BANK FOR
INTERNATIONAL SETTLEMENTS

FIFTEENTH ANNUAL REPORT

1st APRIL 1944 — 31st MARCH 1945

BASLE

Autumn 1945

BANK FOR INTERNATIONAL SETTLEMENTS, BASLE

FIFTEENTH ANNUAL REPORT

ERRATA:

Page 19, table – United States: Gross National Product and its Disposal 1939–44.

instead of:

2. Private outlay for goods and services:
Capital formation . .
Consumption . . . .

read:

Consumption	61.7	65.7	74.6	82.0	91.0	97.5
Capital formation . .	10.9	14.6	19.0	7.5	2.2	1.8

Page 20, paragraph 1, last line,

instead of:

(8th August 1945)

read:

(15th August 1945)

Page 152, lines 8 and 9,

instead of:

31st March 1944

read:

31st March 1945

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ANNEXES

FIFTEENTH ANNUAL REPORT

announced at the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held at

Basle, 11th June 1945.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the fifteenth financial year, beginning 1st April 1944 and ending 31st March 1945. The results of the year's business operations are set out in detail on page 147. The surplus for the year, after provision for contingencies, amounts to 4,429,562.41 Swiss gold francs. The Board of Directors decided that, having regard to the exceptional circumstances at present existing, it is necessary to make the maximum possible provision for future contingencies and, consequently, they are unable, at this time, to invite the Annual General Meeting "to make appropriations to Reserve and to Special Funds; and to consider the declaration of a dividend and its amount" as foreseen in Article 48 (b) of the Bank's Statutes. The surplus of 4,429,562.41 Swiss gold francs has been transferred, therefore, to a Special Suspense Account 1944/45. At the end of the year the balance-sheet total was 458.7 million Swiss gold francs, as compared with 467.3 million Swiss gold francs on 31st March 1944.

In the year under review the Bank for International Settlements continued to pursue the policies announced in its previous Reports. These have enabled the Bank to retain the confidence of the institutions with which it remains in close touch.

* * *

The fourteenth Annual Report of the Bank for International Settlements, which, as far as the Bank's own operations were concerned, covered the period from 1st April 1943 to 31st March 1944, was released in the spring of 1945, i. e. with a considerable delay. The delay, it should be explained, was solely due to the fact that the monetary and economic review took longer than usual to prepare, and for this there were two distinct reasons:

Firstly, in order to meet, as far as has been feasible, a universal demand for information at a time when most other reports of a general character were no longer issued, the monetary and economic review has become much more comprehensive.

Secondly, it has been much more difficult to collect the necessary information and in particular to select the most significant data and check their accuracy. Moreover, the task of commenting upon the tables and the graphs, and, as far as possible, formulating some general principles, has demanded much more work and care than would normally have been the case.

The drawback inherent in delay has, however, been offset to some extent by the fact that the fourteenth Annual Report, which refers to the business activities of the Bank up to March 1944, contained, in its monetary and economic review, material for the two years 1943 and 1944 — most statistical and other data being brought up to the end of 1944.

With a view to returning as soon as possible to peacetime dates of publication, the Bank is now issuing its fifteenth Annual Report, containing a review which seeks to give, within a relatively small space, a general picture of the monetary and economic situation and, in addition, a statement on the Bank's own operations together with a comparison between the chief items of the Bank's balance sheets on 31st August 1939 and on 31st March 1945 (cf. page 153).

* * *

The war in Europe came to an end in May 1945 through the unconditional surrender of Germany, but a return to civilian life was not achieved all at once. Apart from the fact that the war in the Pacific area continued to gather momentum in the spring and summer of 1945, thus requiring increased supplies and making heavy demands on the available tonnage, Europe was faced with many tasks, including the collection and transport of prisoners, movement of displaced persons, rearrangement of military formations and restaffing of local and other administrations, all of which was time-absorbing. The tempo of such demobilisations as could be allowed was thus affected by a shifting of the war effort from Europe to the Far East, which complicated matters. And in August 1945, when the Japanese Government accepted the terms of the Potsdam Declaration, including the unconditional surrender of all the Japanese armed forces, and the second world war was thus brought to an end, the measures taken to redirect shipping did not at once alleviate the existing tension, but shortage of tonnage remained a major difficulty, intensified by the need of repatriating millions of soldiers over great distances.

It should be remembered that, as a rule, demobilisation presents greater difficulties than mobilisation, since the conditions under which it will occur are far less easy to predict, and each step must thus be adapted to the circumstances of the moment instead of following a carefully prepared plan. So it happened that, for the first three or four months after the fighting had ceased, the movement of goods from one country to another in Europe was well below even the low level attained during 1944.

But life did not stand still: bridges were rebuilt, roads repaired, and railway services restarted; the first and foremost bottleneck which had to be overcome was clearly the breakdown of the communications system. In each individual country and area it was necessary to take stock of the supplies in hand, present and future requirements, and the possibilities of meeting the essential needs of the population. There were some general difficulties which affected almost all countries, but there were also special problems in each area; for the main legacy left by the war was not the same everywhere.

Legacies of the War in Individual Countries.

In the areas where actual warfare was waged material destruction has been incomparably greater than in the last war. A considerable part of the U.S.S.R. was ravaged first during the advance and then during the retreat of the enemy. Though the loss of life has been very high, the population of Russia is so huge that the country's strength in this respect will not long be impaired by war casualties. The most obvious wound is the destruction of the industrial areas west of the Volga. With hard work and the aid of enforced saving, the Soviet Government succeeded in attaining a high rate of industrialisation in the late 'twenties and in the 'thirties; and at the same time Russian agriculture was largely mechanised. For the reconstruction after this war technical skill is available in a higher degree than a quarter of a century ago; but, for the equipping of new industries and rebuilding of old ones, a large volume of savings is required. In the collective system applied by the U.S.S.R. the need for "abstinence" or "saving" as a prerequisite for economic progress is not questioned. The volume of savings required may, in Russia as elsewhere, be obtained wholly within the country or partly from abroad, as proceeds of credit operations and of reparation deliveries. From the time of the revolution in 1917 the Russian people have set their hearts on transforming their country as quickly as possible into a technically up-to-date economy; how to restore conditions propitious for a renewed industrialisation without too much pressure on the standard of living would seem to be the main economic problem facing the U.S.S.R. in the immediate post-war period. Past industrialisation is reflected in the growth of the urban population; in 1900 the inhabitants of towns represented less than 13 per cent. of the total population, rising to 18 per cent. in 1914; after a setback to 15 per cent. in 1920, the proportion reached 33 per cent. in 1939.

The countries with frontiers running from Finland to Greece show a great variety of conditions. Three of them — Finland, Hungary and Roumania — each agreed to pay $300 million within six years (i. e. $50 million a year) as reparations to the U.S.S.R., the liability being defined in terms of specified commodities.*

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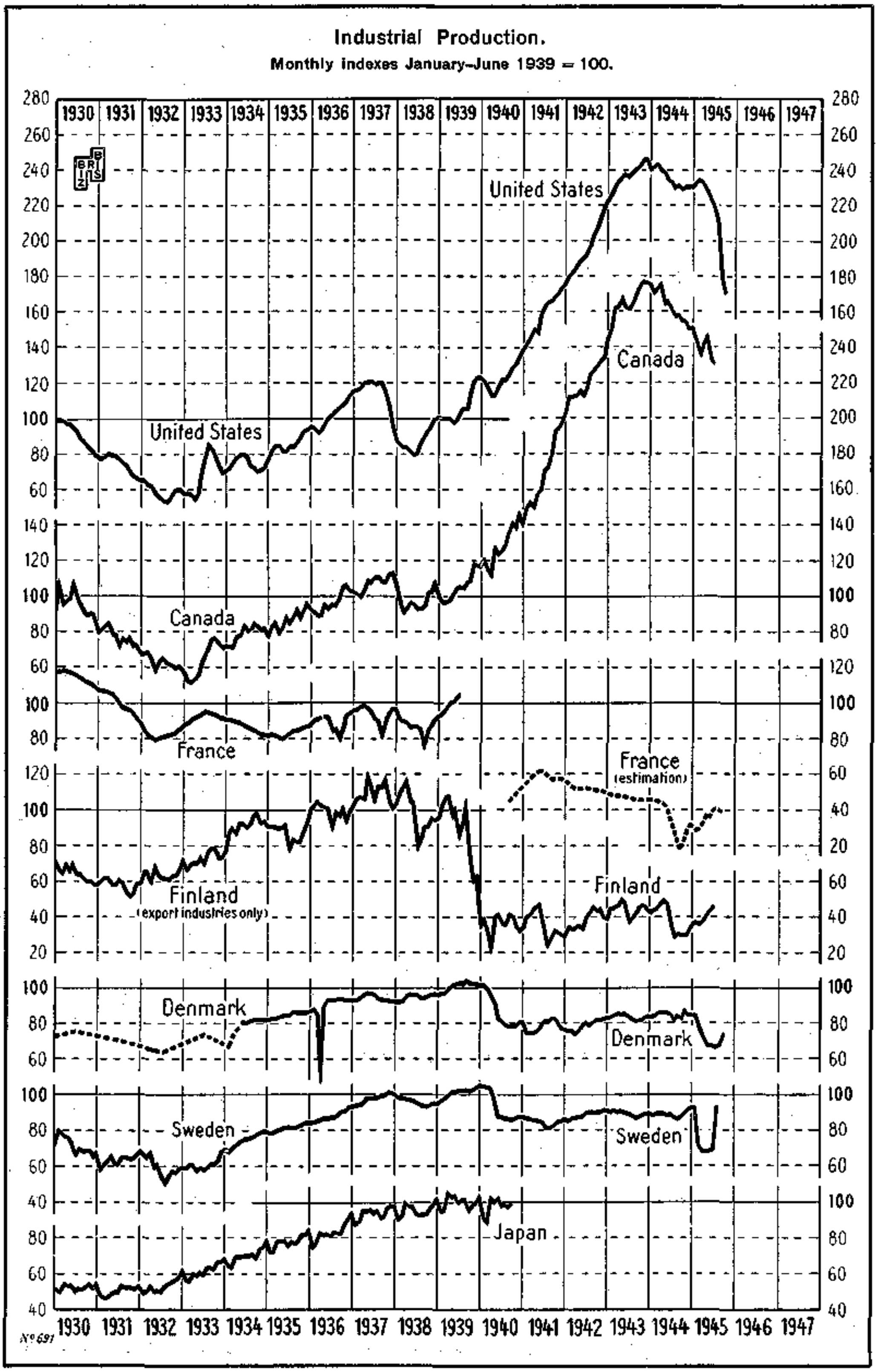
* The deliveries to the U.S.S.R. are valued at 1938 prices with certain additions, such as 10 per cent. for forest products and 15 per cent. for other products in the case of the deliveries by Finland. Deliveries in arrears are subject to a penalty imposition of 5 per cent. per month, payable in kind. It should also be mentioned that under the declaration of the Potsdam Conference dated 2nd August 1945 the reparation claims on Germany are partly to be met "from appropriate German external assets"; and in this connection the U.S.S.R. has a claim on the German assets in Finland (as also on Bulgaria, Hungary, Roumania and Eastern Austria, cf. page 12).


Industrial Production.
Monthly indexes January–June 1939 = 100.
1930 1931 1932 1933 1934 1935 1936 1937 1938 1939 1940 1941 1942 1943 1944 1945 1946 1947
United States
Canada
France
France (estimation)
Finland (export industries only)
Finland
Denmark
Sweden
Japan
N° 691

Of the three countries Finland has suffered the least material destruction but has lost about 7 per cent. of its territory and 12 per cent. of its natural resources, while it has to find occupation within its reduced area for some 480,000 persons from the ceded territories. Normally, 80–90 per cent. of Finnish exports consist of forest products, i.e. of commodities in great demand on the world markets. After reparation deliveries (in all $100 million in forest products) have been met from the still subnormal output, the remaining exportable surplus will constitute Finland's most valuable asset in its commercial relations with other countries, several trade agreements having already been concluded, e.g. with the U.S.S.R., the United Kingdom, Sweden, Denmark, Iceland, etc. After the armistice, credits amounting to S.Kr. 230 million were obtained from the Swedish Government; and further access to foreign credit markets is being sought. In October 1945 it was announced that the payment of Finnish reparations to the U.S.S.R. would be spread over eight instead of six years, by which the amount due would be reduced from $50 million to $37½ million a year. Finland's real national income is estimated to have been about one-quarter less in 1945 than in 1938, whereas the decline in the volume of production of the export industries was by 60 per cent. (as shown in the graph on the opposite page).

Hungary, reduced once more to the frontiers of the Treaty of Trianon, is faced with considerable changes in its social and economic structure, especially in the agricultural sector. To meet the reparation liabilities and to provide employment, as well as a decent standard of living, for a growing population, particular attention must be devoted to industrial activities. It is interesting to note that in 1939, for the first time, the volume of industrial production attained a higher value than the whole agricultural output. Great difficulties are experienced in preventing inflation from causing chaotic conditions; by the beginning of November 1945 Pengö 30,000 (instead of Pengö 5 as before the war) were paid for one U.S. dollar in the open market.

In comparison with its 1939 frontiers Roumania has lost one-fifth of its territory and about the same percentage of its resources. The destruction caused by actual warfare was in some districts considerable but a great part of the country has escaped with only slight damage. With railways in not too bad a condition, Roumania was the only Danubian country spared a general transport chaos.* In the past Roumania's chief exports were a limited number of bulky products — wheat, oil and timber; and for a part of these products a market will presumably have to be found again, in western Europe in addition to the commerce with the U.S.S.R. — hence the importance for Roumania of a general recovery in foreign trade. Unfortunately, the harvest in 1945 was much below normal, being in particular affected by the severe drought which in the summer of that year afflicted large areas in the south and east of Europe and also parts of North Africa. In consideration of this calamity, the Soviet Government agreed in September 1945 to deliver to Roumania 150,000 tons of wheat and the same quantity of maize, to be returned in the years 1946 and

* In comparison it may be mentioned that, according to declarations by the Minister of Commerce in Budapest, the Hungarian railways were in the summer of 1945 reduced to 16–18 per cent. of their pre-war capacity.

1947, plus an addition counting as interest; under the same agreement, moreover, Roumania's reparation liabilities were somewhat reduced and various steps were taken to increase the country's stock of railway material, etc.

Three other countries — Poland, Yugoslavia and Greece — have suffered greatly through actual warfare, while Czechoslovakia and Bulgaria have been less affected.

In Poland some industrial districts were able to resume their activities with only slight interruption, if any. Changes in the national territory, the loss, by premature death, of at least three million of the inhabitants, transfers of ownership of property, as well as complete disorganisation of most private and public services, make reconstruction difficult; but though most of Warsaw and some other cities has been destroyed the basic wealth of this largely agricultural country is still there unscathed. The first task has been a re-equipment of national services and a restoration of law and order; agricultural reform is being carried through; agreements have been concluded with the U.S.S.R., Sweden and some other countries for an exchange of commodities, Poland undertaking, in particular, to deliver certain quantities of coal and coke.

Heavy loss of life has also been suffered in Yugoslavia along with much material destruction; over 10 per cent of the 1939 population of about 16 million have been killed; about one-fifth of the country's 2.6 million houses have been wholly or partially destroyed. Yugoslavia possesses great mineral wealth, which it is intended to bring under state ownership or control. One of the most immediate tasks is obviously to achieve a political and economic reorganisation with due allowance for the diversity in linguistic and social conditions in the country — such a reorganisation being one of the prerequisites for the establishment of a sound credit basis.

Greece has, since ancient times, been relatively poor in natural resources and has therefore had to make a living by such activities as commerce and shipping. Unfortunately a restoration of monetary confidence after periods of wild inflation is no easy task; but an orderly resumption of foreign relations, including transit trade, is of vital importance for the earning capacity and consequently for the standard of living of the Greek population. Losses during the war have been extensive; ships and houses constitute the most important items among assets actually destroyed.

Bulgaria, in contrast to Greece, derives its main income from the land, and this is cultivated by the peasants in a manner which has been relatively unaffected by the war; nor is any great change resulting from the agrarian reform since this touches only a relatively small proportion of the country's landowners.

Czechoslovakia's losses during the war were partly due to the occupation, but even more extensively to the suppression by Germany of the Slovak rebellion and to actual fighting in the later stages of the war. Railway tracks, bridges and tunnels were largely destroyed all over Slovakia and in part of Moravia; and in most parts of the country herds, for instance, have been reduced by 40 per cent. or more. The country is faced with problems arising out of the changes in its political, social and national structure connected with transfers of population; and it cannot regain real prosperity without an active foreign trade.

Austria, which again becomes a separate state with approximately the same frontiers as under the Treaty of St. Germain, suffered serious war damage in the eastern part of the country, including Vienna itself. Separation from other areas and large-scale interruption of industrial activity, together with inflationary tendencies, brought economic life to a low ebb. Gradually the demarcation lines between the different zones of occupation have been made less rigid and measures are being taken to restore a unified economy and an orderly monetary system.

In Italy, with its island territories, war was waged for two years, resulting in great material destruction and disorganisation of essential services, more especially as the country became divided into two areas separated by the battle-front. According to different investigations, between 16 and 20 per cent. of the country's domestic wealth in private ownership was lost in the war. Both in the rich plain of the north and in the southern part, moreover, the prolonged drought reduced the 1945 wheat crops by about one-third, actual production being 4 to 4½ million tons as compared with requirements totalling 7½ million tons. Densely populated Italy will, indeed, need substantial imports of foodstuffs in addition to supplies from abroad of such materials as coal (normally imported at the rate of 12 to 15 million tons a year), cotton and wool for the textile industry, pulp for the manufacture of paper and artificial silk, as well as iron and other metals. A speedy reorganisation of the means of communication and of foreign trade is for Italy, even more than for other countries, a necessary condition for return to even a moderate level of welfare.

Nearly one-half of the Italian population is engaged in agriculture — a higher proportion than in most of the countries in Europe and the Americas.

Italy:
Occupational Distribution of the Population.

Groups	1911		1936 (1)	
	Numbers	%	Numbers	%
Agriculture	9,086,000	56	8,756,000	48
Industry	4,368,000	27	5,375,000	29
Commerce and communications	1,366,000	8	2,207,000	12
Others	1,551,000	9	2,007,000	11
Total employed	16,371,000	100	18,345,000	100
Total population	34,681,000	(2)	42,994,000	(2)

(1) Including the new territories incorporated after the first world war, with a population of 1,646,000 in 1936.
(2) 47 per cent. of the total population were employed in 1911 and 43 per cent. in 1936.

In Germany material destruction, continued for nearly one year after the defeat in France, has obliterated large parts of the capital and other main centres of industry and commerce, and the highly industrial regions of the west have been particularly badly hit. Even so, not more than 30 per cent. of the total industrial capacity would seem to have been lost through damage in the war itself,* and this is of importance since industry proper (that is to say, excluding the ordinary handicrafts, repair shops, etc.) provided directly in the past over one-fourth of the country's total employment, fully one-half of the national income and almost all the export products (including about 40 million tons of coal a year).

In addition to the reparations to be taken by the U.S.S.R. from its own zone, the U.S.S.R. is to receive from the Western Zones a part of such industrial capital equipment as is unnecessary for the German peace economy and is to be removed from the Western Zones, viz. 10 per cent., without payment, and 15 per cent. in exchange for an equivalent value of food, coal, potash, zinc, timber, clay products, petroleum products, and such other commodities as may be agreed upon. The amount of equipment thus to be removed from the Western Zones on account of reparations must be determined within six months from the date of the Potsdam Conference and the removals themselves are to be completed within a further two years.

It is only with exports of industrial products that Germany can pay for its imports of foodstuffs and raw materials and provide for reparations, in addition to those made available through the removal of such industrial capital equipment as is unnecessary for German peace economy and the transfer of appropriate German assets abroad — both forms of contribution representing capital assets, the total of which is necessarily limited. In the restoration of financial order, an immediate task will be to balance domestic financial accounts, including not only current expenditure for the country's own public services but also the costs of the occupying forces and the

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* There has also been great destruction of dwelling and other houses in practically all Germany's larger towns and industrial centres. In addition, most of the mercantile marine was already lost during the war, while the domestic transport system was almost wholly disorganised and could only be very gradually put into working order again. In the agreement reached at the Potsdam Conference (published on 2nd August 1945) on the "economic principles to govern the treatment of Germany in the initial control period", the following provisions were, inter alia, adopted:

> "11. In order to eliminate Germany's war potential, the production of arms, ammunition and implements of war, as well as all types of aircraft and sea-going ships, shall be prohibited and prevented. Production of metals, chemicals, machinery and other items that are directly necessary to a war economy shall be rigidly controlled and restricted to Germany's approved post-war peacetime needs to meet the objectives stated in paragraph 15.
>
> Productive capacity not needed for permitted production shall be removed in accordance with the reparations plan recommended by the Allied Commission on reparations and approved by the Governments concerned, or, if not removed, shall be destroyed.
>
> 12. At the earliest practicable date, the German economy shall be decentralised for the purpose of eliminating the present excessive concentration of economic power as exemplified in particular by cartels, syndicates, trusts and other monopolistic arrangements.
>
> 13. In organising the German economy, primary emphasis shall be given to the development of agriculture and peaceful domestic industries."

In "paragraph 15" it was, in particular, laid down that "Allied controls shall be imposed upon the German economy but only to the extent necessary:

(a) to carry out programmes of industrial disarmament and demilitarisation of reparations, and of approved exports and imports,

(b) to assure the production and maintenance of goods and services required to meet the needs of the occupying forces and displaced persons in Germany and essential to maintain in Germany average living standards not exceeding the average of the standards of living of European countries. (European countries means all European countries excluding the United Kingdom and the Union of Soviet Socialist Republics.)

(c) to ensure in the manner determined by the Control Council the equitable distribution of essential commodities between the several zones so as to produce a balanced economy throughout Germany and reduce the need for imports;

(d) to control German industry and all economic and financial international transactions, including exports and imports, with the aim of preventing Germany from developing a war potential and of achieving the other objectives named herein;

(e) to control all German public or private scientific bodies, research and experimental institutions, laboratories, etc., connected with economic activities."

German Industries 1936: Employment, Output and Exports.

Groups of industries	Persons employed		Net production		Exports	
	Number	%	Million RM	%	Million RM	%
I. Mining – Synthetic motor fuel, lubricants, extracting of tar – Iron works – Non-ferrous metals industry – Foundries – Iron and steel manufacturing industry (heavy) – Mechanical engineering – Steel and iron construction – Motor and cycle industry	2,354,000	30	10,701	31	2,203	48
II. Electrical equipment industry – Optical and precision instruments – Manufacture of metallic goods (light)	614,000	8	2,642	8	635	14
III. Chemical industry – Applied chemistry (paints, dyestuffs, linoleum etc.)	271,000	3	2,276	7	624	13
IV. Textile industry – Clothing industry	1,142,000	14	3,594	11	515	11
V. Building industry etc.	1,220,000	15	4,267	12	40	1
VI. Others	2,349,000	30	10,707	31	602	13
Total for all industries ..	7,950,000	100	34,186	100	4,619	100
Total of persons employed .	31,500,000*	.	.	.	.	.
Total national income....	.	.	65,000	.	.	.
Total exports	.	.	.	.	4,768	.

* Including about 1,300,000 in domestic service but excluding about 1,500,000 unemployed. In 1936 about 9 million were employed in agriculture, nearly 5 million in handicrafts, about 5½ million in trade and communications and about 2¾ million in public services. Providing, as it did, most of the means of exchange for commerce, industry formed the basis for much of the income earned by other groups and, in particular, by those engaged in trade and communications.

payment of reparations, whether in kind or not. Since sufficient public revenue cannot be collected unless the economic activity of the country is resumed, the economic and financial aspects are closely linked together.

Though the damage suffered by France through intensive bombing and prolonged warfare has not, for the most part, been conspicuously great, an official enquiry has shown that the losses due to the war and the occupation have been higher, both in lives and in terms of material wealth, than had been generally expected. One reason is that this time the destruction was not localised, as in the 1914–18 war.

The national product of France, which had shown an improvement in 1939 and during the early months of 1940, fell progressively in the course of the occupation, until by 1944 it had been reduced to one-half of the 1938 figure. Consumption for civilian purposes also fell to about one-half of the 1938 volume; in spite of this marked contraction, however, the burden imposed by the occupation had to be met not only by postponing expenditure on maintenance and repairs but also by loss of industrial equipment and depletion of stocks, i.e. by a domestic disinvestment, the total value of which is estimated at about Fr.fcs 500 milliard in 1938 purchasing power. With the addition of

France: Estimate of Losses due to the War and the Occupation.

Values with the purchasing power of 1938	In milliards of French francs
Physical damage, i.e. property damaged and lost	756
Budgetary expenditure for war	205
Cost of German occupation	319
Total . . .	1,280

Note: This total is equivalent to U.S. $37 milliard. In addition, there are losses not valued in money, such as loss of working-time as a result of the country's own war effort and, later on, at the behest of the occupying power, through deportations, etc., these losses being estimated as equivalent, in all, to 15 million man-years.

Moreover, losses of human life amounted to 238,000 in the armed forces and 415,000 civilians — in all, 653,000.

Fr.fcs 50 milliard on account of foreign disinvestment and Fr.fcs 460 milliard on account of actual destruction, total capital losses amount to around Fr.fcs 1,000 milliard in terms of 1938 purchasing power, corresponding to U. S. $27 milliard* at the rate of $1 = Fr.fcs 34.95.

The total in the table does not include damage to persons. An economic evaluation can, of course, never fully reflect the injury caused by loss of life, wounds and under-nourishment. According to provisional estimates, civilian and military losses numbered about 650,000 dead, as compared with about 1,400,000 in the 1914–18 war, but the difference would be less marked if, on both cases, account were also taken of the reduced birth rates. The combined effect of the two world wars and of immigration in the interwar period has been a fall in France's population from 41.5 million in the autumn of 1939 to 40.1 million in the summer of 1945.

In order to regain a degree of productivity sufficient to ensure satisfactory progress in the task of reconstruction, along with a gradual improvement in the standard of living, France, like many other countries, will need raw materials and equipment from abroad and will, in addition, have to make a determined effort, by scrapping all out-of-date methods in agriculture and industry, to attain a rational employment of the country's productive forces, with special attention to the international division of labour. Members of the French Government have repeatedly stressed the importance for France of participating more actively in international trade and of renouncing the many forms of economic malthusianism — a development which presupposes a sufficient economic and monetary equilibrium, both internally and in relation to other countries.

The United Kingdom has lost fewer lives than during the first world war — up to June 1945 some 429,000 killed or dead of wounds or injuries (including civilians in the mercantile marine and victims of bombardments), as compared with 812,000 in 1914–18. Moreover, the birth rate actually took an upward course in 1942. War damage to property on land, as a result of the war against the European Axis powers, is estimated at about £860 million and to ships (including cargoes) at about £430 million, all in terms of 1938 prices,

* While the United States, as shown on page 19, covered its war expenditure wholly by an increase in the volume of production and the United Kingdom did so partly by an increase in production and partly by a reduction in consumption, together with drafts on foreign investments and an accumulation of overseas liabilities (cf. next page), France, in spite of a sharp curtailment in consumption, had to make serious inroads on its domestic capital assets. The reconstruction of the country's industrial equipment, the rebuilding of houses, repairs and the replenishment of stocks will occasion an increase in indebtedness, partly on foreign account, which will represent, so to say, a kind of delayed foreign disinvestment.

over 4 million houses have been damaged, of which more than 200,000 have been destroyed, or damaged beyond repair. As long as the war lasted, the general resources of the nation were unstintingly devoted to its prosecution, as shown in the following table.

