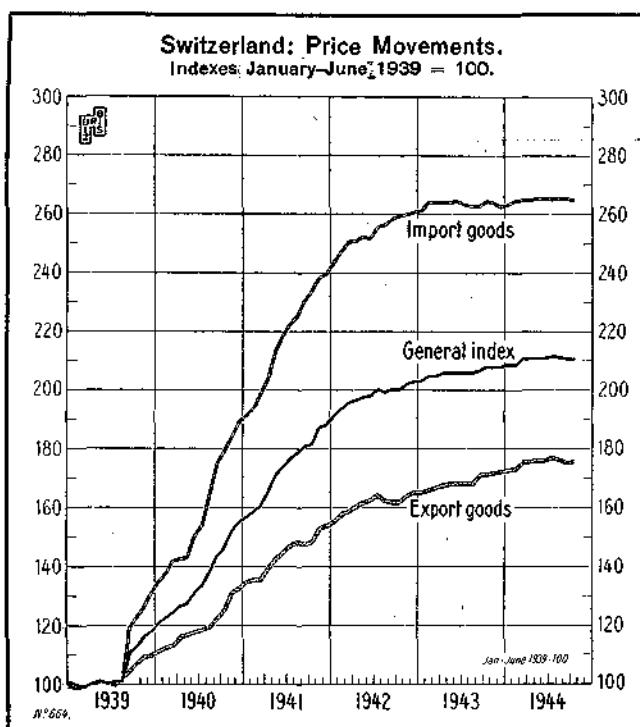
the wage stop accepted in Sweden in the late autumn of 1942, an increase of 10 öre per hour was granted in the middle of 1943 to the admittedly rather poorly paid agricultural labourers. A detailed agreement was reached between the government and the farmers under which the outcome of the harvest was not only to determine the continuation and the degree of the wage increase in question but was also to affect the prices of agricultural products and the amount of government subsidies. In June 1943 the price stop was extended to remuneration for services.

In Switzerland agricultural prices continued to rise both in 1943 and in 1944 but at a lower rate than in previous years. The gross income of agriculture for 1944 was provisionally estimated at Sw.fcs 1,976 million, as against Sw.fcs 1,912 million in 1943 and Sw.fcs 1,297 million in 1938, with an increase of about fifty per cent. above the pre-war level. Although production costs have risen, there has been a net amelioration in the standard of the farmers, who in this respect have been more fortunate than almost all other income groups. The higher prices paid for agricultural products have, however, gone in the first place to meet the cost of the change in orientation of Swiss agriculture. The Wahlen Plan (so called after its author) has aimed at the reduction of cattle (including dairy cows) and pigs by one-third and a gradual expansion of arable land by ploughing up meadows, reclaiming waste land and



clearing forests in order to attain a greater degree of self-sufficiency on the basis of minimum food rations. There was an increase of arable land from 180,000 hectares in 1939 to 360,000 hectares in 1943. The question is being keenly discussed whether this change in the agricultural structure should be maintained after the war. In a lecture delivered in Zurich in January 1944, the President of the Swiss Confederation (then also the Chief of the Department of Economic Affairs) suggested that an area of at least 300,000 hectares should be maintained as arable land after the war. To keep down the price of bread the Confederation paid subsidies in 1942, at the rate of about Sw.fcs 40 million per year and, with other subsidies designed to reduce

the cost of living, the total amounted to more than Sw.fcs 100 million per year. In its annual report for 1943 the Swiss National Bank mentioned that Price Equalisation Funds have played a considerable rôle in the country's price policy. Some effort was made to rely less on such artificial devices, the main concern being to ensure a return to pre-war standards of real wages without making Switzerland, dependent as it is on export trade, an island of high costs as compared with conditions on world markets.



The following table shows price movements within different groups of commodities.

Switzerland: Price Movements.

Percentage price increase during:	1939 2nd half	1940	1941	1942	1943	1944 1st half	June 1939 to Dec. 1943	June 1944
Wholesale prices (general).	+ 18	+ 31	+ 21	+ 8	+ 2	+ 1	+108	+110
Imported goods.	+ 30	+ 44	+ 27	+ 9	+ 1	+ 1	+161	+163
Home-produced goods.	+ 10	+ 21	+ 16	+ 7	+ 4	+ 2	+ 72	+ 75

Prices of imported goods have risen twice as much as those of domestic goods, one reason being the high cost of transport by land. In the middle of 1944 the level of wholesale prices, at 110 per cent. above pre-war, was

definitely higher in Switzerland than on world markets; but, after the war, prices of imported goods are bound to fall and this will undoubtedly help to bring down the general index figure. A key position may be said to be held by the advance in the prices of domestic goods and the question is to what extent cheaper imports will bring about a downward adjustment in the general level of domestic costs and prices. By the autumn of 1944 hourly wages of industrial workers had risen by 40 per cent. on an average. This is equivalent to compensation for about three-quarters of the increase shown by the cost-of-living index and represents a reduction in the standard of living by nearly one-tenth. These are average figures; but, according to the guiding principles laid down by the competent commission in Berne, compensation rates vary inversely to incomes.

Price Movements: Sweden, Switzerland, Spain and Portugal.

Percentage price increase during:	1939 2nd half	1940	1941	1942	1943	1944 1st half	June 1939 to Dec. 1943	June 1944
Sweden:								
Wholesale prices	+ 21	+ 21	+ 12	+ 9	0	+ 1	+ 79	+ 81
Cost of living	+ 5	+ 15	+ 11	+ 5	0	0	+ 42	+ 42
Switzerland:								
Wholesale prices	+ 18	+ 31	+ 21	+ 8	+ 2	+ 1	+ 108	+ 110
Cost of living	+ 4	+ 13	+ 15	+ 9	+ 3	+ 1	+ 50	+ 52
Spain:								
Wholesale prices	+ 11	+ 17	+ 18	+ 12	+ 7	0	+ 85	+ 85
Cost of living	+ 9*	+ 25	+ 23	+ 1	+ 2	+ 2	+ 70*	+ 72*
Portugal:								
Wholesale prices	+ 16	+ 24	+ 10	+ 19	+ 22	+ 10	+ 132	+ 154
Cost of living	+ 4	+ 13	+ 15	+ 9	+ 11	+ 7	+ 64	+ 75

* Compared with July 1939.

In Spain the cost-of-living index showed figures practically stable since the beginning of 1942. This is the more noteworthy since black markets have lost in importance so that the official figures now give a truer picture of the actual purchases which take place. The increase in wholesale prices slowed down during 1943 and came to a standstill in the first half of 1944, but in the second half of that year a new upward movement set in, apparently connected with higher costs of imports.

Portugal is one of the few countries in the world to-day in which the abundance of monetary purchasing power has in no way been derived from internal state financing, the Portuguese budget remaining in good order. The plethora of money has been due to large exports, wolfram and tin being the two most conspicuous commodities for which very high prices have been charged. Indeed, certain prices even began to discourage foreign buyers; as stocks of tin accumulated, the government intervened to reduce its price by one-quarter. Increases in wages have lagged behind the actual rise in the cost of living, leading to a pronounced disparity in the remuneration of wage-earners and such other sections of the population as have been able to reap big profits from the war conjuncture.

In the United Kingdom price movements in both 1943 and 1944 were kept within exceedingly narrow limits, stability of prices and cost of living being maintained by the same methods as those employed in previous years, including the granting of subsidies, which amounted to £214 million per annum by the autumn of 1944, as compared with £70 million in 1940. For June 1944 the official indexes showed a rise in wholesale prices by 69 per cent. and in the cost of living by 29 per cent. above the pre-war level. From October 1938 to July 1943, i.e. for a period covering nearly five years, wage rates in the principal industries, as calculated by the Ministry of Labour, rose by about 30 per cent., while the general increase in earnings was as much as 76 per cent.; the main reasons for the greater increase in earnings than in wage rates are to be found in the lengthening of hours of work, with higher pay for overtime, granting of bonuses, more night work, up-grading, etc., and also in a gain in earnings due to unequal growth of industries. As might have been expected, the war industries have shown the greatest increases, with ship-building heading the list (at 104 per cent.), while the smallest increase has been in printing (at 24 per cent.), activity being curtailed by the shortage of paper. As regards coal mining, figures are available for a period of four years, from 1939 to 1943, in which the average rise in earnings is estimated to have been 86 per cent., while for railwaymen the rise is estimated at 53 per cent. (also for a period of four years, from 1939 to 1943). Finally,

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

Percentage price increase (or decrease) during:	1939 2nd half	1940	1941	1942	1943	1944 1st half	June 1939 to Dec. 1943	June 1944
United Kingdom: Wholesale prices	+ 25	+ 22	+ 5	+ 3	+ 1	+ 2	+ 67	+ 69
Cost of living	+ 12	+ 13	+ 2	+ 1	0	+ 1	+ 28	+ 29
Eire: Cost of living	+ 12	+ 11	+ 11	+ 15	+ 8	+ 1	+ 71	+ 70
British India: Wholesale prices (Calcutta)	+ 36	+ 12	+ 28	+ 55	+ 26	+ 1	+ 196	+ 196
Cost of living	+ 9	+ 2	+ 12	+ 46	+ 31	+ 4	+ 138	+ 127
Australia: Wholesale prices	+ 5	+ 12	+ 5	+ 12	+ 1	+ 1	+ 41	+ 42
Cost of living	+ 1	+ 6	+ 4	+ 9	0	0	+ 22	+ 22
New Zealand: Wholesale prices	+ 5	+ 14	+ 9	+ 7	+ 6	0	+ 48	+ 49
Cost of living	+ 4	+ 3	+ 4	+ 2				
Union of South Africa: Wholesale prices	+ 8	+ 9	+ 12	+ 13	+ 5	0	+ 56	+ 56
Cost of living	0	+ 4	+ 6	+ 9	+ 5	+ 2	+ 26	+ 29
Canada: Wholesale prices	+ 11	+ 3	+ 11	+ 4	+ 6	0	+ 40	+ 40
Cost of living	+ 3	+ 4	+ 7	+ 3	0	0	+ 19	+ 18
United States: Wholesale prices	+ 5	+ 1	+ 17	+ 8	+ 2	+ 1	+ 37	+ 38
Cost of living	+ 1	+ 1	+ 10	+ 9	+ 3	+ 1	+ 26	+ 27

agricultural workers would seem to have increased their earnings by 90 per cent. in the five years from October 1938 to July 1943.*

In his budget speech on 25th April 1944 the Chancellor of the Exchequer paid much attention to the question of costs and prices and gave as his estimate of the increase in wage rates — presumably for all workers — a figure of 40 per cent., adding that in the period from 1941, during which the cost-of-living index had been rigidly stabilised, wage rates had risen by about 15 per cent. "The government", said the Chancellor, "must have regard to the changing level of wages, costs and prices and must from time to time review the precise level at which stabilisation was to be continued in the light of current conditions." Having regard to the higher domestic costs of production and also to import costs, the Chancellor felt that for the ensuing year a range for the cost-of-living index of 30 to 35 per cent. above pre-war should be substituted for the 25 to 30 per cent. laid down by his predecessor in 1941.

This announcement of a less rigid price policy, designed to restore a more natural relationship in the cost and price structure, showed its first consequences when for July 1944 the cost-of-living index registered a figure which, in relation to the pre-war level, meant a move above the 30 per cent. limit. Although the advance was barely a fraction of 1 per cent., it has been interpreted as a sign that the British authorities are preparing for a gradual liquidation of the system of extensive subsidising adopted during the war. In the speech referred to above the Chancellor emphasised that it was one thing to subsidise prices in order to avoid the vicious spiral of inflation at home but it was another thing to use subsidies without restraint so as to increase the gap between domestic prices and world prices. He added that such a policy, if pushed too far, might create very great difficulties after the war.

In other parts of the British Empire the increase in prices has as a rule been less pronounced than in the United Kingdom, two exceptions to this rule being Eire and British India. In Eire the cost of living has been affected by the high transport charges for imported goods and by high domestic costs incurred in enlarging the area of cultivation in order to render the country less dependent on foreign wheat. By 1944 wholesale prices had doubled on an average as compared with the level in 1938-39, but the effect of this rise on the cost of living has been somewhat mitigated by the granting of subsidies. Wages and salaries were raised about 15 per cent. during 1943. Country districts are, however, grappling with the problems of a drawn-out depression caused primarily by shortages of raw materials, serious unemployment being avoided only through large-scale emigrations of Irish workers to the United Kingdom. To cope with an increasingly critical situation, aggravated by a persistent decline in the volume of production, a "price stop" covering

* See article by A.L. Bowley, "Wages, Earnings and Hours of Work, 1938-1943" in London and Cambridge Economic Service Bulletin for April 1944.

a wide range of goods and services was decreed in the autumn of 1944 at the level of prices obtaining in May of the same year, additional increases to be prevented "at any cost", according to a statement by the Minister of Supplies.

By the middle of 1943 wholesale prices in British India had risen by fully 200 per cent. above the pre-war level, and the cost of living (according to the index for Bombay) by about 140 per cent. The vastness of the country, the great variety of economic and social conditions and the relatively low level of consumption have placed obstacles in the way of effective government action in price matters. More decisive efforts were, however, made in the course of 1943, especially through the Profiteering and Hoarding Prevention Ordinance, under which the prices for a great number of commodities were reduced and steps were taken to force supplies on the market. Control measures were, in particular, applied to cotton cloths, ceiling prices (reviewed quarterly) being fixed for over 20,000 varieties instead of at most 3,000, which had been the expectation when the scheme was started. Rationing was imposed on rice, wheat and sugar, mainly in town districts, prices being fixed on a regional basis, and this system was gradually extended to a growing number of articles. On the demand side these efforts have been supplemented by various measures to absorb purchasing power, including higher taxation, higher railway fares, small-savings campaigns, gold sales, etc. As a result of these measures there was, in 1944, a certain reduction in prices from the high level reached in the previous year.

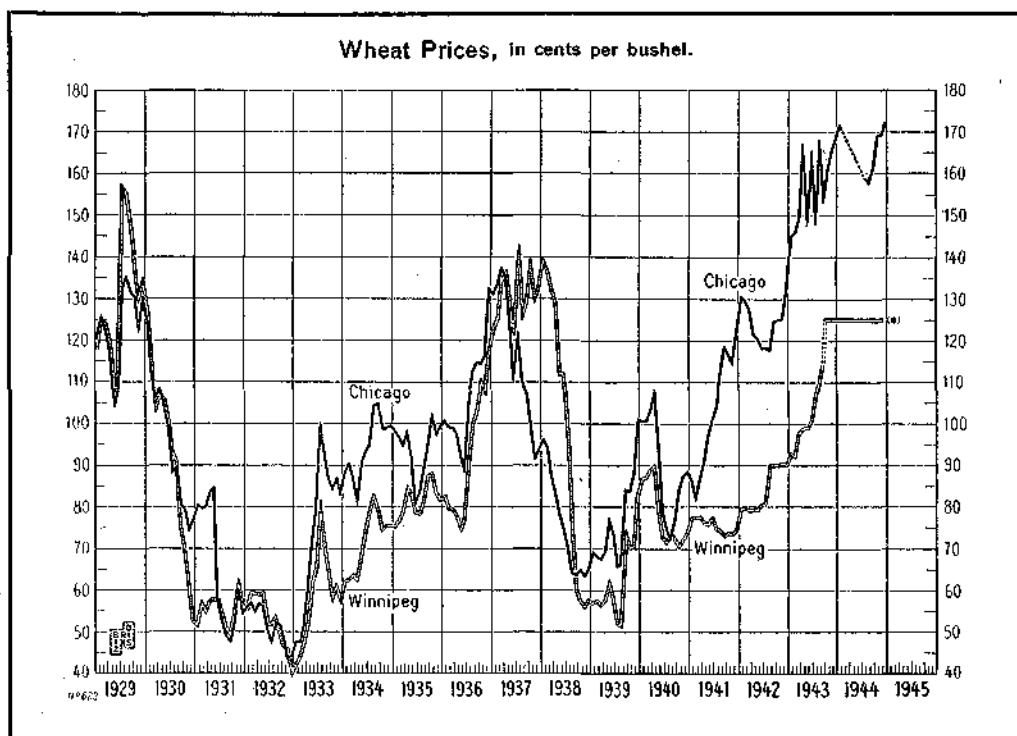
Australia and New Zealand show a high degree of similarity in their price movements, the two countries being confronted with very much the same problem: the provision of increased food supplies for the forces of the United Nations at a time of serious shortages of manpower. In Australia more than fifty per cent. of the working population was engaged in war activities but a certain return of manpower took place in 1943 in order to attain a higher production of food, the annual output of tinned meat rising from 10,000 tons before the war to nearly 100,000 tons. In 1944 the worst drought for fifty years swept southern and eastern Australia with, as a consequence, an extremely poor wheat harvest; at the same time, the output of meat was some 20 per cent. greater than in 1938-39 owing to heavy slaughtering. A policy of stabilising costs and prices was adopted in New Zealand in 1942 and in Australia in 1943, and in both countries it met with a considerable degree of success. In New Zealand a wartime cost-of-living index replaced the former index as from 1943, the purpose being to attain a closer correspondence to current consumption and to find a more suitable basis for wage and salary adjustments. According to the new index also, prices have shown a high degree of stability.

In the Union of South Africa, where the threat of actual warfare was never closely felt, prices have risen at a somewhat greater rate than in the South Pacific Dominions. The great volume of purchasing power has tended to drive up prices, especially in conjunction with the shortage of imported consumption goods.

In Egypt as well as in Palestine the dominating factor in the economic situation has been the expenditure of the Allied armed forces, which, combined with supply difficulties, has resulted in sharply rising prices. It was not until 1943 that rigorous action was taken; and in April 1944 the Middle East Finance Conference decided upon price control measures for the countries under its authority. But these measures do not seem to have been successful in arresting the upward surge.

As a rule, the countries in the Middle East have experienced a rise in prices to several times the pre-war levels. A notable exception is, however, the Sudan, where the firm hold taken by the authorities prevented the wave of high prices in the neighbouring countries from exerting an influence. With the assistance of the United Kingdom Commercial Corporation a large part of the Sudanese export trade was concentrated in official hands and profits obtained were used to subsidise goods imported from countries with inflated price levels, which made it possible to sell these goods at more or less normal prices.

The price control in Canada concentrated on the maintenance of stability in retail prices, for which ceilings were fixed, it being expected that the fixing of prices in the retail trade would react on the prices paid for goods bought wholesale and would ultimately affect producers. Moreover, a number of retail prices were reduced by such means as subsidies, the

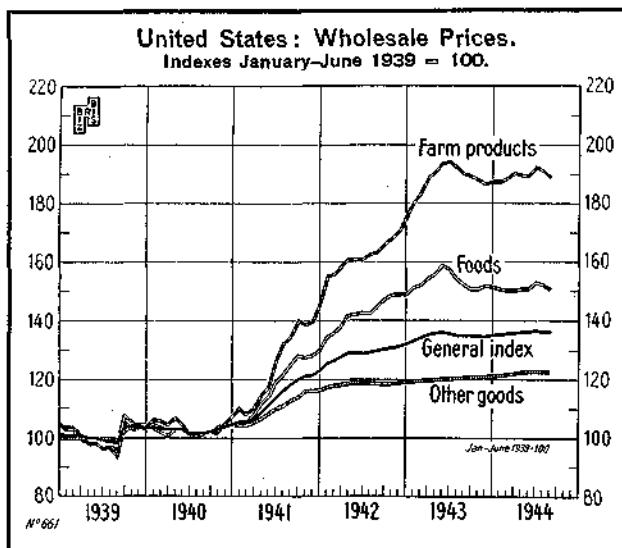


* In September 1943 wheat trading was discontinued in the Winnipeg market and the Canadian Wheat Board was directed to acquire all commercial stocks of wheat at an initial price of \$1.25 per bushel, compared with the previous guaranteed minimum of 90 cents.

removal of duties and direct selling at a loss through a government agency. Finally, employers were to pay their employees cost-of-living bonuses, adjusted quarterly. The policy has not worked badly but the difficulty has been to hold down production costs. In 1943 wholesale prices rose by 6 per cent. and, although the cost of living was kept stable thanks partly to subsidies involving an outlay of some \$45 million a year, various wage adjustments had to be granted, by which the total amount paid to wage-earners rose by more than \$120 million. A new attempt to deal with the rise in production costs entailed a change in policy in December 1943, when the bonuses as such were suspended but the amounts in question were added to, and became part of, the basic wage rates as at 15th November. "The government believes", said the Prime Minister, "that by holding the cost of living at the present level it will afford a more adequate safeguard of the basic living standard of labour than was provided by the cost-of-living bonus. If the cost of living rises more than 3 per cent. and remains at that level for two consecutive months, the government will review the whole programme of price control and take appropriate action." It was also hoped to attain a greater uniformity in wage policy by entrusting an enlarged National War Labour Board with the direction and control of regional boards.

The price indexes in the United States record a high degree of stability in 1943 and 1944, with a rise in wholesale prices to about 38 per cent. and in the cost of living to 27 per cent. above the level in the summer of 1939. Among the groups entering into the cost-of-living index, food rose by 45 per cent., clothing and house furnishings by 38 per cent., while rents, fuel, electricity and miscellaneous items showed relatively slight increases.

The question has been raised, especially in labour circles, whether the cost-of-living index can be regarded as a fair measure of the prices actually paid. Indeed, certain private estimates arrive at a real rise of up to fifty per cent., taking into account changes in quality, etc. It should, however, be noted that most civilian goods have continued to be available in large quantities, with improvements in some sectors during 1944. Thus, one of the causes distorting the price measurements in other countries hardly affects conditions in the United States. Nevertheless, stability in the cost of living has, in the United States, as elsewhere, largely been the result of government subsidies. The



food-subsidy programmes are carried out by the Reconstruction Finance Corporation and the Commodity Credit Corporation. In 1944 \$450 million was required to reduce the prices of meat and butter to ten per cent. less than they would otherwise have been. By October 1943 the estimated total of subsidies granted was running at an annual rate of over \$1,100 million, of which more than two-thirds was in respect of food.

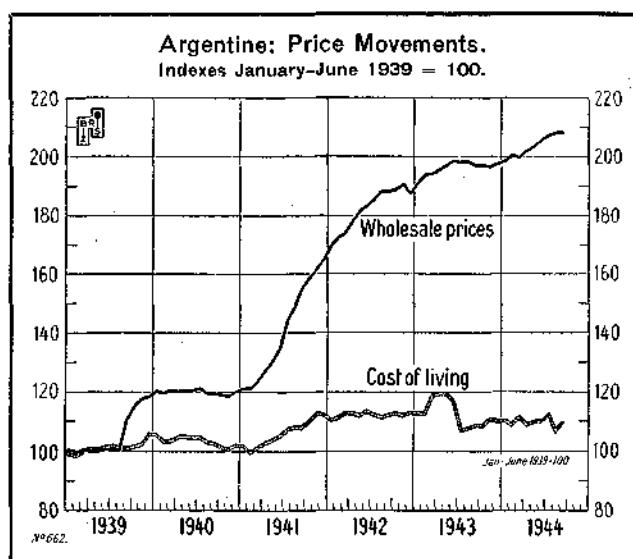
The cost of living being kept stable, wage rates continued to be governed by the "Little Steel Formula", according to which the War Labor Board rejected requests entailing increases in excess of compensation for the 15 per cent. rise in the cost of living between January 1941 and May 1942 (increases could, however, be granted where wages had remained at sub-standard levels and in certain industries where improvements in wages were considered essential to encourage the war effort). Average wage rates continued, however, to rise, owing, in particular, to further transfers of workers to armament industries, in which a combination of longer hours and higher hourly rates raised weekly rates well above those paid by industries not producing war materials. By the summer of 1944 income payments to individuals were at an annual rate of nearly \$160 milliard, as against \$130 milliard at the end of 1942 and nearly \$70 milliard for the period 1935 to 1939. Of the aggregate increase of approximately \$60 milliard in payrolls up to the end of 1942, it was estimated that the largest source of increase (about \$21 milliard) had been the addition to the number of people at work, the next largest source (\$15 milliard) being connected with the movement of workers to industries paying higher wages; increases in wage rates came to about \$11 milliard, while over \$7 milliard represented the effects of the longer working week. Besides the large increases in industrial payrolls and in the net income of farmers, a rise in government payrolls has contributed largely to the increase in total income payments to individuals. Statistics show that changes in income payments have been closely followed by changes in retail sales of food and of articles of daily use; but, since the quantities sold have generally remained unchanged or shown only a moderate increase, the rise in turnover has mainly reflected increased prices. That the pressure on prices has not been greater was due to the fact that, in addition to heavier taxation, a surprisingly large proportion of the increase in income has been saved by the public (see page 12); it is a debated question whether saving at this rate will continue when the war emergency is over and there are more civilian goods on the market.

The paramount influence which foreign trade has exerted on the economic structure of practically all Latin American countries since 1939, and more particularly since the United States came into the war, is reflected in the price trends. Generally speaking, prices of industrial products have risen sharply as a result of insufficient imports, foreign suppliers being temporarily unable to meet the growing Latin American demand. But many domestic products also have been subject to an upward pressure, some of them being

Price Movements in various Latin American countries.

Percentage Increase (or decrease) during:	1939 2nd half	1940	1941	1942	1943	1944 1st half	June 1939 to Dec. 1943	June 1944
Argentina:								
Wholesale prices	+ 18	+ 2	+ 37	+ 13	+ 6	+ 4	+ 97	+105
Cost of living	+ 4	— 3	+ 10	0	— 2	0	+ 9	+ 9
Chile:								
Wholesale prices	+ 7	+ 5	+ 37	+ 23	+ 2	+ 2	+ 93	+ 98
Cost of living	+ 5	+ 10	+ 23	+ 26	+ 8	+ 8	+ 92	+107
Colombia:								
Cost of living	— 2	— 5	+ 4	+ 14	+ 20	+ 13	+ 32	+ 50
Costa Rica:								
Wholesale prices	— 1	— 6	+ 19	+ 40	+ 5	+ 5	+ 64	+ 73
Cost of living	— 2	— 2	+ 9	+ 31	+ 12	+ 5	+ 54	+ 63
Mexico:								
Wholesale prices	— 1	+ 1	+ 14	+ 8	+ 26	+ 22	+ 56	+ 90
Cost of living	+ 1	+ 1	+ 14	+ 11	+ 37	+ 16	+ 78	+106
Peru:								
Wholesale prices	+ 11	+ 9	+ 27	+ 18	+ 12	— 1	+103	+102
Cost of living	+ 4	+ 9	+ 11	+ 8	+ 11	+ 9	+ 51	+ 65
Uruguay:								
Cost of living	+ 4	+ 2	— 2	+ 4	+ 2	+ 5	+ 11	+ 16

in great demand abroad because of their strategic value, while the prices of others have been supported by government measures with a view to avoiding too marked a difference in the price rise between primary or agricultural products, on the one hand, and industrial or finished products, on the other. Thus, minimum prices were fixed in the Argentine for wheat and linseed; in other cases foreign purchasers agreed to buy certain quotas or even the whole exportable surplus of given commodities. Mention may be made of Peru's cotton agreement with the United States, Brazil's rubber and rice agreements with the United States and Great Britain, the meat agreement between the Argentine and Great Britain, the general coffee agreement between the United States and fourteen Latin American Republics, as well as numerous arrangements between neighbouring Latin American countries. Surplus exports have for most of these countries resulted in an unprecedented accumulation of balances abroad, which, when acquired by the monetary authorities at home, lead to an expansion in the domestic purchasing power often so pronounced as to provoke an inflationary tendency. By June 1944 wholesale prices in the Argentine, Chile, Mexico and Peru had doubled since



1939. The cost of living is shown to have risen at a rate of less than 20 per cent. in the Argentine and Uruguay, the moderate rise reflecting cheap prices of foodstuffs difficult to export, without, as it would seem, taking fully into account the high prices charged for imported articles. Various control and price-fixing measures have been adopted in the Argentine, Brazil, Chile, Bolivia, Peru, Mexico and several of the other countries, but difficulties have often been experienced in the practical application of the rules laid down, so that frequently other influences have proved to be stronger. Brazil has introduced a kind of cheap "utility goods" in the footwear and clothing lines. In Mexico the central bank has released certain quantities of gold in order to mop up part of the surplus purchasing power and thus relieve the pressure on prices; for the same purpose a loan was floated in that country and a similar step was taken in Brazil. On the whole, the authorities seem to be aware of the dangers involved in the prevailing boom; although little may be done at the moment, it is hoped that the strong reserves of gold and foreign exchange will, when peace comes, give the Latin American countries a greater freedom in framing their economic policy than they have usually had in the past.

While in other parts of the world those countries where the upward price movement did not slow down constitute the exceptions to the general rule, the situation in the Far East shows the opposite picture, as appears from the following table.

Price Movements in the Far East.

Percentage price increase during:	1939 2nd half	1940	1941	1942	1943	1944 1st half	June 1939 to Dec. 1943	June 1944
Japan:								
Wholesale prices	+ 17	— 1	+ 11	+ 3	+ 9	+ 7	+ 45	+ 55
Retail prices (Tokyo) . .	+ 9	+ 9	+ 2	+ 2	+ 8	+ 6	+ 34	+ 43
Manchukuo:								
Wholesale prices	+ 8	+ 21	+ 7	+ 12	+ 9	+ 15(1)	+ 73	+ 99 (1)
Cost of living	+ 18	+ 26	+ 15	+ 9	+ 17	+ 10(1)	+ 119	+ 142 (1)
Tientsin:								
Wholesale prices	+ 39	+ 41	+ 27	+ 31	+ 52	·	+ 397	·
Cost of living	+ 63	+ 38(2)	+ 25(2)	+ 79	+ 167	·	+ 1,245	·
Peiping:								
Wholesale prices	+ 36	+ 57	+ 26	+ 58	+ 69	·	+ 616	·
Shanghai:								
Wholesale prices	+ 86	+ 66	+ 191	+ 106	+ 325	+ 57(1)	+ 5,914	+ 9,335(1)

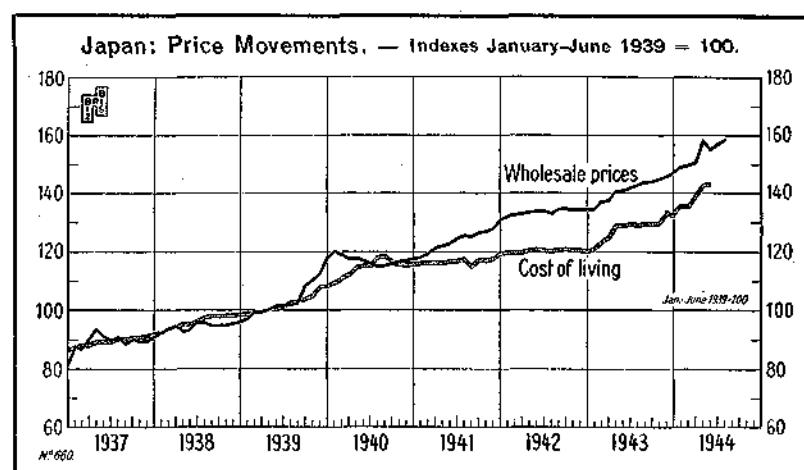
(1) To July 1944. (2) December 1939 to April 1941. (3) April 1941 to December 1941. (4) To April 1944.

Price developments in Japan in recent years may be roughly divided into three periods: the first phase lasted from the beginning of the Sino-Japanese conflict in July 1937 to the outbreak of the war in Europe, the earliest price control measures being the fixing, in May 1938, of the selling price for cotton yarn. In September 1939 the second period began with a rather elastic system of restrictions upon consumption and control on the

basis of a wage and price stop. A national economic policy was outlined with a view to establishing "the Greater East Asia Co-prosperity Sphere with the unity of Japan, Manchukuo and China as the basis", a semi-official organisation being set up for that purpose. The third period began in December 1941, with the war against the Anglo-Saxon powers: in successive stages state control attained its full development (the Price Control Office had become an autonomous corporation by the end of 1943). In August 1943, i.e. after some five years from the first price fixing, official prices had been established for no fewer than 846,000 items.

The following graph shows the trend of prices in Japan during the period from 1937 to 1944. The upward trend, which had slowed down in 1942, revived in 1943, partly as a result of the new ceiling prices fixed in the spring of the latter year. These covered a whole series of consumers' goods in daily use

and involved increases ranging from 10 per cent. for clothing to 120 per cent. for rice-wine. To counteract a threatened shortage of rice due to unfavourable weather conditions, the government encouraged production of such substitute foods



as ordinary and sweet potatoes and "sundry cereals" (Indian corn, millet, etc.); considerable price increases were allowed on wheat, barley and "naked rye", but at the same time a rise in the cost of living for poorer strata of the population was to a large extent avoided by increased subsidies and the payment of premiums involving considerable government outlay. The following table compares the new official prices with those of previous years:

Agricultural Prices in Japan.
(Index figures 1937 = 100)

Product	End of			
	1941	1942	1943	1944
Rice	140	157	202	202
Barley	136	142	171	235
Naked rye	161	161	163	265
Wheat	140	142	172	227

The initial regulation of wages was applicable only to unskilled workers up to the age of twenty but the control was gradually extended with the main object of checking a rise in wage levels and preventing shifts from one occupation to another. It was found, however, that

these freezing measures removed the stimulus to efficiency, while with the rise in prices the real value of wages declined. Bonuses were then granted as a temporary remedy but the whole system of wage control was to be subjected to further revision.

In addition to the ordinary difficulties of a belligerent country, Japan took on the special task of trying to consolidate the huge and heterogeneous areas to which it had extended its control, while counteracting the disastrous effects upon its own economic structure of the wild price tendencies prevailing in some of the territories. Manchukuo, though developing into a source of supply for iron and industrial products, was compelled to retain and even to reinforce its position as a "granary", owing to the food situation which the war had created; with a view to encouraging a greater output, the prices of farm products were raised several times and an extensive land reclamation scheme was set on foot by the end of 1943. In North China all the efforts of the Sino-Japanese authorities to put a brake on the price expansion seem to have failed and, in an attempt to reduce black market transactions, a proposal was even put forward to abolish any kind of official price system altogether.

In Chungking China the price situation appears to have got out of hand at times. In January 1944 all previous price control regulations were revoked and a new Provisional Wartime Price Decree was issued, providing inter alia for the death penalty in cases of hoarding for speculative purposes. The upward trend, however, showed no sign of abating, some estimates putting the wholesale price index in June 1944 at 438 times as high as the level of 1937, a similar rise being recorded for Shanghai.

* * *

Prices can be said to have a twofold significance: to each particular producer they represent "income" and to the rest of the community "costs". The cost and price structure, therefore, holds a key position in economic life, its balance, or lack of balance, exerting a decisive influence on the general trend of business, the national income and the standard of living, as well as on the burden of debts and the intrinsic value of the different currencies. Every effort should consequently be made to bring about a state of affairs conducive to a proper balance within the various national economies and in their relations with each other. The starting-point must naturally be the conditions prevailing in each separate country; but one of the difficulties is that, by reason of the war, these conditions are affected by a number of artificial elements which, if they do not wholly disappear, will at least take on a very different aspect when hostilities cease. The most important of these elements in the actual situation is the large amount of government spending, covered as it is in the "soundest" countries by resort to borrowed money at the rate of roughly one-half of the total expenditure. In such circumstances, business activity no longer depends on the volume of private investment or on the amount spent by the public; moreover, all kinds of maladjustments are, so to say, made innocuous in the great drive for maximum war production. Spending at such a rate must, however, cease with the war, since its continuance

would in the end destroy not only public confidence in currency and credit but the social and economic structure as we know it. With a return to more normal levels of government expenditure, economic life must once more become, in all essentials, self-sustaining; any future spending of borrowed funds by public authorities, apart from normal investments on a remunerative basis, will presumably be of a subsidiary and intermittent character, designed to smooth out cyclical fluctuations. But a sustained advance in business activity presupposes a fundamental balance in the cost and price structure and it is not easy to see how soon such a balance can be attained, in view of all the controls and rigidities imposed during the war. Much will naturally depend upon the levels at which commodity prices and the cost of living are likely to settle down when the war is over.

Obviously, the future trend of prices cannot be expected to be the same in all sectors of a country's price structure or in the different countries. In the United Kingdom a return to peace will most probably bring down the prices of many imported commodities which have been burdened by the high cost of transport and insurance. But, apart from such decreases, affecting primarily the wholesale trade, the probability is that the cost of living, as measured by the index, will show but little reduction and may even, on balance, register an increase. In this connection it should be remembered that the Chancellor of the Exchequer in his budget speech predicted a rise in the cost of living from the range of 25 to 30 per cent. above pre-war to between 30 and 35 per cent. The aim was to make the index reflect the real cost situation, so that the stabilisation policy should not "become an altogether artificial affair". Indeed, the Chancellor estimated that without the subsidies granted to keep down the cost of living the index would have stood at 45 on an average in 1943 instead of at 28.

Other influences, e.g. the large volume of potential purchasing power in the hands of the public and the necessity of allowing certain increases in rents (to correspond more closely to high building costs), make it seem probable that in the United Kingdom, and, indeed, in the United States also, the cost of living after the war, as expressed in the official indexes, will show hardly any fall. This refers to the general index figure, i. e., to the average; for individual commodities there may well be a decline from the high prices reached during the war. Prices of articles falling outside the range of commodities on which the cost-of-living index is based have generally risen more than the index itself, one reason being that these "outside" commodities are as a rule not so strictly rationed and do not benefit from government subsidies. But that should be another reason for expecting that the process of post-war alignment, with the disappearance of rationing and of many subsidies, is likely to entail no substantial decrease in the official cost-of-living indexes in the two Anglo-Saxon countries.

There is a further line of reasoning pointing in the same direction, namely, that in this war the countries which could effectively apply systems of price control have in a large measure prevented abnormal shortages and

redundant purchasing power from pushing up prices above the so-called "cost price". But the consequence may well be that, wherever the cost of production remains more or less unchanged, the greater supplies will not depress prices, but a larger volume of goods will find its counterpart in the purchasing power already in the hands of the public. It may even be the primary task of the authorities to prevent the great potential demand (based on large holdings of notes, bank deposits and short-term government securities) from having too strong an effect in the immediate post-war period, i.e. at a time when each particular firm will be anxious to carry out as quickly as possible its readaptation to peacetime modes of production.

It is naturally impossible to be dogmatic about price developments in years to come; indeed, the last thirty years have brought so many surprises that price forecasts should be regarded with the greatest circumspection. But, besides being in line with the statement of the British Chancellor of the Exchequer, the supposition that in the leading Anglo-Saxon countries, i.e. the United Kingdom and the United States, the present cost-of-living index figure is unlikely to fall, would seem to find support in the consideration that these two countries could hardly regard with equanimity a decline in prices which would materially increase the burden of their public debts inherited from two world wars.

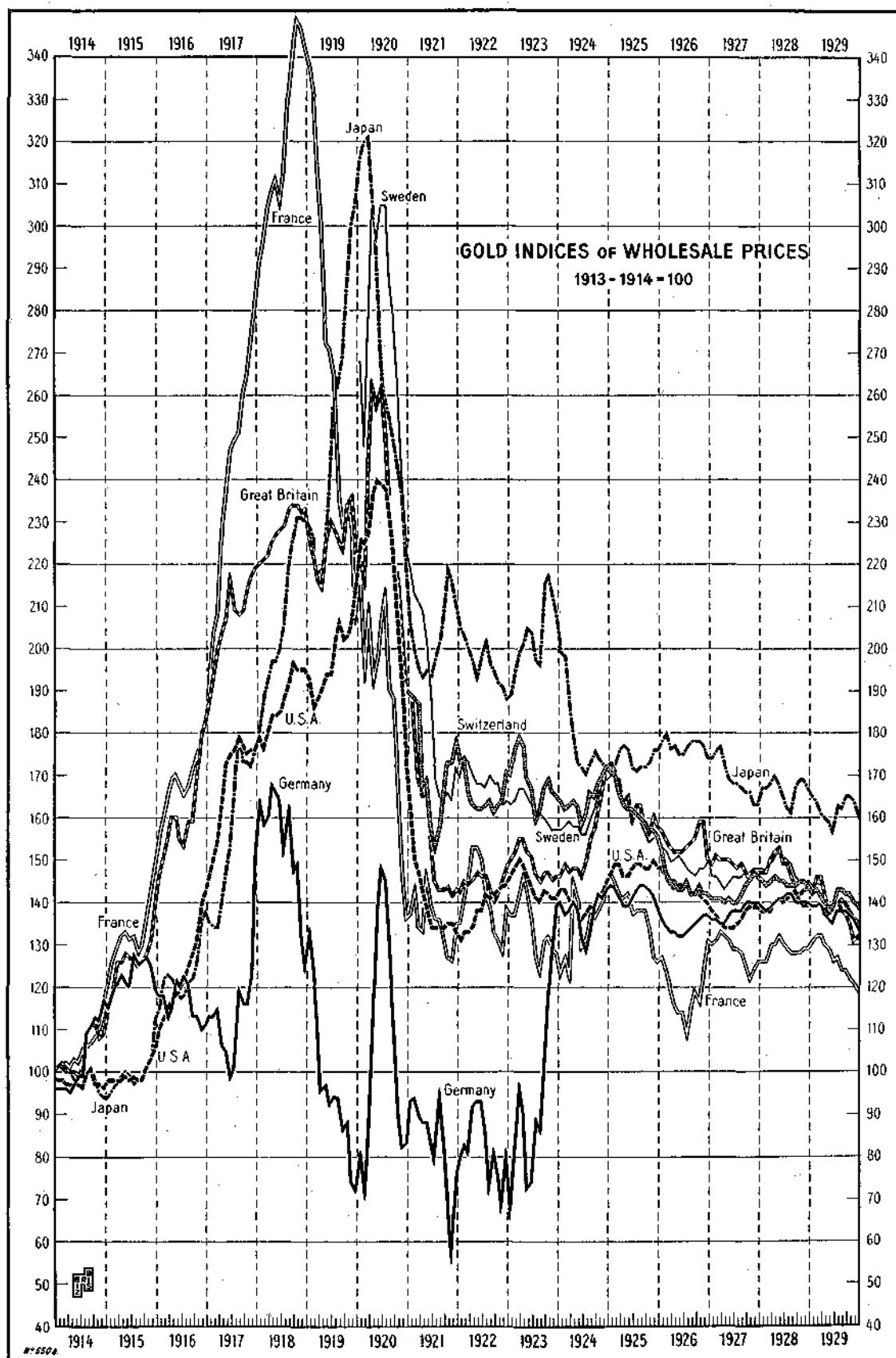
For other countries, however, the price (and debt) position is in some respects different.

In China and Greece, with inflation still reigning, the problem is eminently one of putting a stop to official financing with the aid of note issues.

In some countries in, and outside, Europe the price control has proved ineffective, the rise in prices being the combined result of a redundancy of money and acute shortages of goods. Should these countries, when peace returns, be able to bring order into their public finances, there may be a certain downward adjustment of their price levels somewhat similar to the fall which occurred in several European countries during the years 1920-23 (though the fall will probably be less pronounced than it was in those years).

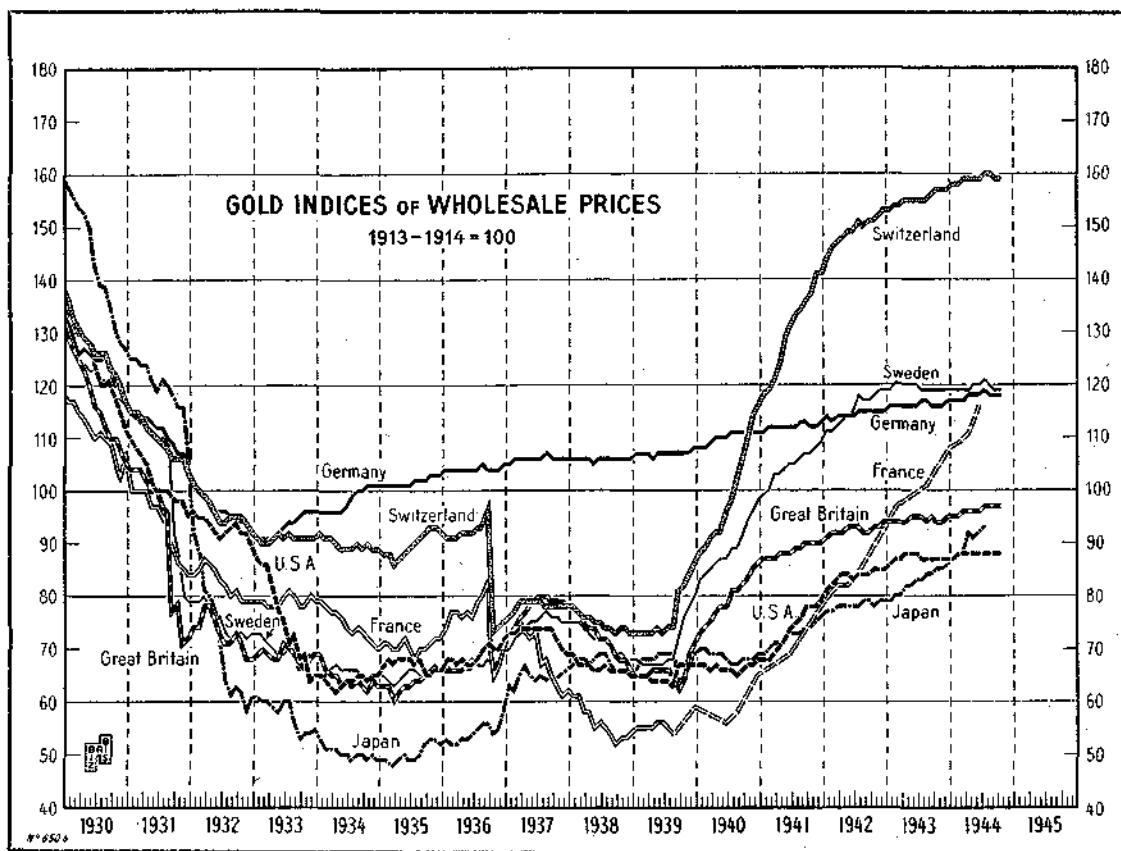
Countries on the European continent which have effectively applied systems of control, e.g. the two neutral countries Switzerland and Sweden, may well experience a decline in prices within important sectors of their economies. Imported goods are likely to be less dear, especially as a result of falling transport and insurance charges; the effect may even spread to other goods. These reductions will also affect to some extent the cost of living (the items "fuel" and "clothing" are, for instance, influenced by the prices of imported coal, cotton and wool); but other items, e.g. rents, may show a certain increase from the levels maintained during the war.

There is more difficulty in judging the situation in countries like France, where the available indexes, as elsewhere, are based almost exclusively on "regulated" prices, while a considerable volume of business is carried on at the much higher quotations in grey and black markets. It would seem as



if wage rates had on the whole lagged behind, not even rising as much as the "regulated" prices (that was the case in France, for instance, up to September 1944). Where such conditions are found, the authorities may have a fairly wide margin of freedom in determining their price policy and consequently in fixing rates of exchange (provided that the countries in question can genuinely balance their budgets, withstand cost increases, and possess adequate reserves of gold and foreign exchange). In this connection it is important to remember that the choice of the exchange rates may exert a decisive influence on the trend of commodity prices. After the last war, prices and exchange rates settled down pretty accurately at the "purchasing-power parities", the correspondence being rather greater than one had reason to expect on the basis of "pure theory". Thus, in 1929 and again in 1939, as the graphs show, "gold prices" (i.e. the prices calculated on a comparable gold basis via the exchange rates) gravitated around the same level for the different countries, the few exceptions being as a rule easily explained by unusual — often artificial — influences, as in the case of Germany in the years 1933 to 1939.

But it must not be assumed that the exchange rates were always determined by the relative cost and price levels, since sometimes the influence was clearly the other way round: in Sweden in 1921-23 the main trend of the price level was in fact determined by the movement in the exchange rate for the dollar, which the public firmly, and, as it turned out, rightly, believed would come back to the old parity. The consequence of the establishment of the



par rate for the dollar was a sharp price deflation in Sweden (followed by — though not caused by — a formidable credit contraction). These movements were certainly drastic — many will think unnecessarily so — but they constituted in their way an adjustment to new conditions, providing a basis for a solid revival in production and a great improvement in the country's prosperity, while eliminating practically all the unsound enterprises which had sprung up during the war. The development was less the result of a deliberate policy than something which just happened — a painful process, but one that worked in the end. Finland did not move along the same lines but linked on to gold at a depreciated rate of exchange; in Finland also business improved, however. These examples may be taken to show that there is a certain margin of freedom in adopting rates of exchange if the budget is genuinely balanced and a number of other conditions fulfilled. But whenever a certain rate becomes more or less fixed, the appropriate measures must be taken to ensure that at the earliest possible moment that rate becomes a true equilibrium rate (or, if that is found to be impossible, to see to it that the rate is changed). It cannot be expected that from every point of view a certain rate of exchange will be the most appropriate one; whatever rate is chosen there must consequently be some adjustments upwards or downwards. The greatest mistake would be to refrain from making real efforts to move into a balanced position; when maladjustments remain uncorrected, troubles are bound to accumulate, one reason being that then the authorities are likely to adopt one artificial device after another, but in that way no real basis can be laid for a sustained recovery.

Suppose, for the sake of argument, that, in an attempt to restore badly shaken monetary confidence and perhaps also to spare those who hold money savings too great a sacrifice, a country chooses to maintain, or to adopt a rate of exchange at which its own cost and price levels will be clearly somewhat too high and will thus have to be reduced in order to fit in with conditions in the outside world. Such a country would be obliged to contract its volume of monetary purchasing power and it is obvious that during the process of contraction it would be absolutely contradictory to pursue a policy of extensive public works designed to create employment. In such circumstances, a diffusion of fresh purchasing power would delay real recovery instead of stimulating it. Many examples illustrating this could be quoted from past experience: in France, for instance, the government only made matters worse by the internal expansion in 1936 so long as the French franc remained overvalued, i.e. until the devaluation of the gold bloc in September 1936.

It is not to be denied that ultimate prosperity can be attained by different courses (compare Sweden and Finland in 1921-23), but a self-contradictory policy must in all circumstances be avoided. When there is more than one road to the goal of prosperity it is certainly imperative that the road chosen should be followed with consistency and determination, for otherwise the goal will not be reached.

Since the domestic price policy is tied up with foreign exchange policy, it is impossible to lay down definite criteria, applicable to all countries, for the fixing of exchange rates. In some countries a decline from high wartime costs and prices may prove very desirable, in others such a reduction might dangerously increase the burden of already heavy public debts. It is clearly in the general interest that, in as many countries as possible, exchange rates, costs and prices should be speedily brought into a balanced position and that the relation of the currency units to gold should be of a lasting nature. During the prosperity period in the latter half of the 1920's, wholesale prices stood, on a gold basis, at 40 to 50 per cent. above the pre-war level, while the cost of living had in most countries risen 60 to 80 per cent. These levels were not maintained, however; prices fell precipitously in the early 1930's; as a result the burden of public, and still more often of private, debts (e.g. in agriculture) threatened to become intolerably heavy; the consequence was a wave of currency depreciation, which helped to raise prices in terms of national currencies while they remained low — or even fell — in terms of gold. In the ninth Annual Report of this Bank, dated 8th May 1939, it was pointed out that "with the exception of Germany, where price movements (calculated in gold at the official rate of the Reichsmark) have been dissociated from the external trend since 1933, and of France, where, owing to recent depreciations, prices in terms of gold are still lower than elsewhere, a certain convergence of gold prices is noticeable at between 65 and 75 per cent. of pre-war (1913-14) prices". Since then a new price rise has occurred, but it may be seen from the graphs that in 1944 wholesale prices in the United Kingdom and the United States still stood, on a gold basis, some 5 to 15 per cent. below the pre-war (1913-14) level (and the same was true as regards the cost of living). In the meantime the technique of gold production has been greatly improved, gold being extracted at less real cost than in the 1920's, which may well influence the natural relationship between gold and prices.

It is dangerous to be positive in these matters since new factors may arise; but, even with a great expansion in the volume of production, there seems no compelling reason why the price level at present obtaining in the Anglo-Saxon countries, or likely to be established there during the next few years, should be out of keeping with the current value or supply of gold, provided, of course, that no very serious mistakes are made in the fixing of relative exchange values or in the credit policies, especially of the larger countries. The chances that the present price levels will not be affected by a scarcity of gold are, it would seem, better than they were at the time of the stabilisations in the 1920's. It may certainly be wise to provide for the possibility of changing the gold content of different currency units, in case of need, but it is just as well to remember that on a gold basis the price levels in the United Kingdom and the United States are still somewhat lower than in 1913-14.

III. PRODUCTION AND MOVEMENTS OF GOLD.

Two outstanding features have continued to characterise the gold situation in 1943 and 1944:

(i) Gold production has declined every year since 1940. The percentage rate of decline accelerated from 2 in 1941 to 9 in 1942 and 17 in 1943; for 1944 provisional estimates seem to indicate a somewhat lower rate (about 12 per cent.). The world output of gold in 1944 has thus been reduced by one-third from the high level reached in 1940, which was a record year for gold production; as regards individual countries, output in the United States and in Australia has fallen by more than 70 per cent., while in Canada the reduction amounts to 40 per cent. and in South Africa to only 15 per cent.

(ii) In 1944 the monetary gold stock of the United States fell for the third year in succession after an uninterrupted increase from 1931 to 1941. The setback in 1942 was slight, only \$10 million, but in 1943 it reached \$788 million and, in 1944, \$1,340 million. These reductions have, in the main, found their counterpart in increases (not always fully reported) in the reserves of other countries; and those countries also absorbed the current production of gold, which amounted to about \$1 milliard a year in 1943 and 1944. Despite the recent losses, the United States had \$6 milliard more gold at the end of 1944 than at the end of 1938.

A distinct novelty has been the sale of gold to the public by the authorities in a number of countries, including India, Egypt, Mexico and Switzerland, the amount sold exceeding \$100 million by the summer of 1944. One of the main objectives of these sales has been to counteract inflationary tendencies, partly by the absorption of redundant purchasing power (the effect being limited, however, because of the comparative smallness of the amounts involved) and partly by the holding-down of the price of gold as quoted in the markets, sometimes in virtue of legal provisions, sometimes not. Experience had shown that the price of gold, even when reflecting only a restricted number of transactions, may exert a pronounced psychological influence through being regarded as a measure of the intrinsic value of the currency in question. It then becomes worth while to moderate the price quoted, the monetary authorities being able at the same time to earn a handsome profit on the gold with which they intervene.

1. SUPPLY OF GOLD.

The following table 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 based partly on conjectures, it is subject to a fairly wide margin of error

and merely indicates the general tendency of the current gold supply. It is in particular for the U.S.S.R. and the areas dominated by Japan that information is lacking.

World Gold Production.

Gold producing countries:	1929	1940	1941	1942	1943	1943	1944
	Weight, in thousands of fine ounces						
Union of South Africa .	10,412	14,047	14,386	14,121	12,800	6,431	6,130
Canada	1,928	5,311	5,345	4,841	3,652	1,973	1,524
United States (1)	2,056	4,863	4,780	3,742	1,395	746	506
Australia	426	1,653	1,458	1,216	816	425	215(4)
Rhodesia	562	833	794	761	657	338	300(3)
Colombia	137	632	656	597	565	282	285
British West Africa	208	930	926	835	564	304	265
British India	364	290	286	257	252	128	98
Peru	121	281	285	258	230	*	*
Brazil	107	264	235	229	210	*	*
Nicaragua (2)	12	140	194	222	198	115	118
Sweden	*	209	191	190(2)	190(2)	*	*
Chile	26	343	265	183	174	86	99
New Zealand	120	186	186	180	150	*	*
Venezuela	43	147	130	120	110	*	*
Roumania	71	131	96	82	80(3)	*	*
Total	16,593	30,260	30,213	27,834	22,043	11,300(3)	10,000(3)
Other countries of which:	2,607	10,740	10,087	8,666	8,157	4,500(3)	4,000(3)
U. S. S. R.	707	4,000	*	*	*	*	*
Philippine Islands	152	1,140	1,196	*	*	*	*
Korea	138	1,025(3)	*	*	*	*	*
Japan	335	925(2)	*	*	*	*	*
Mexico	652	883	800	850(3)	*	*	*
Belgian Congo	173	517	*	*	*	*	*
New Guinea	36	275	240	*	*	*	*
Estimated World Production	19,200	41,000	40,300	36,500	30,200	15,800(3)	14,000(3)
Value of Estimated World Production	672	1,435	1,410	1,280	1,060	550(3)	490(3)

(1) Without Philippine Islands.

* Not available.

(2) Estimated for 1939 to 1943 (production being taken to equal 90 per cent. of the country's gold exports).

(3) Estimated.

(4) Western Australia only.

(5) At the present-day rate of \$35 per ounce of gold.

Press notices in connection with the monetary negotiations in the spring of 1944 have contained reports of figures as high as 12 million ounces for the U.S.S.R. gold production, instead of maxima of 4 to 6 million ounces (according to previous estimates). It is not known whether the information on which these notices were based had been obtained from official sources, and it is, moreover, in no way clear whether the large amounts mentioned refer to results already achieved or represent expectations to be realised in years to come. The current output of gold in the U.S.S.R. can hardly fail to have been affected by the war effort. If the gold production in and beyond the Ural mountains were to attain the high figures mentioned in the recent reports, the U.S.S.R. would approach South Africa in the importance of its gold production and there would be even more reason to remember that in the first half of the nineteenth century Russia was one of the world's leading gold producers.

As mentioned in the thirteenth Annual Report of this Bank, the Manchukuo Government made it known in March 1943, and the Japanese

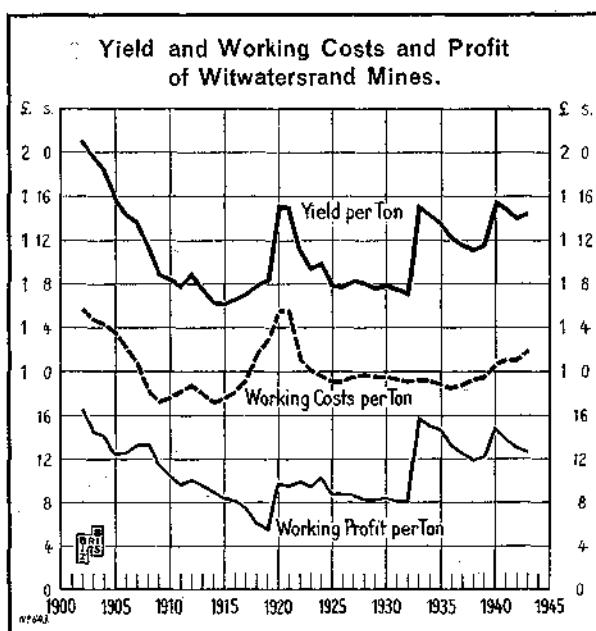
Government in the following month, that gold production would be suspended for the duration of the war, except in so far as it was linked to the production of other metals required for the war effort — in particular, copper. These measures involved a reversal of policy, since in 1938 premiums had been granted by the government to stimulate the output of gold and the premiums had been increased in 1940; but at that time gold could be used by Japan as an international means of payment, while in 1943 there were no exchanges between Japan and the world outside the "co-prosperity sphere", in which the yen was current for payments. Gold mines in Korea and in Japan were to be acquired by a company formed for the development of mining and controlled by the state; for the purpose in question the company received government credits exceeding Yen 200 million, of which one half was for Japan proper and the other half for Korea.

In South Africa the output of gold amounted to 12.8 million ounces in 1943, as compared with 14.1 million in the previous year and 14.4 million in 1941, the last being the highest figure ever attained, while for 1944 preliminary information indicates an output of 12.3 million ounces. The gold mining industry had to cope with increased difficulties during 1943; chief among them was an acute shortage of native labour, which was mainly responsible for the reduction in the quantity of ore milled from 67 million tons in 1942 to 59.9 million tons in 1943. The average gold content of the ore rose at the same time from 4.053 to 4.097 pennyweights per ton — the first increase in the average gold content since 1932. When working costs increase, a proportion of the low-grade ore falls below the limit of profitable mining; and costs continued to increase in 1943 and in 1944 owing to higher prices paid for materials and higher pay to the workers employed. In March 1944 native workers were granted an increase of 4d. per shift for surface workers and 5d. for underground workers, the total annual charge being estimated at £1,870,000. The South African Government recognised that the imposition of such a burden, involving an increase in working costs of more than 7d. per ton milled, would have most serious consequences for the industry and for the country as a whole, in view of the part played by gold mining in the national economy. The government therefore decided that the "gold realisation charge", which had been levied at 38s.3d. per £100 (i. e. at a rate of just under 2 per cent.) since 1st September 1940, should no longer be earmarked for the Loan Account in the Consolidated Revenue Fund but that the amount collected during the year ending 31st March 1945 should be placed in a pool, for distribution among individual mining companies in proportion to their respective share in the increased cost of native wages. In 1943 the yield of the gold realisation charge came to £1,970,000 and it was therefore hoped that the amount available would be sufficient to meet practically the whole additional direct burden imposed upon the industry as a result of the increase in native wages. The number of natives employed by the mines, having reached a maximum of 376,000 in February 1942, was down to 283,000 in December 1943. To lessen the shortage of native labour the South African Government at the beginning of 1944 concluded a new agreement with the Portuguese

Government providing for the recruitment of not more than 100,000 natives from the neighbouring Portuguese colonies, 12,000 to be employed in the coal mines and the others in the gold mines for a period of twelve months. In 1943 the number of native workers recruited by the Witwatersrand Native Labour Association was greater by 4,665 than in 1942, a fact which was reflected in the rate of employment during 1944. By the end of May 1944, the number of workers had risen to 301,000 but it was back to 285,000 in November, the mining companies complaining of a serious shortage of native labour.

The total gross profits of the mining companies fell continuously from £45.9 million in 1941 to £37.9 million in 1943 and £32.9 million in 1944; as a consequence the amount paid in dividends, which had fallen from £19.4 million in 1941 to £15.3 million in 1943, was reduced to £13.6 million in 1944. As regards the earning capacity of the gold mining industry, much will, of course, depend upon the future trend of the costs of production, about which a high degree of uncertainty necessarily prevails. It is true that in September 1944 a compromise agreement was reached with workers of European origin, under which a number of social benefits were allowed rather than a rise in wages; this agreement was, in essence, to remain in force for the next five years, provided that no substantial change took place in the general economic conditions.

The following graph shows, in South African pounds and shillings, the yield and working costs per ton of ore crushed at the Witwatersrand Mines in the period 1902 to 1943. The yield per ton of ore crushed is, of course, affected, on the one hand, by the price paid for gold and, on the other, by the average gold content of the ore crushed. The working costs are mainly affected by the changing technique of gold production and also by the general level of prices as influencing wage rates in South Africa and the prices paid for materials, etc.

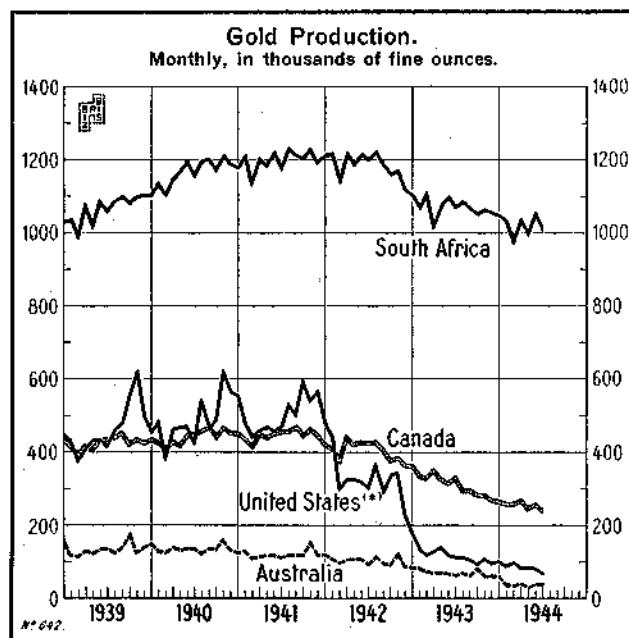


A great improvement in the technique of gold production had made it possible in the period up to 1909 to extend mining to ores of lower grades and to arrive at a smaller cost per ton notwithstanding the contemporaneous increase in the world price level (a fall in the yield per ton at a time when there was no change in the price of gold would reflect a lowering of the average gold content of the ore crushed). The gold price remained the same up to 1919, but the rise

in working costs from 1915 onwards made it necessary to turn to higher-grade ores, while in 1920 and 1921 the higher price then paid for gold (up to 122s.4d. per fine ounce, as compared with the standard price of 84s.11½d. paid in the years up to 1919 and in 1925–1931) affected the yield per ton and with it the conditions of production. After the reversal of the trend in 1922 and 1923, working costs remained remarkably steady up to 1939; but the increase in the gold price at the end of 1932, when, with a time lag of fifteen months, the South African pound followed the depreciation of the English pound, caused a sudden jump in the yield, which permitted the mining of lower-grade ores. That an increased crushing of such ores, often necessitating the sinking of deep shafts, did not cause an increase in the working costs per ton of ore crushed was principally due to a steady improvement in mining technique. But technical improvements have not been capable of fully offsetting the cost increases per ton during the present war, as revealed by the upward tendency in the graph on the preceding page.

In the United States the authorities continued the policy of transferring men and machines from gold mining to enterprises of more immediate importance for the war effort, the total output of gold falling in 1944 to about one million fine ounces, i. e. less than one-quarter of the yield in 1941. The gold output in 1943 had been at the rate of about 110,000 fine ounces per month, of which about 75,000 fine ounces were obtained as a by-product from copper and lead mines.

The U. S. authorities have generally refused to permit the export of machinery for gold mining to other countries, an exception being made in the case of Peru, where an extension of gold production has served to provide employment at a time of difficult conditions on the labour market.



In Canada the curtailment of gold mining has not been as pronounced as in the United States, although there also steps have been taken to transfer workers to lines of production more urgent from the point of view of the war effort. It should be added, however, that for Canada — not in possession of such large monetary gold stocks as the United States — the current

gold production has provided useful resources for foreign payments, not least in relation to Latin American countries.

Gold production in Australia has been reduced more than in other parts of the British Empire; in 1943 it amounted to 816,000 fine ounces, i.e. one-half of what it was in 1940, though still twice as much as in 1929. The British Empire as a whole seems to have produced 65 per cent. of the world output of gold in 1943, as compared with 58 per cent. in 1939. It is the share of South Africa that has risen; from 33 per cent. in 1939 to 42 per cent. in 1943.

In 1943 Australia had to cede its place as the fifth gold-producing country in the world (after South Africa, U.S.S.R., Canada and the U.S.A.) to Mexico, the gold output of which has been maintained practically undiminished during the war. The greatest European gold producer outside the U.S.S.R. was Roumania, which had kept up its gold production; premiums were granted to the producers and these premiums amounted in certain cases to as much as three times the basic price for gold; but the producers demanded a further rise, urging that increases in wages and outlay on materials etc. raised costs to such an extent that production was no longer remunerative.

Assuming a sharp cut in production in Japan and Korea but a more moderate reduction as regards the U.S.S.R., the total world output of gold may be estimated at 30.2 million fine ounces in 1943. Such a volume of production would be nearly the same as in 1935 but would still be fully fifty per cent. above the level of 1929. What may happen to the production of gold after this war is not easy to foresee: costs have risen in recent years but the level of wholesale prices in gold (as measured, for instance, by the Bureau of Labor index of the United States — recalculated on a gold basis) was, in 1944, still some 10 per cent. below the level of 1913-14 and some 35 per cent. below the level of 1929 (the level of prices in terms of gold having been affected in particular by the increase in the price of gold from \$20.67 to \$35 per fine ounce).

2. MOVEMENTS OF GOLD.

The table on the following page shows the changes which occurred up to June 1944 in the reported reserves of central banks and governments.

As regards the magnitude of the unreported gold reserves, only approximate figures can be given; those included in the table are based on estimates published by the National City Bank of New York in its bulletin for August 1944 and are in substantial agreement with an estimate of the gold holdings in September 1944 given in the Federal Reserve Bulletin for November of the same year (cf. pages 110 and 133). The unreported reserves include, in particular, the gold holdings of the U.S.S.R. (the last reported figure,

equivalent to \$839 million, being for September 1935) and of the United Kingdom, where since the beginning of the war only a nominal amount of gold has been shown in the Bank of England's return.

In June 1944 the unreported gold reserves would seem to have constituted about one-eighth of the world's monetary gold stock, the proportion having risen slightly since 1942 when it was about one-tenth.

Reported Gold Reserves of Central Banks and Governments.

Reporting countries	End of				Loss (—) or gain (+) during 1943	June 1944
	1938	1941	1942	1943		
in millions of dollars (at \$35 per fine ounce)						
Group 1: Argentina	431 (1)	354	658 (1)	939 (1)	+ 281	*
Mexico	29	47	39	203	+ 164	224
Switzerland	701	665	824	964	+ 140	1,023
Brazil	32	70	115	254	+ 139	297
Roumania	133	182	241	316	+ 75	369
South Africa	220	366	634	706	+ 72	749
Sweden	321	223	335	387	+ 52	432
Spain	525 (2)	42	42	91 (3)	+ 49 (3)	104
Turkey	29	92	114	161	+ 47	210
Colombia	24	16	25	59	+ 34	84
Uruguay	69	100	89	121	+ 32	139
Venezuela	52	41	68	89	+ 21	110
Chile	30	30	36	51	+ 15	56
Peru	20	21	25	31	+ 6	34
Portugal	69	59	59	60	+ 1	60
Total	2,685	2,308	3,304	4,432	+1,128	5,000 (10)
Group 2: Bohemia and Moravia	83 (4)	61	61	61	0	61
British India	274	274	274	274	0	274
Denmark	53	44	44	44	0	44
Egypt	55	52	52	52	0	52
France	2,430	2,000	2,000	2,000	0	2,000
Germany	40	40	40	40	0	40
Hungary	37	24	24	24	0	24
New Zealand	23	23	23	23	0	23
United Kingdom (5)	2,690	1	1	1	0	1
Total	5,685	2,519	2,519	2,519	0	2,519
Group 3: Belgium (6)	581	734	735	734	— 1	734
Canada (7)	192	5	6	5	— 1	6
Holland	998	575	506	500	— 6	500
United States (8)	14,512	22,737	22,726	21,938	— 788	21,173
Total	16,283	24,051	23,973	23,177	— 796	22,413
Total Reported Reserves (9)	25,200	30,000	31,000	31,300	+ 300	31,500
Estimated Unreported Reserves	*	3,500	3,500	4,100	+ 600	4,300
Total Reported and Unreported Reserves	*	33,500	34,500	35,400	+ 900	35,800

(1) Figures for the end of 1938, 1942 and 1943 include gold of the Central Bank held abroad and gold belonging to the Argentine Stabilisation Fund. (2) End of April 1938.

(3) Increase due primarily to inclusion of gold held for Foreign Exchange Institute. (4) Czechoslovakia.

(5) Not including gold held by the Exchange Equalisation Fund, viz. \$759 million in September 1938 and \$151 million for 1st September 1941.

(6) Not including gold held by the Treasury, viz. \$44 million in December 1938 and \$17 million in December 1941.

(7) In May 1940, gold belonging to the Bank of Canada transferred to the Foreign Exchange Control Board. Gold since reported is gold held by the Minister of Finance.

(8) Not including gold held in the Stabilization Fund: \$80 million in December 1938, \$25 million in December 1941, \$12 million in December 1942 and \$43 million in December 1943.

(9) Estimated and including other countries (but not the U.S.S.R.). (10) Partly estimated. * Not available.

The countries reporting increased gold reserves for 1943 belong to the following three groups (which are not mutually exclusive):

- (i) Latin American countries (Mexico, Brazil, Colombia, Uruguay, Venezuela, Chile, Peru and the Argentine),
- (ii) Neutral countries (Switzerland, Sweden, Spain, Turkey, Iran and the Argentine); and
- (iii) Producers of gold (Mexico, Roumania and South Africa).

But this list must not be taken to indicate fully the actual movements in 1943, since several countries only partially reported the changes in their gold holdings. Portugal (neutral in the war) is, for instance, known to have added substantially to its gold stock since 1939 but the published figures of its gold reserves have remained practically unchanged. Furthermore, several Latin American countries are known to possess gold not shown separately in their returns. The following figures have been privately computed from available information giving the total gold reserves and foreign exchange held in the United States by Latin American countries.

The gold and foreign exchange balances of Latin American countries continued to increase in 1944 and were expected to attain \$4 milliard by the end of that year. Some of these countries, as, e.g., Cuba and Brazil, have entered into agreements with the authorities in Washington regarding the gradual conversion of their dollar balances into gold.

Gold and Foreign Exchange Reserves of Latin American countries.*

Countries	End of:				Increase during:	
	1939	1941	1942	1943 (†)	1942	1943
	in millions of dollars					
Argentina	592	568	721	1,088	+ 153	+ 367
Brazil	67	104	238	525	+ 134	+ 287
Mexico	34	53	72	250	+ 19	+ 178
Cuba	22	40	127	226	+ 87	+ 99
Uruguay	75	111	95	146	(- 16)	+ 51
Colombia	26	22	62	114	+ 40	+ 52
Venezuela	52	52	76	101	+ 24	+ 25
Chile	36	41	56	85	+ 15	+ 29
Peru	19	22	31	35	+ 9	+ 4
Bolivia	5	16	21	22	+ 5	+ 1
Salvador	8	9	14	21	+ 5	+ 7
Guatemala	9	13	20	20	+ 7	0
Ecuador	3	8	14	19	+ 6	+ 5
Costa Rica	2	3	11	16	+ 8	+ 6
Dominican Republic	(‡)	6	9	13	+ 3	+ 4
Haiti	3	5	5	8	0	+ 3
Total	953	1,073	1,572	2,689	+ 499	+1,117

* This table is taken from the April 1944 Bulletin of the National City Bank of New York, which emphasises that "the figures presented in the table, however, are far from final or complete. Because of varying exchange rates at which gold and foreign assets are being acquired or carried in some countries, it is not always clear what is the most representative rate at which the conversion into dollars should be made. In other cases, governments, commercial banks and also individuals maintain abroad sizeable funds which do not appear in any regular reports. Dollar notes circulating together with local currencies in various Caribbean and Central American countries likewise constitute a potential foreign exchange asset. All told, it is probably much nearer the truth that by the end of last year, gold, foreign exchange balances, and dollar notes in Latin American countries aggregated at least \$3,000 millions, rather than \$2,700 millions".

(‡) Not available.

(†) Partly estimated.

In August 1944 the gold held by the Argentine in the United States was temporarily blocked by the U.S. Treasury under terms similar to those already applied to some other neutral countries. It has been estimated that about one-third of the Argentine reserves in gold and foreign exchange were affected by this measure.

By a decree of 7th October 1944 all transactions in gold, as well as transport of gold, were prohibited in France without a permit from the Bank of France. By the same decree corporate holdings of gold had to be deposited with the Bank of France.

Under a settlement reached in October 1944 the Bank of France agreed to remit to the National Bank of Belgium gold to the amount of \$223.4 million in repayment of a deposit of gold made in 1940, which in the meantime had been redeposited with the Reichsbank. In December 1944 the said amount was transferred from the French to the Belgian holding of earmarked gold at the Federal Reserve Bank in New York.

Among the neutral countries the figures for Switzerland and Sweden indicate substantial increases in the monetary reserves of the central banks; and, in addition, the gold holdings of the Swiss Federal Treasury have risen as mentioned in the footnote on page 37. The Swiss National Bank has continued its policy of maintaining only a minimum amount as foreign exchange, additions to the reserves being given the form of gold.

Monetary Reserves
of Switzerland and Sweden 1940-43.

End-of-month figures	Gold	Foreign Exchange	Total
	in millions of national currency units		
Swiss National Bank Sw. Frs.			
1940 December	2,173	997	3,170
1941 "	2,879	679	3,558
1942 "	3,565	63	3,628
1943 "	4,173	83	4,256
1944 "	4,554	102	4,656
Sveriges Riksbank S.Kr. (1)			
1940 December	672	839	1,511
1941 "	938	873	1,810
1942 "	1,407	640	2,047
1943 "	1,627	751	2,378
1944 June	1,813	657 (2)	2,470

(1) At current quotations for gold and foreign exchange. (2) Estimated.

assets in the legal cover of the Riksbank). Of the holdings a part was obtained from domestic gold production, which in 1943 amounted to around S.Kr. 25 million. The net influx of gold and foreign exchange to the Riksbank during 1943 corresponded to an amount of S.Kr. 290 million. The Swedish commercial banks appear to have increased

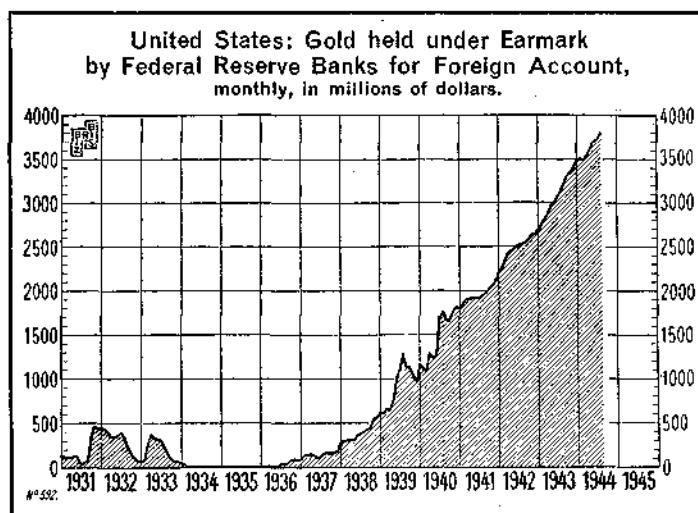
The table shows for 1943 an increase of S.Kr. 111 million in the foreign exchange holdings of the Sveriges Riksbank. This increase was, however, of a formal character, representing a shift from short-term investments on the New York market to dollar balances, the latter but not the former being included in the bank's foreign exchange reserve (in accordance with the rather rigid regulations regarding the inclusion of

their net foreign liabilities by S.Kr. 8 million, so that for all Swedish banks the net influx of gold and foreign exchange amounted to about S.Kr. 282 million in 1943. For the same year the current account of the Swedish balance of payments is estimated to have given a surplus of very nearly S.Kr. 200 million as compared with a surplus of S.Kr. 260 million in 1942 and S.Kr. 390 million in 1941. Various items on capital account, including repayments by Germany of previous export credits, would seem to have resulted in net receipts amounting to about S.Kr. 70 million.

While many countries gained gold during 1943, only one country — the United States — reports a substantial loss, amounting, indeed, to \$788 million, i. e. approximately the value of the gold produced during the year outside the U.S.S.R. and the areas dominated by Japan. This followed a decline of \$11 million in 1942. It is not known exactly how much gold was received from abroad by the United States and later used for foreign payments, but the Bulletin of the National City Bank of New York for January 1944 says that: "If our new production and our imports of gold are considered, the overall loss during the past two years has been probably nearer to \$1,300 million than to \$800 million." For 1943 alone the amount would seem to have been at least \$1,000 million.

The sales of gold by the United States have served to provide means to pay for excess cash imports (running at the rate of \$600 million a year by the end of 1943) and to defray diplomatic and similar expenses together with the meeting of actual war expenditure abroad, as in the case of India, and deliveries of gold to implement credits granted, as in relation to China. It is of some interest to note that during the first world war the United States increased its monetary gold stock up to June 1917, i. e. to the time when the country itself had become involved in the war, but that from that date until the end of 1920 the gold stock declined by nearly \$500 million (this was at the old price of \$20.67 per ounce; at the price of \$35 per ounce the decline would have been over \$800 million). In the two wars the United States, like other countries, has found in gold a means of defraying emergency payments abroad, there being a sufficient demand even when the United States had not only ceased to buy gold but was actually disposing of a part of its own stock. But in no single year during the last war was the net loss so large as in 1943. Before this war the most pronounced decline in the monetary gold stock of the United States within one year was in 1933, when the net loss amounted to \$587 million (at the new price of \$35 per ounce).

The fall in the gold stock of the United States became even more accentuated in 1944, amounting to \$1,113 million for the first three quarters of the year; in the same period the gold held as earmarked for foreign account increased by \$356 million, which would seem to indicate that in the period in question a net amount of some \$700 million of gold was actually exported from the United States. This is contrary to what happened in 1943, for then the decline of \$788 million in the monetary gold stock of the United States



of gold earmarked for foreign account in the United States and that in no year since 1938 was the increase less than \$330 million.

Since 1941 countries other than the United States have added substantially to their gold reserves by absorption of the current production and as a result of the decline in the American reserves.

Gold Reserves in the United States and elsewhere.

Gold reserves	1928 at \$ 20.67 an ounce (milliards)	End of			
		1941	1942	1943	June 1944
	milliards of dollars at \$35 an ounce				
United States	3.9	22.7	22.7	21.9	21.2
Other countries	6.3	10.8	11.8	13.5	14.7
Total reported and unreported gold reserves	10.2	33.5	34.5	35.4	35.8
Percentage share of the United States	38	68	66	62	59

The percentage share of the United States in the world's monetary gold stocks fell from 68 per cent. in 1941 to 59 per cent. in June 1944. At the latter date the gold reserves of countries other than the United States were more than twice as high as their reserves in 1928 (expressed, in each case, in the dollars current at the time).

In addition to gold, monetary reserves outside the United States include substantial amounts in foreign exchange; according to the Federal Reserve Bulletin (for November 1944) foreign central banks and Treasuries thus held in U.S. dollars rather more than \$3 milliard in June 1944. At that date an additional amount of about \$2½ milliard in the form of banking funds (including short-term securities) was held by foreigners other than central banks and Treasuries. If these additional resources are taken into account, the liquid financial reserves

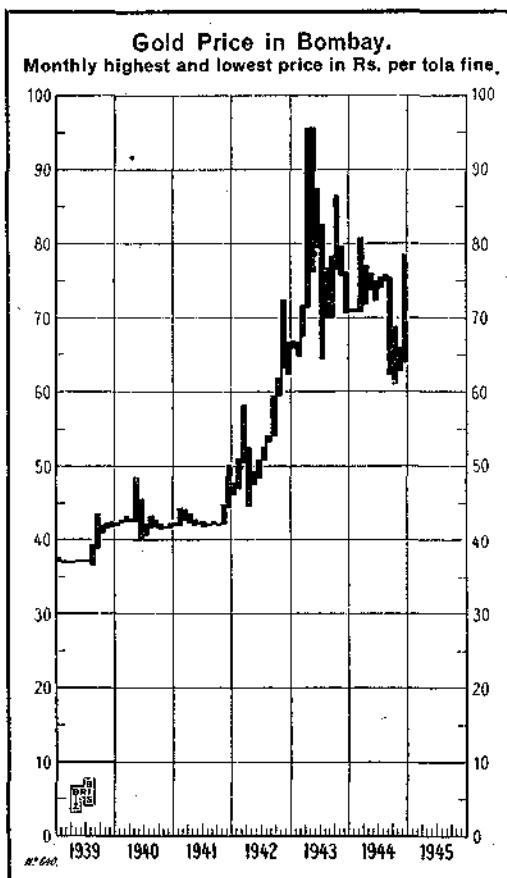
had its counterpart in an increase of \$804 million in the amount of earmarked gold. At the end of September 1944 the gold held under earmark for foreign account at the Federal Reserve banks amounted to \$3,834 million, which is the highest level ever attained. It is of interest to recall that each year since 1936 has brought an increase in the amount

of gold and dollars in the possession of countries other than the United States would amount to about \$20 milliard, i.e. they would be of almost the same magnitude as the gold reserves of the United States itself.

In 1943 about \$800 million was obtained from current gold production outside the U.S.S.R. and the areas dominated by Japan, and, with the \$788 million from the U.S. monetary gold stock, this made a total of about \$1,600 million, but additional amounts would seem to have been available (perhaps from Russian production). As shown in the table on page 106, reported increases in gold reserves of fifteen countries amounted to about \$1,100 million in 1943. Of the gold not accounted for in this way the greater part was no doubt absorbed into monetary reserves by additions left unreported. A certain, perhaps increasing, amount would seem to have been taken by arts and industry, while an additional channel for gold consisted in sales to the public by central banks and Treasuries, with the main purpose of counter-acting inflationary tendencies. After years of effort to withdraw gold coins from circulation and to prevent private hoarding, this reversal of policy is indeed of interest.