United Kingdom: Gross National Product and its Disposal 1938–1944.

For calendar years	1938	1939	1940	1941	1942	1943	1944	1944 in "1938 pounds"
	in millions of £							
Gross National Product at market value	5,682	6,107	7,224	8,449	9,237	9,840	10,069	*6,990*
Add: net borrowing from, or sale of assets and financial claims to, overseas (*i. e.* foreign disinvestment) . .	70	250	796	795	666	684	655	*454*
Total **resources**	5,752	6,357	8,020	9,244	9,903	10,524	10,724	*7,444*
Disposed of as follows:								
1. Outlay on goods and services by public authorities for: *								
(i) war	358	795	2,575	3,700	4,062	4,647	4,678	*3,400*
(ii) civilian purposes	691	676	614	611	621	608	606	*440*
Total government outlay	1,049	1,471	3,189	4,311	4,683	5,256	5,284	*3,840*
2. Private outlay on goods and services:								
(i) personal consumption	4,153	4,264	4,423	4,633	4,909	4,987	5,216	*3,450*
(ii) capital formation	550	622	408	300	311	281	224	*154*
Total private outlay . .	4,703	4,886	4,831	4,933	5,220	5,268	5,440	*3,604*
Total **outlay**	5,752	6,357	8,020	9,244	9,903	10,524	10,724	*7,444*

* The outlay "on goods and services" excludes all transfer items such as interest on the national debt and old-age pensions.

Note: The gross national product includes the "sums allowed for depreciation and maintenance" (estimated at £440 million in 1938 and at £475 million in each of the years 1941 to 1944), that is to say the sums which would have to be set aside if the national capital were to be fully maintained; when, as in wartime, this is not the case, the said sums become available for current spending. The outlay, on the other hand, includes **gross** capital formation.

Figures are given in the last column showing the amounts for 1944 in "1938 pounds" according to calculations by "The Economist" (in the number for 5th May 1945). The index numbers used, to allow for the rise in prices from 1938 to 1944, are as follows (1938 = 100):

Current government expenditure	137¼
Consumption expenditure	151
Capital items	145

The results are that the gross national product was increased by 23 per cent. between 1938 and 1944, while private consumption fell by 16 per cent. Government war expenditure rose nearly ten times as compared with the peacetime level, while civilian expenditure was compressed by 36 per cent.; private capital formation (gross) works out at less than a third of what it was in 1938 and drafts on overseas assets were more than six times as high (in every case in terms of stable prices).

As shown in the table, overseas assets have been utilised at the fairly stable rate of around £700 million a year. This employment includes the sale of British foreign investments and net overseas borrowing (from India, the Dominions and Allied as well as neutral countries) but not the amounts obtained under mutual aid from Canada or lend-lease from the United States. In his report to Congress covering the period from March 1941 to March 1945, the President of the United States said that for the year ending 30th June 1944 the U. S. shipments to the United Kingdom represented the approximate equivalent of the annual labour of 1,820,000 British workers; and he added that "without the supplies delivered under lend-lease, the United Kingdom, in order to keep its fighting forces equipped by increasing the manpower in the war-production lines and in the production of export goods to pay for raw materials and other supplies needed for the war economy, would have been forced to reduce the size of its armed forces by almost one-fifth or by 910,000 men".

A White Paper was issued in London on 6th December 1945 in connection with the conclusion of the Anglo-American negotiations regarding a line of credit of $3,750 million to the United Kingdom together with the arrangement for a further amount of about $650 million in final settlement of lend-lease, mutual aid and all other claims of one government against the other, arising out of the war. The total foreign disinvestment of the United Kingdom from the beginning of September 1939 to the end of June 1945 was given as £4,198 million, of which £2,879 million represented a net increase in external liabilities, while £1,118 million represented funds obtained from realisation of external capital assets and £152 million a decrease in the British reserves of gold and U. S. dollars, the nature of the remainder — £49 million — being unspecified. (It is officially stated, however, that the total given for the disinvestment must probably be regarded as an under-estimate.) These are not, of course, final figures for the whole war period, since even after the end of June the accumulation of external liabilities continued.* In the end, it may be found more difficult to reconstitute foreign investments than to repair damage to property at home. To be able to maintain imports and consequently the standard of living, at a high level, the United Kingdom must seek to establish conditions conducive to a general recovery in its export trade. An increase of 50 per cent. over pre-war exports has generally been given as the figure necessary to pay for the pre-war volume of imports (allowing for decline in other sources of external earnings); but it was pointed out in the White Paper that the actual figure necessary to maintain equilibrium may be nearer 75 per cent.

Eire has remained neutral, but a considerable number of the country's citizens have either joined the British armed forces or worked in British war industries — the all-in-all total probably attaining 250,000. Through surplus exports and other credit items of the balance of payments Eire has added to its sterling holdings and seems to have become (with the possible exception of Switzerland) the world's largest creditor country in proportion to its population.

* According to a statement by the Chancellor of the Exchequer on 21st August 1945, "Britain's external financial obligations" exceeded £3,500 million. To arrive at the wartime increase, the total of these obligations, almost all in the form of sterling balances, has to be reduced by the amount already existing in 1939 — the White Paper issued in December 1945 puts the net gold and U. S. dollar reserves on 31st August 1939 at £605 million, the estimate including private holdings of gold and dollars subsequently requisitioned. In the "Statistics relating to the War Effort of the United Kingdom", published in November 1944, the net sale of overseas assets was given as £1,065 million and the increase in overseas liabilities as £2,300 million for the period September 1939 to June 1944. It may also be mentioned that in the budget speech on 24th April 1945 the then Chancellor of the Exchequer said that, "including the expenditure on clearing up arrears and on demobilisation", the total of British liabilities to overseas countries "is likely to reach at least £4,000 million before we are finished" (cf. pages 85 and 86).

The total of the war damage to property in the war against the European Axis powers, together with the overseas disinvestment, amounted in the summer of 1945 to about £6,000 million. It has further been estimated that the loss in working-time suffered on account of service in the armed forces and in the manufacture of munitions corresponds to 40 million man-years as far as the United Kingdom is concerned, and another 1¼ million for the colonies — this being also limited to the war against the European Axis powers.

Belgium, Norway and Denmark, during the closing stages of the war, suffered less damage than had at one time been feared; but the total losses sustained still add up to high figures. And Holland fared much worse in the end than the others.

As regards war damage suffered by Belgium, the following provisional estimates, emanating from the Ministry of Finance, became available in September 1945:

Belgium: Estimate of Losses due to the War and the Occupation.

Categories	In milliards of B.fcs		
	of 1940–45	of 1939	total
Human losses	.	.	(not valued)
Military material, equipment and installations	.	.	"
Holdings of Reichskreditkassenscheine and German currency	4.2	.	4.2
Costs of occupation and similar expenses	73.1	.	73.1
Creditor balance in the clearing	62.7	.	62.7
Requisitions not covered by the previous items	.	5.0	5.0
War damage to private property (1)	.	23.0	23.0
to public property	.	7.0	7.0
Various losses (2)	.	20.0	20.0
Total	140.0	55.0	195.0

(1) Another estimate reduces the war damage to private property to B.fcs 15 milliard.

(2) Omitting maintenance and renewal of buildings, means of communication, etc.; exhaustion of soil and of stocks of cattle; loss of other stocks, etc.

In terms of 1939 francs, the total losses may be estimated at 125–150 milliard and, in 1945 francs, at 225–250 milliard. These losses correspond for the most part to a reduction in current consumption year by year, capital losses being estimated at 52.5 milliard in 1939 francs (30 milliard in the form of war damage to property and 22.5 milliard in the form of exhaustion of stocks etc.). In relation to the national wealth and the national income, the war damage would seem to have been of the same order of magnitude in this war as in the 1914–18 war. The port of Antwerp has suffered comparatively slight damage. Owing to the compactness of the country it proved possible to restore the network of communications and rebuild an administrative system fairly quickly.

Holland: Estimate of Losses due to the War and the Occupation.

Categories	In milliards of florins*	In milliards of U.S. dollars*
Material loss of the national wealth	11.4	6.3
Damage owing to loss of production	4.0	2.2
Loss owing to transfers to Germany of part of the production	6.0	3.3
Damage owing to loss of production and still to be suffered after 7th May 1945	4.3	2.3
Total	25.7	14.1

* In florins and dollars with the purchasing power of 1938.

Note: More than 8 per cent. of the agricultural area was flooded, one-half of it with sea water, causing much long-term damage to the soil. In addition, more than 2 per cent. of the total agricultural area was laid waste through the construction by the occupying power of fortified areas, minefields and aerodromes, while, as a result of military operations, another 6 per cent. was rendered unfit for immediate use.

Holland's total war damage has been estimated at a preliminary figure of 25.7 milliard florins in terms of the 1938 price level. This figure includes actual damage to property, fines and necessary replacements of obsolete equipment and dwindling stocks, and also the amount of Dutch production which, during the occupation, passed into German hands, as well as the difference between actual production and a "normal production level". Of the national wealth, which for 1st September 1939 was estimated at Fl. 35 milliard, about one-third is considered to have been lost during the war. The number of livestock had, by 1945, been reduced to nearly one-half the 1940 figure, a fall which precludes any immediate export of dairy produce. In the last week of August 1945, the first shipment of export goods (bulbs for the United States) left Holland.

Denmark, having suffered a reduction of about 6 per cent. in its cattle (though somewhat more in other lines of livestock) was able to resume exports of agricultural products shortly after the liberation. The major part of the burden imposed by the occupation, estimated at over D.Kr. 9 milliard, was met at the time, by a current decline in consumption; but there remains the cost of repairing damaged property, rebuilding destroyed houses, replenishing stocks, etc. and also the cost of indemnities to victims of the occupation.

Norway has been exposed to more serious damage, which has been estimated at a total of N.Kr. 21 milliard, including the cost of the occupation forces and the loss of 3.8 million tons (ocean shipping and coastwise shipping), this being almost exactly one-half of the pre-war mercantile marine, the reconstitution of which will be one of Norway's primary peace tasks.

The two neutral countries Sweden and Switzerland have suffered comparatively little damage to property, although Sweden has, for instance, lost about 1 million tons of shipping. In these two countries the average standard of living never fell by more than 15 per cent. during the war; considering the shrinkage of the foreign trade of the two countries to less than half, it seems almost a miracle that their supplies of raw materials and consumption goods could be kept up as well as they have been, largely from the countries' own resources. One important lesson, however, has been that a reduction in imports of animal feeding stuffs alters the character of a country's agricultural production and thus causes a decline in the supply of fats, which, as time goes on, even begins to affect capacity for work in all grades of the population. Both Sweden and Switzerland added to their monetary reserves during the war; at the same time, they have received relatively large numbers of refugees; and, as an aid to reconstruction, they have placed gifts and credits, forming substantial totals, at the disposal of other countries (the amount granted or under consideration being S.Kr. 2 milliard in the case of Sweden.)

In the Iberian Peninsula, Portugal has been able to add considerably to its monetary reserves as a result of keen demand at high prices for its own export products and those of its colonies. Although the public finances have been in good order, the export surplus has been accompanied by a marked monetary expansion and sharp increases in living costs, which necessitate the raising of wages and affect the economic equilibrium with foreign countries.

Spain has for two years suffered from subnormal rainfall, which, apart from its effect on the crops, has considerably reduced the output of electric current. The repercussions of the inflation engendered by the civil war and subsequent heavy government expenditure still make it difficult to attain a real balance of foreign account, even if price rises elsewhere have narrowed the margin of disequilibrium between the Spanish and other economies. In 1944 the weight of the country's foreign trade was less than half of what it had been in 1933–35 (before the civil war). In 1944 the United Kingdom and the United States were the most important trade partners, instead of Germany as previously.

Outside Europe, no extensive war damage to property has occurred except in the Far East. It is a remarkable fact that in the United States the war effort required of the nation — corresponding in terms of Federal expenditure to a sum of over $280 milliard from December 1941 to the end of hostilities in August 1945* — has been covered in full by an increase in production above the pre-war level, as shown by the following figures.

United States: Gross National Product and its Disposal 1939–44.

	1939	1940	1941	1942	1943	1944
	in milliards of dollars					
Gross National Product	88.6	97.0	119.6	152.1	186.5	198.7
Disposed of as follows:						
1. Govt outlay for goods and services:						
Federal war expenditure	1.4	2.7	12.8	50.3	81.3	86.4
Federal non-war expenditure	6.5	6.1	5.4	5.0	4.9	5.6
State and local expenditure	8.1	7.9	7.8	7.3	7.1	7.4
Total Government outlay	16.0	16.7	26.0	62.6	93.3	99.4
2. Private outlay for goods and services:						
Capital formation	61.7	65.7	74.6	82.0	91.0	97.5
Consumption	10.9	14.6	19.0	7.5	2.2	1.8
Total private outlay	72.6	80.3	93.6	89.5	93.2	99.3
Total outlay	88.6	97.0	119.6	152.1	186.5	198.7

The increase in the gross national product is, of course, influenced by the rise in prices, but it has been estimated that in terms of a stable price level the gross national product increased by fully 75 per cent. Thanks to this achievement, private consumption needs could be more than fully met, which meant that a cut in the supplies of durable consumers' goods (automobiles, etc.) was more than counterbalanced by increased supplies of other consumers' goods (food, clothing, etc.). The war expenditure includes the lend-lease shipments of the United States, totalling $42 milliard, an amount equal to about 15 per cent. of the country's total war expenditure, while reverse lend-lease is valued at $7 milliard. For the period 1942 to 1944 about three-quarters of total U. S. exports were made on lend-lease account, with the result that the trade balance for this period as a whole registered a commercial import surplus. To meet the cash payments thus necessitated and to defray various war

* Of the total war expenditure up to the end of hostilities in August 1945 some $170 milliard are regarded as allocable to the war against Germany. It is further estimated that the working-time lost through service in the armed forces and the manufacture of munitions, as far as the war against Germany is concerned, comes to 47.5 million man-years.

expenses in foreign parts, the accumulated gold stock was drawn upon to the extent of \$2.6 milliard (to the end of June 1945). This took about one-third of the gold which had been gained between the end of 1938 and the end of 1941, when other countries made large payments to the American market.

At home, the amount of money in circulation rose from \$7 milliard in the summer of 1939 to \$27 milliard in the summer of 1945 and, at the same time, bank deposits increased from \$55 milliard to \$137 milliard, while the Federal Reserve Bulletin has calculated that the liquid asset holdings of individuals and businesses rose from \$66 milliard in December 1939 to \$194 milliard in December 1944. Of this large amount of actual and potential purchasing power thus placed in the hands of the public, a part, at least, will presumably be translated into an impatient demand, especially for clothes and certain more durable goods (automobiles, refrigerators, etc.), now that the war is over. Such a demand, providing an outlet when civilian production recovers, may make it easier to attain a balance in the cost and price structure and thus aid in the process of reconversion, which is estimated to affect about 6½ million, or about 12 per cent. of all the workers employed in the spring of 1945 (including those in government service), while an additional 9 million are due for release from the American armed forces between VJ-Day (8th August 1945) and July 1946.

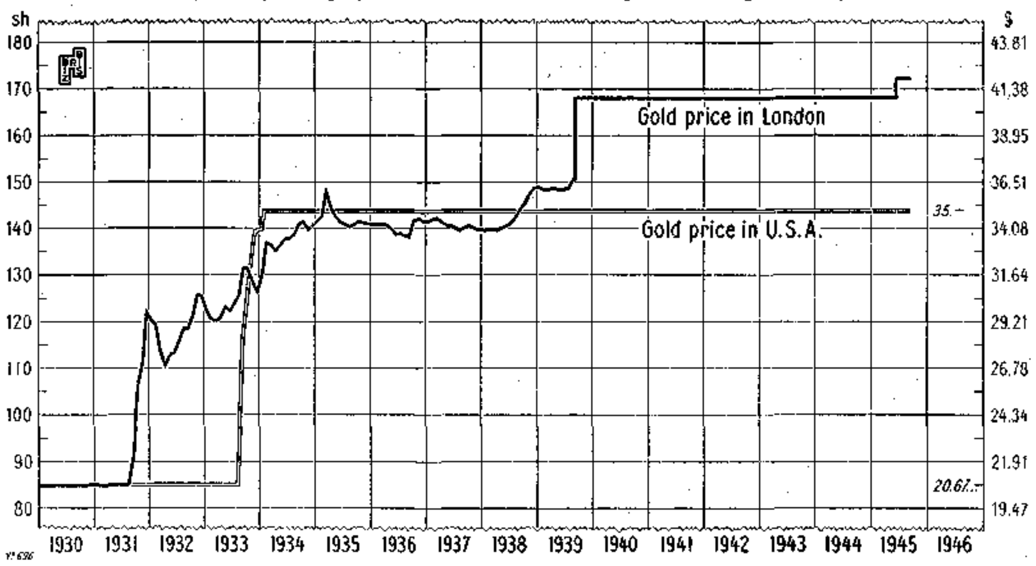
Similar problems are found in Canada, although in that country 20 per cent. of the national income is derived from agriculture, as compared with only 9 per cent. in the United States. Industrialisation has proceeded at a rapid pace all through the war years; Canada is now the fifth industrial country in the world, after having been almost without any industry in 1913 — a fact which shows how quickly new enterprises can be launched in our time, given certain favourable conditions, such as technical and financial ability, an adequate number of workers anxious to be trained, supplies of raw materials at reasonable prices, and well-to-do customers to buy what is produced. Thanks to an adequate supply of at least the necessities of life, Canadian price control has proved successful in limiting the wartime increase in the cost of living to about 20 per cent. Total war expenditure in 1939–45 amounted to Can. \$18.2 milliard, of which some Can. \$4.5 milliard was for mutual aid and other help to the United Nations. About one-half of the cost of the war was met by borrowing, the increase in the national debt being all internal. Indeed, Canada's external indebtedness was actually reduced by as much as Can. \$1.5 milliard during the war period.

Among the other British Dominions, Australia and New Zealand have been closest to the actual war zone, being this time more immediately affected by the world crisis than a quarter of a century ago. Exports from these two countries have largely been in the form of direct shipments to the military and naval formations, while imports have been difficult to obtain. In both countries the imposition of strict control measures has kept the movement of prices and wages well in hand. The lesson which the war has brought home most strongly would seem to be a realisation of the politically dangerous position of a sparse population in a vast territory with great economic potentialities.

It has been estimated that New Zealand can give its population the pre-war generous diet with the employment of only 8.6 per cent. of its labour force, while the export of foodstuffs requires another 14.2 per cent. and the production of industrial materials, such as wool, hides, etc., 4.9 per cent., making a total of nearly 28 per cent. of the working population.* Australia, also an exporter of foodstuffs, employs only one person in five on the land and, with 1.3 million in Sydney and 1 million in Melbourne out of a total population of 7.4 million, is actually the most urbanised country in the world, followed, incidentally, in this respect, by Great Britain second, New Zealand third, Austria fourth (on account of Vienna) and the United States fifth.

South Africa has benefited by the increase in the sterling price of gold from about 148s. 5d. to 168s. at the beginning of the war, especially since the output of gold reached a record figure in 1941, from which the subsequent decline has only been at the rate of about 15 per cent. The country has

Gold Price in London and the United States.
(Monthly average prices for one ounce of fine gold until August 1939.)



covered a greater percentage of its war expenditure by current revenue than any of the other active belligerents and has utilised its substantial surplus in the balance of payments to repatriate the government's entire sterling debt, as well as a considerable part of the private sterling debt, and even to repurchase other sterling securities. Steps have been taken to develop a variety of industries in an attempt to make the country less one-sidedly dependent on gold production.

A more substantial improvement on foreign account has been realised by India than by any other country in the world. Some 300 million of India's sterling debts have been repaid or repatriated and, in addition, the monetary

* Estimate by Colin Clark in "The Conditions of Economic Progress" (London, 1940) page 252.

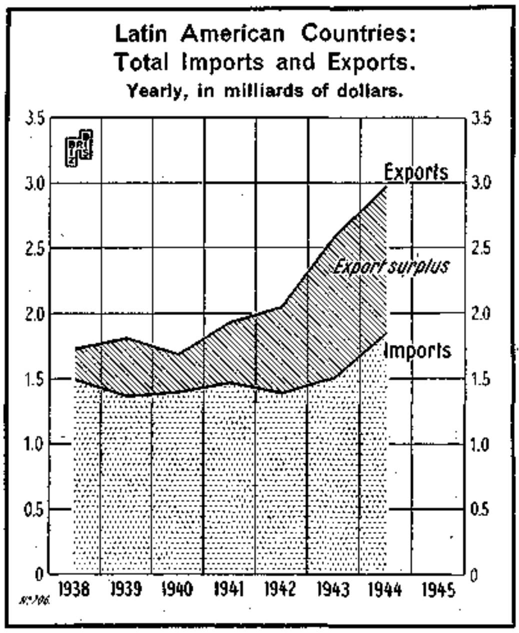
sterling reserves have risen by over £1000 million, turning India into a net creditor country. This abrupt change in the external position has been mainly due to payments by the British Government to meet the cost of defence against threatened invasion.

During the war, the industrialisation of India made further progress, especially in the armament sector, but it is hoped that the newly established or expanded enterprises will be speedily converted to peacetime production. While the increase by about 50 million, shown by the census of 1941 to have occurred in the Indian population since the census of 1931, is very likely somewhat exaggerated (the administrative machinery having meanwhile improved), it is safe to say that it can be no easy matter to find suitable work for such a great number of newcomers, especially since modern industries use so many labour-saving methods. It seems, indeed, difficult to indicate even a theoretical solution for the many pressing economic problems which beset India in common with several other densely populated countries, where the number of inhabitants is still increasing rapidly.

The fortunes of other parts of the British Empire, and of the many rich territories of the French, Dutch and Belgian Empires, have been mainly dependent on the course of the war. Such areas as have been overrun (becoming, in many cases, theatres of war) frequently suffered great material destruction and a disorganisation of their public services and private undertakings. But such areas as remained untouched by the war were often able to develop their productive capacity and make considerable progress, although it should be added that many reports on the size and importance of new establishments have contained great exaggerations. Even in the Belgian Congo, which made a substantial contribution to the finances of the Refugee Belgian Government in London, the whole white population is, for instance, only about 35,000. Indeed it should be remembered that Africa, a continent known to the peoples on the eastern and northern sides of the Mediterranean from the dawn of history, has a total population of about 158 million but a white population of barely 4 million, of which 2 million live in the Union of South Africa. In order to promote local development, the mother countries have increasingly made as complete inventories as possible of the natural resources in the different areas under their sovereignty.

Egypt, Iran and Iraq, as well as Palestine, have been able to repay debts and to accumulate large monetary reserves out of the amounts expended in their areas for war purposes at a time when imports were restricted. These countries are hungry for European and American goods, but it is probable that steps will be taken to reserve foreign assets, as far as possible, for development schemes. The Government of Iraq has, for instance, planned to devote £4½ million to railway improvements over a three-year period.

During the war, Latin American countries were able to increase the value of their exports from the equivalent of about $1,700 million in 1940 to nearly $3,000 million in 1944, while the corresponding rise in imports was only from $1,400 million to $1,850 million, the main providers of import goods — the United Kingdom and the United States — concentrating on their war effort. For the whole of the period 1940 to 1944 the export surplus amounted to about $3,500 million, according to an article on "Monetary Developments in Latin America" in the Federal Reserve Bulletin for June 1945.



The substantial export surplus led to an extraordinary accumulation of gold and foreign exchange in the reserves of the Latin American countries. In comparison, other influences in the balance of payments were of minor importance: the aggregate amount of short-term funds entering the Argentine market, American investments, especially in Mexico, and loans granted by the U. S. Export-Import Bank were, in fact, more than offset by a repatriation of bonds from abroad, redemption of foreign credits and payments for services. In all, the gold and foreign exchange reserves rose from the equivalent of $828 million at the end of 1939 to $3,335 million by the end of 1944.

Such amounts of gold and foreign exchange as went to increase the monetary reserves were bought by the central banks against their own currencies, with a consequent expansion in the domestic supply of money.

In all except a few countries the expansion in the supply of money went further than the increase in the reserves, domestic factors (such as credits to the government) having their effect; but in Venezuela and Uruguay the monetary expansion was held in check. In the former country the budget was balanced, revenue exceeding expenditure by 68 million bolivares in 1943–44 (as a result mainly of higher petroleum taxes). In Uruguay also, the state finances have been in order and the central bank, which is at the same time the most powerful commercial bank in the country, has controlled directly, to a large extent, the volume of commercial-bank loans as well as of central-bank credit.

The last two columns of the next table show the increase in the supply of money and in living costs. The correspondence is perhaps not so great as might have been expected, but it is recalled that cost-of-living indexes are in some measure influenced by artificial factors such as rent control and subsidies under systems varying from country to country, and, moreover, they do not always reflect the full increase in costs for an average family.

Thanks to the improvement in their monetary reserves, several of the Latin American countries have been able to relax their exchange control and

Latin American Countries: Increase in Monetary Reserves, Supply of Money and Cost of Living.

Country	National currency unit	Money supply (1) Total end of 1944	Increase 1939 to 1944 from increase in monetary reserves (2)	Increase 1939 to 1944 from domestic factors (3)	Increase 1939 to 1944 total	Percentage increase 1939 to 1944 in money supply	Percentage increase 1939 to 1944 in the cost of living
		in millions of national currency units					
Argentina	Peso	5,937	3,024	314	3,338	128	10
Uruguay	Peso	322	252	(— 84)	168	109	22
Paraguay	Guarani	47	27	7	34	262	89
Brazil	Cruzeiro	42,897	11,046	17,910	28,956	208	70
Venezuela	Bolivar	603	308	(— 16)	292	94	31
Colombia	Peso	407	235	26	261	179	50
Ecuador	Sucre	615	426	27	453	280	123
Peru	Sol	1,004	95	597	692	222	73
Chile	Peso	6,387	1,671	2,192	3,863	153	126
Bolivia	Boliviano	1,889	839	487	1,326	236	237
Costa Rica	Colon	156	62	47	109	232	76
Nicaragua	Cordoba	90	27	31	58	181	170
El Salvador	Colon	73	42	5	47	181	—
Honduras	Lempira	13	11	(— 4)	7	127	—
Guatemala	Quetzal	22	14	0	14	175	—
Mexico	Peso	3,392	922	1,551	2,473	269	100
Cuba	Peso	553	425	(— 11)	414	298	83
Haiti	Gourde	24	26	(— 10)	16	200	—

(1) I.e. notes, coins outside banks, and demand deposits.
(2) Consisting of gold and foreign exchange, i.e. of assets received from abroad in settlement of a surplus in the balance of payments.
(3) Such as credits granted by the central bank to the government, to the private banking system or directly to private business.
Note: As regards the details of the table, see page 531 of the Federal Reserve Bulletin for June 1945.

have seen a reduction in the volume of transactions at black market rates. But the rise in commodity prices in a considerable number of these countries makes it a difficult problem to secure conditions under which equilibrium can be maintained more permanently on foreign account.