In British India the agricultural population is habitually distrustful of bank-notes (one reason being that paper is liable to be eaten by ants). It is also unaccustomed to the use of banking facilities. In exchange for its products it wants goods or gold or silver; but in wartime it is difficult to keep up the supply of manufactured articles, and the note circulation had risen from about Rupees 2 milliard in 1939 to nearly 9 milliard by the beginning of 1944. Under these circumstances Indian peasants were inclined not to market their produce, and this was one of the causes of the difficult food situation in India. On the recommendation of a specially appointed committee the Indian Government decided, in the summer of 1943, to release gold on the Bombay market; it was hoped by this means to induce the farmer to sell more of his products, and in that way to increase the effective supply on the market, thus helping to hold down prices. But in two other ways also the sale of gold was expected to act as a check on inflation:

- (i) The gold sales absorb monetary purchasing power from the market; but the amount of redundant purchasing power is high and sales are necessarily restricted. From 17th August 1943, when the official selling programme became a decisive factor in the market, to the middle of January 1944, sales are reported to have amounted to some 3.5 million tolas, at prices ranging from Rupees 87 to Rupees 71 per tola, the proceeds of the sales thus totalling about Rupees 280 million or £20 million. This in itself is not a large amount considering the additions constantly being made to purchasing power as a result of the war expenditure in India; but it may be that the gold sales skim off from the market funds of a most volatile and dangerous character.
- (ii) The sales help to hold down the price of gold quoted in the open market. In that way they lessen the psychological danger of a mounting gold



price, liable to attract the attention of the public, which is apt to regard it as a true measure of the intrinsic value of the currency, even when it reflects only a relatively small volume of transactions.

As shown by the graph, the gold price began to rise at the end of 1941, attaining a maximum in May 1943 at more than double the parity price of the rupee. In that month a number of anti-inflationary measures were imposed by the government, including prohibition of loans secured by gold and restrictions on forward dealings in gold, and the introduction of these measures was followed by a fall in the price; but there was a new advance in the autumn, interrupted only when the effect of the government sales began to make itself felt. The technique of the sales has been modified from time to time; after the initiation of the programme sufficient gold was sold to hold the

price at about 71 rupees 2 annas. The price came down to 71 rupees in January 1944 but towards the end of March the authorities (acting as always through the Indian Reserve Bank) began to restrict their sales more rigorously while still quoting a fixed price for what they sold, with the result that a margin was created between the official selling price and the market price for gold. Within a week, however, the Bank had already ceased to quote a fixed price, declaring itself prepared to sell 100,000 tolas (equal to 37,500 ounces) a day and asking for bids for the metal. After touching 80 rupees 12 annas the market price went back to between 71 and 72 rupees in June. Price movements have also been influenced by changes in the military situation, the price being brought down by reports indicating a reduced danger of invasion for India. And under the influence of the military events in the summer of 1944 the price fell rapidly to Rs. 68 and, in the course of the autumn, to Rs. 61, the downward movement being reinforced by an increase from 30,000 to 50,000 tolas in the daily offerings of gold on official account. But towards the close of the year, when for a time it was believed that the end of the Pacific war might be long delayed, the price of gold suddenly jumped up to 78 rupees — not far from the highest quotation, attained earlier in the year.

The sales of gold have not affected the reserves of the Indian Reserve Bank; it is understood that gold from South Africa has been sold under

arrangements with the British Government (which in that way was able somewhat to moderate the growth of its sterling debt to India) and later also under arrangements with the American Government.

Silver has likewise been sold on official account in India, the daily offerings being raised from 100 to 200 bars in the autumn of 1944. The price then fell from Rs. 119 and 4 annas to Rs. 116 for 100 tolas, the highest price quoted earlier in the year having been Rs. 140. In conformity with the movement of gold quotations, silver also went up in price towards the end of the year, a figure of Rs. 135 being reached. In the summer of 1944 India received 100 million ounces as a lend-lease delivery from the United States, but it was announced that this silver would be used exclusively for coinage.

The example set by India was followed by a number of other countries, and, in particular, by Egypt, where there had also been a marked rise in the note circulation from £E 26 million in 1939 to £E 96 million at the end of 1943. For some months the price of gold in Cairo followed the price movements in Bombay rather closely, although no direct connection existed between the two markets. But in June 1944 the Egyptian Government reversed its policy, suspending the official gold sales. In Turkey also certain amounts of gold were sold to the public with a view to arresting the rise in the open-market quotations.

Switzerland is another country in which the authorities decided to sell gold to the public in 1943. In December of the previous year the right to trade in gold coins and gold bars had been limited to specially licensed firms and at the same time maximum prices had been fixed for such bars and coins. The Swiss National Bank said in its annual report for 1943 that "these measures have worked satisfactorily and the bank has thwarted the black market by moderate sales of gold, which, moreover, had the effect of absorbing a certain amount of money from the market".

These different sales of gold, which incidentally were quite profitable to the sellers, have not as a rule been accompanied by any loosening of existing restrictions. On the contrary, there have been cases in which additional restrictive measures have been imposed (as in India) with a view, for instance, to eliminating speculations in gold. In Hungary new regulations were issued in March 1943 according to which trading in gold was made subject to new restrictions; traders had to notify the authorities before the end of that month; also, all industrial use of gold was prohibited except in dentistry and for the making of wedding rings. In Syria and Lebanon private trade in gold was prohibited and a ban imposed on advances and loans secured by gold and on forward dealings in gold. In Mexico imports and exports of gold otherwise than by the central bank were prohibited in April 1944, the purpose of this concentration being to facilitate government control and the purchase of gold from the public. By an earlier measure taken already in April 1943 the Bank of Mexico declared itself prepared to give gold coins in exchange for paper pesos and for silver coins, the silver being used for delivery to the United States.

It should, however, be mentioned that in 1943 one country — China — abolished the existing restrictions on the purchase and sale of gold, maintaining, however, the export prohibition. The hope of the Chungking Government was that a free circulation of gold would help to reduce the volume of paper money in the hands of the public. In September 1943 the U.S. Government released gold to the value of \$200 million to Chungking China as part of the \$500 million credit granted in 1942. The official price of gold in China is Yuan 700 per ounce but gold has been quoted in the open market at Yuan 11,000 per ounce, i.e. sixteen times the official price. It is understood that the Chungking Government has sold a certain proportion of the gold received in the open market, being able in that way to lay its hands on large amounts of currency. Since such imports into China as were still possible consisted almost wholly of lend-lease deliveries, the Chungking Government did not, at the time, require the gold for the purpose of foreign payments.

Although the various measures set out above may have no particular significance from a general point of view, they can be regarded as signs of a sustained confidence in gold as an asset of enduring value. The Swiss National Bank says in its annual report for 1943 that "because of the reduced possibilities for the use of certain currencies for international transactions, gold has maintained, particularly in wartime, its rôle as a means for the settlement of balances on foreign account". Switzerland has thus had to cede gold to certain countries in payment for imports and for transport costs and to procure foreign currencies, but has, on the other hand, received gold not only from overseas centres but also from countries in Europe whose central banks had to sell gold in order to obtain the amounts needed in Swiss francs.

3. THE APPROACH TO THE GOLD PROBLEM IN VARIOUS COUNTRIES.

In the discussions on monetary plans for the post-war period much attention has been given to the part which should be played by gold. There is, no doubt, on this subject a variety of opinions within each individual country and not only among the experts but also among the public, which has taken an active interest in these matters. A high degree of homogeneity in the approach to the problem may, however, be discerned in many countries, and on analysis the reason for this attitude is usually found in the experiences of the country in question during the inter-war period. Memories are long in monetary matters and that applies especially when social relations have been fundamentally affected. To quote a particular example: all through the nineteenth century the French nation remained painfully aware of the two outstanding monetary experiments of the previous hundred years — the note-issuing bank founded by John Law in 1716 and the "assignat" of the Revolution. Both ended in inflationary disasters and, as a result, the French public became distrustful of paper issues without a strong metallic cover.

Classified according to the attitude dictated by their experiences between 1919 and 1939, at least four separate classes of countries may be distinguished:

1. The United States must be classed by itself. By the mighty economic expansion since the middle of the last century and the attainment of creditor status after the 1914-18 war, the country became conscious of its importance in international affairs; in 1929, forty per cent. of the world aggregate of the different national incomes was produced within its borders and its industry processed over forty per cent. of the current world output of raw materials. But American public opinion has also become conscious of the vulnerability of the country's economy; contrary to the hopes of its many citizens, the United States has by no means been protected from the vicissitudes of monetary disturbances in other parts of the world. It has even seemed as if smaller countries have been able to use currency depreciation more effectively as a means of recovery, since they have more readily aligned their cost and price levels with conditions on the world markets, while the lowering of the currency values, when pushed too far, has been distinctly embarrassing to the United States. To guard against currency changes abroad which might be harmful to American interests, the tendency of opinion, in both official and other quarters in the United States, has been to circumscribe as far as possible the danger of depreciation in other countries; and this has meant a stronger emphasis on the link with gold. (It would, incidentally, be a mistake to regard the American attachment to the gold standard as primarily a result of the large gold stocks in the country's possession.)

Being preoccupied with the maintenance of stable exchange values, public opinion in the United States may, however, overlook the possibility that a fixed gold content for various currency units, including the dollar, may not be conducive to the maintenance of stable commodity prices. Before 1914 there was every reason to assume that there was a natural connection between the current supply of gold and the actual trend of costs and prices, account being taken of the complexities of the credit system and the habits of payment in different countries. But, at the time of the monetary convulsions of the years 1914 to 1922, the same assumption could not be made. Wholesale commodity prices in gold had by 1927 become stabilised at a level some 40 to 50 per cent. above that of 1914, while the cost of living had risen by 60 to 70 per cent. and wage rates in many countries by as much as 80 to 100 per cent. above the 1914 level. These increases had the effect of swelling the figures of the national income. For all the gold standard countries of Europe (including Russia), North and South America, Africa and Australia and Japan, the aggregate national income would seem to have been in the neighbourhood of \$95 milliard in 1913 and some \$200 milliard in 1929 (on the basis of estimates which have on the whole been carefully compiled). There was from 1914 to 1929 a real improvement in the volume of production, with an increase in the supplies of goods and services by about 25 to 30 per cent., the remaining increase in the national incomes being accounted for by the rise in prices, indicating a reduction in the purchasing power of gold. The part of the current gold output destined for monetary purposes amounted in 1913 to about \$250 million and was a little lower, say, \$230 million,

in 1929. While in a monetary sense the national incomes had risen by over 100 per cent., the value of the current gold supply had fallen by nearly 10 per cent. The consequence was that the impulsion given by newly-mined gold to an expansion in the volume of monetary purchasing power was much less pronounced in 1929 than in 1913. This was, of course, recognised at the time, the problem of a "scarcity of gold" occupying the Genoa Conference in 1922 and the Gold Delegation of the League of Nations in the years 1929-31. It was feared, not least by expert opinion, that a shortage of gold would cause a fall in prices, and those who entertained these fears may certainly quote the sharp fall in prices which occurred after 1929 as evidence in support of their views. It might have been imagined that the United States, in possession of particularly large gold holdings, could afford to remain unconcerned about a possible shortage of gold. But it could not help being affected by price developments in other countries, and, contrary to what is often supposed, the United States did not receive any new gold, on balance, during the fateful years from 1924 to 1933 when the world-wide fall in prices actually occurred. Indeed, the monetary gold stock of that country (at the present valuation) was \$7,400 million in 1924 and \$6,900 million in 1933, the current output of gold being absorbed in those years into the monetary reserves of a number of other countries, partly because many of them had stabilised their currencies at rates which in fact attracted gold, France being the most important among the countries concerned.

Even if in the late 'twenties and the early 'thirties the United States still had sufficient reserves to pursue, on its own, an expansionist credit policy, its monetary authorities did not at that time obtain any help on balance from an arrival of freshly-mined gold in bringing about additions to the effective monetary demand.

After the armistice in November 1918, the first six or seven years were filled by, on the whole, successful efforts at financial reconstruction and the clearing-away of the worst wartime hindrances to trade. There followed three or four years of substantial recovery, trade and production expanding by fully five per cent. per annum, and this gave rise to great hopes, even inspiring a belief in "prosperity for ever". Real difficulties began to appear only in 1929. If the present war were to be followed by a sequence of business conditions similar to those occurring from 1918 onwards, the question of the proper gold content of the leading currencies would arise only when the productive capacity again began to appear excessive, i. e. only when several years had elapsed after the return to peace. This gold question should therefore occasion no immediate concern upon the termination of the war. But, should it happen that commodity prices again stood at a level involving the danger of a gold shortage, it would be in the interest of the different countries — and not least the United States — to find a common solution for the problem so as to avoid a repetition of the devastating deflation which began in 1929.

2. In Great Britain an overwhelming majority of public opinion is convinced that the return to gold in 1925 unduly hampered the country's economic progress and that it was only because of the freedom of action

gained through the suspension of gold payments in 1931 that Great Britain was able to stage a substantial recovery in its domestic activities, and most conspicuously in the building trade. The conclusion is usually drawn that Great Britain should be careful not to allow itself again to be caught in the strait-jacket of an international gold standard.

The main contention of British opinion seems to be not that the return to gold in 1925 was made too suddenly or too early, namely at a time when, according to most indexes, prices in Great Britain still stood about 10 per cent. above those in the United States, but that too rigid a link was established with gold. For, apart from any question whether the particular rate of exchange adopted in 1925 was appropriate or not, British opinion appears to be that in the inter-war period "gold misbehaved" and that the link with gold caused quite unnecessary difficulties. It is therefore averse to the re-establishment of any such link in the future, being convinced that considerable freedom of management will be required when it comes to the application of an economic and monetary policy designed to procure a high degree of employment. As regards the pursuit of such a policy, the British public evidently puts great trust in the wisdom of its own political bodies and other institutions, being prepared to grant them whatever discretionary powers are necessary for the management involved.

The profound belief of the British public in the advantages of an "elastic" currency arrangement is largely based on the great economic and social improvements which came about in Great Britain during the years following the suspension of gold payments in 1931. There was never the slightest hint of a lack of confidence in the currency, one reason for this being that British commodity prices increased very little — indeed less than most of the knowledgeable people had thought likely — with the result that the pound unquestionably remained a pound in the everyday business of life. On the world markets commodity prices followed sterling rather than gold, which, of course, facilitated the task of sustaining the purchasing power of the pound.

It is perhaps not always fully realised that the turn taken by British and world affairs after the suspension of gold payments in 1931 was in many respects due to rather exceptional circumstances partly dependent on the peculiar conditions of the world economy at the time and partly connected with the position of Britain in the Empire and as a great importer. The price tendency on the world markets was then downward, so that, by the depreciation of the pound, Great Britain, so far as it was concerned, rather offset a decline in gold prices than initiated a price policy of its own. The emergence of the "sterling area" meant that a considerable part of the world followed the lead of sterling, and this gave strength and cohesion to the price level ruling within the area and, *inter alia*, bestowed upon the countries belonging to it most of the advantages of exchange stability, namely, stability in relation to that part of the world in the trade of which they were most interested. In other words the suspension of gold payments in 1931 gave the British much-needed support for their price level, instead of the unwelcome price increases which had been the lot of so many other countries when their currencies depreciated.

It is, of course, impossible to tell whether a similar conjunction of circumstances may come about a second time. But quite apart from the view taken on this question it is certain that in some respects Great Britain has a strong interest in exchange stability. It was clearly indicated by the Chancellor of the Exchequer, in a debate on the monetary plans in the House of Commons in May 1944, that Great Britain is interested in an expansion of foreign trade and therefore in those conditions which contribute to such an expansion, including stability of exchange rates. Such stability must, however, mean a certain steadiness in the relation to gold. But public opinion in Great Britain remains very sensitive on this point and seems to be strongly averse to the acceptance of any far-reaching commitments. While stressing the need of elasticity in any link between the currency and gold, the authoritative spokesmen in London seem anxious to proclaim Great Britain's interest in ensuring such stability as is needed for international trade to expand. At one time, those in Great Britain who stood for "planned economy", including in the planning a large measure of official direction of foreign trade, seemed to be the main supporters of the idea of international monetary plans; but, in the course of time, much support for such a policy has come also from people in favour of the largest possible freedom of trade, their attitude being determined by the consideration that an advance towards freer trade could be made only if adequate monetary reserves were provided and close consultation maintained between the various monetary authorities.

3. Those countries on the continent of Europe which either experienced disastrous inflation after the last war or witnessed its consequences in neighbouring countries have remained anxious not to become the victims of a similar calamity as a result of this war; they are as a rule willing to make sacrifices — even considerable ones — in order to secure for themselves the advantages of monetary confidence and stable exchange rates. People in these countries would not deny that changes in the purchasing power of gold can exert a prejudicial influence on production and trade and also be the cause of unemployment; but at the same time they would point out that the currencies not linked to gold have often been subject to much more pronounced changes in real value. While in the United States the wholesale level of commodity prices in terms of gold fell by 40 to 50 per cent. after 1929, the price levels in terms of paper currencies in many countries on the continent of Europe increased after the last war by 500 per cent. or more. Since inflation, when it occurred, was usually the result of uncovered budget deficits and was thus due to government action, the public in these countries are apt to regard with suspicion any proposal to grant increased power in monetary matters to governments and to other bodies which might allow purely political considerations to determine their decisions.

It may be held that these countries permit themselves to be too much influenced by their own unhappy experiences (which for some of them, however, would seem to threaten recurrence as a result of the present war). Perhaps the countries in question would find it possible to believe in monetary

collaboration on a political basis, if it were established internationally and thus included many governments. In their desire to restore an ample metallic cover for their notes these countries must be on their guard against an exaggeration of their demand for gold in relation to the available supplies. Still, their attitude may serve as a reminder to all that guarantees against political misuse of currency issues are needed and that monetary changes, if pushed beyond certain limits, produce most undesirable results, leaving scars which may still be in evidence after decades.

4. Finally, there are the gold-producing countries with obvious interests in the maintenance of gold as a currency basis. As examples of their attitude the following two instances may be quoted:

(i) The South African Parliament in 1944 reintroduced the convertibility of notes into gold, authorising the government, however, to suspend the application of the measure for the time being. By this enactment South Africa evidently wished to indicate its preference for a system as similar as possible to the old gold standard.

(ii) A dispatch of 6th December 1943 quoted the following passage from a Russian magazine:

"As a country which participates in foreign trade, the Soviet Union, like England and the United States, is interested in the stability of currencies in those countries with which it maintains trade relations. If Soviet trade with other countries could be conducted in gold currency, undoubtedly this circumstance would facilitate trade operations."

This statement must certainly not be regarded as a plea for a return to a conventional gold standard, but it contains a clear recognition of the advantages of currency stability in encouraging foreign trade and lays emphasis on the services which gold may render in that connection.

After four years of war the gold-mining countries are feeling the effects of increased costs of production. South Africa is reported to have made a request in the spring of 1944 for the fixing of a higher gold price in London than the 168s. per ounce quoted since September 1939. An increase in the London gold price was, however, regarded as out of the question, at least for the time being, and South Africa then wanted to sell part of its current output at the high open-market prices ruling in British India. Such sales are tempting at a time when profit margins are being reduced by increased costs, but it is, of course, a fact that, at such high prices, the open market in India (or elsewhere) could absorb merely a fraction of the total gold output in the world. The gold-producing countries must continue to see their only secure customers in the central banks and Treasuries, which buy gold mostly at a fixed price; but these institutions will absorb gold only if people in general remain satisfied that a system in which gold plays a rôle, as part of the monetary arrangements, works reasonably well. To press for a

return to orthodoxy, under which the gold standard would appear as a system of inflexible rules, too inelastic to allow expansion and therefore a cause of economic frustration, might do more than anything to jeopardise the future of gold as a currency basis.

* * *

In the period of fluctuating exchange rates after 1931 gold continued to be used as the main component of monetary reserves, since there was no substitute for gold which ensured an equally satisfactory degree of international liquidity. It has, of course, been one of the principal features of the recently discussed monetary plans that they seek to establish a level of international liquidity which would enable different countries to make their foreign trade arrangements without being unduly hampered by a deficiency of external means of payment. For the building-up of monetary reserves some internationally acceptable asset is obviously needed. If it were decided to utilise one or other of the existing currencies, the countries accumulating the currency in question would be largely dependent upon financial and other conditions in the country whose currency was adopted. But even that country might at times find in such an accumulation, and the consequent employment of the accumulated reserves, a factor of disturbance, as the not too happy experience of the gold exchange standard bore witness.

If it were proposed to introduce a new unit "as good as gold", this unit would have to be accepted by the monetary authorities in the various countries, i.e. the central banks would have to give their own currencies in exchange for the new unit and, presumably, do this without limit and at the behest of others, since this would be the only way of ensuring the international acceptability of such a unit; but such a measure would very likely go further than most countries would be willing to follow. This shows some of the difficulties which would be encountered in trying to build up a satisfactory basis, other than gold, for international liquidity. The gold standard countries in the past did not assume any international obligation binding them to acquire gold in exchange for their own currencies (although obligations to buy gold might — or might not — have been established by their national legislation, which the respective countries were, of course, free to alter). But the various countries have, as a matter of fact, been almost always eager to acquire gold, regarding it as an asset ever available to them, in case of need, for their own foreign payments; they retained their legal freedom of action, however, being able to refuse to purchase or decide on a different price if, perchance, too much gold were offered from abroad (though the taking of such steps might be impeded by consideration of the consequences for exchange rates, trading conditions etc., and this has constituted a safeguard against arbitrary action). Already during the last world war, but still more during the present, different countries attached conditions, in some cases, to their acceptance of gold; but, even so, it has proved capable of serving as a means for international settlements, and in wartime, when the volume of paper money has

everywhere been increasing rapidly, gold has again and again been preferred to any other means of international payment.

Gold has thus retained its *de facto* position, which meets certain important needs of an international monetary system without impairing the sovereignty of the different states. This is an advantage which would seem to be generally recognised, and in the different monetary plans gold has consequently been allotted an important function. Still, the use of gold must be justified by results. Up to 1914 the gold standard without any doubt contributed to an expansion of production and trade and thus to the employment of increasing numbers of workers at rising rates of pay; but in those days it was understood that these advantages would not be retained without there being from time to time some adjustment of costs in order to maintain a sufficient degree of cohesion in the system and to establish the basis for a further advance in prosperity. The danger now seems to be that public opinion in more than one country expects a monetary system to work well without there ever being any need for an adjustment in costs or prices. There must, no doubt, be a period after this war when exchange rates are allowed to find their proper level, in order to re-establish a true balance between the various national economies; but for a monetary system — whether based on gold or not — to work in a satisfactory manner, some cohesion is needed, as indeed would seem to be more and more emphasised in the present international discussions.

The diversity in the experience, and therefore in the outlook, of different countries in their relation to gold tends to make it difficult to reach a practical solution of the international monetary problem. Such a solution can certainly not be found in any simple formula, claiming to govern currency and credit policy in all circumstances, but must be sought along the lines of continuous consultation on monetary matters, with a view to individual or concerted action, as the case may be. It should be remembered that the gold standard, as successfully operated up to 1914, did not become a system of well-understood rules by some kind of unconscious evolution. There was, indeed, in England from about 1800 to 1860, and especially during the two decades after 1840, a series of parliamentary and other enquiries into the working of the monetary system; and their findings were applied to the practical management of monetary affairs, with results which must be regarded as highly satisfactory. In his "Lombard Street" (published in 1873) Walter Bagehot explained to the world, in a comparatively popular, highly readable form, the working of the system as it had gradually been developed. Economic and other conditions have changed since the last century and new solutions will have to be found. Thus it is hardly to be expected that, under new circumstances, a fully satisfactory arrangement, capable of standing the test of good and evil days, can be produced all at once. But, with much perseverance and careful attention to the experience gained during all these years of difficulty, it should prove possible to lay the foundations for a system answering the needs of our times.

IV. MUTUAL AID AND LEND-LEASE, FOREIGN BALANCES IN THE UNITED STATES, BRITISH DISINVESTMENT AND EUROPEAN CLEARINGS.

1. MUTUAL AID AND LEND-LEASE.

While countries with more than ninety-five per cent. of the world's population have become belligerents, the actual land battle areas have been localised, with the result that arms and other supplies must often be utilised far from the centre of manufacture and by armed forces other than those of the producing nation. In these circumstances, it came to be an accepted principle that the war effort of countries close to the fronts should be applied directly, while other countries, further off or with greater resources, best served the general cause by allocating part of their production to the common pool; and that, consequently, considerations of finance should not be allowed to limit the aid of one allied country to another. The cost of such deliveries in the course of the war naturally falls on the country making the contribution, and is accounted as part of its general war expenditure; but the benefits received often cannot be defined in money terms. Published information, however, allows a broad picture to be drawn of the aid thus granted, in particular of the assistance given by the United Nations to one another.

For many reasons the principle of mutual aid only gradually gained full recognition; thus the United Kingdom has had to sustain its war effort by charges on its own foreign resources and by pledging its credit. Up to the middle of 1943, payments made by the United Kingdom to other members of the United Nations in excess of sums received from them amounted to over £2,250 million (apart from the lend-lease and mutual aid arrangements): this sum measured the extent to which the United Kingdom had utilised its gold and other capital assets and had incurred liabilities to other members of the United Nations; £1,500 million had been spent in dollars and gold in the United States on supplies of all kinds, part of this amount being paid out of reserves and part from resources acquired by utilising sterling, e.g. gold from South Africa against the cancellation of South African debts in London, and dollars from the Malay States against the accumulation by Malaya of sterling assets in London. The net amount of "overseas disinvestment" attained £3,365 million by the end of June 1944 (see page 135).

The unstinting use of the nation's strength for the prosecution of the war led to the rapid exhaustion of British resources in gold and dollars; as mentioned in the thirteenth Annual Report of this Bank (page 138), a most difficult period as regards foreign payments was experienced by the United Kingdom early in 1941, several emergency steps being necessary, including temporary borrowing from the Belgian Government and the U.S. Reconstruction Finance Corporation in order to procure liquid funds for current cash requirements.

As regards Canada, accumulated sterling holdings, the equivalent of Can. \$700 million, were converted into a direct non-interest-bearing loan to the British Government in March 1942, while a free gift of Can. \$1,000 million was made to cover the budget year up to March 1943. For the following budget year, up to March 1944, the idea of a free gift was extended under the first Mutual Aid Act, by which a further Can. \$1,000 million was allocated to cover deliveries of war materials not only to the United Kingdom but to other members of the United Nations also. The second Mutual Aid Act, applying to the budget year up to March 1945, was implemented by a series of agreements with the countries to which war supplies, including essential foodstuffs, were sent in significant volume, viz. the United Kingdom, the U.S.S.R., Australia, New Zealand, China and the French Committee of National Liberation. These agreements not only contained a pledge of reciprocal aid but also laid down the principle that the Canadian Government would not require the recipient government to redeliver any war supplies except as specifically stated. The goods thus specified were few and well defined, including such items as cargo ships and supplies which, at the end of hostilities, had not reached their destination. Thus the Canadian conception of mutual

Canadian Mutual Aid etc.

Canadian deliveries to United Nations 1939-1944.

Periods	Manner in which deliveries were covered:	Can. \$ millions
1939-41	Interest-free loan to United Kingdom Purchase of U. K. interests in Canadian plant Repatriation of British-held Dominion debt " " " private Canadian debt	700 200 700 100
	Total 1939-41	1,700 (1)
1942	Free gift to United Kingdom	1,000
1943	Mutual Aid	1,000
1944	" "	800
	Grand total	4,500 (?)

Canadian Exports. (2)
Geographical analysis.

Calendar years	United Kingdom	Rest of British Empire	United States	Others	Total
in millions of Can. dollars					
1939	331	104	336	126	897
1940	532	157	416	81	1,186
1941	702	300	573	63	1,638
1942 (4)	742	—	886	—	2,364
1943	1,033	369	1,149	420	2,971
1944	1,235	330*	1,300	575*	3,440

Canadian Mutual Aid. (5)
June 1943 to March 1944.

Recipient country	Can. \$ millions
United Kingdom	724
U. S. S. R.	23
Australia	21
China	4
Others	2
In stock or in course of shipment.	140
Total	913

(1) This total comprises British cash expenditure in Canada before the institution of the free gift and, later, mutual aid procedure.

(2) Total Canadian war expenditure over the period covered by the table amounted to \$15,000 million, so that somewhat less than one-third of the total budgetary war costs were for deliveries to the United Nations.

(3) Excluding gold. (4) The geographical distribution of Canadian exports in 1942 has not been fully published.

(5) According to the first report of the Canadian Mutual Aid Board, covering the last ten months of the financial year ended March 1944. * Provisional.

United States: Lend-Lease Aid
(according to the reports of the U. S. Lend-Lease Administration).

U. S. War expenditure⁽¹⁾ — Direct and on Lend-lease account.

War expenditure	1939	1940	1941	1942	1943	1944	Totals 1941 to June 1944
	calendar years						
	in millions of dollars						
Direct	1,305	2,779	11,460	42,853	70,127	36,890	161,330
Lend-lease	—	—	1,244	7,009	11,733	8,284	28,270
Total	1,305	2,779	12,704	49,862	81,860	45,174	189,600
Lend-lease as percentage of total	—	—	10	14	14	18	15

Total value of goods transferred
and services rendered.⁽²⁾

U. S. Lend-lease aid analysed.⁽³⁾
Total to 30th June 1944.

Quarterly and yearly	1941	1942	1943	1944	Groups	Millions of dollars	Per- centages
	in millions of dollars						
January-March .	10	1,178	2,066	4,239	Goods transferred:		
April-June . . .	136	1,551	2,604	4,045	Munitions ⁽⁴⁾	15,162	54
July-September .	408	1,798	3,509	3,700 ⁽⁵⁾	Industrial materials ⁽⁶⁾	6,026	21
October-Dec. . .	690	2,482	3,554	3,400 ⁽⁵⁾	Agricultural products	3,631	13
Total for year	1,244	7,009	11,733	15,396	Total transfers	24,819	87
Cumulative to end of year	1,244	8,253	19,986	35,392	Services rendered . .	3,451	13
					Total	28,270	100

U. S. Lend-lease exports: Geographical distribution.

Countries	1941	1942	1943	1944	Totals	
	calendar years				Jan.-June	March 1941 to June 1944
	in millions of dollars					
United Kingdom	573	2,005	4,074	2,669	9,321	43
U. S. S. R.	1	1,351	2,927	1,653	5,932	28
Mediterranean ⁽⁷⁾	96	690	1,608	675	3,071	14
Far East ⁽⁸⁾	52	640	1,114	609	2,415	11
Other ⁽⁹⁾	19	205	385	188	796	4
Totals	739	4,891	10,109	5,794	21,535 ⁽¹⁰⁾	100

U. S. Foreign Trade: Lend-lease and cash.

Calendar years	Exports			Imports	Balance		
	Lend-lease (%)	Cash	Total		Total	Cash	
					in millions of dollars		
1938	—	3,094	3,094	1,960	+ 1,134	+ 1,134	
1939	—	3,177	3,177	2,318	+ 859	+ 859	
1940	—	4,021	4,021	2,625	+ 1,396	+ 1,396	
1941	739	4,408	5,147	3,345	+ 1,802	+ 1,063	
1942	4,891	3,144	8,035	2,742	+ 5,293	+ 402	
1943	10,109	2,609	12,718	3,364	+ 9,354	— 755	
1944 ⁽¹⁰⁾	11,287	2,778	14,065	3,911	+10,154	— 1,133	

(1) Before December 1941, national defence.

(2) Exclusive of \$678 million consigned to U. S. generals for subsequent transfer in the field.

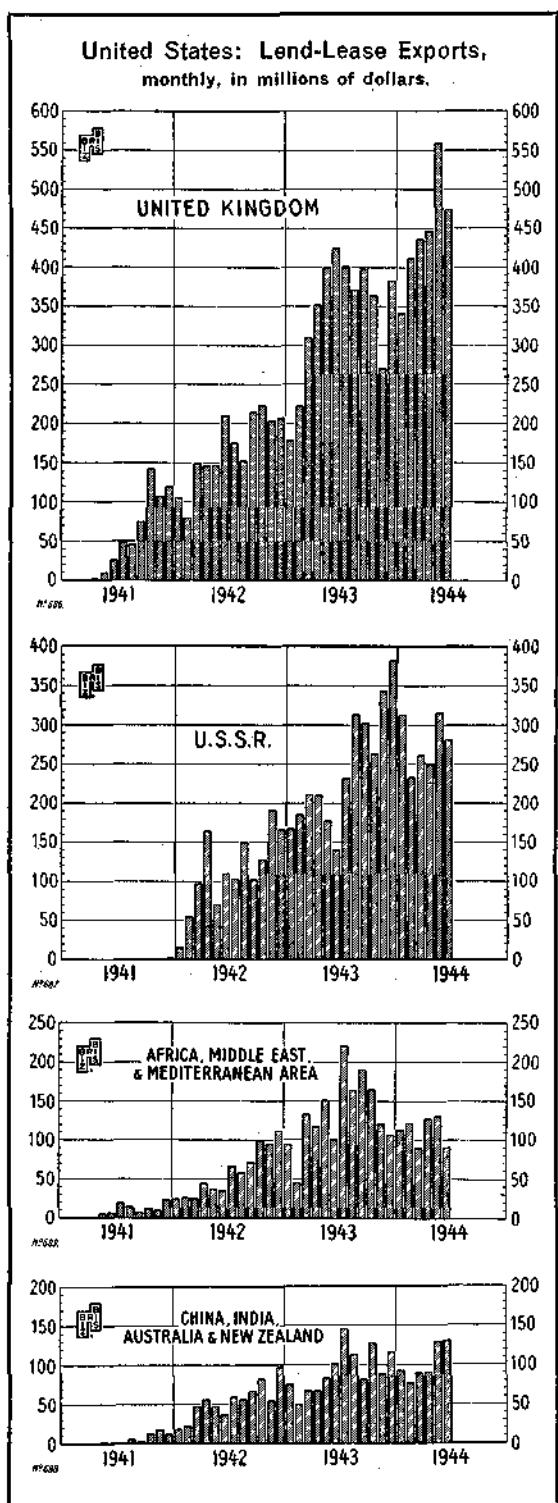
(3) These are round estimates only. Fully detailed monthly figures for the second half of 1944 are not yet available.

(4) Including ships. (5) Including industrial products. (6) Mediterranean area, Africa and Middle East.

(7) China, India, Australia and New Zealand. (8) Latin America and all others.

(9) Of \$24,819 million goods transferred up to the end of June 1944, \$21,535 million, 87 per cent., were exported; the greater part of the difference is accounted for by ships transferred and leaving the United States under their own power. Cash exports during the same period (11th March 1941 to 30th June 1944) totalled \$10,900 million. Preliminary figures for lend-lease exports in the whole year 1944, given in the bottom table, would raise the total, from March 1941 to the end of 1944, to \$27,026 million. In the whole year 1944 exports to the United Kingdom amounted to \$5,080 million and to the U. S. S. R. \$3,440 million. The composition of lend-lease exports up to June 1944 is given in a table on page 63.

(10) Preliminary figures.



aid grew out of the idea of a gift, free from all implications of repayment, the agreements concluded being based on the principle of a maximum contribution to the total war effort without financial obligation for the recipient.

On the outbreak of war in Europe, in September 1939, the attitude of the United States had been determined by the Johnson Act of 1934 and the Neutrality Act of 1937, with an amendment which replaced the embargo on the export of arms by the "cash-and-carry" clauses; the United States was thus prepared to supply war material for cash on a strictly business basis. On these terms British orders were placed in the first year and a half of the war, considerable investments being made to extend the capacity of the American arms industry, while in June 1940 the United States itself inaugurated a vast programme of defence.

In these circumstances an "Act to Promote the Defense of the United States", commonly known as the Lend-Lease Act, was passed in March 1941: defence articles might be leased, lent or otherwise transferred and repayment was envisaged, "in kind or property or any other direct or indirect benefit" which the President deemed satisfactory. Actual expenditure on lend-lease was authorised by appropriations made directly to the President

and was shown in the U. S. Treasury statements under the heading "National Defense" and sub-heading "Defense aid (lend-lease)", thus being considered

as part of the defence expenditure of the United States itself. The first beneficiaries were the United Kingdom and, from October 1941, the U.S.S.R.

When the United States became involved in the war in December 1941, the distinction between lend-lease and other defence expenditure was abolished, authorisations being made for transfers under lend-lease of articles and services included in the regular military or naval budget appropriations. The Office of Lend-Lease Administration, however, remained under the obligation originally placed upon it to "keep detailed records of all lend-lease transactions"; and the Office has valued all aid given, and published periodical accounts in dollars.

According to the information thus available, the United States supplied the other members of the United Nations with services and war materials totalling some \$35,000 million, up to the end of 1944, of which \$12,000 million was in the year 1943, and a further \$15,000 million in 1944.

Although substantial indeed, lend-lease aid represents only 15 per cent. of the total war expenditure of the United States, the remaining 85 per cent. being a measure of its direct participation. Up to early December 1941, the value of goods transferred and services rendered came to around \$1,000 million, constituting the aid given by the United States, as a neutral country, to the United Kingdom, as a belligerent. Altogether, up to December 1944, about one half of the total lend-lease aid has been granted to members of the British Empire, and a counter-current has, in these cases, been arranged through reverse lend-lease agreements. For the other half, including in particular over \$7,700 million exported to the U.S.S.R. up to December 1944, reverse lend-lease procedure has hardly been in operation.* As regards the United Kingdom, the system of reverse lend-lease was accepted by an agreement of February 1942, the position being further defined in September 1942 by an exchange of notes between the British Ambassador in Washington and the U.S. Secretary of State; in that month Australia and New Zealand also adhered to the system.

The absolute totals of American deliveries increased up to 1944 but, as the United States became more closely engaged in the war, the net lend-lease aid to the United Kingdom declined in relative importance for two reasons: (a) the direct participation of American armed forces grew rapidly, while (b) reverse lend-lease expanded.

(a) As the number of American troops increased in the various theatres of war both absolutely and in relation to the number of other Allied troops, so the American war effort was exercised more and more directly. Lend-lease deliveries rose to high levels in the summer of 1943 and again in the spring of 1944, but declined somewhat in the following months; and the distribution changed: in 1941, the bulk of lend-lease aid

* It is true that in a few cases reverse lend-lease agreements have been signed: with Belgium in January 1943, Holland in June 1943, France in September 1943 and Liberia in April 1944, but the volume of reverse lend-lease aid actually furnished outside the British Empire was relatively very small up to the middle of 1944. The sixteenth lend-lease report gives only three instances: the establishment and servicing of bases for the American Air Force in the U.S.S.R. and China (which in neither case was given a dollar valuation) and some \$30 million supplies and services from the French in North Africa (up to the beginning of 1944).

went to the United Kingdom; from 1942 aid to the U.S.S.R. grew in importance; and, in 1943, the Middle East and the Far East became large recipients of lend-lease assistance.

The dollar position of the British Treasury improved, mainly as a result of the expenditure on personal account by the growing number of American forces stationed in the British Empire, and this enabled the United Kingdom to make cash payments from 1943 onwards for certain consumption goods, such as sugar from the Caribbean and fish from Iceland. Further, it was decided that from 15th November 1943 certain investment goods, such as machine tools utilisable for civilian purposes after the war, should be paid for in cash to the greatest possible extent.

(b) During the year 1943, and even more so in the first half of 1944, the reverse lend-lease given to the United States expanded. In the first place, raw materials and bulk supplies of foodstuffs from the British colonies had originally been paid for in dollars by the United States and the proceeds used by the British Treasury to cover its liabilities on pre-lend-lease contracts; since these contracts were largely cleared in 1943, the raw materials and other supplies from the British colonies were, from the middle of that year, paid for by the United Kingdom and shipped free of charge to the United States as reverse lend-lease deliveries. Secondly, the growing number of American troops in Britain up to June 1944 provided the opportunity for increased reverse lend-lease aid; the President of the United States announced, in November 1944, that: "From the day our first soldiers arrived in 1942, one-third of all the supplies and equipment currently required by the United States troops in the British Isles has been provided under reverse lend-lease." Somewhat similar conditions obtained also in the Far East: up to the end of June 1944, lend-lease exports to Australia and New Zealand totalled \$1,012 million, while they had furnished \$678 million as reverse lend-lease to the United States; indeed, in the early months of 1944, reverse lend-lease provided by Australia and New Zealand exceeded the supplies they received on lend-lease terms.

A new phase of lend-lease was announced at the end of November 1944, with the establishment of a programme covering deliveries of \$5,600 million during the year 1945, a reduction of the 1944 figure by about one-half. Lend-lease shipments to the United Kingdom of manufactured articles for civilian use entering into the British export trade, and of raw and semi-fabricated materials, such as iron and steel and some non-ferrous metals, were to be halted from the end of 1944.

The Government of the United Kingdom has published certain material on mutual aid as White Papers. And statistics have also been published, on the American side, of the total reverse lend-lease assistance received by the United States; such aid was given almost exclusively by members of the British Empire.

It should be noted that the estimates of reverse lend-lease in the above table are not in every respect comparable with the statistics measuring lend-lease from the United States. Apart from the fact that much of the "aid" actually rendered by the British has been in the form of dearly-bought experience gained on the battlefields, British aid in a material sense has been largely decentralised, consisting of a wide variety of items transferred in the daily intercourse of war, sometimes even in the field, according to the exigencies of battle. In such cases no detailed accounting has been possible, while the lend-lease from the United States could, for the most part, be measured from large contracts, since goods have been specified in bulk and transferred in bulk. Finally, the price paid in the United States for the types of labour and material chiefly involved has been substantially higher than would have been the case in the British Empire, American book costs probably exceeding similar British costs by fully fifty per cent. With these reservations, the figures show that in the period of about two years up to the middle of 1944, reverse lend-lease aid given by the British Empire to the United States totalled some \$3,350 million, about two-thirds falling within the second year.

To other allies the United Kingdom has extended mutual aid on terms similar to those offered by Canada, particularly to the U.S.S.R. and Poland;

British Empire Reverse Lend-Lease etc.

(excluding Canada, which has not received any lend-lease aid from the United States.)

British Empire
Reverse lend-lease
to the United States.⁽¹⁾

Cumulative totals to end of month indicated	1943		1944
	June	Dec.	June
<i>in millions of dollars</i>			
United Kingdom ⁽²⁾	871	1,564	2,437
Australia ⁽³⁾	196	362	547
New Zealand ⁽⁴⁾	51	92	131
Totals . . .	1,118	2,018	3,115
India ⁽⁵⁾	57	107	233
Totals . . .	1,175	2,125	3,348

(1) According to the various U.S. lend-lease reports, in his budget message to Congress for 1945 the U.S. President gave a round figure of \$4,500 million up to the end of 1944.

(2) Figures for December 1943 and June 1944 include \$161 and 348 million respectively on account of goods and services transferred outside the United Kingdom (largely raw materials and foodstuffs shipped from the British colonies).

(3) According to Australian budget statistics, reverse lend-lease aid given to the United States totalled £A 189.4 million up to June 1944, of which £A 109.4 million fell within the financial year 1943-44.

(4) According to New Zealand budget statistics, reverse lend-lease aid given to the United States totalled £NZ 31.5 million up to March 1944, of which £NZ 24.5 million fell within the financial year 1943-44.

(5) Approximate figures only.

United Kingdom
Reverse lend-lease and other
assistance on Mutual Aid terms.

Cumulative totals to end of month	1943		1944
	June	June	June
<i>in millions of £ sterling</i>			
United States	216		605 ⁽¹⁾
U.S.S.R.	179		269
Totals . . .	395	874	
Poland			120 ⁽²⁾
Turkey			21
Czecho-Slovakia			19
France			14 ⁽³⁾
Greece			12 ⁽⁴⁾
Portugal			11
China			9
Totals . . .			1,080

(1) Of this total of £605 million up to June 1944, aid afforded in the United Kingdom itself accounted for £511 million, other supplies exported or transferred for £25 million, and reciprocal aid rendered overseas for £55 million (the total up to March 1944), while foodstuffs and raw materials (chiefly rubber) supplied from the colonies amounted to £14 million. Provisional. (2) Total up to end of June 1943 only.

(3) This figure presumably applies to aid granted to the Refugee Government only. In December 1944, the Chancellor of the Exchequer stated that, in addition to market loans of £17.75 million held by British bondholders, the British Government had lent £46.25 million to the Greek Government during the war.

Supplies made to U.S.S.R. 1941-1944.⁽¹⁾

June 1941 to April 1944 ⁽²⁾	From United States	From United Kingdom	From Canada	Total
	in thousands of tons			
Weight of supplies	(3)			
Dispatched	8,500	1,150	450	10,100
Received in Russia	7,400	1,041	355	8,796
Presumable losses	1,100	109	95	1,304
Received in Russia				
1941 June-Dec.	1,200	158	—	1,858
1942 Jan.-Dec.		375	125	
1943	4,100	364	124	4,598
1944 Jan.-April	2,100	144	106	2,350
Total to date ⁽³⁾	7,400	1,041	355	8,796
in millions of dollars				
Value of supplies	(3)	(4)	(5)	
Dispatched	5,357	:	:	:
Received in Russia	4,612	:	:	:

(1) According to a statement made by the Commissariat of Foreign Trade in Moscow on 11th June 1944, as reported in the London "Economist", 17th and 24th June 1944 (which gives further details). The statement covers "armaments, strategical raw materials, industrial equipment and foodstuffs" from the beginning of the Russo-German war to 30th April 1944.
(2) On 1st May 1944, 684,000 tons were on their way from the United States, 44,000 tons from the United Kingdom and 60,000 tons from Canada to Russia.
(3) Supplies dispatched and received under lend-lease procedure.
(4) The total value of British supplies was not specified; 319,000 tons of armaments were dispatched without payment as military aid; the rest of the supplies, consisting of raw materials, industrial equipment and food, were delivered partly on credit and partly against cash payment — their value was given as £83.7 million.
(5) The total value of Canadian supplies amounted to Can. \$187.6 million, of which Can. \$116.6 million formed "part of the British undertaking", before the separate agreement was concluded between Canada and the U.S.S.R. on 1st July 1943.

expenses incurred in conveying supplies to Russia and keeping the routes open.

Assistance given by the United Kingdom to its smaller allies varied according to need: the Refugee Governments of Holland, Belgium, Norway and Yugoslavia made payments in cash for the supplies they obtained; Belgium, it should be observed, derived income from its colonies and Norway from shipping, while Holland and Yugoslavia also had disposable funds. Other allies were supplied under credits but military material was, for the most part, furnished gratis; in this way, the armed forces of Poland, France, Czechoslovakia, Greece and China were equipped without charge; military supplies were also obtained free of cost by Turkey and Portugal. The total credits, together with mutual aid given (to countries other than the United States and the U.S.S.R.) amounted to £186 million at the end of 1942, £206 million on 30th June 1944 (as indicated in detail in the table on the opposite page) and £308 million at the end of 1944.

In February 1944, two agreements were signed between the Government of the United Kingdom and the French Committee of National Liberation: a financial agreement, fixing the rate of Fr.fcs 200 to £1 and enabling either party to acquire, without gold or other backing, amounts of the other's currency; and a mutual aid agreement. This latter agreement provided that

thus, war material was furnished by the United Kingdom to the U.S.S.R. free of cost from the time hostilities began between Russia and Germany in June 1941, although a formal agreement was not signed until June 1942. From the United States an initial shipment was made in October 1941, but the stream of supplies first began to flow in 1942, and expanded considerably in 1943. Total assistance made available to the U.S.S.R. was shown by a statement emanating from Russian sources in June 1944.

These figures exclude the considerable

each party should furnish the other, free of cost, with all military assistance which it was best able to supply for the joint prosecution of the war. The French Committee confirmed its readiness to assume responsibility for advances previously made by the U. K. Government to the former French National Committee in London, under the terms of an agreement of 7th August 1940. The Government of the United Kingdom, however, agreed to cancel that part of the advances relating to military supplies and services which would have been furnished on the basis of mutual aid if the present agreement had been in force at that time; similarly, the French Committee withdrew any claims it might have had for military supplies furnished to the United Kingdom. The mutual aid agreement was thus made retroactive to August 1940.

The principle of the cancellation of all claims for payment regarding military supplies previously obtained was also applied in an agreement signed with the Refugee Government of Poland in June 1944, covering £120 million accumulated since 3rd June 1940 (see table, page 128); all future supplies were to be made reciprocally on mutual aid terms. And similar agreements, making mutual aid retrospective for all military supplies, were signed with the Refugee Governments of Czecho-Slovakia and Greece.

In so far as the pooling of resources of a great coalition can be reflected in the columns of book-keeping accounts (in no way fully representative, of course), the available figures show that in 1944 the United States was applying lend-lease aid to some thirty countries at an annual rate of \$15,000 million; the British Empire was applying reverse lend-lease to the United States at a rate the equivalent of about \$2,500 million a year. Further, the United Kingdom was supplying the U.S.S.R. and other allies on mutual aid terms at an annual rate which was equivalent to little short of \$1,000 million; and the mutual aid of Canada to all the United Nations exceeded \$1,000 million per annum. These round figures give an idea of the magnitude of the various streams of deliveries intended to ensure that the strength of the United Nations should be exercised in the most effective way, irrespective of the geographical position of individual countries.

In the case of lend-lease supplies certain references have been made in the agreements to some form of repayment. Thus, the "master agreement" between the United Kingdom and the United States, signed on 23rd February 1942, contains in Art. VII the following basic provision:

"In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production,

employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 12, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments."

The text of this article recurs in the other agreements concluded by the United States; but, in the preamble to the agreements, the following observation was made:

"And whereas it is expedient that the final determination of the terms and conditions upon which the Government of the United Kingdom receives such aid and of the benefits to be received by the United States of America in return therefor should be deferred until the extent of the defense aid is known and until the progress of events makes clearer the final terms and conditions and benefits which will be in the mutual interests of the United States of America and the United Kingdom and will promote the establishment and maintenance of world peace..."

In May 1944, the President of the United States, in his fifteenth lend-lease report, emphasised the importance of benefits received which could not be valued in money:

"Lend-lease and reverse lend-lease are not a system of debits and credits. They involve neither gifts, nor loans or transfers of money. They are, instead, a system of mutual war supply that has been evolved by the United Nations to make possible the effective, combined operations by which we are fighting and winning the war. The benefits which we and all the United Nations have already mutually received from this system are beyond price."

And, again, in November 1944 in the letter of transmittal accompanying the seventeenth report, the President said:

"We are not loaning money under lend-lease. We are not receiving payments on account under reverse lend-lease. The lend-lease system is, instead, a system of combined war supply, whose sole purpose is to make the most effective use against the enemy of the combined resources of the United Nations, regardless of the origin of the supplies or which of us uses them against the enemy."

Neither the monetary totals of the lend-lease aid we supply, nor the totals of the reverse lend-lease aid we receive, are measures of the aid we have given or received in this war. ...

The United States had benefited greatly from reverse lend-lease aid, as the facts set forth in this report indicate. But we have benefited far more, and in a far larger sense, from the total fighting efforts of our allies."

There is obviously a tendency to underline the relevance of other benefits than those which are capable of valuation in precise money terms. Moreover, in the preamble of the Mutual Aid Act of Canada it is specifically stated that the conditions on which supplies are made "shall not be such as to burden post-war commerce or lead to the imposition of trade restrictions or otherwise prejudice a just and enduring peace". In conformity with this principle, the Canadian Prime Minister declared in the Canadian House of Commons, when the mutual aid agreements were published in March 1944: "It has been our purpose in instituting the mutual aid procedure to leave at the end of the war no indeterminate obligations arising from the provision of war supplies by Canada which would have to be settled by subsequent negotiations."

2. FOREIGN BALANCES IN THE UNITED STATES.

An estimate of the gold and dollar holdings of all countries other than the United States was made for the end of August 1939 by the Federal Reserve Board, the main figures being shown in the following table.

Total Gold and Dollar Resources of all countries other than the United States
Analysis in August 1939.

Areas	Gold (1)	Dollar balances	Securities		Total
			market	other	
in millions of dollars					
British Empire . . .	2,735	1,050	1,575	1,755	7,115
Continental Europe . . .	7,885	1,210	1,385	755	11,235
Latin America . . .	660	380	65	40	1,145
Far East and other . . .	395	330	35	65	825
Total . . .	11,675	2,970	3,060	2,715(2)	20,420(2)

(1) Total gold holdings, of which \$1,135 million was earmarked in the United States.

(2) Includes \$100 million foreign-held U. S. Government, State and municipal bonds not distributed according to countries.

Of the total gold and dollar holdings, amounting to \$20½ milliard in August 1939, the British Empire owned over one-third and Continental Europe well over one-half, leaving less than one-tenth as the share of Latin America and the Far East. During the first two years of the war the British Empire drew heavily on its gold and dollar resources, but

other countries, notably those of Latin America, were able to increase their holdings, so that, by the end of 1941, when the United States entered the war, the aggregate gold reserves and dollar balances of all countries had fallen by only \$400 million.

But, from that time on, the total of gold and dollar balances advanced, mainly as a result of increased "cash" payments for imports by the United States, while "cash" exports, as distinguished from lend-lease shipments, fell off compared with their peak in 1941. Not only were other countries able to retain the annual yield of gold production, but there was actually a decline in the U. S. gold stocks, coupled with an increase in the dollar balances of other countries.

Gold Holdings and Dollar Balances of countries other than the United States 1939-1944.

End of month	Gold		total (¹)	Dollar balances	Total
	outside the United States	ear- marked in the United States			
	In millions of dollars				
1939 August (²) . . .	10,540	1,140	11,680	2,970	14,650
1941 December . . .	8,530	2,220	10,750	3,500	14,250
1942 " . . .	9,170	2,670	11,840	3,990	15,830
1943 " . . .	10,000	3,480	13,480	5,150	18,630
1944 June	10,960	3,710	14,670	5,510	20,180(³)

(¹) December 1941 and subsequent dates, based on estimates in the monthly bulletin of the National City Bank of New York for August 1944.

(²) Gold reserves and dollar balances from previous table.

(³) The Federal Reserve Bulletin for November 1944 estimated the gold and dollar reserves of foreign countries at "some \$17,000 million" in September 1944; gold reserves were estimated at \$14,385 million, to which had been added some \$3,000 million of "official" dollar balances. The above table gives a slightly higher estimate for foreign gold reserves and includes all foreign dollar balances.

around \$14 milliard was made up of gold earmarked in the United States, dollar balances and dollar securities (including direct participations). It is not possible from published information to give an exact account of the ownership of the foreign-owned \$14 milliard held in the United States, but a large part of the new accumulations has gone to Latin America (see page 107), to other countries delivering raw materials to the American market, and also to areas in which

Capital Movements towards the United States.⁽¹⁾

Calendar years	Official balances	All other items	Total influx	In millions of dollars		
1935	10	1,402	1,412			
1936	71	1,125	1,196			
1937	163	639	802			
1938	(— 5)	439	434			
1939	304	873	1,177			
1940	658	48	706			
1941	(— 147)	(— 350)	(— 497)			
1942	368	246	604			
1943	1,050	234	1,284			
1944 (9 months) .	37	275	312			
Total Influx						
1935-39	543	4,478	5,021			
1940-Sept. 1944 .	1,956	454	2,410			
1935-Sept. 1944 .	2,499(²)	4,932	7,431			

(¹) As shown by the statistics of the U. S. Treasury.

(²) The total of outstanding official balances at the end of September 1944 was \$3,136 million and other balances \$2,182 million, making a total of \$5,318 million for all foreign dollar balances.

This second table does not include the foreign holdings of "market" and "other" securities shown in the previous table; including these items, the gold and dollar resources of all countries other than the United States would probably amount to around \$25 milliard by the middle of 1944, some \$4-5 milliard more than at the end of 1941. Of the \$25 milliard, about \$11 milliard consisted of gold held outside the United States, while

Allied troops have been stationed or where considerable amounts have been expended for other reasons.

The accompanying statistics of the U. S. Treasury show the recorded movements of capital to or from (\rightarrow) the United States since 1935. Except in the year 1941, foreign countries accumulated funds in the United States, which is tantamount to an influx of capital to the American market. This influx changed in character from the outbreak of the war: while in the five years 1935-39 little more than 10 per cent. of the capital movement was in the form of "official balances", i. e. dollar balances of central banks

U.S. Gold Stock etc.

Calendar years	Increase of		U. S. gold production	Net gold imports	
	U. S. gold stock	gold earmarked on foreign account		presumable (1)	actual (2)
in millions of dollars					
1935	1,887	—	111	1,776	1,739
1936	1,133	86	132	1,087	1,117
1937	1,503	200	144	1,559	1,586
1938	1,752	334	149	1,937	1,974
1939	3,132	534	162	3,504	3,574
1940	4,351	645	170	4,826	4,745
1941	742	408	169	981	982
1942	(— 10)	458	125	323	*
1943	(— 789)	804	48	(— 33)	*
1944 (9 months)	(— 1,113)	356	26	(— 783)	*

* Not released for publication.

(1) The increases of the gold stock and of gold earmarked less domestic production. This does not give the exact gold imports for a number of reasons; in particular, gold consumption by American industry is excluded as are also movements of gold held by the U.S. Exchange Stabilization Fund, which was reported to hold (at end of year): 1937, nil; 1938, \$80 million; 1939, \$156 million; 1940, \$48 million; 1941, \$25 million and 1942, \$12 million (not necessarily in the United States).

(2) As shown by the customs statistics; these are not available as regards gold movements after December 1941.

in 1942, there was, for the first time in many years, continued at a more rapid pace in 1943 and 1944.

In 1941, the British Empire had still to draw heavily on its gold and dollar resources for payments in the United States, and that is why, in that year, there was an outward capital movement. In 1942 and 1943, however, the combined effect of lend-lease and American war expenditure abroad was to put funds into the hands of a number of foreign countries, and thus to enable them to strengthen their gold holdings and add to their dollar balances. The British Treasury seems also to have been able to accumulate dollar or gold assets; but, with the improvement in its foreign position, certain commodities were transferred from the list of supplies under the lend-lease procedure to the ordinary system of cash

United States
Development of Foreign Position.⁽¹⁾

Calendar years	Excess of commodity exports, or imports (—) for cash (2)	Capital Influx, or efflux (—) (3)	Other Items (net) (4)	Net gold imports, or exports (—) (5)
1939	+ 860	+ 1,710	+ 1,000	+ 3,570
1940	+ 1,400	+ 1,350	+ 2,000	+ 4,750
1941	+ 1,060	— 90	+ 10	+ 980
1942	+ 400	+ 1,060	— 1,140	+ 320
1943	— 750	+ 2,090	— 1,310	— 30
1944 (9 months)	— 740	+ 670	+ 850	— 780

(1) For 1939, this table shows, in a skeleton form, the most recently published official estimates of the balance of payments. For 1940 and 1941, the three specified items are known from published information, while the column "other items" is a residual. For 1942 onwards the same method is preserved but the gold movement is an estimate as indicated under (5) below.

(2) For 1939 and 1940 the total surplus of exports; for 1941 onwards lend-lease exports have been deducted.

(3) The recorded influx of foreign capital including the increase of gold earmarked plus the reduction of U.S. funds abroad.

(4) Including invisible current items and miscellaneous capital movements etc, as well as the differences due to errors and omissions. This is a residual.

(5) For 1942-44, the "presumable" movements as given in the previous table.

payment. The magnitude of particular items cannot yet be fully stated, no estimate of the U.S. balance of payments having been published since 1939; but the main lines of the development are not open to doubt.

The year 1943 was thus remarkable in several ways: the growth of foreign dollar resources was the largest since 1935, while more gold was earmarked in the United States on foreign account than in any previous year (in spite of the beginning of a gold efflux from the country); the underlying causes were the considerable American expenditure abroad (reflected in "other items" in the table) and the operation of lend-lease (combined with large requirements of raw materials), which gave the United States a cash import surplus for the first time in this century.

3. UNITED KINGDOM — OVERSEAS DISINVESTMENT, STERLING BALANCES, ETC.

From the beginning of the war up to the end of 1943 the net overseas disinvestment of the United Kingdom amounted to around £3,000 million, of which £1,000 million represented the utilisation of assets already existing and £2,000 million the equivalent of fresh liabilities incurred towards overseas countries; of the total of £3,000 million at the end of 1943, some 90 per cent. had been paid to other members of the United Nations. By June 1944, the overseas disinvestment had risen to £3,365 million.

United Kingdom
Overseas Disinvestment (net).⁽¹⁾

Periods	In millions of £ sterling
1939 September-December	167
1940 January-December.	756
1941 " "	797
1942 " "	635
1943 " "	655
Total 1939-43	3,010
1944 January-June	355
Total Sept. 1939 to June 1944	3,365

Sales of overseas assets and
increase of overseas liabilities.⁽²⁾

Periods	Net sale of overseas assets in millions of £ sterling	Increase of overseas liabilities
1939 Sept. to 1941 Dec.	955	765
1942 Jan. to 1944 June .	110	1,535
Totals Sept. 1939 to June 1944	1,065	2,300

(1) Data regarding net overseas disinvestment (both public and private) for the calendar years 1940-43 have been given in the various budget White Papers; the figure for the last four months of 1939 is derived from the total of £1,720 million up to the end of 1941, as shown by the second table. Adding the figures for 1942 and 1943, this gives £3,010 million for the period up to the end of the latter year. The £355 million for January-June 1944 is the difference between that figure and the total up to June 1944, as given in the second table; actually new disinvestment of £550 million was originally estimated for the calendar year 1944.

A round total of £3,000 million up to the end of 1943 was given in the budget speech in April 1944, £1,000 million representing the utilisation of previously existing reserves and £2,000 million new liabilities incurred. Lord Keynes, at the Bretton Woods Conference in July 1944, gave an estimate of £3,000 million for the sterling liabilities of the United Kingdom up to the end of 1944; the Chancellor of the Exchequer explained, in the House of Commons on 20th July 1944, that this figure comprised also an estimate of the pre-war liabilities, so that it was not strictly comparable with the figures given in this budget speech, which included only new liabilities contracted during the war. (And see text, page 145).

(2) As given in the White Paper of "Statistics relating to the War Effort of the United Kingdom", published in November 1944.

Out of the available British reserves of gold and dollars (including securities) estimated to have been the equivalent of around £1,100 million on the outbreak of war, £955 million had been spent or pledged by the end of December 1941⁽¹⁾. In spite of the lend-lease procedure, cash imports from the United States continued on a large scale; between 1939 and 1943 the United States exported, against cash payment, the equivalent of nearly £600 million in war material alone, bought, for the most part, by the United Kingdom.⁽²⁾

United States
Exports to United Kingdom.

Yearly figures	U. S. sources ⁽¹⁾			U. K. sources ⁽²⁾	
	Exports to U. K.				
	Cash	Lend lease	Total		
In millions of £ sterling					
1939	129	—	129	117	
1940	254	—	254	275	
1941	267	143	410	409	
1942 ⁽³⁾	124	501	590	536	
1943	—	1,018	—	1,100	
1944	—	1,270*	—	—	

(1) Statistics of the U.S. Department of Commerce and Lend-Lease Administration, converted into sterling at £1 equal to \$4; detailed figures are not available for 1943 and 1944.

(2) According to the White Paper on "Statistics relating to the War Effort of the United Kingdom".

(3) Figures for cash and the total exports in 1942 are here given as they were published in May 1943; lend-lease export figures for the year have been revised since that date so that cash and lend-lease no longer add to the total as then published. The difference between U. S. exports to the United Kingdom and U. K. imports from the United States in 1942 was probably due largely to shipping losses, which were highest in that year. * Provisional.

was eased by the personal expenditure of American armed forces in the British Empire.

Thus the utilisation of pre-war reserves totalled £1,065 million by June 1944, any small residue remaining from the original holdings being probably in a form not easily realisable (such as direct dollar investments). These reserves have not been spent wholly in the United States; cash purchases by the United Kingdom from Canada have also been considerable: during the twelve months to March 1944 they even exceeded the mutual aid deliveries; in this year alone British requirements of Canadian dollars amounted to the equivalent of £300 million, as shown in the following table.

(1) At the end of August 1939 British gold and dollar resources were estimated at £1,121 million. Of this total £579 million were spent up to the end of December 1940. In 1941, £175 million investments were pledged (partly as to earning only) with the R.F.C. while, in the first eight months of the year, a further £125 million reserves were realised. Thus, up to the end of August 1941, a total of £879 million had been spent or pledged (see twelfth Annual Report, page 104). The figure of £955 million now published for the period up to the end of 1941 gives total expenditure of £76 million in the last four months of the year, an average of £19 million a month, i.e. at about half the rate of the previous eight months. Of the original reserves £166 million would still be unspent at the end of 1941. In spite of the credit from the R.F.C. which made dollars available against assets not easily realisable immediately, a part of the reserves of gold and dollars remaining at the end of 1941 was not available for realisation or was considered the minimum necessary for the transaction of current business.

(2) A figure of \$2,389 million was given in the U.S. President's sixteenth lend-lease report.

Part of the dollars needed to cover the surplus of cash imports of the United Kingdom were provided by the surplus of cash exports made by other British Empire countries to the United States, part were obtained against the accumulation of indebtedness in sterling and part taken from reserves existing before the war. These reserves were called upon to the extent of £110 million net between January 1942 and June 1944, particularly in 1942 to effect payment for contracts completed before lend-lease came into operation; in 1943 and 1944, the current balance of payments vis-à-vis the United States

British requirements and sources of Canadian dollars 1943-44.⁽¹⁾

Canadian financial year ended March 1944	Can. \$ millions
British cash purchases in Canada ⁽²⁾	1,149
Canadian dollar requirements of sterling area ⁽³⁾	61
Total requirements	1,210
British exports to Canada	101
Payments by Canadian forces overseas ⁽⁴⁾	534
Sale of U. K. equity in Canadian war plants	165
Cash withdrawals from working funds ⁽⁵⁾	190
Other items ⁽⁶⁾	220
Total sources of Canadian dollars⁽⁷⁾	1,210

(1) According to the first report of the Canadian Mutual Aid Board (see also page 123 of this Report). For details regarding the financing of British war expenditure in Canada in the years 1940-43 see the thirteenth Annual Report, page 137.

(2) British purchases of war supplies in Canada for cash were in addition to the mutual aid deliveries and exceeded them in the financial year to the end of March 1944.

(3) Not including amounts paid by other parts of the sterling area to the United Kingdom for military supplies purchased in Canada.

(4) Largely in the United Kingdom.

(5) Capital funds formerly advanced to the Department of Munitions and Supply and to contractors.

(6) Invisible items, freights, interest and dividends etc., inter-governmental transactions, changes of official balances, etc.

(7) In addition, the United Kingdom drew upon a capital working fund used to finance war production in Canada to an amount estimated at about \$90 million.

Little more than one-tenth of the overseas indebtedness contracted during the war is given as external debt of the United Kingdom in the official public debt statement; indeed, the debt as published declined in 1943 as a

result of a partial repayment of the dollar credit taken up in 1941 from the U. S. Reconstruction Finance Corporation.

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

At end of March	in millions of £
1940	—
1941	2
1942	110
1943	262
1944	257

* External debt contracted during the war under the National Loans Acts of 1939-43, as shown in the official debt statements. The bulk of this direct external borrowing was from the U. S. Reconstruction Finance Corporation and the Canadian Government. A higher figure given for March 1943 in the thirteenth Annual Report (page 138) applied to December 1942, i. e. to the end of the calendar year, not the financial year.

Nearly 90 per cent. of the new overseas liabilities has been accumulated in the form of sterling balances in London or has been discharged through the repatriation of sterling securities. No official analysis of this change in debtor-creditor relationships has been published and information only of a fragmentary nature is available from the United Kingdom; to obtain a more comprehensive picture of the situation it is necessary to turn to material emanating from the creditor countries, as has been done in the studies on the subject of overseas sterling balances, published in the Annual Reports of this Bank during the past ten years.*

Towards the British Empire alone the extent of the change in the debtor-creditor relationship of the United Kingdom, from the outbreak of war up to the end of June 1944, appears to have been about £2,100 million, of which India accounted for roughly one-half. Some £700 million sterling securities previously issued in London would appear to have been repatriated by countries within the Empire and nearly £1,400 million of sterling debts incurred; the United Kingdom seems to have become a net debtor to each individual member of the Empire, with the exceptions of Australia and New Zealand. The rate of sterling accumulation has recently accelerated, from £250 million in 1942 to £400 million in 1943 and an annual rate of £450 million in the first nine months

* Among other studies on this subject are those appearing from time to time in the London "Banker" and the "Economist" and a series of three articles in the U. S. Department of Commerce publication "Foreign Commerce Weekly" (28th October, 4th and 11th November 1944).

of 1944. This is due to two principal factors: the repatriation of sterling securities has fallen off (as there were fewer securities to repatriate), and the intensification of the war in the Pacific has led to larger sterling accumulations by India, Australia and New Zealand (while expenditure in the Middle East has, however, declined).

The case of India is altogether exceptional: at the end of March 1944 India's sterling reserves amounted to about £720 million, of which £660 million

Sterling Resources
of British Empire and the Repatriation of Sterling Securities.

End of month and periods	India (1)	Canada (2)	Australia (3)	New Zealand (4)	Eire (5)	South Africa (6)	Egypt (7)	Currency Boards etc. (8)	Totals in round figures
	in millions of £ sterling								
Total sterling balances etc. outstanding									
1938 December .	53	—	55	6	71	8	18	70	280
1939 August . . .	55	—	35	7	68	7	17	70	260
December . . .	93	—	45	13	76	8	22	70	330
1940 December .	149	30	75	19	83	1	34	110	500
1941	214	175	55	20	101	1	52	180	800
1942	364	157	70	33	120	1	82	220	1,050
1943	649	153	85	34	144	13	111	260	1,450
1944 March	716	153	110	31	148	22	112	270	1,560
June	759	153	140	33	149	23	115	280	1,650
September	862	153	160	38	154	19	120	285	1,790
Annual movement									
1939	+ 40	—	— 10	+ 7	+ 5	—	+ 4	—	+ 50
1940	+ 56	+ 30	+ 30	+ 6	+ 7	— 7	+ 12	+ 40	+ 170
1941	+ 65	+145	— 20	+ 1	+ 18	—	+ 18	+ 70	+ 300
1942	+150	— 18	+ 15	+ 13	+ 19	—	+ 30	+ 40	+ 250
1943	+285	— 4	+ 15	+ 1	+ 24	+ 12	+ 29	+ 40	+ 400
Change of U.K. debtor-creditor position within the British Empire ("overseas disinvestment" in sterling) August 1939-June 1944 (9)									
Increase of sterling balances (as above)	700	150	105	25	80	15	100	210	1,385
Repatriation and redemption of sterling securities (10)	300	210	25 (11)	5 (11)	—	135 (12)	20	10 (13)	705
Total	1,000	360	130	30	80	150	120	220	2,090

- (1) The reserve of the Reserve Bank of India plus the sterling assets of the Silver Redemption Fund. It is possible that the figures for June and September 1944 are somewhat on the high side owing to the retention of dollars from part of the surplus exports to the United States.
- (2) Sterling accumulated by the Canadian Foreign Exchange Control Board, including amounts pledged with the Bank of Canada (partly estimated). The sterling holding of £157 million (equivalent to Can. \$700 million) was converted into a direct loan to the British Government in 1942; in 1943, £4 million was repaid, according of the budget White Paper.
- (3) 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.
- (4) The net overseas assets of the Reserve Bank of New Zealand and the trading banks.
- (5) 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.
- (6) The sterling reserves of the Reserve Bank of South Africa.
- (7) The sterling reserves of the National Bank of Egypt, issue and banking departments combined.
- (8) Round figures only; for further details regarding the Currency Boards see table on page 142.
- (9) In round figures.
- (10) Metculous accuracy cannot be claimed for these figures; not all repatriations are reported and differences occur between the nominal value of securities and the prices at which repatriation takes place. The figures given are, however, believed to be a reasonably correct indication of the amounts involved.
- (11) These figures are not intended to be exact measurements but are given as indications of amortisations and adjustments to government and local bodies' debt made during the war.
- (12) Including some £60 million of gold shares estimated to have been repatriated from London to South Africa.
- (13) An approximate estimate, perhaps a little on the high side.

had accumulated during the war, while some £300 million of sterling debts had been repaid or repatriated. The abrupt change of some £1,000 million in the country's external position, which these figures reveal, is due to payments made by the British Government to meet the cost of India's defence, under the Financial Settlement of November 1939 (see thirteenth Annual Report, page 143), and of various purchases in India: payments are made in full for all British troops in India, for all war materials supplied by India and for Indian troops sent to theatres of war outside the country, while, on the other hand, India's requirements of sterling for debt service have been progressively reduced as the debt was repatriated. The acceleration of British war expenditure in India reflects not only the greater intensity of the current defence measures but also to no small extent the rise of prices in India. The acquisitions of sterling in 1943-44 would have been even greater but for the imports of gold on official account, in part payment of the Allied war expenditure in the country. In his budget speech, in February 1944, the Indian Finance Member stated that the British Government had agreed to open a dollar account at the Bank of England into which would be paid part of the dollar proceeds accumulating from India's surplus of exports to the United States; these dollars are being earmarked for post-war capital expenditure outside the sterling area.

India's Sterling Receipts and Out-payments.

Periods	Incoming sterling			Outgoing sterling			Increase of Reserve Bank's holding	Total sterling "influx" (increase of Reserve Bank's holding plus repatriations)
	Reserve Bank net purchases	U. K. Govt payments	Total	Sterling securities repatriated	Other sterling requirements	Total		
in millions of £ sterling								
Sept. 1939 to March 1940	64	12	76	16	1	17	+ 59	+ 75
Financial year:								
to March 1941.	57	33	90	67	22	89	+ 1	+ 68
1942.	74	150	224	83	36	119	+105	+188
1943.	92	233	325	120	35	155	+170	+290
1944.	105	274	379	12	41	53	+326	+338
Totals September 1939 to March 1944.	392	702	1,094	298	135	433	+661	+959

India's Defence Expenditure.

Financial years to 31st March	Borne by United Kingdom	Borne by India	Total
	In millions of £ sterling		
1940-41.	40	55	95
1941-42.	145	78	223
1942-43.	253	187	440
1943-44.	285	225	510
Totals 1940-44. . .	723	545	1,268
1944-45 (estimates). .	332	225 (?)	557
Totals 1940-45. . .	1,055	770	1,825

India's Public Debt.

End of March	Denominated in sterling		Total
	in millions of £ sterling	in rupees	
1934	384	520	904
1939	352	532	884
1940	332	546	878
1941	259	646	905
1942	159	706	864
1943	43 (?)	906	949
1944	29 (?)	1,001	1,030

(1) The Finance Member of the Indian Government gave the revised figure of £298 million in February 1945; the increase was due to the Japanese attack on the north-east frontier, rises in pay to the troops, and heavier demands of the U.S. forces on reverse lend-lease account. (2) Excluding the Railway Annuities, funded in 1942-43. Tables compiled from the Reserve Bank of India's "Report on Currency and Finance 1943-44".

Eire has enjoyed an increase in the active balance of payments during the war. The striking increase in the amount of immigrants' remittances reflects the growth in the number of Irish men and women engaged mainly in war work in the United Kingdom. In 1943, continuing the trend of earlier years, the Currency Commission (from February 1943, the Central Bank of Ireland) and the Irish banks added a further £24 million to their net sterling resources, which by September 1944 reached an aggregate of about £150 million — more than double the pre-war figure. Eire, with no external government debt, would seem to have become the strongest creditor country per capita in the world.

Eire's Balance of Payments.

Calendar years	1939	1940	1941	1942	1943
	In millions of £ sterling				
Current items (net) (1)					
External trade	— 16.5	— 13.8	+ 2.3	— 2.0	+ 1.4
Income from external investments (2)	+ 6.3	+ 6.8	+ 4.6	+ 4.6	+ 5.9*
Emigrants' remittances:					
from the United Kingdom	+ 0.6	+ 0.7	+ 2.6	+ 6.8	+ 11.0
,, other countries	+ 2.2	+ 1.4	+ 1.3	+ 1.6	+ 1.6
British Government payments (3)	+ 2.4	+ 2.5	+ 2.9	+ 3.0	+ 3.2*
Other known items	+ 2.3	+ 0.1	— 0.7	+ 2.5	+ 1.9
Total known items	— 2.7	— 2.3	+ 13.0	+ 16.5	+ 25.0*
Balance unaccounted for (4)	+ 2.2	+ 4.6	+ 1.3	+ 9.6	+ 7.4*
Total current items	— 0.5	+ 2.3	+ 14.3	+ 26.1	+ 32.4
Capital items (net) (5)					
Government	+ 0.7	+ 1.1	— 0.0	— 6.2	— 5.9
Currency Commission	— 0.9	— 7.0	— 2.4	— 5.4	— 4.2
Banks	— 5.1	— 3.7	— 14.9	— 13.9	— 19.2
Other capital	+ 5.8	+ 7.2	+ 3.0	— 0.6	— 3.1
Total capital items	+ 0.5	— 2.3	— 14.3	— 26.1	— 32.4
Increase of sterling resources (6)	5	7	18	19	24

(1) Net credit items are shown with a plus sign (+) and debit items with a minus sign (—).

(2) The gross income remained practically unchanged around £13-14 million but the outward item grew from £7 million in 1939 and 1940 to £8.7 million in 1942, declining, however, to £7.6 million in 1943.

(3) Including pensions paid to Irish residents who served in the British forces during the war of 1914-18.

(4) This balance arises from errors and omissions relating to all invisible items, but, as the capital accounts are few and well known, it appears probable that the best picture of the situation is given by adding the balance unaccounted for to the current items.

(5) Net credit items are shown with a minus sign (—) and debit items with a plus sign (+).

(6) As shown in the returns of the Currency Commission and the banks (and in the table on page 138). Although the annual figures differ from those of the calculated balance of payments, the total over the five years 1939-43 is in agreement. * Provisional.

In March 1942, nearly £160 million held by the Foreign Exchange Control Board in Canada (an amount remaining after the repatriation of the bulk of Canada's sterling debt) was converted into a direct loan, without interest, to the British Government. Notwithstanding the introduction of the mutual aid procedure, it would seem as if from time to time further amounts in sterling were accumulated, the Bank of Canada showing, for instance, a holding equivalent to about £12 million in August and September 1944. In March 1944, the Deputy Finance Minister in Ottawa stated that Canada, having declined to accept deliveries on lend-lease terms, had incurred considerable liabilities towards the United States and envisaged the eventual utilisation of its sterling holdings to obtain the necessary U. S. dollars.

Australia and New Zealand, besides supplying reverse lend-lease to the United States, have borne their share of overseas expenditure and have even had to borrow temporarily amounts (up to £12 million and £20 million respectively) from the British Treasury to avoid an undue depletion of their London funds. From 1943 onwards, a factor of growing importance was the dollar receipts accruing from the personal expenditure of American armed forces in the south-west Pacific. A new phase opened in January 1944, when Australia repaid a maturing Dominion loan of £4½ million out of its London resources; this was followed, in October, by the redemption of a further Dominion loan of £8 million and other Australian loans totalling £3 million, all without reborrowing; the total external debt of Australia is the equivalent of about £600 million. New Zealand, on the other hand, with an external debt of about £160 million, having insufficient funds for redemption, converted two sterling loans maturing in the first quarter of 1944, together amounting to £10 million, into new 3½ per cent. issues.

South Africa has utilised its active balance of payments during the war to repatriate the entire government sterling debt (as well as a considerable part of the private sterling debt) and to accumulate a large gold holding. The further repatriation of private securities from London has been repeatedly recommended by official quarters and receives active support in the form of a discriminatory tax levied on dividends paid to non-resident holders of South African securities. The exceptional accumulation of sterling in 1943 and 1944 may be due to sales of gold, on British account, in India, the Middle East and Egypt; it was also considered necessary to hold larger liquid resources to cover the expenditure of South African troops serving outside Africa.

The armed forces of the United Nations stationed in Egypt are estimated to have spent £E 63 million in 1941 and £E 100 million in 1942, the expenditure continuing in 1943 and 1944, since Egypt remained an important transit and supply base, while Egyptian exports increased in consequence of the reopening of the Mediterranean. In addition to the reserves of the National Bank given in the table on page 138, other Egyptian sterling holdings, according to recently

published data, grew by some £80 million from the outbreak of the war to the end of 1943.

Egyptian Sterling Holdings.

End of month	National Bank (1)	Other (2)	Total (3)
	in millions of £ sterling		
1939 August ..	17	2	19
1940 December	34	16	50
1941	52	38	90
1942	82	60	142
1943	111	84	195

(1) Issue and banking department combined; the issue department alone held £95 million at the end of 1943.

(2) This is the difference between columns (1) and (3).

(3) The total of all Egyptian sterling holdings as given by the Egyptian delegation at the Bretton Woods Conference; besides the resources of the National Bank, the figures include all holdings of commercial banks, other institutions and private persons. For the end of 1944 a figure of £300 million has been indicated.

In view of the large holdings of sterling it was decided, in September 1943, to convert the whole of the public debt, including the external debt (all denominated in sterling), into a new issue of 3¼ per cent. 20-30 year internal bonds. The amounts still outstanding of the loans originally placed abroad amounted to some £E 86 million, of which a large part had been repatriated, only £E 14 million

being held in London and £E 18 million on the continent — mainly in France. All except £E 17½ million, the amount inaccessible on the continent of Europe, was either converted or repaid in November 1943, when the new internal issue was made; the total public debt has been reduced by one-third during the past four years out of surpluses in the budget.

Although not a member of the British Empire, Egypt adhered to the dollar pool agreement at the beginning of the war, and part of its sterling accumulation has arisen from deliveries of U.S. dollars. With the Mediterranean again open and the shipping shortage less acute, the control of imports by the Middle East Supply Centre has been relaxed, and an agreement was reached in December 1944 governing Egypt's demand for dollars against sterling and Egyptian pounds. A "target" equivalent to £E 10 million was fixed for Egypt's requirements of dollars and other "hard" currencies (Can. \$, Swiss francs, Swedish crowns, escudos) for 1945; the British Government agreed to provide a margin of £1 million, if necessary, to cover rises in prices etc.; in addition, exceptional non-recurrent wheat imports of £E 3 million were foreseen and, possibly, a further amount up to £E 2 million for fertilisers etc. An agreement on similar lines was envisaged with Iraq.

Certain British colonies and mandated territories have currencies linked to sterling through the operations of Currency Boards (sitting either

**British Colonial Empire (and Mandates):
Sterling Resources outstanding.**

End of month	Currency Boards (1)						Direct loans to U. K. Government (2)	Total
	Malaya (3)	Palestine (3)	West Africa	East Africa	Iraq	Others (3)		
in millions of £ sterling								
1938 December .	16	5	16	5	5	20	—	67
1939 " .	17	8	15	5	6	20	—	71
1940 " .	50	10	16	6	7	24	—	113
1941 " .	90	13	18		12	26	12	180
1942 " .	90	24	23	15	22	28	15	217
1943 " .	90	37	28	20	36	30	20	260
1944 June . . .	90	39	30	22	43	31	22	278

(1) There are only three Currency Boards proper, located in London: the West African, the East African and Palestine Currency Boards. In other cases there is a local commissioner or board, situated in the capital of the territory; but the principle is the same, and the system works in a similar way. The greater part of the above statistics are made up from the annual reports of these boards; as the financial years do not always coincide with calendar years and monthly returns are not usually available, certain estimates have had to be made, based largely on the circulation in the country (which generally runs parallel with the sterling reserves). Although exact accuracy cannot, therefore, be claimed for every figure, it is considered that the table gives a reasonably correct picture of the situation.

(2) The Straits Settlements was selling U.S. dollars (on account of exports of tin and rubber) at a net annual rate equivalent to at least £40 million until December 1941, the proceeds going to swell the colony's sterling reserves, which were estimated to have reached about £100 million before the occupation of the country by Japanese troops. The figure given for December 1941 in the table is a more conservative estimate and is repeated unchanged for 1942, 1943 and 1944.

(3) The National City Bank Bulletin (June 1944) gives a figure of £67 million, at the end of 1943, for the Currency Board and the trading banks together. The London "Economist" (30th December 1944) gives £20, 50 and 75 million total "London investments" as at the middle of 1939 and the end of 1942 and 1943 respectively, and adds an estimate of £100 million for the end of 1944; it states that two-thirds of the £80 million increase from the middle of 1939 to the end of 1944 was due to imports of capital.

(4) Thirteen other colonial Currency Boards (accounting for £7 million at the end of 1938) plus the Hong Kong Exchange Fund (£13 million at the end of 1938).

(5) Direct loans made by colonial governments (Ceylon, Trinidad, Newfoundland etc.) to the U.K. Government during the war, many of them without interest. Estimates of December and June figures.

locally or in London), which apply what amounts to a more or less "automatic" sterling standard. As given on page 138, and also in the analytical table opposite, the aggregate sterling resources (in balances and securities) of these Boards rose from nearly £70 million at the end of 1938 to some £280 million in June 1944. The rapid growth of Malayan reserves up to the end of 1941 was due to sales of dollars obtained from exports of rubber and tin; the rise in the reserves in Palestine and Iraq was more a consequence of spending by Allied forces stationed in these areas, while the expansion of other reserves was due largely to British purchases of local crops. Direct loans to the United Kingdom during the war have generally been made by various colonial governments out of their budget surpluses.

As shown in the table on page 138, the sterling resources belonging to members of the British Empire amounted to about £1,650 million in the middle of 1944, of which nearly £1,400 million had accumulated since the beginning of the war. In addition, some £700 million of sterling debts had been repatriated, so that the total deterioration in the United Kingdom's creditor position towards other members of the Empire would come to around £2,100 million. The sterling resources of the different members of the sterling area, including the Empire (with Canada as the only important exception), are placed in London on "sterling-area accounts", being freely transferable within that area; for the time being the resources remain blocked with regard to transfer outside the area, official permission being needed for transfer, for instance, to the United States. As regards non-sterling area countries, the British Government has entered into various special arrangements whereby a certain latitude for withdrawal has generally been permitted.

Besides its liabilities to other members of the British Empire, the United Kingdom has further run up debts in the form of sterling balances, etc. to a

Argentine's Balance of Payments with the British Empire.⁽¹⁾

Calendar years	1940	1941	1942	1943	Total 1940-1943
	in millions of £ sterling				
Export surplus	+ 14.4	+ 16.5	+ 31.5	+ 48.7	+ 111.1
Balance of current invisible items ⁽²⁾	— 10.5	— 11.3	— 12.7	— 12.4	— 46.9
Current balance of payments.	+ 3.9	+ 5.2	+ 18.8	+ 36.3	+ 64.2
Accumulation of £ balances ⁽³⁾	4.1	3.0	15.3	28.8	51.2 ⁽⁴⁾
Repatriation of sterling debt	—	1.5	6.3 ⁽⁵⁾	10.7 ⁽⁶⁾	18.5 ⁽⁶⁾
Sundry items ⁽⁷⁾	(— 0.2)	0.7	(— 2.8)	(— 3.2)	(— 5.5)
Total	3.9	5.2	18.8	36.3	64.2

(1) As given by the annual report of the Central Bank of the Argentine in pesos at official buying rate (£1 equal to 13½ pesos), converted into sterling.

(2) The surplus of out-payments is largely due to the financial services of private enterprises and public utilities.

(3) Total accumulations of the Argentine Government, the Central Bank and the commercial banks.

(4) Together with £1.7 million held at the end of 1939, the total sterling holding, both spot and forward, would be £52.9 million at the end of 1943; the Central Bank gives the spot holding on 31st December 1943 as £48 million.

(5) Actually the repatriations involved £12.9 million, but £2.2 million had already been bought by the government in the market.

(6) Including £2.4 million on private account during 1942.

(7) Including purchases of sterling from Paraguay and Bolivia and sales to Chile and Peru, plus the adjustment of commercial indebtedness.

number of other countries, one of the most important of which is the Argentine. The balance of payments of the Argentine with the British Empire, as published by the Banco Central, showed a total surplus of £64 million on current account for the four years 1940 to 1943. In 1943, the active balance was running at an average of £3 million a month, double the rate of the previous year; at the end of 1943, the sterling holding (both spot and forward) amounted to £53 million, covered against depreciation by a gold guarantee clause given by the British Government. During the year £1½ million was sold to Chile and Peru and an approximately equal amount bought from Paraguay, nearly £29 million was added to the Argentine's sterling balances and £11 million utilised for repatriating sterling securities; the actual redemption of £13 million sterling bonds took place on 1st January 1944 as part of the £25 million Argentine Government sterling bonds called for redemption in the first half of 1944 (out of a total of £39 million outstanding in London at the end of 1943).

Other countries known to have certain sterling holdings include Brazil, Portugal, Sweden, Turkey and Iran. And certain Allied governments in London also held sterling balances: Holland and Norway (from freights and compensation for shipping losses), Belgium (from Belgian Congo exports), as well as the French Committee of National Liberation (through its bank, the Caisse Centrale). Information about these holdings is in most cases somewhat fragmentary, but data for six of the countries concerned are reproduced in the following table.

Sterling Holdings of certain non-Empire countries.

End of month	Argentina	Brazil	Uruguay	France	Portugal	Iran
	(1)	(2)	(3)	(4)	(5)	(6)
1942 December	22	.	.	11	.	.
1943 March . . . . .	.	.	.	14	.	7
June . . . . .	.	.	.	16	.	.
September . . . . .	.	.	.	.	.	.
December	53	30	4	.	30	.

(1) The spot and forward sterling holdings of the Argentine Government, the Central Bank and commercial banks in the Argentine (see footnote (1) to previous table).
(2) As estimated by the National City Bank (bulletin of June 1944). Part of this amount may, in fact, be held in Brazilian sterling bonds, it being estimated that £25 million have been repurchased, out of a total sterling debt of £150 million.
(3) At the end of 1943, the foreign exchange reserves of the Banco de la Republica totalled \$58.5 million, of which \$42.0 million was in U.S. dollars and the equivalent of \$16.5 million in sterling.
(4) The equivalent of the foreign exchange holding of the Caisse Centrale de la France Libre, held presumably in sterling (at the rate of £1 equal to Fr.fcs 176.6).
(5) A round figure. The total foreign exchange holding amounted to £42 million, the bulk of which was in sterling.
(6) Sterling holding of the National Bank of Iran (Bank Melli Iran), according to the annual report of the bank for the year ended March 1943.

The Brazilian accumulation of sterling was estimated at £30 million by the end of 1943; an agreement has been made under which residents in the United Kingdom could obtain sterling against their blocked cruzeiro balances (the latter being largely a relic of Brazil's pre-war exchange difficulties), while in addition some £2 million of British capital investments in Brazil were

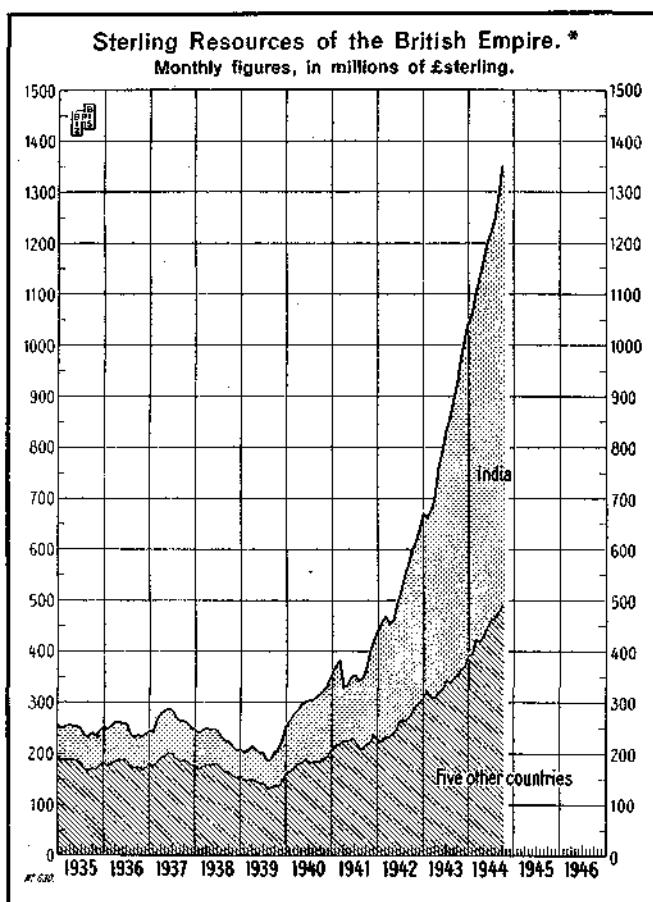
liquidated. Uruguay had accumulated some £4 million by the end of 1943, and a further £4 million net receipts were anticipated during 1944. Other Latin American countries also are known to have improved their sterling position: Nicaragua and Paraguay announced the resumption of the full debt service on their sterling loans from 1st January 1945, and Guatemala repaid its total sterling indebtedness of £1½ million in the second half of 1944.

No precise information is available as regards the sterling holdings of Portugal, Sweden, Turkey or Iceland: the monetary reserves of the central banks of these countries are, however, known to include sterling in addition to dollars and gold; for Turkey, the redemption of the Ottoman debt in 1944 and the clearing-off of the whole of the sterling advance made by the Ottoman Bank to the Treasury are further signs of an improved sterling position. In Iran, where the notes issued since November 1942 may be covered by dollars and sterling with a gold guarantee, the total dollar and sterling holding rose from the equivalent of \$45 million in March 1943 to \$106 million in March 1944; the sterling holding included in these figures was shown at £7.1 million in March 1943, but the amount held in March 1944 was not specified in the annual report of the Bank Melli Iran. The total external debt of Iran, which is denominated in sterling, amounts to less than £1 million.

Little information is available as to the sterling holdings of Allied governments. The Caisse Centrale de la France Libre showed foreign exchange equivalent to £16 million in its return for June 1943 but a number of claims and counter-claims then remained to be settled between the United Kingdom and France. A further indication that sterling balances are held for Allied governments was given by the repayment in April 1944, made by the Norwegian Government in London, of the remaining £400,000 of the 3½ per cent. loan of 1894 (originally £2.2 million).

The total wartime "overseas disinvestment" of the United Kingdom probably exceeded £3,700 million in round figures by the end of 1944. Allowing for the utilisation of £1,100 million original gold and dollar reserves and for somewhat over £700 million sterling securities repatriated, the accumulation of new sterling balances by overseas countries (including the Empire) would approach £2,000 million. The addition of pre-war balances (of, say, £300 million) and of liabilities already discharged through the repatriation of sterling securities would raise the total to around £3,000 million, of which around ninety per cent. would be directly connected with the war.

On 15th December 1944, the Chancellor of the Exchequer stated in Parliament that the sterling resources of overseas countries fell under three main headings: (i) the accumulation of normal reserves and working balances which overseas governments, banks and enterprises were always accustomed to carry in London; (ii) a further accumulation on commercial account due to large purchases of a commercial nature, by the government or by private importers, in the Empire or elsewhere (while British commercial exports had shrunk owing to war conditions); and (iii) the sterling counterpart of direct war expenditure



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

materials and foodstuffs; this class of balances thus represents advance payments for British imports and is in the nature of a temporary accumulation by the overseas exporter which would be absorbed when conditions warrant a reversion to the pre-war method of cash payment. But the great bulk of the present overseas sterling balances represents new indebtedness which will remain after the war is over; of this third category, a certain amount has arisen from the net purchases of dollars and gold by the British Exchange Control, to cover current requirements outside the sterling area.

incurred in local currencies in many areas abroad. The total sterling balances so accumulated have been drawn upon, in the usual way, to meet the sterling requirements of the countries concerned.

Thus part of the present total of overseas sterling balances corresponds to the normal pre-war requirements for reserves and commercial working funds; "normal" requirements naturally vary according to circumstances and it may be that with higher prices and note circulations in the world, larger holdings of sterling under this heading will be considered necessary by overseas countries after the war. A further part of the present holdings is due to the wartime method of prepayment "en bloc" for imports of raw

4. RECEIPTS OBTAINED BY GERMANY THROUGH THE CLEARINGS AND FROM THE PAYMENT OF OCCUPATION COSTS.

Not all the receipts obtained by Germany from Continental Europe for the prosecution of the war are susceptible of statistical measurement: material acquired in the field of battle and by direct levies in occupied territories has largely escaped record. Moreover, data made available in the various countries

by which the payments were effected must be pieced together, to obtain a comprehensive picture of developments. There have been, in particular, two broad categories of net receipts represented by—

- (i) indebtedness in the clearings in respect of surplus imports, transport and transit costs, the execution of German orders placed abroad, transfers of savings made by foreign workers in Germany etc., the balance in the clearing being met by advances from the countries concerned; and
- (ii) contributions levied to meet the costs of occupation, including the erection of fortifications and similar expenses.

As will be seen below, it is not possible in every case to distinguish sharply between these two categories. Indeed, another distinction, not completely coincident with the first, is also of importance: that between levies imposed "à fonds perdu", e.g. occupation costs paid by France, Belgium, Holland, etc.; and such contributions as have given rise to a German liability, e.g. advances made in the clearings by France, Belgium, Holland, etc., plus occupation costs advanced, e.g. in Denmark, against a credit in Berlin.

**Germany's
Wartime Foreign Indebtedness.**

In milliards of Reichsmarks	Deutsche Verrech- nungs- kasse (1)	Reichs- kredit- kassen (2)	Total (3)
Amounts outstanding			
1940 December.	1.5	1.5	3.0
1941 " "	7.0	4.5	11.5
1942 " "	14.8	7.2	22.0
1943 " "	26.4	8.6	35.0
1944 September.	35.9	9.1	45.0
Increases in period			
1940 Jan.-Dec.	+ 1.2	+ 1.5	+ 2.7
1941 " "	+ 5.5	+ 3.0	+ 8.5
1942 " "	+ 7.8	+ 2.7	+ 10.5
1943 " "	+ 11.6	+ 1.4	+ 13.0
1944 Jan.-Sept.	+ 9.5	+ 0.5	+ 10.0

(1) The figures of the annual increases in this column are based on the data regarding foreign sources of money capital formation in Germany; the increase in the first nine months of 1944 is an estimate. The totals are given on the assumption that the clearing indebtedness outstanding at the end of 1939 was negligible, except for RM 250 million held by the National Bank of Bohemia and Moravia.

(2) The amounts outstanding are shown by the public debt return of the Reich.

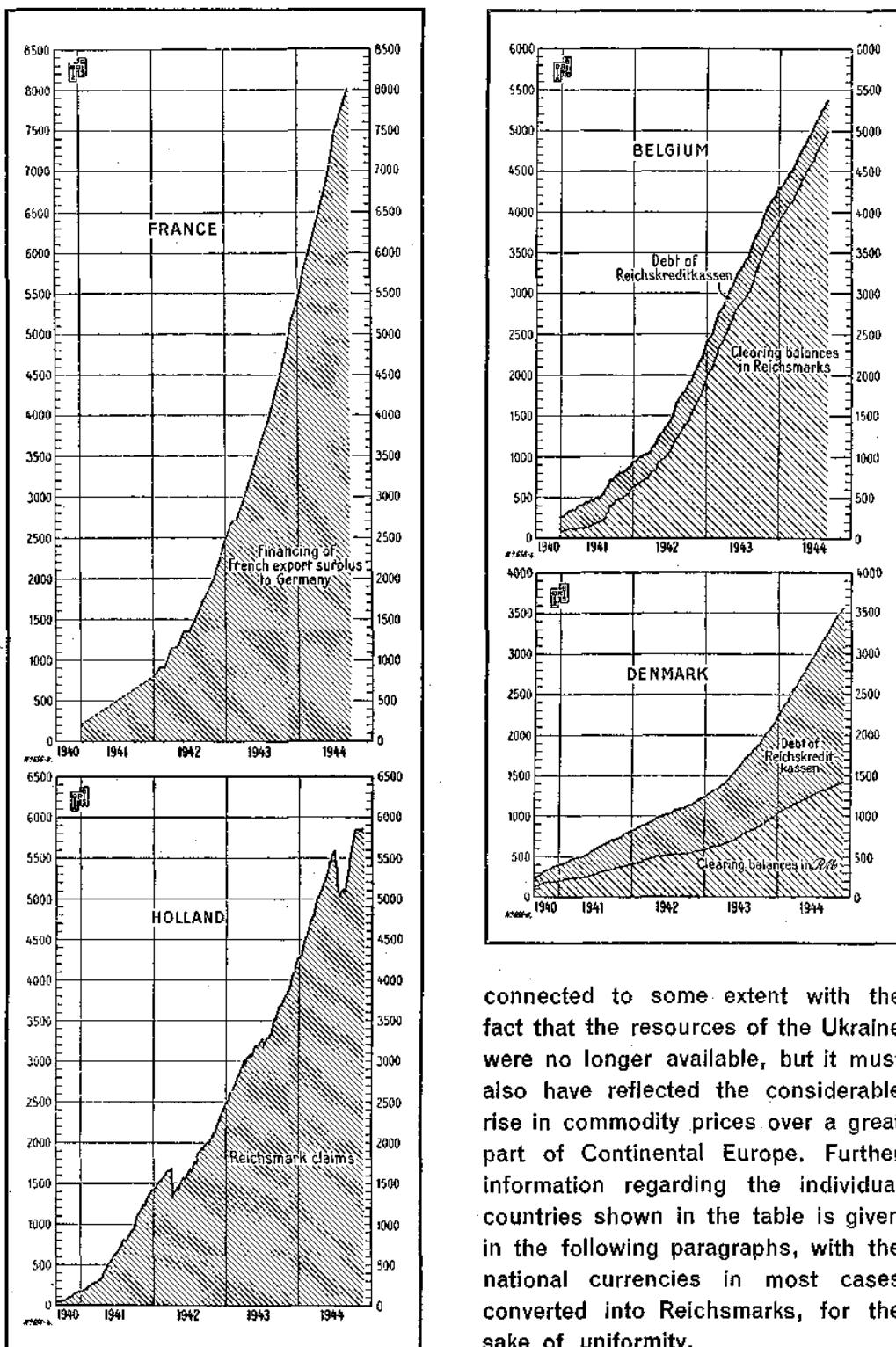
(3) The total of the two items gives the "money capital formation" in Germany derived from foreign sources (see page 212).

Claims on Germany in the clearings have found their counterpart in the liabilities of the Deutsche Verrechnungskasse and, to some extent, of the Reichskreditkassen. The net liabilities on these two accounts may be considered as Germany's wartime foreign indebtedness, amounting, at the end of 1943, to a total of RM 35 milliard. It then included RM 3 milliard of Reichskreditkassenscheine in circulation but would otherwise correspond to what are usually called Germany's "clearing debts".

The table on page 149 sets out the clearing claims of eleven countries for which adequate data are available and, although the figures generally apply to all the clearings of each country in question, the predominance of Germany is such that no great error is committed if the figures are taken as applying to German clearing debts only.

In relation to these eleven countries, the clearing debts of Germany amounted to RM 23 milliard at the end of December 1943 (and, by September 1944, probably attained about RM 31½ milliard); over RM 10 milliard was run up during the year 1943, sixty per cent. more than in 1942. This acceleration was

Reichsmark Claims Outstanding,
monthly, in millions of Reichsmarks.



connected to some extent with the fact that the resources of the Ukraine were no longer available, but it must also have reflected the considerable rise in commodity prices over a great part of Continental Europe. Further information regarding the individual countries shown in the table is given in the following paragraphs, with the national currencies in most cases converted into Reichsmarks, for the sake of uniformity.

Germany's Clearing Debts and Assimilated Accounts.

Amounts outstanding (and annual increases).⁽¹⁾

Creditor countries	France	Holland	Belgium	Denmark	Hungary	Romania	Bulgaria	Slovakia	Sweden	Switzerland	Bohemia and Moravia	Totals
In millions of Reichsmarks ⁽²⁾												
Amounts outstanding												
1940 Dec.	200	160	250	390	—	(-20)	100	90	(-60)	50	600	1,800
1941 "	800	1,410	930	820	180	280	440	170	80	250	1,100	6,500
1942 "	2,450	2,490	2,420	1,240	540	500	700	330	70	500	1,600	12,800
1943 "	5,400	4,270	4,280	2,250	980	500	1,100	450	50	600	3,200	23,100
1944 March	6,350	5,030	4,670	2,610	—	—	—	—	40	600	3,400	(26,000)
June	7,500	5,590	5,130	2,990	—	900	—	500	10	600	3,700	(29,200)
Sept.	8,000 ⁽³⁾	5,750	5,370 ⁽³⁾	3,360	—	—	1,200	—	—	600	4,600	(31,500)
Annual increases												
1940	+ 200	+ 160	+ 250	+ 390	—	—	+ 100	+ 90	—	+ 50	+ 350	1,600
1941	+ 600	+ 1,250	+ 680	+ 430	+ 180	+ 300	+ 340	+ 80	+ 140	+ 200	+ 500	4,700
1942	+ 1,650	+ 1,080	+ 1,490	+ 420	+ 360	+ 220	+ 260	+ 160	(-10)	+ 250	+ 500	6,400
1943	+ 2,950	+ 1,780	+ 1,860	+ 1,010	+ 440	—	+ 400	+ 120	(-20)	+ 100	+ 1,600	10,300

(1) This table was compiled in a similar way to the table given in the thirteenth Annual Report (page 153), some of the figures in which have been modified in the light of more recent information. The statistics were obtained from official sources, generally central-bank returns (for France, the Treasury statement). The figures generally represent accumulated Reichsmark claims on clearing account, but, in some cases, include other items (e.g. Belgium, on account of Reichskreditkassenscheine withdrawn, and Denmark, an exceptional case, on account of payments made to the occupation authorities). For Holland and for Bohemia and Moravia, the Reichsmarks are held directly by the central bank; in other cases, generally through the local clearing office. For further details see text.

(2) Figures for individual countries have been rounded to RM 10 million and the total to RM 100 million. The totals for 1944, including estimates of the missing figures, are provisional.

(3) Up to August 1944, when the occupation ceased.

The figures for the German debt on clearing account to France are those of the French Treasury's advances to the French Exchange Office to cover the deficit of the Franco-German Clearing. As shown in the following table, the deficit in the clearing with Germany up to November 1943 exceeded the net deficit of all the clearings, since those with other countries taken together showed a slight net surplus in favour of France; it should be noted, however, that the payments exchange with Holland, Belgium and Poland also passed through the Franco-German clearing. Up to the end of the occupation in August 1944, the total German deficit on the clearing with France amounted to RM 8,000 million.

French Exchange Office.

Period from beginning of operations to 30th November 1943	Receipts	Out-payments	Balance of receipts (+) or out-payments (-)
In milliards of Fr. francs			
Clearing with Germany ⁽¹⁾	42.8	147.3	— 104.5
All other clearings	12.9	11.2	+ 1.7
Other operations	9.9	9.4	+ 0.5
"Règlements en instance"	14.9	14.7	+ 0.2
Administrative items	0.6	0.3	+ 0.3
Totals	81.1	182.9	— 101.8 ⁽²⁾

(1) The exchange rate with Germany was Fr.fcs 100 equal to RM 5.

(2) The accounts of the Exchange Office were brought into equilibrium by an advance from the French Treasury of Fr.fcs 103 milliard, thus giving the Exchange Office a balance of Fr.fcs 1.2 milliard in hand at the end of November 1943.

The Reichsmark claims of Holland, invested directly by the Nederlandsche Bank in Reich securities, rose in 1943 by nearly RM 1,800 million, after the deduction of RM 50 million monthly which was transferred to the Reich as a contribution towards the campaign on the eastern front. Besides payments due on account of surplus exports, the Reichsmark claims have risen because of a continuous flow of funds from Germany to Holland on capital account since

Belgian Payments
to Germany.⁽¹⁾

May 1940 to July 1944	In millions of RM
Clearing account	4,866
Reichskreditkassen ⁽²⁾	362
	5,228
Occupation costs	5,240
Billeting etc. ⁽³⁾	477
	5,717
Total payments to Germany	10,945

(1) Figures given in bulletin of National Bank of Belgium (October 1944) in Belgian francs converted into Reichsmarks at rate of B.fcs 100 equal to RM 8.

(2) RM 285 million for exchange of Kassenscheine, RM 60 million Kassenscheine in tills and RM 17 million owing by the Kassen to the Bank of Issue.

(3) RM 450 million actual billeting expenses, RM 13 million compensation paid to Germans and RM 14 million war levies.

of the Reichskreditkassen, included in the table, results chiefly from the withdrawal of Reichskreditkassenscheine from circulation in 1940 and 1941. The method of "sterilising" part of the out-payments from the clearing, through the issue of non-transferable certificates, was practically abandoned in the autumn of 1943, as described on page 226. Up to the end of July 1944, Reichsmark claims amounting to nearly RM 5,230 million in all had accumulated (while a further RM 5,720 million had been paid as costs of occupation).*

Denmark was subject to a special régime: besides the clearing surplus resulting in a claim on the Deutsche Verrechnungskasse, payments to the army

Denmark's Reichsmark Claims
outstanding.⁽¹⁾

Nationalbank's advances on account of:	Verrech- nungs- kasse ⁽²⁾	Reichs- kredit- kasse	Total
in millions of RM			
1940 December	190	200	390
1941 "	405	415	820
1942 "	575	665	1,240
1943 "	1,025	1,225	2,250
1944 "	1,440	2,240	3,680

(1) Figures given in Danish crowns converted into Reichsmarks at the rate of D.Kr. 100 equal to RM 52.2.

(2) It has been reported from Danish sources that, included in the D.Kr. 2,770 million outstanding on clearing account at the end of 1944, there were, in addition to payments in respect of commodity deliveries, the following items: D.Kr. 250 million for the execution of various repair and salvage works, D.Kr. 150 million for purposes of the German Embassy, D.Kr. 150 million for wage transfers of Danish workers in Germany to their families and about D.Kr. 200 million for subsistence allowances to the relatives of Danish volunteers in German military formations.

* Up to the liberation, early in September, the total was about B.fcs 143 milliard, say RM 11,440 million (see Federal Reserve Bulletin for January 1945).

the lifting of the exchange regulations between the countries on 1st April 1941; according to the annual report of the Nederlandsche Bank for the year 1943-44, the total offer of Reichsmarks rose from an average of Fl. 5.4 million a day during the second quarter of 1941 to Fl. 11.2 million a day during the first quarter of 1944; in March 1944 steps were taken to control and limit such capital movements. In the first nine months of 1944, the Reichsmark claims of the Nederlandsche Bank rose by a further RM 1,500 million (as shown in the table on the previous page, to which must be added some RM 900 million taken over by the Dutch Government by means of a special issue of Treasury bills to the banks in July 1944).

For Belgium, a full statement regarding payments made to Germany during the occupation has recently been published; the debt

of occupation (together with cost of fortifications, etc.) were advanced by the National Bank to the Wehrmacht against a credit at the Reichskreditkasse in Berlin. Danish commodity prices remaining comparatively stable, the rise in the figures shown in the table reflects a real acceleration in an economic sense. The total Reichsmark claims have risen with increasing rapidity: by RM 420 million in 1942, RM 1,010 million in 1943 and RM 1,430 million in 1944.

In most countries the amounts put at the disposal of the German authorities to meet commercial liabilities, etc. have been practically all financed

directly by the central bank, but in Hungary other credits have been made available — at least formally. Thus, in 1941 and 1942 not only the National Bank but also the Hungarian commercial banks extended pengö credits to the German clearing office up to the equivalent of RM 300 million, which meant that they made direct disbursements to Hungarian exporters up to about Pengö 500 million in place of the clearing office. And in August 1942, an agreement was concluded with Germany whereby the Hungarian Treasury was to purchase up to RM 250 million, a total which was raised to RM 350 million in March 1943; the pengö counterpart of the Reichsmarks thus bought by the Treasury was employed for the redemption of the banks' advances to the German clearing office, so that the banks would be in a position to extend further advances within the scope of their previous agreements. Actually, the credits granted by the commercial banks, as well as the Treasury certificates issued to provide funds for the Treasury's purchases, were practically all refinanced by the National Bank. Still further Reichsmark claims were held by Hungarian exporters without formal advances, and this presumably accounts for the bulk of the claims shown in the table as "otherwise financed".

Hungarian Clearing Claims on Germany.⁽¹⁾

End of month	Financed		Total (²)
	by National Bank (³)	otherwise (³)	
In millions of RM			
1941 December	85	95	180
1942 "	310	230	540
1943 "	630	350	980
1944 March (⁴)	630	.	.

(1) Reichsmarks held at the Deutsche Verrechnungskasse in Berlin plus advances made in pengö. The exchange rate with Germany was Pengö 100 equal to RM 60.9.

(2) The item in the balance sheet of the National Bank entitled "credits granted for the settlement of the payments exchange with foreign countries" consisting of three separate but inter-connected parts: firstly, the advances in pengö granted by the National Bank directly to the German clearing office; secondly, the refinanced pengö advances of the commercial banks; thirdly, Treasury certificates issued by the government for the purchase of Reichsmarks and rediscounted at the National Bank.

(3) No details are given regarding the financing of these amounts which appear to be covered in three ways: by the commercial banks and the Treasury in so far as their contributions have not been refinanced at the National Bank and by the exporters themselves, without receiving a formal advance.

(4) Total holdings of Reichsmarks (plus pengö advances) as given by the National Bank in its annual reports.

(5) From December 1943 to March 1944, this item of the National Bank shows no appreciable change. From the occupation of the country by Germany in March 1944 the item appears no longer to reflect the current state of the clearing: it declined to RM 520 million in June and rose again to RM 650 million in November 1944. All new calls on central-bank credit during this period have been made through internal discounts.

The Reichsmark holding would have been larger but for the utilisation by the Hungarian Treasury of RM 137 million in 1942 and some RM 30-40 million in 1943 for the repurchase of German-held Hungarian bonds and for certain other extraordinary payments. In April 1944, the Reichsbank called in German-held shares in leading joint stock companies domiciled in Budapest and a similar step was taken in Bohemia and Moravia; the shares in question were to be brought into the clearing to reduce Hungarian Reichsmark claims, as were the German-held bonds in 1942 and 1943.

Following the political developments in March 1944, a new agreement was made to facilitate Hungarian exports to Germany; no details of this agreement have been published but, since that month, the "clearing" item in the National Bank's return has apparently ceased to reflect the state of the current payments position. This may be due partly to the fact that Hungarian importers were authorised to place orders in Germany up to

Pengö 200 million, say RM 120 million, for delivery after the war, against immediate cash payments in pengö to the Hungarian National Bank.

Throughout the year 1943 the German debt on clearing account to Roumania appears to have remained practically unchanged at RM 500 million (at RM 1 equal to Lei 60) — a very remarkable phenomenon, in particular since the clearing was debited with the cost of transport and upkeep of German troops in Roumania. A clue to this unusual development is given by the statistics of the turnover of devisen in the clearings, as shown in the following table.

Roumanian Clearing Accounts.⁽¹⁾

Periods	Clearing accounts			National Bank of Roumania										
	in- coming devisen	Turnover		Clearing accounts ⁽²⁾ settled payments	amounts in suspense ⁽³⁾	Devisen for imports	Special pro- visions	Total						
		outgoing devisen	balance											
during period					outstanding at end of period									
in milliards of lei														
1940 Jan.-Dec. .	24.6	28.1	— 3.5	(— 1.2)	0.6	0.4	0.5	5.7	7.3					
1941 " " .	56.6	38.9	+ 17.7	16.5	17.1	0.0	0.7	0.5	18.4					
1942 " " .	62.5	49.1	+ 13.4	29.9	23.9	1.3	1.8	4.8	31.8					
1943 " " .	80.2	80.0	+ 0.2	30.1	28.9	0.3	0.6	3.3	33.1					
1944 Jan.-June .	.	.	.	.	32.7	19.9	1.6	.	(54.2)	

(1) The Reichsmark rate was Lei 100 equal to RM 1.67 (lowered from RM 2 from April 1941).

(2) Advances made by the National Bank against clearing devisen.

(3) Shown as "Devises en compte de clearing à décomptier sur les versements des importateurs" in the National Bank's return.

"Incoming devisen" have expanded with each year of the war, but particularly in 1941, when the Russian campaign began, and again in 1943, when Roumania regained its importance as a base for German troops. As regards "outgoing devisen", an analysis of the different classes of payments from the clearing is given below.

Roumania
Analysis of Outgoing Clearing Devisen.

Calendar year	Market	Govern- ment	Sundries	Total
in milliards of lei				
1940	12.4	10.2	5.5	28.1
1941	19.3	16.4	3.2	38.9
1942	25.8	15.4	7.9	49.1
1943	36.5	27.3	16.3	80.0

months, e.g. in January 1942 and in February and March 1943, i.e. at times when gold was purchased in Germany with Reichsmarks obtained from the clearing account. If the National Bank's holdings of gold and clearing devisen are added together, the increase in each of the years 1940 to 1943

The devisen taken by the "market", chiefly for the payment of imports, increased over the period, but of more striking interest was the increase of "sundries" in 1942 and 1943 and of government purchases of devisen, above all in 1943. In fact the increase of "sundries" was particularly marked in certain

National Bank of Roumania.

Increase during period	Gold	Clearing devisen	Total
	in milliards of lei		
1941 Jan.-Dec...	+ 2.0	+ 16.1	+ 18.1
1942 " " "	+ 11.3	+ 8.1	+ 19.4
1943 " " "	+ 14.1	+ 4.0	+ 18.1
1944 Jan.-June...	+ 10.0	+ 23.4	+ 33.4

for other periods) appear to be, for the two years 1942 and 1943, somewhat above Lei 12 milliard, say, RM 200 million.

The special purchases of Reichsmarks for "government account" served to repatriate Roumanian bonds in German hands and to effect other payments in Germany. The external government debt of Roumania, although not in receipt of regular service, has decreased, according to official statistics, from Lei 63½ milliard in March 1941 to Lei 45½ milliard in 1944 — a reduction of Lei 18 milliard, say RM 300 million, in the course of three years; but this represents merely the nominal value and gives little indication of the actual cost of repatriation, which was doubtless lower.

Another method of keeping the clearing "in equilibrium" has been the prepayment of imports from Germany (a method already applied in Bulgaria and, later, in Hungary also). Roumanian official bodies and firms were encouraged to place orders for machinery, etc. in Germany, for future delivery; these orders had to be prepaid with Reichsmarks purchased from the Roumanian Government, whereas payment for such orders had previously been guaranteed to the German firms by the Reich in the form of a "credit" to the Roumanian Government. Large figures have been mentioned for these "credits" and for the orders placed, but the exact incidence of these transactions on the clearing is not easy to determine.

While it thus proved possible to prevent the German clearing debt to Roumania from rising in 1943, Reichsmarks tended to accumulate early in 1944 at an increased speed and a new German-Roumanian agreement came into force on 1st March with a view to keeping the clearing in equilibrium in spite of larger Roumanian exports; this agreement, *inter alia*, permitted the acquisition by Roumania of a certain volume of Swiss francs. The half-yearly balance sheet of the National Bank for 30th June 1944 showed that the ordinary clearing debt had risen to RM 545 million; but more striking was the expansion of the suspense item from RM 5 million in December 1943 to RM 330 million — thus the total clearing rose from RM 500 million to nearly RM 900 million in six months.

At the end of 1942 the National Bank of Bulgaria held nearly RM 700 million, of which RM 450 million constituted a claim in the clearing and RM 240 million were "investments", i.e. Bulgarian Treasury bills denominated in Reichsmarks originally given to German armament and heavy industrial firms

was approximately the same amount, viz. Lei 18-19 milliard, say RM 300 million per annum. Since the home production of gold has only been at the rate of around Lei 1 milliard a year, considerable purchases must have been made abroad. The abnormal increases of the "sundry" purchases (which, during the special periods, exceeded the monthly average

as advance payments for orders placed, and then repurchased by the National Bank of Bulgaria in order to employ its Reichsmark balances. Early in 1944, negotiations were reported, involving the repurchase of German and of Protectorate participations in Bulgarian industry to an amount of RM 50 million.

No returns of the National Bank have been published since February 1943 but, in November 1944, the Bulgarian Finance Minister gave an amount of Leva 40 milliard, say RM 1,200 million, as the total German debt in the clearing at the end of the German occupation, a figure later raised to Leva 47 milliard.

National Bank of Bulgaria.*

End of year	Clearing devisen	"Invest- ments"	Total
	in millions of RM		
1940	70	30	100
1941	320	120	440
1942	450	240	690

* Figures given in leva in the balance sheets of the National Bank of Bulgaria converted into Reichsmarks at the rate of Leva 100 equal to RM 3.05.

Statistics published on the German side showed a slight surplus on commodity trade with Bulgaria over the war period; the debt on the clearing account was explained by a number of other factors: extensive German investment in Bulgarian industry, the rebuilding of Bulgarian roads at German expense, the transfer of Bulgarian workers' savings from Germany, German payments for the upkeep of Bulgarian troops of occupation in Serbia, etc.

The National Bank of Slovakia has made advances against only a part of the clearing claims, the remainder being covered by the Finance Ministry, through proceeds of borrowing from the market, or carried by the exporters themselves, through a delay in out-payments from the clearing. The amounts financed by the National Bank have been stated in the bank's annual report, while semi-official estimates of the total claims were published for 1940 and 1941; the totals given in the table for the following two years are estimates based on the known trend.

Slovakian Clearing Claims.*

End of year	Financed by National Bank	Total (estimated)
	in millions of RM	
1940	34	90
1941	73	170
1942	135	330
1943	163	450

* Figures in Slovak crowns converted into Reichsmarks at the rate of Ks.100 equal to RM 3.60.

In 1943, seventy per cent. of the clearing claims were against Germany and the Protectorate, and the remainder was largely against Italy and Roumania. The Governor of the National Bank stated at the annual general meeting, in February 1944, that the problem of the rapid growth of clearing claims did not arise from the balance of trade but from the transfers of Slovak workers in Germany and other invisible items, which produced an active balance of total payments, amounting in 1943 alone

to Ks. 3,000 million, the equivalent of, say, RM 260 million. In order to reduce the total clearing claims, the Finance Minister was authorised, towards the end of 1943, to purchase Reichsmarks from the National Bank up to RM 108 million, while government enterprises might acquire RM 17 million as "working capital", the Minister being, moreover, empowered to advance up to RM 34 million for the transfer of workers' savings, etc. and to issue cash certificates of RM 7 million as payment to certain creditors. The amount held by the government in

Reichsmarks was used, in particular, to acquire, from German and Protectorate owners, Slovak shares valued at some RM 25-35 million, to be sold later on the Slovakian market; the shares in question were largely a relic of the important part played in the past by Bohemian industry and Prague banks in financing the Slovak economy, but they also included the Reichsbank's forty per cent. participation in the Slovak National Bank, from the time the bank was founded in 1939.

The delay in out-payments from the clearing to Slovakian exporters rose from 60 to 110 days during the year 1943 and appears to have remained more or less unchanged during the first part of 1944; early in the year, a new measure of "sterilisation" was adopted, when five per cent. of export proceeds was credited only to a blocked account of the exporter; but, in the autumn, a

Swedish
Credit Relations
with Germany.*

End of year	in millions of RM
1940 . . .	(-60)
1941 . . .	80
1942 . . .	70
1943 . . .	50
1944 June	10
Sept.	—

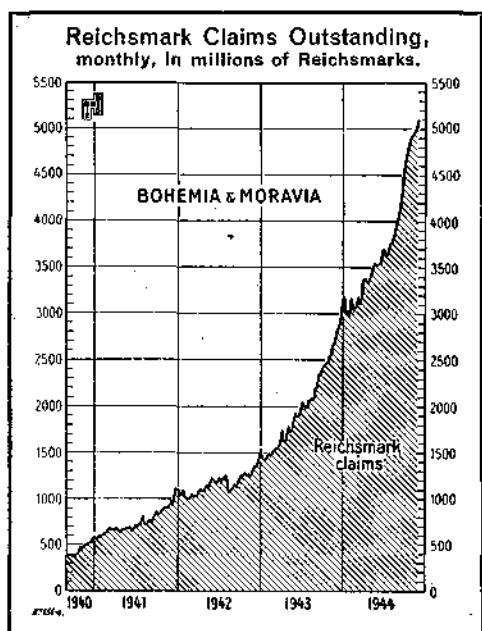
government guarantee was made available, up to seventy per cent. of export values, and it was later announced that, from 26th October 1944, Slovakian exporters would receive the proceeds of their exports in Bratislava without delay.

The balance of credit extended between Sweden and Germany has moved within narrow limits: from a Swedish debt of about S.Kr. 100 million in 1940, the balance turned towards a German debt of a slightly higher amount in 1941 — but this German indebtedness, after being gradually reduced, was finally wiped out in the course of 1944, a small debit balance against Sweden appearing in the second half of the year.

* Approximate totals outstanding at the year-ends converted into Reichsmarks at the rate of S.Kr. 100 equal to RM 59.20.

The regular monthly statistics which had been published in Switzerland relative to the clearing with Germany were suppressed on the outbreak of war, but it is possible to make certain estimates on the basis of public announcements. In July 1941, the Swiss Government gave a transfer guarantee to Swiss exporters, up to Sw.fcs 400 million for the year 1941, that they would obtain payment through the clearing after a maximum waiting-period of three months; and a further Sw.fcs 400 million was made available for the year 1942. Moreover, in October 1943, a new agreement was signed: the Swiss Government's guarantee of transfer was maintained, but the maximum period of waiting, for Swiss exporters, was lengthened to one year and the principle of a self-balancing clearing was reintroduced by means of a system of quotas adjusted to payments into the clearing. An aggregate equivalent to RM 600 million at the end of 1943 may be regarded as an indication in round figures, taking account of a longer waiting-period for Swiss exporters (equivalent to an increase in the credits granted by them).

The Reichsmark holdings of the National Bank of Bohemia and Moravia, as indicated by the "sundry assets" in the bank's return, doubled in the year 1943, attaining an amount of around RM 3,200 million. The increase would have been greater but for the annual "war contribution" payable by the Protectorate to the Reich and the direct purchase of Reichsmark securities by the Prague commercial banks.



A comparison is made in the table on the opposite page between the clearing figures for the eleven countries described in the preceding paragraphs, and for which reliable data are available, and the totals for all countries. The totals for all countries in this table correspond to the figures of Germany's wartime foreign indebtedness as given on page 147 less the circulation of Reichskreditkassenscheine (see page 160). Under thirty per cent. of the total outstanding at the end of 1943 was owing to those countries for which no comprehensive statistical information has been published. These countries include Italy, Yugoslavia (later Serbia and Croatia), Greece and Albania, while a few countries, including Finland, Turkey and

Norway, were indebted on their clearing accounts. Some indications regarding these various countries are given in the following paragraphs.

The clearing between Germany and Italy came to a standstill as a result of the political developments in September 1943. To some extent the gap was filled by the Reichskreditkassen, which accepted certain specified payments from Italian debtors and effected out-payments to Italian creditors in the clearing. On 30th January 1944, two agreements were concluded between Germany and the Government of northern Italy (the rate for RM 1 being changed from Lit.7.6 to Lit.10). One agreement concerned the savings of Italian workers in Germany: with the Deutsche Bank as intermediary, the Reichsmarks saved were to be placed to the credit of the Italian Treasury on a special account at the Deutsche Verrechnungskasse (which was not to be considered as a clearing account, and therefore could not be drawn upon),

Foreign Indebtedness of Deutsche Verrechnungskasse and Reichskreditkassen.*

Creditor countries	December				
	1940	1941	1942	1943	Sept. 1944
In billions of Reichsmarks					
Amounts outstanding					
Eleven known countries	1.8	6.5	12.8	23.1	31.5
Other countries	0.7	3.2	6.5	9.0	10.5
Totals for all countries . . .	2.5	9.7	19.3	32.1	42.0
Increase in period	(12 months)				(9 months)
Eleven known countries	+ 1.6	+ 4.7	+ 6.4	+ 10.3	+ 8.5
Other countries	+ 0.6	+ 2.5	+ 3.3	+ 2.5	+ 1.5
Totals for all countries . . .	+ 2.2	+ 7.2	+ 9.6	+ 12.8	+ 10.0

* The totals correspond to those given in the table on page 147 less the circulation of Reichskreditkassenscheine (see table, page 160).

while the Italian Treasury would provide the funds for out-payments in lire to be made through the Banca Nazionale del Lavoro to the recipients in Italy. The second agreement regulated all other transfers, including capital movements; provision was made for immediate out-payments, without delay on either side, the necessary advances to Italian exporters being granted via the Italian Exchange Institute. By excluding the transfers of worker's savings, this account was expected, according to German reports, to be balanced or even to show a slight surplus in favour of Italy. In relation to most countries other than Germany, Italy had incurred clearing debts of some importance by September 1943.

In September 1939, Yugoslavia had a clearing claim of RM 15 million against Germany; but at the outbreak of war Germany produced a surplus of exports, so that by March 1941 Yugoslavia was indebted to Germany for RM 77 million. With the partition of Yugoslavia 29 per cent. of the debt, RM 22 million, was allocated to Serbia and 42 per cent., RM 32 million, to Croatia.

Little is known of subsequent developments in Serbia, except that, by May 1942, a German debt of some RM 70 million had accumulated on commercial

account (against which Germany had the counter-claim of RM 22 million) and that since then the German debt has increased as a result of a Serbian surplus of exports.

Croatian
Balance of Payments.⁽¹⁾

Calendar years	Trade balance (2)	Financial balance etc.	Total balance of payments (3)
			In millions of RM
1941 . . .	— 19	+ 31	+ 12
1942 . . .	— 135	+ 158	+ 23
1943 . . .	— 147	+ 234	+ 87

(1) Figures given in Croatian kunas converted into Reichsmarks at the rate of Ks 100 equal to RM 5.

(2) According to the regular trade statistics.

(3) According to the clearing statistics.

given (and reproduced in the table) since some exports went unrecorded, passing freely over the open frontiers or leaving the country as military transports.

The service items which gave an active balance of payments to Croatia were largely on account of transit traffic and the transfers of savings of Croatian workers in Germany. Ninety per cent. of Croatia's trade was with Germany and the active balance, accumulated on the clearing account as a credit in Reichsmarks, was sufficient in 1941 and 1942 to wipe out the Croatian portion of the old Yugoslavian debt of RM 32 million and, in the following year, a fresh net clearing claim on Germany appeared.

This German debt reached its highest point of RM 150 million in September 1943 but fell continuously from that time and by the spring of 1944 had been turned into a Croatian debt. In July 1944, the managing director of the German Chamber of Commerce in Croatia stated that, in order to restore the disrupted price relationship, German export prices to Croatia had, from

Croatian State Bank.⁽¹⁾

End of month	Clearing	Occupation	Total
	account (2)		
in millions of RM			
1943 March . . .	50	142	192
June . . .	59	214	273
September . .	150	451	601
December . .	87	587	674
1944 March . . .	(— 37)	849	812
June . . .	(— 204)	1,159	955
September . .	(— 50)	1,082	1,032

(1) Figures given in Croatian kunas converted into Reichsmarks at the rate Ks 100 equal to RM 5.

(2) According to the return of the State Bank; up to September 1943 this account was included under the reserve item but appeared as a separate entry from October onwards.

(3) Booked by the State Bank as advances against foreign assets. The counterpart of the bank's advances is probably credited at the Reichskreditkasse in Berlin.

April 1944, been raised to five times the level of April 1941, plus an additional sixty per cent. (to subsidise Croatian exports to Germany).

But a much larger German debt arose from advances made by the State Bank to the occupying troops at an average rate of over RM 50 million a month. A certain proportion of the total debt may have been on account of Italy, since part of Croatia was occupied by Italian troops up to September 1943; the annual report of the Croatian State Bank for 1943 mentioned debts due from Italy equivalent to RM 24 million for transport charges and RM 50 million for military advances.

By the end of 1942 the Bank of Greece showed claims on Germany and Italy of some Dr. 200 milliard, arising in part from the payment of occupation costs and partly from the financing of the clearings; at the official Reichsmark rate (of RM 1 equal to Dr. 60) this would be equivalent to RM 3,300 million, an amount much swollen by the extraordinary rise in prices in Greece. In November 1942, a monopoly company usually referred to as "Degrites" was formed to promote German-Greek trade by equating quantities of exports and imports so as to overcome the effects of the inflationary price trend; the corresponding Italian company "Sacig" suspended operations in September 1943.

Greek Importers' Advance Payments.

Date of decree	Number of times nominal import price to be prepaid
1943 November . . .	10
1944 mid-February . .	30
end-February . .	50
mid-March . .	100
end-March . .	200
end-July . . .	1,000

Upon the opening of a confirmed credit for the import of goods into Greece, the importer would have to prepay to a special account at the Bank of Greece a sum which, in November 1943, was fixed at ten times the nominal import price but was successively raised until, by the end of July 1944, it had reached one thousand times the import price — a sign of the violent inflation. The sums thus prepaid were set off against the final calculation (made when the goods actually arrived) of the difference between Greek and German prices at the official exchange

rate; this difference was then allocated to "Degrites" and used to subsidise Greek exports to Germany and to meet part of the costs of occupation.

In December 1943 a new clearing agreement was signed between Germany and Albania. Since monetary conditions in the latter country were not unlike those in Greece, advantage was taken of the experience gained in that country, the Deutsch-Albanische Warenausgleichbüro being formed with functions similar to "Degrites" (see thirteenth Annual Report pages 64 and 234). With the creation of the Ostland Central Bank, in April 1943, the German clearing

mechanism was extended to the territories of Estonia, Latvia, Lithuania and White Ruthenia; transfers had previously taken place through the Reichskreditkassen.

Among the countries which had accumulated a net indebtedness in the clearing, the most important, after Germany, would seem to have been Finland, whose clearing debts, as shown by the returns of the Bank of Finland, rose from the equivalent of RM 75 million by the end of 1941 to a high point of RM 180 million in March 1943 (at the rate of FM 100 equal to RM 5.07); from then onwards there was a steady decline in the debt, which disappeared by March 1944. But simultaneously the item called "foreign correspondents" in the return showed a growing debit balance, slightly exceeding RM 100 million

by the end of 1943. By November 1944, however, the net debt to "foreign correspondents" exceeded the credit in the clearings by the equivalent of only RM 36 million. In addition, there was a special clearing account with Germany; according to a statement by the Finnish Minister of Trade, reported in the press in January 1944, Finland's total clearing indebtedness to Germany increased from the equivalent of RM 275 million at the end of 1942 to RM 425 million at the end of 1943.

Finland's
Clearing Debts etc. outstanding.*

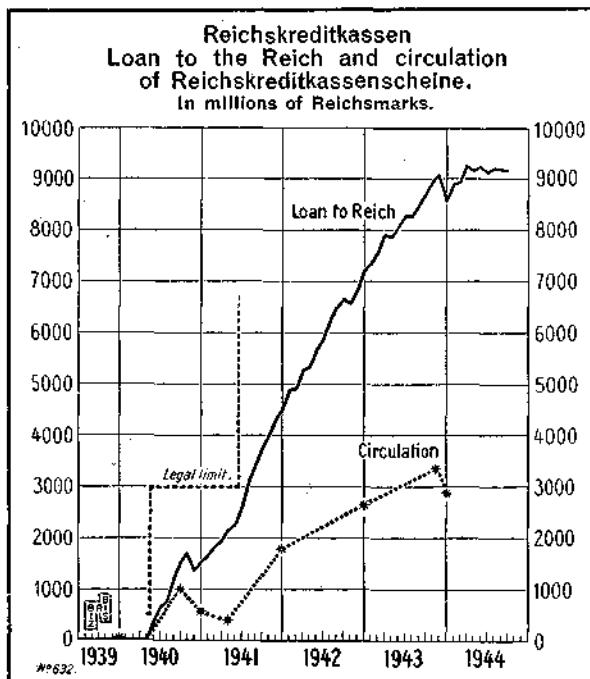
End of month	Clearings	Foreign	Net total
		Correspondents (net)	
In millions of RM			
1940 Dec.	— 17	+ 45	+ 28
1941 "	— 75	— 6	— 81
1942 "	— 150	+ 4	— 145
1943 "	— 71	— 106	— 177
1944 Nov.	+ 121	— 157	— 36

Items in Finnish Marks from the return of the Bank of Finland converted into Reichsmarks at the rate FM 100 equal to RM 5.07.

Turkey appears to have an excess of debts over clearing assets, but only of a comparatively negligible amount — the equivalent of about RM 20 million early in 1943; and Norway also was reported to have a clearing debt to Germany for the delivery of war material.

Military developments in 1943 caused the closing of a number of Reichskreditkassen in the east, while new Kassen were opened in Italy, Dalmatia, Albania and Montenegro; and, in March 1944, Reichskreditkassenscheine were also utilised for a short time in Hungary. There were 52 Kassen in existence at the end of 1942; in the following year 20 were closed and 16 taken over as branches by the Ostland Central Bank, while 23 new Kassen were opened, so that at the end of 1943 there were 39 in all (as well as 31 exchange offices). The rather fragmentary statistics available regarding the assets and liabilities of the Reichskreditkassen are brought together in the table on the following page, which should be read in the light of the footnotes.

By the end of 1943, the circulation of Reichskreditkassenscheine amounted to RM 2.9 milliard, of which the greater part was in the Ostland, where they served as currency (as also in Transnistria). In other areas their use was kept down to a minimum, German troops generally being paid in the local currency through arrangements made with the respective central banks. An important reason for these arrangements was that, though the Reichskreditkassenscheine,



when used for troop payments, bore a fixed relation to the local currencies, the fact that the rise in prices varied from country to country caused a corresponding variation in the purchasing power of the Reichskreditkassenscheine, which thus tended to gravitate towards the country or countries where their purchasing power was highest. Such undesired migrations went on, for instance, from the east of Europe towards France, the Reichskreditkassenscheine having developed into a form of travellers' money', or clearing currency, for the German troops. To overcome these difficulties, Reichskreditkassenscheine were

Reichskreditkassen.

End of month	Assets			Liabilities		
	Loan to Reich (1)	Account at Bank of France (2)	Total (3)	Circulation (4)	Giro accounts (5)	Debts to central banks (6)
In millions of Reichsmarks						
1940 December	1,500	2,070	3,570	550	2,070	950
1941 "	4,510	3,230	7,740	1,780	3,230	2,730
1942 "	7,210	840	8,050	2,660	840	4,550
1943 "	8,580	540	9,120	2,900*	540	5,700*
1944 September	9,140	—	9,140	—	—	—

* These figures are rounded off to the nearest RM 100 million; other figures to the nearest RM 10 million.

(1) As shown by the "sundry loans" at short term in the official Reich debt statement; as this item may include other minor loans besides that of the Reichskreditkassen it has been rounded to the nearest RM 10 million below the published figures.

(2) The account of the Reichskreditkassen as shown by the returns of the Bank of France, converted into Reichsmarks. Accounts are also kept at other central banks, the amount of which is not usually published, but in general these accounts can be taken as of much less importance than that kept at the Bank of France.

(3) This is the total of the two preceding columns, not of all the assets; but it probably includes 90 per cent. or more of the total balance sheet. Reichsbankdirektor Max Kretschmann in "Europa-Kabel" of 14th January 1944 estimated the total circulation of Reichskreditkassenscheine as RM 3,100 million at the end of 1943 and stated that this corresponded to about 30 per cent. of total liabilities, which would give a total balance sheet of some RM 10,300 million. The Reichsbank annual report for 1943 gave the actual circulation as RM 2,900 million for December 1943; applying the same proportion, the total balance sheet would be about RM 9,700 million. Other assets than those shown above would appear, therefore, to aggregate some RM 600-1,200 million.

(4) The circulation of Reichskreditkassenscheine was given by Kretschmann in the above-mentioned article at the year-ends between 1939 and 1942 as RM 37, 553, 1,781 and 2,664 million respectively, and he stated that the circulation reached its highest point of RM 3,352 million at the end of November 1943. The decline to December 1944 was due to withdrawals from circulation in France and Italy.

In addition to the issue of Reichskreditkassenscheine, there was in circulation, at the end of 1943, RM 44 million "auxiliary money" (reckoned at ten times its face value); the highest circulation of such money was RM 75 million in October 1943. This auxiliary money was issued principally in Bulgaria and Greece (and temporarily in Italy).

(5) This column gives the same figures as the account at the Bank of France and represents, in this case, the liability of the Reichskreditkasse to the Wehrmacht on account of occupation costs paid by the French Government and not yet utilised. Similarly, part, at least, of the RM 600-1,200 million missing from the incomplete balance sheet (see under (3) above) probably represents giro accounts at the Reichskreditkassen with a counterpart of assets held at central banks.

(6) This column gives the residue (column 3 less columns 4 and 5 together) and provides an indication of the Reichskreditkassen debts to central banks, e.g. to Danmarks Nationalbank as the Reichsmark counterpart of advances made to cover occupation costs. Kretschmann in the above-mentioned article said that the total liabilities of the Reichskreditkassen consisted as to two-thirds of giro accounts kept with the Reichskreditkassen and of commitments vis-à-vis foreign banks of issue.

withdrawn from circulation in France during December 1943, as had already been done in Belgium by August 1942. Further, by a decree of 13th October 1944, the Reichskreditkassenschein ceased to be used as travellers' money, or clearing currency, as from 1st January 1945, and was replaced by the "Verrechnungsschein für die Deutsche Wehrmacht", a sort of military travelling voucher, which is not legal tender and may not be utilised by civilians.

* * *

To give an indication of the amounts paid on account of occupation costs (including similar charges such as billeting of troops and requisitions) the following table has been prepared for five countries for which sufficiently comprehensive information has become available.

In 1943, France paid on an average RM 925 million a month in occupation costs, Holland RM 180 million, Belgium RM 130 million and Denmark RM 45 million, with the greatest relative increase in Denmark, where the amount paid more than doubled from 1942 to 1943. For the latter year, Italy has been added to

the table: the original monthly rate of about Lit. 6,000 million was later raised to Lit. 10,000 million, which at the official Reichsmark valuation would be equivalent to RM 1,000 million, but in this connection account has to be taken of the high prices in northern Italy (substantially above those ruling, for instance, in either Germany or France).

Occupation Costs
paid to Germany by Five Countries.⁽¹⁾

Country	1940 second half-year	Calendar years			Total 1940- 1943	1944 first nine months (2)
		1941	1942	1943		
in millions of Reichsmarks						
France (3) . . .	1,750	5,550	8,550	11,100	26,950	8,300
Holland . . .	800	1,900	2,200	2,200	7,100	1,650
Belgium . . .	350	1,300	1,500	1,600	4,750	950
Denmark . . .	200	200	250	550	1,200	800
Italy (4) . . .	—	—	—	2,000	2,000	8,000
Totals . .	3,100	8,950	12,500	17,450	42,000	19,700

(1) Rounded to nearest RM 50 million.

(2) Payments by France and Belgium ceased in August 1944.

(3) For France, the occupation costs proper have been distributed according to the time of the actual utilisation (see page 215), while billeting costs and requisitions have been added.

(4) Italy from September 1943 only.

Although the payment of occupation costs in France and Belgium ceased in August 1944, the five countries paid altogether some RM 20 milliard in the first three quarters of 1944, against RM 17½ milliard in the whole of the previous year; the chief reasons for this increase were the payments by Italy, which began only in September 1943, and the withdrawal of the balance on the account of the Reichskreditkassen at the Bank of France (see page 217). In the last quarter of 1944, total payments probably did not exceed RM 4 milliard, of which three-quarters came from Italy.

These five countries accounted for seventy per cent. of the total occupation costs paid in 1943, as the table on the following page shows. From about RM 4 milliard in the second half of 1940 the amount paid as occupation costs rose to RM 25 milliard in 1943 and about RM 28 milliard in the first nine months of 1944. The conspicuous increase in the rate of payments over the period was due, firstly, to the greater proportion of the German army maintained on foreign soil as further territories were occupied, and, secondly,

Occupation Costs
paid to Germany by All Countries.

Totals paid	1940	1941	1942	1943	Total	1944 first nine months
	second half-year	calendar years			1940- 1943	
in millions of Reichsmarks						
Five countries (as above)	3,100	8,950	12,500	17,450	42,000	19,700
Other countries	900	1,050	4,500	7,550	14,000	8,300
Total for all countries.	4,000	10,000	17,000	25,000	56,000	28,000

paid in all, the five countries for which details have been given declining in relative importance from over four-fifths of the total in 1940 and 1941 to about two-thirds in 1942 and 1943, with a corresponding rise in the share of the other countries.

Included in the figures given for these other countries are the occupation costs paid in Norway, Greece, Croatia and Serbia, as well as the "war contributions" of Bohemia and Moravia and of the Governor-Generalship of Poland (and probably also the payments made to the Wehrmacht by the Ukraine Central Bank from March 1942 and by the Ostland Central Bank from April 1943) while the local cost of upkeep for the German troops stationed in Finland, Hungary, Slovakia, Roumania and Bulgaria appears to have been debited to the respective clearing accounts. The aggregate occupation costs paid in Norway up to the end of 1944 seem to have been about N.Kr. 10-11 milliard, the equivalent of some RM 6,000 million. In Greece about RM 3,300 million appears to have been paid from April 1941 to December 1942 on account of occupation costs and to finance the clearings, while, in 1943, special measures to obtain payments had to be taken through "Degriges"; no estimate of the sums obtained from this country can easily be made, but any amounts in drachmae, if converted at official Reichsmark rates, would go far towards explaining the considerable expansion of the figures under "other countries" in the previous table for the years 1942 and 1943. For Croatia, the amount paid in occupation costs during 1943 approached RM 600 million (see table, page 158); but part of this sum probably went to Italy; in the first six months of 1944 a further RM 570 million was paid. No figures have been made available for Serbia but a report issued in Belgrade in December 1944 placed the total costs of occupation paid by Yugoslavia as a whole since March 1941 at Din. 82 milliard, say RM 4,100 million.

It is now possible to bring together the amounts obtained by Germany from these various foreign sources and thus to obtain an approximate estimate of Germany's utilisation of European resources, as recorded under payment of occupation costs and financing of the clearings.

In a little over four years, from June 1940 to September 1944, it appears that, at the official exchange rates, Germany has obtained from other European

to rising costs resulting from higher commodity prices together with more extensive fortifications and the repair of damage from air bombardments etc. For the period of slightly over four years up to September 1944, around RM 84 milliard has been

Germany's Utilisation of European Resources.

In milliards of Reichsmarks (1)	Occupation costs paid	Clearing debts (2)	Total foreign contribu- tions
Total amounts accumulated as at			
1940 December . . .	4	3	7
1941 " " . . .	14	10	24
1942 " " . . .	31	19	50
1943 " " . . .	56	31	87
1944 September . . .	84	40	124
Amounts paid out in each particular period of			
1940 (8 months) . . .	+ 4	+ 2	+ 6
1941 (12 months) . . .	+ 10	+ 7	+ 17
1942 (12 " ") . . .	+ 17	+ 9	+ 26
1943 (12 " ") . . .	+ 25	+ 12	+ 37
1944 (9 months) . . .	+ 28	+ 9	+ 37
1940-44 (4½ years) .	+ 84	+ 39	+ 123

(1) In round milliards of RM.

(2) Including the debts of the Reichskreditkassen to central banks but not the issue of Reichskreditkassenscheine (see page 160), and excluding occupation costs paid by Denmark.

valuation in relatively stable prices, while the payments due in the clearing have been affected by the sharp rise in the prices for German imports from certain countries compared with the prices for Germany's exports (cf. page 51 regarding price of wheat).

Furthermore, the service items in the balance of payments turned increasingly passive for Germany. Freight and insurance, including the cost of transit traffic, as well as the transport of German troops and their supplies through such countries as Hungary and Croatia, led to substantial net charges for Germany. A further passive item of great importance was the transfer of savings by foreign workers in Germany: figures have been published which show that the nationals of twelve foreign countries transferred over RM 2 milliard through German banks in the four years 1940-43 — nearly RM 1 milliard of it in 1943; the list of nationals effecting such transfers was headed by Italians, French and Belgians; in addition, workers have

usually carried some amounts with them, in the form of travelling allowances, etc., on their periodical leave. Moreover, the figures for the twelve countries do not include remittances by workers coming from Holland or from Bohemia and Moravia, which formed part of the German inland devisen area; or by workers from the Ostland, for whom other methods of payment were utilised. The total of savings transferred was consequently considerably higher than the figure of RM 2 milliard given in the table.

Germany: Foreign Workers' Savings transferred through German banks.

Calendar years	In millions of RM
1940	120
1941	383
1942	606
1943	960
Total 1940-43 .	2,069

countries over RM 120 milliard in all, of which about two-thirds have been exacted as a contribution à fonds perdu (mainly to meet occupation costs) while the remaining third has left behind a German debt, generally in the form of liabilities on clearing account.

Some reference has already been made to the reasons for the rise in the rate of payments on account of occupation costs up to September 1944. As regards the rapid growth of clearing debts, it appears that German trade statistics registered no marked import surplus in any period during the war; this result may, however, reflect

Finally, capital movements would appear to have added to the German indebtedness in the clearings, particularly during certain periods. Thus, in the years 1940 and 1941, investments were made by German banks and industry in Continental Europe, the local currency being obtained by placing Reichsmarks to the credit of the respective country's account at the Verrechnungskasse in Berlin. More recently, in 1942 and 1943, there was a reverse flow, however, since securities in German hands were repatriated, especially to south-eastern Europe, as mentioned in previous paragraphs.

What has been the relative influence of each of these various factors it is impossible to say in the absence of adequate statistical material. In Germany itself much emphasis has been placed on the irregular development of import and export prices reckoned at the official Reichsmark exchange rates. Indeed, suggestions were made that the over-valuation of many currencies in Continental Europe, due to inflationary developments, should have been met by appropriate adjustments of exchange rates. But this course was opposed in authoritative German quarters and the policy of maintaining rates unchanged was adhered to, in spite of growing discrepancies. The annual report of the Reichsbank for 1943 stated:

"... Although there have been changes in the purchasing-power relationships of individual countries, the fixing of new exchange rates has, so far, been avoided. In itself such a measure alone would not serve to remove the deeper causes of clearing indebtedness and it would therefore offer no satisfactory, permanent solution for the price developments. Moreover, by maintaining the present rates of exchange unaltered, Germany has made it considerably easier for the countries on friendly terms with the Reich to carry out their domestic currency policies..."

The Reichsbank thus referred to certain deeper causes of the clearing indebtedness, not easily removed; it is, indeed, evident that basic difficulties have been created by the intensity and long duration of the war effort, the growing contributions demanded from Continental Europe, especially from 1943 onwards, and the way these European contributions were financed. The burden put on the occupied countries by the export of capital through the clearings, and by the current payment of occupation costs, confronted them with problems of war financing which were not solved without resort to central-bank credit.

To obtain a comprehensive picture of developments in any particular country, it is necessary to take account of all official financing, including both ordinary budgetary outlay and such extraordinary charges as the advances in the clearing and the contributions to occupation costs, and to consider what proportions of the total outlay have been covered by taxation, borrowing from genuine savings and bank credit respectively; such a survey is made for countries individually in Chapter V. Here, it is of interest to note that, in the occupied countries, the considerable calls on central-bank credit have been largely due to the growth of the clearing claims and the payment of occupation costs and that, as a matter of fact, there has, therefore, been a special link between these charges and the expansion of the note circulation.

The following table sets out for six countries, where the situation is clearly shown in the central-bank returns, the degree of correspondence between the growth of clearing claims and payment of occupation costs, on the one hand, and the expansion of the note issue on the other.

Central Banks' Special Advances against Clearing Assets and/or on Occupation Costs account (as percentages of the Note Circulations).

Country	Annual amount of special advances as percentage of increases in note circulations			Total special advances as percentage of note circulations outstanding			
	during year			at end of year			
	1941	1942	1943	1940	1941	1942	1943
percentages							
Denmark (1)	876	489	511	109	201	243	317
France (2)	86	103	104	16	29	51	65
Belgium (3)	63	95	152	9	24	44	64
Bohemia and Moravia (2)	176	94	161	101	124	114	134
Holland (3)	170	88	280	8	49	62	92
Hungary (4)	23	38	37	—	7	17	24

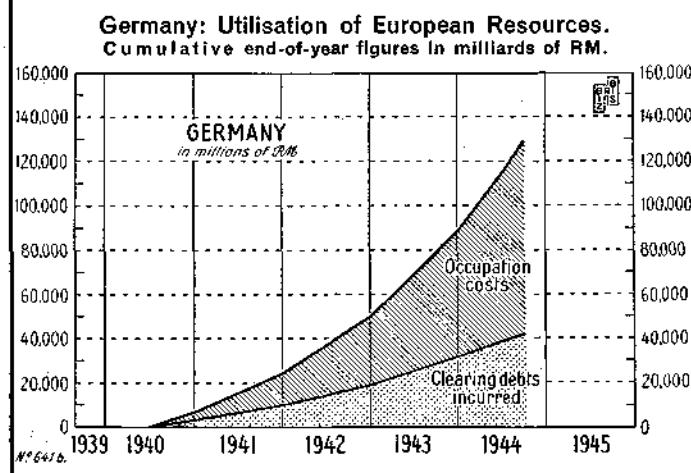
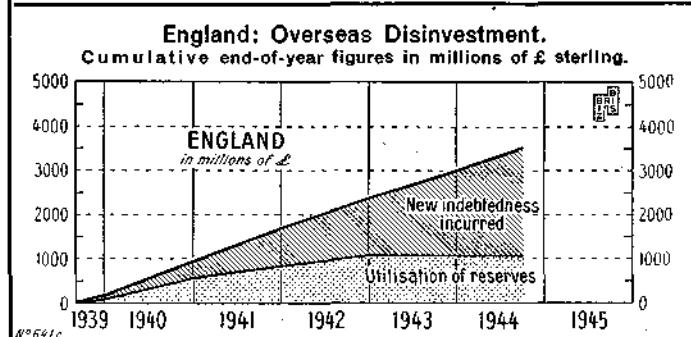
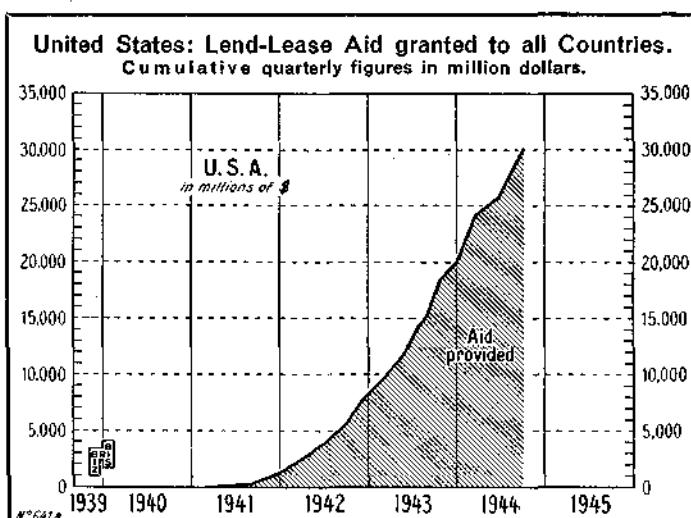
(1) Both on clearing account and for occupation costs.

(2) Special advances on account of occupation costs net, i.e. including movements of the account of the Reichskreditkassen at the Bank of France. (3) On clearing account only.

In Hungary, which in 1943 was not in the category of an occupied country, the note circulation rose considerably more than the advances on clearing account — a sign of inflationary financing for domestic purposes. The increases of special advances in the five other countries exceeded the expansion in the note circulation; for France the excess was very small, giving for this country an almost perfect correlation and indicating the stagnation of all other items in the return of the Bank of France. In Denmark especially, internal stabilisation measures were taken to offset the untoward effects of the central-bank advances, and there the rise of these advances in 1943 was over five times as great as the increase in the note issue. But, by and large, such counteracting steps have only had a limited influence, and the financing of clearings and occupation costs has thus been to a great extent of an inflationary character. That being the case, the long duration of the war has given time for the inflationary influences to get a firm hold and for an all-round rise in internal prices to take on substantial proportions in many European countries.

As is usual in such circumstances, the volume of commodities coming on to the market tended to decline, producers holding back for still higher prices; exports began to fall off as exporters found the high prices on the home market more attractive and less risky while, on the other hand, imports were encouraged. To counteract these influences the idea of a general price stop was mooted but proved impracticable, especially where it would have been most needed — in south-eastern Europe. A more limited scheme for a price stop on exports, with the intention of isolating the German market from price-raising influences from abroad, was successful for those countries where it was least needed, e.g. in relation to Sweden, where prices

had risen only moderately. For countries where the internal price rise had been great, a limitation of export prices would have paralysed the export stimulus; indeed, it would have been necessary to raise export prices more than internal prices, in order to encourage exports. To some extent this was done by export subsidies, special exchange rates for the commodities most in demand, and price equalisation offices, on the one hand, and by elastic prices for



commodities most in and by elastic prices for German export goods, on the other; but such measures as were taken had to be adjusted again and again to the continuously changing situation — which would also have been the case if exchange rates had been modified, as the Reichsbank foresaw. Actually, a number of makeshift solutions were attempted, including numerous compromises and exceptions and even the formation of special bodies with very wide powers over foreign trade, e.g. "Degriges" in the extreme case of Greece.

Meanwhile, the indebtedness of Germany on clearing and assimilated accounts attained RM 40 milliard in the autumn of 1944. Various official and semi-official statements have been made from authoritative German quarters as to the export potential of Germany after the war. The Reich Minister for National Economy said, for example, in Vienna in March 1944 that the clearing balances would be paid off by Germany in goods after the war.

"on the basis of purchasing-power conditions prevailing at the time of the formation of such balances", a statement which appears to envisage some general adjustments, taking account of price movements and exchange relations as modified by the war and post-war situation. Four months later, in Königsberg, he suggested that the German clearing debts might be consolidated in the form of a long-term loan.

* * *

This chapter has dealt with three great international streams of capital, of a special wartime nature, which, by the end of 1944, had attained vast proportions: American lend-lease deliveries of \$35,000 million, British overseas disinvestment of over £3,700 million (representing the utilisation of reserves and the accumulation of new liabilities) and Germany's absorption of continental European resources to the extent of about RM 130,000 million (of which over RM 40,000 million remains as a German debt on clearing and assimilated accounts). The graphs (arranged on relative scales of £1 = \$4 = RM 20) give cumulatively an indication of the proportions of these special foreign capital movements.

It has become fashionable in recent years to minimise the rôle of finance and to insist that what can be achieved physically should necessarily be possible financially. In time of war this creed finds ready acceptance and finance is forced to follow as best it can the intense physical achievements of the belligerents. But certain methods of financing produce lasting effects, some of which could hardly be foreseen when the wartime decisions were taken: thus the capital movements which have occurred, involving important shifts in the ownership of assets and the responsibility for debts, have created a host of thorny problems to be dealt with when the war is over. It will then be evident that burdens which it was possible to assume financially in wartime may be difficult to carry physically in times of peace.

V. GOVERNMENT FINANCE, MONEY AND CAPITAL MARKETS AND THE STOCK EXCHANGE.

1. GOVERNMENT FINANCE, MONEY AND CAPITAL MARKETS.

Government expenditure in wartime has become the dominating factor in the whole field of public finances and in the monetary sphere; and this applies not only to the belligerents but to the occupied and neutral countries also. The financial problems to be solved have been largely the same everywhere and it is, therefore, not surprising that many similarities should be found in budgetary and monetary developments; but there are also some striking differences due to diversity in the economic, monetary and political backgrounds of the various nations, each displaying its peculiar characteristics.

The rather scanty information obtainable from the U.S.S.R. seems to show that, alone among the five principal belligerents, this country has experienced only a moderate increase in its total budgetary expenditure: in a collective economy, the budget, even in peacetime, reflects the circumstance that a major portion of the national resources comes under state direction; so in wartime the change chiefly takes the form of a shift inside the budget (from outlay for "national economy" to increased expenditure on "defence and war", see page 190).

With regard to the other four principal belligerents, it may be noted that the United Kingdom and Germany, which have been at war since 1939, have recently introduced no new forms of taxation and the rate of increase of tax yields has consequently fallen off; here the practicable limit of taxation would seem to have been reached. In Japan, and even more in the United States, nations involved in the general world war only since the end of 1941, the yield from taxation has continued to rise with increasing rapidity. Current revenue from other sources than taxation has been of importance only in Germany, where it was swollen by contributions from the occupied countries.

These four belligerents have all maintained low rates of interest and tapped the great "money reservoirs": savings banks, insurance companies and social funds. But, whereas the governments in the United States and the United Kingdom have undertaken energetic "savings campaigns" with the object of selling a large variety of securities to the individual investor — thus tying up funds for as long a period as possible — the authorities in Germany and Japan have not made similar efforts to secure a direct participation of the public, government borrowing being effected almost exclusively through institutions (including the banking system) by means of a very few types of security. Japan is the only country to finance the war exclusively at long term, there being no issue of Treasury bills, but a monotonous series of securities all with exactly the same conditions: 3½ per cent. bonds for 11-17 years, issued at 98. In Germany, on the other hand, the so-called

"noiseless financing", characterised by an increasingly rapid expansion of deposits, especially at the savings banks, has brought with it a striving for liquidity and, in conformity with this tendency, four-fifths of recent government borrowing has been at short term. Germany, however, is the only country in the world to have dispensed with physical "securities" in its government borrowing, practically all issues, transfers and interest payments taking place through centralised book-entries, a technique already adopted some years ago, but which has been stimulated by the war and air bombardment.

In the occupied countries on the continent of Europe official expenditure was largely determined by the amounts paid as costs of occupation and to finance the clearings. In four countries for which adequate statistical material has been continuously available, France, Belgium, Holland and Denmark, the outlay on German account came to about one-half of all official expenditure during the four years 1940-43.

In the following paragraphs developments in the five principal belligerent countries and in occupied Europe are described in some detail, budgets being given, as far as possible, on a cash basis and government finance treated with special regard to its influence on the monetary situation.

In the first phase of the defence programme of the United States, inaugurated in June 1940, total war expenditure was at an annual rate of just under \$10 milliard but had risen to a figure approaching \$100 milliard in the financial year ended June 1944, when the country's war production attained full capacity.

United States: War Expenditure⁽¹⁾
(average expenditure on annual basis).

Period reckoned on annual basis	number of months	War expenditure			
		War construction	Pay, subsistence ⁽²⁾	Munitions ⁽³⁾	Total
In millions of dollars					
Preparedness: July 1940–November 1941	17	2.0	2.9	4.9	9.8
Defensive warfare: December 1941–October 1942 . .	11	10.1	10.1	25.6	45.7
Aggressive deployment: November 1942–December 1943 .	14	10.9	23.4	49.3	83.6
Offensive warfare: January 1944–June 1944	6	5.5	27.6	58.9	92.0
July 1944–June 1945 (estimates) .	12	3.6	29.7	56.7	90.0

(1) Based on a table in the Federal Reserve Bulletin for February 1944; war expenditure as shown in the budget plus the amounts financed through the net outlays of government corporations.

(2) Including also agricultural, lend-lease and other "civilian" war activities.

(3) Including ships.

As the war reached its climax, the output of munitions accounted for two-thirds of all war expenditure, with a falling-off in the outlay for the construction of war plants, army camps and other military establishments.

The place of war expenditure in the Federal budget as a whole is shown below (the figures being somewhat lower than in the previous table, since the net outlay of government corporations for war purposes is not included in the Federal budget); interest on the debt has increased while other civil expenditure declined, reflecting *inter alia* the practical elimination of unemployment relief.

United States: Public Finances.

Yearly and quarterly	Revenue (1)		Expenditure				Deficit	Move- ment of official balances, etc. (2)	Total borrow- ing (3)
	Income taxes (2)	Total (3)	War (4)	Interest on debt	Other	Total			
in millions of dollars									
Financial years (4)									
1939-1940 . . .	2,125	5,387	1,657	1,041	6,300	8,998	3,611	- 1,073	2,538
1940-1941 . . .	3,470	7,607	6,301	1,111	5,299	12,711	5,103	+ 1,770	6,873
1941-1942 . . .	7,960	12,799	26,011	1,260	5,126	32,397	19,598	+ 2,172	21,770
1942-1943 . . .	16,094	22,282	72,109	1,808	4,262	78,179	55,897	+ 7,058	62,955
1943-1944 . . .	34,655	44,149	87,039	2,609	4,096	93,744	49,595	+11,992	61,587
Calendar years									
1939	1,851	4,919	1,305	971	6,612	8,888	3,969	- 794	3,175
1940	2,366	5,835	2,779	1,077	5,904	9,660	3,824	- 531	3,293
1941	4,253	8,848	12,704	1,145	6,203	19,052	10,204	+ 3,205	13,409
1942	11,067	16,403	49,862	1,452	4,706	56,020	39,617	+ 8,206	47,823
1943	26,547	34,552	81,860	2,191	4,033	88,084	53,532	+ 3,609	57,141
1944	34,330	44,421	89,327	3,001	4,832	97,160	52,737	+ 8,691	61,628
Quarterly									
1943 Jan.-March .	5,418	6,949	18,461	351	1,033	19,845	12,896	- 5,850	7,046
April-June .	5,743	7,563	21,535	740	953	23,228	15,665	+ 5,170	20,835
July-Sept. .	7,584	10,175	20,616	425	1,223	22,264	12,089	+ 9,457	21,546
Oct.-Dec. . .	7,802	9,865	21,248	675	824	22,747	12,882	- 5,167	7,715
1944 Jan.-March .	9,385	11,823	22,382	592	983	23,957	12,134	+ 4,739	16,873
April-June .	9,883	12,284	22,792	916	1,063	24,776	12,492	+ 2,961	15,453
July-Sept. .	7,973	10,657	21,770	744	1,645	24,159	13,502	- 5,231	8,271
Oct.-Dec. . .	7,089	9,657	22,393	749	1,136	24,268	14,609	+ 6,422	21,031

(1) Net receipts, i. e. total receipts less net social-security employment taxes.

(2) Including since July 1943 income taxes "withheld by employers" under the Current Tax Payment Act of 1943; in the financial year 1943-44 amounts so withheld totalled \$8,393 million.

(3) Including other taxation and Panama Canal dues and other miscellaneous receipts; cash refunds on renegotiated war contracts in 1943-44 accounted for over \$2,000 million compared with \$558 million in 1942-43.

(4) Before December 1941, national defence. Actually war expenditure was somewhat greater than that shown in the budget statistics, as certain expenditure was borne directly by government corporations. In 1943-44, the Reconstruction Finance Corporation and its subsidiaries spent \$2,682 million on war activities.

(5) Movements of the Treasury's "general fund" and of the balances held by government agencies with the Treasury plus changes in non-interest-bearing debt.

(6) Increase of interest-bearing government debt outstanding, direct and guaranteed.

(7) Financial years ended 30th June.

A fiscal programme to produce \$10.5 milliard additional taxation was submitted in October 1943, but in Congress this supplementary tax revenue was ultimately reduced to \$2.5 milliard. In spite of the "failure thus to enact an adequate fiscal programme", as the President stated in his budget message to Congress in January 1944, current revenue in the year 1943-44 reached \$44 milliard, almost twice as much as in the previous financial year; the yield of all taxes on income and profits rose from \$2 milliard in 1939-40 to \$35 milliard in 1943-44 (of which \$20 milliard was from individuals and \$15 milliard from corporations). This rapid rise was explained partly by higher rates of taxation, partly by the expansion in national income, but was largely due to the new system of "pay-as-you-go" for individual income taxes (the transition to the new basis producing an exceptional yield) plus the introduction of

"withholding" at the source for victory taxes and for 20 per cent. of income taxes on wages and salaries.

In the financial year 1943-44 revenue rose rather more than expenditure, the budget deficit being reduced from \$55.9 milliard to \$49.6 milliard. The following table shows the government borrowing necessary to meet the deficit and also to augment official balances (the Treasury's "general fund" having been raised from under \$2 milliard in June 1940 to \$20 milliard in June 1944).

United States: Government Borrowing

increases or decreases (—) of interest-bearing debt (direct and guaranteed) and total outstanding (1).

Yearly and quarterly	Long and middle-term						Short-term				Total borrow- ing
	Tre- sury notes	Tre- sury bonds	Sav- ings bonds	Spe- cial issues	Guar- anteed bonds (2)	Total (3)	Tre- sury bills	Certifi- cates of Indebt- edness	Tax and savings notes	Total	
	in millions of dollars										
Financial years (4)											
1939-40 . . .	— 860	1,337	1,037	1,005	48	2,544	— 6	—	—	— 6	2,538
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
1943-44 . . .	8,237	21,724	13,350	3,416	— 2,576	44,394	2,870	12,261	2,062	17,193	61,587
Calendar years											
1939	— 2,293	2,876	767	1,075	629	3,026	149	—	—	149	3,175
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
1943	1,312	18,676	12,313	3,671	— 58	36,185	6,446	12,309	2,202	20,956	57,141
1944	11,864	23,641	12,998	3,623	— 2,755	49,457	3,356	7,558	1,257	12,171	61,628
Quarterly											
1943 Jan.-March	— 66	5	2,841	972	67	3,850	2,607	627	— 38	3,196	7,046
April-June	— 629	8,247	3,365	867	— 258	11,656	2,630	5,400	1,149	9,179	20,835
July-Sept.	2,428	7,924	3,222	846	— 128	14,425	1,190	4,575	1,356	7,121	21,546
Oct.-Dec.	— 421	2,500	2,885	986	261	6,255	18	1,707	— 265	1,460	7,716
1944 Jan.-March	5,069	4,869	4,611	804	— 1,967	13,431	75	2,837	530	3,442	16,873
April-June	1,161	6,431	2,632	780	— 742	10,283	1,587	3,142	441	5,170	15,453
July-Sept.	531	2,026	2,717	1,689	— 36	6,940	1,013	751	— 433	1,331	8,271
Oct.-Dec.	5,103	10,315	3,038	350	— 10	18,803	681	828	719	2,228	21,031
Total debt outstanding											
end of June 1939	6,383	26,555	2,905	4,775	5,498	46,572	1,302	—	—	1,302	47,874
" " " 1944	17,405	79,244	34,606	14,287	1,516	147,946	14,734	28,822	9,557	53,113	201,059

(1) At the end of 1943 the gross direct debt amounted to \$165,877 million, of which \$164,508 million was interest-bearing. The legal limit for this debt was raised from \$210,000 million to \$260,000 million in June 1944. In addition, \$4,225 million guaranteed debt was outstanding at the end of 1943.