In the course of the war, intra-continental trade has been developed and local industries built up; but difficulties in obtaining machinery and in finding skilled technical staff have retarded industrial progress in all the Latin American countries.

Besides doubling its monetary reserves, the Argentine has repatriated a considerable part of its external — and especially its sterling — debt (to the extent of about Pesos 600 million up to the middle of 1945). A certain unification has been achieved in the complicated Argentine system of multiple foreign exchange rates, but the bulk of commercial and monetary transactions with foreign countries still remain subject to official control measures and comparatively wide margins are maintained between buying and selling rates for foreign currencies.

In Brazil the coffee crop for the season which began in July 1945 has been estimated at 12 million bags (of 60 kilogrammes each), which is 1.4 million more than for the previous season, but still only half the average volume for the last ten years before the war. The country has, however, gradually become less dependent on its coffee exports. Indeed, a considerable part of the foreign income is obtained from exporting cotton and cotton textiles and from the export of mineral products in increasing quantities. By a series of arrangements affecting its foreign debt, the service of this debt has been reduced from the equivalent of £23.1 million in 1930 to £8.3 million in 1945.

Mexico, also a country rich in natural resources, is by its geographical position most closely linked to the United States, which takes fully 80 per cent. of the exports and furnishes fully 70 per cent. of the imports. After the U.S. price for foreign silver was raised in September 1945 from 45 to 71.11 cents per troy ounce, Mexican taxation of silver reverted to a sliding scale under which, with silver at 71.11 cents, the mines receive 50 cents per ounce (instead of 36 cents under the war emergency taxes previously in force). It is understood that, thanks to the higher yield of the silver taxation (21.11 instead of 9 cents per ounce), the government will be able to maintain the service of the foreign debt in accordance with the agreement of November 1942. In the spring of 1945 an economic mission was sent by the Mexican Government to various European countries to study possibilities of purchasing suitable machinery and certain other important products; but the country will no doubt still look to the western hemisphere for its main contacts. In September 1945 it was announced that a $10 million plant, financed to the extent of 49 per cent. by American and 51 per cent. by Mexican capital, would be built near Mexico City to manufacture refrigerators, wireless sets and other types of electrical equipment.

In the Far East the fighting reached its climax with the termination of the war in Europe, to come to a sudden end in August 1945.

China has been split up into separate areas and has, consequently, to solve a number of difficult problems of a political and economic nature. It has, moreover, to combat inflationary tendencies at a time when domestic output is still low and imports are impeded, especially by transport difficulties. The turn of political events, however, brought an almost automatic improvement in certain monetary trends. At the beginning of August gold was quoted on the market at between Chinese dollars 180,000 and 190,000 per tael, which caused the authorities in Chungking to raise the official price to $175,000. But, in the third week of August, the market price fell to $78,000, to stiffen in the course of the autumn to $88,000–115,000. The cost of living in Chungking at the beginning of 1945 is reported to have been 300 times as high as in 1936, while by the end of July 1945 wholesale prices were 1,900 times as high. It is, of course, realised that without internal stabilisation, which presupposes the restoration of orderly finances and a recovery in domestic production, stable exchanges cannot be maintained nor equilibrium reached in the balance of payments.

In Shanghai, the Philippines, Burma and Malaya the notes of circulation issued by the Japanese monetary authorities were demonetised at one stroke and arrangements made for reopening the branches of British and American banks. The dollar of the Straits Settlements has been issued again, transfers taking place at the pre-war parity of \$1 = £1.8s.0d. Great efforts are being made to restore economic life. In Malaya it has been found that, in general, the rubber trees have not been destroyed and the plantations are expected to yield rubber again in the course of 1946.

It is a peculiarity of the southern part of China, as well as of south-eastern Asia, that it possesses only limited deposits of iron ore and of several other important metals, the principal exceptions being tin in Malaya and nickel in the Caledonian Islands; but China has much coal, and oil is found in Borneo; rubber and sugar plantations exist in many places and spices famous on all markets come from the Dutch East Indies.

According to the Potsdam Declaration (dated 26th July 1945), Japan will retain sovereignity over the islands of Honshu, Hokkaido, Kyushu, Shikoku, and such minor islands as may be determined. The country will presumably comprise a territory with a population of about 78 million (the 1944 figure), i.e. about 3 per cent. of the total world population, and with an area of 382,000 square kilometres or about 0.3 per cent. of the total area of the five continents of the world.

Japan Proper*:
Occupational Distribution of Population.

Groups	1920		1936	
	Numbers	%	Numbers	%
Agriculture	14,300,000	*52*	14,100,000	*43*
Industry	5,100,000	*19*	7,800,000	*24*
Commerce and communications . .	4,600,000	*17*	6,100,000	*19*
Others	3,300,000	*12*	4,400,000	*14*
Total employed . .	27,300,000	*100*	32,400,000	*100*
Total population .	56,000,000	—	70,300,000	—

* i.e. without the following territories:

	Area square kilometres	Population in millions
Korea	221,000	24.1
Formosa	36,000	5.8
Kwantung	3,400	1.3
Sakhalin	36,000	0.4
Total . . .	296,400	31.6

It may further be mentioned that the territory known as Manchukuo has an area of about 1,303,000 square kilometres (503,000 square miles) and in 1942 had a population of 45 million.

In 1854, when Japan entered into contact with the outside world, the country's population was about 30 million. The increase has been at a high and steady rate, from 1.2 to 1.5 per cent. per annum, with an average increase of nearly 1 million a year from 1920 to 1944.

Point 11 of the Potsdam Declaration lays down that "Japan shall be permitted to maintain such industries as will sustain her economy and allow the exaction of just reparations in kind, but not those industries which will enable her to re-arm for war. To this end access to, as distinguished from control of, raw materials shall be permitted. Eventual Japanese participation in world trade relations shall be permitted."

* * *

This brief review shows what a variety of problems present themselves in different parts of the world. Some countries have to repair actual damage caused by hostilities within their own territories; some are also affected by unprecedented displacements of population; others chiefly feel the need of adjustment owing to a reduction in their foreign assets, while, for all and sundry, disturbances in the normal monetary and economic organisation have followed in the wake of war. Additional light is thrown on the situation by certain international comparisons based on material which mostly became available in the autumn of 1945.

Some International Comparisons.

In the Twentieth Report to Congress on Lend-Lease Operations (for the period ended 30th June 1945) the President of the United States says:

> "The over-all costs of the war cannot be measured in dollars. They must be and have been met in blood and toil, in lives lost and men maimed, in the immeasurable wreckage of human lives and happiness and the destruction of homes and cities. These are the costs of war that can never be evaluated in monetary terms.
>
> To the extent that the cost of each nation's contribution to the war can be measured in financial terms, probably the best measurement is the proportion of its national income which each of the United Nations is devoting to the war."

By way of an illustration the report reproduces a chart showing the war expenditure of six nations, calculated from year to year as a percentage of the country's national income, the graph being based on the following table prepared by the Foreign Economic Administration (one of the war agencies of the United States) according to the best and most recent information available. Care was taken, however, to point out that "obviously the accuracy and reliability of such measurements vary from year to year and country to country" and that, in view of the great imperfections in the basic data, the ratios should be regarded "as general approximations of trends and magnitudes rather than as exact statistical measurements".

Percentage of National Income devoted to War Expenditure.

Country	1939	1940	1941	1942	1943	1944
	Percentages					
United Kingdom . .	15	39	49	53	54	54
U.S.S.R.	22	27	36	45	48	44
Canada	2	10	19	40	54	52
New Zealand . . .	2	9	23	50	54	49
Australia	2	12	25	43	48	44
United States . . .	2	3	11	35	46	46

According to these figures, the highest percentage for 1939 was in respect of spending for defence purposes by the U.S.S.R.; in the following years, however, the proportion which war expenditure in the United Kingdom bore to the national income was exceeded by no other nation, although equalled in 1943 by Canada and New Zealand.

In October 1945 a combined committee of American, Canadian and British representatives submitted a report on the impact of the war on civilian consumption in the United States, Canada and the United Kingdom. Its purpose was to provide objective measurements on a basis that would ensure fair comparisons between the countries.

In 1943 and 1944 about one-half of the gross national product of the United Kingdom and Canada was devoted to the war and about 40 per cent. in the United States. In all three countries no addition was made to the stock of non-war buildings and capital equipment; in many cases replacement ceased and stocks of civilian goods ran out. But only the United Kingdom suffered a net reduction in national wealth — a reduction which was of material proportions.

Before the war, consumption per head in the United Kingdom would seem to have been between 10 and 20 per cent. lower than in the United States but practically the same as in Canada. Wartime conditions affected consumer purchases very differently. In alcoholic beverages and tobacco, reading matter, amusements, public transport and communication services there was a slight rise in the United Kingdom and, in general, a somewhat greater rise in the United States and Canada. A sharp curtailment occurred, on the other hand, as regards the purchase and running of motor vehicles, the use of private cars almost ceasing in the United Kingdom and being cut most severely in the other two countries. Food consumption declined in the United Kingdom but rose in both the United States and Canada.

The volume of general civilian consumption per head in the United Kingdom from 1938 to 1944 is calculated to have fallen by 15 to 20 per cent., while in the United States and Canada the volume of consumers' purchases per head in 1944 was 10 to 15 per cent. higher than in 1939 and about equal to the figure for 1941. (Judged by the level of actual employment, it would seem as if for the United States and Canada the year 1941 might best be compared with 1938 in the United Kingdom.) Moreover, it should be remembered that the impact of the war on consumption came later in the United States and Canada and that the effect there was more gradual and less severe than in the United Kingdom.

Food Consumption per head, valued at U.S. pre-war prices.

Country	Fresh animal products (1)	Other animal products and other fats (2)	Other foods (3)	Total
	U.S. dollars per head			
United Kingdom				
1934–38 average	47	11	33	91
1943	36	14	34	84
United States				
1935–39 average	48	15	41	104
1943	54	16	42	112
Canada				
1935–39 average	53	9	31	93
1943	60	12	31	103

(1) Butter, fluid whole milk, fresh meats, poultry, game, fish and eggs.
(2) Other dairy products, other fats and oils, dried and liquid eggs, and canned meats and fish.
(3) Includes sugar, syrups, potatoes, pulses, nuts, fruits, vegetables, grain products, tea, coffee and cocoa.

In the United Kingdom 55 per cent. of the total labour force was engaged in war employment (armed forces, manufacture of munitions etc.), as compared with 40 per cent. in the United States and Canada. In all three countries, but particularly in the United Kingdom, withdrawal of manpower reduced the number of doctors and dentists in civilian practice, and of domestic servants, while the calling-up of experienced school-teachers outstripped the provision of trained substitutes. Moreover, special shortages occurred in congested areas, affecting not only housing but also schools, medical care, retail shops, recreation facilities and other localised services. After 1942 the shortage of labour in the United Kingdom imposed an over-all limit on production, necessitating restrictions on the use of workers for non-war output in a degree not attempted in the other two countries.

Mobilisation of Labour Force for War.
Position in June 1944.

Items	United Kingdom	United States	Canada
	Millions of persons		
War employment:			
Armed forces . .	5.2	11.5	0.8
Civilian	7.8	13.4	1.3
Total .	13.0	24.9	2.1
Other employment .	10.4	36.3	2.9
Unemployed	0.1	1.0	0.1
Grand Total	23.5	62.2	5.1

* * *

In wartime, the supply of manpower is, indeed, a matter of outstanding importance; and, when the war is over and each country has to take stock of the situation, it not unnaturally pays much attention to the trend and prospects of its own population.

Never before in the history of the world have population problems come in for so much official investigation or been followed so closely by the general public. It is, in this connection, interesting to note that, when the new French Cabinet was being formed in November 1945, a "Ministry of Population" was established, for the first time in world history, the functions of the former Ministry of Health being transferred to the new department.

In the fourteenth Annual Report of this Bank attention was drawn to the fairly widespread increase which had occurred in birth rates from 1938 to 1943 — a development sharply contrasting with the predominant trend during the first world war. As may be seen from the following table, the upward tendency, as a rule, continued in 1944 in spite of the difficulties necessarily caused by a long war.

It was also pointed out in the fourteenth Annual Report that Germany was a conspicuous exception to the upward tendency; in 1944 there was a further reduction in the German birth rate, reflecting, no doubt, a sense of impending defeat and of deterioration in the material conditions of life.

At first the increase so generally apparent in the birth rate seems to have been the natural result of a rise in the marriage rate; but, later on, and certainly in 1943 and 1944, the average size of families became larger, Birth Rates in different countries.

Countries	First World War		Second World War		
	1913	1918	1938	1943	1944
	Rates per 1,000 inhabitants				
United Kingdom . .	24.3	18.1	15.5	16.2	17.5
Eire	22.6	19.9	19.4	21.8	22.0
Australia	28.2	25.0	17.5	20.7	21.2
France	18.8	12.1	14.6	15.9	16.3 (1)
Belgium	22.4	11.3	15.8	14.8	15.2
Holland	28.3	25.3	20.5	23.0	24.2 (2)
Denmark	25.6	24.1	18.1	21.4	22.6
Norway	25.1	24.6	15.6	18.9	—
Czechoslovakia (3) . .	28.9	12.9	14.5	21.6	21.8
Hungary	33.8	16.3	20.1	19.2	—
Germany	27.5	14.3	19.6	16.2	—
Sweden	23.2	20.3	14.9	19.3	20.3
Switzerland	23.2	18.7	15.2	19.2	19.6
United States	25.5	24.6	17.6	21.5	20.2 (1)

(1) Provisional. (2) Figures for the first six months.
(3) Figures for Bohemia and Moravia for 1943 and 1944.

indicating that the desire for children had also increased. The widespread character of the upward trend, affecting Catholic and Protestant communities in very much the same way, points to the working of some deep-seated forces connected with the general social and spiritual orientation of our times. In past centuries higher birth rates have often been the result of improved material conditions (e. g. good harvests); and in those countries where birth rates had already begun to rise before 1940 (as in Switzerland and Sweden), the increase may possibly, to some extent, have reflected the improvement in the standard of living which was one of the features of the recovery after the great depression of 1929–32. The birth rate continued to rise, however, in countries where a decided setback in real income occurred during the war. It is of particular interest to note that the political tension culminating in the war proved no deterrent to an increase in the number of births. These are elusive matters but it may be noted that the following circumstances were of importance:

(i) A certain basis of confidence as far as the bare necessities of life are concerned has, no doubt, been created by the social-security measures introduced in different countries, it being felt that the individual and his dependents are not left to cope unaided with such disasters as unemployment, failing health and industrial accidents. A similar effect would seem to have been produced by the somewhat more generous support given during this war to the families of men serving in the forces or otherwise recruited for war work.

(ii) A change has occurred in the general attitude of society. People are influenced by the fact that these matters are widely discussed and that the founding of families and rearing of children has the approval not only of those who legislate and govern but also of the public at large, including many writers who are clearly recognised as holding "progressive views".

(iii) This "social approval" is reinforced by the testimony of personal experience. It is not unusual to hear people of an older generation declare that they were foolish to postpone having children (not infrequently with the result that they had none at all, or only one) for in that way their lives lacked completeness and they ran a greater risk of a lonely old age. Although unsettled conditions (particularly during the war years) have no doubt weighed on people's minds, it may indeed happen that the uncertainties of our times lead to a higher appreciation of the benefits to be derived from family life (an outlook similar to that which has long been held in China, for instance).

These circumstances represent, in fact, a reversal of the tendencies characterising the period 1870–1930, during which a marked decline in birth rates took place. In those days, the individual families were largely left to look after themselves, without much social aid; the "progressive views" of the time were usually tinged with Malthusianism[1]; and more and more of the population found themselves in a position to enjoy the amenities of modern life provided that they were not too much hampered by family burdens. These considerations have applied primarily to the western world, where, over a long period, rapid technical developments ensured an average annual increase in real income per head of the population at the rate of nearly 2 per cent. per annum (which, together with the increase in population at about 1 per cent. per annum[2], made up the famous 3 per cent. rate for the material progress of the world since about 1870).

The rates given in the above table are the so-called "crude birth rates", expressing the number of births in each year as so many per thousand of the total population. For a more accurate indication of the trend of a population, however, a finer measure, taking into account age and sex composition, is required; and such a measure has been found in the "net reproduction rates", which are calculated to express the degree in which any given generation of women is replacing itself by producing potential mothers for the next generation — allowance being made for the fact that not all the babies born reach a reproductive age. Thus, when the net reproduction rate is exactly 1.00, each newly born girl will just replace herself (assuming that the given conditions of fertility and mortality remain unchanged), while a rate of less than 1.00 means that the population will ultimately fall. To give an example: a rate of 0.75 means a fall of 25 per cent. in a generation, i.e. roughly within the span of 30 years.[3]

In the years 1935–37 the net reproduction rate in Great Britain was 0.79 and fertility was thus 21 per cent. below what was required, with current death rates, to ensure a replacement of the population. For every 790 girls born, there should have been 1,000 and, if that had happened, there would also have

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(1) The English clergyman, T. R. Malthus, published his famous work, "An Essay on the Principle of Population as it affects the Future Improvement of Society, with Remarks on the Speculations of Mr Godwin, Mr Condorcet, and other Writers", in 1798. Six revised editions were issued, the last (from which subsequent reprints were generally made) in 1816. Malthus' oft-repeated basic argument was that population shows a tendency to increase faster than the means of subsistence and that this tendency, if not properly checked by "moral restraint", will cause untold misery and prevent the realisation of a happy society. The followers of Malthus (and still more the adherents of the so-called neo-Malthusianism) made much propaganda for their firmly held views, advocating a limitation of the number of children — before the first world war no discussion on population could fail to include some reference to the views of Malthus. The rapid increase in food production, especially in the present century, has — at least for the western world — radically altered the facts of the situation; and population questions are now being considered in another light.

In a more general sense, Malthusianism has come to signify tendencies of an anti-expansionist (restrictive) character (cf. page 14).

(2) Birth rates fell but so did death rates and for several decades the difference between the two remained more or less constant.

(3) Source: "The Population of Great Britain" by Mark Abrams, London 1945.

Net Reproduction Rates.

Countries	Period	Rate
Sweden	1937	.76
Great Britain	1935–37	.79
Belgium	1936	.83
Norway	1938	.83
France	1937	.87
Denmark	1939	.92
Germany	1938	.94
Hungary	1938	1.00
Italy	1935–37	1.13
U.S.A. (whites)	1937	.96
Canada	1937	1.09
Australia	1939	.98
New Zealand	1939	1.07

been proportionately more boys born; consequently, if the crude birth rate, standing at 15.1 per mille in 1935–37, is increased in the proportion of 790 to 1,000, the resulting birth rate — 19.1 per mille — may be regarded as an approximation to the true "replacement rate" (an approximation only, since some minor adjustments may still have to be made on account, for instance, of probable changes in mortality when more children are born; the advantage of returning to a rate comparable with the crude birth rate is that, as a measure, such a rate is easiest for the layman to understand). For the majority of western countries the birth rates required for full replacement would seem to be about 19–20 per mille. In Germany such a range of rates was reached but not much exceeded during the 'thirties; and the war brought a setback. In Great Britain this range of rates was almost attained in the course of 1944 (followed, however, by a certain decline in 1945). The rise which has occurred is, however, not in itself sufficient to overtake losses due to lower fertility in the past. It is indeed unlikely that countries wishing to attain higher population figures in the not too distant future will be able to do so by an increase in their own birth rates; this would seem to be the case with many countries in Europe and such non-European countries as Australia and New Zealand. There remains the possibility of organised immigration. Because of transfers of population, especially in central and eastern Europe, many persons will be in search of new homes. A humanitarian point of view is not the only one from which it may be desirable to make arrangements, with proper safeguards, for fairly large numbers of such persons to settle in countries anxious to increase their population. In Australia it was announced in the summer of 1945 that steps were being taken to allow into the country some 50,000 homeless children from Europe, and that other measures to attract immigrants would follow.

The population of the world is still very unevenly distributed in relation not only to the size of the different continents but also to the natural resources which these continents possess:

Despite four centuries of immigration, the New World (i.e. the Americas, Australia and New Zealand, with the islands in the Pacific) is peopled by only one-eighth of the earth's inhabitants but covers more than one-third of the surface of the globe and accounts for over 40 per cent. of all goods and services produced, i.e. for fully two-fifths of the aggregate of the national incomes of all the countries in the world. Much has been heard, from time to time, about the slowing-up in the increase in the population of the United States, which accounts for nearly one-half of the total population of the New World. But, notwithstanding the provisions limiting immigration, the United States

Population and Area of the World.

Continents	Population (end of 1939)		Area	
	Numbers (in millions)	%	Km² (in millions)	%
The Old World:				
Europe *	402	*19*	5.4	*4*
U.S.S.R. (in Europe and Asia)	172	*8*	21.1	*16*
Asia *				
China	450	*21*	15.7	*12*
the rest	704	*32*	11.1	*8*
Total for Asia *	1,154	*53*	26.8	*20*
Africa	158	*7*	30.3	*23*
Total for the Old World	1,886	*87*	83.6	*63*
The New World:				
North America	143	*7*	19.7	*15*
Central America	42	*2*	3.0	*2*
South America	88	*4*	17.9	*14*
Oceania	11	*(0.5)*	8.6	*6*
Total for the New World	284	*13*	49.2	*37*
Total for the World	2,170	*100*	132.8	*100*

* Without the U.S.S.R.

still shows a very handsome increase. Owing mainly to higher birth rates, the population increased by about 8 million from 1940 to 1945, while in the ten years between 1930 and 1940 the increase had been not quite 9 million. In the summer of 1945 the country's total population attained a figure of almost 140 million. It is interesting to note that an internal shift of considerable proportions occurred during the war. 1,850,000 men from farms joined the armed forces and, in addition, there was a net loss of 5 million persons from the agricultural sector, one half being workers and the other half dependents. The total population in agriculture (including dependents) was returned as 32.2 million in 1940. In spite of the movement from the farms, the agricultural output of the United States reached a new record in each successive year of the war — a sure indication of a previous redundancy in the farm population, mainly dating from the depression in the 'thirties, when town occupations offered few new opportunities and those born on the farms had practically no alternative to remaining on the land.

Europe (without the U.S.S.R.) occupies only 4 per cent. of the total area but has nearly one-fifth of the world's population and had, in 1929, about one-third of the aggregate of the national incomes of the various countries. In population, as in other matters, Europe shows no regular pattern. In the western parts the population nearly doubled between 1840 and 1914; real wages rose by about three times; and large numbers of emigrants went to people the new world. But the vigorous expansion came to an end at about the time of the first world war; and the present outlook is for a steady increase in the higher age-groups of the population.

In eastern Europe, on the other hand, birth rates, though falling, have remained relatively high and the increasing population has exerted continual pressure on the land. To provide for adequate employment in a period of restricted migration, the governments of the countries concerned have all endeavoured to develop domestic industries. The gradual growth of the town population has to some extent hastened the fall in birth rates; but these changes are necessarily slow and do not seem to alter the essential characteristics of the situation for the time being.

Further east, the population of the U.S.S.R., with its great vitality, quickly recovered from the losses sustained during and after the first world war and is likely to do so again after this war. Owing to the industrial development of the Ural area and in Siberia, coupled with the great devastations in the western part of the country, the centre of gravity of the many peoples inhabiting the Federated Socialist Republics has moved eastwards, in the direction of the newly developed regions rich in natural resources.

In south-eastern Asia the bulk of the population, whose large numbers have, even now, hardly been accurately computed, is still living on the land; and high birth and death rates indicate the conditions of acute tension characteristic of densely populated countries with a comparatively low income per head.

Changes in population have generally a lasting effect on the international situation. A number of other circumstances arising out of the war may be less enduring, although it is always difficult to tell what will have only temporary importance.

General Problems arising out of the War.

Of the burden imposed on the belligerent countries much was shouldered during the war itself, by means of reduced consumption and hard work; and this is particularly the case with regard to the so-called direct costs, as measured by the actual war expenditure of the national Treasuries. But there are certain losses which mostly remain as a burden for the future and will cause a deterioration in the position long after the war is over:

(i) Human factors: premature death and impaired health including permanent disablements of service men, loss of peacetime education, subnormal number of births, etc.

(ii) Material factors: destruction of buildings and industrial equipment, losses of stocks and of other possessions including works of art (often of great cultural value), reduction in the fertility of agricultural lands, postponement of upkeep and renewal of capital assets; and, in some cases, drawing on foreign investments.

(iii) Disorganisation: in each country the maintenance of production and trade depends upon the working of a delicate mechanism of labour markets, business connections, etc., a mechanism which becomes much impaired in the course of a major war. The effects of higher national debts come mainly under this head.

Figures for the direct costs are obtainable from the budget accounts of the individual countries; but attempts have also been made to estimate the material losses — those set out under (ii) above — and to put an economic value on some of the human losses — those enumerated in (i) above.

In a study for the Carnegie Endowment* the combined direct and indirect costs of the first world war were set forth in the following table.

* "Direct and Indirect Costs of the Great World War" by Ernest L. Bogart, New York 1919.

Direct and Indirect Costs of the First World War.

Items	Milliards of $
Total direct costs, net	186.3
Indirect costs:	
Capitalised value of human life:	
Soldiers	33.6
Civilians	33.6
Property losses:	
On land	30.0
Shipping and cargo	6.8
Loss of production	45.0
War relief	1.0
Loss to neutrals	1.7
Total indirect costs	151.7
Grand total . .	338.0

In the table the total direct costs are given as $186.3 milliard. According to a later investigation,* these same costs are estimated — in terms of 1913 dollars, i.e. dollars of the same purchasing power for goods and services as in 1913 — at $81 milliard, of which $56 milliard or 70 per cent. was spent by the allied and associated powers and $25 milliard or 30 per cent. by the central powers.

If the "1913 dollar" be converted into a "1945 dollar" (account being taken not only of the rise in wholesale prices but of the more considerable rise in wages and other cost elements), the direct cost of the first world war may roughly be put at $180 milliard, or about the same figure as in the above table. The direct cost of the present war has been much greater. By the summer of 1945 the United States alone had spent over $280 milliard on the prosecution of the war and the United Kingdom about £30 milliard ($120 milliard), exclusive of the net receipts on lend-lease account, while Canada's war expenditure had been about Can.$18 milliard. From September 1939 to May 1945 Germany would seem to have spent between RM 450 and 500 milliard on the war, including some RM 130 milliard obtained from occupied and other European countries. In purchasing power these RM 450–500 milliard may perhaps be said to correspond to some $150–170 milliard. And in the six years 1940–45 the extraordinary budgets for war expenditure in Japan aggregated more than Yen 222 milliard, of which over one-quarter was raised in China and the southern areas.