(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 of comparatively minor proportions.

(4) Financial years ended 30th June.

Short-term issues, principally certificates of indebtedness and Treasury bills, for the most part sold direct to the banks, produced \$17.2 milliard in 1943-44, equal to 28 per cent. of total borrowing, as against 43 per cent. in 1942-43. The bulk of the long-term issues consisted of Treasury bonds and savings bonds sold to the public. Since October 1942 a series of intensive savings campaigns have been undertaken to place long-term government securities directly with the public, the participation of banks being at first limited and later excluded. The results of the first six of these "war loans", so called although a wide variety of securities were sold, are given overleaf.

United States: War Loans.

War-loan drive and date		Amounts offered	Amounts subscribed			Amounts oversubscribed	
			by commercial banks	by others than banks	Total		
In millions of dollars							
First	December 1942	9,000	5,087	7,860	12,947	3,947	44
Second	April 1943	13,000	5,079	13,476	18,555	5,555	43
Third	September 1943	15,000	nil	18,943	18,943	3,943	26
Fourth	January–February 1944 . . .	14,000	nil*	16,730	16,730	2,730	20
Fifth	June–July 1944	16,000	nil*	20,639	20,639	4,639	29
Sixth	November 1944	14,000	nil*	21,626	21,626	7,626	54

* An innovation was made from the fourth war loan in that, concurrently with the drive but not counted against the "target", banks were permitted to buy small amounts in relation to savings deposits, a concession provided particularly for country banks, which in recent years have had some difficulty in securing an adequate profit margin. The amounts thus sold to banks in the fourth and fifth drives were about \$620 and 760 million respectively (not included in the totals given in the tables).

Although the original sale, or primary distribution, of recent war loans has been made to non-bank investors, there has been an important shift in

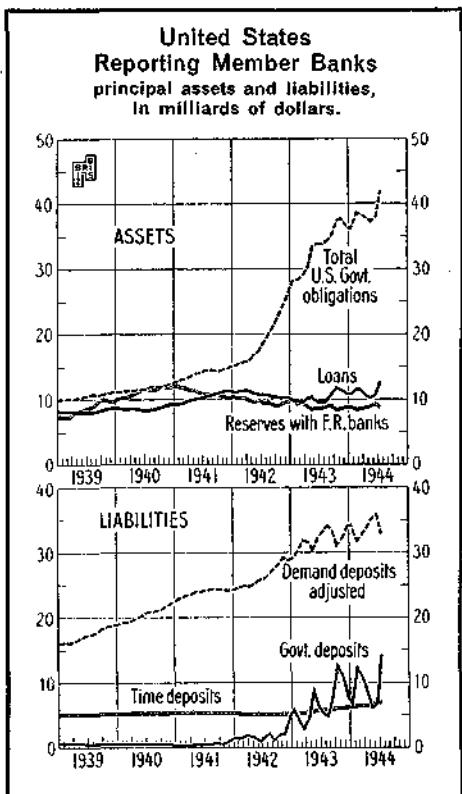
United States: Distribution of Government Borrowing.⁽¹⁾

Calendar years	Banking System			Other investors				Total all investors	
	Federal Reserve banks	Com-mercial banks ⁽²⁾	Total	Mutual Savings banks	Insur-ance com-pañies ⁽³⁾	Federal agencies	All others ⁽³⁾		
In millions of dollars									
Purchased during period									
1939 Jan.–Dec.	— 80	1,230	1,150	220	600	1,200	10	2,030	3,180
1940 " "	—300	1,460	1,160	120	600	1,090	310	2,130	3,290
1941 " "	70	4,030	4,100	480	1,300	1,910	5,620	9,310	13,410
1942 " "	3,940	19,590	23,520	860	3,100	2,710	17,630	24,300	47,820
1943 " "	5,350	18,470	23,820	1,540	3,800	4,700	23,280	33,320	57,140
1944 Jan.–June .	3,360	8,590	11,950	1,210	2,200	2,140	14,830	20,380	32,330
Total holdings end of Dec. 1943	11,540	59,850	71,390	6,100	15,100	16,940	59,200	97,340	168,730
" " June 1944	14,900	68,440	83,340	7,310	17,300	19,080	74,030	117,720	201,060
as percentages of total borrowing in each period									
Purchased during period									
1939 Jan.–Dec.	—2.5	38.7	36.2	6.9	18.9	37.7	0.3	63.8	100
1940 " "	—9.1	44.4	35.3	3.6	18.2	33.1	9.7	64.7	100
1941 " "	0.5	30.1	30.5	3.6	9.7	14.2	41.9	69.4	100
1942 " "	8.2	47.0	49.2	1.8	6.5	5.7	36.8	50.8	100
1943 " "	9.4	32.3	41.7	2.6	6.7	8.2	40.7	58.3	100
1944 Jan.–June .	10.4	26.6	37.0	3.7	6.8	6.6	45.9	63.0	100
Total holdings end of Dec. 1943	6.8	35.5	42.3	3.6	8.9	10.0	35.1	57.7	100
" " June 1944	7.4	34.0	41.5	3.6	8.6	9.5	36.8	58.5	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 nearly 90 per cent. of the total held by all commercial banks in December 1943 and June 1944.

(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".



the ownership of bonds previously issued: non-bank subscribers readjusted their portfolios before and during the war-loan "drives", involving sales on the market to which the banks provided a counterpart, with the result that a sort of secondary distribution of previously-issued securities took place.

Government securities at long and short term held by commercial banks increased in 1943 by \$18.5 milliard, \$1.1 milliard less than in the previous year, while the Federal Reserve banks took \$5.3 milliard against \$3.9 milliard, the banking system as a whole thus acquiring only \$0.3 milliard more government securities in 1943 than in 1942, while non-bank investors took \$9 milliard more. The total interest-bearing debt of the Federal Government reached \$169 milliard at the end of 1943, of which \$71 milliard, 42 per cent., was held by the banking system.

The portfolio of government securities (direct and guaranteed) of all member banks of the Federal Reserve System rose by \$18.0 milliard in 1942 and by \$15.4 milliard in 1943, the proportion of the member banks' participation in all commercial bank purchases thus falling from 92 per cent. to 83 per cent.

United States: All Member Banks.

End of month	Assets						Liabilities			
	Reserve balances		Loans	U. S. Government securities			Demand deposits (3)	U. S. Government demand deposits (3)	Time deposits (4)	Total deposits (5)
	re- quired	excess		Short- term (1)	Long- term (2)	Total				
	In millions of dollars									
1939 December	6,444	5,209	13,962	563	13,765	14,328	25,681	743	11,215	39,930
1940 June . . .	6,924	6,857	13,969	797	13,925	14,722	27,877	711	11,459	42,039
December	7,411	6,615	15,321	652	15,171	15,823	30,429	616	11,687	46,007
1941 June . . .	7,941	5,210	16,729	1,127	16,951	18,078	32,678	619	11,898	48,076
December	9,365	3,085	18,021	971	18,568	19,539	33,754	1,709	11,878	51,192
1942 June . . .	9,943	2,362	16,928	3,381	20,716	24,098	36,966	1,724	11,673	53,434
December	11,129	1,988	16,088	10,648	26,897	37,546	42,570	7,923	12,366	67,277
1943 June . . .	10,873	1,212	14,823	15,696	31,283	46,980	48,957	7,236	13,382	73,465
December	11,650	1,236	16,288	16,431	36,516	52,948	52,642	9,444	14,822	81,707
1944 June . . .	11,560	1,306	18,084	18,694	41,645	60,339	51,829	17,634	16,448	90,373
December*	12,600	1,773	18,668	—	—	67,669	—	—	—	—

(1) Treasury bills and certificates of indebtedness.

* Preliminary.

(2) Notes and bonds (direct and guaranteed) of the Federal Government.

(3) Adjusted, i. e. other than inter-bank and U. S. Government deposits and less cash items in process of collection. (4) Of individuals, partnerships and corporations. (5) Gross deposits exclusive of inter-bank.

The apparent sluggishness of bank loans outstanding conceals contrary movements: a decline in private non-war borrowing, an increased lending to war industries and temporary fluctuations in loans on securities. These last-mentioned loans have risen in connection with the war-loan drives, the principle being that speculative purchases should not be financed by the banks although long-term subscriptions might be temporarily facilitated by short-term bank borrowing.

United States: Loans of All Commercial Banks.

Call dates (end of month)	Loans for war purposes (1)			Other commer- cial loans	Security loans (2)	Real estate loans	Other loans (3)	Total loans (4)
	guaran- teed (5)	other	total					
in millions of dollars								
1941 December	—	1,300	1,300	9,400	1,280	4,770	4,540	21,260
1942 June	80	2,170	2,250	7,800	1,190	4,770	3,930	19,920
December	800	2,150	2,950	6,450	1,550	4,650	3,310	18,900
1943 June	1,430	1,820	3,250	4,950	1,800	4,550	2,830	17,390
December	1,910	1,590	3,500	5,750	2,340	4,440	2,790	18,840
1944 June	2,060	1,090	3,150	5,750	4,520	4,360	2,970	20,730

(1) Estimated to nearest \$50 million.

(2) Guaranteed by War Department, Navy Department and Maritime Commission through Federal Reserve banks.

(3) Loans for purchasing or carrying securities.

(4) Mainly consumer loans.

(5) As loans for war purposes and other commercial loans are estimated to the nearest \$50 million and other figures are given to the nearest \$10 million, the items do not necessarily add up exactly to the figures given in this column.

The movement of assets other than government securities was, however, small on balance, and total deposits rose almost parallel with the bank purchases of securities, \$10 milliard of the increase being in demand deposits (adjusted), with \$2½ milliard in time deposits; the increase in deposits during 1943 occurred largely in banks outside New York and particularly in centres of war production and in agricultural regions. Surveys made by the Federal Reserve System regarding the ownership of demand deposits have shown that, although more than half of the dollar increase since 1941 has gone to domestic business, proportionately the largest expansion has taken place in personal deposits. And, although information regarding time deposits and currency in circulation is scanty, there is reason to believe that individuals hold most of these assets, business holdings being relatively small.

United States: Ownership of Demand Deposits.

All member banks	Dec. 1941	July 1944	Increase 1941-44
	in billions of dollars		per cent.
Domestic business . . .	25.0	37.4 (1)	12.4
Personal	10.0	18.6	8.6
All others (2)	2.6	3.6	1.0
Total . . .	37.6	59.6	22.0
			59

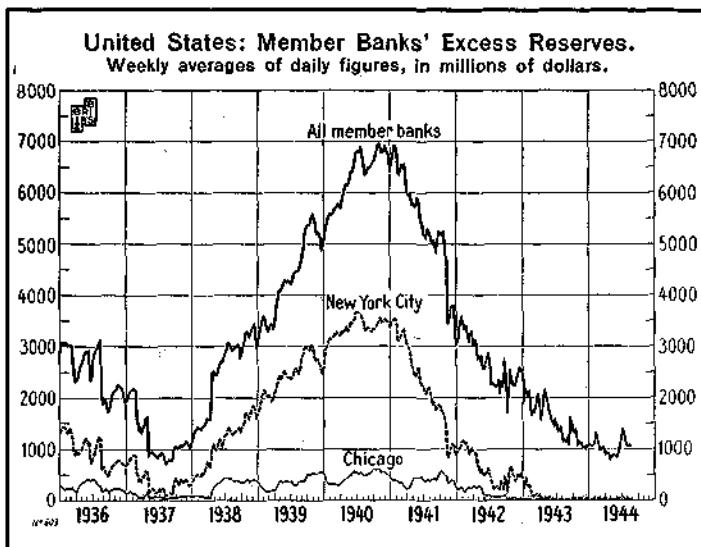
(1) Corporate business enterprises held \$29.1 milliard, nearly four-fifths of all business demand deposits in July 1944; the remainder, \$8.3 milliard, was held by non-corporate businesses.

(2) Including non-profit organisations, trust funds of banks and deposits of foreigners.

Total reserve balances of member banks (the "required" reserves plus the "excess" above legal requirements), which had expanded with the

gold influx up to the end of 1940, when they attained their maximum at about \$14 milliard, have shown some fluctuations with a certain tendency to decline since 1941, when the growth of the gold stock ceased, while currency continued to be withdrawn from the banks; but total reserves in June 1944 were still nearly \$13 milliard. With the large purchases of government securities by the banks and the accompanying expansion of their deposits, the legally required reserves have been rising and, notwithstanding some relief measures, excess reserves fell below \$1.0 milliard early in 1944. The pressure on reserves was strongest in the Reserve cities, especially New York, partly because a large

proportion of government borrowing was done in the important financial centres while heavy Treasury out-payments were made to war industries located in other parts of the country, and partly because foreign banks and governments accumulated funds on a large scale at the Federal Reserve Bank of New York (these funds being turned increasingly into gold); in this way they were withdrawn from



the market. Indeed, member banks in New York (and, to a lesser degree, in the other Reserve cities) were without any appreciable excess reserves from the summer of 1943 onwards.

An important alleviation was introduced by an amendment to the Federal Reserve Act, effective from 13th April 1943, exempting government deposits at member banks (built up by the proceeds of war-loan drives) from reserve requirements; the degree of such alleviation naturally varied with the amount of these deposits, some \$9½ milliard at the end of 1943, so that the relief to reserve requirements would amount to "at least" \$1½ milliard for that year. Since, at the time of war-loan drives, deposits were shifted from private accounts requiring reserves to government war-loan accounts requiring none, the reserve position of the banks was suddenly eased, a factor of importance in that it caused the banks to become willing purchasers of government securities on the market.

Nevertheless, the reserve position of the banks has been acute, necessitating Reserve bank intervention. As regards open-market operations, Federal Reserve policy has been based on two principal considerations since the war: (a) maintenance of stability in the government security market and (b) maintenance of adequate reserves in member banks to assure the success of war

financing. Although inter-connected, these two objectives principally affect the Reserve System's holdings of long and short-term securities respectively.

In 1943 stabilising operations on the market for long-term government bonds generally took the form of sales of securities, and in all \$1.8 milliard odd of government obligations were sold, approximately the same amount as had been bought in the previous year. At the same time the Reserve banks increased their holdings of short-term government securities by \$7.2 milliard, so that their total holdings of government securities rose by \$5.4 milliard in 1943 against \$3.9 milliard in the previous year. In 1944, the same tendencies were to be observed: the Reserve banks' total holdings of government securities rose by \$ 7.3 milliard, of which \$ 6.8 milliard was at short term.

United States: Federal Reserve Banks.

Yearly and quarterly	Assets					Liabilities			Money in circula- tion (4)		
	Government security holdings				Total Reserve Bank credit out- stand- ing (2)	Reserve balances					
	long- term (1)	Tre- aury bills	short-term certi- ficates of indebt- edness	Total		Member banks' total reserves	of which excess reserves	Federal Reserve notes			
in millions of dollars											
Totals outstanding											
1939 December . . .	2,484	—	—	—	2,484	2,593	11,653	5,209	4,959		
1940 " " . . .	2,184	—	—	—	2,184	2,274	14,026	6,615	5,931		
1941 " " . . .	2,244	10	—	10	2,254	2,361	12,450	3,085	8,192		
1942 " " . . .	4,138	1,010	1,041	2,051	6,189	6,679	13,117	1,988	12,193		
1943 " " . . .	2,307	6,768	2,467	9,236	11,543	12,239	12,886	1,236	16,906		
1944 March	2,613	6,532	2,970	9,503	12,115	12,571	11,889	512	17,559		
June	2,647	8,872	3,382	12,254	14,901	15,272	12,866	1,306	18,899		
September	2,311	10,783	3,559	14,342	16,653	17,113	13,548	1,035	20,215		
December	2,812	11,148	4,887	16,035	18,847	19,745	14,373	1,773	21,731		
Annual increases (+) or decreases (-)											
1939	+ 486	— 566	—	— 566	— 80	— 8	+ 2,929	+ 2,004	+ 507		
1940	— 300	—	—	—	300	319	+ 2,372	+ 1,406	+ 972		
1941	+ 60	+ 10	—	+ 10	+ 70	+ 87	+ 1,575	+ 3,530	+ 2,261		
1942	+ 1,894	+ 1,000	+ 1,041	+ 2,041	+ 3,934	+ 4,318	+ 667	+ 1,097	+ 4,001		
1943	+ 1,831	+ 5,758	+ 1,426	+ 7,185	+ 5,354	+ 5,561	+ 231	+ 752	+ 4,713		
1944	+ 505	+ 4,380	+ 2,420	+ 6,799	+ 7,304	+ 7,506	+ 1,487	+ 537	+ 4,825		
Quarterly increases (+) or decreases (-)											
1942 Jan.-March . .	0	— 10	—	— 10	— 10	— 6	+ 124	— 12	+ 442		
April-June . . .	+ 91	+ 243	+ 66	+ 310	+ 401	+ 420	— 269	+ 711	+ 742		
July-Sept. . . .	+ 71	+ 413	+ 438	+ 851	+ 922	+ 999	+ 713	+ 672	+ 1,282		
Oct.-Dec. . . .	+ 1,731	+ 353	+ 537	+ 890	+ 2,621	+ 2,905	+ 1,525	+ 298	+ 1,535		
1943 Jan.-March . .	+ 1,155	+ 1,077	+ 191	+ 885	+ 270	+ 487	+ 358	+ 470	+ 565		
April-June . . .	+ 688	+ 1,729	+ 242	+ 1,971	+ 1,283	+ 1,384	+ 675	+ 306	+ 1,114		
July-Sept. . . .	+ 74	+ 1,535	+ 256	+ 1,791	+ 1,717	+ 1,808	+ 220	+ 472	+ 1,394		
Oct.-Dec. . . .	+ 86	+ 1,418	+ 1,120	+ 2,538	+ 2,624	+ 2,655	+ 1,022	+ 448	+ 1,640		
1944 Jan.-March . .	+ 305	+ 236	+ 503	+ 267	+ 572	+ 331	+ 997	+ 724	+ 653		
April-June . . .	+ 34	+ 2,340	+ 412	+ 2,752	+ 2,786	+ 2,701	+ 976	+ 794	+ 1,340		
July-Sept. . . .	+ 336	+ 1,911	+ 177	+ 2,088	+ 1,752	+ 1,841	+ 682	+ 271	+ 1,316		
Oct.-Dec. . . .	+ 501	+ 365	+ 1,328	+ 1,693	+ 2,194	+ 2,632	+ 825	+ 738	+ 1,516		

(1) Treasury bonds (direct and guaranteed) and Treasury notes.

(2) Including certain minor items besides the government security holdings as indicated.

(3) This is not wholly a Reserve bank item: total money in circulation besides its chief constituent, Federal Reserve notes, also includes Treasury currency, i. e. principally silver currency and subsidiary coin.

The method of acquiring government securities has been subject to an important modification since, in 1942, the Reserve banks agreed to purchase all Treasury bills offered to them at the fixed rate of $\frac{3}{8}$ per cent. (the rate at which the bills have been issued), and, moreover, initiated the practice of standing ready to purchase such bills under a repurchase option. Thus, the Treasury bill holdings of the banks, being provided with a sure buyer at a fixed price, became practically the equivalent of reserve funds or "as good as cash".

**United States Federal Reserve Banks
analysis of Treasury bill holding.**

End of month	Under repurchase agreement (1)	Other	Total
	in millions of dollars		
1942 March	—	—	—
June	—	243	243
September	207	449	657
December	578	432	1,010
1943 March	1,240	846	2,086
June	2,810	1,005	3,815
September	4,248	1,103	5,351
December	3,845	2,923	6,768
1944 March	3,398	3,134	6,532
June	3,655	5,217	8,872
September	4,829	5,954	10,783
December	3,984	7,164	11,148

(1) Although sold by the member banks to the Federal Reserve banks under repurchase option, such Treasury bills are not always repurchased; indeed, a considerable proportion have remained with the Reserve banks until maturity.

(2) In general, these are bills purchased in the market from dealers and others for the System's Open Market Account.

(3) The total held by the Federal Reserve banks constitutes a high proportion of the total outstanding, e.g. at the end of December 1944 some 68 per cent. of the total of \$16,428 million.

credit. In addition, the decline which occurred in excess reserves corresponds to a utilisation of Reserve bank credit "previously created", while at least a further \$1.5 milliard was released in 1943 by the new legislation exempting government "war-loan" deposits from reserve requirements. The real utilisation of Reserve bank credit by the banks was thus over \$7.8 milliard in 1943 against \$6.6 milliard in 1942 and \$2.4 milliard in 1941.⁽²⁾

The continuous extension of credit by the Federal Reserve System as a necessary element in war financing, combined with a certain decline in gold stocks, has led to some spectacular changes in the reserve position and in certain other relationships which had become familiar. It is nevertheless surprising to find fears expressed as to a coming "shortage of gold", considering that the United States possesses nearly sixty per cent. of the world's monetary gold stock. But, in the spring of 1944, for the first time in ten years, the U.S. gold reserves fell below the volume of money in

With excess reserves almost exhausted (and unequally distributed), member banks again began to turn to the Reserve banks for funds as they had done before 1932 (when excess reserves first became an important factor), although this time in a greatly modified form, without cost to themselves and without the necessity of showing indebtedness in their balance sheets.⁽¹⁾

The figures showing the Reserve banks' acquisitions of government securities do not reveal the whole extent of these banks' aid to the market, being only the "newly created" part of Reserve bank

(1) Direct borrowing of member banks at the Federal Reserve banks, by way of discounts and advances, was at its highest in 1928 and 1929, when it slightly exceeded \$1,000 million. Such borrowing has been negligible in recent years: only \$5 million was outstanding at the end of 1943 and \$49 million at the end of September 1944.

(2) For details of earlier years see table in thirteenth Annual Report, page 272. In 1944, besides the creation of new Reserve bank credit, there was a further net easing of member bank reserves as government "war-loan" deposits rose from \$9.9 to 20.3 milliard during the year.

circulation (though this in itself has no legal or other significance); and, by the end of the year, the Federal Reserve ratio declined to below 50 per cent., against 90 per cent. in the spring of 1942.

United States Gold Reserves etc.

End of month	U. S. Treasury statistics			Federal Reserve banks only							
	Gold stock	Money in circulation	Excess of gold stock over money in circulation	Sight liabilities			Gold reserves	Federal Reserve ratio as published	"Required" gold reserves	Surplus gold	
				note circulation	deposits	total					
in millions of dollars											
1939 December . . .	17,644	7,598	10,046	4,959	12,941	17,900	15,524	86.7	6,513	9,011	
1940 " . . .	21,995	8,732	13,263	5,931	16,127	22,058	20,036	90.8	8,017	12,019	
1941 " . . .	22,737	11,160	11,577	8,192	14,678	22,870	20,764	90.8	8,414	12,350	
1942 " . . .	22,726	15,410	7,316	12,193	15,194	27,387	20,908	76.3	10,195	10,713	
1943 " . . .	21,938	20,449	1,489	16,906	15,181	32,087	20,096	62.6	12,076	8,020	
1944 March	21,600	21,115	485	17,559	14,478	32,037	19,736	67.5	12,091	7,645	
June	21,214	22,295	—1,081	18,899	15,386	34,285	19,287	56.3	12,945	6,342	
September	20,825	23,794	—2,969	20,215	15,508	35,724	18,915	52.9	13,514	5,401	
December	20,619	25,307	—4,688	21,731	16,411	38,142	18,687	49.0	14,436	4,251	

(1) The bulk of this item consists of the member-bank reserve balances.

(2) Gold certificates plus other "lawful money" of about \$300 million up to 1942, since when there has been an increase, to nearly \$840 million in December 1944.

(3) Total reserves calculated as a percentage of total sight liabilities. This is the ratio for the twelve Reserve banks taken together, there being wide differences between the various banks individually: on 29th December 1943 the average for all the banks was 62.3 per cent.; individual ratios ranged from as much as 72.3 per cent. for Chicago down to 50.2 per cent. for Dallas. Presumably gold loans could be arranged between the various Reserve banks to smooth out any differences if that became necessary.

(4) 40 per cent. of Federal Reserve notes plus 35 per cent. of total deposits. This figure includes a small amount of "lawful money", see under note (2) above.

(5) This is the excess of "total gold reserves" over "required gold reserves".

The Federal Reserve Act of 1913 required each of the twelve Reserve banks to maintain a reserve of 40 per cent. in gold against Federal Reserve notes in circulation, and 35 per cent. in "lawful money" (consisting of gold and certain forms of currency) against deposit liabilities, and provided a graduated tax on deficiencies in these reserves. The regulations were modified in 1933, when it became permissible, under special conditions, to suspend the existing reserve requirements without tax penalty; and in 1934, when the total gold stock was transferred to the Treasury, gold certificates being substituted for gold at the Reserve banks; further, in 1942, legislation was passed allowing Federal government securities to be utilised in place of gold for the "duration of the war". For convenience, the Reserve banks show a combined ratio of reserves (almost entirely gold certificates) against the total of Federal Reserve notes and deposit liabilities. Actually, this ratio varies fairly widely amongst the twelve banks, ranging, at the end of 1943, from 72 per cent. in Chicago to 50 per cent. in Dallas; the "Federal Reserve ratio" as published and as given in the table is thus a combined figure for all twelve banks, and it is this percentage which has been reduced by nearly one-half since the United States became involved in the war.

Another way of measuring the "elbow room" available to the Federal Reserve banks is to calculate the reserves required by law to be held against notes and deposits and to subtract this from the total reserves actually held, thus showing the "surplus gold" available, as in the above table. This surplus

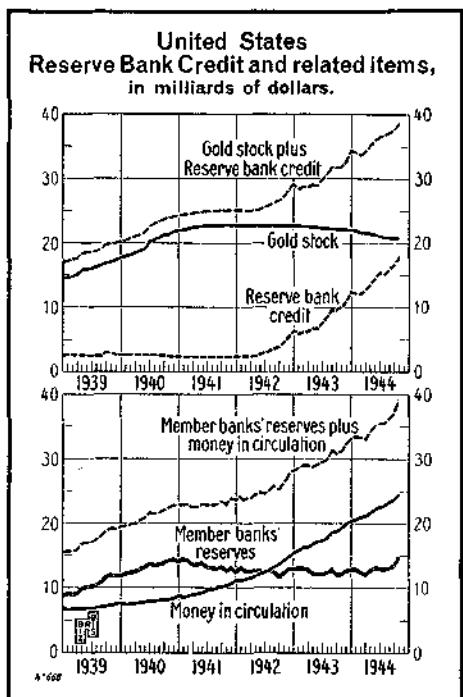
(which was only \$1.6 milliard in 1933) rose during the period of gold influx to \$12.4 milliard at the end of 1941 but had fallen to \$4.3 milliard at the end of 1944; even allowing for the rapid rate of decrease prevailing in 1944, the surplus gold would, however, suffice for the whole of the year 1945. There is thus no immediate reason for anxiety, especially since ample holdings of government securities are available to fill any conceivable gap during the war period. Should the question of reserves become acute when the special war dispensation lapses, or should it be decided to move in advance of that eventuality, it would be possible, on the basis of existing provisions, to issue other currency, e.g. silver certificates, besides Federal Reserve notes, or to reduce the legal reserve requirements of the member banks, or to substitute for gold some other form of lawful money, e.g. silver certificates or Federal Reserve notes, to cover the 35 per cent. reserve requirements for deposits. But a simpler and more straightforward course would be again to amend the Federal Reserve Act in order to ease the reserve regulations, as has been done almost invariably in other countries, either by new legal enactments or by suspensions for longer or shorter periods.

On the surface there is little to report regarding interest rates, which showed a marked stability during 1943 and 1944. The average yield of partially-tax-exempt U.S. government bonds at fifteen years and over was 1.92 per cent.

in the first three quarters of 1944 against 1.98 per cent. in 1943 and 2.09 per cent. in 1942; on the short-term market Federal Reserve rates were unchanged and other rates were rigid with hardly a flicker of movement, the dominating influence being the issue of three-month Treasury bills at $\frac{3}{8}$ per cent., coupled with the Federal Reserve purchase rate at the same level. Perhaps of some significance was the slight stiffening of rates for commercial loans granted by member banks from an average of 2.61 per cent. in 1942 to 2.72 per cent. in 1943.

But beneath the surface great dynamic forces were at work. Thus, the previous extreme liquidity of the money market, produced by the huge gold influx and characterised by disproportionate excess reserves, disappeared; and the Reserve banks again came into real contact with the market, as member banks sought

accommodation by the use of Treasury bills. On the other hand, there was a further large expansion of money in circulation and of the other liquid assets held by the public, as is described in a later section of this chapter.



From the last complete year of peace, 1938-39, up to 1943-44 total government expenditure in the United Kingdom rose by more than five times from under £1,100 million to nearly £5,800 million; in the same period current revenue expanded by more than three times from under £1,000 million to over £3,000 million. A striking fact is that in the four years 1940-41 to 1943-44 revenue rose almost parallel with expenditure, so that the budget deficit, at around £2,500-2,800 million, showed a comparatively narrow range of variation with a slowing-down in the annual increases of both revenue and expenditure as the war effort attained its maximum. If the Canadian contribution of £225 million be excluded from the accounts in 1942-43, the rise in current revenue has been remarkably even; the yield of taxation was up by £600 million in 1941-42, £520 million in 1942-43 and £465 million in the year 1943-44. In spite of the introduction of a purchase tax during the war, the proportion of direct taxation has notably

United Kingdom Budget Accounts.⁽¹⁾

Yearly and quarterly	Current revenue			Expenditure					Deficit	War Damage Act	Net borrow- ing			
	Taxa- tion (2)	Other current revenue (3)	Total	Supply Services			Debt service (4)	Total						
				war (5)	civil (6)	total (7)								
in millions of £ sterling														
Financial years (8)														
1938-39	896	31	927	400	424	824	231	1,055	128	—	128			
1939-40	1,017	32	1,049	1,141	429	1,570	240	1,810	761	—	761			
1940-41	1,359	50	1,409	3,220	417	3,637	230	3,867	2,458	—	2,458			
1941-42	1,962	112	2,074	4,085	417	4,502	274	4,775	2,702	20	2,681			
1942-43	2,483	337	2,820	4,840	456	5,296	327	5,623	2,803	—	2,803			
1943-44	2,948	91	3,039	4,950	459	5,408	381	5,788	2,749	—	2,749			
Calendar years														
1939	950	31	981	—	—	1,243	240	1,483	502	—	502			
1940	1,217	40	1,257	—	—	3,086	247	3,333	2,076	—	2,076			
1941	1,785	93	1,878	—	—	4,401	254	4,655	2,777	32	2,745			
1942	2,263	356	2,619	—	—	5,029	306	5,335	2,716	-12	2,728			
1943	2,804	87	2,891	—	—	5,438	356	5,794	2,903	8	2,895			
1944	3,095	96	3,192	—	—	5,600	409	6,010	2,818	8	2,826			
Quarterly														
1943 Jan.-March	1,034	20	1,053	—	—	1,505	63	1,568	514	—	514			
April-June	524	13	537	—	—	1,307	100	1,407	868	—	868			
July-Sept.	651	31	682	—	—	1,302	92	1,393	714	13	701			
Oct.-Dec.	595	23	618	—	—	1,324	102	1,426	807	-4	812			
1944 Jan.-March	1,178	23	1,201	—	—	1,474	88	1,562	361	-8	369			
April-June	584	17	601	—	—	1,315	106	1,421	819	—	819			
July-Sept.	704	30	734	—	—	1,407	116	1,524	790	12	778			
Oct.-Dec.	630	25	655	—	—	1,403	99	1,503	848	-11	859			

(1) On cash basis and excluding self-balancing items, sinking fund and lend-lease aid from the United States; the Canadian contribution is included in the financial year 1942-43 and calendar year 1942.

(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. In the calendar year 1942 and financial year 1942-43 the Canadian contribution of £225 million is also included.

(4) Totals are available only for financial years. For 1938-39 and 1939-40: Navy, Army, Ordnance and Air votes, civil defence and issues out of defence loans, plus vote of credit for 1939-40. For 1940-41 onwards no details are available but totals are given as issues under votes of credit. In error the whole of the supply services were included under this heading in the thirteenth Annual Report.

(5) Totals are available only for financial years; Civil expenditure plus Roads and Revenue departments.

(6) Total supply services (excluding Post Office).

(7) The cost of interest and management of the public debt plus other consolidated fund services.

(8) Net excess of contributions or of out-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.

(9) Financial years ended 31st March.

increased, from 56 per cent. in 1938-39 to 63 per cent. in 1943-44. In this period the yield of income tax rose from £340 million to £1,180 million, while the "excess profits tax", introduced in 1939-40, gave as much as £470 million in 1943-44; these two taxes together thus accounted for nearly two-thirds of the increase of £2,050 million in total taxation receipts during the five years.

The figures for expenditure are more difficult to interpret owing to the incidence of overseas factors. In 1939-40 and 1940-41, all supplies obtained from the United States were paid for in cash, and cash payments continued to a large extent in 1941-42; all such payments, as well as those to overseas countries, e.g., Canada, were naturally included as expenditure in the budget. Supplies obtained from the United States under lend-lease procedure, of increasing importance since 1941-42, have not been accounted for in the British budget; British expenditure, however, includes the growing reverse lend-lease granted to the United States as well as the assistance given to the U.S.S.R. and mutual aid to other countries. Purchases from Canada were first made for cash and included as expenditure in the British budget; when, in the year 1942-43, Canada made a "free gift" of Can. \$1,000 million, this was accounted for in the British budget as £225 million in the current revenue, with a corresponding amount in expenditure; but since March 1943, when Canada furnished mutual aid to the United Nations generally, the aid given to the United Kingdom has been omitted from both sides of the British budget; British expenditure for 1943-44 was further reduced by the Canadian Government's payments to Canadian personnel in the United Kingdom. (Some indications of the cost to the British budget of aid given to the U.S.S.R., reverse lend-lease to the United States and mutual aid to other countries are to be found in Chapter IV of this Report.)

Expenditure for civilian purposes has increased but little during the war in spite of higher salaries and wages; and the rise in the debt service has been less than the increase in the total debt: the average cost of the debt service fell from 2.66 per cent. in 1938-39 to the low figure of 1.83 per cent. in 1941-42, rising slightly to 1.86 per cent. in 1943-44. Two items of expenditure have shown an exceptional rate of expansion due directly to the war and wartime policy.

United Kingdom Budget Expenditure details.⁽¹⁾

Calendar years	Army pay ⁽²⁾	Subsidies
	In millions of £ sterling	
1938	80	15
1939	127	20
1940	388	70
1941	653	140
1942	861	175
1943	1,086	190

(1) From the budget White Paper of 1944.

(2) Pay and allowances (in cash and kind) of members of H. M. Forces and Auxiliary Services.

Pay and allowances of the armed forces (on land, at sea and in the air) have grown with the size of the forces engaged, while subsidies have been granted to keep down prices of necessities, in order to limit the rise in living costs (thus also in the general level of wages) and, indeed, the total amount spent for war purposes.

The flattening-out of war expenditure in 1943-44 may be shown by comparing the quarterly figures for the total supply services with the previous year; for the sake of

United Kingdom: Supply Services quarterly expenditure.

Quarterly figures in financial years	1942-43 *	1943-44	1944-45	Increase (+) or decrease (—) compared with 1942-43	
				1943-44	1944-45
In millions of £ sterling					
April-June . . .	1,100	1,307	1,315	+ 207	+ 215
July-September . .	1,172	1,302	1,407	+ 130	+ 235
October-December . .	1,294	1,324	1,403	+ 30	+ 109
January-March . . .	1,505	1,474	—	— 31	—

* Omitting expenditure equivalent to the Canadian contribution.

The financing of the budget deficit through borrowing is analysed in the following table.

United Kingdom: Government Borrowing.

Yearly and quarterly	Long and middle-term				Short-term				Total borrowing			
	Sav- ings issues	Market issues	"Other debt"	Total	Ways and means ad- vances	Tre- as- ury bills	Tre- as- ury deposit re- ceipts	Tax- re- serve certi- ficates				
Financial years (5)												
1938-39 . . .	— 4	80	—	49	15	64	—	—	79	128		
1939-40 . . .	109	99	1	192	34	535	—	—	569	761		
1940-41 . . .	449	667	36	1,134	111	784	430	—	1,324	2,458		
1941-42 . . .	987	891	119	1,991	23	409	67	192	690	2,681		
1942-43 . . .	772	780	216	1,768	94	218	473	252	1,036	2,804		
1943-44 . . .	763	1,029	3	1,795	105	310	421	119	955	2,749		
Calendar years												
1939	37	0	0	3	14	484	—	—	498	502		
1940	339	638	28	985	71	682	338	—	1,091	2,076		
1941	814	816	118	1,744	116	395	474	17	1,001	2,745		
1942	845	805	221	1,857	—23	286	155	453	971	2,728		
1943	877	917	7	1,799	203	282	434	177	1,096	2,895		
1944	696	721	—3	1,414	215	691	394	113	1,413	2,826		
Quarterly												
1943 Jan.-March	282	179	3	473	60	6	3	—27	41	514		
April-June	311	330	2	641	10	189	—44	71	227	868		
July-Sept.	155	279	2	433	—40	50	189	69	268	701		
Oct.-Dec.	128	129	—1	253	173	36	286	64	559	812		
1944 Jan.-March	169	291	0	469	—38	34	—11	—85	—100	369		
April-June	311	27	0	335	73	387	—39	63	484	819		
July-Sept.	135	190	1	321	4	160	231	62	457	778		
Oct.-Dec.	82	213	—4	288	176	111	213	73	572	860		
Total debt outstanding												
end of March 1939	382	5,829	—	6,211	28	892	—	—	920	7,131		
" " " 1944	3,464	9,227	374	13,065	395	3,149	1,390	562	5,495	18,560 (6)		

(1) Including direct external borrowing.

(2) Net, i.e. less sinking funds and amortisations.

(3) From Bank of England and from government departments.

(4) Financial years ended 31st March.

(5) Including small movements of Treasury balances.

(6) Excluding the old "war debt" of £1,032 million to the United States (as a counterpart to which U.K. Intergovernmental loans of £3,228 million are outstanding since 1944-18). Accrued interest on National Savings certificates is also excluded.

truer comparison, the Canadian contribution has been deducted from the figures for 1942-43. Later, in 1944-45, the supply services expenditure rose again, reflecting inter alia the removal of goods from the lend-lease list.

The table shows a regular development: the deficit financed by borrowing has remained fairly stable during four financial years, and for the last three of those years two-thirds of the total borrowed was at long and middle term. In 1943-44 the "savings issues" (i. e. non-marketable National Savings certificates, Defence bonds and Savings bonds) produced about the same amount

as in the previous year, but market loans (essentially National War bonds) for the first time brought in somewhat more than £1,000 million. "Other debt", which since the war has been contracted chiefly by direct external borrowing, gave a net amount of only £3 million in 1943-44, repayments having been made, including part of the loan granted in 1941 by the U. S. Reconstruction Finance Corporation. Of the short-term borrowing in 1943-44 more than

U. K. Government Borrowing
August 1939-December 1944.*

Sources of borrowing	Millions of £ sterling
Small savings	3,033
Other non-official sources:	
Long and middle term (public issues) .	4,609
Treasury bills and deposit receipts .	4,347
Tax reserve certificates	760
Extra-budgetary official funds.	818
External borrowing and "other debt" . . .	408
Total . . .	13,975

* As given by the Chancellor of the Exchequer in the House of Commons on 16th January 1945.

one-half was again provided by the issue of Treasury deposit receipts to the banks and tax certificates to the public, both non-marketable securities. From the beginning of the war up to the end of 1944 total borrowing attained nearly £14,000 million, covered from the sources shown in the accompanying table.

The table on the following page gives in two different forms an analysis of the manner in which the budget deficit for the years up to 1943 was covered, the figures being taken from the rich material in the White Paper accompanying the budget in 1944.

As shown in the upper half of the table, the total financed by borrowing attained for the four years 1940-43 some £10,540 million, of which £2,840 million went to cover the deficit in the balance of payments ("overseas disinvestment"), the remaining £7,700 million representing the amount "domestically financed". But, as may be seen from the lower half of the table, the total of "public borrowing at home" was £9,600 million, the difference of £1,900 million between this figure and the amount "domestically financed" giving some idea of the sterling funds accumulated by overseas countries. The greater part of this difference is to be found in the expansion of £1,000 million in Treasury bills issued to other than official quarters; since the clearing banks reduced their holdings of Treasury bills by £200 million in the same period, however, it would appear that overseas banks and governments took up perhaps up to £1,200 million in all. A part of the remaining overseas disinvestment is to be found in direct external borrowing (from the Reconstruction Finance Corporation and the Canadian Government) of £237 million (net); a further part is made up by the movements in "other extra-budgetary receipts", in which

United Kingdom: Sources of Finance covering Budget Deficit.⁽¹⁾

Calendar years	1940	1941	1942	1943	Totals 1940-43
	In millions of £ sterling				
Surpluses of extra-budgetary funds and local authorities ⁽²⁾	189	220	223	191	823
War risk compensation ⁽³⁾	36	219	154	136	545
Private savings ⁽⁴⁾	1,210	1,472	1,614	1,749	6,045
Residue ⁽⁵⁾	— 109	82	140	175	288
Total "domestically financed"	1,326	1,993	2,131	2,251	7,701
Overseas disinvestment	756	797	635	655	2,843
Total deficit covered by borrowing ⁽⁶⁾	2,082	2,790	2,766	2,906	10,544
Extra-budgetary funds ⁽⁷⁾	38	81	96	93	308
Other extra-budgetary receipts ⁽⁸⁾	516	72	— 58	— 155	375
Direct external borrowing ⁽⁹⁾	—	87	161	— 11	237
Sundry items ⁽¹⁰⁾	— 8	8	1	16	17
Total financed through government agencies	546	248	200	— 57	937
Small savings ⁽¹¹⁾	466	602	600	719	2,387
Other public loans (net)	553	1,020	1,037	1,050	3,660
Tax-reserve certificates	—	17	453	177	647
Bank of England ⁽¹²⁾	50	150	170	150	520
Banks-deposit receipts ⁽¹³⁾	338	474	155	434	1,401
Treasury bills ⁽¹⁴⁾	129	279	151	433	992
Total public borrowing "at home"	1,536	2,542	2,566	2,963	9,607
Total deficit covered by borrowing ⁽⁶⁾	2,082	2,790	2,766	2,906	10,544

(1) Tables adapted from budget White Paper of 1944.

(2) Excluding the Exchange Equalisation Account, changes in which are included under overseas disinvestment.

(3) Compensation received under war risk insurance schemes etc. (4) Including reserves against taxation.

(5) Residue of central government expenditure not covered by other sources of finance shown in the table.

(6) This is the deficit for the calendar year as shown in the previous table (with minor adjustments).

(7) Unemployment Fund, National Health Fund and Local Loans Fund.

(8) Exchange Equalisation Account, war risk insurance and certain War Damage Act receipts plus the small changes in the Exchequer balance.

(9) Reconstruction Finance Corporation loan (nil, £87, 4 and —7 million respectively in the four years) and Canadian Government interest-free loan (nil, nil, £157 and —4 million respectively).

(10) Receipts from capital transactions, sinking funds and net "other expenditure".

(11) Post Office and Trustee Savings Banks, National Savings certificates (including increase of accrued interest) and Defence bonds. It was announced in November 1943 that there were about 17 million holders of savings certificates and 21 million depositors in the Post Office Savings Bank; enrolled members of the savings movement had increased from about 1½ million before the war to 13½ million.

(12) The increase in the Fiduciary Issue (the contribution of the Issue Department only).

(13) The increase in Treasury deposit receipts subscribed by the banks.

(14) The increase in Treasury bills held outside government departments and Bank ways and means. This includes all Treasury bills held outside British official quarters; it applies chiefly to banks and includes in particular Treasury bills taken up by sterling area countries.

the preponderant element has probably been the Exchange Equalisation Account.*

In 1940 the Exchange Equalisation Account sold dollars and gold to the British Treasury, chiefly to cover "cash-and-carry" purchases in the United States, and was paid in Treasury bills (or other government securities), the public debt rising correspondingly. By 1943 lend-lease aid and the personal expenditure of American troops in the Empire had had the effect of relieving the dollar section of the British balance of payments (but not the total balance, since overseas disinvestment remained high), and the Exchange Equalisation

* See note on opposite page.

Account was in a position to acquire dollars. To provide the sterling counterpart of these dollar acquisitions, Treasury bills would appear to have been sold on the market, the proceeds being accounted for under "other extra-budgetary receipts" (the Exchange Equalisation Account). According to the table on the opposite page the issue of Treasury bills to the public amounted to £433 million in 1943, while in the same year the increase in the total of Treasury bills outstanding was only £282 million, as shown by the table on page 182. A similar analysis for 1944 is not yet available, but the large issues of Treasury bills, particularly in the period before the invasion of the Continent, appears to indicate further acquisitions of dollars by the Exchange Equalisation Account from the personal expenditure of American troops; as the Treasury bill holdings of the clearing banks show no comparable expansion, the bulk of the new bills was probably taken up by overseas central banks as an investment for their increasing sterling balances.

The table on the opposite page shows only that part of the contribution of the Bank of England, which takes the form of an increase in the "fiduciary issue" during the calendar year. While the Issue Department of the Bank "issues" notes for the full amount of the fiduciary issue, notes not actually in circulation are held in the Banking Department, and constitute the "reserve" of notes, generally averaging some £30-40 million in recent years. The actual call on central-bank credit must, however, also take into account the acquisitions of government securities by the Banking Department; the total increase in the holdings of government securities during the four years to December 1943 was £660 million, against an increase of £520 million in the fiduciary issue, some £140 million being taken by the Banking Department. A consolidated return of the two departments is given on the following page.

* On the other hand, of the "extra-budgetary" funds which invest their surpluses in government securities, the most important at the present time is the Unemployment Fund.

United Kingdom: Unemployment Fund, General Account.

Year ended June	Annual accounts						Capital account at end of June		
	Receipts		Payments		Annual surplus	Gross assets	Treasury advance	Net assets	
	contributions from employers and employees	Treasury	total (1)	benefits etc.					
in millions of £ sterling									
1939	44	22	67	41	51	17	58	77	(- 19)
1940	44	22	67	26	33	34	55	39	16
1941	50	25	77	9	13	64	80	—	80
1942	51	26	79	4	7	72	152	—	152
1943	49	25	78	3	5	72	225	—	225

(1) Including other receipts such as Interest on investments.

(2) Including other outlay, particularly administrative expenditure, which fell from £5.6 million in 1939 to £2.3 million in 1943 and, for 1939 and 1940, Interest on the Treasury's advance.

With the practical disappearance of unemployment, the annual surplus accruing to the Fund has risen to over £70 million. While for the four years 1940-43 the total receipts of the Fund amounted to £300 million (of which nearly £100 million represented current contributions of the Treasury), total payments were less than £60 million, so that the position of the Fund improved by over £240 million, a net debt of nearly £20 million at the end of 1939 being replaced by net assets of £225 million at the end of 1943.

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	34	762	555	30	117	42	189
1940 " " " " .	851	34	885	616	17	181	53	251
1941 " " " " .	1,019	36	1,055	752	11	220	54	285
1942 " " " " .	1,190	32	1,223	923	9	223	49	291
1943 " " " " .	1,391	20	1,411	1,089	10	234	60	305
1944 March	1,335	44	1,379	1,105	7	189	60	256
June	1,404	30	1,435	1,131	13	218	56	286
September	1,428	31	1,459	1,155	10	221	55	286
December	1,554	20	1,574	1,239	5	261	52	318

* 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.

Between December 1939 and December 1944 the note circulation and bankers' deposits more than doubled; the increase in these reserve deposits has provided the basis for the extension of "secondary" credit, through the clearing banks. It may be mentioned that the banks' deposits at the Bank of England have risen from one-half to two-thirds of their total "cash reserves" during the years 1939 to 1944 (annual averages), while their "till money", consisting of notes and coin, has declined correspondingly.

London Clearing Banks.

End of month (1)	Assets							Total of balance sheet	Liabilities	Liquidity ratios			
	Liquid assets									Deposits and current accounts	Primary (%) in percentages of total deposits and current accounts		
	cash reserves (2)	money at call (2)	bills discounted (2)	Treasury deposit receipts	Investments	Advances	Cheques in course of collection etc.						
	(£)	(£)	(£)	(£)	(£)	(£)	(£)						
in millions of £ sterling													
1939 December	274	174	334	—	609	1,002	106	2,697	2,441	11	21		
1940 " " " " .	324	159	265	314	771	906	117	3,050	2,800	12	26		
1941 " " " " .	366	141	171	758	999	807	146	3,582	3,329	11	32		
1942 " " " " .	390	142	198	896	1,120	773	165	3,864	3,629	11	34		
1943 " " " " .	422	151	133	1,307	1,154	743	182	4,276	4,032	10	39		
1944 March	423	155	113	1,331	1,136	772	126	4,230	3,988	11	40		
June	427	185	202	1,246	1,169	770	166	4,340	4,100	10	40		
September	443	191	209	1,444	1,183	735	117	4,495	4,251	10	43		
December	500	199	147	1,667	1,165	754	176	4,795	4,545	11	44		

(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 over £100 million over the period shown in the table and being replaced to that extent by Treasury bills.

(5) The "primary" or "cash ratio" is the cash reserves as a percentage of deposits and current accounts.

(6) The "secondary" reserve is the total liquid assets other than cash reserves as percentage of deposits and current accounts. "Cheques in course of collection" are excluded from this calculation although they are sometimes rather illogically included; if account be taken of this item, it appears more appropriate to deduct the corresponding amount from deposits than to add it to liquid reserves.

The most striking feature of the returns in 1943 and 1944 is the increase by £770 million in the six-month non-transferable Treasury deposit receipts, which in the course of 1943 became the clearing banks' most important asset, surpassing the total of the banks' investments. Deposits rose by slightly over £900 million in the two years, the "cash ratio" remaining practically unchanged at 11 per cent. But the "secondary" reserve of liquid assets (two-thirds of which consists of Treasury deposit receipts) has risen to the high figure of over 40 per cent. and the total liquid reserves (including cash) to more than 50 per cent. of total deposits, an unprecedented degree of liquidity, comparing with an average of about 30 per cent. before the war.

London Clearing Banks
net increases (+) or decreases (-) of
government-security holdings.*

Calendar years	Treasury bills	Treasury deposit receipts	Govern- ment long-term securities	Total	in millions of £ sterling	
1940	— 69	+ 314	+ 162	+ 407		
1941	— 94	+ 444	+ 228	+ 578		
1942	+ 27	+ 138	+ 121	+ 286		
1943	— 65	+ 411	+ 34	+ 380		
1944	+ 14	+ 360	+ 11	+ 385		
Five-year period	— 187	+1,667	+ 556	+2,036		
Total holding end 1944 . .	147	1,667	1,165	2,979		

* 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 (1) to previous table).

The government-security holdings of the clearing banks attained a total of nearly £3,000 million by the end of 1944 (not counting the government securities financed indirectly through their "cash reserves" at the Bank of England or their "money at call" on the market); rather over one-half of the government securities was in the form of Treasury deposit receipts. The result has been that two-thirds of the banks' deposits have their counterpart in government securities, the banks taking on certain aspects of investment institutions.

Since the outbreak of the war the banks' advances have fallen by some £250 million to less than 20 per cent. of deposits, against 40–50 per cent. before the war. (Discussion has recently taken place regarding the extent to which bank advances might be granted after the war to meet the capital requirements of small businesses which could not themselves make new issues on the market or which would require additional funds for a period too short for a public issue).

In the period of three and a half years up to December 1943 over 80 per cent. of the increase in the clearing banks' deposits was in current accounts (which nearly doubled), less than 20 per cent. being in time deposits. Of the increase in net deposits (i. e. total deposits less advances) 80 per cent. was on account of business firms, whose net deposits increased by more than one and a half times, while net personal deposits rose by a little more than one-half. Thus, the wartime expansion in bank deposits has been preponderantly on current account and reflects a growth in the cash balances of business firms.

United Kingdom
Clearing Banks' Deposits analysed.⁽¹⁾

Analysis of deposits etc.	1940	1943		Increase June 1940 - Dec. 1943
	June	June	Dec.	
in millions of £ sterling				
Current accounts . . .	1,443	2,432	2,712	+ 1,269
Deposits	1,026	1,199	1,319	+ 293
Total	2,469	3,630	4,032	+ 1,563
Less advances	982	744	743	(- 219)
Net total (2)	1,507	2,886	3,289	+ 1,782
of which				
personal deposits (net) (3)	617	859	972	+ 355
business deposits (net) (4)	890	2,027	2,317	+ 1,427

(1) "Current accounts" and "deposit and other accounts" are given in the banks' monthly returns. The division of net deposits into personal and other is taken from the budget White Paper.

(2) The net total of deposits excluding those arising from the banks' own advances.

(3) Net personal deposits exclude the accounts of businesses, financial institutions, public authorities and also those individual traders, shopkeepers, farmers and professional men whose accounts are known to be used for business purposes.

(4) This is a residual item and, besides business deposits, includes certain miscellaneous accounts, deposits of non-residents, etc.

Market rates of interest varied very little during 1943 and 1944, the tendency still being downward; and there has been a continued absence of capital issues, except those for the government. On the long-term market the yield of 2½ per cent. Consols as well as of the 3 and 3½ per cent. War loans remained very close to 3 per cent.; on 1st May 1944, the first option date, the £320 million 5 per cent. Conversion Loan of 1929-30 was repaid (the last relic of government borrowing

at 5 per cent.). In November 1944, an issue of five-year Exchequer bonds was made, carrying interest at 1¾ per cent., the lowest rate ever offered on middle-term government securities. Bank rate stands at 2 per cent., unchanged since October 1939. The yield of six-month Treasury deposit receipts is 1⅓ per cent. and of the three-month Treasury bills 1 per cent.; the average for clearing bank advances is probably 4 to 4½ per cent., with rates ranging from 2½ to 5 per cent., having thus slightly broken through the crust of the traditional formula "1 per cent. over bank rate with a minimum of 5 per cent.".

Open-market operations to keep money rates and market conditions on an even keel have become a fine art during the war, especially over the year-ends, when the turnover of money is greatest; such operations are facilitated by the process of amalgamations, retirements and capital concentration on the discount market, the number of member firms (excluding running brokers) having been reduced from twenty-four in 1925 to eleven in 1944, the minimum capital being raised to £500,000.

Cheap money has been slow in penetrating to some parts of the interest structure; e.g. to bank advances, building-society mortgages, hire-purchase operations and advances made by life assurance companies on their own policies. Private credit operations of this nature are of declining importance in wartime but may be expected to increase after the war. The building societies, in particular, have seen their current lending on mortgages severely curtailed, with the virtual cessation of private building in wartime (as shown in the table on the opposite page). In order to prepare for the coming period of reconstruction, the largest of the building societies announced in February 1944

United Kingdom: Building Societies.*

Calendar years	Assets outstanding (end of year)			Current business (during year)			
	Loans on mortgage	Investments and cash	Total assets	Loans on mortgage			Net change of investments and cash
				new loans	repayments	net loans	
in millions of £ sterling							
1936	587	70	656	140	83	+ 57	— 3
1937	636	74	710	137	87	+ 50	+ 4
1938	687	72	759	137	87	+ 50	— 2
1939	706	68	773	95	76	+ 19	— 4
1940	678	78	756	21	49	— 28	+ 10
1941	644	105	749	10	44	— 34	+ 27
1942	608	145	753	16	52	— 36	+ 40
1943	576	193	769	28	60	— 32	+ 48

* Combined accounts for all building societies, the number of which declined from 985 in 1936 to 924 in 1943.

a reduction from 5 to $4\frac{1}{2}$ per cent. in its rate for mortgage loans on dwelling-houses. The rates at which the various building societies obtain their funds (by deposits and "shares") had already been reduced twice during the war (in July 1941 and February 1942) to about $2-2\frac{1}{2}$ per cent., free of tax; from July 1944 further reductions were made by certain societies to about $1\frac{1}{2}$ per cent., free of tax. The growing amounts held as investments and cash have greatly strengthened the financial position of the building societies, which, during the building boom in the 'thirties, had utilised their resources to the utmost to assist in the private financing of building activity.

* * *

Some light was shed on the budget situation of the U.S.S.R. in January 1944, when the provisional results for 1943 and the plan, or estimates, for 1944 were published as part of the budget report of the Commissar of Finance at the joint session of the two Chambers of the Supreme Soviet — the first official financial statement since the U.S.S.R. became involved in the war in the summer of 1941. The main figures of the budget statement are set out in the following table, together with some material previously published for the years 1940 and 1941.

In interpreting the somewhat fragmentary data which have been published, it should be remembered that the Soviet budget includes, besides revenue and expenditure corresponding to such government activities as are found elsewhere, the very important accounts of the socialised business enterprises in industry, agriculture, transport, etc. and that it thus comprises a much higher proportion of the national income than in any other country. Moreover, difficult questions of valuation arise; the data for 1940 were, for instance, furnished on the basis of a "stable rouble" (having the purchasing power of 1926-27), whereas the rouble in the estimates for 1943 and 1944 has not been specifically defined and it is not known whether or not the valuation is the same as in 1940.

U.S.S.R. Central Budgets.⁽¹⁾

Calendar years	1940 Final	1941 ⁽²⁾ Estimates	1942 ⁽³⁾	1943 Prelimin- ary	1944 ⁽⁴⁾ Estimates
In millions of roubles					
Expenditure					
Defence and war . . .	56.0	70.9	106.4	124.7	128.4
National Economy . . .	57.1	73.2	.	31.1	44.7
Social and cultural development . . .	43.0	47.9	.	37.2	51.4
Other	18.2	24.0	.	17.0	21.1
Total expenditure . . .	174.3	216.0	.	210.0	245.6
Receipts					
Turnover tax	105.8	124.5	105.9	71.1	80.2
Other receipts	74.4	92.3	.	138.9	165.4
Total receipts	180.2	216.8	182.8	210.0	245.6

(1) Data as published in the London "Economist", 5th February 1944, and elsewhere, of the central budget of the U.S.S.R.

(2) No detailed results appear to have been published but total receipts are reported to have fallen to Roubles 191.4 milliard as a result of the war.

(3) Fragmentary information only is available for 1942.

(4) The total of the budget has since been increased to Roubles 249 milliard.

The most striking characteristic of the figures in the table is that, in spite of the outbreak of war in June 1941 and the vast expenditure on military operations in 1942 and 1943, the budget totals do not show an expansion at all comparable with that of the other principal belligerents. In fact, from 1940 (the last pre-war year) to 1943 total expenditure rose only by one-fifth, from Roubles 174 milliard to Roubles 210 milliard.

It is true that the figure for 1940 applied to the whole country, while in 1943 large territories were occupied by the enemy; but the main reason would seem to have been that the Soviet budget in peacetime already included the bulk of the national income, so that war conditions did not involve the canalisation of an increased share into government hands, the problem being essentially one of the re-allocation of resources.

Direct expenditure on defence rose from Roubles 56 milliard in 1940 to Roubles 125 milliard in 1943, i. e. from under one-third to over one-half of the budget total, while all other expenditure declined from Roubles 118 milliard to Roubles 85 milliard. Grants for the "national economy", i. e. for the purpose of financing capital construction from state funds, appear by their nature to have been largely indirect expenditure on defence; the total of such grants indicates in a measure the rate of industrial expansion. A large part of the country being then under enemy occupation, the grants in question were reduced to a little more than one-half between 1940 and 1943. Their magnitude in the accounts for 1940 and 1941 seems to reflect a high degree of defence preparation before the actual outbreak of the war.

In addition to the direct and indirect war expenditure as shown in the budget, account must be taken of British and American deliveries. Thus, up to June 1944, U.S. deliveries to Russia totalled \$5,932 million and British deliveries £269 million, these two streams of deliveries representing about Roubles 37 milliard in Russian currency (at the par rate of \$1 = R. 5.30).

On the revenue side of the Soviet budget the turnover tax has remained the most important single source; notwithstanding a doubling of the rate, the yield fell from Roubles 106 milliard in 1940 to Roubles 71 milliard in 1943, being affected by the shortages of consumers' goods and the temporary loss of the districts occupied by the enemy. While in the 'thirties the turnover

tax had supplied two-thirds of the budget revenue (direct taxation of state-paid salaries and wages being considered superfluous in peacetime), in 1940 the proportion was reduced to about three-fifths and in 1943 to about one-third. Taking into account the different factors which have affected the turnover tax (that the rate was approximately doubled, that in 1943 it was levied on about two-thirds of Russia's normal population, etc.), the decline in the yield seems to indicate a halving of the consumption of goods subject to the tax (i. e. goods other than those consumed directly by the producer or delivered to the army). No detailed statement has been made regarding those "other receipts" which have taken the place of the turnover tax, but they are known to have been largely derived from the income and reserve funds of state enterprises and organisations. Indeed, some Roubles 320 milliard were "mobilised" from these sources in the three years up to December 1943; in addition, special direct war taxes yielded Roubles 33 milliard, public loans produced Roubles 39 milliard and voluntary contributions Roubles 13 milliard.

In the plan for 1944 only a slight increase was made in the allocation for defence expenditure but grants for the "national economy" were raised from Roubles 31 milliard to Roubles 45 milliard; the latter figure included Roubles 16 milliard for the reconstruction of devastated areas, the net allocation, at Roubles 29 milliard, being lower than in 1943 and only one-half of what it was in 1940. The Roubles 51 milliard assigned to "social and cultural development" was the highest amount ever allocated to this purpose, and exceeded the "national economy" grants; the increase is probably connected with greater outlay in the devastated areas and for the care of disabled soldiers. (There are, it should be mentioned, also the separate budgets of the sixteen Soviet Republics, which aggregated some Roubles 36 milliard for 1944.)

The revenue side of the central budget in 1944 provided for Roubles 30 milliard from loans. A third Russian "war loan" was, in fact, arranged in May 1944, when Roubles 28 milliard were subscribed to 2 per cent. 20-year bonds and to non-interest-bearing premium bonds (or lottery certificates); two earlier loans had produced Roubles 13 milliard in June 1941 and Roubles 20 milliard in April 1942, no loan being made in 1943. An intensive savings propaganda has been carried on amongst the workers, loans being issued in very small denominations and subscriptions, usually in monthly instalments, considered a social obligation; as a result, the three loans were largely oversubscribed. All Soviet loans are issued at par; there is no market for them and therefore no quotation; they are redeemed by periodical drawings or, in the case of premium bonds, when a prize is won.

War financing has naturally presented the Government of the U.S.S.R. with a series of new problems, including the raising of fairly large amounts through borrowing direct from income-earners. But the change-over to war conditions was in some ways facilitated by the fact that in the U.S.S.R. it did not really involve the setting-up of new machinery of government control, or the inclusion of private enterprises under government supervision, but

mainly a re-allocation of manpower and other resources already in the service of the state. No data are yet available to show the effect of war financing on the country's monetary and banking system.

* * *

In Japan, the Financial Control Board has published a planned allocation of the annual national income, which throws some interesting light on conditions under war economy. (It is not known exactly how the national income is calculated, but it apparently comprises the value of goods and services

actually sold, while excluding the important item of foodstuffs consumed directly by the producer.)

Japanese "National Income": Allocation.⁽¹⁾

Financial years ended March	Government needs			Capital investment ⁽²⁾	Private consumption	Total "National Income" ⁽³⁾	Savings "target" ⁽⁴⁾
	Taxation and other receipts ⁽⁵⁾	Borrowing ⁽⁶⁾	Total				
	(Yen)	(Yen)	(Yen)				
in billions of yen							
1941-42	5	13	18	5	17	40	18
1942-43	7	17	24	6	15	45	23
1943-44	10	21	31	6	13	50	27
1944-45							
First plan . .	14	28½	42½	6	11½	60	34½
Second plan (Yen)	14	30	44	6	10	60	36
Third plan (Yen)	14	35	49	6	·	·	41

(1) The plan is published in round figures and gives approximate indications only.
(2) This item corresponds approximately to the ordinary budget of the 13 ministries (which is, however, partly covered by borrowing).
(3) This is roughly the aggregate of military expenditure in Japan, spread over some 49 special budgets, mostly covered by borrowing.
(4) For the strengthening of the war economy and covered by borrowing.
(5) Total to be borrowed for government needs and for capital investments.
(6) In the second plan for 1944-45 the savings "target" was raised to Yen 36 milliard, private consumption being reduced by Yen 1½ milliard; Yen 1 milliard of the extra savings was considered necessary to cover larger cash requirements in case of air attack and Yen ½ milliard for compensation to industrial organisations.
(7) In September 1944, the savings "target" was again raised, this time to Yen 41 milliard, the issue of an extra Yen 5.2 milliard bonds being in prospect, to cover the budget deficit. It was stated that a further reduction of private consumption was necessary, but whether the whole of the Yen 5 milliard could be covered in this way, or whether an upward revision of the national income had been made, was not disclosed.

The rise in the national income by Yen 5 milliard in two successive years, followed by at least Yen 10 milliard in 1944-45, probably reflects for the most part the increase in commodity prices; government requirements are estimated to have increased even more rapidly, with the result that the part of the national income available for private consumption has for the first time shrunk to less than the amount

taken by taxation. In fact, the yield of taxation is expected to be nearly three times as high in 1944-45 as in 1941-42 but, even so, it will cover less than 30 per cent. of government expenditure "internally financed".

Estimates of expenditure reveal the importance of military outlay, a special budget for the Asiatic war, approved in September 1944, having added a further Yen 25 milliard to the original estimates for 1944-45; at the same time the proportion to be financed through the issue of notes in the recently occupied southern territories by the South Seas Development Bank was greatly expanded. On the other hand, contributions from Manchukuo and the occupied parts of China do not appear in the Japanese budget; it may be mentioned in passing that, according to the Finance Minister, Japanese investments in

Japanese Budget Estimates.⁽¹⁾

Financial years ended March	1942-43	1943-44	1944-45	
	Final estimates ⁽²⁾		Original estimates ⁽³⁾	Revised estimates ⁽⁴⁾
	in millions of yen			
Expenditure				
ordinary	9.3	14.5	20.6	20.6
war	18.0	27.0	38.0	63.0
Total	27.3	41.5	58.6	83.6
Less transfers and reserves ⁽⁵⁾	2.6	5.0	7.3	7.3
Total expenditure	24.7	36.5	51.3	76.3
Revenue				
In Japan				
taxation	6.4	8.8	12.8	12.8
other current revenue	1.3	2.0	2.5	4.1
Total	7.7	10.8	15.3	16.9
borrowing	15.6	20.7	27.3	32.5
Total "internally financed"	23.3	31.5	42.6	49.4
In southern occupied territories				
South Seas Development Bank ⁽⁶⁾				
Military administration ⁽⁷⁾	1.0	1.6	1.7	1.7
Total in southern occupied territories	1.0	4.9	8.7	26.9
Total revenue	24.3	36.4	51.3	76.3

(1) Only estimates are available, no closed accounts having been published.

(2) Including supplementaries.

(3) Early in September 1944, a further Yen 25 milliard of war expenditure was voted on special account for the Asiatic war, Yen 5 milliard being accounted as a "reserve". Of the remaining Yen 20 milliard, Yen 18.2 milliard was to be raised by borrowing from the South Seas Development Bank and Yen 1.6 milliard from sales of government property. Later in September, with a view to the issue of a further Yen 5.2 milliard government bonds in Japan, the savings "target" was raised accordingly (see previous table); this issue apparently corresponds to the Yen 5 milliard previously allocated as "reserve", so that the whole Yen 25 milliard is classed as war expenditure in the table.

(4) The estimated issue of notes by the South Seas Development Bank. (In the financial year 1942-43, military notes were put into circulation in the southern occupied territories but this issue does not appear to have figured in the budget accounts.) The amounts under this heading apparently correspond to "occupation costs" (in European phraseology).

(5) Receipts from "trade management operations" by the military administration in the southern territories, including the sale of southern products in Japan. These figures would appear to correspond to the clearing accounts in Europe.

lished to show that the "savings target", i. e. the amount needed to cover the government's borrowing requirements and for industrial investment, has been surpassed (see table at the bottom of the next page). Actually, the statistics give the increase of deposits in banks and similar institutions, as well as the private purchases of securities, and thus indicate the extent of annual money capital formation. A number of measures have been taken to decrease spending on consumption and to increase the volume of savings as, for instance, the linking of certain purchases in shops with the purchase of a specified amount of savings bonds.

Manchukuo and China were estimated at Yen 1.75 milliard for 1943-44, bringing the total since the outbreak of the "China incident" in July 1937 up to Yen 9 milliard.

Ordinary budget expenditure rose by nearly 50 per cent. from 1943-44 to 1944-45 and, apart from the influence of higher prices, the rise would seem to have been due to extensive air protection measures, larger subsidies for the cheapening of food and increased government investments. No revised estimates of national income or closed accounts of the budget have been published in recent years but the yield from taxation is reported to have fallen somewhat below the estimates, with a decline especially in luxury taxes as a result of the closing of restaurants and theatres, etc., the loss of revenue on this account being estimated at Yen 400 million for 1944-45.

On the other hand, figures have been pub-

Japanese Government
Internal Bond Issues.

Financial years and quarterly	In millions of yen
1937-38 April-March	2.26
1938-39 " "	4.55
1939-40 " "	5.56
1940-41 " "	6.98
1941-42 " "	10.64
1942-43 " "	14.97
1943-44 " "	22.41
1943 April-June	5.29
July-September	4.29
October-December	6.05
1944 January-March	6.78
1944 April-June	5.70

Issues of internal government securities (closely corresponding to the budget deficits "internally financed") have raised the total of internal bonds outstanding from Yen 9.3 milliard in June 1937 to Yen 54.2 milliard in March 1943 and Yen 76.6 milliard in March 1944. Government borrowing has been all at long (or middle) term in the form of identical tranches of 3½ per cent. bonds maturing in 11-17 years.

The bonds are taken up, in the first place, by the Bank of Japan, which sells them to other investors, especially

banks; bonds not absorbed by the market are left to increase the Bank of Japan's own holdings.

Since 1942 increased credits have been granted (under "discounts and advances") by the Bank of Japan to the commercial banks in order to enable them to take up their quotas of government bonds while, at the same time, making a larger supply of funds available to the war industries. In the seven years from the end of 1936 to the end of 1943 the Bank of Japan increased its loans and holdings of government bonds by nearly Yen 10 milliard and this increase has found its principal counterpart in an expansion of the note issue, which in the same period rose by fully five times. It is interesting to note that the total deposits of all credit institutions (other than the Bank of Japan) have increased by more than four times during the same seven years, i.e. almost parallel with the note issue — a striking fact when the considerable decline in bank deposits in relation to the notes in circulation in most other countries is borne in mind. The total of deposits at the Japanese commercial

banks was six times the note circulation in 1936 and four and a half times in 1943, a very high proportion, comparable only with that found in the Anglo-Saxon countries.

Japanese "Savings".⁽¹⁾

Form of savings	1942-43	1943-44	1944
	Financial years ended March	April- June	
	In millions of yen		
Through institutions:			
Bank deposits	9.21	11.01	4.96
Postal savings deposits	3.35	5.88	2.69
Credit cooperatives	2.31	4.45	1.12
Other institutions	2.87	3.75 ⁽²⁾	1.24
Total	17.74	25.09	10.01
Private purchases of securities	5.72	5.90	0.52
Total "Savings"	23.46	30.99	10.53 ⁽³⁾

(1) i.e. money capital formation (excluding the Bank of Japan).

(2) Postal life assurance and pension fund Yen 1.05 milliard, trust companies Yen 0.77 milliard, insurance companies Yen 1.42 milliard, labour insurance Yen 0.23 milliard and finance companies Yen 0.28 milliard.

(3) This total compares with Yen 7.52 milliard in the first quarter of 1943-44 and appears to indicate that the savings "target" of Yen 41 milliard, as given in the third plan for the allocation of the "national income" in 1944-45, is likely to be attained and even surpassed.

The cash holdings of the commercial banks amount to less than 5 per cent. of deposits and the banks appear to have hardly any other highly liquid assets, no Treasury bills or other short-term securities being issued to finance the budget deficits. Indeed, the banks

Bank of Japan.

Near end of month (¹)	Assets				Total balance sheet in millions of yen	Liabilities			
	Gold and foreign exchange (²)	Discounts and advances	Government bonds (³)	Agencies' accounts		Note circulation	Government deposits	Guaranteed deposits (⁴)	Current accounts
in millions of yen									
1936 December	599	745	829	34	2,512	1,866	227	—	129
1937 June	568	568	880	39	2,425	1,641	304	—	94
December	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 "	550	904	5,340	465	7,751	5,979	824	260	186
1942 "	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	7,397	1,777	11,036	7,155	2,525	169	362
September	632	2,585	6,155	1,818	11,523	7,571	2,641	232	606
December	627	3,742	7,476	2,235	14,548	10,266	2,678	198	934
1944 March	547	3,726	8,397	2,351	15,435	10,964	2,688	270	932
June (⁵)	534	3,443	9,330	2,862	16,761	11,822	3,157	30	1,074

(¹) Up to the end of 1940 figures are taken from the half-yearly balance sheets. From December 1941, figures are from the return nearest the end of month (e.g. 2nd January 1943 for December 1942, and 1st January 1944 for December 1943).
 (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) Only "government bonds" 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. The aggregate note issue of these two banks rose from Yen 994 million at the end of 1941 to Yen 1,198 million at the end of 1942 and Yen 1,882 million at the end of 1943.
 (⁵) 24th June.

rely on assistance from the Bank of Japan to enable them to take up their quotas of government bonds and to expand the volume of their other credit facilities. Even under these circumstances there has been a regular progression of the banks' private lending; advances, chiefly, it may be assumed, to the war industries, have increased almost equally with investments since 1936.

Japanese Bank Deposits etc.

End of month	Commercial banks			Deposits in other banks (¹)	All bank deposits (²)	Money in trust (³)	Treasury Deposit Bureau (⁴)	Total deposits etc. (all institutions) (⁵)
	Advances	Investments	Deposits (¹)					
in millions of yen								
1936 December	6,660	4,796	10,932	3,036	13,968	1,842	3,529	19,339
1937 June	7,209	4,712	11,704	3,189	14,893	1,860	3,685	20,258
December	7,712	4,645	12,352	3,395	15,747	1,865	3,905	21,517
1938 "	8,716	6,123	15,073	4,044	19,117	2,045	4,715	25,877
1939 "	11,152	7,791	19,794	5,298	25,092	2,323	6,082	33,497
1940 "	13,554	9,624	24,389	6,800	31,190	2,603	8,148	41,941
1941 "	15,143	12,781	29,406	8,395	37,901	3,047	10,169	51,017
1942 "	17,658	16,979	35,738	10,831	46,569	3,518	13,816	63,903
1943 March	18,446	17,312	36,058	12,072	48,130	3,690	15,155	66,975
June	19,291	19,039	39,791	12,091	51,882	3,834	16,779	72,495
September	21,030	19,665	40,779	12,683	53,462	4,020	18,282	75,764
December	22,762	21,490	43,132	13,197	56,328	4,226	19,714	80,266
1944 March	24,763	23,136	47,229	13,397	60,626	4,451	21,822	86,899

(¹) Of the Yen 47.2 milliard in March 1944, Yen 22.8 milliard were time deposits bearing interest at 3.3 per cent.
 (²) Special banks (excluding the Bank of Japan) accounted for Yen 4,519 million and savings banks for Yen 8,677 million at the end of March 1944.
 (³) At trust companies, which are closely connected with the private banks.
 (⁴) Mostly deposits from Post Office Savings Bank.

The process of amalgamation among the big banks at the beginning of 1943 was followed in the course of the year by a similar movement affecting provincial and savings banks and by a reorganisation and rationalisation of insurance and trustee companies. Among the big banks a further concentration was authorised by the Minister of Finance in April 1944: the Teikoku Bank, which originated from the amalgamation of the Mitsui Bank and the Daiichi Bank, took over the Jugo Bank as well; and the Yasuda Bank absorbed the Showa Bank and the Daisan Bank. As a result, there remained only three big Tokio banks: the Teikoku, the Mitsubishi and the Yasuda.

In March 1944 the newly-established Wartime Financing Bank completed its second financial year. The operations of this bank comprise investments and loans in cases where other credit institutions prove insufficient, the acceptance of guarantees for financing by other bodies, e.g. for loans by commercial banks to armament enterprises, and the control of activities on the security market. The funds of the Wartime Financing Bank come from three sources: (i) the paid-up capital of Yen 150 million; (ii) authorisation to issue bonds up

to ten times the amount of the paid-up capital; (iii) short-term borrowing, mainly from the Bank of Japan, the Post Office Savings Bank and the commercial banks. In the third financial year a further Yen 1,700 million bonds have been scheduled for issue (which would call for an increase of paid-up capital or of the multiple which may be borrowed); by March 1944, credit commitments assumed by the bank already amounted to Yen 2,990 million. In spite of the increase of business, net profits declined in the second financial year, the pay-

Balance-sheet items at end of financial year	1943	1944	1945 *
	31st March in millions of yen		
Assets			
Investments	40	200	600
Loans	310	1,000	2,800
Total	350	1,200	3,400
Liabilities			
Paid-up capital	150	150	300
Long-term bonds: public subscription	190	767	
government departments	110	250	
Short-term bonds: at one year	10	10	
at five years	—	23	
Short-term borrowing	50	300	500
Total working funds	510	1,500	3,540
 Profit and loss during financial year	 1942-43	 1943-44	
	in millions of yen		
Gross profit	13.0	41.5	
Expenses and losses	10.1	38.9	
Net profit	2.9	2.6	

* Estimated position.

ment of the guaranteed 5 per cent. dividend necessitating a certain government subsidy. Details of the bank's operations and the type of new enterprises financed are kept secret and no full balance sheet is published; but it is known that existing enterprises financed by the bank include aviation and arms factories, as well as the metal and chemical industries.

While the market is tight, interest rates have been kept severely under control and show no notable change. Bank rate has remained at 3.285 per cent.

since April 1936; at this rate the Bank of Japan also lends against the collateral of government bonds, i. e. at a rate below the yield of the bonds themselves, which, with interest at $3\frac{1}{2}$ per cent. and an issue price of 98, give a flat yield as high as 3.571 per cent.

Up to the end of 1943 Japan's large military expenditure was, as described above, financed wholly at long term, with some 70-80 per cent. of the bonds absorbed by institutional lenders, the growth of bank deposits being roughly parallel with that of the note circulation. In the first half of 1944, however, the stringency on the central money market increased appreciably; this was due partly to the reduction of government advance payments to war industries and partly to a shift in the geographical distribution of bank deposits towards the provinces as a result of evacuation measures and the relative prosperity of the peasants. Thus the Tokio banks, whose lending to the war industries was on a large scale compared with the increase in their deposits, turned to the Bank of Japan, with the result that its advances rose continuously from the already high level of Yen 2,930 million in the last week of December 1943 to Yen 4,210 million in the last week of March 1944.

In order to discourage excessive borrowing against government bonds by the banks, which were relending the funds on more advantageous terms to the war industries, the Bank of Japan then introduced certain credit limits: if a bank lombarding government loans exceeded the first limit, the rate would be raised from 3.285 per cent. (i. e. bank rate, being the rate for the rediscount of commercial bills) to 3.650 per cent. (i. e. the rate for advances against the collateral of non-government securities); and, if the second limit were exceeded, the rate would be increased to 4.015 per cent. (i. e. the overdraft rate). Since the commercial banks' rate for credits to the armament industries was also 4.015 per cent., an overstepping of the second limit would become definitely unremunerative for the banks. These measures caused a decline in the Bank of Japan's advances to Yen 3,340 million at the end of May 1944. But, at the same time, the Bank of Japan's portfolio of government bonds rose from Yen 7,740 million at the end of March to Yen 9,290 million at the end of May, so that the total expansion

Bank of Japan.

Last return in month*	Main credit items			Note circulation
	Discounts and advances	Government bonds	Total	
in millions of yen				
1941 December . . .	0.90	5.34	6.24	5.98
1942 " " .	0.66	7.15	7.81	6.92
1943 " " .	2.93	7.87	10.80	9.67
1944 January . . .	3.65	7.35	11.00	9.71
February . . .	3.74	7.62	11.36	9.97
March . . .	4.21	7.74	11.95	10.53
April . . .	3.65	8.95	12.60	11.41
May . . .	3.34	9.29	12.63	11.44
June . . .	3.44	9.33	12.77	11.82
July . . .	.	.	.	12.60
August . . .	5.04	9.18	14.22	12.91
September . . .	5.61	9.33	14.94	13.73
October . . .	6.10	9.14	15.24	14.28
November . . .	6.89	8.40	15.29	14.74
December . . .	8.96	10.44	19.30	17.87

* The return is issued weekly and relates to the position on Saturday. In the table on page 195 the return of the nearest Saturday to the end of the month has been taken; in this table the figures relate to the last Saturday in the month (as this only was available towards the end of 1944). There are thus certain slight differences between the two tables.

continued, the commercial banks apparently reducing their debts but the Bank of Japan being forced to take up more government bonds. Indeed, in later months, the expansion continued more rapidly, the increase of the note issue being about Yen 7 milliard in 1944 against less than Yen 3 milliard in the previous year.

How far the government will be successful in placing its bonds with institutions other than the Bank of Japan, in order to minimise its recourse to central-bank credit will largely depend upon the willingness of the public to hold bank deposits rather than bank-notes. But, as the war has drawn nearer to Japan, the demand for bank-notes has greatly increased. On the outbreak of war, regulations were issued governing the withdrawal of deposits in an emergency: should a deposit bank be destroyed or communications disturbed, the money required by the owner of an account book for his maintenance might be withdrawn from any banking office in Japan; the maximum for such withdrawals at one time was raised from Yen 300 to Yen 500 on 8th March 1944, it being hoped by this measure to reduce the necessity of holding ready cash. And in the following month it was announced by the Minister of Finance that persons affected by damage from air raids might obtain short-term credits at the Bank of Japan against war bonds, the belief being expressed, on behalf of the government, that this measure would stimulate the subscription of war bonds, thus convertible into cash in an emergency.

In June 1944 certain additional steps were taken: long-term deposits, trustee funds and subscriptions to government loans on special savings accounts could be paid out to private persons who had suffered damage by bombardments, withdrawals being authorised at other banks than that maintaining the customer's account, the maximum of Yen 200 per person being raised to Yen 1,000; in the same way life assurance companies were required to make immediate out-payments. The Bank of Japan was placed under the obligation to rediscount cheques and bills of firms that had suffered damage, and loans might be obtained from the Wartime Financing Bank and from the industrial and mortgage banks; industrial firms might, moreover, be granted a respite for debts due by them. Guarantees were further given as to the continued functioning of the stock exchange, the Nippon Stock Exchange Corporation and the Wartime Financing Bank being authorised to fix minimum prices and to maintain activity. At the same time efforts were made to attract fresh money to the banks and to tie up old funds in so-called "premium deposits", a new form of deposit, fixed for two years, bearing interest at 3 per cent. and entitling the holder to participation in lottery prizes for every Yen 100 deposited.

In 1943 and 1944, the Japanese military authorities proceeded with the economic and financial reorganisation of the recently occupied southern territories. Although new central banks were planned for Burma and the Philippines, the main increase of business has fallen to the South Seas Development Bank*, which, in order to finance the Japanese army and military administration

* The creation and activities of this bank were described in the twelfth and thirteenth Annual Reports (pages 202 and 300 respectively).

and provide credit for war industries in the southern territories, has, since July 1943, issued its own notes (in place of the former "gympo" or military currency, which, however, remained temporarily in circulation). The paid-up capital of the bank, originally Yen 10 million, has been raised to Yen 59 million and the number of its branches increased from 23 in February 1943 to 32 in May 1944. No balance sheets have been published but the estimated issue of notes on military account was indicated in the budget as Yen 3.3 milliard for the year 1942-43 (the bank making a "loan" to the government in much the same way as the German Reichskreditkassen); for 1944-45, an issue of Yen 7.0 milliard was at first envisaged, but the special budget for the Asiatic war, published in September 1944, indicated a further Yen 18.2 milliard to come from this source. As the bank had not been able to issue any of its own bonds in the occupied areas, as was originally intended, the new contribution presumably indicated a rapidly expanding note circulation. Although the activity of the bank was to have been restricted to the southern occupied territories, it has, in fact, raised limited amounts by the issue of its own bonds in Japan itself in order to finance the export of industrial goods from that country and to take over credits granted by Japanese banks to firms operating in the southern territories. Four large Japanese private banks were reported to have opened, in all, 74 branches in the southern territories, of which 61 were established by the Yokohama Specie Bank alone.

* * *

Certain key pieces in the financial picture of Germany have continued to be published without interruption, the most important being the weekly returns of the German Reichsbank and the statements of the Reich debt (monthly until June 1944 and then quarterly). On the other hand, the former monthly return of taxation receipts, which from the beginning of the war had been given only quarterly in a summarised form, was discontinued altogether after March 1942; the monthly combined balance sheets of the commercial banks and the returns of the savings banks have not been published since July 1939 but it is still possible to gather the most important items from the yearly balance sheets of the big banks. And some light is at times thrown on financial developments by official or semi-official statements, in the form of speeches and in the press.