Up to the summer of 1945 the total cost of the second world war (the war expenditure borne by the different Treasuries) would seem to have been, in real values, fully four times as high as the cost of the first world war.

In the study for the Carnegie Endowment, referred to above, the following comment was made on the table of direct and indirect costs of the first world war. "The figures presented in this summary are both incomprehensible and appalling, yet even these do not take into account the effect of the war on life, human vitality, economic well-being, ethics, morality, or other phases of human relationships and activities which have been disorganized and injured. It is evident from the present disturbances in Europe that the real costs of the war cannot be measured by the direct money outlays of the belligerents during the five years of its duration, but that the very breakdown of modern economic society might be the price exacted." This was written in 1919; subsequent events served to bring home the truth of these observations even more strongly.

* * *

* "The Inter-Ally Debts" by Harvey E. Fisk, Bankers Trust Company, New York - Paris 1924.

In the brief notes on individual countries in the first section of this Report several references were made to the problem of reparations as it presents itself after this second world war. A few words may be added to summarise the situation.

The armistice terms for Finland, Roumania and Hungary made provision for deliveries in kind to the U.S.S.R., the total amount to be paid by each of these countries amounting to $300 million within six years. Certain modifications have been made in the original settlements, as already explained on pages 7 and 9 above.

As regards German reparations, the following provision was contained in the declaration of the Yalta Conference dated 12th February 1945:

> "We have considered the question of the damage caused by Germany to Allied Nations in this war, and recognise it as just that Germany be obliged to make compensation for the damage in kind to the greatest extent possible. A Commission for the Compensation of Damage will be established. The Commission will be instructed to consider the question of extent and methods for compensating damage caused by Germany to the Allied countries. The Commission will work in Moscow."

In the summer of 1945 the Commission for the Compensation of Damage, which was decided upon at Yalta, held a session in Moscow with the participation of representatives of France, the United Kingdom, the United States and the U.S.S.R. A whole section on German reparations is included in the statement of the Potsdam Conference dated 2nd August 1945 (some of the main clauses are reproduced on page 12 above). It should be mentioned that the Commission for the Compensation of Damage has no powers corresponding to those of the Reparation Commission set up after the first world war. The principal task of the present Commission is to examine the different questions and formulate proposals for an agreement to be reached between the respective governments.

By the Potsdam Conference, a geographical division was made: the U.S.S.R. obtains its reparations from the zone which it occupies and from appropriate German external assets and receives, in addition, from the other zones, 25 per cent. of such German capital equipment as is unnecessary for the German peace economy (10 per cent. without payment and 15 per cent. in exchange for certain commodities — cf. page 12). As regards German external assets, the U.S.S.R. will have a claim on such assets in Finland, Bulgaria, Hungary, Roumania and eastern Austria. The U.S.S.R. has undertaken to settle the reparation claims of Poland from its own share of reparations.

The other countries entitled to reparations will obtain their share from the Western Zones (i. e. the parts of Germany occupied by France, the United Kingdom and the United States) and from such appropriate German external assets as are not reserved for the U.S.S.R. Representatives of these other countries — seventeen in all* — met in Paris at the beginning of November 1945 to prepare a plan for the distribution of reparations between the different participants and to organise an agency for reparations, charged with the task of receiving and distributing German deliveries and handling the settlement of all related questions, — the plan to be recommended for adoption by the respective governments.

As far as can be judged from the information available, the present ideas differ in many respects from those put into practice after the first world war, when (essentially) financial obligations were fixed for a very long period — the Young Plan provided for payments to be made over a period of sixty-two years. As far as reparations after this war are concerned, the financial aspect was already pushed into the background at Yalta, a more realistic attitude being adopted from economic considerations as well as from a desire to provide for greater political security. The removal of such industrial equipment as is unnecessary for the German peace economy serves both to increase security and to provide reparations. But the total value of such removals will never reach a high figure and it is, moreover, likely that the machines etc. which are removed will not represent more than a moderate advantage for the recipient, considering that additional investments will normally be required before any profits can be derived from the equipment received. The question has therefore been raised whether the removal should not be supplemented by "current deliveries", i. e. by German deliveries (without payment) of raw materials and other goods or by the direct services of German manpower.

The problem which has to be solved is in no way an easy one, in view of the many conflicting considerations which have to be taken into account. The larger the removals made in the interest of security, the less capable will the German economy be of making current deliveries. Also, if Germany's existing foreign assets are all earmarked for reparations, more of the income from the country's current exports will have to be set aside to pay for necessary imports of food and raw materials. An overriding consideration is, further, that the system adopted should contribute to a rapid reconstruction of countries which have been occupied or otherwise badly damaged. It has, indeed, been argued that, from the point of view of security, an increase in the industrial potential and the general economic strength of Germany's neighbours will help most effectively to bring about the desired balance in productive power within the continent of Europe.

A general European recovery would also react upon the German situation, since it was laid down at Potsdam that Germany's average living standards should be related to those on the continent of Europe, i. e. that they should not exceed "the average of the standards of living of European countries" excluding the United Kingdom and the U.S.S.R.

As regards Japan, the text of the Potsdam declaration, dated 26th July 1945, provided for "exaction of just reparations in kind" (cf. quotation on

* They are, in addition to France, the United Kingdom and the United States: Australia, Belgium, Canada, Denmark, Egypt, Greece, Holland, India, Luxembourg, Norway, New Zealand, Czechoslovakia, Yugoslavia and the Union of South Africa.

page 26). A special commission is being set up to deal with the problem of reparations from Japan. It would seem as if here also there would be a question of transferring assets held outside the country, viz. investments in territories which had been under Japanese domination.

* * *

It is still too early to tell how the second world war will affect Europe's position in the world, but it can, of course, never profit a continent to furnish, year after year, battle-fields for armies and targets for intensified bombing. Much blood has been shed which Europe could ill afford to lose. The war of 1914–18 (in the United States often called "the European War") naturally did great harm to the economy of Europe; but what was left of it was still sufficient to enable European countries to share in the economic recovery of the 'twenties, even if their progress was as a rule less rapid than that of other continents. Part of Europe's foreign investments (built up over a long period through the export of productive capital) had been used up during the 1914–18 war to pay for imports or to meet other disbursements overseas, and additional losses were suffered at the end of the war through defaults and repudiations; but, even so, substantial amounts remained. Contrary to what is often supposed, the British income from foreign investments was larger in 1929 than in 1913 (£250 million, as compared with £210 million); it should be borne in mind, however, that the price and cost level in 1929 was some 50 per cent. higher than before the war, so that, in "real" terms, the income received showed a reduction. Later on, in the great depression of 1929–33, European countries were hard hit; but on the whole they did not suffer more than many areas outside Europe, including the United States — indeed, when the upward trend was resumed, in the 'thirties, the movement was more decisive in some European countries than in their counterparts in the new world. Up to the beginning of the war cheap prices were quoted for raw materials, and this was in certain respects to the advantage of Europe, which has to cover its requirements of such materials largely by purchases from overseas and to make its income out of "value added in manufacture". The gain derived from cheap purchase prices had, however, to be offset against the loss of income due to lower interest and dividend payments by overseas countries suffering from the depression, and, of course, also against the more indeterminate but nevertheless very real all-round loss caused by the reduction in the international turnover during the depression. The following table (based on data published by the Intelligence Department of the League of Nations in the volume "Europe's Trade", 1941) shows the change in Europe's balance of trade and of payments in relation to other continents from the boom year 1928 to the depressed year 1935.

Surplus imports in Europe were covered in both years by income from interest and dividends received from non-European countries and payment for services rendered to such countries. From 1928 to 1935 the import surplus fell by about one-third or approximately at the same rate as the decline in commodity prices while the invisible income items were rather more effectively

Europe's Balance of Trade and of Payments 1928 and 1935.

In milliards of U. S. dollars (value as during the year in question)	1928	1935
Merchandise:		
European import surplus vis-à-vis the rest of the world	3.8	2.5
Deduct: cost of transport, insurance, etc. (1)	1.5	1.0
Remainder to be paid for by Europe	2.3	1.5
Paid for by income from		
Interest and dividends received (2)	1.2	1.2
Services rendered (3)	1.1	0.6
Total	2.3	1.8
Balance remaining . .	0.0	+ 0.3

(1) The trade returns of the different countries in almost all cases give the value of imports c.i.f., that is to say with the inclusion of transport and insurance costs. But, in so far as the transport of goods to Europe is effected in European ships and insured with European companies, the cost of such transport and insurance constitutes no charge in "Europe's balance of payments", i.e. no payment has to be made on those accounts to other continents.

(2) By European from non-European countries.

(3) By European to non-European countries. One half of the reduction in the amount received as "services" between 1928 and 1935 appears to be due to a reduction in the amount spent by American tourists visiting Europe and in the remittances from European emigrants residing in the United States.

maintained. It may be mentioned that in 1928 three-fifths of Europe's income from other continents (interest and dividend received and payments for services rendered) went to the United Kingdom; the proportion would seem to have been slightly higher in 1935.

As to the future, the political arrangements already agreed upon, and those still to come, will naturally be of the greatest importance from an economic point of view also. At the Potsdam Conference it was decided that during the period of occupation Germany should be treated as a single economic unit,* and that the removal of industrial capital equipment should be completed within two and a half years. The intention has obviously been to ensure that the upheaval entailed by the transfer of industries, etc. shall be of comparatively short duration. But, after such a disturbed period, with so much destruction and so many changes, resettlement is, in any case, bound to be a slow process, though much would be gained if wild inflation, such as occurred in Germany, Austria and Hungary after the last war, could this time be avoided.

As regards the empires of the United Kingdom, France, Holland and Belgium it is, of course, true that colonies nowadays pay no tribute to the mother country, and may even demand her assistance, but they ensure a continued close contact and often give rise to a substantial movement of goods and services. In the various overseas countries concerned there are still fairly large investments due to the inflow of European capital in past years, and trade with the areas in question still consists mainly of an exchange of foodstuffs and raw materials against manufactured European products. But other areas also show a survival of the European overseas investments which were made in the century and a half since the industrial revolution began, and which contributed so much to the development of so many overseas

* This will involve, according to the Potsdam Declaration, the establishment in Germany of "common policies ... in regard to:
(a) mining and industrial production and allocation;
(b) agriculture, forestry and fishing;
(c) wages, prices and rationing;
(d) import and export programs for Germany as a whole;
(e) currency and banking, central taxation and customs;
(f) reparation and removal of industrial war potential;
(g) transportation and communications" and that
"in applying these policies account shall be taken, where appropriate, of varying local conditions."

countries. In 1928 the income obtained by Europe from other continents in the form of interest and dividends amounted to about $1^1/_2$ per cent. of the total national income of all European countries, but the percentage for individual nations was sometimes much higher (about 6 per cent. for the United Kingdom). It should, in particular, be remembered that foreign income (having generally to contend with tariffs and other hindrances) is, by and large, more difficult to acquire than any other part of the national income yet it is as a rule quite indispensable for the maintenance of a high standard. There is, however, a possibility that, thanks to modern technical capacity and the facility with which, for instance, raw materials are produced, a loss of foreign income will be felt less than would have been the case, say, before 1914.

The reduction in income derived from interest and dividends corresponds to a very marked reduction in the volume of private international indebtedness, i. e. of liabilities in which one partner, at least, is a private individual (as in the case of a government loan due to private bondholders). On the other hand, there has been a new increase in indebtedness, e. g. partly between Treasuries or on account of central-bank holdings of foreign government paper. The larger part of this new indebtedness has arisen in direct and indirect connection with the development of the war effort and will presumably form the subject of a series of settlements which will take into account the origin of the charges involved.

In a statement of 6th December 1945 issued simultaneously by the President of the United States and the Prime Minister of the United Kingdom, it was emphasised that the discussions which had taken place between officials of the two governments had been concerned with the major problems affecting the basic economic and financial relations between the two countries in the light of the provisions of Art. VII of the Mutual Aid Agreement signed on 23rd February 1942. The discussions had covered the question of financial assistance from the United States to the United Kingdom, the demobilisation of wartime trade and monetary restrictions, the settlement of lend-lease, the disposal of surplus war property in the United Kingdom owned by the United States and, finally, long-range commercial policies in a broad sense, embracing the field of trade barriers and discriminations, policies in respect to commodities in world surplus, cartels, an international trade organisation, and international aspects of domestic measures to maintain employment. Both parties had been well aware of the significance, for other countries as well as their own, of the outcome of the discussions and they had had continuously in view the common interest of their governments in establishing a world trade and monetary system by which the trade of all countries could benefit and within which the trade of all countries could be conducted on a multilateral non-discriminatory basis.

The agreements, which will be subject to the approval of the legislatures of the two countries, may be summarised as follows:

(i) A line of credit of $3,750 million was extended by the United States to the United Kingdom to make it possible, inter alia, for the United Kingdom to relax import and exchange control, including exchange arrangements affecting the sterling area, and generally to move forward with the United States and other countries towards a common objective of expanding multilateral trade.

(ii) Subject to certain adjustments, an amount of $650 million was added to the credit mentioned above in final settlement not only of lend-lease and reciprocal aid, including the disposal of surplus war property in the United Kingdom, but, in general, of the claim of each government against the other, arising out of the conduct of the war. This arrangement covers the period to the end of December 1945, after which new transactions between the two governments will be settled by cash payments.

(iii) Agreement was further reached on the broad principles of commercial policy for which the two governments will seek general international support.

The terms of the credits are as follows: the amount of the line of credit drawn by 31st December 1951 shall be repaid in fifty annual instalments, beginning on 31st December 1951, with interest at the rate of 2 per cent. Corresponding conditions apply to the amount due in final settlement of lend-lease, etc. Furthermore, the U.S. Government will grant a waiver of the amount of interest due in any year if the British Government makes the request "in view of present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves" and if the International Monetary Fund certifies that British income from home-produced exports, plus net income from invisible current transactions, averaged over the five preceding years, is less than the average annual amount of British imports during 1936-38, fixed at £866 million (as such figure may be adjusted for changes in the price level of these imports).

The arrangements thus negotiated will, when ratified, have certain repercussions on other external liabilities of the United Kingdom. First of all, it is understood that any amounts required to discharge already existing obligations of the United Kingdom to third countries must be found from resources other than the line of credit agreed upon. For the period up to the end of 1951 the Government of the United Kingdom has, moreover, undertaken not to arrange any long-term loans from governments within the British Commonwealth on terms more favourable to the lender than those of this line of credit.

As regards accumulated sterling balances, the British Government will seek an early settlement, varying according to the circumstances of each case, with the countries concerned, on the basis of a division of the balances into three categories: (a) balances to be released at once and convertible into any currency for current transactions, (b) balances to be released by instalments over a period of years beginning in 1951, and (c) balances to be adjusted as a contribution to the settlement of war and post-war indebtedness and in recognition of the benefits which the countries concerned might be expected to gain from such settlement (cf. tables on pages 85 and 86).

As far as the monetary developments were concerned, it was, in particular, agreed that, at the latest one year after the ratification of the loan by the British Parliament and U. S. Congress, any sterling balances released or otherwise available for current payments will be freely available for current transactions in any currency area without discrimination. Any discrimination arising from the so-called sterling-area dollar pool would thus be removed and each member of the sterling area would have its current sterling and dollar receipts at its free disposal for current transactions anywhere.

As regards the speed at which reparation of material damage may be effected, it is pertinent to recall that after 1918 reconstruction in the devastated areas of France and elsewhere actually took less time than had at first been thought possible. These achievements are consistent with Germany's experience after the stabilisation of the mark, and that of the United States after its entry into the war in 1941, viz. that with modern technique a remarkable increase in production can be attained relatively quickly provided that the general conditions are favourable for a revival of economic activity. It stands to reason that a great war, by the disruption it has caused in the economic and financial system, will provide an unstable basis for an expanding economy and that, therefore, the economic and financial situation will need most careful attention. Indeed, "disorganisation" may prove to be a greater handicap than material destruction, especially since "after-effects" may first reveal themselves at a later stage, as, for instance, happened after the last war, when a continued lack of balance was, at least partly, responsible for the costly slump of 1930–33, which together with the "stagnation" of the following years (up to 1940) is estimated to have involved a loss of $200 milliards in the national income of the United States. The memory of those years is still most vivid and the need of preventing a repetition is never wholly out of the minds of either the public or the authorities, the corollary being that now at least the economic and financial system must be adequately equipped to avoid such a major calamity. This more permanent objective is being kept in view while attention is given to those more immediate tasks which, in a large measure, confront both victors and vanquished; these tasks may perhaps best be described in the terms of Chapter III, Par. 17, of the Potsdam Declaration of 2nd August 1945, which laid down that in Germany:

"Measures shall be promptly taken:

(a) to effect essential repair of transport;
(b) to enlarge coal production;
(c) to maximise agricultural production; and
(d) to effect emergency repair of housing and essential utilities."

Progress has not been at an even rate in all fields; but the improvement which has occurred is undeniable.

The plight of communications on the continent of Europe may be illustrated by the fact that in France the campaign of 1944/45 led to the destruction of no fewer than 7,400 bridges, of which about 5,000 had been restored by September 1945. Modern life is conditioned by expeditious transport of goods and persons; when the transport system breaks down, not only general economic activity, including the feeding of the people, but also the authority of the government may be jeopardised.

In the field of transport, particularly great progress has been achieved in certain areas. Thus, by October 1945, 85 per cent. of the German railway lines in the American zone were in operating order. In some areas, e.g. in Belgium, transport by army lorries served as a useful stopgap in the first few months after the liberation, before rail communications could be got going again. In Italy especially, lorry transport was for over a year the only practical means of conveying goods, since the railways had suffered considerably during the war. According to the plans now being actively carried out, the transport capacity of the Italian railways should be about 50 per cent. of pre-war capacity by the spring of 1946. In Greece practically the whole of the railway system and all the bridges were destroyed, as well as most of the principal port installations. In Yugoslavia the railway system also suffered much damage and most of the tugs on the Danube were sunk, causing much dislocation of traffic.

Great efforts have, however, been made to restore navigation on the European rivers. By 7th October 1945 the last obstacle to traffic on the Rhine between Cologne and Duisburg had been removed, with the result that the river was once more navigable from its mouth up to Karlsruhe. This made it possible, inter alia, to begin shipping coal from Duisburg to recipients in the American zone.

In September 1945 a European Central Inland Transport Organisation was formed at a meeting in London, twelve countries signing the agreement.* A council was appointed with the immediate task of surveying all available means of transportation in Europe and taking a census of all the transportation equipment on hand. It will subsequently give technical advice and recommendations designed to restore and increase the carrying capacity of the transport systems and coordinate the operation of these systems; and it will be for the respective governments and occupation commanders to act upon the council's advice.

Transportation difficulties are, however, not limited to Europe. It was reported in October that the wharfs in Singapore were working at only 30 per cent. of capacity, although ships were waiting to come alongside to discharge urgently needed goods. The difficulties would seem to have been due in part to lack of centralised control by experts with local experience but mainly to shortage of labour and insufficient food for Asiatic labourers, who were generally in a weak and under-nourished condition after the protracted occupation of the country.

* The countries were Belgium, Czechoslovakia, France, Greece, Holland, Luxembourg, Norway, Poland, the United Kingdom, the United States, the U.S.S.R. and Yugoslavia.

Coal is needed for the running of railways, as a source of energy, as a raw material for industry in general and for the chemical industry in particular, for the manufacture of gas and for heating purposes. It is thus an indispensable product: even a moderate reduction in the supply reveals its extraordinary utility. In order to give a picture of the different countries' production and consumption of coal in normal times, the following table shows the situation as it was in 1929, i. e. prior to the dislocations caused by the great depression.

In 1929 the coal trade was on the whole conducted on free-market lines; but in the course of the 'thirties several of the importing countries bound themselves by commercial agreements to purchase certain quotas of their requirements from one or more specified coal-producing countries. These agreements lapsed, however, in 1939 or 1940, when each importing country

The Coal Situation in 1929.

Countries or continents	Production	Consumption	Exports	Imports	Net imports (+) or exports (—)
	in millions of tons (1)				
Europe:					
United Kingdom	260	178	82	—	— 82
Germany	206	168	43	9	— 34
France	68	93	6	32	+ 26
Poland	46	32	14	—	— 14
U.S.S.R.	40	39	1	0	— 1
Czechoslovakia	31	29	5	3	— 2
Belgium	27	37	6	16	+ 11
Italy	0	15	—	15	+ 15
Netherlands	12	13	9	11	+ 1
Spain	7	9	—	2	+ 2
Sweden	0	7	0	7	+ 7
Switzerland	—	3	0	3	+ 3
Others (2)	2	69	3	70	+ 67
Total for Europe	700	692	169	169	—
America:					
United States	550	528	23	1	— 22
Canada	12	31	1	18	+ 17
Others (2)	3	7	1	6	+ 5
Total for America	565	566	25	25	—
Africa (2)	13	10	3	—	— 3
Asia (2)	90	89	8	7	— 1
Australia (2)	13	12	1	—	— 1
Total for the World (2)	1,380	1,370 (3)	205	200	— 5

(1) Lignite in terms of coal, converted according to its quality in each area; for Germany three tons of lignite are taken as equal to one ton of coal. (2) Estimated. (3) World stock 5 million tons.

Note: In 1932 — the worst year of the depression — the world production of coal declined to less than 1,000 million tons, the United States falling short of the 1929 figure by as much as 40 per cent. For the world as a whole, coal production in 1938 was still about 125 million tons below the 1929 level, having suffered a setback from 1937 to 1938. Indeed, in the United States there had been a fall from about 450 million tons in 1937 to 350 million in 1938 and in the United Kingdom from 245 million tons to 230 million. In Germany, on the other hand, coal production rose steadily from 1933 onwards, so that in 1938, at some 250 million tons, the figure was 20 per cent. above the 1929 level. Of the German coal output before 1939, nearly three-quarters was obtained from the Rhineland.

In the U.S.S.R. coal production in 1938 was actually three times as high as in 1929. There was also a steady increase in coal production in Asia (particularly in Japan), which brought the 1938 output of that continent to 50 per cent. above the 1929 level.

had to make whatever arrangements it could to cover at least its minimum needs. In the summer of 1945 a number of arrangements were concluded but usually for very small quantities, since it has proved very difficult to secure any coal imports at all. In Great Britain the price of coal approximately doubled from 1939 to 1945; but, despite the higher price, the total output was only at the rate of 180 million tons a year in the summer of 1945, i. e. about 20 per cent. below the pre-war level, production being hampered by the mobilisation of workers and by other adverse circumstances. In France the output (on a yearly basis) had fallen from the normal figure of 45–48 million tons to about 25 million tons after the liberation but increased to about 35 million, i. e. three-quarters of the pre-war volume, in the summer of 1945. By bombing, by the flooding of certain mines, by deliberate destruction of installations, and because of labour shortage, Germany's coal output was very much reduced during the first few months after the end of hostilities; steps were rapidly taken to increase production in Silesia, where destruction had been relatively slight; but, also in the mining districts of the west, great efforts were made to get work going again, one difficulty being the low level of nutrition, which has continued to impair the efficiency of the coal miners despite the fact that special rations were allocated to them.

By November 1945 the output of coal in Poland's new and old mines was approaching one-third of the pre-war volume, while in the Ruhr and the Rhineland about one-quarter of the pre-war volume was reached; but the means of transport proved inadequate to move the coal produced even at that relatively low rate. In a statement on relief and rehabilitation dated 17th September 1945, the President of the United States said that for Europe coal presented not only the most serious but also the most complicated problem, and he added:

> "Once self-sufficient in this commodity, Europe is now without the labour, the food, the transportation, the housing and the machinery needed to restore production quickly to its pre-war level. Every effort is being made to speed up the resumption of German production in order to supply the liberated areas, but, despite considerable progress, the people of these areas face a winter of extreme hardship.
>
> What is being done: the United States is now shipping approximately 1,400,000 tons of coal to Europe a month. For the period ending July 1 the goal is 8,000,000 tons, or slightly more than one per cent. of our domestic production. The limiting factor is not primarily one of supply, but of inland transportation facilities both here and abroad."

In terms of calories, the output of food for the world as a whole in 1945 is estimated by the Office of Foreign Agricultural Relations in Washington (which forms part of the U. S. Department of Agriculture) to have been 3 per cent. less than the 1935–39 average but, allowing for an increase in world population during the war years, the per-capita output is down by about 10 per cent. In India and China, where nearly 40 per cent. of the world's food is produced and consumed, the output seems to be up to the pre-war average, but much below this average in Japan and certain other Far Eastern areas. In Continental Europe (i.e. excluding the British Isles and the U.S.S.R.)

production has been affected not only by actual warfare, which impeded the cultivation of the land in certain areas, but also by gradual exhaustion of the soil and by scarcity of labour, together with such additional factors as the severe drought. The task of harvesting was, however, favoured by good weather, which thus helped to make up for the shortage of labour. It is estimated that for 1945 the yield of the French wheat crop was only 55 per cent. of normal; but in most other areas — including Germany — a somewhat better yield has been obtained.

The food problem which faces Europe must be seen against the background of the pre-war "normal" situation. The two following tables show the degree of self-sufficiency as regards food in various European countries and the amounts normally imported into the continent of Europe.

In calories, the continent of Europe is normally self-sufficient to the extent of 90 per cent.: domestic production supplies 95 per cent. of the carbo-hydrates needed, against 73 per cent. of the fats (as much as 88 per cent. in the case of animal fats but only 43 per cent. as regards vegetable fats). To the extent of 78 per cent. pre-war consumption consisted of vegetable products while 22 per cent. took the form of animal products. By reducing the output of animal products and increasing, for instance, the cultivation of wheat, more calories were obtained; but this did not suffice to make up for reductions caused by other factors, such as lack of labour, insufficiency of manures, etc. For the year 1943–44 the consumption of food on the continent of Europe would seem to have been on an average about 10–15 per cent. below the pre-war level, and it was certainly even less in the year 1944–45. With production reduced still further, moreover, many areas are threatened with even greater deficiencies in the first twelve months of peace than during the last year of the war. One reason for this is the great destruction of livestock which occurred on all fronts in the final stages of the war, together with the effects of requisitioning after the fighting ceased. In eastern Europe one-half or more of the cattle, the sheep and the pigs has, in most cases, been lost

Pre-war Self-sufficiency in Foodstuffs

of European Countries*
as percentage of complete self-sufficiency.

Countries	%
The United Kingdom	25
Norway	43
Belgium	51
Switzerland	52
Holland	67
Eire	75
Greece	75
Austria	76
Finland	78
Germany	83
France	85
Sweden	91
Portugal	94
Czechoslovakia	95
Spain	99
Estonia	102
Denmark	103
Poland	105
Latvia	106
Yugoslavia	106
Bulgaria	109
Lithuania	110
Roumania	110
Hungary	111

The Continent as a whole (without the British Isles and the U.S.S.R.):
Average for deficiency countries . . . 80—84
Average for surplus countries 108
Average for the whole . . . 88—91

* The figures were originally calculated by the German Institute of Business Research and published in February 1939; afterwards they were examined and slightly modified by the Office of Foreign Agricultural Relations in Washington. Consumption in calories for individual countries (generally for 1937) was estimated, as well as the proportion of the total which imports provided or exports represented. The extent to which the figures are below 100 indicates the degree of dependence on imports while figures above 100 show a corresponding export surplus of foodstuffs. It should be noted that the estimates are in calories (energy) and thus no account is taken of the desirability of "protective" foods and of a varied diet.