In the table on the following page certain known data and various estimates are brought together to give a broad view of the total budgetary receipts of the Reich; although in some cases estimates have had to be made on the basis of rather fragmentary information, it is believed that a reasonably correct impression is given.

The total expenditure of the Reich, which must have moved parallel with receipts, came to some RM 150 milliard in the twelve months to March 1944, double the amount in the financial year 1940-41. Non-military outlay (which had risen from RM 5½ milliard in 1933-34 to RM 18 milliard in 1939-40) is known to have been running in the autumn of 1941 at around RM 20 milliard a year, plus RM 5 milliard family subsistence allowances for mobilised men; no later

Reich Budgetary Receipts.⁽¹⁾

Periods	Current revenue				Borrowing			Total budgetary receipts	
	Taxation (%)	Other current revenue			Total	long-term	short-term (%)		
		internal (%)	external (%)	total					
in millions of Reichsmarks									
Financial years⁽²⁾									
1939-40	24	3	—	3	27	5	16	21	
1940-41	27	4	6	10	37	18	20	38	
1941-42	32	6	11	17	49	23	29	52	
1942-43	43	7	19	26	69	21	34	56	
1943-44	35	9	28	37	72	27	50	78	
1944-45 (first half)	16	5	20	25	41	12	37	49	
Calendar years									
1939	22	3	—	3	25	3	15	18	
1940	26	4	4	8	34	16	18	34	
1941	31	6	10	16	47	21	28	49	
1942	38	7	17	24	62	24	33	57	
1943	39	8	25	33	72	23	46	70	
1944	34	10	33	43	77	25	68	93	

(1) Statistics given in a similar table in the thirteenth Annual Report (page 173) have, in a few cases, been revised in view of subsequent information. Figures in round milliards.

(2) Normal taxation receipts with the addition of RM 3 milliard in 1942-43 (RM 4 milliard each in the calendar years 1942 and 1943) on account of the rent-tax composition.

(3) Profits from state enterprises etc., see text below.

(4) Occupation costs received from the occupied countries plus the war contributions from Bohemia and Moravia and from Poland.

(5) Including the loan of the Reichskreditkassen to the Reich. (6) Financial years ended 31st March.

information has been given. Under some headings expenditure has presumably fallen off: in 1943, new "marriage loans", for instance, were only half as numerous as in the previous year and only one-sixth of the number in the record year 1939.

On the other hand, government subsidies granted to maintain stable prices of foodstuffs must have risen, and interest charges on the public debt were estimated at RM 10.2 milliard per annum at the end of 1944 against about RM 2 milliard before the war. Expenses in connection with the air bombardments (including cost of evacuation from the towns, the building of shelters, wage compensations, etc.) have been borne partly or wholly by the central government; settlements of war damage have also required larger amounts, although out-payments in cash have been strictly limited, the bulk of the war damage remaining as a dormant debt of the Reich, the amount of which has not been disclosed.

Total current revenue appears to have increased slightly in 1943-44 but, even so, to have represented only 48 per cent. of total budgetary receipts, against 55 per cent. in the previous financial year. The fall in revenue from taxation was proportionately somewhat larger, from 34 per cent. of total budgetary receipts in 1942-43 to 23 per cent. in 1943-44, there having been no parallel in 1943-44 to the non-recurrent rent-tax composition of the previous year. It has been made known by the Secretary of State at the Finance Ministry that the yield of taxation amounted to RM 34.7 milliard in 1942-43 and that the yield in the first half of the following financial year, when no material

change had been made in the taxation system, exceeded that of 1942-43 by RM 343 million. This means an annual rate of increase of 2 per cent. for the first half of 1943-44 and, since tax collection was somewhat retarded in the second half by the effects of air bombardment, the total for the whole financial year would seem to have been around RM 35 milliard — approximately the same as in the previous year.

For the current financial year 1944-45 no new taxes have been introduced but the system of "profit surrender" has been made more comprehensive. And in September 1944, as part of the "total mobilisation", the taxation system was greatly simplified. Out of 3.8 million persons who up to that time had been required to file an income-tax return, 3.3 million had incomes below RM 12,000 and these persons were to be assessed for 1944 and 1945 at the same amounts as for 1943, adjustments being made only in cases where the income rose by 15 per cent. or fell by 10 per cent. Taxpayers with incomes of RM 12,000 or more (13 per cent. in number but accounting for 80 per cent. of the yield) were to make returns as usual. A similar simplification (affecting 90 per cent. of all manufacturing enterprises) applied to the corporation tax and small manufacturers' and traders' tax ("Körperschaftsteuer" and "Gewerbesteuer"). In addition, a number of taxes with small yields were suspended for the duration of the war. All in all, the loss in revenue from these simplification measures has been estimated at about RM 200 million.

"Other current revenue" than the yield of taxation has had a greater importance in Germany than in any other country, accounting, in 1943-44, for about one-quarter of all government receipts (including the proceeds of loans) and apparently exceeding the revenue from taxation. This unusual importance was due chiefly to the external receipts paid as occupation costs and the "war contributions" of Bohemia and Moravia and of Poland. Such information as is available about these receipts is based mainly on monetary and other statistics from the occupied territories themselves (see page 147 and onwards); this being the case, the totals obtained must necessarily be regarded as round figures. It should be noted that the amounts collected by Germany have been obtained in the currencies of the various occupied countries and have been converted into Reichsmarks at the official rates, although the prices in these countries have risen more, and in some cases considerably more, than in Germany. While, in the first half of the financial year 1944-45, payments made by the occupied countries continued to increase, events in the summer and autumn of 1944 led to an abrupt fall in the amounts received as from September 1944 onwards.

The internal revenue included in "other current receipts" seems to have attained some RM 7 milliard in the financial year 1942-43; for that year the Secretary of State at the Ministry of Finance, in November 1943, gave the total of "other current receipts" as RM 26 milliard, and the external receipts included in this figure may be estimated at about RM 19 milliard. Surpluses from the Reichsbank and the Reichsbahn gave together about RM 900,000 in 1943-44; and some RM 2 milliard were obtained from the municipalities, which had been obliged as from 1940-41 to cut their administrative expenditure and to make a

"war contribution" (estimated to produce RM 1.4 milliard in a full year, while later an additional contribution was imposed, estimated to yield RM 0.5 to 0.75 milliard). Internal receipts further include, besides numerous minor items, the surplus from the Reichspost and, presumably, repayments to the Treasury of advances made in earlier years for work-creation and other plans, as well as proceeds from certain sales of Reich property.

Details regarding Reich borrowing, being regularly available, are set out in the table on the opposite page. In the financial year 1943-44 the total cash borrowing of the Reich amounted to RM 76 milliard, RM 23 milliard more than in the previous financial year (when, however, the need for borrowing had been temporarily diminished by the non-recurrent rent-tax composition, which produced RM 8 milliard). The average monthly borrowing has gradually risen from RM 2.1 milliard in the first four months of the war (1939) to RM 8.3 milliard in the second half of 1944. Particularly striking has been the shift in the proportion of borrowing at short term from about one-half of the total amount borrowed in 1940-41 to four-fifths in the second half of 1944. With the continued decline in the volume of tax certificates outstanding, the expansion of short-term borrowing was wholly in the form of Treasury bills ("Reichswechsel" and "unverzinsliche Schatzanweisungen"). Long-term borrowing was made, as before, through issues of Treasury certificates to banks and the open market, and through liquidity loans, mainly to savings banks, insurance companies and social funds. Included under total borrowing are the foreign clearing balances, invested by the Verrechnungskasse in Reich securities (see page 147), which increased by RM 7.8 milliard in 1942 and RM 11.6 milliard in 1943; all foreign sources, including the external current revenue, thus provided about one-quarter of the total revenue of the Reich budget in the two years.

Further progress has been made in developing the system of issue, transfer, interest payment and redemption of Reich loans simply by centralised book-entries at the Reich Debt Administration and the Reichsbank (as the sole "Wertpapiersammelbank") known as "Stückelosigkeit", partly under the influence of the air bombardments; new regulations (based on those of the old Berliner Kassenverein) were issued by the Reichsbank and came into force in March 1944. In 1943, efforts began to be made to extend the system to mortgage bonds and municipal securities; longer-term Treasury bills ("U-Schätze") were the first money-market instrument to be brought within the system (in August 1942) and from August 1943 the bills were issued only in this form; and from June 1944 the short-term Treasury bills ("Reichswechsel") and Sola-bills of the Golddiskontbank were added.

In 1944 certain innovations were introduced into Reich borrowing methods with the object of simplifying procedure. A decree coming into effect on 30th December 1943 prescribed that, for an indeterminate period (generally assumed to be for the duration of the war), the annual interest on internal loans should be payable only once a year — three months after the half-yearly interest date following the day when the decree became effective; thus the substantial interest payments due on 1st January 1944 were made only on 1st April,

Reich Borrowing
Increases or decreases (—) of
public debt outstanding.⁽¹⁾

Yearly and quarterly	Long and middle-term			Short-term				Total cash borrow- ing	Reichs- kredit- kassen- scheine	Total borrowing
	Treasury certifi- cates (net) (2)	Liqui- dity loans (net) (3)	Net Total (3)	Reichs- bank working credit	Treasury bills	Tax certifi- cates (4)	Net Total (4)			
in millions of Reichsmarks										
Financial years⁽⁵⁾										
1939-40	741	4,472	4,732	288	11,324	4,001	16,405	21,136	— 1	21,135
1940-41	10,877	7,371	17,956	— 135	18,393	— 457	17,937	35,893	1,919	37,812
1941-42	13,674	9,270	23,264	270	25,011	— 5	25,491	48,755	3,347	52,102
1942-43	11,971	9,724	21,463	423	33,612	— 2,362	31,673	53,136	2,636	55,772
1943-44	15,632	11,874	27,235	— 462	49,769	— 178	49,129	76,364	1,338	77,703
Calendar years										
1939	423	3,048	2,942	685	8,615	4,670	14,645	17,587	— 11	17,577
1940	7,841	8,232	15,875	— 205	17,355	— 1,124	16,279	32,154	1,508	33,662
1941	13,622	7,837	21,042	314	24,522	— 6	24,896	45,938	3,007	48,945
1942	14,628	8,998	24,097	— 895	33,527	— 2,335	30,447	54,544	2,699	57,243
1943	11,551	12,052	23,305	629	44,353	— 54	44,928	68,233	1,369	69,601
1944 ⁽⁶⁾	—	—	25,200	—	—	—	67,700	92,900	500	93,400
Quarterly										
1943 Jan.-March	1,172	3,470	4,467	873	5,995	— 28	6,840	11,307	688	11,995
April-June	3,453	2,583	5,993	— 83	12,025	— 7	11,935	17,928	361	18,289
July-Sept.	2,896	2,780	5,631	— 26	13,365	— 5	13,335	18,966	497	19,463
Oct.-Dec.	4,031	3,219	7,214	— 135	12,968	— 14	12,818	20,032	— 177	19,855
1944 Jan.-March	5,254	3,292	8,398	— 218	11,411	— 152	11,041	19,439	657	20,096
April-June	4,867	2,611	7,430	320	15,967	— 12	16,275	23,704	— 136	23,568
July-Sept.	2,661	1,643	4,265	95	20,330	— 26	20,619	24,884	42	24,925
Oct.-Dec. ⁽⁷⁾	—	—	5,100	—	—	—	19,800	24,900	—	24,900
Total debt outstanding										
end of Sept. 1939	11,302	6,000	17,302	219	9,707	4,029	14,357	31,659	5	31,664
“ “ 1944	71,725	51,747	124,239	826	181,022	963	183,951	308,190	9,151	317,341 ⁽⁸⁾

(1) This table is based on detailed statistics of the public debt published regularly every month until June 1944 and quarterly thereafter. 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 Wertpapier-Sammelbanken, and for the conversion of the German share of the Yugoslav and Polish Government loans, as no distinction was made between these bonds and other market issues; the amounts involved appear, however, to be of minor importance. 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 has been transferred to short term (from long term in the published statement). On the other hand, the debt to the Reichskreditkassen, 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 (see footnote (5) below). The effect of these changes was particularly great in 1942-43; as the table shows, the exclusion of the Reichskreditkassen and the redemption of tax certificates made a difference together of 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 amortisations 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 Rentenbank loan: RM 674 million for 1939, RM 252 million for 1940, RM 65 million for 1941, RM 150 million for 1942 and nil for 1943 and 1944.

(5) Shown as "sundry loans" at short term in the official debt statement. The small amount outstanding before the war applied to internal items only. (6) Financial years ended 31st March.

(7) Round figures as published in the German press. The total debt at the end of 1944 was given as RM 346.6 milliard, RM 136.1 milliard at long and RM 210.5 milliard at short term.

(8) The total liabilities of the Reich at the end of September were given officially as RM 324 milliard; this total included RM 2.3 milliard old debts, RM 1.2 milliard foreign debts and RM 2.7 milliard non-cash and special issues, which are excluded from this table.

together with those due on 1st July, and so on; in this way all interest payments were concentrated into the six summer months April–September, unburdening the winter months when the bank balance sheets have to be prepared. Apart from the Reich's own long-term issues, this method of concentrated interest payments affected about RM 25 milliard of other market loans (mortgage bonds, etc.).

Another measure of simplification was the issue of the new Liquidity Loan of 1944 (put on tap as usual at 99 $\frac{5}{8}$) in the form of a "rente" or terminable annuity: during the first five years holders were to receive only the interest at 3 $\frac{1}{2}$ per cent., but thereafter an annual payment of 6 per cent. of the original amount on account of both interest and amortisation, redemption being thus effected over twenty-five years from 1949. The advantages claimed were the saving of labour and of material for the Reich Debt Administration: not only was the loan entirely "stückelos" (i. e. no actual security was issued) but the accounting could be done in a simple way by the lumping together of interest and amortisation payments; there were no bonds to be drawn for payment and even serial numbers were eliminated, any "bond" being replaceable by any other. Should the new system prove unsatisfactory, however, the Reich might, in 1950, resort to anticipatory redemption or conversion.

Unlike the procedure with Li-loans, several series of Treasury certificates have been issued each year, all having a uniform pattern: 3 $\frac{1}{2}$ per cent. certificates at 99 $\frac{1}{2}$ with slightly over twenty years' maturity. A novel series was, however, issued in May 1944: couponless certificates at 98 $\frac{1}{4}$, redeemable in ten years at 135, the yield until redemption (no interest being paid out meanwhile) being 3.25 per cent. against 3.55 per cent. for the ordinary series. Moreover, the new certificates carry some important tax privileges, which increase with the time they are held and are so arranged that the greatest yield is obtained by holders paying the highest rate of taxation, i. e. those with the largest incomes. In response to wishes often expressed by the banks, the Reich thus introduced some variety into its borrowing by making a middle-term issue half-way across the gap previously existing between the 20-month Treasury bill and the 20-year Treasury certificate. But the new certificates are of a peculiar type: offering a premium on the length of time the funds are tied up, and having a special appeal for the large private investor. By the end of September 1944, RM 400 million had been subscribed to this series of new certificates, compared with RM 4,640 million to the ordinary series issued concurrently.

The only other forms of Reich borrowing which give a premium on tying-up are the so-called "iron savings" accounts (which have produced about RM 1 milliard a year) and the "business-investment" and "commodity-stock-replenishment" deposits at the Treasury (which yielded RM 765 million once for all). Reference should also be made in this connection to the tax certificates which were issued under the new Finance Plan of March 1939 in series I and II, with subscriptions totalling RM 2,300 million and RM 2,400 million respectively. Certificates of series II were utilisable after three years for tax payments

at 112 per cent. and they have been almost entirely so used. Certificates of series I, on the other hand, were redeemable at par but carried important concessions in respect of assessment, for fiscal purposes, of the depreciation of plant and machinery (the so-called "liberty of valuation" of business assets). Early in April 1944, when RM 1 milliard of the certificates were still outstanding, these concessions were abolished for business years ending after 31st December 1944, and conversion into 3½ per cent. Treasury certificates at 102 was offered.

The balance-sheet total of the Reichsbank, which stood at RM 13.7 milliard in August 1939 and had reached RM 31.3 milliard by the end of 1942, rose to RM 66.1 milliard at the end of 1944.

German Reichsbank.

End of month	Assets					Total of assets and liabilities	Liabilities			
	Reich paper				All other assets		Notes	Deposits etc.	All other liabilities	
	Reich working credit (1)	Treasury bills (2)	Reich securities (3)	Total						
In millions of Reichsmarks										
1939 August . . .	680	10,272	1,308	12,660	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 " . . .	580	15,419	389	16,388	1,602	17,990	14,033	2,561	1,396	
1941 " . . .	895	21,656	391	22,942	1,524	24,466	19,325	3,649	1,492	
1942 " . . .	—	29,283	297	29,580	1,767	31,347	24,375	6,292	1,680	
1943 March . . .	873	27,869	125	28,867	1,567	30,434	24,697	4,340	1,397	
June . . .	790	30,690	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	1,951	
December . . .	630	41,342	65	42,037	1,812	43,849	33,683	8,186	1,980	
1944 March . . .	411	40,379	33	40,823	1,994	42,817	33,792	7,237	1,788	
June . . .	731	42,150	28	42,909	1,769	44,678	35,920	6,754	2,004	
September . . .	826	50,821	93	51,740	1,809	53,549	42,301	9,088	2,160	
December . . .	775	63,497	45	64,317	1,765	66,082	50,102	13,535	2,445	

(1) This item is not shown separately in the return but is included with other items under the general heading of "other assets". The figures in the table have been taken from the public debt statement; for the end of December 1944 an estimate has been based on the level of the "other assets" (the detailed public debt return not being available).

(2) Including 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. As ordinary commercial bills have practically disappeared, the increase of the Reichsbank's portfolio of "Bills and cheques, including Treasury bills" from RM 10 milliard in August 1939 to RM 63 milliard at the end of 1944 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 added here for convenience.

(6) Shown as "other sight liabilities".

The expansion in the Reichsbank's assets has, as in past years, been due to increased holdings of Treasury bills, such bills accounting for 95 per cent. of the balance-sheet total; the Reichsbank took up 12 per cent. of all Reich borrowing in 1942, 18 per cent. in 1943 and 24 per cent in 1944. The expansion of the bank's portfolio of Reich securities in September 1944 reflects the intervention made to support the long-term market at that time (see page 260); at the end of November, in order to allow the bank an

opportunity to unload, the sale on tap of current Treasury certificates ceased and an "issue pause" was introduced, which lasted into the new year.

There has been an accelerated increase in the note issue, which by the end of 1944 was over four times as large as at the end of 1939. From the middle of 1943 the rise has to a certain extent been due to the Reichsbank's new practice of issuing its own notes in denominations of RM 5, such small notes having previously been obtainable only from the Rentenbank, for which a legal limit of RM 1,550 million (applicable also to denominations of RM 2 and RM 1) had been fixed; and this limit it was decided to leave unchanged; by the end of 1943 the Reichsbank's issues of RM 5 notes came to RM 860 million. The volume of giro deposits at the Reichsbank (largely a counterpart to the cash reserves of the banks) had by December 1944 risen to nine times the figure for August 1939 and to some twenty-seven times the normal peacetime level around RM 500 million. As regards the turnover of the Reichsbank giro, it is of some interest to note that from 1939 to 1943

the number of transactions rose by about one-sixth but the average value of each transaction more than doubled. The average turnover per account of a given size fell sharply, however, in 1943, which seems to indicate a slowing-up of the transfer mechanism, an indication confirmed by a more conspicuous increase in the volume of transfers to other "bank places" outstanding at the end of the year.

Reichsbank Giro Turnover.⁽¹⁾

Calendar year	Number	Amount	Average amount	Turnover per RM 1 on account	Transfers outstanding at end of year	(2)
					(2)	(2)
		in millions	in billions of RM		in Reichsmarks	in millions of RM
1939	63.5	1,315	20,717	1,056	288	
1940	62.4	1,659	26,586	990	311	
1941	72.4	2,084	28,777	962	458	
1942	73.1	2,609	35,691	942	860	
1943	73.7	3,575	48,528	729	1,339	

(1) From the annual reports of the Reichsbank, counting both sides (debit and credit) of the turnover. The amount of cash payments in the giro turnover has decreased steadily and in 1943 represented only 2.2 per cent. of the total.

(2) Applies only to transfers from one banking centre to another.

Although the rapid rise of the note circulation and the giro deposits of the Reichsbank began essentially in the second half of 1943 (after the first heavy air bombardment of Hamburg), it was not wholly caused by the larger cash holdings of the public and the banks; part of the increase appears to have been due to delays in effecting transfers and part to the maintenance by the Reich authorities of larger amounts on public accounts, included in the Reichsbank return under the same heading as other deposits. (For further particulars regarding the expansion of the note circulation see pages 277 and 297.)

Besides the influence of the air bombardments, the German banking system in general was affected by the closing of branches, which had begun as a voluntary measure in 1942 and was practically completed in 1943. In the country as a whole some 830-850 sub-offices were closed, of which 200 branches and 160 deposit bureaux, about 30 per cent. of the original

total, constituted the share of the three Grossbanken with a network of branches (the Deutsche, Dresdner and Commerz banks). The reductions had little effect on the balance sheets, since business was generally transferred to another branch or centre.

While most Berlin banks were damaged in 1943-44 and many had their head offices destroyed by the air bombardments, their underground treasuries usually escaped. Indeed, the banks were generally able to get their payment mechanism into working order again on the following day, with a temporary increase in turnover, mainly withdrawal of deposits, due to the emergency. In August 1943, special facilities for withdrawals from savings banks in other localities were accorded to people who had been forced to change their place of residence and, later on, similar facilities were arranged for depositors of other banks, including the Grossbanken. As a result of the evacuations there was evidently a certain geographical shift in deposits from the large towns to the country and from the west towards reception areas in central and eastern Germany. At the same time the banks went some way towards decentralisation, higher officials being moved to the main branches in the provinces, which settled their accounts directly among themselves and with the local branches of the Reichsbank. The table on the following page shows the main movements for nine important banks up to the end of 1943, the latest statistical data available.

The most striking feature in the development of the nine banks was their continuous striving to increase the proportion of their most liquid assets: between 1938 and 1943, the banks almost doubled their cash reserves and increased to fifteen times their holdings of Treasury bills, while they limited the expansion of their more illiquid assets (i. e. business advances and long-term government bonds) to two or three times what they were in 1938. At the end of 1943 the banks held ten times as much short-term as long-term government paper, both types together accounting for fully 70 per cent. of total assets, compared with some 40 per cent. in 1938 and less than 20 per cent. in 1932.

The traditional "big five" Grossbanken (the Deutsche Bank, Dresdner Bank, Commerz Bank, Reichs-Kredit-Gesellschaft and Berliner Handelsgesellschaft) showed the smallest expansion of all the groups in 1943. Deposits rose by RM 3,000 million, the corresponding increases among the assets being: RM 350 million in cash, RM 1,900 million in government securities and RM 850 million in business advances. The extension of the business advances, occurring in a period of high general liquidity, was of particular interest; it was attributed partly to heavy taxation and the skimming-off of profits (which left business with smaller cash resources than was formerly the case, such liquidity as remained being unevenly distributed) and partly to the curtailment of the advance payments previously made by the government on armament orders. A further factor was presumably the growing credit needs of official bodies concerned with the import, storage and distribution of foodstuffs and raw materials; and, as a result of the air bombardments, emergency credits to local governments and others had at times a special importance, while delays in the payments mechanism led to the extension of temporary cash credits.

German Banks' Balance Sheets.

End of year	Assets						Total of balance sheets (²)	Liabilities		Percent- age increase of balance sheet on previous year		
	Cash	Business ad- vances	Bills (¹)	Reich securities				Deposits etc. Total (³)				
				Tre- as- ury bills	Bonds and certifi- cates	Total						
in millions of Reichsmarks												
Five Grossbanken (⁴)												
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	3,889	2,366	8,823	1,243	10,066	18,259	16,882	3,081	14.6		
1943 . . .	1,433	4,738	2,337	11,044	944	11,987	21,302	19,909	4,069	16.7		
Bank der Deutschen Arbeit (⁵)												
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		
1943 . . .	162	743	222	2,731	772	3,503	4,657	4,570	374	26.5		
Three special banks (⁶)												
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	15,294	5	59.1		
1943 . . .	738	721	1,126	15,125	1,259	16,384	19,686	18,713	6	21.3		
Total nine banks (⁷)												
1938 . . .	1,229	3,627	3,622	1,986	1,061	3,047	13,450	10,940	959	11.3		
1939 . . .	1,215	3,820	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	31.3		
1942 . . .	1,848	4,987	3,712	23,312	2,684	25,997	38,164	35,781	3,366	32.6		
1943 . . .	2,333	6,202	3,685	28,900	2,975	31,875	45,645	43,193	4,449	19.6		

(¹) These "bills" may be taken to be largely Reich paper once removed, i.e. Solawechsel and Mefobescheinungen, which were popular with the banks since they might be shown in the balance sheet as "bills", for window-dressing purposes.

(²) Including other items besides those shown separately.

(³) Deutsche Bank, Dressner Bank, Commerz Bank, Reichs-Kredit-Gesellschaft and Berliner Handelsgesellschaft; the deposits of these five banks at the end of 1943 totalled RM 8,242,6,203,3,978,1,005 and 482 million respectively.

(⁴) The Bank der Deutschen Arbeit, although it now may rank as one of the Grossbanken (coming third, after the Deutsche and Dressner Banks, and before the Commerz Bank) owing to the size of its balance sheet, which has grown by nine 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 has been 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.

(⁵) 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).

(⁶) 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.

The smaller number but larger average size of credits granted is illustrated by statistics issued by one of the Grossbanken. The expansion of bank credit was the more significant since the issue of industrial bonds increased in 1943, the proceeds being largely used for repayment of bank advances. A wartime feature of German banking practice which has gained in importance in recent years is the so-called collective credit, in which a number of banks participate; this form has been developed to cope with a sudden demand for very large credits serving special war purposes, the comparatively long term involving more than ordinary risks.

Deutsche Bank
New Credits Granted.*

Calendar year	Number in thousands	Value in millions of RM	Average value in RM
1938	111	1,480	13,300
1939	109	1,670	15,400
1940	96	1,530	15,900
1941	83	1,580	18,900
1942	84	1,880	22,200
1943	70	2,110	30,100

* From the annual report of the Deutsche Bank.

massive withdrawals. A rise in the amount of business credits by fifty per cent. in 1943 was a further sign of increased interest in the country's private economy. As regards government securities, the Labour Bank increased in particular its long-term maturities in contrast to the trend at the five Grossbanken; but it had proportionately a much larger volume of time deposits. The Labour Bank maintained branches at Prague, Riga, Kowno and Cracow and had affiliated banks in Belgium and Holland, all of which reported a considerable expansion of their activities in 1943. (Among other banks with specialised functions may be mentioned the Deutsche Verkehrs-Kredit-Bank, which received the surplus funds of the railways, and the Bank der Deutschen Luftfahrt.)

For the six Grossbanken together, the expansion of the aggregate balance-sheet total in 1943 was by 18 per cent. to RM 26 milliard, the percentage increase of deposits being 19, of business advances 25 and of Treasury bills 21. Details for the end of 1944 are not yet available but it is reported that a great change came over the situation, especially in the second half of the year. Although industrial bond issues were lower, business advances fell off for the first time since 1940, the decline being estimated at 20 per cent. compared with the end of 1943; this was partly due to the cutting-off of foreign trade through military developments and the consequent decline in credit needs of the official bodies mentioned above. On the other hand deposits rose, with

the further closing of factories and liquidation of stocks, by an estimated 35 per cent. (the increase in the aggregate balance-sheet total being from RM 26 to about 34 milliard, say by 30 per cent.). This afflux of new deposits while advances were being repaid found its counterpart in purchases of Treasury bills, which rose by some 50 per cent. to over RM 20 milliard (while the banks' government bond holdings continued to decline).

Germany
Special Banks' Deposits.

End of year	Deutsche Girozentrale	Deutsche Zentral-Genossenschaftskasse	Preussische Staatsbank
	In millions of RM		
1938	1,356	454	1,029
1939	2,113	924	1,211
1940	3,000	1,507	1,615
1941	4,476	2,878	1,873
1942	8,636 (1)	4,472 (2)	2,187
1943	9,619	6,608	2,486

(1) Including some RM 2,250 million held in suspense for the rent-tax composition payment.

(2) Including RM 340 million held in suspense for the rent-tax composition payment.

Of the three special banks shown in the table the most important is the Deutsche Girozentrale, the central

institution of the German savings banks, which, judged on the size of its deposits, has become the largest single banking institution in the country. In recent years the savings banks have themselves invested in Reich securities more than half of the funds flowing to them, the balance being largely deposited at the local Girozentralen, which in their turn redeposit part of the funds with the Deutsche Girozentrale. In 1943, the savings organisation as a whole took up 50 per cent. of the new long-term issues of the Reich against 46 per cent. in 1942 and 37 per cent. in 1941 — a sign of the increasing importance of the savings banks in the financing of the Reich.

The Deutsche Zentral-Genossenschaftskasse, or Deutschlandskasse, as it is generally called, is the central institution of the Credit Cooperatives, whose deposits rose in 1943 by RM 5 milliard to RM 22½ milliard, the whole of which had to be invested in Reich securities or redeposited at the Deutschlandskasse. With total deposits at RM 6.6 milliard at the end of 1943 the Deutschlandskasse ranked next in importance to the Deutsche Bank, the largest of the five Grossbanken. The Prussian State Bank, or Seehandlung, is smaller in size but, in addition to its position in Prussia, it has acquired a special significance owing to the extraordinary tasks it has been called upon to perform, particularly in connection with the regulation of prices and other activities on the stock exchange (including the liquidation of Jewish property).

To give a more complete picture of the movements of the bank deposits of all kinds, the following table has been prepared, covering the bulk of deposits in the country.

German Bank Deposits.

Calendar years	Total deposits (1)					Savings deposits only (2)					Total of all savings deposits (1) *
	Six Gross-banken	Savings banks (3)	Postal Savings bank *	Credit Co-operatives *	Total *	Six Gross-banken	Savings banks (3)	Postal Savings bank *	Credit Co-operatives *	Total *	
in billions of Reichsmarks											
Increase of deposits											
1940	3.8	8.0	0.4	2.5	14.7	0.5	6.3	0.4	1.8	9.0	9.4
1941	3.8	11.8	0.7	3.1	19.4	0.7	9.9	0.7	2.3	13.6	14.2
1942	3.3	14.9	1.4	5.0	24.6	1.0	13.5	1.4	4.1	20.0	20.9
1943	4.0	18.4	2.0	5.0	29.4	1.1	15.7	2.0	3.7	22.5	23.4
1944 (4)	8	16	3	—	—	14	3	—	—	—	—
Total Increase 1940-43 . . .	14.8	53.1	4.5	15.6	88.1	3.3	45.4	4.5	11.9	65.1	67.9
Total deposits at end of 1943	24.5	79.0	4.8	22-23	131	4.4	66.9	4.8	17.0	93.0	97.0

* Partly estimated.

(1) Giro and savings deposits.

(2) Included in previous columns.

(3) The average amount of individual savings is reported to have risen from RM 521 in 1939 to RM 985 in 1942 and to RM 1,195 in 1943.

(4) Total of all savings deposits in the country.

(5) Preliminary.

The importance of the savings banks is shown by the fact that at the end of 1943 they were responsible for 60 per cent. of the total deposits (giro and savings) of all German credit institutions included in the table. It is, moreover, interesting to note that fully 70 per cent. of all deposits were savings deposits, somewhat more than 70 per cent. of the increase in deposits during the four

war years 1940-43 having taken this form. Giro deposits at the savings banks reached RM 12 milliard at the end of 1943 (and RM 14 milliard in 1944) against less than RM 2 milliard at the end of 1940. The increase in these deposits was largely due to the out-payment of allowances to soldiers' families through this channel.

The expansion of deposits at the six Grossbanken in 1944 has already been mentioned (page 209). Developments at the savings banks have been influenced by air bombardments and evacuations, even though the need for cash withdrawals was reduced by the arrangement allowing deposit-book holders to utilise their accounts in any part of the country. The afflux of deposits is reported to have slowed down, especially in the second half of the year, but not to have completely ceased at any time; preliminary reports put the increase in savings deposits at the savings banks at RM 14 milliard (against RM 16 milliard in 1943); but in some cases a further expansion was reported, the Postal Savings bank, for example, having total deposits of RM 7.6 milliard in December 1944. The total of all savings deposits outstanding has been estimated at around RM 115 milliard at the end of 1944.

The table on the following page showing money capital formation in the years 1940-43 brings out the importance of savings deposits as well as the relative growth of the note circulation; it also reveals the great part played by institutions, which is so characteristic a feature of German war financing. The external items, which accounted for a constant one-sixth of the aggregate money capital formation in the three years 1941 to 1943, are analysed in Chapter IV; they consisted principally of clearing balances owed to foreign countries, which were invested in Reich securities by the Verrechnungskasse, and Reich securities held directly by banks in Holland and in Bohemia and Moravia. But these foreign items do not include funds received as current income (for instance occupation costs paid directly to the Reich budget) since, being current, they have not been counted as part of the capital formation.

Interest rates remained unchanged throughout the years 1943 and 1944, bank rate being at 3½ per cent. (since April 1940), three-month Treasury bills being issued at 2½ per cent., new Treasury certificates and Li-loans carrying 3½ per cent. interest, and industrial bonds, under the influence of the "interest stop", being issued at 4 per cent.; RM 750 million 4 per cent. Reich certificates, issued in 1940, were called for

1st March 1945, for conversion into 3½ per cent. certificates. On the money market the so-called Mefo-bill has declined in importance since the Reichsbank ceased to make new issues in July 1943, the amount outstanding falling from RM 2.8 to 1.6 milliard during the year; its place was taken to some extent by the Dego-bill (Sola-bill of the Golddiskontbank), of which exceptionally large amounts were outstanding at the end of 1943 and in 1944.

Golddiskontbank
Issue of Solawechsel.

End of month	1942	1943	1944
	in millions of RM		
March	445	382	1,262
June	565	450	1,536
September . . .	557	713	2,276
December . . .	1,847	3,103	*

* In November 1944, the record total of RM 4,660 million was outstanding.

German money capital formation.*

Increase in credit volume and money capital in calendar years	1940	1941	1942	1943	Totals 1940-43
	in milliards of Reichsmarks				
Increase in:					
Reich borrowing	33.5	48.6	54.1	72.4	208.6
Other bonds	0.8	(-0.1)	0.4	0.5	1.6
Bank advances	(-3.1)	0.15	1.5	1.1	(-0.35)
Rent-tax composition	—	—	6.0	2.0	8.0
Total increase in credit volume	31.2	48.65	62.0	76.0	217.85
Increase in:					
Note (and coin) circulation	2.4	5.55	5.05	9.3	22.3
Savings deposits	8.8	13.85	20.8	24.0	67.45
Bank deposits	9.05	8.75	7.2	13.0	38.0
Reichsbank giro	—	0.5	1.0	2.0	3.5
Market purchases of securities	2.15	5.15	6.75	2.6	16.65
Insurance companies' purchases etc. (Li-loans)	3.9	4.35	3.6	4.8	16.65
Banks' "own" funds	0.3	0.5	0.7	1.0	2.5
Treasury bills placed elsewhere	1.9	1.5	2.4	5.3	11.1
Rent-tax composition - cash payments	—	—	4.0	1.0	5.0
Total internal	28.5	40.15	51.55	63.0	183.20
External (Verrechnungskasse und Reichskreditkassen)	2.7	8.5	10.45	13.0	34.65
Total money capital formation	31.2	48.65	62.0	76.0	217.85
Analysis of internal money capital formation	1940	1941	1942	1943	Totals 1940-43
	in percentages				
Increase in:					
Note (and coin) circulation	8.4	13.8	9.8	14.8	12.3
Savings deposits	30.9	34.5	40.3	38.1	36.8
Bank deposits	31.7	21.8	14.0	20.6	20.7
Reichsbank giro	—	1.2	1.9	3.2	1.9
Market purchases of securities	7.5	12.8	13.1	4.1	9.1
Insurance companies' purchases etc. (Li-loans)	13.7	10.8	7.0	7.6	9.1
Banks' capital and reserves	1.1	1.3	1.4	1.6	1.4
Treasury bills placed elsewhere	6.7	3.8	4.7	8.4	6.1
Rent-tax composition - cash payments	—	—	7.8	1.6	2.7
Total internal	100	100	100	100	100

* Based on data given by Dr. Günter Keiser in an article in "Bankwirtschaft", 15th December 1944. The data differ somewhat from those given in earlier years, in particular by the inclusion of other credit operations besides Reich borrowing (which is given net, i.e. without conversions and exchanges). The payment of the rent-tax composition, which is accounted on both sides of the statement (the amount raised by credit being the difference between the total amount and the cash payment), has made certain adjustments necessary: RM 8 milliard has been deducted from Reich borrowing and from bank deposits in 1942 and added in 1943, since payment of this amount from the banks to the Reich was delayed from December 1942 into the new year. The increase in the Reichsbank giro takes account of deposits other than those of the banks. "Market" purchases of securities, which in fact have been made preponderantly by institutions and only to a very small degree by individuals, include the so-called "business-investment" and "commodity-stock-replenishment" deposits at the Treasury in 1942.

There was some revival of private issues on the capital market in 1943. RM 500 million mortgage bonds were sold in connection with the rent-tax composition and net new industrial bond issues came to RM 1,120 million, as against RM 850 million in the previous year; the revival was, however, of a temporary character, since industrial issues fell off to only RM 570 million in 1944. Some interest was aroused by the notice given by Siemens and Halske of repayment, on 1st April 1945, of their 6 per cent. debentures, which were due only in the year 2930, at 342 per cent. These bonds, which were issued in 1930 with a currency of a thousand years, thus disappear after little more than a decade; holders of the German tranche were given the option of conversion into preference shares without voting rights.

Whereas the government expenditure of the main belligerent countries has been for their own account (except for aid, such as lend-lease, voluntarily given to allies), the occupied countries of western Europe have had to cover the expenses of the German troops in occupation and to finance the surplus of exports to Germany through the clearings. In France, this extraordinary outlay was specified in the Treasury's statements as "expenditure in connection with the armistice"; but in other countries the position has been less clearly presented. A measure of the amounts involved, however, has been obtainable largely through the central-bank returns, which have been regularly published.

The payment of occupation costs and the advances for the financing of the clearing with Germany must obviously be added to domestic budget expenditure in order to give a comprehensive picture of the total outlay on official account (which is important *inter alia* from a monetary point of view). Thus some rearrangement of the published material has been undertaken in the interests of uniformity and in order to give as clear an insight as possible into the situation. For four countries, France, Belgium, Holland and Denmark, adequate data have been available and are set out in the following table (all figures being converted into Reichsmarks at the official rates, for convenience of presentation).

Four Western European countries: Total official outlay.⁽¹⁾

Total official outlay in financial years (?)	1940	1941	1942	1943	Totals 1940-43	1940	1941	1942	1943	Totals 1940-43
	in millions of RM					percentages				
France										
Domestic.	12,400	6,850	7,450	7,150	33,850	85	54	42	33	51
On German account. .	2,150	5,850	10,100	14,250	32,350	15	46	58	67	49
Totals	14,550	12,700	17,550	21,400	66,200	100	100	100	100	100
Belgium										
Domestic.	1,540	1,550	1,550	1,740	6,380	71	44	34	34	41
On German account. .	620	1,990	2,970	3,440	9,020	29	56	66	66	59
Totals	2,160	3,540	4,520	5,180	15,400	100	100	100	100	100
Holland										
Domestic.	1,900	1,740	2,130	2,350	8,120	66	36	39	37	42
On German account. .	960	3,160	3,260	3,950	11,330	34	64	61	63	58
Totals	2,860	4,900	5,390	6,300	19,450	100	100	100	100	100
Denmark										
Domestic.	400	470	570	640	2,080	45	50	54	35	44
On German account. .	490	460	490	1,210	2,650	55	50	46	65	56
Totals	890	930	1,060	1,850	4,730	100	100	100	100	100
Totals for four countries										
Domestic.	16,240	10,610	11,700	11,880	50,390	79	48	41	34	48
On German account. .	4,220	11,460	16,820	22,850	55,350	21	52	59	66	52
Totals	20,460	22,070	28,520	34,730	105,740	100	100	100	100	100

(1) Budget expenditure on domestic account, plus the payment of occupation costs and the financing of the clearing on German account.

(2) For France, Belgium and Holland the financial year ends on 31st December and thus corresponds to the calendar year; for Denmark the financial year ends on 31st March and the figures cover the twelve months up to the end of March of the years following those given at the head of the table.

During the three and a half years up to the end of 1943 the expenditure on German account by the four countries came to a little more than one-half of their total official outlay; but, in 1943, the proportion had risen to as much as two-thirds, a fact which indicates the importance of not neglecting the sums paid to Germany when the public finances of these countries are examined.

The payments made by France on German account were, in absolute amounts, higher than those of the other three countries together. The following table gives in a simplified form the main items of the French budget and the Treasury accounts including the Caisse autonome d'amortissement (which raises its own tax revenue and applies it to debt service) as well as movements on the Reichskreditkassen's account at the Bank of France, these two additions being necessary to arrive at the total real expenditure or "official outlay".

French Budget and Treasury Accounts.⁽¹⁾

Calendar years	Realised results				Estimates 1944 (2)
	1940	1941	1942	1943	
	in milliards of Fr.fcs				
Expenditure					
Ordinary expenditure ⁽³⁾ . . .	238	126	137	139	160
Armistice expenditure ⁽⁴⁾ . . .	80	142	157	282	300
Sundry	10	11	12	4	10
Total	328	279	306	425	470
Reichskreditkassen ⁽⁵⁾	—37	—25	+ 45	+ 3	—
Total official outlay	291	254	351	428	—
Receipts					
Ordinary revenue	83	90	110	136	150
Borrowing					
from market (net)	139	113	119	146	
from depositors and correspondents at the Treasury ⁽⁶⁾	—	—	6	26	320
from Bank of France ⁽⁷⁾	106	76	71	117	
Total	328	279	306	425	470
Reichskreditkassen ⁽⁸⁾	—37	—25	+ 45	+ 3	—
Total receipts	291	254	351	428	—
Deficit (covered by borrowing)					
excluding Reichskreditkassen ⁽⁹⁾	245	189	196	289	(320)
including Reichskreditkassen ⁽¹⁰⁾	208	164	241	292	—

(1) Including the Caisse autonome d'amortissement. The taxes levied by the Caisse have been added to ordinary revenue and its costs of administration to ordinary expenditure, while the debt amortisations made by it have been deducted from the market loans.

(2) Including war expenditure in 1940. (3) Expenses (analysed in a later table) resulting from the occupation of the country by German troops.

(4) The movements of the account of the Reichskreditkassen at the Bank of France, shown as (—) for increases and (+) for decreases, have been so great that it is necessary to take them into account in order to obtain a real picture of developments.

(5) Deposits at the Treasury and with "correspondents" of the Treasury, both of which items may be considered as borrowing. (6) Including comparatively small amounts from the banks of issue in the colonies.

(7) These are round figures based partly on budget estimates as published and partly on movements of the accounts in the early months of the year. Actually the armistice expenditure ceased in August 1944, when expenditure for the year totalled Fr.fcs 203 milliard (see table opposite). From information published by the Finance Minister of the Provisional Government in October 1944 it appears that, apart from the armistice expenditure, total budget expenditure was expected to reach Fr.fcs 200 milliard against ordinary receipts of Fr.fcs 130 milliard, giving a deficit of Fr.fcs 70 milliard, which would be raised to Fr.fcs 120 milliard if the Algiers deficit of Fr.fcs 50 milliard were added. Including armistice expenditure already paid, the overall deficit would thus be about Fr.fcs 320 milliard for 1944.

For 1945, only preliminary figures are available: expenditure has been estimated at Fr.fcs 390 milliard, made up of Fr.fcs 173 milliard for national defence and Fr.fcs 217 milliard for civil purposes (including temporary expenditure arising from the war); ordinary revenue has been put at Fr.fcs 154 milliard.

The spectacular expansion of the armistice expenditure from 1942 to 1943 was mainly due to the increase in occupation costs from Fr.fcs 300 to 500 million a day (paid as from 11th November 1942) and to the rise in the German clearing deficit. The total of other budget expenditure fell slightly in 1943, being met almost wholly by receipts from taxation and other ordinary revenue. Including withdrawals from the account of the Reichskreditkassen, the deficit rose from Fr.fcs 240 milliard in 1942 to Fr.fcs 290 milliard in 1943, the proportion financed by calls on the Bank of France decreasing from 48 to 41 per cent.

French Public Debt.⁽¹⁾

End of month	Totals outstanding					Movements of debt ⁽²⁾ in		
	Aug. 1939	Dec. 1941	Dec. 1942	Dec. 1943	Aug. 1944	1942	1943	1944 (Jan.- Aug.)
	in milliards of Fr.fcs							
Long term:								
Funded	55	55	44	44	44	— 11	—	—
Redeemable	248	278	306	358	375	+ 28	+ 52	+ 17
Middle and short term:								
Treasury bills etc.	107	321	421	519	567	+ 100	+ 98	+ 68
Bank of France ⁽³⁾	36	227	296	413	517	+ 69	+ 117	+ 104
Total	446	881	1,067	1,334	1,523	+ 186	+ 267	+ 189

(1) Including the Caisse autonome d'amortissement.

(2) 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, in 1943 of Fr.fcs 7 milliard and, in January-August 1944, of Fr.fcs 16 milliard, so that total receipts from borrowing were Fr.fcs 198 milliard in 1942, Fr.fcs 274 milliard in 1943 and Fr.fcs 205 milliard in the first eight months of 1944.

(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 and Fr.fcs 112 milliard in 1943.

In the five years up to the liberation in August 1944, total official outlay amounted to around Fr.fcs 1,650 milliard, of which Fr.fcs 865 milliard was on account of the armistice; Fr.fcs 535 milliard was covered by ordinary budget revenue, about Fr.fcs 600 milliard from market issues, mostly at short term (Treasury bills and savings bonds) and from sundry receipts, while Fr.fcs 515 milliard was obtained from the Bank of France (the latter figure including the gold transferred to the Exchange Stabilisation Fund when the reserves were revalued in February 1940). As a result the long-term debt fell from 68 per cent. of the total at the outbreak of the war to 28 per cent. in August 1944. The following table gives an analysis of the armistice expenditure, with an indication of the manner in which it has been financed.

France: Financing of Armistice Expenditure.

Periods	Expenditure in connection with the armistice					Of which occupation costs proper		
	Occupation costs proper	Classification		Total	Financed by		Total payments	Of those payments amounts utilised by German authorities
		Billeting and requisitions	Clearing deficit		Special advances of Bank of France	Treasury bills etc.		
in milliards of French francs								
1940 June-Dec. . . .	80	.	.	80	81	— 1	80	35
1941 January-Dec. . .	121	9	12	142	62	80	121	+ 45
1942 " "	110	14	33	157	68	89	110	+ 20
1943 " "	194	26	63	283	116	167	194	— 48
Total 1940-43 . . .	505	49	108	662	327	335	505	196
1944 Jan.-August* . .	127	24	52	203	99	104	127	+ 15
Total payments made on German account* . .	632	73	160	865	426	439	632	— 15

* The armistice payments ceased in August 1944.

From June 1940 to August 1944, when payments ceased, a total of Fr.fcs 865 milliard was paid out as armistice expenditure: the "occupation costs" proper amounted to Fr.fcs 632 milliard, plus Fr.fcs 73 milliard for billeting of troops and requisitions; in addition, the German deficit on the clearing came to Fr.fcs 160 milliard. Of the total, Fr.fcs 439 milliard was provided by the issue of Treasury bills while the balance of Fr.fcs 426 milliard was covered by special advances from the Bank of France. Not only did the amount paid daily by the French Government as costs of occupation vary from period to period but the actual utilisation by the German authorities of the amounts so paid was subject to wide variations, as can be seen from the movements on the Reichskreditkassen's account at the Bank of France; and these variations were of primary importance from a monetary point of view.

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 Jan. 1943 to 21st Aug. 1944	25th June 1940 to 21st Aug. 1944
	310 days	365 days	245 days	599 days	1,519 days
in millions of Fr.fcs					
Daily average credited	413 (2)	300 (3)	300 (3)	535 (4)	416
" " withdrawn	226	295	475	564	416
" " of excess	+ 187	+ 5	— 175	— 29	0
in millions of Fr.fcs					
Total amounts credited	128	110	73	321	632
" " withdrawn	70	108	116	338	632
Excess of credits (+) or debits (—)	+ 58	+ 2	— 43	— 17	—
Of amounts withdrawn:					
Financed by Treasury bill issue etc.	24	51	25	106	206
Financed from Bank of France: increase of special advances	104	59	48	215	426
movement of Reichskreditkassen account (5)	— 58	— 2	+ 43	+ 17	—
Total	46	57	91	232	426
Increase of note circulation	+ 58 (6)	+ 59	+ 91	+ 242 (7)	+ 450 (7)

(1) The last payment for ten days in advance was actually made on 11th August 1944.

(2) Payments were made at the rate of Fr.fcs 400 million a day during this phase but the average amount credited slightly exceeds that figure owing to payment ten days in advance.

(3) From 1st May 1941 to 31st December 1942 payments were made at the rate of Fr.fcs 300 million a day.

(4) Payments at Fr.fcs 500 million a day were made retrospective to 11th November 1942, but amounts were regularly paid at this rate only from 21st January 1943. The arrears of Fr.fcs 10.2 milliard were spread over a period, instalments of Fr.fcs 2 milliard each being paid in April, May and June 1943 and the remainder in later months, while Fr.fcs 200 million a month was deducted for billeting expenses in the previously non-occupied zone. The Fr.fcs 1 milliard a month previously paid to Italy was, from September 1943, paid to Germany.

(5) Accumulation of funds on the account (—) or excess of withdrawals (+).

(6) From 10th June 1940. (7) Partly estimated.

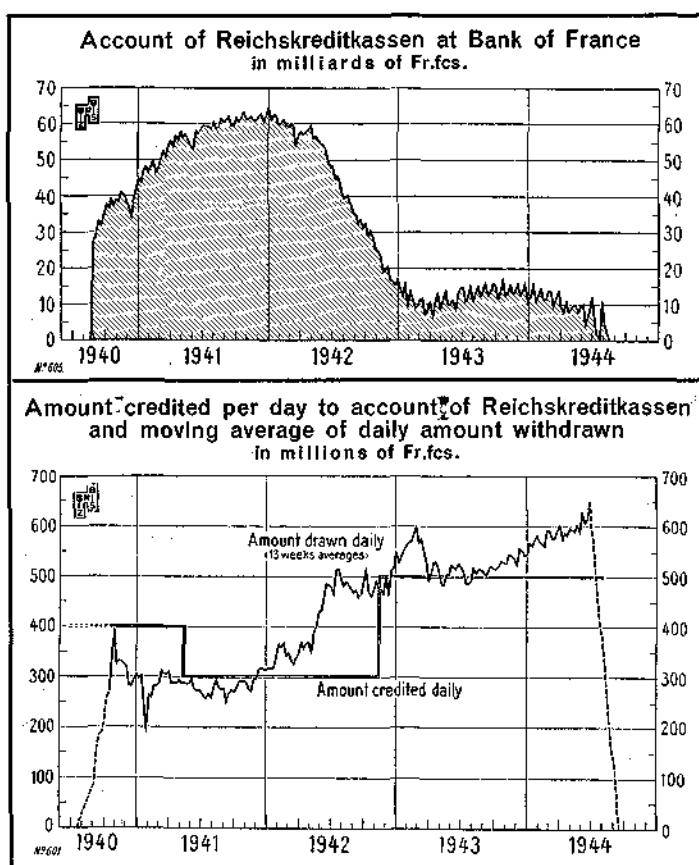
This table shows the close parallelism between the issue of notes by the Bank of France and the actual utilisation of the occupation-cost payments, as measured by withdrawals from the account of the Reichskreditkassen. Four distinct phases, which are illustrated in the graphs, may be discerned:

(i) In the first phase, up to April 1941, payments were made by the French Treasury at the rate of Fr.fcs 400 million a day (ten days in advance); of the Fr.fcs 128 milliard thus credited to the account of the Reichskreditkassen only Fr.fcs 70 milliard was withdrawn by the German authorities, so that Fr.fcs 58 milliard accumulated on the account.

(ii) In the second phase from May 1941 to April 1942, when the reduced amount of Fr.fcs 300 million a day was paid, total payments and withdrawals roughly balanced at around Fr.fcs 110 milliard.

(iii) In the third phase, covering the period to the end of 1942, during which Fr.fcs 300 million a day was still paid, extensive fortification works were begun and large armament orders placed in France, with the result that the withdrawals exceeded the sums credited by Fr.fcs 43 milliard.

(iv) In the fourth and final phase, which began in January 1943, Fr.fcs 500 million a day (plus certain additions and adjustments) was paid and approximately the same amounts withdrawn until June 1944; in July and August some Fr.fcs 25 milliard were paid in but the German authorities withdrew about Fr.fcs 40 milliard, including the whole amount standing to the credit of the account.



As a result of the armistice financing, the short-term debt had risen to over Fr.fcs 1,100 milliard in August 1944 and constituted nearly three-quarters of the total public debt. With a view to consolidation, the Provisional Government floated a Liberation loan, in the form of 3 per cent. perpetual rentes, in November 1944; subscriptions to the new loan totalled Fr.fcs 164.5 milliard, Fr.fcs 162 milliard in metropolitan France and Fr.fcs 2.5 milliard in the Empire: of the amount subscribed in France, Fr.fcs 72 milliard was in notes, Fr.fcs 53 milliard was from bank accounts

and Fr.fcs 37 milliard represented the conversion of short-term issues (Treasury bills and savings bonds).

Two movements stand out in the returns of the Bank of France up to 13th July 1944, when publication was temporarily suspended: the growth of the advances on government account and the increase in the note circulation, other items being comparatively stagnant. When publication was resumed, on 28th December 1944, the return showed a decline of the gold holding by Fr.fcs 9.4 milliard due to the delivery of that amount to the National Bank of Belgium, and also the first traces of the effect of the Liberation loan, particularly a substantial reduction of the ordinary advances to the government.

Bank of France.

Near end of month	Assets				Total of balance sheet	Liabilities				
	Gold	Temporary advances to govt				Notes	Current accounts			
		ordinary (1)	special (2)	Other credit items (3)			Treasury (4)	private (5)	Reichs-kredit-kassen	
in milliards of Fr.fcs										
1939 August . . .	97	21	—	27	166	142	3	18	—	
December . . .	97	35	—	17	171	151	2	15	—	
1940 December . .	85	64	72	16	292	218	1	27	41	
1941 " . .	85	69	143	15	365	270	2	26	65	
1942 " . .	85	68	211	18	435	383	1	30	17	
1943 " . .	85	64	327	20	550	500	1	33	11	
1944 March . . .	85	70	351	22	580	530	1	35	9	
June . . .	85	72	409	20	639	577	1	43	12	
July (6) . . .	85	71	409	19	639	585	1	47	2	
December (7)	75	16	426	35	618	573	1	38	—	

(1) Excluding the permanent advance of Fr.fcs 10 milliard, unchanged throughout the period. The legal limit for the ordinary advances, which had remained at Fr.fcs 70 milliard since 9th June 1940, was raised to Fr.fcs 100 milliard on 15th July 1944.

(2) Special advances to the French Government to meet the costs of occupation.

(3) Bills discounted, 30-day and other advances and bills purchased on the market.

(4) Including the account of the Caisse autonome d'amortissement. (5) Including other sight liabilities.

(6) 13th July 1944, after which date publication of the return was suspended owing to difficulties of communication.

(7) The return of 28th December 1944, the first to be published after the suspension. Compared with 13th July the gold holding declined by Fr.fcs 9.4 milliard, owing to the delivery of this amount to the National Bank of Belgium; this reduction was balanced by the entry of a similar sum as a "commitment of the state relating to the gold deposit of the National Bank of Belgium". The ordinary advances to the government were reduced to Fr.fcs 15.85 milliard (against a maximum of Fr.fcs 74.55 milliard on 31st August) as a result of a number of operations including, in particular, the debiting of Fr.fcs 17 milliard to regularise earlier operations and the crediting of the Fr.fcs 55 milliard cash proceeds of the Liberation loan up to 28th December; the special advances remained at Fr.fcs 426 milliard, the maximum reached in August 1944. The note circulation at the end of December was Fr.fcs 67 milliard below its maximum of Fr.fcs 639.8 milliard. The latter figure included Fr.fcs 17.3 milliard book-keeping entries which had not previously been made: Fr.fcs 7.0 milliard notes evacuated to England in 1940 and utilised in France by the Allied armies, Fr.fcs 4.2 milliard to cover the needs of the F. F. I. before the liberation, Fr.fcs 0.65 milliard appropriated by the Free French movement (Algiers) for the needs of the resistance and the exchange of Fr.fcs 5.4 milliard "tricolor" notes printed in the United States and issued by the Allies at the time of the invasion.

The table on the opposite page summarises the accounts of twenty-seven banks, which between them were responsible for nearly ninety per cent. of all commercial bank deposits in France. The increase in deposits of these twenty-seven banks in 1942 was equal to only 27 per cent., and in 1943 to only 30 per cent., of the simultaneous increase in the note circulation. A longer view can be obtained from the returns of four large banks given at the bottom of the page.

France: twenty-seven Banks.⁽¹⁾

End of month	Assets ⁽²⁾			Deposit liabilities ⁽³⁾					
	Cash ⁽⁴⁾	Discounts ⁽⁵⁾	Advances and over-drafts	Paris banks			Provincial banks (ten) ⁽⁶⁾	Foreign banks (four) ⁽⁷⁾	Total 27 important banks ⁽⁸⁾
				Big banks (six)	Banques d'affaires (two)	Other banks (five) ⁽⁹⁾			
in milliards of Fr.fcs									
1941 December ⁽⁹⁾	17.2	108.5	12.4	96.4	8.0	11.1	16.6	4.0	136.1
1942 " "	19.6	131.9	15.5	114.9	10.9	14.4	21.2	5.1	166.6
1943 " "	21.1	161.5	25.4	140.9	13.0	14.9	26.1	7.1	201.9

(1) Banks with total deposits of over Fr.fcs 500 million each.

(2) Global figures for all the banks.

(3) Analysis by classes of banks.

(4) Cash in hand and at banks.

(5) Treasury bills are predominant in the discount portfolios of the banks, accounting for about 90 per cent. of the total at the end of 1943.

(6) Six banks at the end of 1941; a small bank whose deposits had declined to Fr.fcs 320 million at the end of 1942 was excluded at the end of 1942 and 1943. Moreover, two banks which operated in Algeria are included in 1943 only at the same figures as at the end of 1942.

(7) Amongst the foreign banks the most important was the Aéro-Bank (a "filiale" of the Bank der Deutschen Luftfahrt) whose deposits increased from Fr.fcs 1.1 milliard on 30th June 1942 to Fr.fcs 3.7 milliard on 31st December 1943, largely because the French franc balances of nationals of the United Nations were transferred under trusteeship to this bank.

(8) The aggregate deposits of 181 domestic and foreign banks amounted to Fr.fcs 155.7 milliard on 31st March 1942, Fr.fcs 200.2 milliard on 31st March 1943, Fr.fcs 233.7 milliard on 31st December 1943 and Fr.fcs 239.9 milliard on 31st March 1944.

(9) The figures given for December 1941 are those established according to the old form and are not exactly comparable with later years.

From August 1939 to December 1943 discounts at the four banks rose by rather over Fr.fcs 70 milliard; since these banks account for about one-half of all commercial bank deposits, it may be concluded that the banking system as a whole took up about Fr.fcs 150 milliard of Treasury bills, as compared with Fr.fcs 400 milliard of middle and short-term paper placed on the market. The balance of Fr.fcs 250 milliard comprises savings issues and also the Treasury bills taken up by large enterprises and public bodies, including the investment of savings banks' funds through the Caisse des Dépôts et Consignations.

France
returns of four big Commercial Banks.*

End of month	Assets			Liabilities Deposits and current accounts	
	Cash	Discounts	Advances and overdrafts		
	in milliards of Fr.fcs				
1938 December ..	3.9	21.3	7.7	33.6	
1939 August ..	6.6	18.5	7.6	33.3	
December ..	4.9	29.3	8.1	42.1	
1940 December ..	6.4	46.1	8.6	62.0	
1941 " ..	6.9	61.6	8.5	76.7	
1942 " ..	8.8	72.9	10.6	91.2	
1943 " ..	9.3	90.2	8.7	112.8	

* Crédit Lyonnais, Comptoir National d'Escompte, Société Générale and Crédit Industriel et Commercial. These four banks account for nearly 60 per cent. of the total deposits shown in the previous table and about 50 per cent. of those of the 181 reporting banks.

Savings banks, whose deposits grew by Fr.fcs 27 milliard in 1943 (nearly twice as much as in 1942), are obliged to lodge their funds, except for a liquidity reserve of 5 per cent., with the Caisse des Dépôts et Consignations, which invests them in government securities; no recent figures concerning the activities of the Caisse are available but its total investments (including old age and social insurance

France
movement of savings-bank deposits.⁽¹⁾

Periods	Caisse Nationale	Caisse ordinaires	Total
	in milliards of Fr.fcs		
1940 January-December . . .	+ 0.6	— 0.6	0.0
1941 " " . . .	+ 3.3	+ 3.5	+ 6.7
1942 " " . . .	+ 6.6	+ 7.2	+ 13.8
1943 " " . . .	+ 12.5	+ 14.2	+ 26.7
1944 January-March	+ 4.2	+ 5.8	+ 10.0
April-June	+ 3.0	+ 1.0	+ 4.0
July-September	+ 3.0	0.0	+ 3.0
Total deposits outstanding at end of 1943	51.7	68.0	119.7⁽²⁾

(1) Excess of deposits (+) or withdrawals (—).

(2) The excess of deposits fell off in the course of the first three quarters of 1944, but, in the last quarter, it was again very high, total deposits at the end of the year being in the neighbourhood of Fr.fcs 165 milliard.

French Bank Deposits and Note Circulation.

Totals outstanding at end of month	Bank deposits				Note circula- tion
	Commer- cial banks (1)	Savings banks (2)	Postal cheque accounts (3)	Total (4)	
in milliards of Fr.fcs					
1939 August	67	66	4	137	142
December	84	66	5	155	151
1940 " "	124	67	11	202	218
1941 " "	153	73	14	242	270
1942 " "	182	90	19	290	383
1943 " "	226	120	23	369	500
1944 March	231	130	26	387	530
June	240	135	26	401	577
September	251	137	26	414	640*
Increases August 1939 to December 1943.	+ 169	+ 54	+ 19	+ 232	+ 358

(1) Double the figures of the four large banks.

(2) Total of the Caisse nationale and the caisses ordinaires.

(3) Postal cheque and private current accounts.

(4) All deposits in the country, excluding those at the Bank of France (which fall into a special category).

* The maximum reached early in October 1944.

limits on savings deposits were again raised, for individuals to Fr.fcs 80,000 and for firms to Fr.fcs 150,000 (previously Fr.fcs 100,000).

In France, as in most belligerent countries, private capital transactions have been at a low ebb since the outbreak of war, and it can, therefore, be assumed that practically the whole of the banking expansion has been for the direct or indirect financing of the budget deficit and that the amount of the deficit gives a fair measure of the "money capital formation" in the country. From the table on the next page it appears that, on the average of the four years 1940 to 1943, some 60 per cent. of the budget deficit was financed by the banking system.

funds) probably approached some Fr.fcs 160 milliard at the end of 1943.

From August 1939 to the end of 1943 total bank deposits in France (including the amounts deposited with savings banks and on postal cheque accounts) rose by some Fr.fcs 230 milliard, only two-thirds of the expansion of the note circulation in the same period. At the outbreak of the war the total volume of deposits was about equal to the note issue at Fr.fcs 140 milliard but, at the end of 1943, the note circulation stood at Fr.fcs 500 milliard while deposits were only Fr.fcs 370 milliard. Up to 1942 sight deposits rose more rapidly than savings deposits, but in the following year a reverse movement occurred, due partly, it would seem, to increases in the maxima which might be held on individual savings accounts, from Fr.fcs 20,000 to Fr.fcs 40,000, and partly to the attraction of the higher interest rates paid for savings deposits.

In October 1944, the upper

French Banking Expansion
and Budget Deficit.

Calendar years	Cover of budget deficit			Banking expansion as percentage of total deficit per cent.
	Expansion of banking system (1)	Other sources (2)	Total deficit (3)	
	in milliards of Fr.fcs			
1940	114	94	208	55
1941	92	72	164	56
1942	162	79	241	67
1943	195	97	292	67
Totals 1940-43	563	342	905	62

(1) As obtained from previous table. (2) This is a residual.
(3) As given in the table on page 214 (including the fluctuations of the account of the Reichskreditkassen).

law of January 1944. And in June of the same year the Bank of France itself introduced facilities for mobilising credit for periods from nine months to two years, provided the funds were needed for exports or related to definite orders; the terms might even be extended up to five years when investments were made for the promotion of production; the cost of such credits would be $\frac{1}{2}$ per cent. above bank rate, the paper discounted to bear four signatures. These measures represented an innovation of some importance; before the war middle-term credits were granted largely by the banques d'affaires, assisted by the Caisse des Dépôts et Consignations, but the cost was relatively high and the volume of business was small.

The Caisse Nationale des Marchés de l'Etat was formed in 1936 with the object of assisting government contractors in mobilising their credits vis-à-vis the French Treasury; by a law of September 1940 the functions of the Caisse were extended to the granting of credits in favour of enterprises to which a "lettre d'agrément" had been accorded. Credits utilised (acceptances and endorsements) grew from Fr.fcs 2.8 milliard in 1941 to Fr.fcs 5.7 milliard in 1942 and to Fr.fcs 14.0 milliard in February 1943, so that the Caisse had become one of the foremost financing institutions for French industry; the credits granted would seem to have been largely to promote autarkic production: by February 1943, the textile and leather industries had received over Fr.fcs 4 milliard, the foodstuff industry Fr.fcs 3.2 milliard, the fuel industry Fr.fcs 1.9 milliard and the engineering industry Fr.fcs 1.3 milliard. No later figures have been published.

Interest rates showed little or no change in 1943 and 1944. The discount rate of the Bank of France remained at $1\frac{3}{4}$ per cent., to which it had been reduced in March 1941 (the rate for advances, which had been kept unchanged at 3 per cent. since January 1939, being reduced to $2\frac{3}{4}$ per cent. in November 1944, i. e. $\frac{1}{4}$ per cent. below the interest rate on the Liberation loan). Other interest rates continued to fall slightly: at the end of 1944 the rate for one-year Treasury bills was 2 per cent., and for three-month bills $1\frac{5}{8}$ per cent.;

Side by side with the commercial banks and savings banks an increasingly important rôle in the credit structure in France has been taken by large public institutions, such as the Caisse des Dépôts et Consignations (constantly in receipt of new money from the savings banks and insurance funds) and the Crédit National. The latter institution recently modified its statutes so as to be able to grant middle-term credits in cooperation with the Caisse des Dépôts et Consignations, the fiscal provisions applicable to such credits being relaxed by a

the average share yield was down to a record low level of 1 per cent.; in November 1944 the Liberation loan was issued in the form of 3 per cent. perpetual rentes.

Early in 1945 a general decline of short-term rates took place following the reduction of the discount rate of the Bank of France by $1\frac{1}{2}$ to $1\frac{5}{8}$ per cent. on 20th January, the lowest bank rate ever in force in France; and the conversion of Fr.fcs 107 milliard 4 and $4\frac{1}{2}$ per cent. issues into a 3 per cent. 60-year rente was successfully undertaken (resulting in an annual saving of Fr.fcs 1,500 million in interest).

* * *

Complete budgetary accounts for Belgium have not been published since 1941 but sufficient information is available to present a comprehensive picture.

Belgian Budget and Treasury Accounts.

Calendar years	1940	1941	1942	1943	1944 six months
	in milliards of B.fcs				
Expenditure					
Domestic expenditure (1) . . .	19.2	19.3	19.4	21.7	12.9
Extraordinary expenditure (2) . . .	7.8	24.8	37.1	42.8	21.1
clearing (3)	3.2	8.5	18.5	23.1	10.8
occupation costs (4)	4.6	16.3	18.6	19.7	10.5
Total official outlay	27.0	44.1	56.5	64.5	34.0
Receipts					
Taxation revenue (5)	9.4	14.5	16.3	17.2	9.3
Borrowing:					
from market	6.1	14.3	16.1	29.6	11.8
from central bank (6)	9.2	14.4	22.2	17.5	12.7
Treasury items (7)	0.6	1.2	0.5	0.4	0.4
Total receipts	25.3	44.4	55.1	64.7	34.2
Deficit (covered by borrowing)	15.3	28.7	38.3	47.1	24.5

(1) Budget expenditure plus advances for supplies to the country and provisional Treasury advances to the provinces, municipalities and semi-official bodies. For 1940, war expenditure is included as well as the expenses of the Belgian Government in France.

(2) Expenditure resulting from the occupation of the country by German troops.

(3) Creditor account in the clearing at the Bank of Issue plus Reichskreditkassen accounts and Reichskreditkassenscheine on hand (at National Bank and Bank of Issue) as shown by the returns of these banks.

(4) Occupation costs plus billeting expenses of troops, indemnities to German nationals, etc.

(5) Direct taxation, customs and excise and "enregistrement" plus post, marine and sundry receipts.

(6) Government securities taken by National Bank and Bank of Issue plus items under (3) above. Slight differences between the items as shown here and as given in a later table on the National Bank arise from the fact that the central-bank return does not necessarily fall exactly at the end of the month.

(7) Notes, coins and Treasury circulation.

market but, in 1943, this order was reversed, with the whole period 1940-43 almost the same amount was obtained from the central bank as from the market.

* The total paid out on German account up to the liberation, early in September 1944, was B.fcs 143 milliard.

Extraordinary outlay in connection with the payment of occupation costs and the financing of the clearing came to B.fcs 43 milliard in 1943, twice as much as ordinary expenditure; in the period of occupation, from May 1940 to July 1944, a total of B.fcs 136.8 milliard* was paid out on German account: B.fcs 71.5 milliard as occupation costs and B.fcs 65.3 milliard to finance the German deficit in the clearing (see page 150). Revenue from taxation has risen over the years but was well under one-third of total official outlay in both 1942 and 1943. For the three years 1940-42 official borrowing from the central bank exceeded the issues on the result that for the

Belgian Internal Public Debt⁽¹⁾
and Government Guarantee to National Bank.⁽²⁾

End of month	National Bank ⁽³⁾					Market ⁽⁴⁾				Grand total ⁽⁵⁾	
	Government securities			Clearing financing ⁽⁶⁾	Total	Government securities					
	long ⁽⁷⁾	middle ⁽⁸⁾	short ⁽⁹⁾			long ⁽⁸⁾	middle ⁽⁸⁾	short ⁽⁷⁾	total		
in billions of B.fcs											
Totals outstanding											
1939 December	1.5	—	3.7	—	5.2	33.7	0.7	0.7	35.1	40.3	
1940 " "	1.8	—	9.4	3.2	14.4	34.2	0.7	6.3	41.2	55.6	
1941 " "	1.8	0.6	14.7	11.7	28.8	37.7	6.1	11.7	55.5	84.3	
1942 " "	1.4	1.0	18.4	30.2	51.0	37.5	15.8	18.3	71.6	122.6	
1943 " "	1.8	0.8	12.6	53.3	68.5	40.2	26.6	34.4	101.2	169.7	
1944 March	1.6	0.8	13.5	58.2	74.1	40.3	27.4	39.3	107.0	181.1	
June	2.0	1.0	14.3	63.9	81.2	39.8	32.3	40.9	113.0	194.2	
Net Increases											
1940 Jan.-Dec.	0.3	—	5.7	3.2	9.2	0.5	—	5.6	6.1	15.3	
1941 " "	—	0.6	5.3	8.5	14.4	3.5	5.4	5.4	14.3	28.7	
1942 " "	(—0.4)	0.4	3.7	18.5	22.2	(—0.2)	9.7	6.6	16.1	38.3	
1943 " "	0.4	(—0.2)	(—5.8)	23.1	17.5	2.7	10.8	16.1	29.6	47.1	
Total 1940-43.	0.3	0.8	8.9	53.3	63.3	6.5	25.9	33.7	66.1	129.4	
1944 January-June . . .	0.2	0.2	1.7	10.6	12.7	(—0.4)	5.7	6.5	11.8	24.5	

(1) The figures for the internal public debt, excluding the government liability for B.fcs 3.1 milliard on account of the volume of postal cheque accounts passed over to the Bank of Issue for investment management in August 1940. In addition, there is an external debt of B.fcs 17 milliard, practically unchanged throughout the period shown.

(2) The government guarantee (included in the table as "clearing financing") applies to the advance granted by the National Bank to the Bank of Issue, which finances the clearings. For simplification of presentation and for uniformity with other tables, the actual total of clearing financing is given, which, for technical reasons, differs slightly from the total advance (and guarantee), e.g. at the end of December 1943 the advance amounted to B.fcs 49.5 milliard, whereas the total clearing and other financing of claims on Germany had reached B.fcs 53.3 milliard (see also table on National Bank return below).

(3) Including from 1940 the Bank of Issue.

(4) All holdings outside the National Bank and Bank of Issue, i.e. including the investments made for the Postal Cheque Office by the Bank of Issue.

(5) Over five years. (6) From one year to five years. (7) Up to one year.

(8) For the reasons given under (1) and (2), this total differs from the total public debt as shown by the official statement e.g. at the end of 1943 the official total of B.fcs 136.4 milliard is B.fcs 33.3 milliard below the B.fcs 169.7 milliard given in the table (which includes B.fcs 53.3 milliard clearing financing, but excludes B.fcs 16.9 milliard external debt and B.fcs 3.1 milliard liabilities on postal cheque accounts).

Of the market borrowing one-half has been at short term; long-term borrowing has remained comparatively small but middle-term (up to five years) has been gaining in importance, as the table shows.

Direct lending to the government and advances to the Bank of Issue for the financing of the German clearing, with a threefold increase in the note circulation, constitute the significant changes that have taken place in the balance sheet of the National Bank, as shown over the page. Credit to the private economy declined to a very low residue. At the Bank of Issue the current accounts had risen to B.fcs 3.8 milliard by the end of 1943: B.fcs 1.2 milliard was the working balance of the Reichskreditkassen and B.fcs 2.6 milliard was returned as "other deposits" (belonging mainly to German agencies). A further growth was shown by deposits from the Postal Cheque Office, the investments of which have been entrusted to the Bank of Issue since August 1940.

Belgium: National Bank and Bank of Issue combined returns.

Near end of month	Assets					Total of balance sheet	Liabilities			
	Claims on Germany			Credit granted	Notes	Current accounts	Bank of Issue	Postal Cheque Office		
	clearing account	other	total	to private economy						
in milliards of B.fcs										
1940 December	1.0	2.2	3.2	1.3	13.3	41.7	34.8	1.7	0.9	3.4
1941 "	7.9	3.8	11.7	0.9	17.3	55.5	48.5	1.3	0.9	3.7
1942 "	24.7	5.5	30.2	0.7	21.3	77.6	67.9	1.3	3.2	4.0
1943 "	48.6	4.7	53.3	0.9	17.2	97.5	83.2	1.7	3.8	7.0
1944 March	53.4	4.8	58.2	0.5	19.4	104.0	88.6	1.9	4.0	7.6
June	59.2	4.7	63.9	0.3	21.5	112.0	95.6	2.1	4.1	8.3
August ⁽²⁾	62.4	4.7	67.1	0.6	21.2	114.5	100.3	1.6	2.4	8.3

(1) Bank of Issue, "créances en devises étrangères".

(2) Bank of Issue, two accounts of Reichskreditkassen plus Reichskreditkassenscheine held under "monnaies et billets étrangers" at National Bank (until December 1942, and then transferred to Bank of Issue).

(3) By the National Bank.

(4) Credit granted to the government and to public bodies by the National Bank (including securities purchased on the market) plus investments made by the Bank of Issue on account of the Postal Cheque Office (see under (6) below).

(5) Including other items than those shown. The principal items omitted from the table are the gold holding of the National Bank, which has remained booked at B.fcs 21.7 milliard. The Bank of Issue was financed by a current advance from the National Bank, of which it thus formed, in practice, a specialised department. This advance rose from B.fcs 1.5 milliard at the end of 1940 to B.fcs 49.5 milliard at the end of 1943 and, further, to B.fcs 64.1 milliard at the end of August 1944.

(6) Circulation of the National Bank, less small amounts held by the Bank of Issue.

(7) Including an account of the Reichskreditkassen (B.fcs 605 million at the end of 1940 and B.fcs 1,180 million at the end of 1943).

(8) At the Bank of Issue. Investments made for the Postal Cheque Office since 3rd August 1943 are included under "Credit granted to the government" on the assets side of the table. Before that date the amounts of such investments were deducted from the assets of the Postal Cheque Office on the liabilities side. At the time of the change of practice these investments amounted to B.fcs 2.2 milliard.

(9) 31st August 1944, the last return published before the liberation of the country, from which date publication of the return was suspended until the end of the year.

In the four years to the end of 1943 current accounts and deposits at the commercial banks more than trebled, the expansion of B.fcs 26.7 milliard corresponding to a rise of B.fcs 27.1 milliard in the Treasury bill portfolio,

Belgian Commercial Banks.⁽¹⁾

End of month	Assets					Total of balance sheets	Liabilities			
	Cash and at banks	Credit granted			Deposits		current accounts	time deposits	total	
		to private economy	Treasury bills	long-term securities						
in milliards of B.fcs										
1939 December	3.8	9.0	0.7	3.2	20.0	11.5	1.2		12.7	
1940 "	4.2	7.3	4.3	3.3	22.1	14.8	1.2		16.0	
1941 "	4.6	5.8	9.4	3.9	26.4	18.6	2.2		20.8	
1942 "	4.9	6.5	15.8	3.7	33.5	23.0	4.5		27.5	
1943 "	5.1	6.2	27.8	4.1	46.1	32.6	6.8		39.4	
1944 March	5.5	6.0	31.0	3.9	49.4	35.6	7.0		42.6	
June	5.9	5.8	31.8	4.0	50.4	37.0	6.6		43.6	
Sept.	4.0	4.8	34.8	3.9	50.0	37.2	6.4		43.6	

(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) Treasury bills maturing in less than 120 days rose from B.fcs 7.0 milliard in December 1942 to B.fcs 10.1 milliard in December 1943; in the same period, Treasury bills of longer than 120 days rose from B.fcs 8.7 milliard to B.fcs 17.7 milliard.

(5) At sight or one month's notice.

(6) At more than one month.

while movements of other items in the returns were comparatively small. The rate of expansion in 1943 was distinctly higher than in the earlier years, with a tendency for the banks to acquire longer-term Treasury bills: of

the B.fcs 12 milliard purchased in 1943 B.fcs 9 milliard was at over 120 days, the total holding of such bills attaining 64 per cent. of the banks' total Treasury bill portfolio at the end of 1943, against 55 per cent. at the end of 1942.

**Belgium: movement
of savings-bank deposits.***

Periods	In millions of B.fcs
1939 January-December	— 1,052
1940 " "	— 747
1941 " "	— 233
1942 " "	+ 841
1943 " "	+ 2,915
1944 January-March	+ 992
April-June	+ 835
July-September	+ 718
Total deposits outstanding at end of 1943	16,099

* Excess of deposits (+) or withdrawals (—) at the Caisse Générale d'Epargne (excluding interest added at end of year).

After years of decline in savings-bank deposits, there was a net increase in 1942, which grew considerably in the following year. It seems possible that funds other than ordinary savings had been attracted by the interest rate (of 3 per cent.) and the government guarantee of savings-bank deposits.

For the period from September 1939 to December 1943 all commercial and savings-bank deposits rose by B.fcs 34 milliard against an expansion of B.fcs 56 milliard in the note issue; in the last year of the period, however, the increase in deposits was for the first time slightly higher than the rise in the note circulation. But, in 1944, the note issue again expanded more rapidly.

Belgian Bank Deposits and Note Circulation.

Totals outstanding at end of month	Bank deposits				Note circula- tion
	Com- mer- cial banks (1)	Savings banks (2)	Postal cheque accounts (3)	Total	
in millions of B.fcs					
1939 September . .	14.0	11.8	2.5	28.3	27.0
December . .	12.7	12.0	2.9	27.6	28.0
1940 " . .	16.0	11.5	3.8	31.3	34.8
1941 " . .	20.8	11.6	4.9	37.3	48.5
1942 " . .	27.5	12.8	5.7	46.0	67.9
1943 " . .	39.5	16.1	7.0	62.6	83.2
1944 March . . .	42.6	17.1	7.5	67.2	88.6
June . . .	43.6	17.9	8.4	69.9	95.6
September . .	43.6	18.6	8.1	70.3	100.3 (4)
Increases					
September 1939 to December 1943 . .	+ 25.4	+ 4.3	+ 4.5	+ 34.2	+ 56.2

(1) Total current accounts and deposits (not including branches and agencies abroad or in Belgian Congo).

(2) Total deposits at end of month, including interest added.

(3) Private accounts.

(4) End of August.

It appears from the table on the next page that on the average of the four years 1940 to 1943 somewhat over two-thirds of the budget deficit was financed by the banking system, the proportion remaining comparatively stable during the period.

There were few changes of importance in interest rates in 1943 and 1944. Bank rate remained at 2 per cent.*, to which it had been reduced in January 1940; the rate for call money on the market fell from $\frac{3}{4}$ to $\frac{5}{8}$ per

cent. in April 1943 and the rate of the Société Nationale du Crédit à l'Industrie for deposits of one year was reduced from $2\frac{1}{2}$ to $2\frac{1}{4}$ per cent. in July 1943.

* The discount rate of the National Bank of Belgium was reduced to 1 $\frac{1}{2}$ per cent. on 16th January 1945.

Belgian Banking Expansion
and Budget Deficit.

Calendar years	Cover of budget deficit			Banking expansion as percentage of total deficit per cent.
	Expansion of banking system (¹)	Other sources (²)	Total deficit (³)	
	in milliards of B.fcs			
1940	10.5	4.8	15.3	69
1941	19.7	9.0	28.7	69
1942	28.1	10.2	38.3	73
1943	31.8	15.3	47.1	69
Totals 1940-1943	90.2	39.2	129.4	70

(¹) As obtained from the previous table. (²) This is a residual.
(³) Including occupation costs and the clearing, as given in the table on page 222.

Long-term rates were typified by the 3½ per cent. ten-year government loan made in April 1943, which was issued at 94 and produced B.fcs 3.6 milliard. A year later terms were somewhat harder, for then ten-year Treasury certificates at 3½ per cent. were issued at par (repayable at 102), B.fcs 5.3 milliard being subscribed, the Treasury reserving the option to repay the loan in two years; as before, interest and premium on the loan were tax-free.

In order to provide some check to the excessive liquidity of the market, caused by the financing of the German clearing through central-bank credit, a new procedure had been applied from the end of February 1943, under which creditors in the clearing were paid partly in non-transferable certificates (as described in the thirteenth Annual Report, page 204). Actually, in the sixteen months to June 1944, B.fcs 31,060 million was paid out from the clearing account, of which B.fcs 30,330 million was in cash and merely B.fcs 730 million in certificates. The measure of "sterilisation" resulting from this method has therefore been very small indeed. The new procedure was, moreover, robbed of most of its value in August 1943, when the certificates were made transferable by endorsement and given maturities of at most one year. When the first issues of certificates matured in the spring of 1944 the net new issue during the April-June quarter fell to the negligible proportion of 0.24 per cent. of the out-payments from the clearing during the quarter.

On its return from London in September 1944, the Belgian Government decided upon a drastic curtailment of the total means of payment outstanding (which had grown to four times the pre-war amount) so as to bring them more into conformity with the exchange rate, fixed at B.fcs 176,625 to the £ sterling. By decree of 6th October 1944, all notes of the National Bank in the hands of residents in Belgium had to be declared within five days; and these bank-notes, in denominations of B.fcs 100 and upwards, lost their character as legal tender from 9th October (a measure not affecting the smaller denominations, of B.fcs 50 and less, which are Treasury notes). Bank-notes up to a limit of B.fcs 2,000 per head were exchanged at once for a new series issued by the National Bank. Notes not so exchanged had to be deposited at banks or post offices by 3rd November; a further B.fcs 3,000 per declared account was exchanged for new notes from 17th November, forty per cent. of the remainder being temporarily blocked and sixty per cent. definitively blocked. Also, from 9th October, all bank accounts were separated into three parts: a free account, equal to ten per cent. of the total or the actual amount existing

**Belgium: total means of payment
1939 and 1944.**

Form of payments media	1939	1944
	Average Jan.-June	August
in milliards of B.fcs		
Note circulation (National Bank and Treasury) . . .	28	104 (1)
Deposits:		
Commercial banks (net)	2½ (2)	44
Savings banks	12½	21
Post Office (including giro accounts)	3	14
Totals . . .	46	183

(1) The National Bank's circulation was slightly over B.fcs 100 milliard and the Treasury issue about B.fcs 4 milliard.