Pre-1939 European(1) Imports of Food for Human and Animal Consumption.

Imports of:	Million tons
Grain and rice (for human consumption) . .	3.0
Sugar	0.5
Fats (incl. vegetable oil for human consumption)	1.6
Grain (for animal consumption)	5.0
Oil-cakes (and oil-seed, converted into oil-cakes) . .	4.0
Bran (from imported grain)	0.9
Total Import . . .	15.0 (2)

(1) The continent of Europe (without the British Isles and the U.S.S.R.).
(2) This corresponds to about 37,000 milliard calories and, re-calculated in terms of flour, to about 11 million tons.

and in western Europe often one-third (Denmark and Belgium being in the best position of all the liberated countries).

The Office of Foreign Agricultural Relations in Washington has tentatively estimated that Continental Europe needs to import 18 million tons of food in order (i) to raise non-farm supplies in the liberated countries to 2,000 calories per person daily; (ii) to permit some increase in the imports of neutral countries; and (iii) to provide the minimum supplies necessary to prevent widespread disease and unrest in former enemy countries. The bulk of the imports would consist of wheat.

In addition, North Africa, mainly as a result of the severe drought, would need to import 2 million tons of grain and some supplies of fats, oils and sugar; and for the Far East the import needs are estimated at between 3 and 4 million tons, mostly cereals.*

Finally, the United Kingdom is expected to import about 9½ million tons of wheat, meat, sugar, dairy produce, fats and oils.

As regards the continent of Europe, the above estimates put the import needs somewhat above the quantities actually imported before 1939, while for the United Kingdom the normal import needs in the way of food (excluding imports from Eire) were between 13 and 14 million tons (as measured by the 1934–38 average). During the war, British agricultural production had been transformed so as to produce more cereals (which are bulky commodities) and less meat (a more concentrated product) in order to reduce the quantities of food imported, thus releasing an equivalent amount of shipping for war purposes. As a result of this transformation, the output of human food from British agriculture was increased by at least 70 per cent. in terms both of calories and of proteins. For such a policy to be practicable it was necessary to import more meat from abroad (and the meat required was in fact obtained partly under lend-lease). Apart from the change of direction in British agriculture, there was an expansion of more than 20 per cent. in the *volume* of output, a result attained despite the loss of about 100,000 regular male workers, their place being taken by 117,000 women, mostly belonging to the Women's Land Army, with an enrolled strength of over 80,000, and also by schoolchildren and adult male volunteers who spent their holidays on the land.

* Other estimates put the needs of the Far Eastern countries much higher. Thus a shortage of 4.5 million tons of rice is reported from Japan alone, where the food situation presents a very difficult problem, especially as Japanese industry, suffering from the effects of bombing and lack of raw materials, is largely unable to produce the export goods required to pay for the necessary food imports.

The supplies needed to meet the import requirements of deficit countries are available as far as wheat is concerned, thanks in a large measure to an all-time record of the 1945 wheat crop in the United States, which helped to offset reductions in other countries, the world wheat harvest for 1945–46 being estimated to show a decline of only 5 per cent. on 1944–45 and 8 per cent. below the average of the last five harvest years. Although the carry-over of wheat for the four main producing countries, the United States, Canada, the Argentine and Australia, has dropped somewhat in recent years, the stocks are still large compared with the pre-war averages. Fortunately timely rains in the autumn of 1945 averted the danger of yet another exceptionally bad harvest in Australia.* But fodder for animals (and especially maize) remains in short supply; the outlook depends largely on the next harvest in the Argentine, which seems to promise fairly well.

Carry-over of Wheat for U.S.A., Canada, Argentina and Australia.

On 1st August	Thousands of tons*
1937	4,400
1938	7,700
1939	17,100
1940	20,500
1941	28,500
1942	37,500
1943	42,000
1944	26,600
1945	21,300

* Estimates.

Coffee, tea, cocoa and dried foods are available in sufficient quantities, but there are shortages of sugar and fats in different forms. It is expected that shipments of sugar to European countries will practically exhaust existing stocks by the end of 1945, so that the world will be dependent for its supply solely on the current output (the preliminary reports from the main producing areas being favourable, however).

As regards fats, supplies were affected during the war by the absence of vegetable oils from the Far East (soya beans from Manchukuo, copra and palm kernels from Malaya, the Philippines, the Dutch East Indies and the South Sea Islands, as well as tung oil from China). Nevertheless, it proved comparatively easy to secure adequate supplies for the western powers. One factor was the great reduction in shipments to the continent of Europe, another was a substantial increase in U. S. production (especially of oil-seeds) and a third was the progress made in the interchangeability of fats (or oils), those of a specific kind being replaced by the use of others. When hostilities ceased, the situation changed, however, owing to the large requirements of liberated and other countries on the continent of Europe, where domestic supplies were at a low ebb in consequence of the great reductions in livestock, and where everybody concerned was, moreover, anxious to make up for a deficiency, often of several years' standing, in the consumption of fats. The opening-up of the Pacific and a resumption of whaling activity should, however, materially ease the position before long.

According to information given at a London meeting of UNRRA in August 1945, the liberated countries in Europe will be able to obtain only the following

* Of the world's food consumption, wheat and rice each account for about 20 per cent. and sugar for 6 per cent. There is a considerable international trade in fats and oil, but milk and, as a rule, meat are obtained chiefly from local production.

percentages of the deliveries applied for: 58 per cent. of oils and fats, 54 per cent. of cheese, 45 per cent. of condensed milk and 65 per cent. of dried foods. In his statement on 17th September the President of the United States said that "the limiting factor in meeting the minimum needs of the liberated peoples is no longer one of shipping, for the moment, and, in the case of most commodities, it is no longer a problem of supply. To-day it is primarily a two-fold financial problem, first, to work out credits or other financial arrangements with the European areas; second, to make additional funds available to UNRRA for emergency relief."

The United Nations Relief and Rehabilitation Administration (UNRRA) was formed in the autumn of 1943 by the representatives of forty-four countries, meeting at Atlantic City in the United States, and entrusted with the task of establishing "measures for the relief of victims of war in any area under the control of any of the United Nations". Each member nation whose territory had not been invaded was to contribute an amount equal to approximately 1 per cent. of its national income for the year ending 30th June 1943, while all members, whether or not they had been invaded, would contribute in varying degrees to the administrative expenses of the organisation. On 15th September 1945 member governments had authorised, or initiated action for authorising, general contributions to an amount of $1,868 million and $17 million as contributions for administrative expenses. The general contribution of the United States has amounted to $1,350 million, of which the last $550 million were due to be appropriated in the autumn of 1945; the contribution from Great Britain was at the rate of £80 million (equal to $322 million).

Aid from UNRRA has not been asked for by Belgium, Denmark, France, Holland and Norway; assistance is given to Greece, Yugoslavia, Albania, Poland and Czechoslovakia and, as far as repatriation of Allied displaced persons is concerned, also in former enemy countries. Certain tasks have been undertaken in China; and at the London session of the UNRRA Council in August 1945 authorisation was given for granting assistance to Austria and Italy (in the last-mentioned country to the extent of $50 million, the assistance being limited to mothers and children). In a resolution adopted at the same session in London it was proposed that the different countries should grant an additional contribution, again equal to one per cent. of their national income for the year ending 30th June 1943.

It may further be mentioned that the inaugural meeting of the Food and Agricultural Organisation of the United Nations opened in Quebec in October 1945, this organisation being entrusted with the task of carrying out the resolutions adopted at the Hot Springs Conference held in 1943.

Emergency repairs to essential public utilities and to houses are obviously of paramount importance in areas much affected by bombing and land warfare. In most cases, water and electricity works have been the first to be restored to working order, while a reopening of the gas-works has to wait until the coal shortage has been overcome. The repairing of houses is largely a matter for individual effort, and experience shows that much is gained if the owners or occupiers feel that they themselves will be certain to benefit from any improvements they are able to make.

The difficulties described above beset the continent of Europe, for the most part, although the United Kingdom also has to grapple with the problem of finding house accommodation for those whose homes have been destroyed by air raids. In that country, however, the virtual suspension of building activity for nearly six war years has been a more important factor in the housing shortage. British housing has become increasingly the concern of the government, but private enterprise is also being enlisted. Both the government and the private builder are, however, hampered by lack of materials and of trained workers.

Before turning to the problems which affect the world at large rather than war-stricken Europe, it should be pointed out that in many countries widespread and prolonged fatigue, often made worse by under-nourishment, has tended to retard a normal resumption of activities. Occupied countries, moreover, are now experiencing the after-effects both of a deliberate reduction in output while the war lasted (so that less should be available for the occupying power) and of habits acquired especially by young people serving in the "Maquis" and similar resistance movements, large numbers of those under a certain age having never done any serious sustained work. Efficiency is, of course, largely a question of training and routine; it will take some time for lost opportunities to be made good and for men and women to change their ways. Better food certainly does help to improve matters, and the fact that so much needs to be done provides a strong incentive to all concerned to make their utmost contribution.

* * *

The termination of hostilities in Europe in no way relieved the pressure on shipping. On the contrary, as long as the Japanese war lasted, the strain was rather increased; for priority had to be given to the requirements of that war and these were determined by the great distances to be covered in the Pacific and by the necessity of using ships in the Far East for storage purposes, since ordinary warehouse facilities were largely lacking in the area where the fighting actually occurred. But, even when the Japanese war ended, the strain did not slacken. First of all, shipping was needed for the retransport of troops from the widely scattered theatres of war, a strong demand being raised for speedy demobilisation. Secondly, it became necessary to ship more raw materials so that peacetime activities could be set going again, and food supplies were urgently required by deficit countries, where years of shortage had made relief imperative.

No complete figures have as yet (November 1945) been published about shipping losses during the war and the distribution of shipping among the different nations at the end of the war, some difficulty being experienced in establishing the statistics since many ships have been transferred for service from the mercantile marine of one country to that of another, and their final allocation will take time. It is, however, known that, thanks to the successful execution of shipbuilding programmes on a scale never before imagined (especially in the United States), more tonnage was available in the summer of 1945 than in 1939; but the older ships showed, of course, increased signs of wear and new ships have largely been built according to standardised patterns, not all types being very well adapted to peacetime uses.

Losses of Merchant Ships from all Causes.

Period	United Kingdom	Allied countries	Neutrals	Total
	thousands of gross tons			
1939 Sept.-Dec.	498	90	347	935
1940 Jan.-Dec.	2,725	822	1,002	4,549
1941 „ „	3,047	1,299	347	4,693
1942 „ „	3,695	4,394	249	8,338
1943 „ „	1,678	1,886	82	3,646
Total . .	11,643	8,491	2,027	22,161

The figures refer to vessels of all tonnages and include losses by enemy action as well as the ordinary hazards of the sea (marine risk).

In the White Paper on "Statistics relating to the War Effort of the United Kingdom", the losses of merchant ships by the United Nations and neutrals were given as follows for the period from September 1939 to December 1943.

The available shipping-space of the whole world at the outbreak of war in 1939 is reported to have been about 74 million gross tons.*

The size of the ocean-going merchant fleet under the British flag in 1939, at the beginning of the war, was about the same as at the beginning of the last war; it totalled 17½ million gross tons in the form of vessels of 1,600 gross tons and over. The losses suffered during the war were made good partly by production in British shipyards (4½ million gross tons up to the end of 1943 and 5.7 million tons up to the end of the following year), partly by production in Canadian shipyards, partly by the purchase or temporary acquisition of existing and new ships from the United States and other countries, and partly by captures. Nevertheless, losses exceeded gains and the size of the ocean-going merchant fleet under the British flag at the end of 1943 was 15½ million gross tons in the form of vessels of 1,600 tons and over. Moreover, if allowance is made for ships which in due course will be returnable to other flags, the total becomes 13½ million gross tons — a fall of 23 per cent. But since the beginning of 1944 the situation has improved.

In 1939 the size of the merchant fleet of the United States was 11.5 million gross tons, of which 6.5 million gross tons were lost during the war. New production, however, reached the astounding total of 56.5 million gross tons (from the beginning of 1942 to the middle of 1945: 50.6 million tons), so that at the end of the war the size of the U. S. merchant fleet was 61.5 million gross tons.

* It is difficult to obtain wholly comparable data for different countries, since the shipping statistics do not always cover the same categories of vessels (some comprise vessels of all tonnages, others only ocean-going vessels exceeding a certain minimum — e.g. 1,600 gross tons, as a rule, in British statistics and 2,000 gross tons, as a rule, in U. S. statistics).

In the summer of 1945, 44 million deadweight tons of the U. S. merchant fleet were administered by the War Shipping Administration. The great expansion during the war has raised the question of the normal size desirable for the U. S. merchant fleet of the future and the best way of disposing of surplus ships — whether by selling them at reduced prices or by retiring them. Under legislation passed through Congress in October, surplus merchant ships totalling 19 million gross tons and representing a value of $17 milliard were to be disposed of at prices reduced to as little as 35–40 per cent. of pre-war domestic cost, preference being given to U. S. purchasers. The new legislation calls for the maintenance of a U. S. merchant fleet capable of carrying all domestic water-borne commerce and "a substantial portion" of the nation's foreign commerce, and adequate ships to serve as an army and navy auxiliary in case of war. The ships must be owned and chartered by U. S. citizens; they are to be made up of "the best-equipped, safest and most suitable types of vessels" and must be supplemented by American-owned facilities for repairs, marine insurance and other services. Persons other than U. S. citizens may purchase ships only if the purchase is found "not to be inconsistent with any policy of the United States defence", and if the ships in question have been available for sale to U. S. citizens for a reasonable time and no responsible offer has been made. Even after the passing of this legislation, a decision remains to be taken as to the fate of the relatively slow liberty ships.

The question of the future of shipping has also been raised internationally, being, inter alia, discussed in connection with the termination of the "United Maritime Administration".

As early as January 1942, i.e. within six weeks of America's entry into the war, it was agreed to pool the shipping resources of the United Kingdom and the United States, and for that purpose a "War Shipping Board" was established. Two and a half years later a further agreement was reached, on 5th August 1944, between Belgium, Canada, Free France, Greece, Holland, Norway, Poland, the United Kingdom and the United States*, to continue Allied collaboration in shipping matters until international conditions had become normal again. For that purpose a "United Maritime Council" was created, on which all participating governments were represented, while questions regarding the actual utilisation of shipping-space were handled by an "Executive Board" with offices both in Washington and in London. The understanding was that the pooling arrangements were to remain in force until six months after the end of hostilities. As regards shipping available for commercial purposes, the pool would ensure that all the members concerned should participate in the commercial operations on an equitable basis, so that no individual country would gain any undue advantages in relation to any other. The difficulty in making allotments has been great, the conflicting claims being often of an incommensurable character (civilian versus military needs, humanitarian requirements as against commercial transactions, etc.).

* Membership was later extended to Australia, Brazil, Chile, Denmark, India, New Zealand, the Union of South Africa, and Yugoslavia, and also to Sweden, although neutral. Full members of the Executive Board are France, Holland, Norway, the United Kingdom and the United States, the others being associate members.

Shipping has, indeed, often been the limiting factor in arranging for a country's imports; it has not infrequently been found that the goods required could be obtained but that shipping-space could not be procured.

At the meeting in October 1945 of the "Unified Maritime Executive Board", 2nd September 1945 was set as the date for "the general suspension of hostilities" and 2nd March 1946 as the date for the termination of the shipping agreement. Certain steps were, however, to be taken in the interim period to simplify the control, in order to provide an orderly basis for a return to more normal methods of commercial shipping. Thus, all tanker operations were to be free from control after the end of October 1945, and the Board relaxed certain restrictions relating to the transfer of vessels and to the time-chartering of vessels to private individuals or firms. With a view to examining the problems that will arise from a return to commercial competition, the Board further decided, as an experiment, to re-establish private enterprise in one or more "commercial areas"; but the areas chosen were not disclosed at the time, and the date when the new measure should take effect was left for later decision. Indeed, it was decided to hold another meeting in January 1946, "to provide an opportunity to consider whether any continued cooperation arrangements would be desirable in the field of shipping beyond the present termination date of the United Maritime Authority period".

* * *

In January 1942 the Governments of Great Britain and the United States had also taken the initiative in establishing the so-called Combined Raw Materials Board in order to ensure a planned and expeditious utilisation of such raw material resources of the United Nations as were necessary for the prosecution of the war. Certain changes were made in the course of time but the Board's powers were strictly maintained over essential commodities whenever they were in short supply. According to the third annual report of the Combined Board, issued in May 1945, there was a substantial improvement in the international supply position of raw materials in general, and this improvement had become even more marked after the termination of hostilities in Europe. But the necessity of supplying many European countries with raw materials, and a gradual resumption of civilian production while war production had still to be maintained on a considerable scale, made for a fresh shortage in various goods. Gradually, however, some alleviations were allowed: thus, in July 1945, the Board discontinued the central allocation of zinc, since supplies had become sufficiently abundant; and copper and nickel were removed from the list of allocated raw materials in September 1945. And in December 1945 it was announced simultaneously in Washington, London and Ottawa that the Combined Raw Materials Board (as well as the Combined Production and Resources Board) would cease to function at the end of 1945. For a few commodities of which there was still a universal shortage, in relation to the needs of consuming countries (especially cotton textiles, tin, rubber and sugar), certain committees set up under the Combined Raw Materials Board would continue their activities so long as the shortage rendered this necessary. The Combined Food Board, on the other hand, would be maintained as a supervisory and coordinating body, there being still a world shortage of many foodstuffs; but it was anticipated that this Board also would be dissolved at the latest on 30th June 1946.

With the end of hostilities, accumulated government supplies are becoming increasingly available and, although shortages may still occur in certain products, the general task of the moment is to ensure the orderly marketing of a great variety of surplus stocks. The aim is necessarily to dispose of the stocks in hand as quickly as possible, in order to take advantage of the seller's market which still exists, this being desirable not only as a means of recoupment but also with a view to the least possible disturbance of peacetime production. In addition, the sales should help to keep prices down in a period of keen demand. Unfortunately, dislocation cannot be avoided all along the line, serious problems arising whenever the existing stocks are unusually large or wartime production has expanded far beyond peacetime requirements.*

As far as stocks are concerned, wool presents an extreme case. During the war the British Government made bulk purchases of the wool produced by the three Dominions, Australia, New Zealand and South Africa, which together account for about 40 per cent. of the world's total wool production and two-thirds of the exportable surplus entering international trade. By the autumn of 1945 the surplus of the three Dominions, together with the stocks accumulated in Latin America, amounted to about 2 million metric tons, which is equivalent to more than two years' exportable surplus before the war. It has been calculated that, with the same exportable surpluses from new clips as before the war, it would take thirteen years to dispose of the existing surplus even if there is a 12 per cent. increase in consumption of apparel wool over the pre-war intake. To cope with the problem which has thus arisen, the Governments of the United Kingdom, Australia, New Zealand and South Africa have formed a Joint Organisation (incorporated as a registered company) to buy, hold and sell wool as agent for the four governments. This Organisation will revert to the system of auctions in operation before the war; but purchases and sales are to be subject to certain "reserve prices" fixed by representatives of the four governments, while the Joint Organisation may make

World Production of Wool.(1)

Countries	1934	1939	1943
	in thousands of metric tons		
Australia	461	512	498
Argentina	165	176	236
United States . .	204	204	190
New Zealand . .	120	141	150
South Africa . .	99	119 (2)	120 (2)
U.S.S.R.	58	136	105 (2)
Uruguay	51	61	62
Others	487	521	540 (2)
Total . . .	1,645	1,870	(1,900) (2)

(1) Source: Statistical Yearbook of the League of Nations 1942–44. (2) Estimate or provisional.

Note: The world's total production of wool in 1943 is thus estimated at 1.9 million tons, of which about one-quarter came from Australia and one-eighth from the Argentine. In the bulk purchases by the British Government in 1943–44, Australia and New Zealand received payment for the new wool-clip at 56 per cent. more than the 1938–39 price.

* Compare articles on various raw-material problems in the (London) "Economist" of 2nd June, 4th and 11th August, 8th, 22nd and 29th September and 6th October 1945, as well as articles on "Die Warenwirtschaft zwischen Krieg und Frieden" in the "Neue Zürcher Zeitung" of 4th and 5th November 1945.

only "minor changes" in the prices — an arrangement which shows how important the pricing of wool is, from an economic and hence from a political standpoint, for the countries concerned. What will be difficult, of course, will be so to handle wool prices as to ensure not only the disposal of current output but also the gradual liquidation of existing stocks, those accumulated by Great Britain during the war being valued at £160 million.

As regards cotton, stocks of 28.6 million bales in existence at the end of July 1945 compare with stocks of 21.6 million in 1939 and about half as much in 1929. Thus cotton does not rank with wool as an extreme case, but, even so, the disposal of the accumulated supplies presents a difficult problem. In November 1944 the U. S. Government granted an export subsidy of 4 cents per lb. — a step which is affecting conditions in other producing areas also. An international conference has been called to deal with the cotton problem and preliminary discussions have taken place, but no definite agreement has yet been reached. Apart from the U.S.S.R. and China, the world production of cotton in 1943 was practically at the pre-war level of about 22 million bales, or nearly 5 million metric tons, of which one-half — 11.4 million bales* — was produced in the United States; of the total, nearly one-fifth came from India, fully one-tenth from Brazil and one-twentyfifth from Egypt. The cotton producers are, however, meeting with competition not only from one another — a more serious matter is the increase in sales of rayon on the different markets. In 1945 the cotton left for harvesting in the United States covered 18 million acres, this area being 10 per cent. less than the acreage harvested in 1944 and the smallest in any year since 1885; an official estimate puts the yield of the 1945 harvest at 9.8 million bales.

As regards rubber, no difficulties arise from large unsold stocks but concern is felt on account of the tremendous wartime expansion of the synthetic industry, especially in the United States, where 900,000 tons of artificial rubber were produced in 1945 and the maximum capacity would seem to be 1.2 million tons a year. During the war the United Nations had access to countries producing not quite 200,000 tons of natural rubber a year, while the total pre-war production of such rubber was at the rate of about 1 million tons a year. Ten per cent. of the rubber plantations in Malaya were found to have been destroyed during the occupation. It is estimated that it will take three or four years to bring the world production of natural rubber up to a level of 1.5 million tons, but the problem of how to deal with the synthetic industry will have to be faced before then. Between 1937 and 1939 the average price of rubber was about 8½d. per lb. For stocks of rubber found in Malaya, however, the British control fixed a price of 10d. per lb., as compared with a controlled price of 18d. on the British market; opinions vary as to the permanent price at which the plantations will be able to furnish rubber in the future.

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* Domestic consumption in the United States, once the pent-up demand has been satisfied, is calculated to be at a yearly rate of perhaps 9 to 10 million bales now that the war is over. In 1944 the United States production of cotton was 12.2 million bales and for 1945 it is estimated at only 10 million.

Changes in Raw Material Prices 1913–20 and 1939–45
on U. S. commodity markets.

Product	Quality	Unit	July 1913	July 1920	% change	July 1939	July 1945	% change
Maize	No. 2 yellow, Chicago	$ per bushel	0.61	1.52½	+ 150	0.46	1.18½ *	+ 158
Rosin	H-grade, Savannah	$ per 100 lbs.	1.83	6.39	+ 249	2.26	5.81 *	+ 157
Hogs	Good merchantable, pigs and rough stock excluded, Chicago	$ per 100 lbs.	9.15	14.80	+ 62	6.05	14.60	+ 141
Wheat	No. 1 northern spring, Minneapolis	$ per bushel	0.89⅜	2.83	+ 217	0.74⅛	1.71 *	+ 131
Cotton	Middling, spot, New Orleans	cents per lb	12.44	39.00	+ 214	9.35	21.35	+ 128
Coffee	Santos No. 4, New York	cents per lb	11¼	19¼	+ 71	7¼	13⅜ *	+ 84
Zinc	Prime western, early delivery, St Louis	cents per lb	5.15	7.85½	+ 53	4.50	8.25 *	+ 83
Cattle	Fair to choice native steers, Chicago	$ per 100 lbs.	8.35	15.50	+ 86	9.35	16.50	+ 76
Wool	Clean basis, Boston, Ohio fine delaine	$ per lb	0.58	1.74	+ 200	0.73	1.21 *	+ 66
Petroleum	Crude, at well Pennsylvania	$ per bbl.	2.50	6.10	+ 144	2.00	3.00 *	+ 50
Rubber	Plantation, ribbed smoked sheets, N. Y.	$ per lb	0.72	0.35	— 51	0.16½	0.22½ *	+ 36
Leather	Chrome calf B grade, black composite	$ per square foot	0.270 (1)	0.986 (1)	+ 265	0.392	0.529	+ 35
Hides	Green salted packers, No. 1 heavy native steers, Chicago	cents per lb	17¾	30	+ 69	11½	15½ *	+ 35
Lead	Pig, early delivery, New York	cents per lb	4.35	8.60	+ 98	4.85	6.50 *	+ 34
Sugar	96° centrifugal, duty paid, N. Y.	cents per lb	3.54	18.31	+ 417	2.85	3.75 *	+ 32
Iron and Steel	Pig iron, basic, Valley Furnace	$ per gross ton	14.35	46.00	+ 221	20.50	24.50 *	+ 20
Copper	Electrolytic, N. Y. refinery equivalent	cents per lb	14.12½ (2)	18.75 (2)	+ 33	10.12½	11.87½ *	+ 17
Tin	Straits, New York	cents per lb	41.75	49.87½	+ 19	48.60	52.00 *	+ 7
Aluminium	No. 1 Virgin, 98–99 N. Y.	$ per lb	0.2363 (1)	0.3061 (1)	+ 30	0.20	0.15 *	— 25
Unweighted index for above products			*100*	*243*	—	*100*	*161*	—

(1) Yearly average. (2) Prices for 1913 and 1920 are outside market.
* Maximum price under government regulations.

For copper the supply situation is determined, on the one hand, by a wartime increase of 30–50 per cent. in production and, on the other, by the accumulation in the hands of the U. S. and British Governments of stocks which, moreover, are being augmented by large amounts of copper scrap from surplus war equipment. In all, the stocks so augmented, but without any addition from current production, will probably be sufficient to meet a world demand of some 2 million metric tons for one year from the autumn of 1945. No doubt current production will have to be reduced, but demand is likely to be bolstered up by the establishment of a reserve stock in the United States (copper being a strategic material) and by an increase in the copper requirements of the motor industry and for the execution of electrification schemes. *One important factor, however, is the still unknown amount of* competition to be expected from cheaply produced light metals.

By 1943 the world's total output of aluminium (at over 2 million tons) was three times as high as in 1939, and in the case of magnesium (with an annual production of over 250,000 tons) the rate of expansion had been even more pronounced. During the war the output of both these metals was in the main earmarked for the manufacture of aeroplanes; there is thus room for a great increase in civilian use, and this will be helped by the fact that the price has now been reduced below the pre-war level. Costs of production vary considerably from country to country, being, for instance, higher in Great Britain than in the United States. In view of the importance of these metals as material for industry, the British price control authorities have attempted to bring about a reduction in the margin of difference.