(2) B.fcs 12½ milliard deposits, less B.fcs 10 milliard credits granted.

was not declared (and was presumed to be in the hands of non-residents or lost), B.fcs 14 milliard was freed immediately (at the rate of B.fcs 2,000 per head) and B.fcs 13 milliard subsequently (at B.fcs 3,000 per declared account); the Treasury issue of about B.fcs 4 milliard remained free. Non-resident holders of Belgian bank-notes were required to declare and deposit their holdings at the latest on 22nd December 1944. As this series of measures was taken towards the end of 1944, it is as yet too soon for an appraisal of their monetary and economic consequences.

* * *

Although for Holland comprehensive budget data have been suppressed, yet monthly Treasury and debt statements have been published which, with other material, enable a fairly reliable outline to be presented (as in the table on the next page). Extraordinary outlay in connection with the payment of occupation costs (including the contribution of RM 50 million a month towards the eastern campaign) and the financing of the clearing with Germany rose from Fl. 2,500 million in 1942 to Fl. 3,000 million in 1943, as compared with an increase in domestic expenditure from Fl. 1,600 million to about Fl. 1,800 million.⁽³⁾ In the period from May 1940 to June 1944, total extraordinary outlay on German account attained Fl. 10,380 million, of which Fl. 6,330 million was paid as costs of occupation and Fl. 4,050 million to finance the deficit on trade and payments account with Germany.

(1) Firms were, however, allowed B.fcs 1,000 per member of their personnel for payments of salaries etc. up to 1st November.

(2) Total budget expenditure in 1943, excluding the clearings, has been given as Fl. 3,925 million in the press against Fl. 3,420 million in the table. The former figure cannot be explained on the basis of ordinary receipts from taxation and borrowing; if it is correct, some unknown source of receipts must have furnished about Fl. 500 million, or budget expenditure must include a considerable allocation for amortisation of debts or similar outlay. On this reckoning ordinary domestic expenditure would amount to Fl. 2,275 million.

Dutch Budget and Treasury Accounts.⁽¹⁾

Calendar years	1940	1941	1942	1943	1944 ⁽¹²⁾ six months
	In millions of florins				
Expenditure					
Domestic expenditure ⁽²⁾	1,430	1,310	1,610	1,770	960
Extraordinary expenditure ⁽³⁾	720	2,380	2,460	2,980	1,840
clearing ⁽⁴⁾	120	950	810	1,330	840
occupation costs ⁽⁵⁾	600	1,430	1,650	1,850	1,000
Total official outlay⁽⁶⁾	2,150	3,690	4,070	4,750	2,800
Receipts					
Taxation revenue ⁽⁷⁾	920	1,220	1,600	1,630	800
Borrowing:					
from market ⁽⁸⁾	940	1,770	1,460	1,990	1,160
from central bank ⁽⁹⁾	290	700	1,010	1,130	840
Total receipts⁽¹⁰⁾	2,150	3,690	4,070	4,750	2,800
Deficit (covered by borrowing)⁽¹¹⁾	1,230	2,470	2,470	3,120	2,000

(1) No budget accounts have been made available for the years 1940 to 1944, but taxation statistics were published until May 1942 and public debt statements have been published every month. The totals of taxation and borrowing (plus borrowing for the financing of the clearing) in the table, given as total receipts (and total outlay), are no doubt on the low side since no estimates are available of current budgetary income other than from taxation.

(2) This is the residual, when extraordinary expenditure is deducted from total outlay; it may be on the low side for reasons given under (1) above. For 1940 war expenditure is included.

(3) Expenditure resulting from the occupation of the country by German troops.

(4) As shown by the return of the Nederlandsche Bank. From the abolition of the clearing in 1941 the figures give the financing of Reichsmark claims of the Nederlandsche Bank.

(5) At Fl. 100 million a month plus the contribution of RM 50 million a month, from July 1941 onwards, towards the war against the U.S.S.R. (6) This is the equivalent of the total receipts given below.

(7) Official statistics for 1940 and 1941 and estimates based on these figures (and on those for the first five months of 1942).

(8) The annual increase of the public debt held outside the Nederlandsche Bank as shown by the public debt statements. (9) Direct government borrowing plus the financing of the clearing with Germany.

(10) The total of receipts from taxation and borrowing.

(11) Including the financing of the clearing by the Nederlandsche Bank. (12) Estimated.

In the years 1941 to 1943 receipts from taxation appear to have more or less covered domestic expenditure, leaving extraordinary expenditure to be met by borrowing. In the four years 1940 to 1943 nearly Fl. 9,300 million was borrowed, roughly in three equal parts:

(i) Fl. 3,210 million was obtained from the Nederlandsche Bank, corresponding to the bank's accumulation of Reichsmark claims;

Dutch Government long-term loans.

Date of issue	Interest rate	Issue price	Maxi- mum maturity	Nominal amount of issue
	per cent.	per cent.	in years	millions of florins
Before the occupation:				
1940 January	4	100	30	300
February	4	100	40	300
After the occupation:				
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

(ii) Fl. 3,180 million came from short-term borrowing on the market, chiefly in the form of Treasury bills plus, in 1943, an exceptionally large contribution on current account from various public institutions, notably the Post Office; and

(iii) Fl. 2,980 million was produced by long-term loans, shown in the table.

Dutch Internal Public Debt and Government Guarantee
to Nederlandsche Bank.⁽¹⁾

End of month	Nederlandsche Bank			Market ⁽²⁾				Grand total ⁽⁴⁾	
	Direct advance and Treasury bills	Ad- vances against Reichs- mark claims	Total	Short term			Long term		
				Treasury bills	other ⁽³⁾	total			
in millions of florins									
Totals outstanding									
1939 December . . .	80	—	80	330	670	1,000	3,140	4,140	
1940 " " . . .	250	120	370	890	600	1,490	3,590	5,080	
1941 " " . . .	—	1,070	1,070	1,560	830	2,390	4,460	6,850	
1942 " " . . .	200	1,880	2,080	2,270	710	2,980	5,330	8,310	
1943 " " . . .	—	3,210	3,210	3,040	1,140	4,180	6,120	10,300	
1944 March . . .	—	3,790	3,790	3,320	1,310	4,630	6,020	10,650	
June	—	4,050	4,050	—	—	5,450	6,010	11,460	
								15,510	
Net increases									
1940 Jan.-Dec. . . .	170	120	290	560	— 70	490	450	940	
1941 " " . . .	—250	950	700	670	230	900	870	1,770	
1942 " " . . .	200	810	1,010	710	—120	590	870	1,460	
1943 " " . . .	—200	1,330	1,130	770	430	1,200	790	1,990	
Total 1940-43 . . .	— 80	3,210	3,130	2,710	470	3,180	2,980	6,160	
1944 January-June .	—	840	840	—	—	1,270	(—110)	1,160	
								2,000	

(1) Totals of the public debt outstanding as published in official statements plus the financing of Reichsmark claims held by the Nederlandsche Bank (covered by government guarantee). Figures rounded to nearest Fl. 10 million.

(2) All public debt holdings outside the Nederlandsche Bank.

(3) Chiefly current borrowing from official institutions (largely the Post Office) plus sundry items such as the small government notes, i.e. "silver bonds" outstanding (Fl. 220 million at the end of 1943).

(4) This total exceeds the total given in the public debt statement by the amount of the Nederlandsche Bank's holding of Reichsmark claims.

Owing to amortisation and redemptions the net increase in the long-term indebtedness has been less than the nominal total of the different loan transactions. Of the loan issued in July 1943, Fl. 300 million was reserved for public institutions, by which the government consolidated part of its current debts to them. No long-term loans were issued in 1944.

The outstanding movements in the returns of the Nederlandsche Bank given overleaf were the increase in the claims on Germany and in the note circulation and deposits. At the end of June 1944 Reichsmark claims held by the Nederlandsche Bank, mostly in the form of Reich securities, totalled some RM 5,600 million — the equivalent of Fl. 4,200 million,⁽¹⁾ an amount corresponding to over 90 per cent. of the note circulation. In the four and a half years from December 1939 to June 1944, the notes outstanding rose by Fl. 3,200 million, private accounts were up by Fl. 300 million and on a special government account stood Fl. 100 million, representing the balance of notes of large denominations withdrawn from circulation;⁽²⁾ in the same period, private domestic credit items fell by Fl. 100 million and the gold holding (allowing for the revaluation) by Fl. 130 million.

(1) According to the return of 26th June; by 3rd July (the nearest return to the month-end, shown in the table) the total had been somewhat reduced as the result of an issue of Treasury bills to the commercial banks, for the express purpose of taking up Reichsmarks.

(2) For details regarding the withdrawal of large notes in March 1943, see thirteenth Annual Report, pages 310 and 311.

Nederlandsche Bank.

Near end of month	Assets					Total of balance sheet (5)	Liabilities		
	Claims on Germany (1)			Loan to government (3)	Private domestic credit (4)		Notes (6)	Private accounts ordinary (7)	Government accounts special (8)
	"sundry ac- counts" (2)	foreign bills	total	Gold	Total of balance sheet (5)				
in millions of florins									
1939 December	29	2	31	83	238	1,014	1,431	1,152	229
1940 "	123	16	138	261	211	1,102	1,783	1,552	175
1941 "	153	930	1,083	18	165	1,026	2,357	2,116	182
1942 "	151	1,742	1,893	176	204	903	3,244	3,034	141
1943 "	172	3,043	3,215	—	134	932(9)	4,362	3,512	525
1944 March	128	3,664	3,792	—	157	932	4,966	3,995	566
June	61	3,985	4,046	—	139	932	5,198	4,378	524
September	33	4,303	4,336	15	134	931	5,516	4,765	429
December	77	4,405	4,482	14	137	931	5,830	5,094	389

(1) Except for a small amount indicated by the pre-1940 level of these items. According to the annual report of the Nederlandsche Bank for the financial year ended 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. These claims would be much higher but for the deduction from July 1941 onwards of RM 50 million (equivalent to Fl. 37½ million) a month as "contribution" towards the campaign in the east; commencing with July 1944 the government issued Treasury bills to the commercial banks to provide funds for the taking-up of Reichsmarks, so that the increase in the claims on Germany, as shown by the Nederlandsche Bank in the second half of 1944, was less than the real accumulation.

(2) Reichsmark balances were held under the item "sundry accounts" until the end of June 1943, from which time foreign balances and currency were given separately in the weekly return; the figures shown in the table for December 1943 and for 1944 represent these balances and no longer the "sundry accounts" item which had fallen to normal proportions.

(3) Direct advances, plus Treasury bills placed directly with the bank. Slight differences as compared with previous tables are principally due to the date of the returns (which are not exactly at the month-ends).

(4) Excluding Treasury bills placed directly with the bank, but including the loan to the Dutch East Indies (reduced from Fl. 61 million to Fl. 50 million over the period shown in the table).

(5) Including certain minor items not specified in the table.

(6) Account opened in connection with the withdrawal of large bank-notes.

(7) Early in July 1943 the gold holding was revalued from Fl. 886 million to Fl. 932 million.

During the same four and a half years, to June 1944, the four large commercial banks, which account for about one-half of all commercial bank deposits, showed an increase of Fl. 930 million in sight and time deposits; on the assets side there was an increase of Fl. 1,050 million, in Treasury bills and a reduction of Fl. 290 million in the credits granted to the private economy of

Dutch Commercial Banks.⁽¹⁾

End of month	Assets			Total of balance sheets (5)	Liabilities		
	Cash (6)	Treasury bills	Credit to private economy (7)		Deposits	sight de- posits etc. (8)	time deposits
In millions of florins							
1939 December	76	226	449	909	536	40	576
1940 "	51	547	323	1,078	699	57	756
1941 "	55	793	254	1,240	872	69	941
1942 "	55	863	217	1,289	875	101	976
1943 "	220	1,010	184	1,569	1,137	123	1,260
1944 March	—	1,051	174	—	1,291	130	1,421
June	138	1,275	161	—	1,372	129	1,501

(1) Four large banks: Amsterdamsche Bank, Incasso-Bank, Rotterdamsche Bankvereeniging and Twentsche Bank.

(2) Including money at call.

(3) Regular bank business through commercial bills discounted, advances and overdrafts, securities and syndicate participations.

(4) Shown in the returns as "creditors".

Holland: movement of savings-bank deposits.*

Periods	Post	Private	Total
	Office	savings banks	
In millions of florins			
1939 January-December . . .	— 26	— 56	— 81
1940 " " . . .	— 169	— 79	— 248
1941 " " . . .	— 49	— 13	— 62
1942 " " . . .	+ 51	+ 40	+ 91
1943 " " . . .	+ 233	+ 141	+ 373
1944 January-March	+ 59	+ 34	+ 92
April-June	+ 53	+ 41	+ 94
Total deposits outstanding at end of 1943	776	605	1,380

* Excess of deposits (+) or withdrawals (—).

Indeed, in 1944, some Fl. 100 million had still not been paid out. It may be mentioned that, in April 1943, the stamp tax on bank cheques and transfers was abolished.

In 1943, deposits at Post Office and private savings banks rose by Fl. 370 million against only Fl. 90 million in 1942. Indeed, as the following table shows, the considerable expansion of bank deposits during 1943 accounted for nearly 60 per cent. of the total increase from September 1939 to December 1943; a good part of the increase in 1943 was due to the withdrawal of the large bank-notes from circulation.

Dutch Bank Deposits and Note Circulation.⁽¹⁾

Totals outstanding at end of month	Bank deposits				Note circulation
	Com- merical banks	Savings banks	Postal giro accounts	Total	
	(2)	(3)	(4)	(5)	
In millions of florins					
1939 September . . .	1,130	1,700	310	3,140	1,140
December . . .	1,150	1,680	330	3,160	1,150
1940 " " . . .	1,610	1,440	460	3,410	1,550
1941 " " . . .	1,880	1,430	570	3,880	2,120
1942 " " . . .	1,950	1,650	640	4,240	3,030
1943 " " . . .	2,520	2,300	960	5,780	3,510
1944 March	2,840	2,400	870	6,110	3,990
June	3,000	2,500	870	6,370	4,380
Increases September 1939 to December 1943 . . .	+1,390	+ 600	+ 650	+2,640	+2,370

(1) Figures are rounded off.

(2) Double the deposits of the four large banks which hold about one-half of all commercial-bank deposits.

(3) Estimates of total savings at Post Office, private savings banks and Raiffeisenbanken, including interest added.

It appears that on the average of the four years 1940-43 somewhat over one-half of the budget deficit was financed by the banking system, the proportion rising, however, to two-thirds in the year 1943 (see table on next page).

In some sectors interest rates continued to decline in 1943 and the first half of 1944. While bank rate was still 2½ per cent., to which it had been reduced in June 1941, and the rate for savings deposits at the Post

the country. The exceptional increase in the bank's deposits and cash holdings in 1943 was largely due to the withdrawal of over Fl. 700 million bank-notes of large denominations during the second quarter of the year; the equivalent in cash of individual holdings in excess of Fl. 500 was paid out exclusively through the banks; indeed, in 1944, some Fl. 100 million had still not been paid out. It may be mentioned that, in April 1943, the stamp tax on bank cheques and transfers was abolished.

In 1943, deposits at Post Office and private savings banks rose by Fl. 370 million against only Fl. 90 million in 1942. Indeed, as the following table shows, the considerable expansion of bank deposits during 1943 accounted for nearly 60 per cent. of the total increase from September 1939 to December 1943; a good part of the increase in 1943 was due to the withdrawal of the large bank-notes from circulation.

From September 1939 to December 1943, the expansion of bank deposits and of the note circulation was by almost equal amounts; this meant, however, that the note circulation expanded at a higher rate, rising from 36 per cent. to 61 per cent. of total deposits.

Dutch Banking Expansion
and Budget Deficit.

Calendar years	Cover of budget deficit			Banking expansion as percentage of total deficit per cent.
	Expansion of banking system (1)	Other sources (2)	Total deficit (3)	
	in millions of florins			
1940	650	580	1,230	53
1941	1,040	1,430	2,470	42
1942	1,270	1,200	2,470	51
1943	2,020	1,100	3,120	65
Totals 1940-43	4,980	4,310	9,290	54

(1) As obtained from the previous table. (2) This is a residual.
(3) Including occupation costs and the clearing, as given in the table on page 228.

to three months and 1 per cent. for twelve months; but, from July 1944, the banks returned to their previous rates in an attempt to attract deposits.

* * *

For the financial year to March 1944 the ordinary budget in Denmark closed with a small surplus, as it has regularly done in recent years, but extraordinary outlay resulting from the occupation rose from around D.Kr. 900-1,000 million in the financial years 1940-43 to D.Kr. 2,300 million in 1943-44. In the whole period from April 1940 to March 1944 the total outlay on German account was D.Kr. 5,150 million, of which D.Kr. 2,870 million represented the costs of occupation and D.Kr. 2,280 million the financing of the German deficit on clearing account.

Danish Budget and Treasury Accounts.⁽¹⁾

Financial years to 31st March	1940-41	1941-42	1942-43	1943-44
	in millions of Danish crowns			
Expenditure				
Domestic expenditure	827	896	1,082	1,121
Extraordinary expenditure ⁽²⁾	1,020	890	930	2,310
clearing	500	480	340	960
occupation costs	520	410	590	1,350
Total official outlay	1,847	1,786	2,012	3,431
Receipts				
Taxation revenue	884	931	1,125	1,161
Borrowing:				
from market ⁽³⁾	43	118	443	752
from central bank (net) ⁽⁴⁾	920	737	443	1,519
Total receipts	1,847	1,786	2,011	3,432
Deficit (covered by borrowing)	963	855	886	2,271

(1) Closed budget accounts plus the financing of the clearing and advances made to the occupation authorities by the Nationalbank, with a government guarantee, rounded to nearest D.Kr. 10 million.
(2) Outlay resulting from the occupation of the country by German troops.
(3) This item represents the accumulation of funds on the accounts of the government at the Nationalbank, less the current surplus on the ordinary budget, i.e. total funds drawn from the market.
(4) The advances made on clearing and occupation costs accounts, less the accumulation of funds on deposit by the government.

The financing of the clearing and payments to the German military authorities have been covered by advances from the Nationalbank under a government guarantee and have not appeared in the budget itself; but they have formed, of

course, a part of the official outlay. This outlay, considered as a whole, was met by taxation to the extent of 56 per cent. in 1942-43 but of only 34 per cent. in 1943-44, although in the latter year revenue from taxation actually rose and continued to exceed expenditure in the ordinary budget.

From December 1939 to December 1944 the gross expansion of central-bank credit for official purposes was D.Kr. 7,200 million; but, by repaying its loan from the Nationalbank and accumulating deposits, the government offset nearly D.Kr. 2,500 million, so that the net expansion of central-bank credit on official account was slightly over D.Kr. 4,700 million.

In view of the considerable expansion of central-bank credit, a rise by under D.Kr. 1,100 million in the note issue in the five years to December 1944 appears moderate in itself and still more so beside the increase by nearly D.Kr. 2,900 million in the deposits made by the commercial banks. This increase in the "cash" reserves of the banks was, in the first instance, voluntary, representing a redeposit of the greater part of the new deposits received by the banks from the public; but, as explained in the thirteenth Annual Report (page 211), certain measures of "sterilisation" were introduced in July 1942, and these measures have been further strengthened. Apart from an increase of some consumption taxes, the sterilisation measures fall into two main classes: the withdrawal of funds from the market by the issue of government securities and the deposit of the proceeds on a special account at the Nationalbank;

Danmarks Nationalbank.

End of month	Assets							Total of balance sheet	Liabilities			
	Claims on Germany (1)			Internal credit granted		Gold and foreign assets	Notes		Deposits and current accounts			
	occupation costs	clearing account	total	to private economy bonds	other (2)				banks (3)	government ordinary	special (4)	
	in millions of Danish crowns											
1939 Dec.	—	—	—	208	375	147	125	952	600	134	—	
1940 "	420	410	830	157	98	—	126	1,309	741	350	—	
1941 "	860	850	1,710	141	50	—	125	2,118	842	882	148	
1942 "	1,340	1,180	2,520	88	56	—	115	2,877	953	1,002	242	
1943 "	2,410	2,050	4,460	64	34	—	118	4,767	1,369	2,010	264	
1944 March	2,870	2,280	5,160	71	27	—	119	5,418	1,414	2,218	348	
June	3,390	2,480	5,870	67	28	—	119	6,137	1,526	2,417	426	
Sept.	3,900	2,670	6,570	78	31	—	119	6,851	1,678	2,659	559	
Dec.	4,360	2,830	7,190	95	55	—	119	7,518	1,858	3,009	610	
											1,717	

(1) Figures are rounded to the nearest D.Kr. 10 million and include proportions of the so-called "adjustment" account resulting from the revaluation of the Danish crown in January 1942.

(2) Total of internal credit items excluding bonds (and shares) and the government overdraft.

(3) New account opened by virtue of the laws of 3rd July 1942 and 8th July 1943, as explained in the text.

(4) These accounts may be analysed as follows at the end of the years 1942 and 1943:

End of year	1942		1943	
	in millions of Danish crowns			
Banks: ordinary accounts	206		497	
"sterilisation" accounts	550		972	
special six-month deposits	199		472	
Total	955		1,941	
Other accounts	47		69	
Total	1,002		2,010	

and the tying-up of the commercial banks' cash reserves by the fixing of various minimum ratios. The Nationalbank also opened special time accounts for the banks as a further tying-up measure.*

The government issued securities, as shown in the accompanying table, forming part of the sterilisation programme.

Danish "Sterilisation" Loans.

Forms of borrowing outstanding	End of		
	1942	1943	1944
in millions of D.Kr.			
By virtue of the law of 3rd July 1942:			
Treasury bills at ½ per cent.			
for six months	250	351	493
Debt certificates at 1½ per cent.			
for two years	98	244	425
Savings bonds with effective interest at 4.1 per cent. for five years	16	24	37
By virtue of the law of 8th July 1943:			
Five-year bonds at 2½ per cent.	—	33	114
Ten-year bonds at 3 per cent..	—	91	432
Total nominal values outstanding	364	743	1,501
Increase during period	+ 364	+ 379	+ 758

The cash proceeds of the issues up to the end of 1943, D.Kr. 727 million, plus D.Kr. 3 million "obligatory reserves" (instituted under a law of 3rd July 1943) gave the total of D.Kr. 730 million on the special "sterilisation" account of the government in December 1943; by the end of 1944, this account had risen to D.Kr. 1,717 million.

A detailed analysis of the effect of the various sterilisation measures, available up to the end of 1943 only, is given below.

Danish "Sterilisation" Measures.⁽¹⁾

Effect of measures taken. Calendar years	Commercial banks' legal reserves (?)			Special six months deposits at National-bank (?)	Obligatory reserves etc. (?)	Government special account (?)	Totals
	at National-bank	in cash	Total				
In millions of Danish crowns							
1942	650	120	670	199	—	358	1,227
1943	422	(—12)	410	273	100	372	1,155 (?)
Total "sterilised" at end of 1943 . . .	972	108	1,080	472	100	730	2,382 (?)

(1) Compiled from information given in the annual report of the Nationalbank. The higher receipts from the increase in consumption taxes are not included since they cannot easily be estimated.

(2) These reserves might be held at the Nationalbank on special reserve accounts (not shown separately in the Nationalbank's return) or partly in "cash" (including cash in tills and amounts on the banks' ordinary accounts at the Nationalbank).

(3) These are the special time deposits opened on the initiative of the Nationalbank as a supplementary "sterilisation" measure (they are not shown separately in the Nationalbank's return).

(4) This is a round figure comprising the amounts withdrawn respectively through a special tax on war profits and through the constitution of obligatory reserves by companies.

(5) From the issue of securities on the market as explained above.

(6) As the figure under (?) is approximate, these totals also are only approximate. The Nationalbank gives a total of "about D.Kr. 2,400 million" at the end of 1943. By November 1944 the total had risen to about D.Kr. 4,070 million.

In addition to the amounts shown in the table, there has been a further increase in the government's ordinary account at the Nationalbank: in

* The Nationalbank made a profit of D.Kr. 7.2 million in 1940 and D.Kr. 2.8 million in 1941; in 1942 there was a loss of D.Kr. 0.3 million, in 1943 of D.Kr. 1.1 million and in 1944 of D.Kr. 1.9 million. In 1943 the bank's profit and loss account showed a new item of D.Kr. 4.9 million "expenses relating to measures taken against the abundance of money"; in 1944 this item was booked at D.Kr. 6.8 million.

November and December 1943 and in January 1944 three long-term government loans (two of 20 and one of 30 years) were issued, each for D.Kr. 60 million, the proceeds of which were not intended to cover the immediate needs of the Treasury but to serve for the creation of employment after the war. Later in 1944, three more loans were floated, producing in all D.Kr. 280 million (see page 237).

Danish Commercial Banks.

End of month	Assets					Total of balance sheets	Liabilities			Depo- sits made by other banks *
	Cash holding	Ba- lances at banks *	Bills	Ad- vances and over- drafts	Securi- ties		Private deposits	current accounts	time deposits	
in millions of Danish crowns										
1939 December	211	53	440	1,675	615	3,564	843	1,612	2,455	132
1940 "	450	141	381	1,535	789	3,759	958	1,657	2,615	243
1941 "	952	221	280	1,475	1,006	4,409	1,258	1,857	3,115	395
1942 "	828	453	360	1,522	1,215	5,033	1,500	2,052	3,552	444
1943 "	1,548	1,020	218	1,381	1,354	6,057	1,850	2,350	4,200	812
1944 March . .	1,557	1,205	206	1,333	1,580	6,359	2,003	2,517	4,520	895
June . .	1,683	1,279	197	1,325	1,772	6,818	2,250	2,581	4,831	980
Sept. . .	1,724	1,491	181	1,336	1,812	7,071	2,266	2,703	4,969	1,120
December	2,259	1,287	172	1,344	1,807	7,461	2,606	2,742	5,248	1,143

* Including savings banks.

The striking difference between the monetary position in Denmark and that of other occupied European countries has arisen from the very definite preference of the Danish public for bank deposits as against the holding of notes: in the five years to December 1944 the note issue rose by less than D.Kr. 1,100 million while deposits by the public at the commercial banks rose by nearly D.Kr. 2,800 million, indeed, by as much as D.Kr. 3,800 million when deposits of other banks are included. In addition, D.Kr. 600 million was returned by repayments of private credits previously granted (advances, overdrafts and bills). This gives a grand total of D.Kr. 4,400 million, of which the banks redeposited or held as cash reserves some D.Kr. 3,200 million and invested only D.Kr. 1,200 million in securities. Had it not been for these two factors: the preference of the public for bank deposits instead of notes and the preference of the banks for strongly reinforced cash reserves instead of investments, a great part of the government "sterilisation" policy could not have been applied in the manner adopted. The tying-up of the banks' cash reserves was, indeed, largely the consecration of an established voluntary position. The aggregate capital of the 163 commercial banks in Denmark

Denmark: movement of savings-bank deposits.*

Periods	In millions of D.Kr.
1939 January-December . .	— 33
1940 " " . .	— 63
1941 " " . .	+ 217
1942 " " . .	+ 255
1943 " " . .	+ 381
1944 " " . .	+ 585
1944 January-March . .	+ 171
April-June	+ 112
July-September . . .	+ 161
October-December . .	+ 141
Total deposits out- standing at end of 1944	3,555

* Excess of deposits (+) or withdrawals (—), including interest added.

amounts to D.Kr. 302 million, less than 5 per cent. of their balance-sheet totals at the end of 1944; the Nationalbank in a circular letter to the banks has recommended an increase of capital, as a precautionary measure, and a reduction of dividends for the year 1944.

From 1941 net deposits at the savings banks have grown steadily; and the following table brings out the fact that in 1941 and 1942 the increase of bank deposits of all kinds was more than five times the expansion of the note circulation; in 1943, however, the proportion was not quite three times, the note issue lagging rather less behind the marked advance in deposits;

but in 1944 the rise in deposits was again by over five times the expansion of the note issue.

Danish Bank Deposits and Note Circulation.

Totals outstanding at end of month	Bank deposits				Note circula- tion
	Commer- cial banks	Savings banks	Postal cheque accounts	Total	
in millions of Danish crowns					
1939 September ..	2,406	2,265	64	4,735	480
December ..	2,455	2,179	72	4,706	600
1940 ..	2,615	2,116	122	4,853	741
1941 ..	3,115	2,333	186	5,634	842
1942 ..	3,552	2,589	218	6,359	983
1943 ..	4,200	2,970	265	7,435	1,359
1944 March ..	4,520	3,141	242	7,903	1,414
June	4,831	3,252	319	8,402	1,526
September ..	4,969	3,414	261	8,644	1,678
December ..	5,248	3,555	325	9,128	1,658
<i>Increases</i> September 1939 to December 1944 ..	+ 2,842	+ 1,290	+ 261	+ 4,393	+ 1,178

was a reflection of a noteworthy activity in the private credit sphere, the important private bond market forming a characteristic feature of Danish conditions. Whereas the capital of all share companies amounted to about

D.Kr. 2,500 million in 1943 and the total of government bonds issued was around D.Kr. 1,500 million, there were, in addition to municipal bond loans, some D.Kr. 6,600 million of mortgage bonds in circulation. Comprehensive statistics of capital issues are not available but the table on the next page illustrates the remarkable fact that mortgage bonds issued by the credit societies expanded very considerably during the first years of the war, the government having taken no measures to reserve the capital market for

Danish Banking Expansion and Budget Deficit.

Financial years to 31st March	Cover of budget deficit			Banking expansion as percent- age of total deficit
	Expansion of banking system (1)	Other sources (2)	Total deficit (3)	
			in millions of Danish crowns	
1940-41	530	430	960	55
1941-42	890	(- 30)	860	103
1942-43	910	(- 20)	890	102
1943-44	1,800	470	2,270	79
<i>Total</i> April 1940- March 1944	4,130	850	4,980	83

(1) April to March changes of figures given in the previous table.

(2) This is a residual.

(3) Including occupation costs and the clearing, as given on page 232.

Denmark
Credit Societies' and Mortgage
Banks' Bond Issues.*

Financial years to 31st March	Gross new issues	Amortisa- tions	Net cash issues	in millions of Danish crowns	
1939-40	204	115	89		
1940-41	238	132	106		
1941-42	519	241	278		
1942-43	817	508	309		
1943-44	551	238	313		

* The issue of "Kassa-Obligationer" by the "Creditföreninger" and "Hypotekföreninger". The credit societies lend on first mortgage up to 60 per cent. of the estimated value of landed property, while the mortgage banks grant general loans on second mortgage to not more than 75 per cent. of the estimated value of the property. At the end of March 1944 the credit societies had D.Kr. 6,054 million bonds outstanding and the mortgage banks D.Kr. 534 million. Of the D.Kr. 1,095 million net new issues in the five years 1939-40 to 1943-44 as shown in the table, D.Kr. 1,059 million were made by the credit societies and only D.Kr. 36 million by the mortgage banks.

its own borrowing, as has been the case in most other countries; indeed, the net cash issues of mortgage bonds in the last three financial years came to over three times the pre-war figures. (Share issues, on the other hand, have been comparatively unimportant at less than D.Kr. 30 million in 1943 and under D.Kr. 20 million in 1942). Up to the time of the application of the "sterilisation" policy in the summer of 1942 the credit societies took advantage of the liquidity of the market to reduce the interest burden on the farming industry, and the proportion of mortgage bonds bearing interest at 4½ per cent. and below rose from 45 per cent. of the total outstanding in March 1940 to 56 per cent. in March 1944.

Interest rates in Denmark are not so low as in a number of other European countries; bank rate has been at 4 per cent. since October 1940 and other short-term rates appear to have remained fairly stable. Long-term rates have, however, been subject to variations: the yield on the 3½ per cent. government rentes, which had averaged 5.0 per cent. in 1940, fell to 3.9 per cent. in June 1942 but became irregular with the introduction of the sterilisation measures in the following month, rising continuously to 4.65 per cent. in February 1943, then declining again until a new low record, slightly below 3.9 per cent., was reached by March 1944. In the first half of 1944 an attempt was, indeed, made to reduce the rates for government borrowing: while in January a 30-year 4 per cent. loan had been issued at 99¾, giving a yield of 4.02 per cent., in March a 3½ per cent. 20-year issue was made at 98½, giving a yield of 3.68 per cent., but only one-half of the D.Kr. 60 million offered was successfully placed; in June, the highest rate for savings-bank deposits was reduced from 4 to 3½ per cent. and the rate for 2-year debt certificates of the government from 1¾ to 1½ per cent. But long-term rates rose, the yield on the 3½ per cent. government rentes reaching 4.1 per cent. in September, when a return was made to earlier interest conditions, a 40-year 4 per cent. loan for D.Kr. 60 million being issued at 99, with a yield of 4.08 per cent.; and, in November, as much as D.Kr. 80 million was issued at par, having a currency of 50 years and interest at 4 per cent. After the success of this loan a further attempt was made in December with a 3½ per cent. issue for 25 years at 99; but only D.Kr. 12-15 million was subscribed out of the D.Kr. 60 million allocated for public subscription and the banks were forced to take up the D.Kr. 45-48 million remaining, as well as the D.Kr. 20 million they had taken firm.

Whatever differences in fiscal and financial techniques may be found in individual countries, unmistakable similarity prevails in one important aspect: internal government debts have everywhere grown far beyond standards known in the past, creating difficult problems of debt management for the years to come, in addition to monetary repercussions of a more urgent character at the present time and in the immediate future. While, earlier in this chapter, the development of public debts has been shown in terms of each national currency, the following table gives some figures indicating the growth of internal government debts during the five years from March 1939 to March 1944 converted, for convenience, into U.S. dollars at conventional rates (£1 = \$4 = RM 20 = Fr.fcs 200 = B.fcs 175 = Fl. 10). These rates may be taken to give a fairly realistic picture on the basis of conditions existing during this period but a final comparison of absolute amounts will, of course, be possible only when exchanges have settled down after the war.

Government Internal Debts 1939-44: in millions of U.S. dollars.

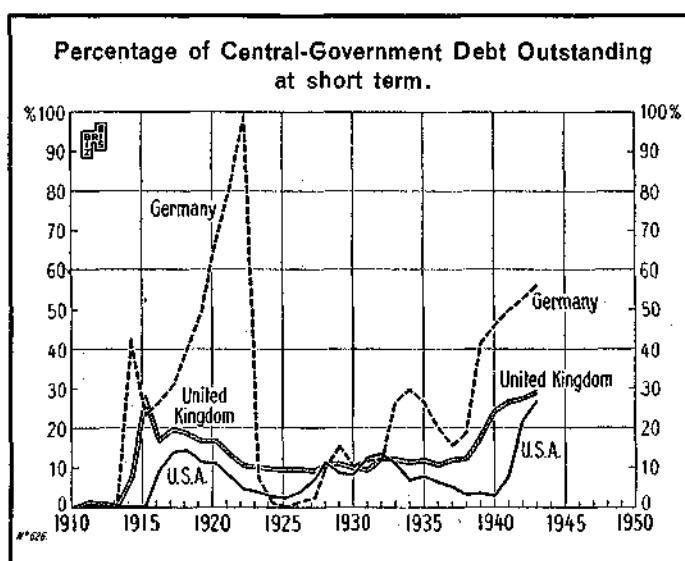
Internal government debts	Totals outstanding				Increase March 1939 to March 1944		Debt in 1944 as a multiple of 1939
	End March 1939		End March 1944		Absolute amount	Percentage of increase at long and short term	
	\$ millions	%	\$ millions	%	\$ millions	%	
United States							
long and middle term	43,540	97	137,660	74	94,120	67	3.2
short term	1,310	3	47,940	26	46,630	33	36.6
Total . . .	44,850	100	185,600	100	140,750	100	4.1
United Kingdom							
long and middle term	24,840	87	51,240	70	26,400	59	2.1
short term	3,680	13	21,960	30	18,300	41	6.0
Total . . .	28,520	100	73,220	100	44,700	100	2.6
Germany							
long and middle term	4,590	78	23,540	43	18,950	39	5.1
short term	1,330	22	31,270	57	29,940	61	23.5
Total . . .	5,920	100	54,810	100	48,890	100	9.3
Japan							
long and middle term	3,210	97	14,850	98	11,640	98	4.6
short term	100	3	380	2	280	2	3.8
Total . . .	3,310	100	15,230	100	11,920	100	4.6
France							
long term	5,870	68	8,310	30	2,440	13	1.4
short (and middle) term	2,700	32	19,720	70	17,020	87	7.3
Total . . .	8,570	100	28,030	100	19,460	100	3.3
Belgium							
long and middle term	840	99	1,600	40	760	24	1.9
short term	10	1	2,450	60	2,420	76	245.0
Total . . .	850	100	4,050	100	3,180	100	4.8
Holland							
long and middle term	1,280	82	2,410	42	1,130	27	1.9
short term	290	18	3,350	58	3,060	73	11.6
Total . . .	1,570	100	5,760	100	4,190	100	3.7

As regards the comparison of proportionate increases, great care must likewise be taken: in Germany, for instance, outside the public debt returns there were some RM 12 milliard (say, \$2,400 million) of "Sonderwechsel" in March 1939, reduced to, perhaps, RM 10 milliard by March 1944; if account is taken of this indebtedness, the rise in the public debt would be by seven times instead of nine times, as shown in the table, which reproduces data from the official debt statements. Even with the inclusion of the Sonderwechsel the German internal debt in 1939 was relatively small, most of the indebtedness from 1914-18 having been wiped out by the inflation; on the other hand, the public debt of the United Kingdom in 1939 was already relatively high, precisely on account of the expansion in 1914-18.

A more revealing basis of comparison than the rate of growth is the relation between public debts and the national income: while, in the spring of 1944, the Federal debt in the United States was one and a quarter times the national income and a similar proportion obtained in Canada, the British internal debt was more than twice the national income and the same was probably true in Germany. These relationships are, however, continually changing, the debts growing at a more rapid pace than the national incomes; moreover, account will ultimately have to be taken of certain additional liabilities, such as financial responsibility assumed by the governments for war damage, although these are not as a rule embodied in definite bonds or otherwise indicated as part of the public debt.

In all countries, except Japan, the expansion of short-term indebtedness has been relatively greater than that of the debt at long term. This has been the case more especially in France, Belgium and Holland, where the financing of occupation costs and of the clearings was essentially at short term. In the United States two-thirds, in the United Kingdom three-fifths and in Germany two-fifths of government borrowing since 1939 has been at long term. For

these three countries the percentage of the total public debt outstanding at short term is shown in the graph for a longer period.



In some countries the expansion of public debts has been accompanied by a certain reduction in private indebtedness. It is no easy matter to establish estimates of the aggregate volume of private debts, data being available for very few countries.

United States
Public and Private Debts outstanding.⁽¹⁾

End of year	Total amounts outstanding (net)			As percentages of total	
	Public (%)	Private (%)	Total	Public	Private
				in billions of dollars	
1916	6	69	75	8	92
1919	31	87	118	26	74
1929	29	144	173	17	83
1930	30	144	174	17	83
1931	33	134	167	20	80
1932	35	122	157	23	77
1933	38	113	151	25	75
1934	39	112	151	26	74
1935	42	111	153	27	73
1936	45	111	156	29	71
1937	47	112	159	30	70
1938	48	110	158	31	69
1939	51	111	161	31	69
1940	53	114	167	32	68
1941	64	120	184	35	65
1942	109	114	223	49	51
1943	162	112	274	59	41

(1) As published by the U. S. Department of Commerce, Survey of Current Business.

(2) Debts of the Federal Government, Federal agencies, State and local governments, excluding indebtedness not held by the public. In 1916, the Federal debt was \$1.2 milliard and State and local debts \$4.6 milliard; in 1919, they were \$25.8 and 5.4 milliard respectively; in 1930, they were about equal, Federal \$15.4 milliard and State etc. \$14.7 milliard. From that point the Federal debt rose continuously to \$147.0 milliard in 1943, while the State etc. debt (with a high point of \$16.8 milliard in 1932 and 1933) has hardly changed on balance and was \$14.8 milliard in 1943.

(3) Including indebtedness of business firms, individuals and other non-corporate borrowers but excluding the obligations of banks to their depositors, of life assurance companies to policy-holders and debts of individuals directly to one another. Nominal indebtedness between separate legal corporate entities which are parts of a single economic unit has been eliminated. These debts were at their highest point in 1929, \$88.5 milliard at long term and \$55.5 milliard at short term; in 1943, they were \$75.9 and 35.8 milliard respectively.

During the first world war, the public debt in the United States rose from less than one-tenth of the private indebtedness in 1916 to over one-third in 1919. During the next ten years the total public debt changed comparatively little while private indebtedness expanded with the business boom, the ratio in 1929 between public and private debts being one to five. The following depression brought about a contraction in the volume of private debts from \$144 milliard in 1929-30 to \$112-113 milliard in 1933-34; and around the latter figure the total volume remained more or less stagnant up to 1943. Federal indebtedness on the other hand rose gradually, from 1930, and then abruptly, from the outbreak of the war, so that the relationship was actually reversed, the total public debt in 1943 being almost one and a half times as great as the aggregate of all private indebtedness.

For Germany also certain estimates in this field are available.

Germany: Public and Private Debts outstanding.⁽¹⁾

Date	Public debts			Private indebted- ness	Total	Public as percentage of total indebtedness	Private percentages				
	Reich (%)	Other (%)	Total								
			in billions of Reichsmarks								
1932 December	12	17	29	64	93	31	69				
1935 "	15	21	36	61	97	37	63				
1938 "	27	28	55	65	120	46	54				
1940 "	79	28	107	65	172	62	38				
1944 June ⁽⁴⁾	299	26	325	69	394	82	18				

(1) Based on a table in "Bankwirtschaft", 1st November 1944.

(2) Including tax certificates etc.

(3) The debts of local authorities and of public corporations in the form of share companies.

(4) Rough estimates. Of the total of RM 394 milliard in the middle of 1944, RM 152 milliard was in the form of bonds (RM 126 milliard being Reich securities). By December 1944 the Reich debt had grown to RM 347 milliard.

In 1932, total public debts in Germany amounted to under one-half of the aggregate private indebtedness, but during the following six years the total of private debts hardly changed while government borrowing went on continuously, with the result that by 1938-39 public and private indebtedness were roughly equal in volume. With the war, public debts rose still more rapidly and, in 1944, they were five times as great as the private indebtedness, which remained at very much the same total figure, although somewhat altered in composition. Thus, agricultural indebtedness was reported to have been reduced, during the war, by RM 1½-1¾ milliard to RM 11¼ milliard in July 1943, while the accumulated savings of the agricultural sector (in savings banks and credit cooperatives and in securities) were estimated to have been rather over RM 13 milliard at the end of 1943, thus exceeding the aggregate of agricultural indebtedness.

In other countries also there were numerous indications of reductions made in private indebtedness during the war, partly in the agricultural sector of the community and partly as a result of regular amortisations of, for instance, building societies' advances in England and consumers' instalment credits in the United States. But, by and large, the repayment of private debts, although substantial in individual cases and for certain groups within the community, was not great in relation to the total private indebtedness outstanding and still less so compared with the huge increases in government debts. What is significant is the changed relation of public and private indebtedness; the fact that public debts now exceed all private debts outstanding constitutes, for many countries, a basic change from pre-war conditions and one likely to have far-reaching influence on financial policy.*

The converse of the great expansion of public debts is a considerable growth of liquid assets in the hands of the public. For a comprehensive

United States: total "Liquid Assets" of public.

Form of liquid assets	1929	1940	1941	1942	1943	Increase 1929 to 1943	1944 June
	in milliards of dollars						
Currency (1)	3.6	7.3	9.6	13.9	18.8	+ 15.2	20.9
Bank deposits (2)	51.0	62.7	66.7	77.4	93.6	+ 42.6	95.6
Total . . .	54.6	70.0	76.3	91.3	112.4	+ 57.8	116.7
Government securities (3)	9.5	19.6	26.5	47.2	74.3	+ 64.8	91.3
Total . . .	64.1	89.6	102.8	138.5	186.7	+ 122.6	208.0

Note: The Federal Reserve Bulletin (October 1944) has also published figures of the "estimated holdings of principal liquid assets by individuals and corporations", excluding certain items such as deposits held by foreigners and government securities held by insurance companies, which are included in the above table; the Federal Reserve estimates are thus lower, being \$83.4 milliard for December 1941 and a projected figure of \$189.9 milliard for December 1944 (whereas, on the same basis, December 1944 would be \$229.3 milliard in the above table). But, by and large, whichever estimate is preferred, the proportional variations are approximately the same and the argument in the text is not affected. The Federal Reserve Bulletin rightly points out that the growth of liquid assets is not a measure of new net savings, particularly in wartime, when depreciation, obsolescence and destruction of existing real capital are very considerable.

(1) Currency outside banks. (2) Demand deposits (adjusted), i.e. excluding government deposits, plus time deposits (at commercial and savings banks).

(3) Held by public, i.e. all except those held by banking system (including savings banks) and Federal agencies.

* In some rare cases public debts already exceeded all private indebtedness before the war. For example, the internal government debt in Belgium was B.fcs 36.7 milliard at the end of 1939; the addition of the debts of the provinces, the municipalities and the Congo gave a total of B.fcs 54.5 milliard for public debts, with which an additional B.fcs 6.3 milliard debts of semi-official institutions might be classed. The total of private indebtedness, including bank advances, amounted to only B.fcs 20.5 milliard, little more than one-quarter of all indebtedness at B.fcs 81.3 milliard (see Bulletin of the National Bank of Belgium for December 1944).

picture it is again necessary to turn to statistics published in the United States, where the volume of liquid assets, already large at the end of the 'twenties, had nevertheless risen by 1943 to three times the amount in 1929.

United States: Factors influencing the volume of Currency and Deposits.

Movements in periods	1930-1940	1941-1943	1930-1943
	eleven years	three years	fourteen years
in milliards of dollars			
Gold stock increase (1)	+ 18.0	— 0.1	+ 17.9
Treasury general fund movements (2)	— 1.7	— 10.4	— 12.1
Bank credit:			
Bank purchases of government securities (3)	+ 17.3	+ 54.3	+ 71.6
Other extension of bank credit (4)	— 18.2	— 1.4	— 19.6
Total factors	+ 15.4	+ 42.4	+ 57.8
Currency (5)	+ 3.7	+ 11.6	+ 15.2
Bank deposits (5)	+ 11.7	+ 30.9	+ 42.6
Total increase of currency and deposits (5)	+ 15.4	+ 42.4	+ 57.8

(1) The period 1929-40 is influenced by the revaluation of the gold stock by \$2.8 milliard, this amount being added to the gold stock and to the Treasury's general fund.

(2) Additions to the Treasury's general fund, shown by a minus sign (—) in the table, tend to contract the currency and bank deposits in the hands of the public.

(3) Purchases by Federal Reserve banks and all other banks (including Mutual Savings banks).

(4) Including various minor factors.

(5) Movement of items shown in previous table.

In the eleven years from 1930 to 1940 the total liquid assets rose by \$25 milliard; and then, in only three years, from 1941 to 1943, the expansion was by nearly \$100 milliard. Assets in the most liquid form, currency and bank deposits, increased in the first period by \$15 milliard, as a direct consequence of the gold influx; in the second period the expansion was by over \$40 milliard, this time solely as a result of bank purchases of government securities.

Thus, including government securities bought direct by the public, the whole of the increase of \$100 milliard in liquid

assets during the three years 1941-43 was due solely to current war financing.

As the funds borrowed are utilised by the government, so they go to swell the national income paid out to individuals, which, after payment of taxes, is either spent on consumption or saved. A study published in the United States concerning wartime savings* showed that of the income of individuals available after taxation the proportion saved rose from 10.2 per cent. in 1940 to 26.6 per cent. in 1943, this considerable increase taking place in the only belligerent country where civilian consumption had not decreased.

The key to the solution of the high rate of saving in the United States is presumably to be found in the fact that total income has risen precipitously while supplies of consumers' goods have not increased correspondingly, through still available in sufficient quantities for consumption to be maintained and even to some extent increased. It is naturally easier to secure savings from a rising real income with a sustained rate of consumption than if it had been necessary to lower peacetime standards. It is true that severe restrictions on the production and sale of consumers' durable goods (automobiles, refrigerators,

* See footnote on the opposite page.

radios, etc.) have meant that some forms of spending to which the American public have been accustomed have had to be curtailed. In so far as these restrictions caused increased savings there may be said to have been an element of compulsion imposed upon the community, in addition to the social and patriotic pressure exerted through various forms of propaganda exhorting the public to abstain from unnecessary spending.⁽¹⁾

Annual savings of individuals, which averaged less than \$5 milliard in the decade preceding the war, had risen to around \$35 milliard in 1943 and were certainly higher still in 1944. These are the savings of individuals, including non-corporate business (the term covering, for instance, physicians and farmers) but excluding corporate business. The largest change occurred in the holdings of the most highly liquid assets in the form of currency, bank deposits and government securities. The total increase in these assets would appear to have attained some \$60 milliard during the three years 1941-43. Part of this total was held by non-corporate business and part by wealthy individuals, whose spending habits would hardly change, but the bulk — possibly \$35-45 milliard at the end of 1943 — was in the hands of consumers with incomes below \$10,000 a year.

(1) "Wartime Savings and Post-War Markets" by S. Morris Livingstone, Chief of National Economics Unit, Bureau of Foreign and Domestic Commerce in the U.S. Department of Commerce, published in the "Survey of Current Business" for September 1943 (with revised data published in January 1944).

There are, in fact, two distinct calculations of aggregate savings of individuals in the United States: one is made by the U.S. Department of Commerce, in which the amount of savings emerges as a residual after personal taxes and expenditure on goods and services have been deducted from the total income paid out to individuals; the other, made by the Securities and Exchange Commission, is a compilation of known items of savings in the form of currency and bank deposits, government securities, etc., the various

items adding up to the total amount of individual savings. It will be seen from the accompanying tables that fairly concordant results have been obtained by the two methods.

(2) Estimates of the U.S. Department of Commerce, including non-corporate business.

(3) Preliminary.

(4) Based on estimates of Securities and Exchange Commission, excluding corporate and government savings, but including non-corporate business, as reproduced in the U.S. Department of Commerce "Survey of Current Business" for September 1943.

(5) Including deposits on savings account (and also, for each year from 1940 to 1942, \$0.3 milliard in increased equity with savings and loan associations).

(6) Federal government securities less net sales of other securities (totaling \$1.1 milliard over the three years 1940-42).

(7) The increased equity in non-farm dwellings, i.e. the difference in the value of the buildings and the value of the mortgages.

(8) The difference between the value of the policies and the value of loans for which they serve as security.

(9) Liquidation (in 1940 and 1941 increase) of consumer purchase debt to corporations.

United States: Utilisation of Income of Individuals.⁽²⁾

Calendar years	1940	1941	1942	1943 ⁽³⁾
	in billions of dollars			
Income paid out to individuals	76.5	92.7	116.6	142.3
less personal taxes	3.5	4.0	6.6	18.3
Available income	73.0	88.7	110.0	124.0
less expenditure on goods and services	65.7	74.6	82.0	91.0
Savings of individuals	7.3	14.2	28.0	33.0

United States: Savings by Individuals.⁽⁴⁾

Calendar years	1940	1941	1942	1943
	in billions of dollars			
Liquid savings				
Currency and bank deposits ⁽⁵⁾	3.3	5.9	12.0	15.8
Government securities ⁽⁶⁾	0.1	2.5	10.4	13.8
Total	3.4	8.4	22.4	29.6
Non-liquid savings (net)				
Buildings ⁽⁷⁾	1.7	1.9	1.3	—
Private Insurance ⁽⁸⁾	1.7	2.1	2.4	4.4
Total	3.4	4.0	3.7	—
Repayment of consumer debt⁽⁹⁾	(-1.1)	(-0.6)	2.8	—
Savings of individuals	5.7	11.8	28.9	37.7

(10) Savings have also been considerable in England; tables in the White Paper on "Statistics relating to the War Effort of the United Kingdom" show that "private savings" rose from 11.6 per cent. of "private income after direct taxation" in 1939 to 25.7 per cent. in 1943. In the latter year, private savings plus taxation ("direct taxation and compulsory contributions to extra-budgetary funds") actually accounted for 42 per cent. of the national income paid out ("private income of persons and businesses plus transfer payments").

In its annual report for 1943 the Federal Reserve Bank of New York said about the savings which had accumulated as currency in circulation and bank deposits that "they have no inflationary effect so long as they remain relatively idle, but they constitute a continuing threat to effective maintenance of price control, while the supply of civilian goods necessarily remains restricted though large." For the moment the community "seems not inclined to reach for goods. But we must bear constantly in mind that a vicious spiral of inflation, if for any reason it got started, would have much to feed upon."

The manner in which owners will use their liquid resources when the war is over may vary from country to country. Should confidence in the currency be impaired, the propensity to spend would probably be tremendous; and, in such a case, the mass spending could be dammed up only with the greatest difficulty, if at all, through restrictive control. Where confidence is preserved, the likelihood is that a considerable proportion of the war savings will be maintained as capital; but, even so, the average consumer will probably be willing to spend more and save less out of his current income than he would do if he had not accumulated reserves. And, it may be, he will want to utilise part of his reserves for the purchase of, say, an automobile, or other durable goods. In view of these possibilities, governments will doubtless consider it desirable to retain command over the situation and, to that end, keep some control over the volume of spending until a new equilibrium is reached. In the great majority of countries a certain rise in prices has already absorbed part of the surplus purchasing power; it is, indeed, an ironical fact that, the more rigidly prices have been maintained by the controls, the more difficult the problem of surplus buying power may become.

The huge expansion in currency and deposits throughout the world has been the result of government deficit financing and has thus, as its counterpart on the assets side of the banks' balance sheets, increased holdings of government securities. A reversal of the process, involving a substantial reduction in notes and deposits, would, as a rule, presuppose repayment of government debts;* but budget surpluses of any consequence will hardly appear in the near future; and it may, therefore, be concluded that the liquid resources created during the war will remain intact when the war is over and for at least some years afterwards. The continued existence of these resources will give rise to a series of problems centring round the question of a possible excessive degree of liquidity and, in connection therewith, of maintaining a cheap-money policy.

Looked at in relation to present conditions, gold reserves held by banks of issue and the volume of other internationally acceptable assets which in the nineteenth century were available to the various markets would now seem

* It seems unlikely that anything but the most limited contraction will be obtained from a liquidation of commercial-bank loans; and, at the time of writing, no final judgment can be given as to the degree of success which will be ultimately achieved by measures of the kind introduced in Belgium in the autumn of 1944 for the blocking of notes and bank deposits.

astonishingly small in most cases; but, except on rare occasions, these assets proved sufficient to allow the great majority of currencies to be maintained at their parity rates. One reason for this was that foreign exchange could be purchased on the markets only with liquid resources and that the degree of internal liquidity in the nineteenth century was not great in any individual country.

A study made in the United States some years ago⁽¹⁾ showed that the "liquid claims" of the community in the form of bank deposits, shares and bonds, etc., i. e. all liquid and "shiftable" assets, rose from the equivalent of 15 per cent. of the national wealth in 1890 to 20 per cent. before the first world war and to 40 per cent. in 1930, an increase to be associated with the urbanisation of the population, the growth of the joint-stock principle and, later, with the great expansion of the Federal debt. In the absence of more recent estimates,

a rough measure of the further increase in liquidity may be obtained by comparing the total of currency in circulation, bank deposits and government securities held by the public (forming together a considerable part of the "liquid claims" in the above estimates) with the national income, as in the accompanying table.

United States: National Income and Liquid Assets.

Calendar years	National income (produced in year)	Liquid assets at end of year	Liquid assets as percentage of national income
			in billions of \$
1930	69	62	90
1941	95	103	108
1942	120	139	116
1943	148	187	126
1944*	159	229	144

* Preliminary figures. If the Federal Reserve estimates of liquid assets be taken (see footnote to table, page 241), the percentage would rise from 88 in 1941 to 119 in 1944, about the same proportionate increase as is shown in the above table.

While the national income more than doubled between 1930 and 1944, the principal forms of liquid claims together more than trebled in volume, the annual increase of these claims being equivalent to nearly one-third of the national income in each of the years 1942 to 1944.

Similar conditions obtained in other countries also. The estimates of total "money capital" ("Geldvermögen") available for Germany correspond fairly closely with the American conception of "liquid savings" (including notes, bank deposits and securities). According to the last officially published estimates for the middle of 1932, money capital at RM 47.7 milliard slightly exceeded the national income of RM 45.2 milliard for the same year. Until 1938 money capital grew at the same rate as the national income, retaining the proportion of around 100 per cent.; but, as in other countries, there was a rapid acceleration of money-capital formation during the war, owing to the large increases in the public debt and, by 1942, the total money capital had grown to some RM 230 milliard — double the national income, given privately at about RM 115 milliard. An unofficial estimate⁽²⁾ put the national income at RM 135 milliard for 1944, while the total money capital had grown to about RM 400 milliard by the end of the year — three times the national income on this calculation.

(1) "Liquid Claims and National Wealth" by Berle and Pederson (Macmillan, 1934).

(2) "Die Deutsche Volkswirtschaft" No. 4, 1945.

It is obvious that the existence of huge assets in a liquid form may involve certain dangers. Thus, internally, it may lead to a sudden intensification of effective demand for goods and services. Externally, i. e. in relation to other markets, it may give rise to massive transfers of funds; naturally, the danger in this respect will be greater if a substantial proportion of the liquid resources belong to foreign owners, as was the case for several countries during the international liquidity crisis in 1931. In wartime, the question of the international movement of private capital does not arise, but it will be important to remember after the war that the problems of external and internal liquidity of capital are closely interconnected. And both these problems are nearly related to the cheap-money policy.

When the real capital, impaired during the last war, had in the main been restored and, by 1930, the boisterous post-war expansion had come to an end, a natural reaction to high interest rates was to be expected and, indeed, became clearly perceptible in the course of the "great depression". The existence of large public debts, however, made it imperative for the governments themselves to assist directly in the downward movement, the most important step in this connection being the conversion of the 5 per cent. British War loan to 3½ per cent. in 1932 — undoubtedly one of the decisive measures towards the overcoming of the depression in England, and one which had its salutary repercussions in other markets also. But in several countries, particularly in the United States, there was no keen investment activity in the 'thirties; with large gold arrivals in New York, relatively low, even falling, interest rates continued as a natural outcome of American market forces. In England there was, it is true, a fair measure of home investment, especially in the building trade, but there was no net foreign lending; such demands as there were for funds were met without much difficulty, the intervention of control bodies being scarcely required in the prevailing circumstances. In Germany, on the other hand, government borrowing and other investment related to recovery and rearmament assumed large proportions from 1933-34 onwards; however, a system of deliberate control, coupled with an expansive credit policy, prevented interest rates from hardening and actually brought about a gradual decline.

With the outbreak of the war, government control everywhere became increasingly effective over financial and other markets. In the main belligerent countries, in particular, measures were taken to reserve all available funds for official purposes, the monopoly position thus accorded to the Treasuries providing a setting for an intensification of the cheap-money policy. Some indication of developments is given by the table on the opposite page, showing the movements of official bank rates since 1938.

After some irregularity in 1939, there were eight net reductions of bank rate in 1940, six in 1941, three in 1942, only two in 1943 and three in 1944; thus, generally speaking, the downward trend has practically ceased during the past two or three years. Although in certain cases bank rates are still well above short-term market rates (e. g. for Treasury bills), and the gap between short

Discount Rates of Central Banks.

Central Bank	End of 1938	Net change during							End of 1944
		1939	1940	1941	1942	1943	1944	1938 to 1944	
United States (1)	1	.	.	.	—½	.	.	—½	½
Canada	2½	.	.	.	.	.	—1	—1	1½
Switzerland	1½	.	.	.	.	.	.	.	1½
France	2½	—½	.	—½	.	.	.	—½	1½(2)
Belgium	2½	.	—½	.	.	.	.	—½	2(3)
England	2	.	.	.	.	.	.	.	2
Holland	2	+1	.	—½	.	.	.	+½	2½
Portugal	4½	.	.	—½	—½	—½	—½	—2	2½
Eire	3	.	.	.	.	—½	.	—½	2½
Hungary	4	.	—1	.	.	.	.	1	3
Norway	3½	+1	—1½	.	.	.	.	—½	3
Slovakia	3	.	.	.	.	.	.	.	3
Sweden	2½	+½	+½	—½	.	.	.	+½	3(4)
Japan	3.28½	.	.	.	.	.	.	.	3.28½
Bohemia and Moravia .	3	.	+½	.	.	.	.	+½	3½
Germany	4	.	—½	.	.	.	.	—½	3½
Croatia (Yugoslavia) .	5	.	.	.	—1	.	.	—1	4
Denmark	4	+1½	—1½	.	.	.	.	.	4
Finland	4	.	.	.	.	.	.	.	4
Roumania	3½	.	—½	.	.	.	+1	+½	4
Serbia (Yugoslavia) .	5	.	.	—1	.	.	.	—1	4
Spain	4	.	.	.	.	.	.	.	4
Turkey	4	.	.	.	.	.	.	.	4
Italy	4½	.	.	.	.	.	—½	—½	4
Bulgaria	6	.	—1	.	.	.	.	—1	5
Albania	6	.	—½	.	.	.	.	—½	5½
Greece	6	.	.	—1	+1	.	+5	+5	11

(1) New York rate for rediscounts and advances.

(2) Reduced to 1½ per cent. on 20th January 1945.

(3) Reduced to 1½ per cent. on 16th January 1945.

(4) Reduced to 2½ per cent. on 9th February 1945.

and long-term rates may be as much as 2-2½ per cent., this differential has remained during the war, and long-term rates have fallen very little since 1941. In some countries at that time there was a reaction against allowing interest rates to fall too low: in November 1941, the directors of the Sveriges Riksbank issued a memorandum on monetary policy, stating that a steep decline in rates of interest, both at short and at long term, should not be contemplated and indicating as desirable the maintenance of the rates then ruling. Somewhat similar, if less precise, statements were also made in other countries, e. g. in Germany, and elsewhere limits were placed on mortgage and other private borrowing below certain rates. On the whole, money and capital markets throughout the world have been characterised since 1941 by a great measure of stability in interest rates, generally accompanied, however, by some lengthening of the currency of securities issued.

But, while interest rates remained stable at a low level, heavy direct taxation still further reduced the net yield accruing to the investors after payment of taxes: on the British 3½ per cent. War loan, for example, the net yield at

United Kingdom
Yield of 3½ per cent. War Loan.⁽¹⁾

Financial years ended March	Gross yield	Income tax deducted ⁽²⁾		Net yield
		percentages	percentages	
1939	3.48	27½	2.52	
1940	3.77	35	2.45	
1941	3.40	42½	1.96	
1942	3.04	50	1.52	
1943	2.94	50	1.47	
1944	3.08	50	1.54	

(1) This is the 3½ per cent. War loan into which the old 5 per cent. War loan of 1914-18 was converted.

(2) Corresponding to the standard rates of 5s. 6d., 7s., 8s. 6d., 10s., 10s. and 10s. for the financial years ending March 1939 to 1944 respectively.

Such a situation tends to produce an indifference to interest rates, since the possible extra yield, i.e. the part not eaten up by increased costs (expenses of administration and taxation), would hardly cover risks; idle funds may then be kept liquid or only placed at short term instead of long.

How far these measures have had an effect on investors is difficult to appreciate, but some indications of such an influence have made their appearance, for instance, as regards credit institutions, which must always carefully weigh against each other considerations of yield and liquidity. London clearing banks, in spite of the large expansion in their deposits and turnover, have not become liable to excess profits duty, although they must have earned profits which approached the critical level; it is not without significance that their new investments in long-term government securities decreased from £228 million in 1941 to £121 million in 1942, £34 million in 1943 and only £11 million in 1944. A London journal⁽¹⁾ remarks that "it would not be surprising if, once the excess profits tax point has been reached, the banks were to put liquidity considerations well above considerations of additional profit". It is also of some interest to note that in Germany the five Berliner Grossbanken bought

Germany
Taxation paid by five Grossbanken.*

Calendar years	Aggregate taxes paid	In RM millions	
1938		61	
1939		75	
1940		109	
1941		127	
1942		161	
1943		156	

* As shown by the banks' profit and loss accounts.

current quotations fell from 2½ per cent. in 1939 to 1½ per cent. in the years 1942 to 1944, while for 1 per cent. Treasury bills the net yield, with income tax levied at 10s. in the pound, came to only ½ per cent.

With steeply graduated income taxes there is not infrequently a danger that investment will actually be discouraged, for the yield obtainable may even approach zero; this is particularly so when a further small addition to income or profit would bring the increment into a higher group for taxation purposes.

long-term Reich securities up to 1941 but sold such securities on balance in 1942 and 1943; moreover, it is significant that in the latter year the aggregate taxes paid by the five banks (the best measure of profits) no longer rose — in fact, they fell slightly for the first time in many years. The choice between liquidity and yield would seem to have been pushed to the point where the former has been preferred at some sacrifice of the latter.

Severe taxation may even make the borrower to some extent indifferent to interest rates; a German periodical⁽²⁾ remarks that "the interest of business

concerns in cheap money has been weakened by high taxation, since savings effected in this way are paid out directly to the benefit of the Treasury".

These examples — taken from two countries where direct taxation appears to have well-nigh attained its practical limits — illustrate how closely direct taxation, interest rates and liquidity questions are connected with one another, at least when an active private demand for funds is no longer a characteristic of the markets, all efforts being concentrated on the prosecution of the war.

Before the war, governments were the main beneficiaries of the cheap-money policy, partly because low interest rates became immediately effective for current borrowing and, as regards outstanding securities, as soon as they could be converted; and partly because cheap money penetrated but slowly into such fields as commercial-bank advances, mortgage loans, hire-purchase contracts and similar private borrowing transactions. The advantage of government borrowing on favourable terms in wartime is obvious in that budget charges are kept down: while the Federal debt in the United States increased from \$40 milliard in 1939 to \$200 milliard in 1944, i. e. by five times, the debt service rose from \$0.94 milliard to only \$2.60 milliard, i. e. by only three times.

As long as government borrowing continues at a high rate for war or post-war purposes, it seems most unlikely that the system of financial control and the cheap-money policy will be abandoned. In April 1943 the British Chancellor of the Exchequer said:

"We have developed a new technique in these matters and we have revolutionised public opinion as to what are fair rates of interest for public borrowing. Thus, not merely shall we pass from war to peace with interest rates at a low level but the country is expecting that reconstruction and development after the war will have the benefit of cheap money. It is the government's intention to maintain its present policy of cheap money after the war for that purpose as well as in the interests of the Exchequer itself."

In February 1944, the discount rate of the Bank of Canada was reduced from $2\frac{1}{2}$ to $1\frac{1}{2}$ per cent. and the Governor of the bank made the following statement, in the annual report for 1943:

"The change to a $1\frac{1}{2}$ per cent. rate does not mean that the bank expects its credit facilities to be needed on a much greater scale in the future than in the past. Nor does it mean that under existing war conditions there is any less need for people to save. The utmost effort to maintain and increase our saving is still necessary, and the first and foremost concern of financial policy must be with winning the war. The stage has now come, however, when many are also having to give thought to the economic problems which will arise after the war.

One factor which will affect decisions is the prospective cost of borrowing. It therefore seems appropriate that the bank should, by reducing its rate, signify its intention to continue the kind of monetary policy which has brought about the current level of interest rates.

A policy aimed at higher interest rates would only become intelligible if, after war shortages are over, consumers' expenditure and capital development were to proceed at a rate which would overstrain our productive capacity. I see no prospect of such a situation arising in a form which would call for a policy of raising interest rates.

Admittedly, the rate of interest is only one of many factors influencing Canada's economic position, and it is probably not as important an instrument of control as was once supposed. It remains true, however, that the prospect of unstable interest rates could make it exceedingly difficult for business to formulate long-term plans. Moreover, high borrowing costs would hamper new investment in plant, equipment and housing, would restrict the expansion of employment, and would seriously complicate the task of government financing. There can be little doubt that the easy-money policy which has been pursued since 1935 assisted in promoting recovery from the depression and facilitated the adjustments which have been required during the war period. Indication that the bank intends to continue this easy money policy should be helpful in making plans for the future."

These two pronouncements are very categorical and show a resolve to maintain a strong control of the money and capital markets in the period of shortages and reconstruction after the war, with only a hint, in the Canadian statement, of the application of a modified policy at a later stage, should other conditions prevail.

The British White Paper on Employment Policy, issued in May 1944, repeated the previous assurances regarding the reconstruction period but avoided any commitment as to an unbroken reign of cheap money in the more distant future: "The use of capital will have to be controlled to the extent necessary to regulate the flow and direction of investment... the government are determined to avoid dear money for... urgent reconstruction needs." But, later, the report adds: "The possibility of influencing capital expenditure by variation of interest rates will be kept in view. The experience gained since 1931 of co-operation in this field between the Treasury and the Bank of England and the joint stock banks will make it possible to operate a concerted and effective monetary policy ...".

Discussing this latter passage in Parliament in June 1944, the Chancellor said he thought it was ambiguous and might perhaps be read as suggesting the possibility of temporary changes in long-term interest rates, a policy which he believed to be quite unworkable and which it was not intended to adopt; "the references to changes in interest rates", he added, "were intended to apply to short-term interest rates". Considerations affecting the desirability of modifications in short-term rates, including bank rate, may, of course, not always be identical with those applying to long-term rates; and this is true, in particular, in the period before the relatively large floating debts of the government are effectively consolidated. A study made in England ten years ago drew attention to the disturbing influence of a large floating debt in the form of Treasury bills: "If the volume of these bills is kept at very high levels, the attention of the Bank (of England) will be largely directed towards securing the taking-up

of these bills, rather than towards the financial requirements of the economic system as a whole."* Such considerations now have a much wider applicability since the unprecedented growth of government short-term debts, which has been almost universal in wartime.

To provide for an effective control and coordinated action on the long-term market in the post-war period, certain steps are already being taken. In a memorandum sent to local authorities the British Treasury made the following exposé:

"It is clear that for a period (which cannot yet be defined) after the end of hostilities in Europe the combined demands of the central government, local authorities, and industry on the capital market will be very great. The central government will for a time have to borrow to meet an inevitable budget excess of current expenditure over current revenue; it will also have to meet such charges as compensation for war damage, repayment of post-war credits, and those capital programmes which have to be financed centrally. Local authorities will require to incur very considerable capital expenditure in connection with the reconstruction of damaged areas and the development of various public services (e.g. housing, education, and water supplies). Industry will likewise require to finance much capital reconstruction in order to effect the conversion of plant and machinery from war to peace purposes and to make good arrears of technical development.

All this capital expenditure will be vitally necessary in the national interest, and it is essential that it should be financed not merely in an orderly manner but as cheaply as possible. As a matter of public policy, therefore, interest rates must be kept low, and the government must have all the powers and facilities necessary to make that policy effective. In particular, anything in the nature of a scramble between competitors for capital finance, which would undoubtedly be prejudicial to that policy, must clearly be avoided. The demands made by all parties on the capital market must be so coordinated that they are made at the times, and by the methods, which are most helpful in the general interests. The control of issues of capital, in conjunction with any necessary control of physical resources, will go a long way towards securing that objective."

As part of these measures it was proposed that the local authorities should centralise their borrowing through the Local Loans Fund, which would be supplied by the Treasury with the necessary financial resources, to be raised on the credit of the central government itself.

In the private sector of the economy, where the effects of cheap money had been weaker, steps have likewise been taken to ensure a continuation of the pre-war trend towards lower rates. In September 1944, the Agricultural Mortgage Corporation announced a lowering of its rate for new mortgage loans from 4 to $3\frac{1}{2}$ per cent. And as already mentioned above (page 188) the largest of the building societies in Great Britain reduced its rates for new mortgage loans on dwelling-houses from 5 to $4\frac{1}{2}$ per cent. in February 1944; various reductions have also been made in the rates at which the societies

* "Monetary Policy and the Depression", a report made in 1933 by a Study Group of the Royal Institute of International Affairs (Annex I on Interest Rates).

obtain their funds (through deposits and "shares"), certain societies descending to 1½ per cent. (free of tax) as from 1st July 1944. It is also of some interest to note that on the London market a conversion of industrial bonds was made in December 1944 at the very low rate of 3½ per cent. In other countries also similar movements may be observed, e.g. in France, the lowering of rates applicable to middle-term credits (see page 221).

These various downward adjustments, which have tended to bring into line the rates ruling in the various sectors of the economy, with a view to encouraging investments over a wide field after the war, seem to presuppose that a sufficiency of savings will be forthcoming to meet the manifold post-war needs. It is, however, impossible to foretell whether, once the war is over, the public will continue to furnish a large volume of genuine savings. The uncertainty which always attaches to the future is, indeed, very great in this domain, as may be seen, for instance, from many — often contradictory — forecasts as to the volume of savings referring to one and the same country. It is, indeed, to be expected that the public's behaviour with regard to savings will vary from country to country. To guard against all eventualities, wartime controls are likely to be retained in the immediate post-war period and to be relaxed only by degrees, particularly since governments, together with the central banks, have yet to contend with the largely unsolved problems affecting markets supercharged by the continuous growth of financial liquidity.

In this connection it is important to distinguish between the indirect control of interest rates through funding and amortisation, the canalisation and limitation of borrowing, the application of maximum or minimum quotations on the stock exchange etc., and direct control by the rigid fixing of interest rates through the active intervention of the central bank in the short and long-term markets. This form of direct control has recently been exercised in some countries, notably in the United States and Germany — as regards long-term rates through considerable purchases of government bonds by the central banks. Such measures may receive their justification in wartime, but continued large-scale intervention to maintain rigidly fixed quotations for government bonds with the use of newly-created central-bank money may have to be looked at in a different light in peacetime; the central bank may, indeed, find that, for practical reasons, it cannot lightly assume the task of being, in all circumstances, the "shifter of last resort".

2. STOCK EXCHANGES IN 1943-44.

Developments of share quotations on the world's principal markets are summarised in the table and illustrated in the graphs on page 254.

No general trend, common to all parts of the world, can be discerned but the share markets may be divided into various groups with characteristic features, e.g. the Anglo-Saxon stock exchanges, Tokio, four markets in Europe

Indexes of Share Quotations.⁽¹⁾

On basis of January-June 1939 equal to 100.

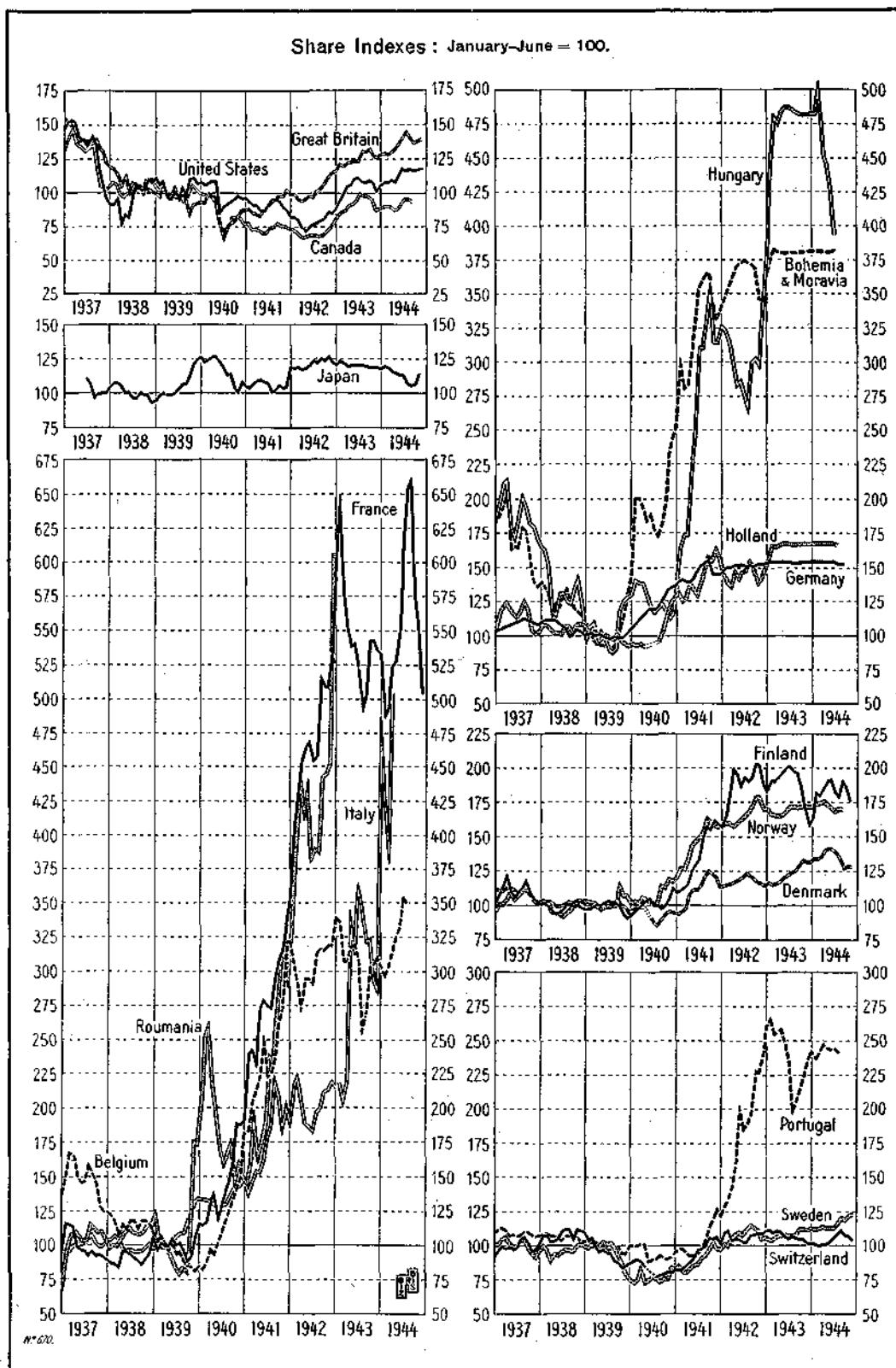
Stock exchange	1927-1929	1937	1939	1940	1941	1942	1943			1944			
	highest		December					highest	lowest	Dec.	March	June	Sept.
Paris . . .	239	116	116	191	353	594	649	492	533	524	616	574	
Budapest . .	318	214	129	134	327	384	487	448	483	450	393	·	
Milan . . .	134	108	134	151	190	216	481	202	481	503	·	·	
Bucarest . .	669	115	173	148	290	606	800 ⁽²⁾	400 ⁽²⁾	450 ⁽²⁾	·	·	·	
Prague . . .	154	205	146	253	342	364	383	375	381	383	382	381	
Brussels . . .	388	168	84	182	322	339	336	255	303	313	354	349 ⁽³⁾	
Lisbon . . .	122	112	100	95	121	261	267	196	242	247	244	254	
Oslo . . .	74	112	102	120	158	171	172	165	172	176	169	166	
Amsterdam . .	225	125	92	127	156	148	167	154	166	167	167	·	
Helsinki . .	95	122	90	110	157	184	203	158	164	187	184	186	
Berlin . . .	172	112	103	135	144	152	154	153	153	154	154	152	
Copenhagen .	99	114	94	94	113	115	134	115	132	136	140	127	
London . . .	162	151	93	87	98	116	131	119	127	129	140	136	
Tokio . . .	112	114	126	105	119	120	123	118	118	116	113	107	
Stockholm .	131	106	75	82	97	106	113	104	113	114	113	119	
New York .	296	152	108	96	82	88	111	94	106	110	118	117	
Zurich . . .	122	106	87	82	102	110	112	101	101	101	106	108	
Montreal . .	216	146	101	77	73	78	99	83	88	89	91	93	

(1) Official or semi-official indexes have been recalculated on the common base of January-June 1939 equal to 100. The highest levels reached in 1927-29 and in 1937 respectively have been added as indications of the relative position of the indexes during these two pre-war periods of great activity and generally high quotations. (2) Estimates, see table on page 260. (3) August.

with maximum "stop quotations" and other European bourses, some of which experienced considerable advances but later reacted sharply.

On the stock exchanges of London, New York and Montreal, share valuations fell after the outbreak of the war, with the greatest decline of around 25 per cent. from the average of January-June 1939; the lowest point was reached in London in 1940 and in New York and Montreal in 1942. Since then the recovery has continued with only passing setbacks: towards the end of 1944 Montreal still remained somewhat below the pre-war average, while London and New York had surpassed it by some 20-40 per cent. These are moderate rises compared with movements on the bourses of belligerent and occupied countries on the continent of Europe. One reason for this has no doubt been the severe incidence of direct taxation, which took the profit out of war activity, but other, and perhaps more important reasons, have been the absence of fear of inflation, together with a vivid memory of what happened after the last war, when in the years 1920-22 British, American and Canadian shares fell heavily with great losses for investors.

Gross profits of American industry in 1943 were two and a half times as great as in 1929; but taxation was twelve times as high and net profits were scarcely maintained, net dividends being little more than two-thirds of those paid in 1929. The average market price for all shares in 1943 was sixty per cent. below the 1929 level; some of the leading companies, especially in the steel group, continued to see their profits decline in spite of high turnovers, although it should be added that, under the tax laws,



U. S. Corporation Profits, etc.⁽¹⁾

Calendar year	U. S. Corporation profits etc.						N. Y. Stock exchange	
	Gross profits (2)	Taxation	Net profits (3)	Net dividends	Taxation as % of gross profits	Net dividends as % of net profits	Average price of all listed shares (4)	Turnover (5)
	In millions of dollars				percentages		dollars	millions of shares
1929	9,153	1,181	7,972	5,778	12.9	72.5	77.4	93.7
1939	5,320	1,232	4,088	3,869	23.2	94.6	30.9	21.8
1940	7,390	2,543	4,847	4,095	34.4	84.5	29.3	17.3
1941	14,443	7,166	7,277	4,440	49.5	61.0	26.9	14.2
1942	19,037	11,661	7,376	3,983	61.3	54.0	23.7	10.5
1943	22,900 *	14,600 *	8,200 *	4,000 *	64.0 *	48.8 *	31.5	23.2

(1) From U. S. Department of Commerce, Survey of Current Business.

(2) Estimated profits before taxation.

(3) Estimated profits after taxation.

(4) Compiled by New York Stock Exchange by dividing the market value of all listed shares by the number of shares. Average of end-of-month figures (in dollars).

(5) Monthly average sales (in millions of shares).

* Preliminary.

United Kingdom companies' profits.

Average of four quarters (1)	Gross profits	Net profits
1939	100	100
1940	102	95
1941	98	83
1942	102	76
1943	104 (2)	75

(1) Indexes based on those of London "Economist", converted to base of 1939.

(2) Provisional.

depreciation allowances have been on a much more generous scale than in the last war and have, therefore, contributed to an internal consolidation of the companies, which should make them more capable of weathering a post-war crisis.

The London market was also characterised by a decline in net profits (after taxation), while gross profits (before taxation) remained stable. The two indexes of gross and net profits given in the table are not directly comparable but the trends are evident.

The Tokio bourse jumped in December 1941 when Japan entered the war and, in spite of the imposition of rigid control, the market remained strong, reaching its highest point in October 1942. Military events in the following months caused a setback and, although the Japanese stock exchanges were reformed and placed under direct state control in July 1943, a new weakness developed in certain leading shares from the summer of 1943 onwards, notwithstanding extensive official purchases made in support of the market through the Wartime Financing Bank. The decline continued, with a low turnover, until August 1944, when there was a slight rise of the general index as a result of measures taken by the Control. Particularly affected were shares in the following important groups: iron and steel, shipbuilding, machines and tools, spinning and shipping; by the end of 1943, shipping shares had fallen by nearly thirty per cent. from their high point in 1942; on the other hand, railways, electric power, chemicals and Manchurian industrials have remained firm. These contrary movements gave an apparent relative stability to the general index, as shown in the table on the following page.

Tokio Stock Exchange.

	General index (1)	Iron and Steel	Ship-building	Machines and tools	Spinning	Shippling	Railways	Electric power	Chemicals	Manchurian industrials	General Index converted to base Jan.-June 1939 equal to 100
	Indexes June 1937 equal to 100										
1939 Jan. .	88.3	100.5	84.4	86.9	75.4	71.2	102.9	95.8	70.4	111.8	98.3
June .	93.1	105.0	95.2	90.8	78.7	82.4	113.4	106.0	74.5	114.7	103.7
1941 Nov. (2)	94.1	97.1	114.8	84.7	71.9	103.8	115.4	103.0	35.9	81.0	104.8
Dec. (3)	107.1	113.3	140.5	97.8	84.2	126.2	122.2	115.4	45.8	98.4	119.2
1942 Oct. (4)	113.8	124.0	164.8	122.3	80.2	126.1	126.4	137.8	54.8	89.0	126.7
1943 Nov. .	106.8	114.6	142.2	105.2	70.4	90.8	133.3	133.4	64.3	97.2	118.9
Dec. .	106.3	113.5	142.5	104.8	68.8	90.5	132.4	133.3	66.2	98.5	118.4
1944 April (5)	102.7	112.9	135.4	98.4	57.2	90.3	137.5	130.2	61.8	102.7	114.3

(1) The general index covers, in all, the sub-indexes of twenty-one groups, including the nine important groups shown separately in the table. (2) The month before Japan's entry into the war.