World production of oil shows a wartime increase by about 30 per cent. (from 2,085 million barrels* in 1939 to some 2,650 million barrels in 1945). Of the 1945 total the United States produced about 69 per cent., Latin America 14 per cent., the U.S.S.R. 9 per cent., the Middle East 7 per cent. and other areas 1 per cent. Fairly large stocks are in existence and, upon the completion of military transports, normal supplies can easily be made available for the civilian consumer. On 24th September 1945 an Anglo-American oil treaty was signed in London, replacing an earlier treaty which had met with strong objections in the United States. The new treaty sets up a six-man "International Petroleum Commission" on which the United Kingdom and the United States are each represented by three government nominees; this commission will study problems affecting the oil industry and it will have power to recommend action to ensure a better relation between supply and demand. The reports of the commission will be issued by the governments, each government being empowered to review what the board has recommended and neither government being free to release the report without the other. The treaty further calls for the convocation of an international oil conference "as soon as practicable".

To come to industrial raw materials of which shortages exist, the position is not the same for all markets. In Great Britain and the United States, for instance, there is no really bad scarcity of coal except for shipment abroad; but on the continent of Europe the lack of coal, as pointed out above, is a most serious matter. From the point of view of, say, the British market, the following materials are in short supply:

1. Timber: much needed for resumption of building activity and a number of other purposes; domestic resources heavily drawn upon during the war; main source of supply: northern Europe, where it is unfortunately difficult to attain a sudden increase in output, partly because of shortage of labour, partly because a considerable time elapses between the cutting of the trees and the actual shipment for export.
2. Pulp and paper: 95 per cent. of the pre-war supply came from northern Europe.
3. Leather: shortage, especially of sole leather, caused by heavy demand for military use and depletion of livestock on the continent of Europe.

As regards rubber (mentioned above) and tin, the position is fraught with some uncertainty as to the rate at which supplies will be forthcoming from Eastern sources. Other commodities dependent principally on Eastern

* One barrel is equal to 42 U. S. gallons or 1.59 hectolitres. The number of barrels to the metric ton depends on the specific gravity of the petroleum, which varies somewhat. For the United States one metric ton is approximately equal to 7.4 barrels and for the U.S.S.R. 7.3 barrels.

supplies are hard hemp (from the Philippines), lead (from Burma) and jute (from British India, where the food shortage has caused a shift in production from jute to rice).

While tonnage is still so largely required for military transports and many commodities remain subject to control measures of different kinds, only relatively slight progress has been made towards the reconstitution of international commodity markets. It is, however, reported that the cotton exchange of Alexandria and some commodity exchanges in the United States have made preparations for a resumption of their ordinary business by the beginning of 1946. The future structure of British marketing is still under consideration, since it will be influenced partly by the extent to which the system of bulk purchases, inaugurated during the war, is continued by the government and partly also by the attitude adopted towards forward transactions.

The competent government departments and various international control organisations have naturally collected as complete statistical data as possible of the supply position of the various materials; but so far they have released relatively few figures, limiting themselves as a rule to the issue of general statements. This attitude is partly a survival of the habit of secrecy inculcated so long as the war lasted and may also be due in some measure to the uncertainty still obscuring the future of goverment controls over commodity markets, especially in the United Kingdom, the establishment of strategic reserve stocks, especially in the United States, and the liquidation of surplus war stocks.

With only a few exceptions, the situation on the world's commodity markets is beginning to be characterised by sufficient, and, in some cases, abundant supplies. As regards countries which have their transport system in good working order and a sufficiency of foreign exchange at their disposal, there will soon be no further need of control for the purpose of allocating short rations of raw materials between different areas and between individual firms and consumers. In such circumstances, the maintenance of a satisfactory balance will chiefly depend on the support to be obtained from the volume of demand and thus from a recovery of peacetime activities all over the world. After 1929 the producers of raw materials and foodstuffs suffered even more from the decline in the volume of industrial production in the great manufacturing countries than the industrial firms themselves; and this is a lesson which must not be forgotten.

* * *

While doing their best to master the problem of such bottlenecks as hamper the revival of trade and production and of mitigating whatever dislocation may be caused by excessive stocks and capacity in some fields, the governments, now that the long and costly war is over, are increasingly devoting their attention to the more permanent problems which must be solved before anything like normal conditions can be restored.

Exchange of Notes in Circulation and the Supply of Money.

At present (even in the U.S.S.R.) we are all living in a "money economy", i. e. money is used as the means of obtaining command over goods and services, and in time of peace, when conscription, requisitioning, etc., are no longer employed, it becomes almost the only means. Normally, each country must possess a currency that lends itself to exchange, not only in the domestic field but also in relation to other economies, these two aspects of the question being intimately linked together. Indeed, when steps have been taken to bring order into a currency system it has been usual for the conditions governing internal supply and external relationships to be settled at the same time. The war had, however, gradually reduced trade on other than official account to such a low ebb that in 1944 and 1945 internal and external money matters could be considered separately to a greater extent than in normal times.

In a number of liberated countries one of the first steps in the monetary field has been to effect an exchange of notes in circulation. Corsica (in October of 1943) was the first area where such a measure was applied; next came Belgium in October 1944; and, in the following year (1945), France in June, Holland and Denmark in July, Norway in September and Czechoslovakia in October. Wherever an exchange of notes has been imposed, old notes have lost their quality of legal tender and new notes have been issued; but, in spite of this essential similarity, the principal ends which the authorities have had in view, as well as the arrangements made, have varied considerably from place to place. In every case anyone with notes in his possession has had to declare them, in order to safeguard his rights, but there has been great diversity with regard to the rules governing the amount of notes immediately returned to the owner and the amount tied up for a shorter or longer period.

1. In Corsica the purpose was not so much to control the amount of monetary purchasing power in the hands of the public as to be in a position to decide whether or not individual firms and persons should be allowed to retain the notes, in view of their activities during the war, and at the same time to be able to prevent an influx of notes from occupied France. Notes of the Bank of France in denominations of 100, 500, 1,000 and 5,000 francs were withdrawn from circulation. The owners of the notes, in so far as they could dispose of their funds, obtained in exchange "notes of the Central Treasury of the French Committee of National Liberation". Through the various blocking measures, an immediate contraction by 40 per cent. was brought about in the note circulation, but this effect was of relatively short duration, one reason being that holders of certificates for notes delivered could, in a large measure, use the certificates to open bank accounts from which amounts could gradually be withdrawn (it was only from July 1944 that bank balances exceeding Frs. 20,000 were blocked to the extent of 75 per cent.). Moreover, new notes had to be issued, in particular in connection with the passage of large numbers of troops across the island. In all, about 1,880 million notes were withdrawn, but by the autumn of 1944 2,250 million new notes had been issued.

2. In Belgium, on the other hand, the main object of the exchange of notes was a contraction in the available means of payment, the idea being to reduce the circulation to an amount compatible with the existing level of earnings and prices, since the then circulation was considered excessive in relation to average costs and prices and also to the newly fixed exchange rate of B.fcs 176.625 to £1 (which rate had been in force for the Belgian Congo during the war). In order to achieve the desired end the net was cast very wide, the monetary circulation being taken to include all current and time deposits, even those at savings banks and on postal cheque accounts. Uncontrolled additions to the volume of purchasing power were moreover to be precluded by precautions with regard to the granting of new credits by commercial banks; and all Treasury certificates expressed in Belgian francs and maturing between 9th October 1944 and 8th October 1945 were prolonged for one year. Under the decree of 6th October 1944, notes of 100, 500, 1,000 and 10,000 francs were no longer legal tender; such notes had to be presented before 13th October; a proportion of every holding was exchanged for new notes (for instance, 2,000 francs was allowed for each member of a household); of the remainder, 40 per cent. was temporarily tied up, while 60 per cent. was blocked, i. e. must be left untouched until absorbed by loans or taxes. The following table shows the results which the operation, together with subsequent transactions, had produced by the end of August 1945.

Belgium: Monetary operation.

Results as on 31st August 1945.

Items	Total before the operation	Amounts released and newly issued	Amounts tied up			Amounts released (or newly issued) and tied up
			temporarily	definitely	total	
	in milliards of Belgian francs					
Coins	1.8	1.8	—	—	—	1.8
Treasury notes	4.6	4.9	—	—	—	4.9
Notes of the National Bank .	100.3 (1)	62.9	19.7	37.0	56.7	119.6
Bank accounts	41.7	28.9	8.4	16.8	25.2	54.1
Current accounts (net) held at the National Bank	3.6	4.9	0.1	0.2	0.3	5.2
Postal cheque accounts:						
for the state	2.5	3.3	—	—	—	3.3
private accounts	8.4	11.2	0.7	2.5	3.2	14.4
Total	162.9	117.9	28.9 (2)	56.5 (2)	85.4	203.3

(1) End of August 1944. At first only B.fcs 91.6 milliard were presented, so that the "profit" (accruing to the Treasury) on the operation nearly reached B.fcs 9 milliard. Afterwards, however, additional amounts of notes were admitted for exchange, with the result that the "profit" had been reduced to about B.fcs 4 milliard by September 1945. The amount of Belgian notes sold on foreign markets proved in the end to have been much smaller than had originally been thought.

(2) When the final results became available it was found that the "funds temporarily tied up" originally amounted to B.fcs 42 milliard and the "funds definitely blocked" to B.fcs 64 milliard. Up to August 1945 about 13 milliard of the funds temporarily tied up had been released, together with some B.fcs 7 milliard of the funds definitely blocked. A special commission has to consider requests made for the release of funds.

The "monetary circulation" (in the wide sense in which this term was used) amounted in all to B.fcs 164 milliard before the measures of contraction were applied; through these measures the "free circulation" was reduced by the end of 1944 to B.fcs 57.4 milliard (as compared with an average of

47.5 milliard for the years 1936–38). Certain fresh demands for means of circulation had gradually to be satisfied, however; through an expansion of banking credit, thawing of funds only temporarily tied up and advances granted to the Allied forces, as well as other advances by the National Bank of Belgium, the "free circulation" amounted to B.fcs 118 milliard at the end of August 1945. Of this total, notes of the National Bank accounted for 63 milliard, which is, however, less than two-thirds of the amount outstanding one year earlier.

According to a government proposal announced by the Minister of Finance in May 1945, the "temporarily tied-up balances" were to be gradually released on a scale adapted to the rate of imports and the pace of economic revival, while the blocked balances were to be transformed into a forced loan with much the same conditions as other government bonds: interest rate at 3½ per cent. and redemption by means of a cumulative allocation of 1 per cent. In October 1945 a further announcement was made by the Minister of Finance to the effect that one-quarter of the temporarily tied-up funds would be released on 1st December 1945; and that a new 4 per cent. loan at 99 per cent. would be issued, subscriptions to which could be made in cash, or with Treasury certificates maturing in 1946 (these being accepted at 101 per cent., i. e. at a premium of 1 per cent.) or with the funds to be released on 1st December.

While in Belgium the main consideration in ordering an exchange of notes was the need to reduce the volume of purchasing power, this measure was also intended to serve certain subsidiary purposes, such as the gathering of information useful to the fiscal authorities and the combating of black markets (on which ready cash was used almost exclusively as means of payment).

A further effect of a more general character, but for that very reason more important, appears to have been that, thanks to the early application of the exchange measure, a certain anti-inflationary orientation was given to the Belgian economy, and not only in regard to the monetary circulation but also — and primarily — as regards the level of current earnings. The result was that, for instance, increases in nominal wage rates could be kept within limits which may be regarded as comparatively moderate for a newly liberated country. During the occupation, the wage rates had officially been tied to the level of August 1940, which was about 8 per cent. above that prevailing in the summer of 1939. After the liberation in the autumn of 1944, a maximum rise of 60 per cent. was permitted, which meant a rise of about 70 per cent. in relation to 1939. After that, the government withstood, for nearly a year, all demands for higher wages; but from 1st August 1945 it allowed an additional increase by 20 per cent., which brought the wage rates to a level 120–150 per cent. above that in 1939. In judging the importance of these measures, it should be remembered that between 1939 and 1944 the exchange value of the Belgian franc had been lowered by 22 per cent. in relation to sterling and 33 per cent. in relation to the dollar.

3. In France the exchange of notes, announced by the Finance Minister on 2nd June 1945 but officially foreshadowed several weeks earlier, was

combined with an exchange or stamping of short-term Treasury paper ("bons"). All notes of Fr.fcs 50 and over ceased to be legal tender, being called in through the banks, post offices and other public institutions. In exchange for old notes the owners, who were obliged to give their names and addresses, immediately received new notes up to Fr.fcs 6,000, plus 3,000 for each dependent, and they were to receive any remaining balance after 16th June 1945 unless they chose to have such a balance credited to their bank accounts. Furthermore, all Treasury bonds were to be handed in for stamping if less than Fr.fcs 10,000 and for exchange if above that amount.

The aims of these measures were clearly indicated by the Finance Minister in his speech on 2nd June 1945 and were again referred to in a speech on 26th June (in which he gave the preliminary results of the exchange operation):

(i) The exchange and the stamping must, in the first place, be regarded as a cleansing process serving to cancel notes and "bons" taken by the enemy, or sent out of France under fraudulent conditions, or lost or destroyed in the course of hostilities, or not presented for other reasons, the owners preferring, perhaps, not to reveal the true amount of such notes and "bons" amassed by them during the war.*

(ii) Secondly, the funds held by each owner in the form of notes and "bons" were to be registered, the resulting identification of owners being of great importance from the fiscal point of view. An amount of Fr.fcs 1,200 milliard in notes and "bons" had thus been submitted to the inventory of the state.

(iii) The third aim pursued was to stimulate subscriptions to Treasury bonds and the depositing of funds with savings banks and other banks. The Finance Minister said in his speech on 26th June 1945 that, during the weeks preceding the exchange operation (which began on 3rd June), nearly Fr.fcs 150 milliard had already been deposited by the public. By subsequent increases in deposits and subscriptions the note circulation of the Bank of France was — he added — reduced from Fr.fcs 586 milliard on 17th May 1945, i. e. on the eve of the exchange operation, to Fr.fcs 473 milliard in the latter half of June (the circulation having been as high as Fr.fcs 632 milliard in 1944 at the time when France was liberated).

After having been suspended in connection with the exchange of notes, the publication of weekly returns by the Bank of France was resumed on 2nd August 1945. The following table shows some extracts from the last return before and the first return after the operation as well as the return for 4th October 1945.

The increase of Fr.fcs 102 milliards in the current accounts of the Treasury between 31st May and 2nd August 1945 does not represent the whole of the funds accruing to the government from the exchange operation, since, in the meantime, Fr.fcs 20 milliards of the incoming funds had been used for the repayment of advances from the Bank to the Treasury. In the autumn the Treasury had to draw on its account with the Bank of France, this being followed by a renewed expansion of the note circulation, the total liabilities of the Bank remaining at a relatively stable level.

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* It was later announced that the "profit" obtained from non-presentation of notes — i. e. not counting the "bons" — came to about Fr.fcs 35 milliard, or about 7 per cent. of the amount in circulation on the eve of the operation.

Sight Liabilities of the Bank of France.

Items	1944 Dec. 28	1945 May 31	1945 August 2	Difference between May and August 1945	1945 Nov. 29
	in milliards of French francs				
Notes in circulation	573 (1)	549	445	*— 104*	546
Current accounts of the Treasury (2)	1	1	103	*+ 102*	22
Current accounts and deposits	29	50	41	*— 9*	46
Other sight liabilities	8	7	7	*0*	7
Total	611	607	596	*— 11*	621

(1) First return published after the liberation. It was announced that, in the period from July to December 1944, the note circulation reached a maximum of French francs 640 milliard.

(2) Including Fr.fcs 0.7 milliard for 28th December 1944 and 31st May 1945, Fr.fcs 0.8 milliard for 2nd August and Fr.fcs 0.7 milliard for 29th November 1945, representing the balance belonging to the Caisse autonome d'amortissement.

4. On 9th June 1945 it was announced in Holland that all 100 guilder notes would cease to be legal tender. Bona-fide holders of such notes could open accounts, but such accounts would be blocked, for the time being, for all purposes except payment of taxes. It was foreshadowed that this first move would be followed by a withdrawal and exchange of all notes at a later date. The total note circulation, which at its peak in May 1945 amounted to Fl. 5,518 million, had been reduced to Fl. 2,500 million at the beginning of September 1945, i.e. about two and a half times the 1939 figure; but such a circulation was also regarded as excessive. It seemed probable that large amounts of notes were in the hands of black marketeers, who might not dare to declare their holdings, and that considerable sums were held in Germany because Germans had been able to obtain guilders against Reichsmarks, without any restrictions, during the years of occupation.

Then on 13th September 1945 the Finance Minister announced that all Dutch bank-notes in circulation would become invalid and all bank accounts would be blocked from 26th September, only 10 guilders per person being allowed in the week up to 3rd October. The purpose of this operation and of certain other measures taken in the same connection was (i) to trace the profits of black marketeers; (ii) to control wages and prices; (iii) to make it possible for the government to keep the note circulation within desired limits and thus to counteract inflation; (iv) to gain an insight into the property position, preparatory to an investigation of the amount of property acquired during the war, and (v) to enable the government to supervise the amount of spending and make it subserve the welfare of the nation and its own needs. As part of the same operation, banking secrecy was suspended and the registration of insurance policies and securities was decreed. It was expected that at least one-quarter of the bank accounts of private individuals and firms would be released at an early date. Such amounts as remained finally blocked might be used for the payment of taxes and special levies, investment in new government loans, and conversion into savings deposits with savings banks and other banks.

In the weekly statement of the Netherlands Bank for 8th October 1945 the amount of new bank-notes put into circulation was given as Fl. 398 million, together with Fl. 855 million of old notes remaining theoretically in circulation. In the statement of 26th November 1945 newly issued notes actually amounted to Fl. 1,011 million, together with 440 million in old notes.

5. In Denmark the exchange of notes was adopted on 21st July 1945 as part of a wider measure aiming at an "economic purge", i. e. the confiscation of hidden assets of war contractors and tax evaders; a contraction in the note circulation was, moreover, thought desirable. The outstanding notes were declared invalid; at first each person was able to exchange only D.Kr. 100 or, in exceptional cases, up to D.Kr. 500, while any amount exceeding these limits was to be kept in a banking account temporarily blocked. To ensure the efficacy of the confiscation measures a survey was made of all private assets: the owners had to declare all bank deposits exceeding D.Kr. 500 and all bearer securities, while detailed declarations were required of all property exceeding D.Kr. 10,000, including such valuables as jewels, books and expensive furniture, the authorities being given power to examine bank safes as well as other personal valuables.

According to preliminary results, notes to the amount of D.Kr. 75–80 million were not presented. The return of 31st July 1945, the first return published after the operation, showed a note issue of D.Kr. 868 million as compared with D.Kr. 1,124 million on 23rd July 1945 and an average circulation of about D.Kr. 400 million in the first six months of 1939. But currency requirements attain a peak in the autumn; and in the return of 15th November the note circulation had risen to D.Kr. 1,318 million.

6. In Norway also, the purpose of the exchange of notes, together with some other measures introduced by a decree of 5th September 1945, was to provide a basis for the seizure of unjustified gains and a special levy on any increase of capital during the war. From 9th September 1945 all the notes in circulation (excepting the denominations of one crown and two crowns) ceased to be legal tender; the notes had to be presented, and for 60 per cent. of the amount the owner was credited on a current banking account, while the remaining 40 per cent. was credited to him on a "state account" which he could draw upon only with a permit from the Department of Finance. Furthermore, bank accounts and securities were to be registered by the owners and other assets were to be declared.

By the last day of the normal exchange period (22nd September 1945) an amount of N.Kr. 1,373 million had been presented, as compared with the total circulation of N.Kr. 1,403 million before the operation. Thus, the "profit" gained worked out at only N.Kr. 30 million and this figure may be further reduced when the final results are obtained from northern Norway and from abroad, where the exchange was to continue up to 6th October 1945. There may, however, be a further "profit", since all accounts and securities which ought to be registered by 15th November but are left unregistered will accrue to the state. In the statement of Norges Bank for 31st October 1945 notes in circulation were returned at N.Kr. 1,136 million.

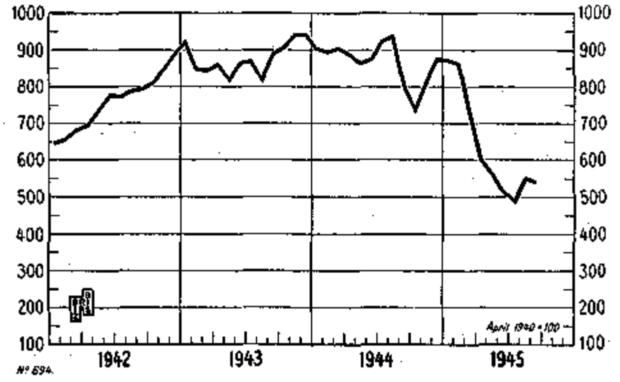
7. It was announced in Czechoslovakia on 21st October 1945 that all currency then in circulation would be withdrawn and replaced by a new currency. Thus, all means of payment of German or Hungarian origin as well as the Czech and Slovak crown notes (excepting those of one crown) were to be surrendered to the Treasury, the final date being 15th November. In exchange, each person was to receive Kcs. 500 in new notes immediately; the balance had to be placed on deposit with a bank, which the owner of the notes could choose. As from 22nd October all payments of salaries and wages were to be effected in the new currency in order to facilitate the exchange operation.

It has been estimated that before the exchange operation was undertaken the total volume of means of payment in Czechoslovakia (including K. 10 milliard in "Kassenscheine" issued directly by Germany and K. 3–4 milliard issued by one of the occupying powers) amounted to K. 79 milliard. As far as the National Bank alone was concerned, its note circulation in the month before the operation was somewhat above K. 40 milliard; in the Bank's statement for the end of November 1945 the circulation was returned as Kcs. 17.8 milliard in new notes and Kcs. 2.8 milliard in old notes.

As may be seen from these examples, it has become the rule in the financial arrangements of the liberated countries to carry out an exchange of notes, if for no other reason than in order to sift out those taken by the enemy or otherwise fraudulently brought out of the country, such a clean-up being a necessary preliminary to obtaining a proper knowledge of the monetary situation at home. Where more ambitious objectives have been involved, such as the confiscation of notes in the hands of war profiteers, the task has been one of great complexity and for that reason the difficulty has been in inverse ratio to the compactness of the country. It should be borne in mind that in any case the number of individual declarations is very great; in France, for instance, 16 million persons, i. e. 39 per cent. of the population, came forward to exchange notes. The greater the numbers, the more necessary it is that the rules should be relatively simple and straightforward. While an exchange of notes has been more or less obligatory for countries with, for instance, part of their circulation in the hands of the enemy, it is obvious that the mere blocking of a proportion of the notes surrendered does not in itself reduce the volume of effective monetary demand in the country, since that volume depends essentially on the level of current earnings, consisting, for the most part, of income received in the form of wages and salaries*. Moreover, in a period of great shortage, when the official rations are distinctly on the low side, it is very difficult to exert any downward pressure on prices, particularly as regards the black market, which may be

* Indirectly, however, such a measure as an exchange of notes may create a psychological situation in which the increase in money wages may be moderated (cf. what was said on page 61 above as regards Belgium).

Belgium: Retail Prices of Foodstuffs on the Black Market.
Monthly indexes April 1940 = 100.



regarded as a scarcity barometer. In its report for 1944 the National Bank of Belgium gives an index of the black market prices in Brussels, here brought up to the autumn of 1945 and reproduced in graphical form.

After the exchange of notes had been carried through in the first half of October, black market prices fell somewhat, but stiffened again in December, when it became obvious that the war would go on longer than had been expected. But in the late spring and summer of 1945, when more civilian supplies became available, black market prices began to fall again, and this time more decisively. What happened in Belgium thus confirms the experience gained elsewhere, viz. that an exchange of notes is of no real avail for bringing down the excessive black market prices before goods actually begin to come in.

The exchange of notes may be regarded as a peculiar instrument of credit policy affecting the "quantity of money", and, in so far as it acts as a purge, the "quality of money" (since it confiscates certain funds not legitimately earned). Here as in other situations, however, a number of additional factors retain their importance in determining currency values: and these factors are (i) the budget position; (ii) the rate of supply of goods and services; (iii) the cost and price structure, with special emphasis on the importance of wage rates; and these factors all exert an influence on, and are in their turn influenced by, the rates of foreign exchange. The circumstances vary from case to case but the decisive relationship is generally the interplay between the volume of current income left in the hands of the public and the supply of goods and services on the market.

Before turning to a consideration of these questions, two tables are given, one showing the note circulation in the various countries of the world and the other the volume of bank deposits in a limited number of countries.

In judging the significance of an increase in note circulations, account has to be taken of, inter alia, the fact that for some countries the situation in the summer of 1939 could not be regarded as normal.

In Switzerland, for instance, notes would seem to have been hoarded on a fairly large scale in 1939 as in earlier years; during the war the rise in the circulation was just over 100 per cent., which is one of the smallest increases shown in the table. In the United States, on the other hand, 1939 was a year

Notes in Circulation.

Countries	End of June		
	1939	1945	1945
	in millions of national currency units		Index: June 1939 = 100
Belgium	22,212	58,483	263
Bulgaria	2,891	40,700 (1)	1,408 (1)
Czechoslovakia (2)	10,740 (3)	62,200 *	580 (4)
Denmark	446	1,241	278
Eire (5)	16	37	227
Finland	2,200	16,971	771
France	122,611	444,476 (6)	363 (6)
Germany	9,115	56,640 (7)	621 (7)
Greece	8,002	26,000 (8)	325 (8)
Holland	1,045	4,960	475
Iceland	12	167	1,344
Italy	17,967 (9)	350,000 (10)	1,948
Norway	475	2,611	550
Portugal	2,096	7,573	361
Sweden	1,059	2,445	231
Switzerland	1,729	3,522	204
Turkey	211	969	459
United Kingdom	499	1,285	258
Yugoslavia	7,177	183,906 (11)	2,562 (11)
Canada (12)	213	970	455
United States (13)	7,047	26,746	380
Argentina	1,128	2,533	225
Bolivia	301	1,337	444
Brazil	4,803	15,438	321
Chile	866	2,660	307
Colombia	57	179	314
Costa Rica	28	77	275
Ecuador	64	322	503
Guatemala	8	23	299
Mexico	318	1,434	451
Nicaragua	11	46	439
Paraguay	12 (14)	29	233 (15)
Peru	113	443	392
Salvador	15	45	306
Uruguay	91	157	173
Venezuela	134 (14)	338	252 (15)
South Africa	19	64	332
Egypt	21	124	599
India	1,846	11,370	616
Iran	893	6,606	740
Iraq	4	40	930
Japan	2,490	26,200 *	1,050 *
Syria and Lebanon	957 (14)	8,328	870 (15)
Palestine	6	46	775
Australia	48	185	390
New Zealand	16	41	260

* Estimate. (1) Figures for September 1944.
(2) Estimate of total note circulation in Bohemia, Moravia, Silesia and Slovakia. (3) Estimate for end of February 1939.
(4) Compared with end of February 1939.
(5) Central Bank of Ireland plus Consolidated Banks.
(6) Figures for 2nd August 1945 (first balance sheet after exchange of notes). (7) Figures for February 1945.
(8) Private estimates for May 1945 (after exchange of currency).
(9) Figures for March 1939.
(10) Including about Lire 65 milliard of Allied Military Currency.
(11) Figures for Croatia for February 1945.
(12) Bank of Canada and chartered banks.
(13) Total circulation. (14) Figures for end of December 1939.
(15) Compared with end of December 1939.

of depression, with 9 million unemployed. The war has witnessed a most impressive rise in production and in the general level of incomes, permitting the average individual to hold more "cash" for his personal convenience (influenced by such factors as the separation of families, lack of access by an account-holder to his ordinary banking facilities, etc.). Circulation in the United States shows a rise of 280 per cent. Canada has experienced an even more rapid advance and its circulation has risen by 355 per cent. — and this notwithstanding the fact that the Canadian price control can be regarded as unusually successful, the official cost of living showing an increase by about 20 per cent.

Great care must consequently be taken in interpreting the importance of the figures in the table and especially in making comparisons between different countries. Not even a very high index figure is an infallible sign of wild inflation. In Iceland, with a normal population of 125,000, the presence of American armed forces, in large numbers, suddenly increased note requirements beyond all precedent (index figure for June 1945: 1,344 with June 1939 = 100). But, even so, a rapidly rising note issue remains a danger signal not to be treated lightly by the authorities. In reading the table, it should be remembered that the figures for 1945 refer to the position at the end of June. In some countries, e. g. Norway and Czechoslovakia, exchange of notes was undertaken after that date, with marked effect upon the volume of notes outstanding.

The great increases which have occurred since 1939 in note circulations will very likely not be reversed in any great degree but will remain as a consequence of the second world war. Increases of such a magnitude undoubtedly correspond to an alteration in the real value (purchasing power) of the respective national currencies. For each country it is then imperative to adapt itself to a new equilibrium level. In this connection the supply of money is one of the elements to be taken into account. While commodities remain in short supply, it may be difficult to tell what the permanent equilibrium position of a particular country may turn out to be in the end, and a period of trial and error will probably be required; but, once a certain level can be chosen as a likely equilibrium level for the future, it is important that the various aspects of economic life (e. g. the cost of living, exchange rates, etc.) should be brought into line with that level; the sooner such an adjustment is carried out, the firmer the foundation laid for a resumption of economic activity.

The following table shows for six countries the volume of bank deposits in commercial and savings banks and also the percentage increase in these deposits and in the note circulation between June 1939 and June 1945.

For France the date "end-of-June 1945" came just after the exchange of notes had been made, and the note circulation had consequently been somewhat reduced in comparison with the volume of deposits. But in the autumn the note issue rose again, so that the percentage increase in deposits and in the volume of notes outstanding was of very much the same magnitude. This is the case also in Belgium. In the United Kingdom, on the other hand, the rise in deposits is somewhat less than in the note circulation. This must in no way be regarded as a sign of a deficiency in genuine savings. It is rather a result of the large issues of middle and long-term bonds, which have absorbed deposits as subscriptions were made. The same applies to the even greater difference found between the increase in the note circulation and in deposits in the United States and also in Sweden and Switzerland. The low percentage increase in deposits for Switzerland mainly reflects their virtual stability as far as the cantonal banks are concerned. But even at the seven big banks the volume of deposits did not increase by more than 35 per cent. in the course of the war.

Although in the Anglo-Saxon countries nation-wide savings campaigns have been organised to place as much as possible of the wartime issues directly in the hands of private investors, the great change in the balance sheets of commercial banks has been the rise in the holdings of government securities. In the course of 1945 the total government security holdings of the London clearing banks (in the form of Treasury bills, Treasury

Commercial Bank and Savings Deposits.

Countries	End of June 1939	End of December 1944	End of June 1945	*Percentage* increase from 1939 to 1945 in deposits	*Percentage* increase from 1939 to 1945 in note circulation
	In millions of national currency units				
France:					
Four big banks	36,230	129,036	196,168		
Caisse Nationale d'Epargne et caisses d'épargne ordinaires	66,688	168,573	243,004		
Total	102,918	297,609	439,172	*+ 327*	*+ 263*
Belgium:					
All banks	15,286	43,938	51,388		
Caisse Générale d'Epargne et de Retraite	12,338	19,458	20,132		
Total	27,624	63,396	71,520	*+ 159*	*+ 163*
United Kingdom:					
Clearing banks	2,219	4,545	4,751		
Post office and Trustee savings banks	781	2,024	2,205		
Total	3,000	6,569	6,956	*+ 132*	*+ 158*
United States:					
All commercial banks (1)	45,471	115,827	124,010		
Mutual Savings Banks and Postal Savings System	11,782	15,718	17,085		
Total	57,253	131,545	141,095	*+ 146*	*+ 280*
Sweden:					
All commercial banks	4,481	6,378	6,630		
Private and postal savings	4,390	6,345	6,646		
Total	8,871	12,723	13,276	*+ 50*	*+ 131*
Switzerland:					
Seven big banks (2)	2,979	3,839	4,083		
27 Cantonal banks (2)	5,120	5,267	5,254		
Total	8,099	9,106	9,337	*+ 15*	*+ 104*

(1) Gross deposits, but excluding interbank deposits. (2) Including cash bonds.

deposit receipts and long-term government securities) passed the £3,000 million mark, constituting more than two-thirds of the balance-sheet totals of these banks. In the United States the total of loans and investments of all the banks reached $129.7 milliard at the end of June 1945, and of that amount government securities accounted for $93.7 milliard (as against $18 milliard at the end of 1938, when total loans and investments stood at $48.8 milliard). In most other countries similar developments have occurred, all tending to establish a much more intense credit nexus between the government and the private banking system than anything known before the beginning of this war.

In the autumn of 1945 several countries have taken steps to introduce important structural changes in the relationship between the state and the banking system; but, at the time of writing (November 1945), final decisions have not yet been taken. The purpose of these changes is in general to strengthen public control over the credit system and, in doing so, to exclude the influence of sectional interests. But it is well to remember that the nationalisation of the bank of issue, for instance, does not settle the old problem of the "independence of central banks". In 1656 the "Palmstruchska Banken" in Stockholm was formed as a private institution but with government sanction. In 1661 the first notes were issued and within two years there were clear signs of inflation: coins flowed out of the country and notes were presented to the bank in a greater volume than the institution was able to meet. In 1664 the bank was closed but in 1668 became a state bank and was placed under the authority of Parliament — as Sveriges Riksbank still is today — in an attempt to ensure, under conditions suited to the time, that the government should not abuse the powers which the bank possessed.

In Eire a "Commission of Inquiry into Banking, Currency and Credit", which made its report in 1938 in preparation for the establishment of the Central Bank of Ireland (also a state-owned bank, but with a non-governmental influence in the selection of certain members of its Board of Directors) pointed out that the emphasis on the independence of central banks had often been misunderstood, and added:

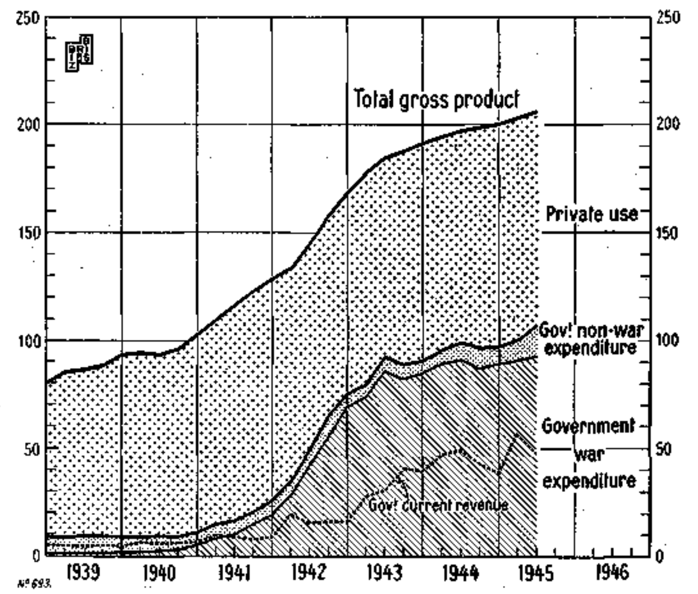
> "In a way, the independence of central banks can to some extent be likened to the independence of the administration of justice, which, of course, must also be kept free from political pressure. The point to remember is that the ordinary citizen is highly interested in the safeguarding of the value of the national currency with regard to all his own contractual obligations, be it the fixing of his own salary or wages through trade union agreements, etc., or the real value of his investments and insurance policies, etc. Experience has shown that political bodies time after time have made undue use of the credit facilities of central banks, often to the extent of destroying the value of the national currency. It is only wise to guard against this possible danger. The problem is how to ensure the growth of a corporate entity, conscious of its own direct responsibility, and capable of enlisting the services of those who have the necessary qualifications for the direction of a central monetary institution.
>
> For monetary problems to be handled successfully it is necessary to have a permanence of objective and steadiness of policy which will remain unaffected by changes in government. Experience has repeatedly shown how essential it is for a monetary authority to acquire a position of prestige. Such a position will make it easier to solve many a problem, and it is important also from a general political and social point of view that the monetary institution of a country should enjoy the full confidence of the public.
>
> Indeed, the idea that there is a cause for conflict between the political government and the monetary authority is more superficial than real. A government's freedom of action is very much dependent upon continuance of monetary confidence. One of the greatest difficulties which could confront any government and hamper its action is lack of confidence in the monetary sphere."

In this connection it is of interest to note that in the British Government's proposals for the nationalisation of the Bank of England the provision has been introduced that no member of the House of Commons or any person holding an office of profit under the Crown may be appointed as governor, deputy governor or director of the Bank of England. Thus, account has been taken of considerations relating to a separation of powers between the political authorities, on the one hand, and the monetary authority, on the other. But a system based on separation of powers can only function well provided there is also a sufficient collaboration between the authorities concerned. The solutions adopted to establish "separation" and "collaboration" will naturally vary from country to country and from period to period, but there are always certain dangers to be avoided and certain main objectives to be realised. Besides the provisions with a mainly negative bearing, serving primarily as safeguards, there are others of a more positive character designed to ensure that the monetary authorities shall have the necessary power for the proper exercise of the functions appropriate to the conditions and the times in which they are working.

Public Finances.

In a modern war, where government expenditure absorbs one-half or more of the gross national product, the manner of covering this expenditure will naturally be of fundamental importance, the whole monetary problem then turning on the question how the heavy government borrowing, partly by resort to bank credit, can be prevented from having a marked inflationary effect. That the danger of inflation is not over simply because hostilities have ceased may be seen from the developments which occurred after 1918, when for nearly a decade the main difference between the countries which managed to bring order into their monetary system and those which were either gripped by wild inflation or suffered for many years from unstable exchange rates was just that the former but not the latter were able to cope with their national finances.

U. S. A.: Gross National Products and its Uses.
Quarterly estimates on yearly basis, in milliards of dollars.



Note: The main difference between the Gross National Product and the net National Income is that the former includes the whole amount destined for depreciation and replacement of capital, provision for these purposes being deducted in order to arrive at the net National Income.

As long as issues of monetary purchasing power continue to exceed the additions required to provide for an increase in the current output of goods and services, the only way in which a downright inflation can be avoided is by maintaining a network of control measures according to the war-time pattern. A continuous excess of monetary purchasing power pressing upon the domestic market will, however, make it more difficult to attain a natural balance in relation to other economies — hence the need for strict exchange control. Even if issues of new money should for a time stimulate internal trade and production, the various countries, and especially those dependent on international trade, are likely to find the many control measures a great handicap in recovering foreign markets and in raising the standard of living. Creation of credit to cover budget deficits can easily distort the whole economic and commercial policy — as so many countries have discovered in years past.

Another disadvantage inherent in a continuation of large deficits is that the amounts to be borrowed by the governments tend to reduce the fraction of current savings which remains available for investment in private enterprise.* When those who amass funds for investment (insurance companies and others) can readily put the incoming money into government securities and therefore need not look for other outlets, the incentive normally offered to new ventures by the "weight of money" on the long and short-term capital markets will most likely be weakened.

These various disadvantages are, of course, thoroughly understood, but the task of cutting down expenditure sufficiently to re-establish a balanced budget is not an easy one, even though war taxation this time was much heavier and the amount of expenditure covered by current revenue is therefore higher than at the end of the last war. Demobilisation seems to be taking a long time, because of transport difficulties and because considerations of fairness must be taken into account in determining the order in which men and women are to be released. Gratuities are being paid for war service, new social assistance is being granted and there is a delay in crossing off many war charges (contracts cannot be cancelled all at once, terminal payments have to be made, etc.). Some effect has nevertheless been produced in this connection by the end of hostilities, and revised budget estimates are being published in a number of countries. But a few examples will show that the deficits remain on the high side.

For the fiscal year ending 30th June 1945 the Federal expenditure of the United States reached $100.1 milliard, of which nine-tenths was for war. Revenue also created a new record at $46.5 milliard but, even so, did not fully cover one-half of the expenditure (deficit: $53.6 milliard). The budget

* To overcome this disadvantage as far as possible, special measures may be required. At the beginning of 1945 the "Finance Corporation for Industry" (with a capital of £25 million), and the "Industrial and Commercial Finance Corporation" (with a capital of £15 million) were set up in London for the particular purpose of ensuring that funds should be available for certain types of enterprise at a time when most of the country's savings would be absorbed by budget deficits, repair of war damage, construction of houses and similar quasi-official ends.

The purpose of the Finance Corporation for Industry is, in the words of the Chancellor of the Exchequer:

> "the provision of temporary or longer-period finance for industrial businesses of the country with a view to their quick rehabilitation and development in the national interest, thereby assisting in the maintenance and increase of employment".

This Corporation, which is owned jointly by a large group of insurance companies, trust companies and the Bank of England (in the proportion of 40, 30 and 30 per cent. respectively), is intended to deal with the task of financing reconversion or major expansions of substantial undertakings. It is not debarred from taking up participations in the equity of the businesses it finances, but would seem to concentrate on giving temporary help by way of licensed fixed-interest loans. Its aim will naturally be, however, to ensure that the capital structures of the different firms are erected on as flexible a basis as possible.

The Industrial and Commercial Finance Corporation, whose capital, apart from a minor participation by the Bank of England, has been subscribed by the clearing and Scottish banks roughly in proportion to their deposit liabilities, was set up to supply medium and long-term capital for small and medium-sized businesses in amounts up to £200,000. It, too, is entitled to take an equity risk and it is even thought that this ought to be the main form in which it should provide financial facilities.

United States:
Government Revenue and Expenditure.

Items	Closed accounts 1939–40: last pre-war year	1944–45: peak war year	Estimates 1945–46: Reconversion to peace
	In milliards of dollars		
Revenue	5.4	46.5	36.0
Expenditure:			
War	1.7	90.5	50.5
Civil:			
Interest on the public debt	1.0	3.6	4.5
Veterans' administration	0.6	2.1	3.2
Refunds	0.1	1.7	2.9
Unemployment relief	2.2	—	—
International finance	—	—	2.3
Other expenditure	3.7	2.1	3.0
Total civil expenditure	7.6	9.5	15.9
Total expenditure	9.3	100.1	66.4
Deficit	3.9	53.6	30.4

Note. The fiscal year in the United States runs from 1st July to 30th June.

estimates for the fiscal year 1945–46, as adopted by Congress, taking into consideration the end of war in Europe but not yet counting on an early defeat of Japan, put expenditure at $85 milliard and revenue at $39 milliard (deficit: $46 milliard). On 1st October 1945, i.e. after the termination of the war in the Pacific, the Secretary to the Treasury informed the Ways and Means Committee of the House of Representatives that expenditure would probably total $66.4 milliard and revenue $36 milliard, allowance being made for tax reductions of the order of $5 milliard in 1946 (including the repeal of the 85.5 per cent. Excess Profits Tax on corporations which, at the level of profits expected for 1946, would have given a net yield estimated at $2.6 milliard). The deficit for the fiscal year 1945–46, at $30 milliard, remained, according to the Secretary to the Treasury, "a stubborn, sobering fact".

The expenditure budgeted for includes $2,266 million for international financing, $950 million as payment to the International Monetary Fund; $317 million as payment for capital stock of the International Bank for Reconstruction and Development (equal to 10 per cent. of the quota of the United States in that Bank); and $999 million as an addition to the capital stock of the Export-Import Bank.* Another $1,800 million is to be paid to the International Monetary Fund, but will not be accounted for as part of the budget expenditure, since the amount in question will simply be transferred from the Exchange Stabilization Fund established in 1934.

In the United Kingdom the budget for the financial year 1st April 1945 to 31st March 1946 was introduced in the House of Commons by the Chancellor of the Exchequer on 24th April 1945, total expenditure being estimated at £5,565 million and revenue at £3,265 million with a deficit of

* With regard to the International Monetary Fund and the International Bank for Reconstruction and Development, see pages 107 and 114 of this Report. The Export-Import Bank, originally founded in 1934, was made a permanent and independent agency of the government by the Export-Import Bank Act of July 1945. Provided with a capital stock of $1 milliard, the bank is authorised to borrow from the Treasury an amount not in excess of two-and-a-half times its capital stock; and its loans and guarantees may not exceed three-and-a-half times the capital stock. The purpose of the bank is to aid in "the financing and facilitating of exports and imports and the exchange of commodities between the United States or any of its Territories or Insular possessions and any foreign country or the agencies or nationals thereof". The bank's financing of exports is of two general types, the one consisting of credits for the benefit of individual U.S. exporters and the other consisting of a credit line in favour of a foreign government, a foreign bank or a foreign firm.

Since the end of hostilities the bank has made a contribution to the revival of foreign trade between the United States and the outer world, special emphasis being laid upon the financing of deliveries to western Europe for reconstruction purposes, including the continued financing of goods which previously had been shipped on lend-lease account. The total amount granted as credit by the Export-Import Bank is reported to have exceeded $1 milliard by the late autumn of 1945.

£2,300 million. The Chancellor made it clear that he regarded this as an "interim budget", indicating that a renewed examination might suitably be made "on another occasion" before the end of the budget year.

In a budget speech on 23rd October 1945 (i. e. six months later, Germany and Japan having now been defeated, and elections held in the United Kingdom having brought a new government into power) the Chancellor said that on the revenue side the yield of the various items would seem to conform roughly to the estimates of his predecessor and that on the expenditure side there was a probable saving of £200 million on defence and supply, which, however, would be outweighed by expenses in connection with the demobilisation, by additional cost on account of supplies formerly provided from lend-lease and also by credits made in financing the Anglo-French trade agreement of March 1945. It was expected that in the following financial year the gap between expenditure and revenue would be substantially narrowed, although not yet closed. The Chancellor proposed some alleviations in taxation but the reduction in the rates would only to a minor extent affect receipts during the current financial year. Thus the standard rate of income tax would be reduced from 10s. to 9s. in the pound, together with an increase in personal allowances, i. e. in the amounts which may be deducted from income to arrive at taxable income (with special allowances for wife and each child). But at the same time the surtax scale would be raised so as to recover partially or fully from the richer taxpayers the relief afforded by the reduction in the standard rate. Moreover, the excess profits tax would be cut to a rate of 60 per cent. from nominally 100 per cent. (but really 80 per cent., since under the Finance Act of 1941 20 per cent. was to be refunded to the taxpayer).* While the excess profits tax at 100 per cent. had been

United Kingdom:
Government Revenue and Expenditure.

Items	1938-39	1944-45	1945-46
	Closed accounts		Estimates
	in millions of £ sterling		
Revenue	927	3,238	3,265
Expenditure:			
Interest (1) on National Debt	217	415	465
Sinking Funds	13	16	.
Civil, Roads and Revenue Departments	424	501	581
Vote of Credit (2)	272 (3)	5,125	4,500
Other expenditure	142	17	19
Total Expenditure	1,068	6,074	5,565
Deficit	— 141	— 2,836	2,300

(1) Including minor amounts (£1 million in 1938-39) for management of the National Debt.
(2) For 1938-39 there was no "vote of credit" but detailed appropriations voted for "Navy, Army, Ordnance and Air" at together £254 million, and £18 million for Civil Defence. These charges were from 1940-41 onwards met out of Vote of Credit.
(3) Including £128 million from proceeds of Defence Loans.
Note: The financial year in the United Kingdom runs from 1st April to 31st March.

* The total amount to be refunded was given as £450 million, the repayment of which would be speeded up as much as possible. Amounts refunded would, however, under existing legislation, be liable to income tax and the net refund would therefore be £225-230 million. Steps would be taken to ensure that the money was "ploughed back into the business and not scattered to the winds of heaven".

The Chancellor further mentioned that the total of "post-war credits" (refundable income-tax payments collected as a form of "forced savings" from physical persons), accumulated up to the end of March 1945, was £575 million and that it was likely to attain £800 million by the end of March 1946, when the creation of new post-war credits would be stopped. *He added that a repayment of the credits already created either* in whole or in part could not be safely undertaken until the supply of goods increased and the risk of inflation was correspondingly diminished or lifted.

"a perfect tax for a short war", as time went on it became, said the Chancellor, "less and less equitable as between different businesses"; it moreover "encouraged extravagance and a wasteful outlay and even downright dishonesty".

In indirect taxation the only reduction was an abolition of the purchase tax on a range of articles of special importance in connection with the housing question, viz. on cooking, heating and refrigerating appliances. But the amount of subsidies granted to keep down the cost of living, which may be regarded as an "indirect taxation in inverse", would rise: from about £200 million in 1944–45, they had risen to around the rate of £250 million before lend-lease was terminated; and they would go up by another £50 million a year as a result of the cessation of lend-lease.

In France, budget expenditure for the year 1945 is estimated at Fr.fcs 215 milliard for civil and Fr.fcs 166 milliard for military purposes (the latter figure being the sum of the military appropriations as fixed by the government and published quarterly in the "Journal Officiel"). Total expenditure would thus be Fr.fcs 381 milliard, but it is expected that the final figure will be somewhat higher and attain the Fr.fcs 400 milliard announced by the Minister of Finance in a speech to the Consultative Assembly on 29th March 1945 (this is still below the peak of Fr.fcs 443 milliard which was the figure for expenditure in 1943). Of the civil appropriations, Fr.fcs 71 milliard are for subsidies, the highest items being Fr.fcs 42.5 milliard assigned to bring down the price of certain commodities (Fr.fcs 13 milliard for bread and Fr.fcs 15 milliard for coal) and Fr.fcs 18 milliard to cover the deficit of, and provide loan redemption for, the national railways. Revenue has been coming in at the rate of Fr.fcs 140–150 milliard a year, which means that not quite 40 per cent. of the expenditure has been covered by current revenue. In the autumn of 1945 a new capital levy — the so-called "national solidarity tax" — was imposed and this is expected to yield Fr.fcs 130 milliard, of which 80 milliard will be collected in 1946.

In the last week of April the U.S.S.R. Commissar of Finance presented the budget for the year 1st January to 31st December 1945.

Expenditure for war and defence was maintained at the same level as in the previous year but increases were made in the appropriations for "national economy" and for "social and cultural development". The information available as to the internal rise in prices is, however, insufficient for an opinion to be expressed on the extent to which the higher appropriations in the 1945 budget reflect a real increase in effort. Under the Soviet system the amounts spent on "national economy" record, so to say, the rate of economic expansion (the construction of factories, etc.) both for civil and armament purposes. While in 1940 one-third of the total budget expenditure was devoted to "national economy", only one-fifth was earmarked for that purpose in 1945, it being possible, however, that the cessation of hostilities will lead to a higher proportion for new investment. During the war

U.S.S.R.: Government Receipts and Expenditure Central Budgets.(1)

Items	1940 Actual	1944 Actual (2)	1945 Estimates
	in milliards of roubles		
Receipts			
Turnover tax and levies on profit	106	116	138
Other receipts (3)	74	152	167
Total receipts	180	268	305
Expenditure			
Defence and War	56	137	138
National Economy	57	49	65 (4)
Social and Cultural Development	43	51	66
Other	18	26	36
Total expenditure	174	263	305

(1) Data as published in the London "Economist", 5th May 1945, and elsewhere, concerning the central budgets of the U.S.S.R. There are, in addition to the central budget, separate budgets of the sixteen Soviet Republics, which aggregated some Roubles 36 milliard for 1944.
(2) Preliminary results. (3) Including to some extent proceeds of loans.
(4) Of the appropriations for national economy, Roubles 35.9 milliard are for industry, 9.2 milliard for agriculture, 9.8 milliard for transport and communications, 1.7 milliard for trade and stocks and 2.9 milliard for municipal services and housing.

years the Soviet budget did not show anything like the same expansion as that of the other principal belligerents, the main reason being that in peacetime the Soviet budget already absorbed a great part of the national income, so that war conditions did not involve the canalisation of an increased share into government hands but rather a re-allocation of resources; the same will presumably apply during the transition to peace conditions.

In the countries which were on the losing side in the war, military expenditure has been cut with little or no delay but, even so, budget equilibrium has not been attained. The disruptive elements inherent in defeat brought economic life to a low ebb; for some time it was hardly possible to collect revenue; and increased charges had to be assumed for relief, for instance, while the presence of occupying forces led to additional issues of local currency, the cost of these forces being attributable to the defeated countries, although often in practice not fully borne by them.

In Italy an official estimate of June 1945 put the budget deficit for the financial year 1st July 1945 to 30th June 1946 at some Lit. 150 milliard, but this figure soon proved too low. Late in the autumn new estimates were prepared according to which the budget expenditure would be Lit. 340 milliard while revenue was put at Lit. 105 milliard, leaving a deficit of Lit. 235 milliard. New fiscal measures are, however, being adopted to increase revenue and, in addition, the Treasury will profit from sales of military equipment and other war stocks.

For Germany no figures have yet been announced for a central budget, since the lines on which a central financial administration is to be established have still (November 1945) to be decided. For municipalities and other local authorities, estimates of expenditure and revenue have been prepared for submission to the occupying power in each area. No official statement has been made regarding the amount of notes issued by the occupying powers; unofficial estimates give figures varying from RM 5 to 15 milliard out of a total note circulation of, say, RM 70 milliard.

In Japan a special government committee has been set up to examine all questions connected with the financial situation. It was announced in October 1945 that Yen 3 milliard had been provided at the Bank of Japan for the use of the occupying forces, an amount said to be sufficient to meet the occupation needs in yen currency for three months.