(3) The month of the outbreak of the war in the Pacific. (4) The subsequent general high point of the market.

(5) Latest month for which a detailed index has been received. The general index continued to fall, from 103 in April to 95 in August; it then rose to 96 in September and reached 103 again in October.

The war has caused a great divergence of market valuations amongst the share groups in the general index; at the end of 1943 this index stood at 106 (on the original base of June 1937), the twenty-one sub-indexes ranging roughly from 50 to 150, a spread of 100 points. In the face of a weak stock exchange, the public has shown some disinclination to invest in new share issues, and means of popularising equities have received official encouragement, especially through the formation of share investment trusts by the large trust companies.

One of the three or four main groups into which the share markets of Continental Europe may be divided comprises the four markets which were made subject to stop quotations early in 1943: Berlin in January, Prague and Budapest in February and Amsterdam in March. All four bourses remained jammed at their stop rates during the remainder of 1943, with very low turnovers. The technical measures adopted were, in most respects, similar; but the four markets were frozen at very different relative levels: taking 100 as

the average for January-June 1939, the Berlin bourse index was fixed at about 150, Amsterdam at 165, Prague at 380 and Budapest at 485. For three of the centres the turnovers have been regularly published and are shown in the accompanying table; for Berlin no corresponding figures are available.

Share turnovers 1943-44.

Value of quarterly turnover	Budapest	Amsterdam	Prague
	pengö	in millions of florins	crowns
1943 January-March . . .	132	138	343
	40	32	135
	26	19	108
	24	18	79
1944 January-March . . .	60	16	75*
	50*	11	•

* Provisional.

In Budapest, throughout 1943, the principal shares remained at the stop rates of 11th February; since new material coming on to the market was very much less in 1943 than in previous years, steps were taken to encourage capital issues in 1944 by relaxations of both the dividend and the quotation stop.

As a consequence the market rose and, by February, quotations were generally some 5 per cent. above the stop-rate "ceiling". In March 1944, as part of a comprehensive series of measures, Jews were expelled from public offices, including the banks and stock exchange, and their property was confiscated. Share quotations fell abruptly with increasing turnovers and, by June, the index was down by over twenty per cent.; from this time, when the membership of the stock exchange had been reduced from 1,345 to 400-450 as a direct result of the anti-Jewish law, no share index appears to have been calculated.

In Amsterdam there has been practically no turnover in the petroleum, shipping and colonial (rubber, tea, tobacco, etc.) groups, so important before the war, and such quotations as were made did not budge from the maximum rates; what little business remained until the early summer of 1944 was done principally in domestic industrials, which in a few cases fell below the stop prices of 2nd March 1943. In the first week of July 1944, the picture changed suddenly: within a few days a sharp reaction took domestic industrials to quotations as much as 30-60 per cent. below the stop rates, with a rising turnover, while international shares remained unaffected. Some recovery took place later in the month, partly as the result of speculative repurchases; but the extent of subsequent fluctuations cannot easily be judged, the share index not having been published since June 1944.

Stop rates were enforced in Prague from 26th February 1943 and other restrictions have closely followed the German model. Conditions have, indeed, been very similar to those in Berlin: against a list of some eighty shares, quotations as a rule numbered only ten to fifteen a day, and the ration received by each purchaser of the quoted shares was often less than one per cent. of the small amount on offer.

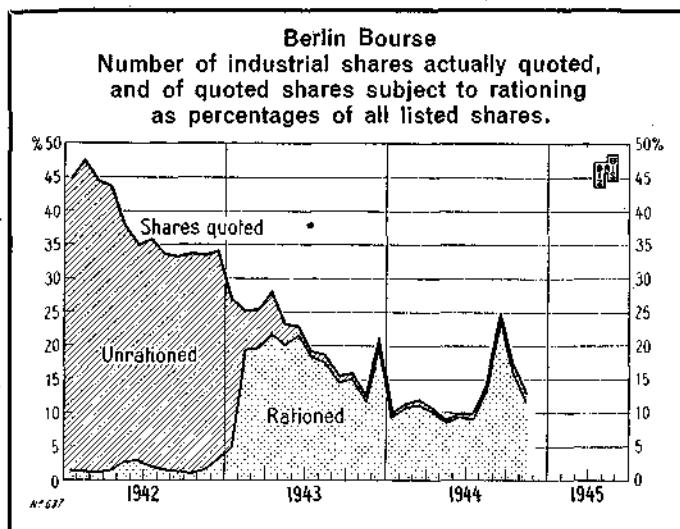
In Berlin, the weight of would-be purchases continued unabated, current quotations being restricted to shares in which some business was done, while all others remained unquoted; and, of the shares quoted, those subject to rationing have been marked with an asterisk in the quotation lists. Although maximum stop prices were enforced from 26th January 1943 and quotations remained practically frozen at these levels (which thus became also minimum or fixed prices) the upward pressure

Berlin bourse: Industrial shares.

Yearly averages	Percentage of listed shares actually quoted	Percentage of quoted shares subject to rationing
1942	39.2	4.7
1943	21.2	80.8
1944	13.6	94.7

may be illustrated by (i) the number of enterprises whose shares were actually dealt in (and thus quoted) given as a proportion of all the shares listed on the bourse and (ii) the number of enterprises whose shares were subject to rationing, given as a proportion of those whose shares were quoted.

Of around 380 different industrial share issues listed in Berlin, an average of 39 per cent. were quoted during 1942, while of the quoted shares less than 5 per cent. were subject to rationing; by 1944 the average of shares quoted had fallen to 14 per cent., of which 95 per cent. were rationed.



The graph shows how this movement progressed; for convenience of presentation both quoted and rationed shares are shown as percentages of all listed shares.

In the first half of 1944, the number of industrial share issues quoted on the bourse remained close to 10 per cent. but, from July to September, what has been described as a "selling wave" swept over the market; although

this was not sufficient to affect quotations, except fractionally, and purchasers were as strictly rationed as before, activity on the market increased and the proportion of shares quoted rose to 25 per cent. in September; the actual turnover of industrial shares in Berlin was estimated at RM 4.8 million in the first quarter of 1944, RM 6.8 million in the second quarter, and RM 16.6 million in the third quarter. The turnover of all shares on the Berlin bourse in 1944 has been estimated at RM 75-80 million (equivalent to about one month's turnover in peacetime) against RM 140 million in 1943.

The few shares which have shown any appreciable movement in quotations during the past two years were the "under-stop-price" securities, largely shipping and colonial shares, whose value after the war might be very variously estimated. Market reports indicated that, as regards other shares, there were practically no sellers in the normal way, such material as came on offer being available because of legal disputes amongst inheritors and similar accidental circumstances. This trickle of business was supplemented in a small way by offers from the Manipulation Fund under the control of the Reichsbank. From February 1943, the number of days in the week on which the Berlin bourse was open had been reduced to three; and, towards the end of 1943, the Reichsbank adopted the practice of intervening by means of the Manipulation Fund on one day only during the week.

By decree of the Finance Minister, dated 5th May 1944, brokers' commission and fees on all orders for the purchase of shares from 1st June had to be paid in advance; and no refund was made if the order could not be completely carried out. This attack on the practice of giving orders for larger amounts than were actually required had an immediate effect in reducing such "stag" operations and consequently in increasing the ration available for the remaining purchase orders; it is reported that in June 1944 the total orders for seventeen leading shares in Berlin fell by roughly 80 per cent. compared with the previous month, the average allocation to purchasers increasing

simultaneously from 4 to 22 per cent. of their orders. From 1st September 1944, further restrictions were enforced: the number of days when share dealing took place was reduced to two a week; and unofficial brokers were no longer allowed to act as middlemen in security transactions, nor were they any longer admitted to the bourse. Outside the bourse there may have been some small direct dealings between private persons, but under a decree of 29th September 1943 such deals might not be made at prices higher than those officially determined.

Two measures taken in Germany towards the end of 1943 had for effect a further curtailment of the information upon which share valuations could normally be based: by decree of the Reich Minister of National Economy dated 7th December 1943 the companies whose shares were newly introduced on the bourse were not required to publish a prospectus; and by decree of 23rd December 1943 the Reich Minister of Justice prohibited all share companies from holding their ordinary general meetings during 1944, except in special cases where capital increases or reductions, fusions, liquidations, etc. were involved. As no balance sheets were published during 1944, the only indication of a company's earnings was provided by the dividend; but this indication was difficult to interpret owing to the dividend-stop regulations; indeed, where no dividend was paid there was often no indication at all of the company's position. For 1945, it was decided to permit annual general meetings again during the current year.

Although, as a result of the decree of 29th September 1943, a maximum of 110 was fixed for 4 per cent. industrial loans, as compared with the usual issue price of 102, the number of industrial bond issues quoted at different price ranges may be said to provide another barometer of the general upward pressure on the bourse in Berlin.

Berlin bourse: 4 per cent. Industrial Bond prices.

Price range at end of quarter	1942		1943				1944			
	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	
110 (maximum price) .	—	—	—	4	24	35	39	32	49	
108 to under 110 .	—	—	8	16	9	3	2	2	—	
106 " 108 .	—	9	13	9	5	8	3	2	4	
104 " 106 .	5	9	7	5	5	2	6	2	2	
Under 104	11	6	4	4	—	—	—	13	7	
Total number of issues	16	24	32	38	43	48	50	51	62	

Certain 4 per cent. industrial bonds were quoted at 110 for the first time in September 1943, but by June 1944 more than three-quarters of the fifty bonds on the market at that time had reached this maximum quotation. New issues were still generally made at 102 and demand at this price was naturally very great, would-be subscribers obtaining only a very small allotment in spite of a prohibition on resale during six months. It was reported that securities continued to be issued so far below the market price on account of a certain reluctance felt by the issuing concerns to offer their bonds at prices

much above par, the responsibility for the high quotations being left to the market itself. A particularly glaring case occurred in February 1944, when the Reichsbahn made an issue of 3½ per cent. certificates at 99½; these certificates reached a price of 103½ per cent. before their introduction on the official market, although 3½ per cent. Reich Treasury certificates were still quoted at their issue price of 99½.

The bond market was subject to some weakness in August and September 1944, as shown in the table above for industrial bonds. Offerings of Reich paper, particularly of the older types bearing higher interest coupons, were absorbed by the banks, an operation partially reflected in the return of the Reichsbank, whose bond holding rose from RM 21 to 94 million during September. From the end of November 1944, sales of the current tranche of Reich Treasury certificates ceased and, in order to allow a breathing-space for the unloading of the bonds bought during the bank intervention on the market, no new series was put on tap. The Reichsbank's bond portfolio, which had remained practically unchanged during October and November, fell by over one-half to RM 45 million at the end of the year. The total of Reich securities bought by the Reichsbank for account of the Reich during the period of intervention was stated to have been less than RM 1,000 million. (An earlier intervention, of a somewhat different character, was made in 1943 as a consequence of the rent-tax composition: the current issue of Reich Treasury certificates was suspended from the end of February until 21st April, when the banks unloaded more than RM 500 million Reich securities which had been sold by taxpayers in order to make provision for this payment.)

The unremitting upward pressure on the share market in Berlin contrasts sharply with the setbacks experienced on certain other bourses of Continental Europe, after the highest point had generally been attained in the first month of 1943.

Four Continental Bourses.

Market	1940	1942	1943				1944
	end of year	end of year	highest		lowest		end of year
			month	Index	month	index	Index
January-June 1939 equal to 100							
Paris	191	594	January	649	July	492	533
Brussels	182	339	"	336	"	255	303
Lisbon	96	261	"	267	"	196	242
Bucarest	148	606	"	800 *	November	400 *	450 *
							-

* Estimated on basis of principal share quotations.

The break came in Paris, Brussels and Lisbon in January and February 1943 and lasted until the summer, while in Bucarest (where oil shares were particularly weak) it persisted until November; the markets then stiffened moderately until the end of the year, closing quotations, however, being in every case below those of the year 1942.

From its low in January 1944, the Paris market rose, with little interruption, until, on 18th August (the last meeting of the bourse before the liberation) the index had reached a new high point, slightly exceeding the previous peak of January 1943; from the reopening of the stock exchange, on 30th August 1944, the share market gradually lost ground and, before the end of the year, quotations had fallen by twenty-five per cent. from the pre-closing rates. In Brussels, share quotations rose by nearly forty per cent. during the twelve months from the middle of 1943 and, on 31st July 1944, the German Commissioner for the Belgian Stock Exchanges imposed a price stop, the rates for that day being considered as maxima; there was a slight recession in August and, at the end of that month, the bourse was closed for an indefinite period. Quotations in Lisbon appeared more stable in 1944 after the sharp dip-down in 1943; but Madrid has been depressed, declining almost continuously in 1943, by some twenty-five per cent. in all. No share index has been available for Bucarest since the end of 1942, but the estimates in the previous table, based on the published quotations, give some indication of the violence of the movements during 1943. For 1944 insufficient

material regarding quotations is available, but the turnover during the first half of the year fell by nearly sixty per cent. in volume and by seventy per cent. in value. Only in Athens were fluctuations more extreme, quotations at times doubling in a few days and then slumping heavily without support under the varying pressure of inflation.

Bucarest Bourse Turnover.

Half-years January-June	Value in million lei	Number in thousands	Average value in lei
1943	2,274	1,383	1,644
1944	684	586	1,167
Percentage decline...	70	58	29

In Italy the share markets had a conjuncture of their own: Milan, by far the most important of the nine bourses in Italy, was subject to violent ups and downs in both 1943 and 1944, as sentiment was swayed by military events and the fear of inflation. During the first quarter of 1943 the turnover was reduced to negligible proportions under the influence of the decree of November 1942 by which buyers of shares were forced to purchase a similar amount of government securities. After this provision had been abolished in April 1943, the market became active, quotations rising by some fifty per cent. and more above the level in the first quarter of the year. Subsequent military and political developments made the quotations decline until, by September, when the bourse was temporarily closed, they had touched the level of early April. But growing monetary liquidity, due mostly to the military outlay in the north, had its effect on the bourse, and by December share quotations stood at their peak for the year, more than twice as high as in December 1942.

Then, on 13th January 1944, the Neo-Fascist Government in northern Italy published the main lines of its "nationalisation and socialisation" programme: all enterprises of national importance, economically or politically,

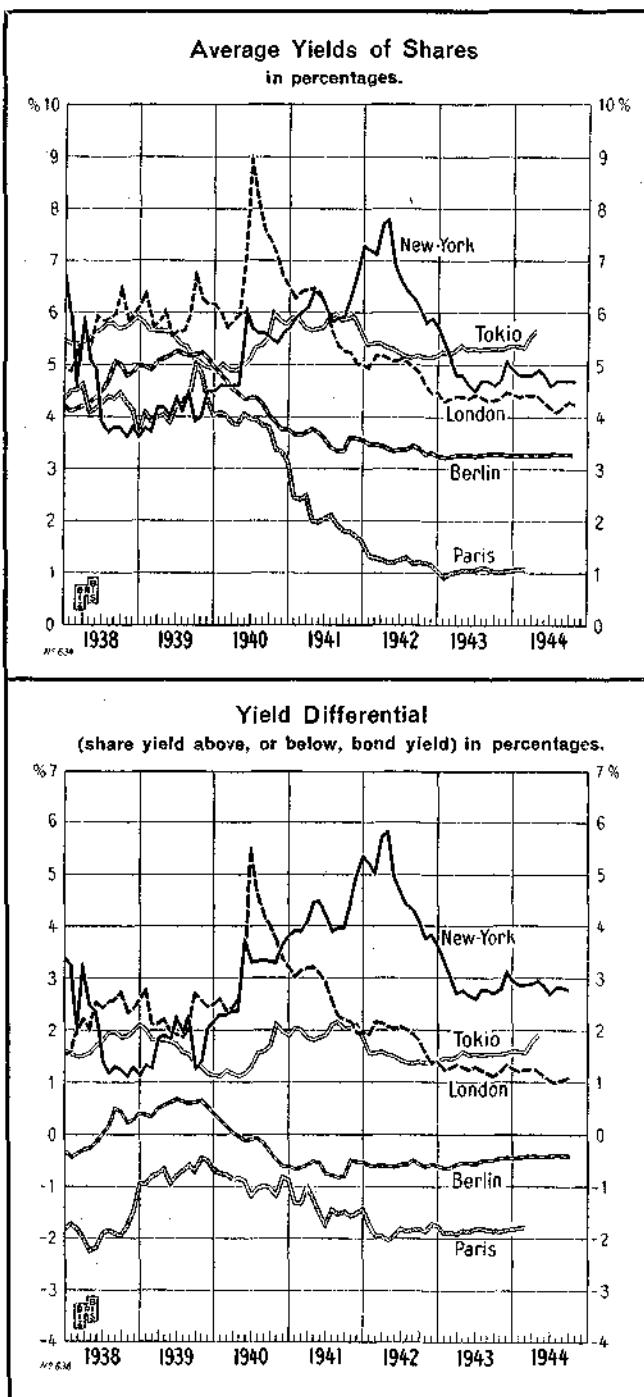
were to be taken over by the state and their shares exchanged for a type of security issued by a newly-formed government body (Istituto di Gestione e Finanziamento) on the basis of an assessment of the real value of each concern; shareholders would become merely creditors of the concern, but the new security itself would retain some of the characteristics of a shareholding, dividends being fixed by a ministerial committee, not for each company separately, but uniformly for all shares of the same group. Further, all share companies with a capital of Lit. 1 million or more were required to modify their statutes by 30th June 1944 so as to make their employees eligible for participation in the management. On publication of this programme, the share market fell sharply, with a further abrupt decline in February 1944, when the executive regulations were made known; most affected were the hydro-electric and other industrial shares of companies in northern Italy, while business concerns operating in southern Italy were, of course, not directly affected by the new measures. In the middle of March 1944, the coupon tax, which had been raised from 20 to 25 per cent. in April of the previous year, was reduced in northern Italy to 15 per cent. A quick revival followed and, by June 1944, the Milan share market had reached a new high peak; towards the end of this month, the new Istituto di Gestione e Finanziamento was actually formed, with its seat in Milan. Then followed a general decline; but a new boom, from September onwards, carried quotations by the end of 1944 to some ten per cent. and more above those of June. The turnover in 1943 was very small, amounting to only 2.9 million shares, compared with 9.8 million in 1942, the fall being partly due to the conversion of all bearer shares into registered form during that year; but, in 1944, business revived somewhat, the turnover for the year being 6.3 million shares.

In the northern markets, Oslo, Copenhagen and Helsinki, fluctuations of quotations were less spectacular, developments calling for little comment. And in both Switzerland and Sweden the markets since 1942 have not fluctuated far above the pre-war valuations.

An interesting reflection of the development of market prices and dividends is given by the trend of share yields, as shown in the graphs on the opposite page for five countries for which adequate data are available.

After the United States had become involved in the war, the average yield on the New York stock market rose to nearly 8 per cent. Owing to the recovery of quotations and also to a compression of net profits, the yield then fell rapidly and continuously to 4½ per cent. by the middle of 1943. But, even so, it remained well above the yield on government bonds. In Tokio the share yield rose slightly in 1943-44 as the market weakened, but fluctuations were very small and the impression of a fairly stable average yield is given.

In London and Paris the stability of the average share yield in 1943 appears to have been unaffected by official measures. The yield given for



London applies to about 160 industrial shares; a long decline from 9 per cent. in June 1940 brought the yield down to 4-4½ per cent. in 1943-44, market prices in these years moving in fairly close correspondence with dividends. In Paris, the average yield of 300 shares fell slightly below 1 per cent. in the first two months of 1943, but it remained a little above that level throughout the rest of the year. Yields at this rate appear incredibly small and were, indeed, the lowest for France since records have been kept, and thus probably for all time. But, if to be normal means to be like others, then the yield in France must be considered normal, since it was representative of a large number of countries on the continent of Europe: in Belgium, Bohemia and Moravia, Holland, Italy, Norway, and in Hungary and other south-eastern countries, conditions were very similar.

For Berlin, with both a dividend stop and a stop on share quotations, it was only to be expected that the resultant yields would show stability; at

3½ per cent., the average yield of all the quoted shares was slightly under the 3½ per cent. paid on Reich Treasury certificates, a fact providing some indication of the reason for the ceiling on share quotations: any further rise of the market would have produced too glaring a gap between bond and share yields.

The longer the duration of the war, the more varied have been its influences on the stock exchanges of the world. In a number of cases a normally functioning market still remains, with quotations not far from those of the pre-war period. But, over a wide area, the current profits of industry have no longer been the main guide for the investor, who has been swayed by various extraneous hopes and anxieties due to political and military events, monetary and other financial developments. Above all, fear of inflation has been the determining influence on the bourses of Continental Europe, bringing into quotations and yields a distortion which reflected the widespread attempt to secure the value of capital assets by the acquisition of "Sachwerte".

VI. CENTRAL BANKING AND CURRENCY DEVELOPMENTS.

1. CENTRAL-BANKING DEVELOPMENTS.

Among recent developments, those in the French Empire have been of particular interest, both in themselves and because they throw some light on the working of current accounts as part of the monetary arrangements between different countries.* Before the war the privilege of note issue in the French Empire (and mandated territories) was exercised by ten banks of issue. Six of these banks had their head offices in Paris and were administered from there, the various territories being attached to three separate ministries of the French Government; four of the banks, i.e. those in the older colonies with autonomous administration, had their head offices in the respective colonial capitals.

Banks of Issue in the French Empire (and Mandated Territories).

Jurisdiction of territory in 1939	Bank of Issue (and location of head office)	Circulation at end of	
		1939	1942
In millions of Fr.fcs			
Ministry of the Interior (1)	Bank of Algeria (Paris)	4,125 (2)	14,746
Ministry of Foreign Affairs	State Bank of Morocco "	1,072	5,175 (3)
"	Bank of Syria and Lebanon "	957	"
Ministry of Colonies (under a Governor-General)	Bank of French West Africa . . (Paris)	1,363	3,318 (4)
"	" Madagascar "	449	784 (5)
"	" Indo-China "	2,289	5,148
Ministry of Colonies (with an autonomous administration)	Bank of Réunion . . . (Saint-Denis)	71 (6)	"
"	" Martinique . (Fort-de-France)	69 (6)	"
"	" Guadeloupe . (Pointe-à-Pitre)	64 (6)	"
"	" (French) Guiana . (Cayenne)	22	"

(1) Algeria is considered as part of France proper (i.e. la métropole). (2) October 1939. (3) September 1942.
(4) French West Africa and Togo, September 1942, and the Cameroons, June 1942. (5) August 1942. (6) June 1939.

The notes of the various banks generally circulated in the territories indicated by the name of the bank; in a few cases, however, in other areas also: the notes of the Bank of Indo-China had a wide circulation including areas in India (Pondicherry) and Africa (Djibouti), while the notes of the Bank of Algeria circulated also in Tunis. The total circulation in the colonial empire, equal to rather more than Fr.fcs 10 milliard at the end of 1939 (compared with Fr.fcs 150 milliard for the Bank of France) probably exceeded Fr.fcs 30 milliard by the end of 1942; no later estimate can be made on the basis of available material. The balance sheets of the ten issue banks were

* Such, for example, as the current accounts provided for by the agreements made between England and France in February 1944 and between the Refugee Governments of Belgium and Holland in October 1943.

all published in French francs and the circulation of the greater part of the overseas territories was also in francs, with some exceptions, such as the Levant £, the piastre in Indo-China and the rupee in India.

Before the war the currencies of the colonies were kept at par with the French franc by the local banks of issue. There was little uniformity in the regulations regarding the reserves which had to be maintained by these banks or in the exchange mechanism but, generally, the local banks held sufficient resources in French francs (or in gold) to ensure exchange stability. Three banks, however, operated under a special régime, their exchange rates being kept rigidly at parity with the French franc through a current account with the French Treasury; this system, which had grown up spontaneously in Algeria, was later extended to Morocco and also adopted in Madagascar.

Besides the Treasury account, the Bank of Algeria, like the other local banks of issue, maintained a working reserve in French francs in Paris (in the form of bank balances, mainly at the Bank of France, or in short-term government securities), resort to the Treasury account representing, so to say, a second line of defence. In practice, the movement of funds to and from the colonies has naturally been affected by loans raised from time to time on the Paris market (or by repayments of earlier colonial loans) and by the fact that the revenue and expenditure of the French Treasury in each particular colony did not necessarily balance.

To give an indication of the trends, the table on the opposite page has been prepared to show the annual situation over a series of years and the total reserves of the three local banks of issue having current accounts with the French Treasury. The amounts are shown from the point of view of the colonies; thus, the French Treasury had a credit balance at the Bank of Algeria until 1938 (shown by the bank in its balance sheet, and in the table, as a liability).

Before the outbreak of the war in 1939 the Bank of Algeria and the State Bank of Morocco were regularly indebted to the French Treasury, but against this indebtedness they could set off other important assets in French francs as shown in the table. All three banks felt the strain of the years 1935–37, before, and immediately after, the devaluation of the French franc. Up to 1935, each of the three colonies had raised loans on the Paris market almost every year but, from 1936–38, the new borrowing was only of small proportions, while the regular amortisation of old loans continued. The outbreak of the war brought an immediate improvement in the position of the three banks, the remarkable change which took place, particularly from 1940, being clearly shown in the table.

Through the free and unrestricted transfer of funds to and from the métropole in unlimited amounts and at fixed par rates (without commission and other charges) the currencies of the three colonies were made practically identical with the French franc and their balances of payments vis-à-vis the rest of the world were absorbed into that of France. This complete

freedom of transfer meant that capital movements between France and the three colonies were facilitated — even those for purposes of arbitrage based on differential interest rates. Thus, when the Bank of France raised its discount rate at times of recurring monetary crises, particularly from 1934 onwards, the impact was directly felt in the colonies. The local banks were, however, able to exert a moderating influence: bank rate in France had been raised to 6 per cent. in 1935 (May and again in November), in 1936 (May) and in 1937 (June), with periods of lower rates in the intervals. The annual report of the Bank of Algeria for 1935-36 explained that, in spite of the difficult circumstances caused by the profound perturbations on the Paris money market, the bank had been able to maintain its discount rate unchanged throughout the year; and the annual report for 1936-37 stated that bank rate in Algeria was not raised above 5 per cent. during the year; in 1937-38 the tension slackened and in 1938-39 two reductions brought bank rate down to 4 per cent.; later, in May 1943, the rate was reduced to 3½ per cent. — the lowest ever in force in Algeria.

French Colonial Banks of Issue.

Position in French Francs.

Years	Bank of Algeria (1)			State Bank of Morocco (2)			Bank of Madagascar (3)		
	French Treasury (net) (4)	French franc assets (5)	Net position in Fr.fcs (6)	French Treasury (net) (7)	French franc assets (8)	Net position in Fr.fcs (9)	French Treasury (10)	French franc assets (11)	Net position in Fr.fcs (12)
in millions of French francs									
1925	— 142	+ 295	+ 153	— 111	+ 308	+ 197	—	—	—
1926	— 12	+ 141	+ 129	— 351	+ 295	— 56	+ 127	+ 11	+ 138
1927	— 59	+ 187	+ 128	— 158	+ 166	+ 8	+ 171	+ 9	+ 180
1928	— 57	+ 316	+ 259	— 350	+ 506	+ 156	+ 138	+ 55	+ 193
1929	— 584	+ 494	— 90	— 702	+ 893	+ 191	+ 42	+ 69	+ 111
1930	— 304	+ 636	+ 332	— 621	+ 521	— 100	+ 36	+ 81	+ 117
1931	— 68	+ 356	+ 288	— 648	+ 439	— 209	+ 71	+ 75	+ 146
1932	— 179	+ 480	+ 301	— 280	+ 338	+ 58	+ 59	+ 76	+ 135
1933	— 71	+ 338	+ 267	— 499	+ 203	— 296	+ 53	+ 75	+ 128
1934	— 87	+ 252	+ 165	— 877	+ 221	— 656	+ 31	+ 73	+ 104
1935	— 181	+ 150	— 31	— 586	— 331	— 917	+ 26	+ 74	+ 100
1936	— 168	+ 139	— 29	— 1,164	+ 440	— 724	+ 45	+ 87	+ 132
1937	— 228	+ 182	— 46	— 1,177	+ 402	— 775	+ 80	+ 113	+ 193
1938	— 222	+ 224	— 2	— 1,022	+ 405	— 617	+ 167	+ 142	+ 309
1939	+ 301	+ 467	+ 768	— 369	+ 498	+ 129	+ 222	+ 161	+ 383
1940	+ 1,067	+ 1,020	+ 2,087	+ 1,418	+ 875	+ 2,293	+ 390	+ 242	+ 632
1941	+ 25	+ 1,069	+ 1,094	+ 2,717	+ 1,835	+ 4,582	+ 636	+ 296	+ 932
1942	+ 950	+ 1,299	+ 2,249	+ 4,585	+ 1,935	+ 5,520	•	•	+ 1,227

(1) Balance sheets of end-October, except 1942 (end September).

(2) The account of the French Treasury less the bank's advance to the French Government.

(3) Two items, "Disponibilités en France" and "Correspondents de France (et de l'Etranger)", which, especially before 1931, consisted partly of sterling and dollars, as well as of French francs.

(4) The net position from the foregoing items. In addition, the bank has an "encaisse" consisting partly of gold, which rose from Fr.fcs 85 million in 1926 to Fr.fcs 340 million in 1942 (and was at its maximum of Fr.fcs 388 million in 1940), the gold stock being revalued in Algeria as in France.

(5) Balance sheets of end-December, except 1942 (end September).

(6) The net position of the two accounts of the French Treasury at Paris and at Rabat.

(7) Two items comprising the assets in French francs (and, especially before 1931, sterling and dollars).

(8) The net position from the foregoing items. In addition, the bank had a gold reserve which rose from Fr.fcs 2 million in 1925 to Fr.fcs 148 million in 1939 and 1940; in 1941 it jumped to Fr.fcs 267 million and, in 1942, to Fr.fcs 490 million.

(9) Balance sheets of end-December, except 1942 (19th September); the balance sheet for December 1926 was the first published by the bank.

(10) The "compte d'opérations" of the French Treasury (including the provisional account).

(11) Consisting largely of French Treasury bills and other short-term paper of the French Government.

(12) The total assets outside the colony (as given in the text of the bank's annual reports). The bank possesses an "encaisse métallique" of negligible proportions (only Fr.fcs 6,000 in 1941).

Transfer of funds in response to interest changes was, of course, only one of the many factors influencing the exchange position. Account must also be taken of the commercial balances (almost the total "external" trade of Algeria being with France), long-term loans raised on the Paris market, French government expenditure, etc. Some of the constituents of the balance of payments of Algeria for the ten years before the war are given in the following table, which, in spite of its defects, does show the broad movements, from year to year, of commodity trade and of the counter-balancing items.

Algerian External Trade and Balance of Payments.

Years (1)	Balance-of-payments items					New loans floated on Paris market (6)	
	External trade (2)			Other items (3)	Net (4) movement of French franc assets		
	Imports	Exports	Balance				
In millions of French francs							
1929	5,858	3,877	— 1,981	+ 1,632	— 349	—	
1930	5,711	4,272	— 1,439	+ 1,861	+ 422	+ 783	
1931	4,872	3,402	— 1,469	+ 1,425	— 44	+ 761	
1932	3,906	3,747	— 159	+ 172	+ 13	+ 166	
1933	4,072	3,817	— 254	+ 220	— 34	+ 1,538	
1934	3,576	2,627	— 949	+ 847	— 102	+ 844	
1935	2,844	2,613	— 231	+ 35	— 196	+ 1,352	
1936	3,234	3,469	+ 235	— 233	+ 2	—	
1937	4,083	4,334	+ 250	— 233	— 17	—	
1938	4,995	5,639	+ 644	— 596	+ 48	+ 600	

(1) Calendar years for trade figures (and for loans floated on the Paris market), but financial years (to end of October) for the movement of the French franc reserves of the Bank of Algeria.

(2) Commodity trade from customs statistics.

(3) This is the difference between the trade balance and the movement of the reserves of the Bank of Algeria. Note that it includes the two months' time lag between these two series of statistics.

(4) As shown by the Bank of Algeria (see table on page 267).

(5) This column is given "pour mémoire"; as repayments and amortisations are not known, the net figures of new borrowing cannot be given and the fresh money received and included under "Other items" cannot be indicated in the table.

In the early 'thirties when the movement of private capital was outwards, towards France, the trade balance also was passive and it was thus necessary to float a continuous series of loans on the Paris market (at comparatively high rates). Later, the trade balance became more active and, from 1939 onwards, there was a complete reversal of the situation. As shown in the table on page 267, each of the three colonies acquired substantial balances both at and outside the French Treasury during the war years.

After June 1940, the six banks administered from Paris came under the direct control of the Vichy Government (although communications with the Bank of Indo-China, which was more and more subject to Japanese influence, were interrupted); the four banks in the older colonies with autonomous administrations were dependent on the allegiance of the local authorities.

In August 1940, French Equatorial Africa and the Cameroons (part of the territory in which notes of the Bank of French West Africa circulated) adhered to the Free French Movement and, in July 1941, Syria was also attached to this Movement. When the Caisse Centrale de la France Libre was

constituted on 2nd December 1941 (see thirteenth Annual Report, pages 293-294) it acted as central bank for the French Committee of National Liberation with authority to supervise credit policy in the "liberated territories"; in Syria control was exercised through the local Bank of Syria and Lebanon, but in French Equatorial Africa and the Cameroons the Caisse made its own note issue to replace the notes of the Bank of French West Africa (which remained under Vichy control).

As other territories were liberated, e. g. Madagascar and Réunion in 1942, the issue banks came under the supervision of the Caisse; in Djibouti, the currency was reorganised by the Caisse (the primary liability remaining, however, with the Bank of Indo-China, whose notes circulated there).

The Anglo-American landing in North Africa took place in November 1942, and in December, when an agreement was made with Dakar, the Bank of French West Africa came under the supervision of the Caisse. With the conclusion of the campaign in Tunis, in May 1943, the liberation of French Africa was complete; the supervision of the Caisse was extended to the important Bank of Algeria and, later (in July 1943), to the Bank of Martinique. By this time nine of the ten colonial banks of issue were under the control of the Caisse and, of the French Empire, only Indo-China remained cut off.

The French Committee of National Liberation, having established its seat in Algiers, obtained from the Bank of Algeria an advance of Fr.fcs 4 milliard under a convention of December 1942 and a further advance of the same amount under another convention of July 1943; in addition, the Caisse Centrale granted an advance of Fr.fcs 1 milliard, also by a convention of July 1943.

In September 1943, the occupation of Corsica by French troops, the first part of continental France to be liberated, made a clarification of the situation necessary. It was decided that the jurisdiction of the Caisse should be confined to the colonial empire (including Algeria, technically part of the métropole) and in Corsica "Treasury" notes were issued.

With the conclusion of an exchange and finance agreement with the British Government (see pages 32 and 129), the French Committee of National Liberation reorganised the Caisse Centrale de la France Libre: its name was changed to the Caisse Centrale de la France d'Outre-mer (its activities thus being limited to the overseas territories) and the whole of the assets and liabilities of the former Caisse were transferred to the new institution. The capital (provided by the French Committee) was raised from Fr.fcs 100 to 500 million and new statutes were published on 2nd February 1944.

The functions of the new Caisse, with its seat at Algiers, were so far expanded that it became, in effect, a central bank for French possessions overseas. The colonial banks of issue were authorised to utilise as note cover the assets they held at the Caisse, which opened accounts for the local Treasuries for the regulation of their balances of payments in a manner similar to the earlier system in force with the métropole. The Caisse furnished an advance to the Exchange Offices; these offices originally applied the

Franco-British agreement of March 1941, which involved holding the French franc at the rate of 176.625 to the £ sterling. By the new Franco-British agreement of February 1944 this rate was changed to 200 francs to the £ (the rate already in force for North Africa) except in the case of Syria and Lebanon, where political changes had taken place, the Levant currency being maintained directly on sterling at the old rate, which involved an appreciation of the Levant pound from 20 to 22.65 French francs. (Indo-China could not, of course, be included in the agreement, which otherwise covered the whole of the French Empire.) The new "overseas" franc bloc was thus pegged to sterling through the central body in Algeria; on 9th February 1944 the franc was officially quoted in London for the first time since 1940, the rate applying to this "Algerian" or "Empire" franc. In addition, an Exchange Stabilisation Fund was created, which purchased the entire gold production of the French Empire and to which the Caisse Centrale and the Treasury of the French Committee of National Liberation transferred the whole of their assets in gold and foreign exchange; the Fund was managed by the Caisse according to instructions from the Commissioner for Finances. In July 1944, the new Caisse granted the Treasury an advance, to a maximum of Fr.fcs 10 milliard, for war and reconstruction purposes.

In conclusion, it is interesting to note that an important innovation was introduced during the past year into the régime applicable to the central banks in the four autonomous colonies, whose rights of note issue all expired on 31st March 1944. After temporary renewals for a month at a time the issue privileges of the four banks passed to the Caisse Centrale, which received the exclusive right to issue notes in Réunion, Martinique and Guadeloupe from 1st July 1944 and in French Guiana from 1st September 1944; until they could be exchanged for the new notes, responsibility for the notes already issued by the four banks was taken over by the Caisse as well as assets corresponding to the note issues and forming the legal cover — including holdings of gold and French francs and advances to the French Treasury; the existence of the four colonial banks was prolonged until one year after the cessation of hostilities. A first step was thus taken towards the unification of the colonial note issues of the French Empire.

Wartime modifications of central-bank statutes have mostly introduced greater elasticity into reserve requirements in order to allow increased direct or indirect lending to governments and to release gold and foreign exchange reserves for payments abroad — many important examples have been given in the Annual Reports of this Bank for earlier years. In all these cases the modern viewpoint, to regard gold and foreign exchange holdings as a reserve against external payments, has been adopted — while the idea of an "internal reserve" of gold, as in some way lending strength to the notes in circulation, has gradually fallen into desuetude (since gold coins have everywhere been withdrawn from circulation) although, it must be admitted, there still exist some vague popular notions regarding the utility of "internal reserves" for a central bank.

During 1944, relaxations were introduced into the reserve provisions of two more European central banks — the National Bank of Slovakia and the National Bank of Belgium — in the latter case with the express intention of enabling the bank to utilise its gold stock for reconstruction purposes. In the United States the decline of the Federal Reserve ratio has attracted some attention (see pages 177-179), and a revision of the Federal Reserve Act may shortly prove to be desirable.

The most interesting provision of the new Reserve Bank bill introduced in the South African House of Assembly in April 1944 is the clause which reimposes on the South African Reserve Bank the obligation to redeem its notes in gold, the operation of this clause, however, being suspended for the time being. Such a provision would reverse the present trend and some sort of internal reserve in gold would be needed to provide for the redemption of notes — although South Africa is a very special case since the necessary gold could be dug up out of the ground whenever required.

In Persia, some years ago, the crown jewels were deposited to make good the deficiency of the metallic cover of gold and silver, a note of the picturesque not often found in the treatment of monetary reserves (see thirteenth Annual Report of this Bank, page 302). More recently the influx of sterling and dollars, through the expenditure of Allied troops in the country, has given great external strength to the currency. But the fact that the crown jewels were kept in sealed boxes in the vaults of the Bank Melli Iran led to rumours that they had been sold. In order to scotch these reports the crown jewels have now been placed in show cases where they may be seen by the public, and the bank stated in its annual report for 1943-44 "that it is in no way contemplated to sell these jewels". In this way an elegant solution has been found to the problem of "internal reserves" for the currency, and one which must reassure the most distrustful member of the public.

2. NOTE CIRCULATIONS AND RELATED SUBJECTS.

The general expansion of note circulations throughout the world has continued unabated, in many cases with increasing rapidity. Indexes, based on the average circulation in the first six months of 1939, have been prepared for a number of countries and are reproduced in the table on the following page.

The indexes are shown graphically in seven groups:

1. British Empire,
2. United States and Latin America,
3. Germany and western Europe,
4. Southern and south-eastern Europe,
5. European neutrals,
6. Middle East, and
7. Far East.

Indexes of Note Circulations.

Country	Position of index at end of:					Annual percentage increases				
	December					Sept. 1944	December			
	1939	1940	1941	1942	1943		1939 to 1940	1940 to 1941	1941 to 1942	1942 to 1943
on basis of January-June 1939 = 100										
Albania (1)	174	500	.	.	.	187	.	.	.	.
Greece (2)	127	207	657	4,118	30,000	63	217	527	630**	.
China (3)	.	.	1,000	.	.	.	.	.	.	.
Croatia (4)	139	198	287	600	1,500	3,350	42	45	109	150
Bulgaria (5)	148	228	471	662	1,000	1,420	54	107	41	51
Italy (6)	128	164	254	380	750	1,400	28	55	50	97
Iceland (7)	118	216	436	924	1,238	1,300	83	102	112	34
Iraq	124	139	244	495	813	947*	12	76	103	64
Hungary	113	161	230	342	508	874	42	43	49	49
Manchukuo	154	233	311	411	742	808*	51	33	32	81
Iran	120	137	189	361	613	732	14	38	91	70
Palestine	136	184	233	419	626	666*	35	27	80	48
Norway (8)	126	200	300	450	.	.	59	50	50	.
Finland	184	263	334	439	494	653	37	32	31	13
Japan	163	205	256	306	439	588	26	25	20	43
Roumania	130	172	258	314	428	566*	32	50	22	36
France	127	185	226	321	419	538*	46	22	42	31
Egypt	129	182	247	367	466	511	41	36	49	27
Germany	147	174	237	295	399	498	18	36	24	35
India	124	128	181	305	444	497	3	41	69	46
Turkey	139	199	253	362	396	475	44	27	43	9
Holland	112	150	205	294	341	462	34	37	43	16
Bohemia and Moravia	98	99	145	217	370	460	1	46	50	71
Belgium	127	158	219	307	377	454*	24	39	40	23
Canada (9)	122	169	223	313	393	449	39	32	40	26
Australia	119	142	177	258	345	413	19	25	46	34
Bolivia	126	163	220	280	368	406	29	35	27	31
Mexico	121	137	183	244	380	401	13	34	33	56
Slovakia	114	136	166	225	289	389	19	22	36	28
Denmark	139	172	195	228	315	389	24	14	17	38
Peru	123	133	195	264	320	372	8	47	35	21
Ecuador	109	122	181	265	360	349*	12	48	46	36
United States (10)	111	127	163	225	298	345	15	28	38	32
Portugal	121	138	213	260	328	338*	14	54	22	26
South Africa	111	130	161	213	274	303	16	24	32	29
Brazil	103	108	138	171	228	284*	5	28	24	33
Chile	113	136	172	220	269	285	20	26	28	22
Colombia	112	113	135	188	228	284	1	19	39	21
Salvador	99	90	125	180	245	277	9	39	44	36
Costa Rica	101	105	134	211	274	275	4	28	57	30
New Zealand	125	134	160	200	245	246	7	19	25	23
United Kingdom	112	126	154	189	223	237	13	22	23	18
Sweden	139	145	166	197	222	229	4	14	19	13
Eire (11)	110	130	148	183	208	208	18	14	24	14
Argentina	102	109	124	144	170	192	7	14	16	18
Switzerland	119	132	136	153	177	186	11	3	13	16
										14

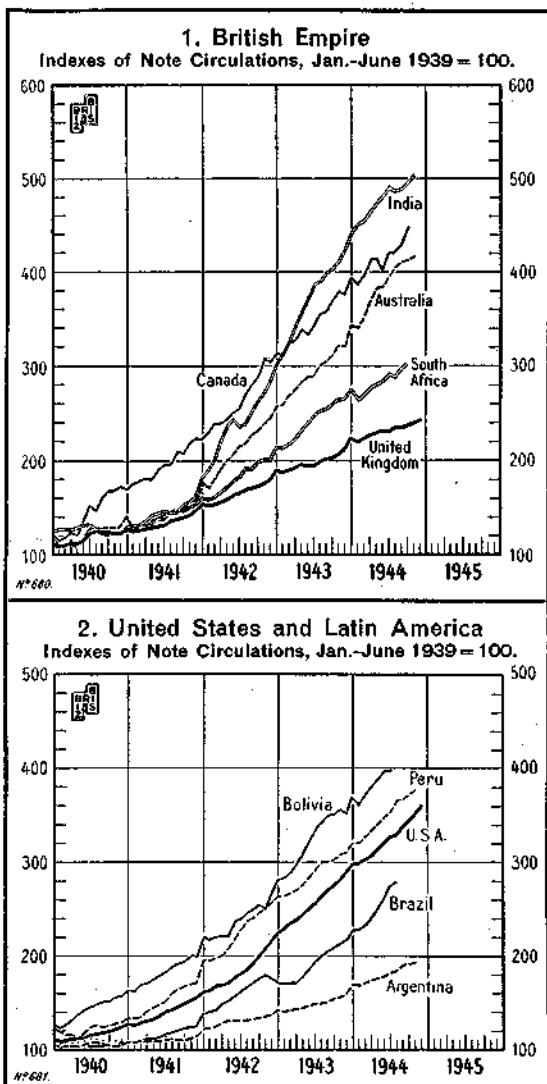
Note: Only the circulation of the central bank has been taken into account except in those cases where some other procedure appeared more appropriate. Thus, for the United States, the total of "money in circulation" has been used for the index; for Germany, the net issue of Rentenbank notes has been added to the circulation of the Reichsbank; for Canada and Eire, where the commercial banks retain a partial right to issue notes, their issues have been added to that of the central bank.

The indexes are based on the average circulation for the six months January to June 1939, which is taken as equal to 100. The countries are arranged in the table according to the height of the index in September 1944, or the latest preceding date for which figures were available. Thus, Albania heads the list because, on the last date for which the circulation was published, it had the highest index of all countries in the table; similarly, Norway is inserted at what appears the appropriate level, above Finland, according to developments up to the latest known estimate at the end of 1942.

* Index numbers marked with an asterisk (*) are for August 1944, except Ecuador (July), Palestine and Roumania (June) and Manchukuo (May); the figures in brackets in the last column give the percentage increase from the corresponding month of 1943. The index for France is that of 5th October 1944, after which date the circulation declined; and for Belgium the index refers to 24th August 1944, before the blocking and withdrawal of notes (which took place in October). ** Round estimates.

(1) Estimated for December 1940 on basis of the last published figure of the National Bank of Albania, for September 1940 (Index 336). No later information available.

(2-11) See footnotes on the opposite page.

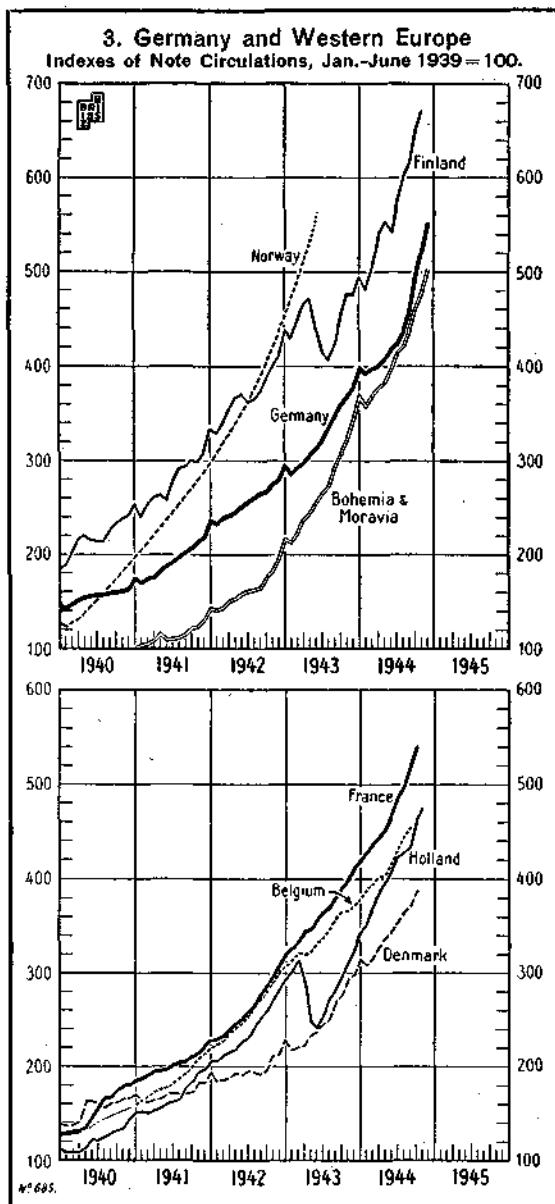


* A notable feature of the clearing banks' returns since 1940 has been the stability of the till money (of notes and coin) at around £140-150 million. As the banks' deposits and total cash reserves (till money plus balances at the Bank of England) and the note circulation have increased, the proportions held as till money have declined; thus the clearing banks' till money has fallen from slightly over one-half of their total cash reserves before the war to only one-third at the end of 1944, declining in the same period from one-quarter to one-eighth of the total notes in circulation.

- (7) Bank of Greece; estimated for December 1943 on basis of 17,170 for September 1943. The inflation proceeded very rapidly in its later stages: in September 1943 the circulation was Dr. 1½ million million (Dr. 1,276 milliard); in little over a year it had risen by about 2 million times and in November 1944 the Governor of the Bank of Greece estimated the circulation at Dr. 2½ million million million.
- (8) Insufficient information is available to make a continuous index for Chungking China. The figure given for the end of 1942 is a rough indication; based on June 1939, the index for the note circulations of the four banks (the Bank of China, the Central Bank of China, the Bank of Communications and the Farmers' Bank) would have been about 860 in June 1942. (9) Yugoslavia up to March 1941. From that date, 42 per cent. of the currency outstanding, indicated by the State Bank of Croatia as applying to that territory, has been taken to continue the series. (The index for December 1942 is estimated).
- (10) No return of the National Bank of Bulgaria has been published since February 1943; the index for December 1943 is a rough estimate. A figure of Leva 40,700 million for the circulation at the end of September 1944 was given by the Minister of Finance in a radio speech in November 1944; there were also some Leva 15,000 million Treasury certificates in circulation, which would raise the index for September 1944 to over 1,900.
- (11) For Italy, no regular data have been published since the end of 1940. Other figures are largely estimates based, inter alia, on those given by the Minister of Finance in the middle of 1943 and, later, towards the end of 1944.
- (12) The figures for Iceland are high, but it must be remembered that the number of foreign troops stationed there was relatively greater (compared with the local population) than in any other country and that supplies were made available on lend-lease terms. The rate of increase has fallen considerably since 1942.
- (13) The Norges Bank has published no return since March 1940, but rough estimates of the circulation were available for the year-ends up to 1942. (14) Bank of Canada plus chartered banks.
- (15) For the United States the total "money in circulation" has been taken.
- (16) Central Bank of Ireland plus Consolidated Bank Notes (and old issues).

Of the British Empire group the circulation in the United Kingdom, although more than double the pre-war figure, continues to show the least expansion — a result of many factors, including an effective absorption of purchasing power through heavy taxation and a high proportion of genuine savings; the comparatively low circulation is also a reflection of the highly developed commercial-banking system in the country.* In 1940, when a large war industry got under way in Canada, that country showed a greater increase than the others in this group; the circulation of the Reserve Bank of India in 1944 rose to five times the pre-war volume, the increase having been particularly great since the entry of Japan into the war in December 1941 and the consequent rapid rise in expenditure incurred by the United Kingdom on India's defence.

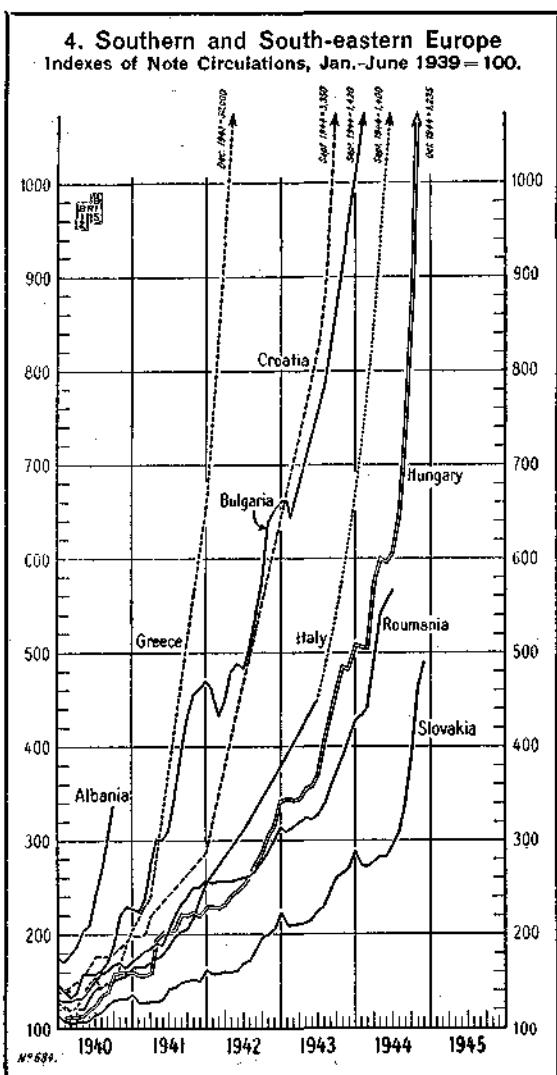
By the autumn of 1944, the money in circulation in the United States had expanded by three and a half times the amount in the base period and slightly exceeded the total gold stock (see page 178). Latin American circulations group



themselves round that of the United States: in Bolivia, Mexico and Peru the expansion has been greater, in the other countries generally less, in the Argentine considerably less.

In western Europe the expansion of currency in Germany to over five times the pre-war volume is paralleled by that in France; some reasons for the increased rate of issue by the Reichsbank in 1944 are given on page 297. In Holland, the calling-in of large notes (of Fl. 500 and 1,000) in the spring of 1943 produced a sudden but temporary fall; the curve for Belgium finishes before the withdrawal of notes in October 1944. Amongst the northern countries in this group Denmark, in spite of the acceleration of issue in 1943 and 1944, remained lower than the countries further south, while Norway and Finland stood higher; in Finland there was a reflux of notes during 1943 as the result of discussions regarding a forced loan in the form of a reduction in the value of the notes in circulation, while in 1944 the acceleration was partly due to the evacuation of the Carelian population.

In south and south-eastern Europe inflation has gone farthest; in Slovakia the expansion appeared relatively moderate until the spring of 1944, but there was a rapid acceleration in the second half of the year; for Roumania, no figures are available since the National Bank's balance sheet for June 1944, but there is reason to believe that here too the expansion continued at a rapid pace. In Hungary the note issue more than doubled in the second half of 1944, jumping from Pengö 5,288 million in June to Pengö 10,672 million in November; the annual percentage rate of increase rose from 49 in December 1943 to 90 in September, and 156 in November 1944; as the country became ever more closely involved in the hostilities, various emergency measures, including the payment to officials of three or four months' salary in advance, led directly to



Bank of Greece: Note Circulation.

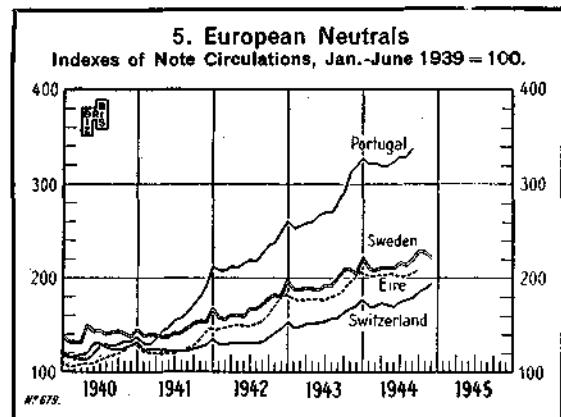
Month	In million million drachmae
1943 September	1 *
1944 August	500
September	4,000
November	2,500,000

* i.e. Dr. 1,276 milliard.

The European neutrals are comparatively uninteresting — the note circulations have about doubled in Switzerland, Eire and Sweden, and trebled in Portugal. In the Middle East the expansion has been considerable in some cases, particularly for Iran and Iraq, where Allied troops were stationed, the circulations being respectively seven and nine times pre-war; the rate of

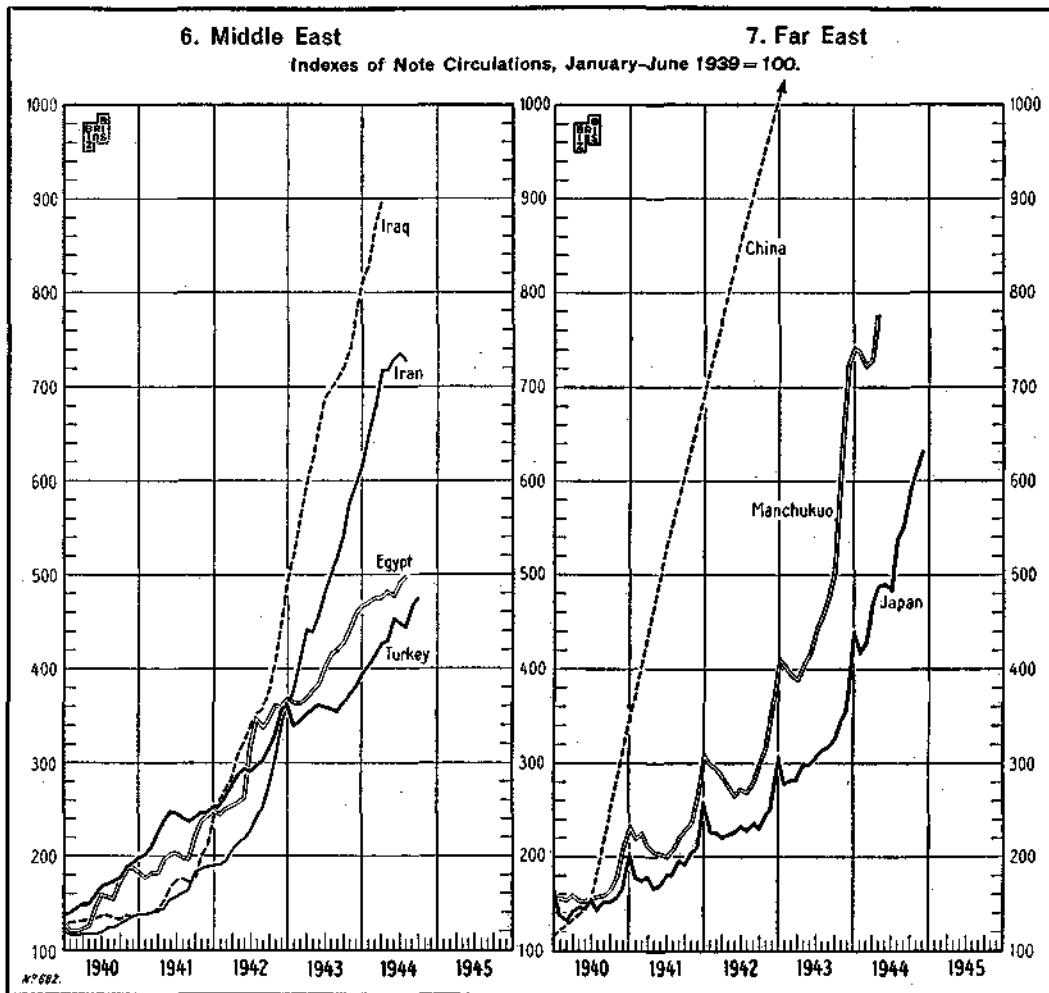
a rapid expansion of the note issue. In both Hungary and Italy the circulation during 1944 exceeded ten times the pre-war base, as was the case with Croatia and Bulgaria already in 1943 and with Greece as early as 1942. Roumania lagged somewhat behind the others, probably owing to the withdrawal of currency in ceded territories; furthermore the index takes account only of the note issue, while the actual circulating media have been swollen, as in Bulgaria from December 1942, by issues of special "Treasury certificates" in 1943, and by "payment certificates" in 1944, instruments which change hands without formalities as currency. Similarly, in northern Italy, "circular cheques" issued by the banks added to the volume of means of payment.

By September 1944, the circulation in Italy and Bulgaria was at least 14 times the pre-war magnitude and in Croatia it was 33½ times; in Greece it was about 300 times by the end of 1943 and, in 1944, the issue reached astronomical proportions, the circulation being estimated by the Governor of the Bank of Greece, late in 1944, at 2,500,000,000,000,000,000 drachmae. In this group should also come Albania, which, when figures were last available in 1940, showed the greatest expansion, and Serbia, where no statistics have been published.



increase is, however, falling in both cases. Japan, in the Far Eastern group, has reached six times the pre-war circulation, there being a particularly marked acceleration from the middle of 1943 (the rate of increase attaining 85 per cent. per annum by December 1944); in Manchukuo the expansion has been even more rapid since the end of 1941. The circulation for China has been computed on the basis of annual figures for the

four banks; in June 1942, the combined circulation was eight to nine times what it had been in June 1939, and it has since increased at greater speed; although there are no data giving the exact measure, other indications are symptomatic of an advanced stage of inflation.



General reasons for the increase of note circulations were given in the thirteenth Annual Report of this Bank (pages 303-305). International comparisons should always be made with caution, and particularly at the present time; for example, two factors of considerable importance in Europe during the war have been troop movements and changes in the territory in which the notes circulate.

The effects of movements of troops on note circulations have been most clearly evident in England and Germany. In England, the concentration of Allied forces, paid in sterling, was one of the factors making for an acceleration of the note issue up to June 1944; in the summer, after the invasion of the continent, there was a distinct slackening in the rate of expansion, in spite of the holiday season, which would normally tend to keep the note circulation high. In Germany, there was a sharp fall from RM 4 to 2 milliard in the annual rate of increase of the note issue in the summer of 1940, when the German army was largely outside Germany and was paid in Reichskreditkassenscheine or in local currencies, while the reverse movement, reinforced by other factors, made for an increase of the Reichsbank's issue in the second half of 1944 (see page 297).

Territorial changes in recent years have led to many new issues of notes — and to withdrawals: thus notes of the Bank of France were withdrawn (in 1940) in Alsace-Lorraine, notes of the National Bank of Roumania in Transylvania and South Dobruja, and notes of the Bank of Greece in eastern Thrace, while the area of circulation of the Reichsbank, the National Bank of Hungary and the National Bank of Bulgaria correspondingly increased. It is not easy to take proper account of these changes but certain indications may be given.

Reichsbank
Note Circulation.

End of year	1939	1943
RM millions	11,798	33,683
Index	100	285

As regards Germany, the President of the Reichsbank declared at the annual general meeting of the bank in February 1944 that the index of the note circulation, which was 285 at the end of 1943 compared with 100 in 1939, would be reduced to 270 if allowance were made for the expansion of the territory of the Reich. This factor would thus seem responsible for about RM 1,760 million of the circulation of Reichsbank notes at the end of 1943, i. e. some 8 per cent. of the increase in the note issue since the end of 1939.

An unofficial estimate made in France placed the amount of Bank of France notes withdrawn in Alsace-Lorraine at Fr.fcs 5 milliard, say 3 per cent. of the total note circulation of Fr.fcs 160 milliard in May 1940; this would account for some RM 250 million of the increase in the Reichsbank's note circulation at the time of the withdrawal of the French currency and, if the expansion in Alsace-Lorraine was equivalent to that in Germany, for perhaps RM 650 million by the end of 1943. Towards the end of 1944, the Bank of France began the exchange of Reichsbank notes for its own issue (at the rate of Fr.fcs 15 equal to RM 1, see also page 41). In the autumn of 1943

notes of the Bank of France had been replaced in Corsica by notes of the French National Committee of Liberation.

Hungary in the years 1938 to 1941 had attached territories previously forming part of Czecho-Slovakia, Roumania and Yugoslavia, and the crown, leu and dinar notes circulating in these areas were exchanged for notes of the National Bank of Hungary. The foreign bank-notes thus withdrawn were transferred to the Hungarian Government (for eventual repayment by the issuing country) and the amounts booked as a debt of the government to the National Bank in its return. In round figures, some Pengő 500 million of the increase of the note issue of the National Bank of Hungary was due to the exchange of

foreign bank-notes, say 25 per cent. of the total circulation of the bank at the end of 1941. As the circulation in the attached territories probably expanded at a rate similar to that in the rest of the country, as much as one-quarter of the Hungarian note circulation outstanding at the end of 1943 may have been due to the increased area in which the notes circulated.⁽¹⁾

National Bank of Hungary.

End of year	Foreign bank-notes withdrawn (1)				Total circulation of National Bank
	Czecho-Slovak crowns (2)	Roumanian leu	Yugoslav dinars	Total	
in millions of pengő					
1937	—	—	—	—	466
1938	77	—	—	77	863
1939	95	—	—	95	975
1940	84	171	—	255	1,387
1941	83	215	191	489	1,984
1942 (2)	80	—	—	504	2,958
1943 (2)	—	—	—	482	4,392

(1) As shown by the Hungarian Government debt to the National Bank. The figures include a small amount of coin.

(2) Reductions are due to amortisations.

(3) From February 1942, only the total for all currencies was given in the return but in the annual report of the National Bank for 1942 it was stated that the increase of Pengő 15 million during the year was due to a further Pengő 18 million leu and dinar notes exchanged and the amortisation of Pengő 3 million on account of Czecho-Slovak crowns. No analysis of the reduction in 1943 was given in the report for that year.

since August 1940 by the Hungarians amounted to some Lei 6 milliard; this formed one-tenth of the total circulation of the National Bank of Roumania,⁽³⁾ amounting to Lei 60 milliard at that time. No estimate appears to have been published regarding the volume of Roumanian notes outstanding in Bessarabia when this province was taken over by the U.S.S.R. in 1940 but, when the province again changed hands in July 1941, the National Bank was authorised to issue a maximum of Lei 1,000 million notes for account of the Roumanian Government for the exchange of roubles; this exchange took place at the rate of one leu for one rouble, against the previous official rate of 40 lei equal to one rouble; when the province was taken over by the U.S.S.R. early in 1944, the notes outstanding were again exchanged—at 100 lei for one rouble. From August 1940, when South Dobruja was attached to Bulgaria, until the end of the year, the National Bank of Bulgaria showed in its detailed return an increase of its holding of foreign bank-notes by Leva 200 million, the equivalent of about Lei 300 million, a low figure which suggests that some special method of regulation was found. The amount of drachma and dinar notes withdrawn by the Bulgarians from western Thrace and Macedonia in 1941 has not been published.

According to the above table the leu notes withdrawn from Transylvania

Alterations in currency areas especially in south-eastern Europe thus gave rise to a network of claims and counter-claims amongst the countries concerned, leading to a situation which in some cases was complicated by the considerable amounts of notes smuggled from one area to another. When Yugoslavia was partitioned in 1941 difficulties were caused to the new central banks in Croatia and Serbia by the smuggling of large amounts of dinar notes backwards and forwards across the practically open lines of demarcation, in accordance with rumours as to their treatment in one or the other country. The Finance Minister of Croatia, writing in a Croatian periodical,* gave some reasons for the sixfold increase of the note issue (and giro accounts) of the State Bank in thirty-two months (from Kunas 7.9 milliard in April 1941 to Kunas 48.7 milliard in December 1943); besides mentioning the financing of the clearings, the occupation of large sections of the country for nearly two years by Italian troops, and the activities of the partisans, he drew attention to the "fluid frontiers" of the country.

In 1941, Italy took the Dalmatian coast of Yugoslavia and notes of the Banca d'Italia were issued there to an unknown amount in exchange for Yugoslavian dinars. After the political developments of 1943, Italian bank-notes

* In an article in the *Agramer Wirtschaftsblatt*, as reported by the "Südost-Echo" of 10th March 1944.

(1) The area in which the notes of the National Bank of Hungary circulated increased by 85 per cent. from 1937 to 1941 but, as the newly-attached territories were less densely populated, the increase in the population was by under 60 per cent.

Hungary — Territorial changes 1937-41	Area (thousands of sq. km.)	Population (millions) *
Original (Trianon) territory end-1937	93	9.3
Attached territories:		
from Czechoslovakia — November 1938	12	1.1
from Czechoslovakia — March-April 1939	12	0.7
from Roumania — August 1940	43	2.6
from Yugoslavia — April 1941	12	1.0
Total attached	79	5.4
Territory at end of 1941	172	14.7

* Census made in 1941.

(2) The area in which the notes of the National Bank of Roumania circulated was reduced by about one-third in 1940, an approximately similar reduction occurring in the population.

Roumania — Territorial changes in 1940	Area (thousands of sq. km.)	Population (millions)
Original territory end-1939	295	20.0
Detached territories (August-September 1940):		
to U.S.S.R. (Bessarabia and North Bukovina)	50	3.7
to Bulgaria (South Dobruja)	7	0.4
to Hungary (Transylvania)	43	2.6
Total detached	100	6.7
Territory at end of 1940	195	13.3

In July 1941 Bessarabia and North Bukovina were reoccupied by Roumanian troops but notes of the National Bank of Roumania were not reissued there, the National Bank putting out special notes for account of the government. Early in 1944 Bessarabia and North Bukovina were again occupied by Russian troops.

in the Dalmatian region were exchanged by the State Bank of Croatia for its own kuna notes. When Sicily and southern Italy were invaded in 1943, Allied military notes were issued there, while notes were issued in northern Italy to cover the German occupation costs from September onwards; in November 1944, the Italian Minister of Finance estimated the note circulation at Lit. 180 milliard, to which must be added Lit. 40 milliard circulating in northern Italy and Lit. 35 milliard "am lire" issued by the Allies (up to August), making an approximate total of Lit. 260 milliard for the whole country (against Lit. 96 milliard in July 1943 and Lit. 25 milliard at the beginning of the war). In the former Italian Empire there were no local colonial banks of issue (as in the French Empire, for example) but notes of the Banca d'Italia circulated there, the bank having branches in Eritrea, Abyssinia, Libya and Rhodes; no estimate of the circulation in the colonies appears to have been published and it is thus impossible to indicate what part of the total note issue constituted the former circulation of these territories.

Military developments on the eastern marches of Europe have recently caused some changes profoundly affecting the newly-established note-issuing institutions in those areas. The district under German civil administration in 1942 and 1943 with the title of the Reichskommissariat Ukraine, which included the administrative areas of the Crimea, Dnjepropetrovsk, Nikolajev, Kiev, Shitomir and the old Polish province of Volhynia, was reoccupied by Russian troops in the early months of 1944; thus the Ukraine Central Bank, which first opened for business on 1st June 1942 with its head office at Rovno (Volhynia) and issued notes denominated in Carbovanez, had to close its doors after less than two years' activity. The same applied to the Bank of Transnistria, owned by the Government of Roumania, with its head office at Odessa, which conducted its operations in Reichskreditkassenscheine (denominated in Reichsmarks) in the territory situated between the rivers Bug and Dnestr. The Reichskommissariat Ostland comprised the administrative areas of Estonia, Latvia, Lithuania and White Ruthenia; the Ostland Central Bank, which opened for business on 1st April 1943 with its head office at Riga, also effected its transactions in Reichskreditkassenscheine. In the early months of 1944, Russian troops entered the territory of the Governor-Generalship of Poland, where the Issue Bank had been set up in 1940.

The ebb and flow of military and political developments outside Europe have also had their direct repercussions on central banks. In the Far East, new central banks were established during 1944 in Burma and the Philippines, bringing up to seven the number of central banks under Japanese control in the "co-prosperity sphere" of Asia: the Bank of Japan and the central banks in North China, Manchukuo, Nanking-China, Thailand, Burma and the Philippines.

An interesting sidelight on payment habits in different countries may be obtained, even in the present disturbed circumstances, by comparing note circulations with national incomes, as in the following table relating to five countries where sufficiently reliable data are available. While direct comparisons of national income from country to country must be made with caution, certain interesting conclusions can legitimately be drawn from the table, especially as to the trends.

National Incomes and Note Circulations.

Calendar years		United States	United Kingdom	Canada (1)	Sweden	Switzerland (1)
		In millions of national currency units				
National incomes	1939	70,829	4,968	4,375	11,500	8,318
	1940	77,809	5,945	5,200	12,000	8,733
	1941	95,618	6,885	6,200	13,300	9,400
	1942	119,791	7,604	8,000	15,300	9,800
	1943	147,900	8,172	8,800	17,000	10,000 (2)
Note circulations (annual averages)		In millions of national currency units				
	1939	7,088	507	278	1,121	1,802
	1940	7,926	675	363	1,433	2,082
	1941	9,699	652	484	1,485	2,108
	1942	12,876	808	637	1,735	2,251
Note circulations as percentage of national incomes	1943	17,839	966	822	2,018	2,647
		In percentages				
	1939	10.0	10.2	6.3	9.7	21.7
	1940	10.2	9.7	7.0	11.9	23.8
	1941	10.1	9.5	7.8	11.2	22.4
	1942	10.7	10.6	8.0	11.3	23.0
	1943	12.1	11.8	9.3	11.9	26.5

(1) National income figures for Canada in 1940-43 and Switzerland in 1941-42 are provisional.

(2) Private estimate.

(3) Total "money in circulation".

The figures show that in the five countries the average note circulation has risen somewhat more than the national income, but in none of them does the rise appear so pronounced as to make it impossible to speak of a certain regularity in the proportion of note circulation to the national income — for the United States, the United Kingdom and Sweden at about 10-12 per cent., for Canada around 7-9 per cent. and for Switzerland some 22-26 per cent. This relative stability must be regarded as a remarkable phenomenon when war conditions are taken into consideration — in the United States, for instance, money in circulation and national income more than doubled between 1939 and 1943; but, as shown later on, the movement in recent years has in fact been much greater than was the case in more normal times. Since the estimates for the national incomes and the figures for the note circulations are separate and independent statistical series, there can be no question of an optical illusion in the regularity of the relationship.

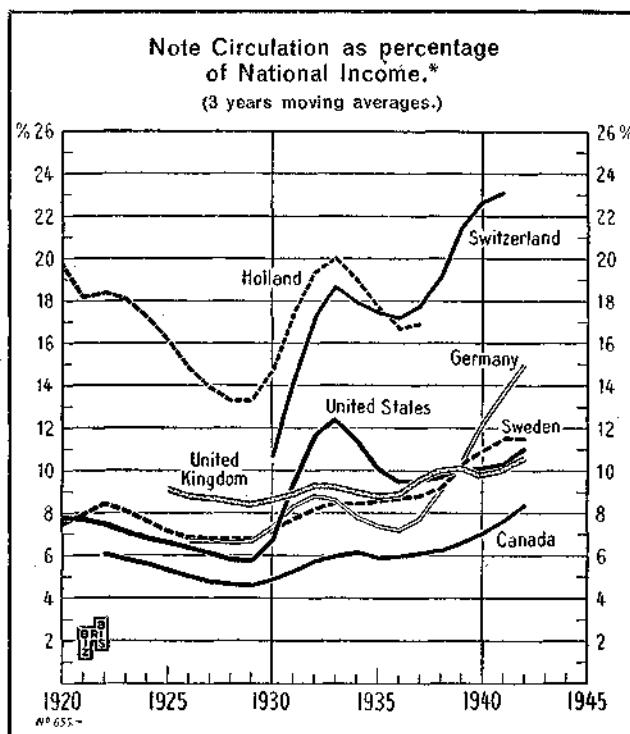
The low proportion in Canada would seem to reflect the habits of a relatively large agricultural population implicitly entrusting its "economies"

Finland
National Income and Note Circulation.

Calendar years	National income*	Average note circulation	Note circulation as percentage of national income
			in millions of FM
1926	19,162	1,307	6.82
1930	20,001	1,331	6.65
1938	31,262	2,092	6.69

* Volkseinkommen Finlands in den Jahren 1926-38, by Walter Lindberg (Abteilung für Konjunkturforschung der Finlandsbank).

hoarding of Swiss notes on a large scale at home and abroad — although the proportion may be somewhat exaggerated since the national income is perhaps underestimated. As the following graph shows, however, similar high figures are also found in other cases, e. g. in Holland in the early 'thirties, when estimates were available for that country. But proportions based on unofficial estimates of the national incomes in France and Italy in 1943 appear to be vitiated by the fact that these incomes are placed too low: in



* To obtain the statistical basis for this graph it was necessary, in some cases, to link together different series of estimates of the national incomes, e. g.: for the United Kingdom, unofficial estimates before the war with budget White Paper statistics from 1938 onwards; for Germany, on the other hand, official figures up to 1938 with unofficial estimates for later years. Although such linked series cannot be considered wholly satisfactory, yet it is believed that the graph gives a reasonably correct picture of developments.

to savings banks and similar institutions. The proportion was equally low for Finland, to judge from the figures in the three years for which authoritative estimates of national income have been published.

On the other hand, the note circulation in Switzerland appears to be relatively high; this goes to confirm the general opinion regarding the hoarding of Swiss notes on a large scale at home and abroad — although the proportion may be somewhat exaggerated since the national income is perhaps underestimated. As the following graph shows, however, similar high figures are also found in other cases, e. g. in Holland in the early 'thirties, when estimates were available for that country. But proportions based on unofficial estimates of the national incomes in France and Italy in 1943 appear to be vitiated by the fact that these incomes are placed too low: in France the proportion would work out at about fifty per cent. and in Italy as much as sixty per cent.; there is, however, no doubt that in both these countries the public is in the habit of keeping an exceptionally large part of its possessions in the form of notes.

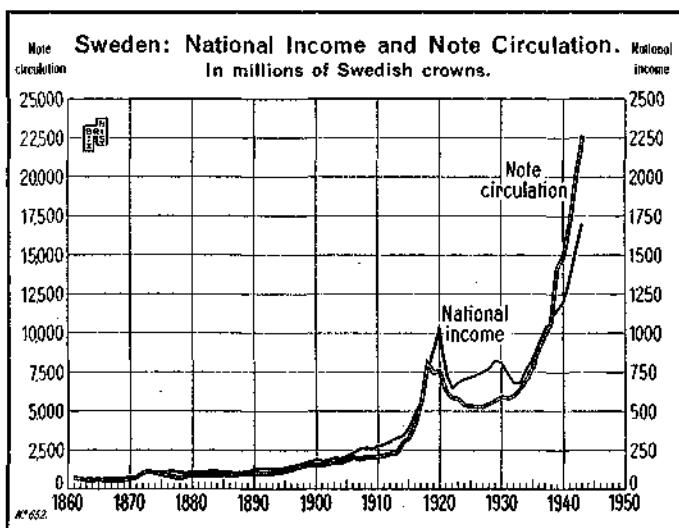
In all of the five countries in the table on the preceding page the proportion which the note circulation bears to the national income shows a tendency to rise, especially from 1941. This trend is brought out in the graph; to the five countries in the table Germany and Holland have been added and, to bring out the trend, a three-year moving average has been taken.

A definite similarity of trend is noticeable:

- (i) generally falling curves in the 'twenties, signifying that national incomes at the time were expanding more rapidly than note circulations;
- (ii) sharp rises in the early 'thirties, as national incomes contracted without a corresponding change in the note circulations;
- (iii) a subsequent decline lasting, in general, until somewhere near the outbreak of the war, as national incomes again expanded more rapidly than note circulations; and
- (iv) a surge upwards from this point.

It would be possible to comment at some length on this graph: to compare the rather flat line for the United Kingdom with the more volatile curve for the United States, to attempt an explanation of the large rises in Holland and Switzerland in the early 'thirties (when continental banking systems and currencies were under pressure) etc.; but more immediate interest attaches to the recent and universal upward phase. This latest rise of the curves, so pronounced during the war period, is of particular importance because it occurred precisely when national incomes — at least in a nominal sense — were going up with great rapidity. It implies that the expansion of note circulations has been even more tempestuous; and the available evidence all goes to show that this development since the beginning of the war has been world-wide.

Since the whole of the twenty-year period up to the war must be considered in some degree abnormal, it is interesting to take an even longer view, which is possible

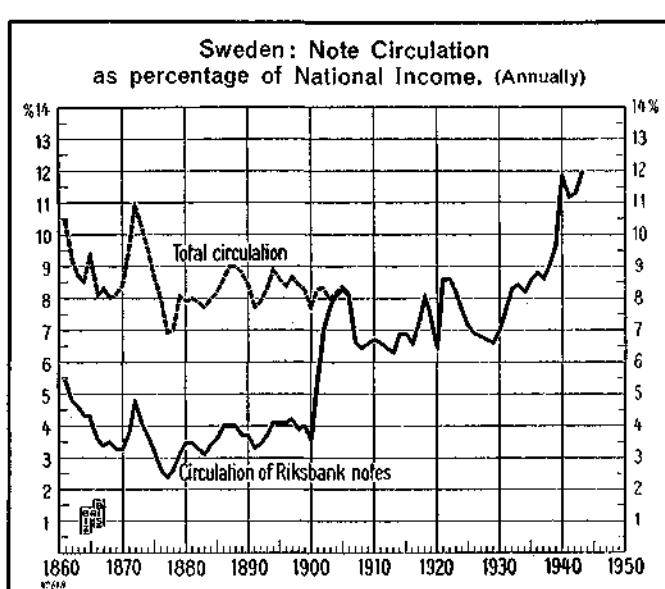


Estimates of the national income from 1861 to 1922 are taken from "The National Income In Sweden 1861-1930", Stockholm Economic Studies, published in connection with the Institute for Social Sciences of Stockholm University (Alternative I to 1895 and Alternative II from 1896 to 1922) and from the Stockholm Institute of Business Research (1923 to 1943). The note circulation is that of the Riksbank plus the private banks' issues up to 1905 (end-of-year figures, as these only are available for the private banks) and of the Riksbank alone from 1906 onwards (yearly averages).

for Sweden, where an authoritative series of estimates of the national income has been published for each year from 1861 onwards. The accompanying graph shows the annual development of the national income with the total note circulation of the Riksbank plus the private banks' issues until their disappearance in 1906. For convenience of presentation the note circulation has been drawn on ten times the scale of the national income.

The national income of Sweden grew steadily from under S.Kr. 700 million in the 1860's to S.Kr. 3,600 million in 1914; then came the ups and downs connected with the first world war, followed by a steady rise up to 1929 (in continuation of the curve before 1914). After the low point touched in the depression, the national income (in money terms) more than doubled within the space of ten years, reaching some S.Kr. 17,000 million in 1943.

For the greater part of the period the note circulation followed a more or less parallel course, lagging somewhat behind the movements of the national income in the 'twenties but rising more rapidly from 1933 onwards. The relative developments are clearer if the note circulation is given as a percentage of the national income, as in the following graph.



For about fifty years (from, say, 1875 until the late 1920's) the proportion which the total note circulation bore to the national income presented a striking stability—fluctuating only between $6\frac{1}{2}$ and 9 per cent.—and this despite the fact that the national income during these fifty years rose by nearly eight times and the economy of the country was developing very rapidly. It should be added that, in Sweden, there was never any circulation of gold coins (a factor

which in other countries often makes it difficult to estimate the amount of currency in circulation). There can be little doubt that the relationship shown by the graph denotes a remarkable steadiness in the velocity of the currency circulation in Sweden during the whole period from the 'eighties until the late 'twenties. From the 'thirties onwards, an altogether new trend is, however, observable, the percentage of note circulation to national income having risen almost continuously from 6.6 in 1929 to 11.9 in 1943—the most sustained upward trend leading to the highest proportion recorded.* Thus, if the velocity of the note circulation was previously very steady, the pace seems to have slackened considerably during the last ten years or so.

Statistics of national income are usually prepared only once a year, but for the United States a further analysis is possible, since monthly estimates of "income payments" have been compiled by the Department of

* There was also a temporary jump to 11.9 in 1940, due to a sharp expansion of the note circulation in April, when Norway was invaded.

Commerce, separate figures being given for "salaries and wages", "total non-agricultural income" and "agricultural income, including government payments". In order to afford a more detailed view of the period 1938-43, the monthly average of "money in circulation" has been calculated as a percentage of monthly income payments (put on an annual basis).

**U. S. Money in Circulation
as percentage of Income Payments.***

Monthly figures on annual basis	Low		High		Range per cent.	Average per cent.
	month	per cent.	month	per cent.		
1938	Dec.	9.2	Aug.	10.4	1.2	9.8
1939	"	9.0	"	10.9	1.9	10.0
1940	"	9.5	"	11.3	1.8	10.4
1941	"	9.8	Feb.	11.4	1.6	10.5
1942	June	10.6	"	11.9	1.3	11.2
1943	"	11.8	Nov.	13.5	1.7	12.5

* The main difference between "income payments" and "national income" (income produced) shown in the table on page 281 is that income payments exclude business savings (which may be a positive or a negative factor). This omission is not sufficient to make any material difference to the trend although there is a slight displacement of the percentages. For instance, the total of income payments in the year 1942 amounted to \$115.5 milliard, i.e. \$4.3 milliard below the total national income (income produced), and the percentage which the average money in circulation bore to the total of income payments in 1942 was 11.2, against 10.7 to the total national income (income produced).

relatively less than that of income payments at the end of the year), while the high points were found in February, May, August and November. In fact, any real seasonal movement appears to be swamped by the large stable factor of salaries and wages.

Since salaries and wages form a very constant component of the national income in the United States (as, indeed, in most countries), the recent expansion of money in circulation is greater than can be accounted for by the rise in wartime payments to workers. More significant is the fact that the ratio of retail sales to national income, which before the war was

very stable,* fell, from 1941 to 1943, by over one-quarter; relatively to consumer expenditure the amount of money in circulation has thus risen even more sharply than in relation to the national income — indeed, compared with the value of retail sales, there was over sixty per cent. more money in circulation in 1943 than in 1941.

The expansion in note circulations has consequently gone further than can be explained by increased salaries and wages or by higher prices, for in that

**United States
Retail Sales relationships.**

Calendar years	Value of retail sales as proportion of national income	Money in circulation as proportion of retail sales	percentages	
1938	59.3	17.1		
1939	59.4	16.9		
1940	59.6	17.1		
1941	58.2	17.4		
1942	48.2	22.3		
1943	42.5	28.4		

* The Cleveland Trust Company, in its Business Bulletin of 15th January 1944, produced a graph showing a very close correlation of national income and retail sales monthly from 1929 to 1939 and illustrating the subsequent divergence.

case the circulation would have risen parallel with the national income. The expansion is most striking in relation to consumer expenditure as measured by retail sales — and the same is undoubtedly true for many other countries besides the United States. This increase of currency has, moreover, been accompanied by a relative decline in the importance of bank deposits (see table on page 298). An article in the Federal Reserve Bulletin*, in a discussion of this subject, contained a suggestion that the great bulk of the currency outstanding was in the hands of individuals and stated that there can be little doubt that "a major reason for the large currency growth has been the great war-period income expansion of the lower and middle income groups, who have typically made little use of bank accounts"; in other words, it seems evident that the public is doing substantially more "banking on the hip" or "in the mattress" than has been customary in the past. The article in its tentative conclusions says that, while this and other developments "are partly traceable to special war-period factors, they may also reflect a lasting increase in the volume of currency demanded by individuals in preference to demand deposits".

* * *

The article mentioned above also drew attention to a change in the denominational pattern of the money in circulation, there being a proportionately greater expansion in notes of high denominations: in 1941, it was the note of \$20 which showed the greatest percentage increase as compared with other denominations issued during the year, and it still held this position in 1942; but, in the following year, it had to yield place, in this respect, to the next highest denominations, \$50 and \$100.

The shift in the centre of gravity of the money in circulation in the United States towards the larger notes is no new thing, having persisted, in fact, for several years; indeed, this phenomenon is not confined to the United States but appears in many other countries also, having been evident in some cases for a considerable time. To illustrate such a trend it is usual to prepare an analysis of the note circulation of a particular country for a number of years and to calculate the value of the notes of each denomination as a percentage of the total circulation in each particular year. This method is, however, not entirely satisfactory: it is too complicated and the results do not stand out sufficiently clearly from the mass of material needed; moreover it precludes straightforward international comparisons.

A more simple approach to the question, and one which makes such comparisons possible, may be found in the concept of the "average note in circulation", i.e. the quotient obtained when the aggregate value of all notes in circulation is divided by the total number of notes issued. This gives, indeed, a weighted average — it is the average denomination of note issued, weighted by the number of notes in the various denominations: in France, for example, there were 1,882 million notes in circulation at the end

* "Currency in circulation" by G. L. Bach in the Federal Reserve Bulletin for April 1944.

of 1943, with a total value of Fr.fcs 498 milliard, so that the "average" note in circulation was Fr.fcs 265. If continued for a number of years, such figures give a reasonably clear indication of the shift in the composition of the note issue over a period of time.

In order to make the results internationally comparable, an index of the average note has been constructed on the base 1933-38 equal to 100. This period was chosen as a reasonably broad base of immediate pre-war years and also because it was thought desirable to include both the United States (for which adequate data are not available before 1933) and England (for which no analysis of note circulation has been published later than 1938).

One important adjustment has been made: small notes issued to supplement or replace the higher denominations of coin have been excluded from the calculations: thus, in Switzerland notes of five francs, for which value coins are also in circulation, have been left out of account. Such an adjustment is of particular importance in wartime, when the shortage of coin is keenly felt and, although the mints in almost all countries have beaten previous records of production, it has become necessary to issue new series of small notes or to expand earlier series. If in Switzerland, for example, the new series of five-franc notes, issued at the beginning of the war, had been included in the calculations, the value of the average note would have fallen from Sw.fcs 82 in 1938 to Sw.fcs 63 in 1943, thus cloaking the rise in the average of the previously existing notes (of twenty francs and upwards) from Sw.fcs 83 to 88.* The results of calculating the value of the average note in thirteen countries since 1937 are given in the table on the next page and indexes have been plotted in graphical form for a longer period.

By and large, the general shift towards the higher denominations is clearly observable as an increase in the value of the average note outstanding. It will be seen that the (adjusted) value of the average note for the base period 1933-38 shows wide variations from one country to another when converted into dollars (as has been done for convenience of comparison). At the equivalent of about \$4½, the value was very low in Denmark and Finland and, at around \$20, very high in Holland and Switzerland; these variations are due partly to the fact that, whereas the lowest note included in the calculations was in most countries the equivalent of \$2-4, in Switzerland it was \$5½ and in Holland \$6. It should be added that the average note in England, at only slightly over £1, may be somewhat on the low side, since notes of "over £100" (amounting to less than 10 per cent. of the total circulation) have been counted as notes of £500 (the next highest denomination), in the absence of detailed data for the large denominations; such notes do not actually circulate to any great extent, being principally utilised as bankers' reserves and as cover for Scottish and Irish note issues.

* The circulation of five-franc notes increased from Sw.fcs 1.4 million at the end of 1937 to Sw.fcs 72.8 million at the end of 1943, rising from 0.09 per cent. of the total value of the circulation to 2.39 per cent. The number of five-franc notes in circulation rose from under 300,000 in December 1937 (when such notes were hardly met in ordinary business) to over 14,500,000 at the end of 1943, when this note had largely replaced the five-franc coin and was numerically the most important denomination in circulation.

Value of the Average Note in circulation: thirteen countries.

End of year (1)	United States (2)	England (3)	Germany (4)	France (5)	Belgium (6)	Holland (7)	Switzerland (8)	Sweden (9)	Norway (10)	Denmark (11)	Finland (12)	Hungary (13)	Turkey (14)
	\$	£	RM	Fr.fcs	B.fcs	Fl.	Sw.fcs	S.Kr.	N.Kr.	D.Kr.	FM	P.	£T
Average note (all denominations)													
1937	6.4	1.25	31.1	218	277	30.4	80.0	22.8	22.4	17.6	82	28.4	4.82
1938	6.4	1.23	28.8	236	283	33.0	81.9	23.4	22.7	17.8	84	31.0	6.88
1939	6.6	.	27.6	224	300	32.3	64.5	26.2	24.2	21.0	119	34.9	9.79
1940	6.9	.	27.7	199	.	30.8	65.5	26.5	.	22.1	156	31.1	9.57
1941	7.3	.	28.2	215	.	33.5	64.7	26.6	.	22.0	156	33.7	8.58
1942	8.0	.	29.4	248	.	33.3	64.2	27.4	.	22.9	162	40.7	9.27
1943	8.8	.	27.8	265	.	26.6	62.9	29.1	.	25.0	148	47.2	10.97
Average note adjusted (omitting small denominations)													
1937	12.4	1.25	32.0	229	277	30.4	81.1	28.2	27.1	20.6	210	28.4	11.1
1938	12.6	1.23	29.3	247	283	33.0	82.9	28.7	27.4	20.8	216	34.0	12.0
1939	13.0	.	28.0	281	300	32.3	82.3	31.9	29.0	24.5	252	34.9	15.7
1940	13.3	.	28.0	293	.	30.8	83.8	32.3	.	25.8	323	35.9	16.8
1941	13.4	.	28.3	330	.	33.5	83.8	32.4	.	26.6	319	37.6	16.8
1942	13.5	.	29.4	379	.	33.3	86.4	33.4	.	27.6	354	41.0	17.4
1943	14.3	.	31.6	394	.	26.6	87.8	35.5	.	29.5	355	47.4	20.1
Index of Average note adjusted (1933-38 = 100)													
1937	100	106	95	100	106	96	101	104	100	99	104	95	87
1938	101	104	87	107	108	104	103	106	101	99	107	113	93
1939	104	.	83	122	115	102	103	118	107	117	125	116	122
1940	107	.	83	128	.	97	105	119	.	123	161	120	131
1941	107	.	84	144	.	105	104	119	.	127	158	125	131
1942	108	.	87	165	.	105	108	123	.	132	176	137	136
1943	114	.	94	172	.	84	109	131	.	141	177	158	156
Details of notes included in index 1933-38	Average note (adjusted) 1933-38												
	in national currencies												
	\$ 12.5	£ 1.18	RM 33.8	Fr.fcs 230	B.fcs 262	Fl. 31.8	Sw.fcs 80.2	S.Kr. 27.1	N.Kr. 27.1	D.Kr. 20.9	FM 201	P. 30.0	£T 12.8
	equivalent in U.S. dollars at 1933-38 average rate												
	\$ 12.5	\$ 5.7	\$ 13.0	\$ 12.0	\$ 9.6	\$ 19.2	\$ 22.2	\$ 6.8	\$ 6.6	\$ 4.5	\$ 4.3	\$ 7.5	\$ 9.9
Details of notes included in index 1933-38	Lowest denomination of note included in the index												
	in national currencies												
	\$ 2.0	£ 0.5	RM 10.0	Fr.fcs 50	B.fcs 50	Fl. 10	Sw.fcs 20	S.Kr. 10	N.Kr. 10	D.Kr. 10	FM 100	P. 10	£T 5
	equivalent in U.S. dollars at 1933-38 average rate												
	\$ 2.0	\$ 2.4	\$ 3.8	\$ 2.6	\$ 1.8	\$ 6.0	\$ 5.5	\$ 2.5	\$ 2.4	\$ 2.2	\$ 2.1	\$ 2.5	\$ 3.8

(1) Except for England (yearly average of Wednesday figures) and Holland (end-March).

(2) U.S. "Paper money in circulation": Federal Reserve Issues, National Bank notes and various forms of Treasury paper currency (principally silver certificates), i.e. total "money in circulation" less coins in circulation; denominations from \$1 to \$10,000, adjusted to exclude notes of \$1 only.

(3) Bank of England notes: denominations 10s. to £100, plus notes of "over £100" taken as £500 (in the absence of particulars); no other adjustment necessary. Not published since 1938.

(4) German Reichsbank notes: adjusted to include all notes of RM 10 to RM 1,000 issued by the German Reichsbank, the Rentenbank (until 1941) and the private banks (until 1935) and to exclude the new RM 5 of the Reichsbank (1943 only), the RM 5 of the Rentenbank (1927-43) and the new RM 1 and 2 of the Rentenbank (1939-43).

(5) Bank of France notes: denominations from Fr.fcs 5 to 5,000; adjusted to exclude notes of Fr.fcs 20 and under.

(6) National Bank of Belgium notes: denominations from B.fcs 50 to 10,000; adjusted, for 1920-25 only, to exclude notes of B.fcs 20 and under. Not published since 1939.

(7) Nederlandsche Bank notes: denominations from Fl. 10 to 1,000; no adjustment necessary.

(8) National Bank of Switzerland notes: denominations from Sw.fcs 5 to 1,000; adjusted to exclude Sw.fcs 5 only.

(9) Sveriges Riksbank notes: denominations from S.Kr. 1 to 10,000; adjusted to exclude notes of S.Kr. 1 and 5.

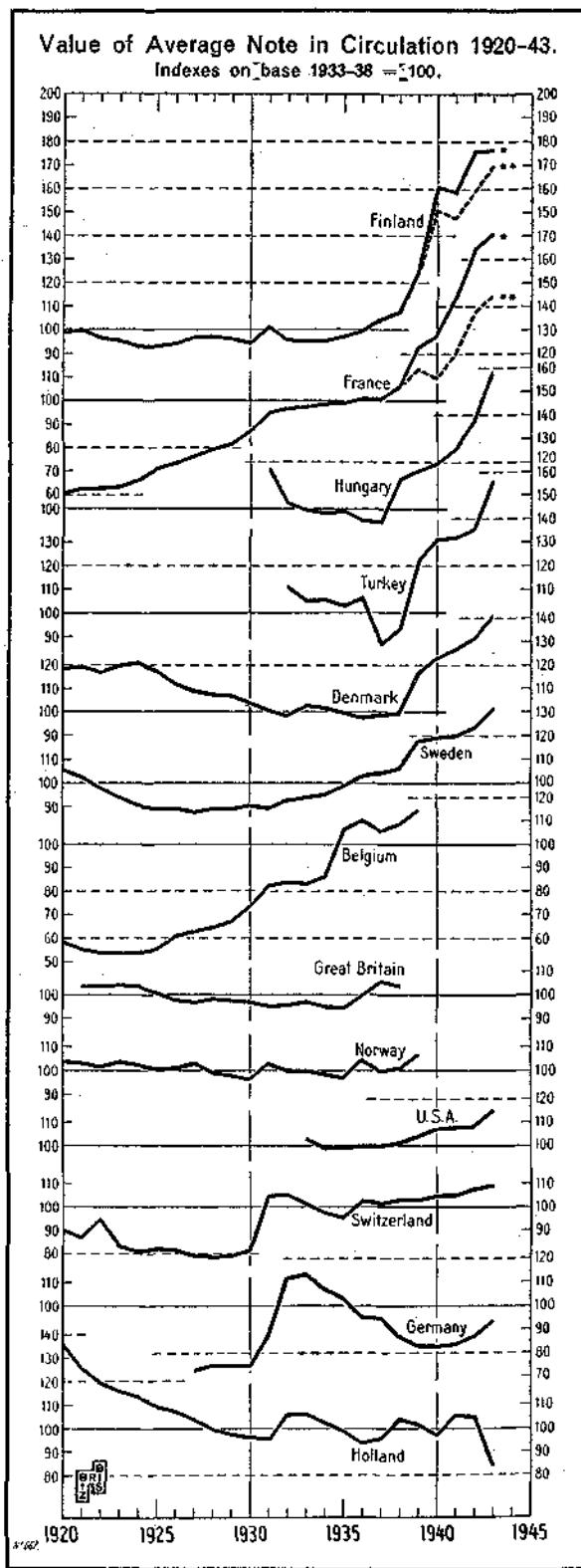
(10) Norges Bank notes: denominations from N.Kr. 5 to 1,000; adjusted to exclude notes of N.Kr. 5 only. Not published since 1939.

(11) Danmarks Nationalbank notes: denominations from D.Kr. 1 to 500; adjusted to exclude notes of D.Kr. 1 and 5.

(12) Bank of Finland notes: denominations from FM 0.25 to 5,000; adjusted to exclude notes of FM 50 and under (ten denominations).

(13) National Bank of Hungary notes: denominations from Pengö 1 to 1,000; adjusted to exclude notes of Pengö 1 and 2.

(14) Central Bank of Turkey notes: denominations £T 1 to 1,000; adjusted to exclude notes of £T 1 and 2½.



* Including notes of 5,000.

** Excluding notes of 5,000.

The similarity in the international trend towards higher denominations of notes, whatever be the value of the lowest note issued, is brought out more clearly in the graphs.

The countries have been arranged in the order of the proportionate rise in the (adjusted) value of the average note from the base period to the end of 1943 (Norway, Belgium and England being fitted in according to their positions on the latest date for which figures are available). In Finland and France the average note was over 70 per cent. higher in 1943 than in 1933-38; the percentage rise was also high in Hungary (58), Turkey (56) and Denmark (41); only in Germany and Holland were there declines from the base period, for which there were special reasons.

Taking a longer view, the general stability, or even declining trend, in the 'twenties appears very striking, the only exceptions being France and Belgium, where the exchange value of the currencies was falling at the time. The upward jump in Germany, from RM 25 in 1930 to RM 38 in 1932, was doubtless connected with the hoarding of large notes as a consequence of the wave of bank failures in 1931, the repercussions of which were felt in Switzerland and, to a smaller extent, in Holland; the consequent abnormal height of the curve in Germany during the base period appears to

be at least one of the factors accounting for the position of the curve in 1943, below 100.

The beginning of the war brought about a temporary shift towards notes of lower denominations (even apart from new issues of small notes) and this is shown as a kink or a flattening of the curves. But this was a passing phase which did not affect the upward trend noticeable in all countries, except Holland, where large denominations of notes were withdrawn in 1943.

Additions to or changes in the denominations of the notes in circulation are rare in normal times but in recent years there have been a number of tendencies which deserve attention: (i) the issue of very small notes, (ii) the withdrawal of large notes; and (iii) the issue of large notes; each with their particular significance.

- (i) The universal shortage of coin during the war, mentioned in the thirteenth Annual Report of this Bank (page 312 onwards), led to issues of small notes by central banks or Treasuries to supplement the coinage.
- (ii) Apart from the comprehensive plan for the withdrawal of notes in Belgium in October 1944, which was of a special character, the most important recent withdrawals of large notes have taken place in England and Holland; in both cases the withdrawals of the highest denominations in 1943 aimed at hindering black-market and other illegal transactions (as described in the thirteenth Annual Report, pages 310 and 311). Recent analyses of the note circulation are not available for England, but for Holland the effect of the withdrawals is revealed in the table on page 288 by the decline in the value of the average note from 33 to 27 florins.
- (iii) New series of bank-notes of very high denominations are very unusual but, around the beginning of the war, such issues were made in three European countries, as shown in the table.

New high denominations of bank-notes.

Central bank of:	New high denominations			Previous highest denomination		
	First date of issue	Amount in national currency	Percentage of total circulation at end of 1943	First year of issue	Amount in national currency	Percentage of total circulation at end of 1943
France	Sept. 1938	Fr.fcs 5,000	16.6	1803	Fr.fcs 1,000	54.3
Finland	Oct. 1939	FM 5,000	3.6	1911	FM 1,000	53.9
Sweden	Dec. 1939	S.Kr. 10,000	1.3	1859	S.Kr. 1,000	72.3

The Bank of France issued a new series of Fr.fcs 5,000 notes in September 1938, when large withdrawals of notes by the public were taking place; the Fr.fcs 1,000 note had remained the highest denomination since 1803,

when it was first issued (except for an essentially temporary issue of Fr.fcs 5,000 and 10,000 notes in the crisis of 1845). The issue of Fr.fcs 5,000 notes, begun in 1938, grew rapidly and amounted to nearly 17 per cent. of the total value of the circulation at the end of 1943.

A temporary issue of FM 5,000 notes was made in Finland in the autumn of 1939, when the total note circulation expanded sharply, but the regular FM 5,000 notes were not issued until 1940; these notes increased to 9.4 per cent. of the total circulation at the end of 1942, but fell to 3.6 per cent. at the end of 1943 (probably owing to a proposal that a forced loan should be imposed by stamping the notes in circulation and replacing them partially by government securities, a plan which might have fallen more heavily on the higher denominations of notes).

The note of S.Kr. 10,000 (equivalent to nearly \$2,400) issued in Sweden from December 1939 is interesting as being one of the largest denominations of bank-notes in circulation in the world; it is true that notes of \$5,000 and \$10,000 are issued by the Federal Reserve banks, but such notes accounted for only 0.15 per cent. of the total money in circulation in the United States at the end of 1943; in Europe, the next highest denominations in ordinary circulation amongst the public in 1944 were probably the £100 of the Bank of England* and the RM 1,000 of the Reichsbank.

In order to show the effect of the new high denominations on the average note, a broken line has been added to the curves for France and Finland in the graphs on page 289, indicating the average note without the new series; for Sweden the new issue is so small that its exclusion would make no practical difference.

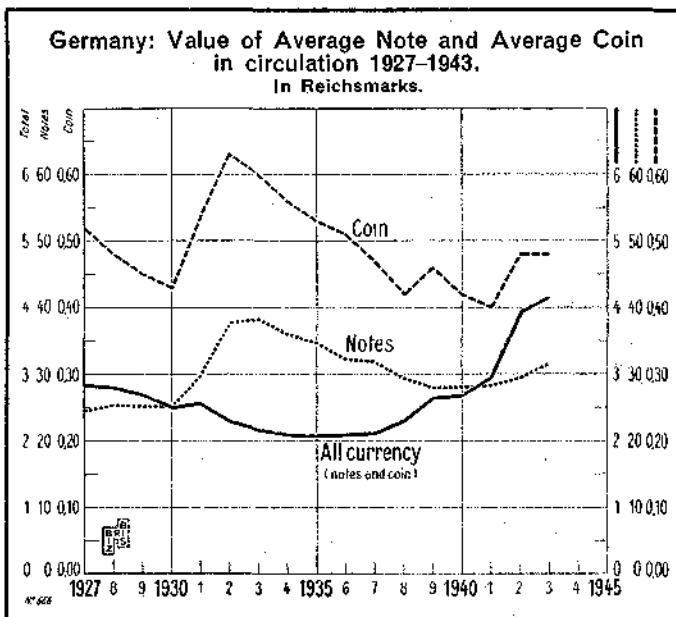
A further five European countries, Croatia, Bulgaria, Roumania, Hungary and Greece, have also issued new series of high denominations in the course of the war. Thus, the Croatian State Bank, whose highest note had been Kunas 1,000, began to issue notes of Kunas 5,000 in May 1944. In 1943, the National Bank of Bulgaria, in an attempt to bring the threatening monetary situation under control, had called in for withdrawal its two highest denominations of notes, Leva 1,000 and Leva 5,000, which formed two-thirds of the circulation at that time; to supplement the currency, however, special "Treasury certificates" were issued in denominations as low as Leva 1,000 but running up to Leva 100,000, such certificates, in fact, taking the place of bank-notes; by September 1944, Leva 15 milliard of these Treasury certificates were in circulation, in addition to Leva 41 milliard bank-notes. In 1936, the National Bank of Roumania began to issue a new series of notes of Lei 5,000 but these were withdrawn after three months since it was found that such large denominations facilitated evasion of the foreign exchange regulations

* From April 1943, the Bank of England ceased to issue any new notes of denominations of £10 and upwards, such denominations being gradually withdrawn as they returned to the banks. A withdrawal of notes in this manner would normally take some time (indeed, a number of notes of the £300 and £200 denominations, withdrawn in 1887 and 1928 respectively, were still outstanding in 1938), and in the meantime they retain their legal tender status. But, in January 1945, an Order in Council authorised the Bank to call in its notes of denominations of £5 and upwards; this step was a corollary to the measure taken in April 1943 and extends the Bank's authority over the whole of its issue (power to call in the smaller notes, of 10/- and £1, had already been given to the Bank by the Currency and Bank Notes Act of 1928 but has not been utilised).

through smuggling over the frontiers. The rise in prices in 1943 was, however, of such proportions that business men had to carry around suitcases of notes to conduct their affairs, which was not only personally inconvenient but, through the time expended in the tiresome counting of small bank-notes, a direct hindrance to business; so in February 1944 a new series of Lei 5,000 notes was brought out. But of much more importance was the issue of so-called "payment certificates" by the government in denominations of Lei 10,000 up to Lei 1,000,000, transferable without endorsement or other formalities. In Hungary, the denomination of Pengö 1,000 notes was withdrawn from circulation in 1934, for much the same reasons as in Roumania; but, towards the end of 1944, a new series of this value was again put into circulation. The most rapid and far-reaching inflation in recent years has taken place in Greece and has produced the usual symptoms, including the issue of very high denominations of notes. While in April 1941, when the country was occupied by German troops, the highest denomination was Dr. 5,000, notes of as high a value as Dr. 5 million were issued in July 1944. By the autumn of 1944, it was necessary for the larger firms in Greece to have tellers or "money counters" to supplement the normal work of the cashiers — in banks such tellers worked in shifts and all day on Sundays.

Statistics of the circulation of coin by denominations are rarely available, so that it is difficult to obtain a picture of the evolution of the "average coin" in circulation; but for Germany sufficiently reliable statistics are published to permit calculations for all forms of currency.

On this graph three scales are used for convenience of presentation, the curve for coin being on one hundred times, and that of all currency (notes and coin) on ten times, the scale for notes alone: thus, whereas the average note in 1943 was RM 31.6, the average coin was only 48 Pfennigs. The curve for the average note corresponds to that in the graph on page 289; and the average coin follows a very similar path — at about one-seventieth of the value of the average note.



Note: The curve for notes of RM 10 and upwards applies to all notes of these denominations of the German Reichsbank, the Rentenbank and, until 1935, the private banks. Up to the end of 1942 all denominations issued by the Reichsbank are included but, in 1943, the new series of RM 5 is excluded; the addition of the comparatively small issues of RM 10 and upwards by the private banks (until 1935) and by the Rentenbank (until 1941) makes practically no difference to the line. The curve for coin includes, besides all coin in circulation, the Rentenbank notes of RM 5 and, from 1939, of RM 1 and 2; for 1943, the Reichsbank issue of RM 5 is also included.

The combination of the two curves, however, gives an entirely new picture owing to the great weight of the number of coins in the calculations in comparison with the number of notes. This is particularly striking for the years 1930 to 1932, when the value both of the average note and of the average coin rose by over forty per cent., but the average unit of notes and coin together fell by ten per cent., as shown below.

Germany: average value of notes and coin in circulation.⁽¹⁾

End of year	Notes ⁽²⁾			Coin ⁽³⁾			All currency (notes and coin)		
	number in millions	value in RM millions	Average value in RM	number in millions	value in RM millions	Average value in RM	number in millions	value in RM millions	Average value in RM
1930	214	5,391	26.2	2,334	1,008	0.43	2,548	6,400	2.51
1932	110	4,149	37.8	2,367	1,502	0.63	2,477	5,650	2.28

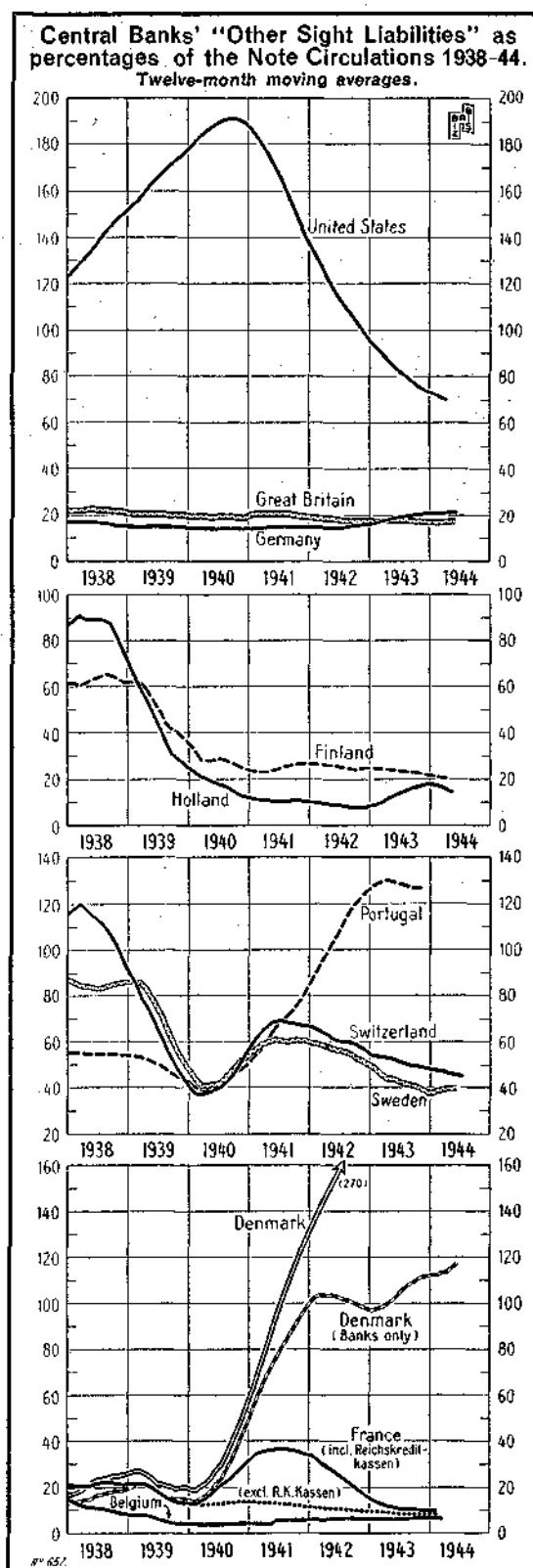
(1) From annual reports of the German Reichsbank.
(2) All notes of RM 10 and over.
(3) All coins plus small notes of RM 5 and under.

The new curve for the average unit of currency at first shows a remarkably regular development — a smooth decline from RM 2.82 in 1927 to RM 2.07 in 1935, followed by a similar rise to about the previous level in 1941; then comes a sharp increase up to RM 4.16 in 1943.

The concept of the average note, described in the preceding paragraphs, gives some insight into the changing composition of the note circulations throughout the world and confirms the impression of an almost universal shift in the centre of gravity towards the higher denominations. Black-market operations, wartime tax evasion and other illegal practices have been given as reasons for this movement but this cannot be the whole explanation, since such a trend was already very noticeable in some countries before the war. Hoarding has undoubtedly become a significant factor, partly because of the relative prosperity of farmers in wartime; but rising commodity prices provide the logical and, doubtless, the dominant reason for the upward trend: in those countries where inflation has gone furthest, e.g. in the Balkans, new series of very high denominations have made their appearance.

* * *

An extension of central-bank credit is reflected most characteristically by a corresponding expansion in the note issue but also, in varying degrees, by changes in the so-called "other sight liabilities" of the central bank, i.e. those demand deposits and similar accounts which may at any time be withdrawn from the central bank in the form of bank-notes. The private banking business of most central banks being very restricted, these deposits generally consist, in a preponderant part, of the "cash" reserves which commercial banks hold, either by law or in practice, against the deposits made with them



by the public; the current deposits usually maintained at the central bank by the government — whether deposits of the Treasury or of such institutions as the Post Office — are as a rule of much smaller importance. That these "other sight liabilities" are a potential although latent part of the circulating media was generally recognised in the more modern central-bank statutes, which required that reserves should be held against "total sight liabilities", i. e. the note issue plus "other sight liabilities".

In normal times movements of these "other sight liabilities" do not present very great interest; if the relation of note circulation to the total of deposits at the commercial banks remains unchanged and the banks hold a constant proportion of their deposits as reserve balances with the central bank, then "other sight liabilities" will run more or less parallel with the note circulation. If this parallelism is upset, it indicates some change in these relations. In recent years considerable changes have, indeed, taken place and, to illustrate this, the proportion which the "other sight liabilities" of a number of central banks bear to the note circulation has been calculated as a percentage each month over a series of years.

The curve for the United States reflects the growth of "excess reserves" in the hands of the member banks and, later, their utilisation. In England, the banking system has been kept on an even keel, the mildly falling trend from slightly above to slightly below 20 per cent. indicating a certain decline in the

relative importance of commercial-bank deposits, while the cash reserves of the banks were maintained at a fairly constant proportion. (In this case the so-called "other accounts", largely internal accounts of the Bank of England, have been omitted.) In Germany, too, the giro accounts at the Reichsbank declined gently to under 14 per cent. of the note circulation in the spring of 1942, from which point an increase, to above 20 per cent. in 1944, took place.

The rapid decline of the curves for Holland and Finland denotes the difficulties experienced in bringing about a return movement of notes to the banks, the consequent growth in the importance of the note circulation vis-a-vis bank deposits and the relative tightness of the banks as their cash reserves declined. The same is true, in a lesser degree, of France and Belgium, where, however, special influences were at work which somewhat obscured the situation: in France the temporary accumulation of funds on the account of the Reichskreditkassen raised the percentage in 1940-41, and in Belgium the growth of the special "current accounts" held at the Issue Bank in

Brussels, largely for German organisations, had a certain importance from 1941 onwards. Denmark presents an altogether exceptional picture, the accumulation of "other sight liabilities" and their growth relatively to the note circulation being due partly to the larger cash reserves of the banks and partly to increased deposits of the government (especially on the "sterilisation" account).

Danmarks Nationalbank.

End of year	Notes in circulation	"Other sight liabilities"		
		Banks etc. (1)	Govern- ment (2)	Total
in millions of Danish crowns				
1938 . . .	441	142	—	142
1939 . . .	600	133	—	133
1940 . . .	741	353	—	353
1941 . . .	842	882	148	1,030
1942 . . .	983	1,002	600	1,602
1943 . . .	1,359	2,010	994	3,004
1944 . . .	1,658	3,009	2,327	5,336

(1) Deposits at sight and current accounts, due chiefly to the commercial banks.

(2) Account of Ministry of Finance, including the special "sterilisation" accounts from July 1942. At the end of 1938 and 1939 there was an overdraft amounting to D.Kr. 60 and 148 million respectively.

The neutral countries, Switzerland, Portugal and Sweden, show certain distinct similarities as well as differences; the fall of the curves to 1940 reflects a growing pressure on commercial-bank reserves as notes were withdrawn and brought into circulation. The subsequent piling-up of these reserves, despite differences in degree and quality, in all cases indicates a considerable liquidity in the banking system, largely connected with an intake of money from abroad. The decline from 1941, in Sweden and Switzerland, reflects the acquisitions of short-term government securities by the banks. The composition of the "other sight liabilities" of the National Bank of Switzerland is not shown monthly, but it is known that the government's account has remained small, the movement being almost wholly to the deposits of the banks.

In Portugal, the government has issued loans and placed the proceeds to its account at the central bank, thus mopping up some of the surplus

Bank of Portugal.

End of month	Notes in circulation	"Other sight liabilities"			Total (2)
		Banks	Govern- ment (1)		
In millions of escudos					
1938 December . .	2,279	645	354		1,071
1939 " . .	2,550	603	161		871
1940 " . .	2,903	851	247		1,318
1941 " . .	4,488	2,433	325		3,101
1942 " . .	5,481	4,189	1,933		6,538
1943 " . .	6,910	5,258	2,281		7,885
1944 June	6,946	6,701	2,501		9,577

(1) Account of the Public Treasury.

(2) Including a relatively small amount of other deposits and sight liabilities of the bank.

Sveriges Riksbank.

Averages of end-of-month figures	Notes in circulation	"Other sight liabilities"			Funds lent to National Debt Office (3)
		Govern- ment (1)	Banks	Total (2)	
In millions of Swedish crowns					
1938 Jan.-Dec.	977	321	491	817	—
1939 " " "	1,121	371	398	773	—
1940 " " "	1,433	475	137	619	259
1941 " " "	1,485	354	534	895	300
1942 " " "	1,735	512	443	966	445
1943 " " "	2,018	555	260	836	603
1944 " " "	2,239	568	274	892	693

(1) The Treasury and state institutions.

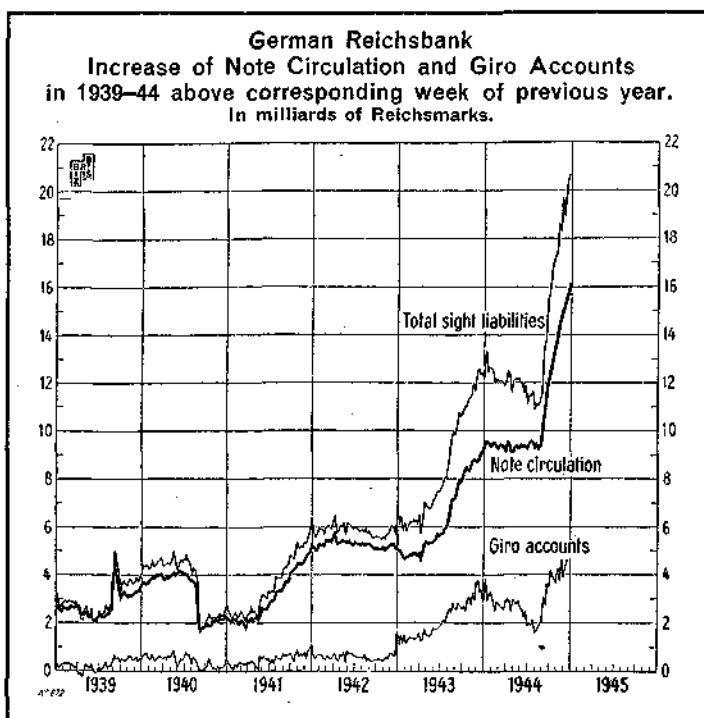
(2) Including a small amount of other deposits.

(3) Funds placed at the disposal of the National Debt Office to offset accumulation of funds on government account.

funds from the market, in a way somewhat similar to the "sterilisation" measures in Denmark. Receipts by various state institutions in Sweden, among them the Social Insurance Boards, led to steadily increasing balances on government account at the Riksbank; but the tightening effect which this would otherwise have had on the market was offset by the Riksbank, which placed approximately corresponding amounts at the disposal of the National Debt Office. Yearly average figures are given in the accompanying table, since the cash reserves of the commercial banks were exceptionally low at certain periods owing to issues of Treasury bills.

A movement of some interest, as shown in the graphs on page 294, is the growth of the relative importance of giro deposits at the German Reichsbank, especially if account be taken of the acceleration in the increase of the note circulation itself from the spring of 1943 onwards.

Throughout 1942 and early in 1943 the note circulation of the Reichsbank was increasing at a rate which kept the current figure some RM 5 milliard above the level of the corresponding week in the previous year, but from May 1943 the increase accelerated until by the end of the year the annual increment somewhat exceeded RM 9 milliard. The "other sight liabilities" of the Reichsbank, which consist mostly of giro accounts, rose with even greater speed, being equal in December 1943 to nearly one-quarter of the notes in circulation. The intensification of the war in the air was a contributory cause of both the increased note issue and the higher giro accounts: just as the public held large sums in cash for emergencies so also the banks were forced to hold higher cash reserves against a possible withdrawal of deposits; and it is also probable that official bodies concerned with relief and evacuation maintained larger cash balances at the Reichsbank.



German Reichsbank.

End of month	Sight Liabilities		
	Note circulation	Giro accounts	Total
in millions of RM			
Totals outstanding			
1940 December . . .	14,033	2,561	16,594
1941 " . . .	19,325	3,649	22,974
1942 " . . .	24,375	5,292	29,667
1943 " . . .	33,683	8,186	41,869
1944 March . . .	33,792	7,237	41,028
June . . .	35,920	6,754	42,674
September . . .	42,301	9,088	51,390
December . . .	50,102	13,535	63,687
1945 February 15th	53,649	13,956	67,605
Increase over figures of previous year			
1941 December . . .	+ 5,292	+ 1,088	+ 6,380
1942 " . . .	+ 5,050	+ 1,643	+ 6,693
1943 " . . .	+ 9,308	+ 2,894	+ 12,202
1944 March . . .	+ 9,095	+ 2,897	+ 11,992
June . . .	+ 9,270	+ 1,873	+ 11,143
September . . .	+ 12,202	+ 3,487	+ 15,689
December . . .	+ 16,419	+ 5,349	+ 21,768
1945 February 15th	+ 20,908	+ 7,609	+ 28,517

of 1944 and reinforced the internal reasons for the expansion, amongst which should be mentioned the new simplification order for the quarterly payment of salaries and wages (paid in advance by some concerns).

In 1944, there was a striking acceleration of the annual rate of increase in the note issue, from RM 9 milliard in August to over RM 16 milliard by the end of the year (when the total circulation reached RM 50 milliard). Indeed, from the summer of 1944, a number of new causes came into play in addition to those already mentioned. A large proportion of the German army in the west, which since 1940 had been paid in French francs, Belgian francs and Dutch florins, was withdrawn into Germany and the expenses of upkeep had to be paid out in Reichsmarks. Further, there was a reflux of civilians, firms and administrative officials both from the west and from the east, and arrangements were made for Reichsbank notes to be given in partial exchange for the currencies they brought with them: French francs, Belgian francs, Polish zloty and Reichskreditkassenscheine (from the Ostland). In addition, many foreign workers in Germany were no longer able to remit their savings to their home countries. All these influences exerted their pressure on the circulation of the Reichsbank from about the same time in the summer

Bank Deposits as a percentage of the Note Circulations.

Deposits	Year	United States	United Kingdom	Germany	France	Belgium	Holland	Hungary	Denmark	Finland	Sweden	Switzerland
1. Big banks only	1929	457	439	224	48	—	82	220	258	337	366	512
	1930	458	460	213	45	—	88	238	283	381	371	506
	1931	392	430	145	45	—	60	224	261	422	375	291
	1932	323	478	184	44	—	62	264	268	556	373	270
	1933	277	456	161	40	—	59	258	257	552	360	256
	1934	326	449	146	37	—	58	262	261	525	321	233
	1935	320	455	131	34	—	56	252	273	505	294	197
	1936	315	431	118	32	44	70	247	276	458	282	213
	1937	300	402	115	32	43	75	246	265	414	265	214
	1938	308	386	89	30	35	67	128	260	442	262	178
	1939	316	384	69	28	23	50	122	210	229	204	147
	1940	318	391	77	28	25	49	103	178	214	194	136
	1941	260	379	71	28	22	45	82	198	180	192	135
	1942	217	336	66	24	20	32	67	180	162	171	127
	1943	196	319	57	22	22	36	57	146	172	174	118
2. All Com- mercial banks	1929	1,013	606	372	89	211	208	382	534	550	612	1,164
	1930	946	626	360	80	219	409	578	602	611	1,386	—
	1931	666	587	254	74	136	132	380	558	571	610	884
	1932	587	650	320	71	112	121	422	559	659	595	862
	1933	522	622	295	65	119	118	408	529	633	560	873
	1934	631	609	291	60	125	377	533	598	502	878	—
	1935	663	617	266	68	92	123	360	545	577	462	845
	1936	666	580	242	62	91	157	390	544	527	429	813
	1937	644	542	235	64	91	166	353	529	489	408	809
	1938	637	525	173	61	74	144	179	523	516	402	889
	1939	628	513	149	56	45	78	176	409	267	309	564
	1940	623	520	173	58	46	65	140	353	243	292	508
	1941	540	505	172	59	43	61	119	370	203	287	506
	1942	505	448	171	52	40	44	98	361	186	256	463
	1943	464	422	174	49	47	50	84	309	200	254	419
3. Postal giro accounts	1929	—	—	13	6	15	13	33	5	—	7	22
	1930	—	—	12	7	13	14	29	8	—	9	22
	1931	—	—	11	6	13	15	35	8	—	10	19
	1932	—	—	12	5	14	17	43	8	—	13	20
	1933	—	—	14	5	15	20	33	26	—	10	22
	1934	—	—	15	5	17	22	33	19	—	13	24
	1935	—	—	15	5	14	23	32	21	—	13	25
	1936	—	—	14	5	16	25	38	19	—	14	26
	1937	—	—	14	6	18	27	39	18	—	14	30
	1938	—	—	12	6	18	28	25	17	—	16	28
	1939	—	—	12	7	16	28	22	12	—	15	26
	1940	—	—	12	7	15	30	33	14	10	21	28
	1941	—	—	11	7	16	27	35	22	13	20	30
	1942	—	—	11	7	11	21	28	22	17	21	30
	1943	—	—	9	7	11	27	27	20	19	22	28
4. Savings bank deposits	1929	198	111	204	46	40	86	30	555	306	557	110
	1930	212	115	240	49	49	96	34	591	346	556	111
	1931	200	119	226	60	51	87	26	624	347	589	78
	1932	203	125	334	68	55	97	29	637	417	601	81
	1933	198	130	345	72	60	106	33	569	400	563	89
	1934	199	136	346	73	60	112	36	560	401	535	94
	1935	190	143	342	76	54	127	37	559	404	490	100
	1936	174	138	318	67	54	131	37	542	385	439	91
	1937	176	137	313	66	62	128	39	519	360	416	91
	1938	169	148	244	58	61	122	24	502	397	406	82
	1939	157	146	203	45	45	103	26	363	202	303	69
	1940	137	151	224	32	35	61	25	286	157	286	60
	1941	106	153	222	28	26	43	21	277	122	268	60
	1942	78	150	236	24	21	33	18	263	108	244	55
	1943	66	155	228	24	21	39	18	219	124	247	49
5. All deposits	1929	1,211	716	589	140	265	308	444	1,094	855	1,176	1,296
	1930	1,158	740	611	136	—	329	472	1,176	948	1,176	1,519
	1931	866	706	491	140	200	234	441	1,189	918	1,208	981
	1932	790	775	666	144	181	235	494	1,204	1,076	1,208	963
	1933	720	752	654	142	194	244	474	1,124	1,034	1,133	984
	1934	831	745	652	138	—	259	445	1,113	999	1,049	996
	1935	853	759	623	149	160	272	429	1,125	981	965	970
	1936	840	718	575	134	161	313	425	1,105	912	881	930
	1937	820	679	562	136	170	320	431	1,066	849	839	929
	1938	807	673	430	125	153	294	227	1,042	913	823	799
	1939	785	660	365	108	106	209	223	784	469	627	658
	1940	760	671	409	97	96	156	197	653	411	599	596
	1941	646	658	405	95	85	131	175	669	338	575	596
	1942	583	599	418	83	73	98	144	647	311	521	548
	1943	630	577	411	80	79	115	129	547	344	523	495

An interesting comparison may be made between the evolution of note circulations and of the deposits held by the public with the banking system. In the twelfth Annual Report of this Bank (page 213) attention was drawn to the almost universal decline of deposits with the big commercial banks relatively to the note circulations in recent years.

As regards Continental Europe the inclusion of deposits with the postal giro system gives a more complete picture, while recent increases in savings-bank deposits (which in some countries have expanded as a result of the loosening of restrictions on the amount of individual deposits, etc.) make it desirable to take account of this element also. A comprehensive table for eleven countries is given on the opposite page, deposits of all kinds being shown as a percentage of the note circulations.

The general trend of bank deposits has, of course, been upwards, but the increase has been less marked than that of the note issues, with the result that notes in circulation have everywhere gained in importance in relation to the volume of deposits. The relative decline at the big commercial banks has been least pronounced in the United Kingdom, where, from 1929 to 1943, deposits at the "big five" receded by about one-quarter in relation to the note circulation; in the United States, France, Holland, Denmark, Finland and Sweden, the corresponding recession was by about one-half; and in Germany, Hungary and Switzerland it was by three-quarters.

In some cases, deposits at the smaller commercial banks were relatively more stable, the big banks in certain countries, e. g. Germany and Switzerland in 1930-31, being particularly affected by outward movements of funds. In other countries, especially in Holland, the smaller banks showed a more rapid contraction. Thus, the relative decline in all commercial-bank deposits (including those of the big banks) was more or less severe than for the big banks alone, according to the particular circumstances of each country.

Postal giro accounts (the importance of which was discussed in the thirteenth Annual Report, pages 318-320) show a striking deviation from the general trend; they have either declined relatively much less than deposits at the commercial banks, as in Germany, Belgium and Hungary, or have even grown in importance, as in France, Holland, Denmark, Sweden and Switzerland. This latter increase in the postal giro as compared with the note issues implies, of course, a still greater growth in relation to commercial-bank deposits.

Just as savings deposits are sometimes held at commercial banks, so some commercial deposits may be made at savings banks, e. g. the giro accounts kept at such banks in Germany; and for various other reasons it is appropriate to include savings deposits in a review of this character. Here again a tendency to decline relatively to the note circulation is evident, especially in recent years, there being two important exceptions: Germany (since 1939) and the United Kingdom (with a scarcely interrupted rise since 1929). In France, Belgium and Holland* savings deposits appear small (although they are as great as deposits at the big banks); and in the United States, savings

* The figure for Holland would be higher if statistics of the Boerenleenbanken were available.

deposits as such are of less relative importance; for Switzerland the low figures shown in the table are partly due to the fact that the cantonal banks have been classified with the commercial banks. In Finland, savings-bank deposits were somewhat higher than the note circulation at the end of 1943 and in the United Kingdom they were one and a half times as high, notwithstanding the popularity of the savings issues of the British Government,* the total of which is about double the total savings deposits. In Denmark, Sweden and Germany, savings deposits were more than twice as high as the note circulation; in Germany, deposits at savings banks are, indeed, four times as high as deposits at the five Grossbanken.

Taking all deposits together, the long-term tendency to decline in relation to the note circulations is manifest. The highest ratios are found in 1929 or in the early 'thirties; the lowest are in every case in the most recent years, a reflection of the more rapid rise in note circulations from the beginning of the war. The relative decline in total deposits from their highest level is more particularly brought out in the accompanying table.

Total deposits
as multiples of the
note circulations.

Country	Highest 1929-32	1943
Switzerland . . .	15	5
Sweden	12	5
Denmark	12	5
United States . .	12	5
Finland	11	3
United Kingdom	8	6
Germany	7	4
Hungary	5	1
Holland	3	1
Belgium	3	2
France	1½	2

Everywhere the reduction in the proportional figures has been severe, with falls, in general, of one-half or more. For 1943 the highest proportion of total deposits to note circulation is found, rather surprisingly, in the United Kingdom, a fact connected with the comparatively moderate expansion of the note circulation in that country. Foreign funds have no longer much influence on the figures in the table, except perhaps for Switzerland (which, for years, has been to some extent "the savings bank of the Balkans"). Foreign deposits held in London at commercial banks are, of course, included, but these would seem to be comparatively unimportant, since the great bulk of the funds

belonging to overseas countries are invested in government securities. On the other hand, the clearing balances with the Deutsche Verrechnungskasse, which constitute a special type of foreign deposit in Berlin, are not included, since no figures are currently published; at the end of 1943 some RM 26 milliard was held in this way, a sum greater than the total deposits of the Berlin Grossbanken.

* * *

The expansion in note circulations, world-wide in character since the outbreak of the war, has in the most favourable cases (e.g. Switzerland and the Argentine) led to a doubling of the issues; in central and western Europe (e.g. Germany and France) the expansion has been by five times; and, in south and south-eastern Europe, by ten times or more (Italy, Yugoslavia, Bulgaria, etc.). And this expansion has been accompanied by a number of

* Non-marketable National Savings certificates, Defence bonds and Savings bonds, see table, page 182.

striking phenomena of a universal character: note circulations have gained in importance compared with bank deposits; the composition of the note issues has changed with the rise in the proportion of higher denominations; and note circulations have expanded relatively to national incomes.

In all European and most overseas countries the volume of consumption goods currently offered for sale has fallen, in some cases considerably, so that the note circulations have increased, in relation to what can be bought by the consumer to an even greater degree than is shown by the indexes of monetary expansion. As a consequence of the surplus buying power, black markets have arisen side by side with the rationed and price-controlled supplies; these black markets are as a rule illegal and in most countries continued efforts have been made to suppress them. On the other hand, as a direct consequence of scarcity, barter trade in used second-hand goods has grown up in many European countries; even if at first declared illegal (since they were thought to offend against the price-control regulations), barter trade transactions have generally proved to be inevitable, especially in such exchangeable articles as children's shoes, and have, indeed, been officially organised and controlled. In addition to such countries as Greece and Croatia, where inflation took a firm hold, barter has become of great importance in Germany. A barter market in second-hand goods was organised in Bremen by the town authorities as early as July 1943; in a few months there was a turnover of 250-300 deals a day, and barter centres have also been opened in many other towns. A German periodical* says on this subject:

“... In barter proceedings the original value relations of the goods are as a rule maintained, particularly since the goods exchanged are, for the most part, of an equal degree of scarcity and of the same order of urgency in the scale of consumption requirements; moreover, in barter transactions the accounting in terms of money is generally done separately and at legal prices. The existence of a certain barter market may, perhaps, even have the advantage of making the supply of goods for the black market still less considerable. Above all, the barter market, by the very fact that it does not distort price relations, places no strain of any kind upon the future of the national economy; it will disappear even more quickly than the black market, ...”

A further step towards the wider distribution of the limited volume of consumption goods was made near the end of 1944, when a number of retailers in Germany, especially of such durable articles as electrical household appliances, adopted, with official approval, the practice of hiring out their wares instead of selling them. This applied to new as well as second-hand goods and was due, not only to shortages, but also to difficulties experienced in connection with repairs.

Another development away from a money economy has been the growth, in most south-eastern European countries, of payments in kind. To induce the agricultural population to part with the foodstuffs they produce, premiums have been officially paid, *inter alia*, in Bulgaria, Croatia and Serbia, in the form

* “Bankwirtschaft”, 1st December 1943 (and see also number of 1st February 1944).

of consumption goods of an industrial nature; in some cases industrial firms have been allowed to exchange their manufactures directly with the peasants for foodstuffs, which were reserved for their personnel. Numerous other examples of payments in kind are offered by south-eastern Europe, including wages (in Greece) and taxes (in Croatia).

A further step in the same direction has been taken in those countries where "Sachwerke" loans have been issued; such loans are an attempt to guarantee for the subscriber the value of the currency he subscribes by adding a "goods clause" to the contract. The most notable of such operations in recent times has been a "wheat loan" of the Hungarian Government, issued in two tranches, in December 1943 and February 1944, for a total of 10 million quintals of wheat, the equivalent of Pengö 400 million, in 3 per cent. 25-year bonds. The loan was actually denominated in quintals of wheat, but subscriptions were received in cash at the rate of Pengö 40 per quintal, the current official price at the time.* Interest was payable and the capital redeemable in terms of wheat, with a guaranteed minimum price of Pengö 40, so that, if the price of wheat rose, the valuation of interest and capital of the loan increased proportionately; it was hoped in this way to induce the public, especially the agricultural sector, to subscribe to a government loan at long term. A few other loans of a similar nature have been made, notably an issue by the Milan municipality for Lit. 1,000 million in March 1944, of which one-half of the interest was made payable in electric current, at a fixed price.

In connection with these developments, it should be remembered, when the wheat loans of ancient Egypt and Babylon are referred to, that wheat was the principal product of the Nile Valley and Mesopotamia and "the wheat unit" was the monetary standard of those times. A real "Sachwerke" loan introduces some standard other than the national currency as a unit of account; there were many examples in the inflation period after the last war, the best-known being the German "rye loans" in 1922, followed by loans denominated in coal, potash, units of electricity and a number of other commodities.

None of these modern devices has been able to claim any degree of success; in fact, they have tended to discredit the national currency, confidence in which must be the foundation-stone of all successful government financing. Investors must feel sure that "money will keep its value". Speaking on 7th December 1944 at the National Savings Assembly in London on the necessity to continue savings in the post-war period of reconstruction, the British Chancellor of the Exchequer dealt with this matter in the following words:

"As Chancellor I have said that loans to the state will be honoured without exception or qualification, and the Prime Minister has said that it is the duty of the state to redeem its faith in an equal degree of value."

Confidence in the national currency and the orderly conduct of government finances are, indeed, interdependent; the one cannot long exist without the other.

* The official price of wheat, which had been Pengö 20 per quintal in 1938-39 and 1939-40, was raised to Pengö 30 in 1941-42 and 1942-43, and to Pengö 40 for 1943-44; and it was retained at this level for 1944-45.

VII. CURRENT ACTIVITIES OF THE BANK.

1. OPERATIONS OF THE BANKING DEPARTMENT.

The balance sheet of the Bank as on 31st March 1944, examined and found correct by the auditors, is reproduced in Annex I to the present Report. It shows a total of 467.3 million Swiss gold francs (of 0.2903 . . . grammes of fine gold) against 483.4 million on 31st March 1943 and 476.6 million on 31st March 1942. As in earlier years, the method of conversion of the currencies represented in the balance sheet is based on the U. S. Treasury's official selling price for gold and on the exchange rates quoted for the various currencies against dollars on the date of the closing of the Bank's accounts. Such slight variations as have occurred in the resulting figures between 31st March 1943 and 31st March 1944 have affected currencies whose influence on the keeping of the Bank's accounts is practically negligible.

In its operations the Bank has continued to apply the principles of strict neutrality adopted at the beginning of the war. As was to be expected, the volume of business shows a further decline, the Bank's turnover having fallen by not quite one-third during the financial year under review. In contrast to the preceding year, gold transactions, however, reached a slightly higher figure as a result of certain exceptional circumstances explained below.

The Bank has continued to follow economic and monetary developments in the various countries with the closest possible attention and has again added to its practical experience of the machinery of wartime finance. Besides its Annual Report, the Bank has published, as in the past, the text of laws and decrees regarding exchange restrictions and has produced compilations of financial documents, which are always in great demand.

There has been a further appreciable increase in the already considerable liquidity shown by the balance sheet. At the end of the financial year the Bank's assets in gold for its own account attained their absolute maximum and represented nearly 20 per cent. of the balance-sheet total.

During the first eleven months of the financial year under review, fluctuations in the total of the Bank's monthly statement of account remained within fairly narrow limits. From 483.4 million Swiss gold francs on 31st March 1943, the total rose to 486.5 million on 30th June; from then until 29th February 1944 (485.2 million) it barely departed from that level — the lowest point reached being 483.8 million, on 31st July; but at the end of the financial year it had fallen to 467.3 million, owing to a decline in deposits expressed in a weight of gold.

Beginning the financial year at 49.3 million Swiss gold francs, earmarked gold, not entered in the balance sheet, remained almost constantly above that level. At the end of January 1944 it amounted to 54.5 million and finished the year at that figure.

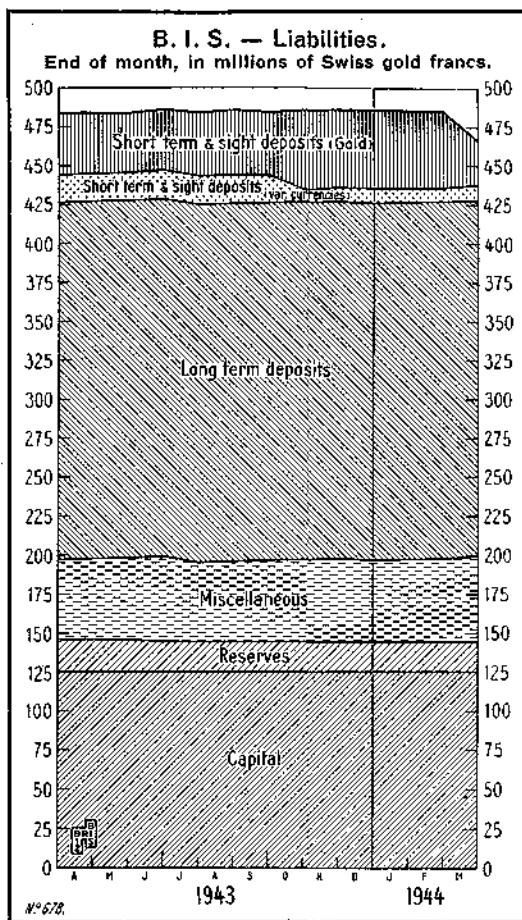
A comparison of the principal items in the Bank's balance sheet on 31st March 1943 and on 31st March 1944 calls for the following observations:

A. Liabilities:

Apart from the reduction of the reserves from 21 million Swiss gold francs to 19.6 million and fluctuations in the item "Miscellaneous" in consequence of the appropriation for the payment of the dividend for the financial year 1942-43, the only changes recorded during the year affected the volume of short-term and sight deposits.

Deposits of central banks for their own account began the financial year at 15.2 million Swiss gold francs, of which rather less than 4 million represented deposits for a term not exceeding three months. After slight fluctuations, the total of deposits of this category reached its maximum, 16.8 million, on 30th June, fell to 5.9 million on 31st October with the disappearance of the time deposits, and stood at rather more than 7 million on 31st March 1944.

Deposits of central banks for account of third parties, amounting to 1.3 million Swiss gold francs on 31st March 1943, remained more or less stationary at that level throughout the financial year.



Deposits of other depositors, almost exclusively sight funds, likewise began the financial year at about 1.3 million Swiss gold francs. After declining to just over 1 million on 30th June, they increased to 1.8 million on 30th November and stood at 1.6 million on 31st March 1944.

The fluctuations in gold deposit accounts were more marked. On 31st March 1943 these deposits totalled 39.7 million Swiss gold francs, including 0.9 million for a term not exceeding three months. On 31st May the total had fallen a little below 39 million; on 31st October the maximum for the year was reached with 50.6 million; that level was more or less maintained until 31st January 1944, after which the total fell to 48.8 million on 29th February and to 29.6 million, the minimum for the year, on 31st March, when 0.3 million represented deposits for a term not exceeding three months.

Although there was only a slight reduction in the number of transfers in settlement of international postal payments, the sum total of those transfers, which pass through the gold deposit accounts, was appreciably lower than in 1942-43, the reason being that in that year certain operations had been for relatively large amounts. The increasing difficulties experienced in arranging gold operations naturally constitute a hindrance to the use of the gold deposit accounts for the purposes which they have served in the past (transfer of cash margins, settlement of fractional balances, etc.). Thanks to the advantages which these accounts offer, however, they have continued to find favour with the Bank's correspondents, being used whenever occasion has risen. On 31st March 1944 accounts of this kind in the Bank's books numbered 27, against 26 on 31st March 1943.

The graph on the opposite page shows the movement of the principal items on the liabilities side, month by month, during the financial year under review.

B. Assets.

On the assets side, the Bank's metallic reserve has increased by the equivalent of more than 43 million Swiss gold francs, while the total of easily realisable assets in various currencies has fallen by more than 61 million, and funds at longer term have remained at practically the same level as before.

The following table, showing figures on certain representative dates, traces the movement of gold in bars and of the Bank's own stock of gold during the financial year:

Movement in gold holdings.

End of month	Gold in bars	Weight-of-gold deposits	Bank's own stock of gold
			In millions of Swiss gold francs
1943 March . .	75.1 (min.)	39.7	35.4
May . . .	75.8	39.0	36.8
October . .	81.5	50.6 (max.)	30.9 (min.)
December . .	137.1	50.6	86.5
1944 January . .	137.9 (max.)	50.5	87.4
February . .	136.8	48.8	88.0
March . .	118.3	29.6 (min.)	88.7 (max.)

Thus, during the first few months of the financial year, the total of gold in bars remained more or less at the original level of just over 75 million Swiss gold francs, while commitments expressed in a weight of gold showed rather a tendency to decline. On 31st October, however, the increase in gold assets having failed to keep pace

with the growth of commitments, the Bank's own stock of gold registered the minimum figure for the year, namely 30.9 million Swiss gold francs.

The large increase in gold shown in December 1943 was due to the fact that the Bank exercised its right to rediscount its investments on the Italian market and to convert the proceeds into gold which, by virtue of an agreement mentioned below, had been reserved for that purpose by the Banca d'Italia. This gold was subsequently transferred to Switzerland under the provisions of Article X of the Hague Agreement.

The Italian investments thus realised had been made during the early years of the Bank's existence, at a time when the probable duration of the operation could not be foreseen. With a view to ensuring and facilitating the ultimate liquidation, it was agreed that the entire sum involved could, on demand by the Bank for International Settlements, be realised in gold as indicated above. The fulfilment of this engagement under circumstances of exceptional difficulty has impressively confirmed the soundness of the Bank's policy in connection with this transaction.

The difficulties inevitably attending this whole operation in the abnormal circumstance which prevailed were successfully overcome thanks to the efforts made by the debtor and by such other competent authorities as were concerned with the transfer of the gold.

The satisfactory carrying-out of an agreement of this kind, despite all the wartime difficulties, bears striking witness to the fact that the Bank for International Settlements, through its policy of strict neutrality, has been able effectually to protect its own interests on various markets, and it also stands as a confirmation of the international privileges covering the assets of the Bank.

Finally, there is no need to underline the importance of this operation with regard to the financial position of the Bank itself.

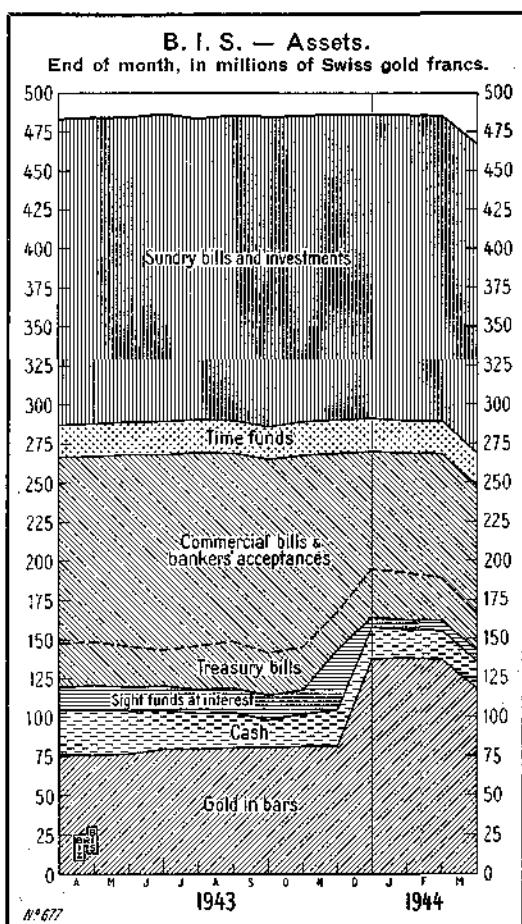
Withdrawals from gold sight deposit accounts in March 1944 led to a roughly corresponding decline in the Bank's assets in bar gold; the Bank's own stock of gold, however, registered a further slight rise and attained its maximum, 88.7 million Swiss gold francs, at the end of the financial year.

The cash held in different currencies stood at 28.7 million Swiss gold francs on 31st March 1943. On 30th April the maximum for the year was reached, namely 29.6 million. After fluctuating within fairly narrow limits in April and May, the total declined progressively to 18 million on 30th September, rose again to 22.7 million on 30th November and from then onwards fell continuously to 17.8 million, the minimum for the year, on 31st March 1944.

At the end of the financial year the aggregate amount of the Bank's gold and cash holdings was 136.1 million Swiss gold francs, against 103.8 million a year earlier and 75 million on 31st March 1942.

The total of sight funds invested at interest remained at approximately the same level from 31st March 1943 to 31st October, the figure on both dates being 15.4 million Swiss gold francs. A temporary adjustment of the Bank's cash margin brought the total of sight investments to 38.9 million on 30th November. By 31st December it had fallen again to 7 million, and remained at that figure till the end of the financial year.

On 31st March 1943 the rediscountable portfolio totalled 147.2 million Swiss gold francs, comprising 119.3 million in bills and acceptances and



27.9 million in Treasury bills. The total rose gradually to 151.8 million on 31st July, the proportion between bills of exchange and Treasury bills remaining more or less stable. After standing at much the same level for three months, the portfolio declined to 126.2 million on 30th November and 106.3 million on 31st December. On 31st March it totalled 105.3 million, of which 81.3 million represented bills and acceptances and 24 million Treasury bills. Thus the holding of bills of exchange showed the greater decline during the year, namely 38 million, against a reduction of only 3.9 million in Treasury bills. In this connection reference may be made to the substantial increase in the Bank's holdings of metallic gold, mentioned above, that movement being the counterpart of the change which has occurred in the portfolio.

Throughout the financial year, time funds invested at interest stood at practically the same level, just over 21 million Swiss gold francs.

Sundry bills and investments showed no great fluctuations during the year. The final figure, 197.5 million Swiss gold francs, was only once exceeded and then by very little (197.7 million, on 30th September); the minimum for the year was 192.7 million, recorded on 31st July 1943.

The practical aspect of the Bank's liquidity position is shown in the following table:

Liquidity position.

Balance sheet of: —	31st March	31st March
	1943	1944
in percentages		
Gold in bars	15.6	25.3
Cash, sight funds and rediscountable portfolio	39.6	27.9
Time funds, sundry bills and investments, other assets	44.8	46.8
Total	100.0	100.0

It may be of interest to note in this connection that on 31st March 1944 the Bank's holdings, in Switzerland, of assets belonging to it in Swiss francs and gold represented more than 20 per cent. of the paid-up capital.

During the financial year under review, in spite of difficulties arising at times from the abundance of liquid funds on certain markets, the investment of the Bank's resources

presented no insuperable problem, thanks to the assistance of the central banks. As mentioned in another section of the present Report, new regulations have been introduced in the United States for the control of investment of foreign funds. In accordance with indications supplied by the American monetary authorities, the Bank has fulfilled the requisite formalities and followed the certification procedure necessary to enable it to carry on its customary operations on the American market under the new General Ruling No. 17.

The redemptions carried out during the financial year by the National Bank of Hungary, under the arrangement concluded in 1940, led to a further reduction by about 30 per cent, in the balance of its debt to the Bank for International Settlements still outstanding on 31st March 1943. Additional capital repayments, of less importance, have taken place on other markets.

Successful negotiations led to the transfer of outstanding interest, mentioned in the preceding Annual Report as an exception to the current settlement of interest payments. Interest earned on other investment markets has been regularly received, as before.

At the beginning of the present chapter it was mentioned that the volume of gold operations had slightly increased during the year under review. It should be noted, however, that the figure includes the conversion operation referred to above. Apart from that item, gold transactions in the strict sense of the term have actually fallen off.

As already mentioned in earlier Reports, wartime conditions have had an increasingly restrictive influence on the Bank's action to assist in the financing of international trade; the extent to which the Bank has been concerned with such transactions in the year under review has been very small. Isolated demands for accommodation seem, however, to point to a sustained interest in the procedure which has been devised for reciprocal trade financing, and this procedure may, indeed, prove its use once again when more normal circumstances return.

Along the lines indicated in previous Reports, the Bank has continued to render assistance to International Red Cross organisations and to other institutions of a recognised international character.

2. TRUSTEE AND AGENCY FUNCTIONS OF THE BANK.

During the year under review, there has been no change or development in the Trustee and Agency functions of the Bank.

3. 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 5,253,903.12 Swiss gold francs, the Swiss gold franc being as defined by Article 5 of the Bank's Statutes, i. e. the equivalent of 0.290 322 58 ... grammes fine gold. This compares with a figure of 4,508,953.89 Swiss gold francs for the thirteenth fiscal year. For the purpose of the Balance Sheet as at 31st March 1944, 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. 262,695.16 Swiss gold francs (1943: 225,447.69 Swiss gold francs), there remain 4,991,207.96 Swiss gold francs available towards the payment of a dividend. This sum, together with the balance of 446.53 Swiss gold francs brought forward from the thirteenth fiscal year, i. e. a total of 4,991,654.49 Swiss gold francs, would enable the Bank to declare a dividend of 24.95 Swiss gold francs a share (1943: 29.55 Swiss gold francs). The amount required for this dividend would be 4,990,000 Swiss gold francs, leaving 1,654.49 Swiss gold francs to be carried forward to the fifteenth fiscal year, and it is recommended that the General Meeting should take the necessary resolutions to this effect. If these proposals be adopted, the Legal and General Reserves at the end of the fourteenth fiscal year would amount to a total of 19,870,280.43 Swiss gold francs.

It will be observed that, as was the case for the thirteenth fiscal year, the amount available towards the payment of a dividend from the net profits of the fiscal year to 31st March 1944 is not sufficient to pay the dividend of 6 per cent. to which reference is made in Article 53 (b) of the Statutes. This dividend would have amounted to 37.50 Swiss gold francs a share for each of the years in question, so that the total amount by which the dividend declared at the last General Meeting and the dividend now proposed together fall short of the 6 per cent. cumulative dividend is 20.50 Swiss gold francs a share.

The accounts of the Bank and its fourteenth 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 notes 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.

During the past year various changes have taken place in the composition of the Board. On 1st October 1943, Mr H. Kano, upon his return to Japan, retired from the Board after having served as a Director since June 1934 and as a Vice-Chairman for a number of years. In his stead, the Governor of the Bank of Japan appointed Mr K. Kitamura under Article 28 (2) of the Statutes to be a member of the Board.

In February last the Board sustained a grievous loss by the death of M. Alexandre Galopin, who for many years had been a Director and had also served as a Vice-Chairman of the Board.

The retirement of Mr Montagu C. Norman on 18th April 1944 as Governor of the Bank of England brought to a close his long association with our Institution. As one of the founders of the Bank Mr Norman attended the meetings held in Rome in February 1930 and served as an ex-officio member of the Board from the time of the inception of the Bank in May 1930. Lord Catto was elected to succeed Mr Norman as Governor of the Bank of England and thus became an ex-officio Director of the Bank for International Settlements. Lord Catto reappointed Mr Cameron F. Cobbold to act as his Alternate.

The following changes among the ex-officio Directors have also taken place: in October M. Emmanuel Monick was nominated Governor of the Bank of France and in the following month M. Maurice Frère was appointed Governor of the National Bank of Belgium. M. Frère nominated M. Hubert Ansiaux as his Alternate. A second Belgian Director has not yet been appointed.

A list, in the usual form, of the members of the Board of Directors, in office in December 1944, appears at the end of the present report.

In May information was received, with much regret, of the death of Prof. A. Beneduce, a former Director and Vice-Chairman, who, at Baden-Baden in 1929, had participated in the preparatory work of organising the Bank and who had served on the Board as one of its original members until May 1939.

* * *

In March 1944, the Bank suffered a great loss by the death of its Legal Adviser, Dr. F. Weiser. Since 1930 Dr. Weiser had taken a leading part in all matters of a legal aspect concerning the Bank and the opinions he gave were always of the greatest value.

CONCLUSION.

The decisive factor in shaping the reconstruction policy after the first world war was undoubtedly a desire to return as speedily as possible to the conditions of 1914. Popular irritation at restrictions and the wartime reduction in the standard of living made the "pre-war period", with its growth in wealth and welfare and the comparative security then enjoyed, take on a kind of mystic radiance. In such a frame of mind an early abolition of the specific wartime controls was a matter of course; this policy may have imposed severe hardships in a number of cases, but it had also its advantages: the field was quickly cleared of many bureaucratic institutions which, if they had been allowed to remain, might have delayed the process of adjustment and placed formidable hindrances in the way of an expansion of production and trade. Costs, prices and money rates were soon left "to find their own levels"; in general, equilibrium was so far restored that a profitable business could be worked up, with a chance for initiative and enterprise to make their contribution. Moreover, the restoration of the gold standard, i. e. a system essentially international in character, implied a reaction — which, as a rule, did not go unheeded — against national exclusiveness in monetary and economic matters.

As a result of these various endeavours, world production and trade had already regained the "pre-war" level by 1925, and had surpassed it by thirty per cent. in 1929. Then came the great depression with falling prices and growing unemployment. Downward adjustments of wages and other costs, lowering of interest rates, even increases in tariffs — methods which had been used in the past to overcome a cyclical decline in business — no longer seemed capable of bringing about, unaided, a change for the better; and in a desperate mood people lost the belief "that things would right themselves". The business world, threatened by heavy losses, and the workers, threatened by unemployment, were both a prey to growing anxiety under the onslaught of economic forces in face of which they felt helpless; and together they raised a demand for greater "security", to be attained by government measures. The convulsions of the second world war have in many respects led to an intensification of these demands and their extension into the sphere of international economics and politics.

The factors which were responsible for the depression of 1930-33 have hardly as yet been fully elucidated, but the effect of this upheaval on economic thinking has been unmistakably to strengthen belief in greater state intervention. This does not mean, however, that people in general feel that they can dispense with those powerful forces which are constituted by private initiative and enterprise. Their hope is rather that in a new state of affairs the activity of private business may be supplemented by government measures designed not only to ensure greater "social security" but also to provide for a steady expansion in economic life.

Neither of these twin purposes should be forgotten in concentration upon one alone: measures adopted to attain either should not be inconsistent with the realisation of the other. Industrial and other organisations, in resorting to self-help for the "protection" of their own interests, frequently make arrangements which tend to put a brake on economic advancement. This is the case when business groups unduly limit their output and when labour unions cling to restrictive practices incompatible with a rationalisation of production. There is a similar danger inherent in state measures, when for the sake of security, regulations are made which tend to impede the adjustment of business to changing conditions; many examples of such regulations could be cited from different fields (production, commerce, the labour market and housing). An increase in tariffs may well give a temporary fillip to particular industries of one country; but, by its injurious effect on the trade of other nations, such an increase may have pernicious results even for the country that made the first move. International negotiations present a peculiar danger, in that the delegates of any government are apt to regard a "concession" in such matters as tariffs, capital movements and immigration, or an adjustment of exchange rates, as a "sacrifice"; it is easy for them to be blinded by considerations of prestige to the fact that the change envisaged may well represent a most appropriate line of policy from their own national point of view and not merely a quid pro quo in a hard-driven bargain.

Attainment of economic expansion should go a long way towards calming sectional fears and thus induce people to adopt a more helpful attitude with regard to their own practices. Could a steady increase in production be ensured, the solution of many problems would be facilitated in no mean degree: unemployment would be less; real wages, i. e. the standard of living, would be raised almost automatically; promotion would be quicker; and the governments would more easily find the resources from which to meet increased social charges, as well as the cost of heavier debt service; greater military establishments than before the war, subsidies to agriculture, etc. No wonder the problems connected with "creation of wealth" have come to the fore in a number of countries! As was to be expected, success in raising production has been found to depend most of all upon the human element, i. e. the spirit and capacity of all the different grades in trade and industry. Not the least pertinent aspect of the question is whether the breaking of fresh ground may not be considered more important than a defence of established positions. To foster the dynamic forces and to furnish them with a suitable environment, the general monetary and economic policy must, of course, be one adapted to that purpose, but policy is in the last analysis only a reflection of the spirit which animates a people.

In an expansionist policy, financial measures designed to sustain the volume of purchasing power are an important element: there is certainly much to learn as to the proper methods of adding to the money volume and of timing such additions; but the need for a more active policy in this field is generally accepted. It seems to be widely realised, however, that too much cannot be expected from monetary measures alone; in the immediate

post-war period there will presumably be no scarcity of money (as far as this period is concerned, one of the main tasks may still be to withstand inflationary pressure instead of adding further to the money volume). In general, an injection of new purchasing power through government spending is regarded as an agreeable process, while most of the other measures which may be required to get business going, e.g. cost adjustment, the shifting of productive power from one branch of industry to another, or the liquidation of unsound and obsolete concerns, are painful indeed but not less important than the monetary intervention. Should recovery be checked by failure to make such corrections as are necessary, capital and labour will both suffer. In hardly any country does the return on capital exceed one-quarter of the total national income; and, since the share paid to owners of capital is the most heavily taxed, more than four-fifths of any net increase in the national product is likely to represent remuneration for current work, with the major portion going to industrial labour.

Societies built on private initiative and enterprise have been able, over long periods, to secure a proper balance in the cost and price structure and have, indeed, shown a highly developed power of adjustment, readily adapting output to variations in demand and methods of production to advances in technique. Before 1914 the rate at which adjustments had to be made was, on the whole, rather slow; though money wages were reduced from time to time, the reductions were mostly on a limited scale and the underlying (long-run) tendency in the standard of living was everywhere upwards. It is often said that the flexibility of economic life was much diminished after 1914-18; but examination will show that, in point of fact, the actual changes in prices and wages, especially in the years 1930-33, often went very far, exceeding what more than one expert in these matters would have thought possible. Since the last war, general conditions have unfortunately been so unstable and monetary channels so obstructed that even very wide cost adjustments have not been able to bring about a balanced position. But this does not mean that cost adjustments are never of any use; in all such matters it is largely a "question of degree". While a business community cannot be expected to adjust itself to a thirty or fifty per cent. fall in commodity prices, an adjustment of (say) ten per cent. might not present undue difficulties; and such an adjustment, when it forms part of a general anti-depression policy adopted in agreement with representatives of different economic groups, including labour, may well hasten the recovery of business as well as permit the maintenance of more stable exchange rates. Without steadiness, flexibility may be the cause of wild gyrations; while steadiness without flexibility may easily degenerate into stagnation. Here, as elsewhere, man must seek harmony by a reconciliation of opposing tendencies: business cannot be allowed to ride roughshod over personal welfare; on the other hand, enterprise should not be swamped by security.

ANNEXES

BALANCE SHEET

IN SWISS GOLD FRANCS (UNITS OF 0.29032258...)

ASSETS			
I—GOLD IN BARS		118,272,065.34	% 25.3
II—CASH		17,796,309.94	3.8
On hand and on current account with Banks			
III—SIGHT FUNDS at interest		6,938,194.28	1.5
IV—REDISCOUNTABLE BILLS AND ACCEPTANCES			
1. Commercial Bills and Bankers' Acceptances	81,273,767.35		17.4
2. Treasury Bills	24,065,808.19		5.2
		105,339,575.54	
V—TIME FUNDS at interest			
1. Not exceeding 3 months	21,061,634.50		4.5
2. Between 3 and 6 months	5,680.95		0.0
		21,067,315.45	
VI—SUNDRY BILLS AND INVESTMENTS			
1. Treasury Bills	81,441,879.12		17.4
2. Railway, Postal Administration and Other Bills and Sundry Investments	116,068,809.19		24.8
		197,510,688.31	
VII—OTHER ASSETS		331,549.11	0.1
NOTE I — 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 measures, 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 50% 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.			
NOTE II — Dividends declared prior to the date of the Balance Sheet are less than the 6 % cumulative dividends laid down by Article 53 (b) of the Statutes by Swiss gold francs 7.95 per share or in total Swiss gold francs 1,590,000.		467,255,697.97	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 27, 1944.

AS AT MARCH 31, 1944

GRAMMES FINE GOLD — ART. 5 OF THE STATUTES)

LIABILITIES			
			%
I—CAPITAL			
Authorised and issued 200,000 shares, each of 2,500 Swiss gold francs	500,000,000.—	125,000,000.—	26.8
of which 25% paid up			
II—RESERVES			
1. Legal Reserve Fund	6,264,935.14		
2. General Reserve Fund	13,342,650.13	19,607,585.27	4.2
III—LONG TERM DEPOSITS			
1. Annuity Trust Account Deposits	152,606,250.—		32.6
2. German Government Deposit	76,303,125.—	228,909,375.—	16.3
IV—SHORT TERM AND SIGHT DEPOSITS (various currencies)			
1. Central Banks for their own account: Sight		7,036,273.18	1.5
2. Central Banks for the account of others: Sight		1,273,478.17	0.3
3. Other depositors: (a) Not exceeding 3 months	24,421.34		0.0
(b) Sight	1,550,426.40		0.3
		1,574,847.74	
V—SHORT TERM AND SIGHT DEPOSITS (Gold)			
1. Not exceeding 3 months	251,107.06		0.1
2. Sight	29,300,057.25	29,551,164.31	6.3
VI—MISCELLANEOUS.		49,048,624.65	10.5
VII—SURPLUS			
1. Brought forward from the financial year ended March 31, 1943	446.53		
2. Profit for the financial year ended March 31, 1944	5,253,903.12	5,254,349.65	1.1
		467,255,697.97	100.0

of the Bank for the financial year ending March 31, 1944, and we report that we have obtained all the information, with the Notes 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, 1944

	Swiss gold francs
Net Income from the use of the Bank's capital and the deposits entrusted to it, after necessary allowance for contingencies	7,119,389.97
Commission earned as Trustee (or Fiscal Agent to Trustees) for International Loans	71,406.27
Transfer fees	21.33
	<u>7,190,817.57</u>
Costs of Administration:—	
Board of Directors — fees and travelling expenses	77,798.44
Executives and staff — salaries and travelling expenses	1,475,192.18
Rent, insurance, heating, light and water	93,975.63
Consumable office supplies, books, publications	145,138.52
Telephone, telegraph and postage	32,169.34
Experts' fees (Auditors, interpreters, etc.)	11,046.10
Cantonal taxation	35,421.50
Tax on French issue of Bank's shares	26,091.91
Miscellaneous	40,080.83
	<u>1,936,914.45</u>
NET PROFIT:—	<u>5,253,903.12</u>

APPROPRIATION ACCOUNT

NET PROFIT FOR THE FINANCIAL YEAR ENDED MARCH 31, 1944	5,253,903.12
To the Legal Reserve Fund in accordance with Article 53 (a) of the Statutes, — 5 % of 5,253,903.12	262,695.16
	<u>4,991,207.96</u>
Brought forward from the preceding financial year	446.53
	<u>4,991,654.49</u>
Dividend of 24.95 Swiss gold francs per share, as recommended by the Board of Directors to the Annual General Meeting called for May 22, 1944	<u>4,990,000.—</u>
Carried forward	<u>1,654.49</u>

BOARD OF DIRECTORS*

Ernst Weber, Zurich Chairman

Baron Brincard, Paris

Lord Catto of Cairncatto, London

Maurice Frère, Brussels

Walther Funk, Berlin

Prof. Francesco Giordani, Rome

Koじro Kitamura, Zurich

Emmanuel Monick, Paris

Sir Otto Niemeyer, 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

Hubert Ansiaux, Brussels

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

Dr Per Jacobsson Economic Adviser

* At the end of 1944 the question of the Italian ex-officio Director was in abeyance and a second Belgian Director had not yet been appointed.