In Italy and Germany, as well as certain other countries, recent methods of meeting the cost of domestic administrations, occupying forces, etc. have clearly exerted an inflationary pressure, but efforts are being made to ensure a balance which can be permanently maintained; and, as far as Germany is concerned, a continuation of strict wage and price control has helped, at least in some areas, to withstand a marked rise in prices; the German wage and income taxes were, moreover, increased in the latter half of October 1945. To arrive at a balanced position, it will obviously be necessary (as already indicated on pages 12 and 13 above) to collect sufficient revenue from taxation and other current sources, and this will be possible only if the economic life of the respective countries recovers sufficiently to provide the income from which the taxes are to be paid. In a certain sense financial accounting (whether in the public or in the private sector) only registers the transfer of funds from one recipient to another; whether genuine income is earned depends upon the state of economic activity, and this is therefore the most important aspect of a country's recovery problem.

Whatever efforts were made in the second world war to cover the highest possible proportion of government expenditure by taxation, public debts could not be prevented from rising steeply; the absolute amounts by which they rose were, indeed, greater this time than during the first world war, even allowing for changes in the purchasing power of the national currencies. But, thanks to a determined policy of cheap money, the burden of interest did not rise at quite the same rate. In the United Kingdom, for instance, the cost of interest and management of the dead-weight debt was equal, in 1913–14, to 2.97 per cent. of the nominal amount of the debt and, in 1939–40, to 2.50 per cent.; but during the war years 1940–45 it remained at around 1.85 per cent. — and another reduction will ensue from steps being taken by the new British Government for the further cheapening of interest.

After all the borrowing during the war, the nominal amounts of the public debts are almost everywhere larger than one year's national income. In the United States the Federal debt is approaching a figure equal to two years' national income, while in the United Kingdom the debt is larger than two and a half years' national income. Owing to rapid changes in prices and wages, most of the belligerent countries on the continent of Europe have not yet been able to establish really reliable estimates of their national income. But, on the basis of preliminary figures, it would seem that there are only a few countries in which the rise in the nominal national income, inherent in inflation, has overtaken the debt figure.

Public Debts.

Countries	National currencies	1913	1920	1939	1945
		In millions of national currency units			
United States [1]	$	966	24,061	45,336	256,766
United Kingdom [2]	£	656	7,829	8,163	22,398
France	FF	33,538 [3]	240,242 [4]	445,742 [5]	1,677,990 [4]
Germany [6]	RM	4,926	184,864	30,847	400,000 [7]
Italy [8]	Lire	15,126	74,496	145,795	969,000 [9]
Japan [6]	Yen	2,608	3,278	17,837	87,000 [10]
Holland [11]	Fl.	1,148	2,994	3,642	12,671 [12]
Belgium [13]	B.Fcs	4,227	30,645	62,486	203,296 [8]
Sweden	Kr.	648 [13]	1,497 [13]	2,634 [6]	10,953 [8]
Switzerland [14]	Sw. Fcs	1,710	4,059	5,929	11,878 [15]
Portugal	Escudos	679 [16]	1,553 [6]	7,145 [13]	8,760 [17]
Spain [13]	Pesetas	9,322	11,926	23,290	38,000 [18]

[1] End-of-June figures for interest-bearing debt including (for 1939 and 1945) guaranteed securities.
[2] End-of-March figures including external debt. [3] 1st January 1914.
[4] 1st January. [5] 31st August 1939. [6] End-of-March figures.
[7] The last available figure from German sources is an estimate of the Reich debt for the end of 1944 at RM 346.6 milliard. Since then no accurate figure has become available but it has been reported that, when the Allies took over, the debt had risen to about RM 400 milliard. In addition, war damage claims amount to between RM 100 and 200 milliard. Interest on the RM 400 milliard would amount to about RM 12 milliard.
[8] End-of-June figures. [9] Figure given by the Minister of Finance in November 1945.
[10] Estimate for end of June 1944. [11] End-of-year figures for consolidated debt, Treasury bills and certificates.
[12] 1st June. [13] End-of-year figures. [14] End-of-year figures including Federal Railway debt.
[15] Figure for end of 1944. [16] June 1914. [17] Figure for end of 1943. [18] Estimate for June 1945.

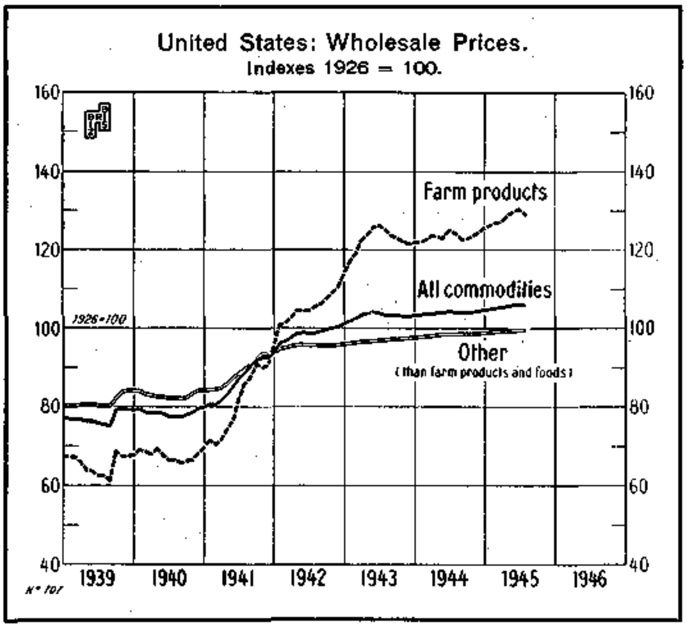
Not much is known for certain about the effects of the capital liability in respect of large public debts, as distinct from the effects of the annual interest payments, but it is probable that not only the distribution of wealth within each nation but also the impulse to create new wealth is affected; and important monetary repercussions may also occur. In their wartime borrowing, great efforts were made by the governments of the United States and the United Kingdom to procure as much as possible at long and middle term. In these two countries the proportion borrowed at short term was only between one-quarter and one-third; but the amounts involved were so large that, by the autumn of 1945, the outstanding floating debts were as high as or higher than the total internal government debts of these two countries in the summer of 1939. During the war it was no doubt imperative to tap resources of short-term financing also, but this has left a legacy of unfunded liabilities, which entails a very high degree of liquidity on the money market and in the hands of the general public and gives rise to problems likely to complicate monetary management in many respects.

Supplies and Wages.

The next on the list of the "fundamental factors" enumerated above is the rate at which civilian supplies of goods and services can be restored, and this depends, in the first place, on success in eliminating some of the more troublesome bottlenecks and notably the breakdown of communications and the shortage of coal. For most belligerent countries, lack of manpower has also remained a serious hindrance, only gradually overcome as demobilisation proceeds. Even under the best of circumstances, such as prevailed in countries which did not suffer much war damage either from the air or through land warfare, reconversion necessarily takes time; and in the less fortunate countries much preliminary repair work has been required, not to mention the imports of badly needed raw materials. Thus delay has been unavoidable. The period before increased supplies are forthcoming can be regarded as most critical from a psychological point of view: for those who for years have had to live a restricted life, and, even after the termination of hostilities, receive inadequate rations, are naturally impatient and apt to demand an immediate improvement in their money wages with a view to eking out their daily portions by additional purchases. If, however, sudden increases in money wages are allowed before more goods become available, the result will very likely be a further increase in costs and prices equivalent to a reduction in the real value of the national currency. In some of the liberated countries in the west and in other countries (e. g. Finland) where people have been partly dependent on black or grey markets for their daily needs, money wages were as a rule greatly increased in 1944–45, being sometimes even more than doubled.

In France, a general increase in wages in September 1944 (immediately after the liberation) brought the wage rates from a level of about 165–175 (1939 = 100) to around 250; through subsequent increases a level of over 300 was reached by the summer of 1945, when, account being taken of additional allowances, the index figure for cost of labour per working hour even exceeded 400. In certain neutral countries also the wage question has caused many difficulties. Thus, in Sweden, where a virtual price and wage stop had been applied since the late autumn of 1942, the engineering and a number of other trades, through their unions, made a demand for an increase which would have gone beyond the official adjustment allowed for wages in general. This led to a labour dispute involving 125,000 workers and lasting for fully five months, from February to July 1945; it was settled in the end by a compromise under which an increase of S.Kr. 0.08 was agreed upon, together with a 5 per cent. increase in piece rates, up to a limit of S.Kr. 1.60 an hour in the areas with the highest increase in the cost of living and S.Kr. 1.30 in the areas with the lowest increase in the cost of living. In both cases the rise in wage rates is of importance only to wage-earners in the lowest income groups. By the summer of 1945 the average increase in the wage rates of Swedish industrial workers since the beginning of the war was 35–40 per cent., while agricultural workers have obtained an increase of about 60 per cent. In Sweden, as elsewhere, agricultural workers — who usually received the lowest wages before the war — have obtained a higher percentage increase in their pay than other workers.

In Canada, for instance, the improvement in wage rates for agricultural workers has attained about 120 per cent. while industrial workers have had an average increase of 40 to 50 per cent. Agriculture has been in a position to pay higher wages, since prices for foodstuffs and other farm products have, as a rule, risen sharply. Thus, in Canada, the price of wheat was twice as



Note: Up to the autumn of 1941 the relative prices for farm products were well below those of other commodities; but upon the entry of the United States into the war the relationship was reversed.

high in 1945 as in 1939; European countries have been able to import little or nothing in the way of foodstuffs from overseas markets and they have had to pay higher prices, as well as heavy transport charges for what they received; thus home-grown food generally cost less than imported food, even though home producers were granted greatly increased prices for their products. In the first few months after the cessation of hostilities transport costs have fallen somewhat (since shorter routes could be used, etc.) and this has already begun to bring down prices of imported foodstuffs. In overseas producing countries the prices remain high and such imports as have been taken by European countries have been so controlled that, except for a few countries (among them Belgium), no free pricing of agricultural products has yet occurred; and the official prices have been such as to enable higher wages to be paid to agricultural workers.

At the moment, however, it is, as a rule, exceedingly *difficult to obtain a true measure of the wage levels in the different countries*. Where sudden increases have occurred, great differences are often found between the rates applied in the main industrial towns and those current in the country, and it also happens that the official limits are far from strictly observed, there being in fact a black market in wages. Also, in countries where the statistical material is both plentiful and reliable, great care must be taken in the selection of the particular indexes used for the purpose of comparison. In *the United States*, for instance, wage rates in industry (i. e. the rates of pay per hour or standard rates for piece-work) rose about 35 per cent. between 1939 and the summer of 1945; but, because of more overtime work (which is paid 150 per cent. of the normal rate) and shifting of workers to more highly paid occupations, average hourly earnings have risen by 50–55 per cent. and the income per week by about 75 to 80 per cent. With a return to peace conditions, the highly paid overtime work has tended to disappear and the workers have then sought to retain as large a part of their weekly earnings as possible and therefore demanded an increase in the basic rates. The weekly earnings of the workers were being lowered for three reasons, as mentioned by the U.S. President in a radio address delivered on 30th October 1945. Firstly, the number of hours of employment were being reduced ("now that the need is past, the forty-hour week is being restored"); and, with the return to the normal week, overtime pay at one and a half times the standard rate was disappearing. Secondly, reclassification was bringing jobs down into lower grades in the scale of payment, and this was felt especially by those who changed from one job to another. Thirdly, millions of workers who were employed in the highly-paid war industries had now to find jobs in less remunerative peacetime work. As a result the annual wage and salary bill might shrink by over $20 milliard and that was "not going to do anybody any good". While it could not be hoped "with a reduced work week to maintain the same take-home pay for labour generally that it has had during the war", the President felt that the nation could not afford too drastic a drop and continued as follows:

> "Wage increases are therefore imperative — to cushion the shock to our workers, to sustain adequate purchasing power and to raise the national income.
>
> There are many people who have said to me that industry cannot afford to grant any wage increase, however, without obtaining a corresponding increase in the price of its products. And they have urged me to use the machinery of government to raise both.
>
> This proposal cannot be accepted under any circumstances. To accept it would mean but one thing — inflation. And that invites disaster. An increase in wages, if it were accompanied by an increase in the cost of living, would not help even the workers themselves.....
>
> Therefore, wherever price increases would have inflationary tendencies, we must above all else hold the line on prices."

But there were, said the President, several reasons why industry could "afford substantial wage increases without price increases", viz. elimination of the high overtime pay, which would reduce labour-cost per hour; a downward reclassification of jobs in many industries; increased output per hour of work (to which labour should contribute); a favourable profit position with excellent prospects for the period that lay ahead; and, finally, the proposal now before Congress to eliminate the excess profits tax. The President recognised, however, that there were "important limits upon the capacity of industry to raise wages without getting price increases", especially at a time of reconversion, which at the beginning would tend to raise "unit costs". Not all companies could afford the same wage increases and in some of them overtime remained high.

> "Labour must recognise these differences and not demand more than an industry or a company can pay under existing prices and conditions. It has a stern responsibility to see that demands for wage increases are reasonable. Excessive demands would deny to industry reasonable profits to which it is entitled, and which are necessary to stimulate an expansion of production. We must not kill 'the goose which laid the golden egg'."

Turning to the question of how wages are to be increased, the President said he did not himself want "to step in and decide who is to increase wages and by exactly how much", adding in explanation:

> "I am convinced that we must get away as quickly as possible from government controls and that we must get back to the free operation of the competitive system. Where wages are concerned, this means that we must get back to free and fair collective bargaining."

The decisions reached in collective bargaining would, however, have to be kept "within the limits laid down by the wage-price policy of the government", under which management was allowed to make wage increases without government approval but such approval was required before the wage increase could be reflected in higher price ceilings. And finally the President announced some alleviations in procedure. Industry would not — he said — be asked to take an unreasonable chance in absorbing wage increases; if, after a reasonable test period of (normally) six months, the industry had been unable to produce at a fair profit, the entire wage increase would be taken into account by the Office of Price Administration in considering applications for price ceiling increases.

Moreover, a Conference of Labour and Management was called to Washington to recommend, if possible, machinery for arbitrating disputes whenever collective bargaining failed. While adopting a series of resolutions of a more general character, the conference arrived at no agreement with regard to its main problem. Instead, the President submitted to Congress a proposal that, in certain cases of important labour conflicts, a "fact-finding board" should be appointed and that the calling of a strike or lock-out should be prohibited for a few weeks, during which the board would investigate the situation, thus providing a so-called "cooling-off period".

The intervention of the President was made at a time of many strikes when both the Congress of Industrial Organisation and the American Federation of Labour had gone on record as supporting a 30 per cent. increase in wages, on the understanding, it would seem, however, that a basis for compromise was to be sought since policies should not be fixed "on an inflexible arbitrary basis".

A particular matter making for uncertainty in the United States, as elsewhere, as to future level of living costs is the fact that the prices of many essential goods are affected by subsidies in a degree which will hardly be permanently maintained.

Thus, for the United Kingdom it has been estimated by the Ministry of Food that, should food subsidies be withdrawn, the indexes of retail prices and of the cost of living would jump to about 50 per cent. above the level of September 1939, as compared with the 32–34 per cent. increase registered in the summer of 1945. Between August 1939 and July 1945 the weighted average of wage rates in the United Kingdom rose by 52 per cent. The following carefully worded statements on price and wage policies formed part of the budget speeches made in the House of Commons in the spring and autumn of 1945.

On 24th April 1945 the Chancellor of the Exchequer said:

> "We shall aim, I hope, at low rates of interest and stability of prices without deflation.
>
> I have to repeat what I said last year about the use of subsidies to maintain the stability of the cost of living, and I made it clear to the House in my last Budget speech that I was not prepared as a matter of course to offset increases

in cost automatically by corresponding subsidies, although I would aim at preventing the cost of living index from rising above 135 per cent. of the pre-war figure. In fact, we have been able to maintain almost complete stability, and the index, which stood at 129 a year ago, is still only a fraction above 130, although the indications are that we shall not be able to hold that figure much longer.

The position remains that it will be unwise, in my opinion, to look to subsidies as the appropriate remedy for increases of cost, though, as before, I am hopeful that the figure, during the coming year, will be kept within the limit of 135. This will still remain a low figure, especially when compared with the general level of wage rates, which to-day stand at 146 per cent. pre-war, and with average earnings, which stand at 182 per cent. pre-war, though this may be expected to fall with the reduction of overtime. Moreover, this figure of prices for essentials is much below the ruling price level in the outside world.

We are paying at a price level of about 185 per cent. for our imports. The national product and income, as a whole, must, I suggest, be thought of, in terms of the value of money, as being of the order of 150 per cent. pre-war, rather than the level of 130 per cent. at which the cost of living index still stands. In the long run the domestic price level is necessarily mainly a function of what we pay for our imports and of the ruling rate of wages and output. A stable price level will be compatible with a slow and steady increase of wages if that increase corresponds with an increase of efficiency of output. Discipline and orderly progress in the determination of wage rates should be recognised as a prime interest of the wage-earning class as well as the community as a whole, for it is the level of efficient wages which mainly determines, in the last resort, the purchasing power of money."

In the budget speech on 24th October the new Chancellor referred to his predecessor's statement on the cost of living and added:

"During the summer the cost-of-living index rose for a time to 33 ½ per cent. above the pre-war level. It has since fallen and now has been running at about 31 per cent., and my intention is that for the next year at least and until further notice we should hold the index where it is now and that we should not allow it to vary from the present level by more than an insignificant amount."

The holding-down of the cost of living is, however, possible only by means of subsidies amounting to about £300 million a year; indeed, the cost-of-living index cannot, as such, be regarded as a true measure of the purchasing power of the pound since the prevailing price levels in other sectors (including the cost of living calculated from a wider range of items than those on which the official index is based) are substantially higher, wholesale prices having risen 74 per cent. up to June 1945. But in economics "all things hang together" and British price policy must be related to the price and cost changes in other

United Kingdom and United States: Average price of exports 1938–1944.

1938 = 100	United Kingdom		United States
	Average price	Adjusted for exchange alteration (1)	Average price (including Lend-Lease)
1938	100	100	100
1939	99 (2)	94	99
1940	120 (2)	103	105
1941	138 (2)	119	112
1942	157	135	137
1943	171	147	151
1944	178	153	171

(1) For 1939 a deduction of 5 per cent. has been made in respect of the months September-December 1939 — one-third of the year — during which the lower exchange rate of the pound applied. For the years 1940-44 the British price has been reduced by 14 per cent. (2) Including munitions.

economies, account being taken of the fact that the exchange value of the pound sterling was reduced by about 14 per cent. in August-September 1939.

In the table on the preceding page the average price of British and American exports is shown with adjustment of the British prices for the alteration in the exchange value of the pound.

The "average price" in each of the countries is that of commercial exports and, although the definitions of these exports are not quite identical, the results are believed to be broadly comparable. After the index of the British price has been adjusted for the reduction in the exchange value of the pound, there is a fair correspondence between the levels in the two countries.

Foreign Exchange Rates.

The fact that the pound-dollar rate has remained at about the same level (£1 = \$4.02½—4.03½) since the autumn of 1939 has helped to maintain order and stability in the international exchange situation, the influence being felt all through the dollar and sterling areas. While the dollar area may be said to comprise those countries, mostly in the western hemisphere, which hold large balances in New York and settle their foreign payments mainly by transfer of U. S. dollars, the sterling area before 1939 a similar de facto association of countries maintaining stable exchanges in relation to the pound and holding sterling balances in London, has, owing to the war, been precisely defined and comprises those countries to which transfers of money could, in principle, be made freely and which in relation to the outside world had accepted certain common rules of exchange control. The official definition of the sterling area (within which no alteration was made in the exchange rates during the war) was given in an order dated 19th October 1944,* as follows:

> "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,
> (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) Iceland and the Faroe Islands."

There are no longer any neutral countries among the members of the sterling area; indeed, the object of the transformation to which it was gradually subjected, once hostilities had begun, was to adapt it to serve wartime needs, its purpose being to reserve scarce exchange resources for the primary

* Before this date the Belgian Congo and Ruanda-Urundi belonged to the sterling area but, by agreement, the currencies of these territories were linked once more to the Belgian franc in connection with the monetary reform in Belgium in October 1944 and the payments agreement between Belgium and the United Kingdom dated 5th October 1944.

needs of the war and to secure as favourable conditions as possible in financial negotiations with other countries. In conformity with their practice before the war the territories which remained members of the sterling area continued to sell their foreign exchange income in London and to maintain their own exchange reserves largely in the form of sterling assets. In return, the members obtained, from the pool established in London, the amounts of currencies needed to pay for absolutely essential imports from outsiders (the magnitude of these imports being in most cases determined by the shipping which could be made available, so that it was subject to effective control of a non-financial character).

Except for those parts of the Empire which were directly under the control of the British Government, adherence to these wartime arrangements was voluntary and took the form of a synchronisation of exchange control measures identical with, or similar to, those established by the United Kingdom itself. It thus became possible to consider the sterling area as a unit within which there was a large measure of freedom in the transfer of funds.*

It should be added that with countries outside the sterling area arrangements were frequently made under which specified amounts of their currencies were supplied in exchange for sterling balances or in some cases for gold. As a result of all these arrangements the sterling balances held in London for account of sterling-area and other countries rose from just under £500 million in August 1939 to just over £3,000 million at the end of June 1945, the increase representing a major part of the foreign resources devoted by the United Kingdom to the prosecution of the war. The following four tables were published in December 1945 as part of a White Paper in connection with the credit arrangement between the United Kingdom and the United States and give a picture of the extent to which the United Kingdom used its own oversea assets and its credit for the war effort.

— United Kingdom —

Drafts on Investments.

Proceeds of Sale or Repatriation of Investments during the War in:	In millions of £ sterling
Sterling area	564
United States	203 (1)
Canada	225
South America	96
Europe	14
Rest of world	16
Total	1,118

External Liabilities.

At end of:	Net quick external liabilities (3)	Overseas loans	Total external liabilities
	in millions of £ sterling		
1938 August (2) . . .	760	—	760
1939 „ (2) . . .	476	—	476
1939 December (2) .	556	—	556
1940 „ (2) .	733	2	735
1941 „ . .	1,192	107	1,299
1942 „ . .	1,515	303	1,818
1943 „ . .	2,158	307	2,465
1944 „ . .	2,773	300	3,073
1945 June	3,052	303	3,355 (4)

(1) Excluding collateral for Reconstruction Finance Corporation loan.

(2) Figures subject to a greater degree of uncertainty in estimating than those for later years.

(3) Comprising banking liabilities (less assets) and funds held in the United Kingdom as cover for overseas currencies, etc. (4) Net increase reached at end of September 1945 about $3,455 million.

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* See three articles on "Sterling Balances and Britain's External Debt" by Donald F. Heatherington in the issues for 28th October, 4th and 11th November 1944 of "Foreign Commerce Weekly", published by the *U. S. Department of Commerce*.

The net gold and U. S. dollar reserves of the United Kingdom show the same figure for the end of October 1945 as at the end of the previous June, but there was, on the other hand, a continuous increase in the British sterling liabilities incurred to pay for excess imports and other (partly military) expenses abroad.

— United Kingdom —

Net Gold and U. S. Dollar Reserves.

At end of:	In millions of £
1938 August . .	864 (1)
1939 „ . .	605 (1)
1939 December.	548 (1)
1940 „	74
1941 „	97
1942 „	172
1943 „	322
1944 „	421
1945 June. . . .	453
1945 October . .	453 (2)

External Disinvestments(3) from September 1939 to June 1945.

Period	Realisation of external capital assets	Increase in external liabilities	Decrease or increase (–) in gold and U. S. $ reserves (4)	Un-allocated	Total
	In millions of £ sterling				
1939 Sept.-Dec..	58	80	57	17	212
1940 Jan.-Dec. .	164	179	474	— 6	811
1941 „	274	564	— 23	5	820
1942 „	227	519	— 75	3	674
1943 „	189	647	— 150	3	689
1944 „	143	608	— 99	11	663
1945 Jan.-June .	63	282	— 32	16	329
Total (Sept. 1939-June 1945)	1,118	2,879	152	49	4,198

(1) Including an estimate of private holdings of gold and dollars subsequently requisitioned.
(2) Provisional.
(3) As far as recorded: probably an under-estimate.
(4) Gold valued at 172s. 3d. per ounce fine and dollars at £1 = $4.03.

In addition to the amounts regularly provided for in foreign currencies, a special concession was granted in 1944 to India, that country retaining a part of its income in U. S. dollars. In order to be able to pay for increased imports after hostilities had ceased in the Mediterranean area, Egypt obtained, for the year 1945, a quota of £15 million in "hard currencies".

Other moves made towards an easing of the exchange restrictions of the United Kingdom and the attainment of a more balanced position include the following measures:

(i) At the beginning of July 1945 American and Swiss registered accounts (which benefited by an exchange-guarantee) were discontinued and their place was taken by the so-called American and Swiss special accounts, through which the respective currencies may be freely traded in but which carry no particular exchange guarantee. * Sterling held in an American special account may, for instance, be sold to residents in Central America and used in payment for goods exported from Great Britain to Central America; it is also available for payments to residents in the sterling area.

* In the second half of August 1945 a notice was issued by the Fiscal Director, Theatre Service Forces in Paris, reminding U. S. troops who had special accounts in British banks to withdraw their accounts before 30th September 1945, since up to that date holders of registered accounts would have the option of receiving their balances in U. S. dollars at a guaranteed rate of $4.02½, while after that date market rates would apply. As this announcement became more widely known, it gave rise to a crop of rumours regarding a possible reduction in the exchange value of sterling to take effect soon after 1st October 1945; but as the weeks passed without any such change it was realised that the withdrawal of the exchange guarantee was to be regarded as a natural consequence of the termination of hostilities. It was intimated in London newspapers that, under prevailing circumstances, it would be to the disadvantage of Great Britain to devalue the pound, one of the reasons being that world markets for some time ahead would be sellers' markets and the country therefore would have no difficulty in getting rid of its exports, provided the goods could be produced. In such circumstances, a devaluation of sterling would amount to the loss of an appreciable part of the proceeds of British exports in terms of foreign exchange.

(ii) Later in July four notices were issued in London with a view to simplifying and accelerating the conduct of foreign exchange transactions. Increased authority in exchange matters was delegated to banks and the number of banks fully authorised to handle exchange business was increased from 26 to 78; in addition to this foreign banks in London were given certain limited powers to deal in business involving transactions between the United Kingdom and the countries they represent.

(iii) At the beginning of August 1945 the quotations of the forward exchange rates in London were brought to an even balance round par, sterling having previously been quoted only at a discount. The forward rate on New York was, for instance, fixed at $^3/_8$ cent premium to $^3/_8$ cent discount instead of only $^3/_4$ cent premium to par, as previously. The rates thus quoted are official and affect only current traders in possession of the necessary import and export permits.

(iv) Adjustment to changed circumstances was likewise the reason for the increase in the official gold price from 168s. per fine ounce to 172s.3d. (effective from 9th June 1945). The old price lay 3.3 per cent. below the theoretical parity with the U. S. dollar (at $35 per fine ounce and a middle rate of $4.03=£1), while with the new price the margin was reduced to 0.8 per cent. This reduction is accounted for by the end of wartime abnormalities and is in fact based on rates for marine insurance and freights at about peacetime levels.

(v) By the middle of October 1945 it was announced that any person who had a valid passport and was able to make the necessary arrangements for going abroad would be permitted to purchase an allowance of foreign exchange without enquiry as to the purpose of the journey. This allowance, which was fixed for a year from 1st November 1945, is £100 for an adult and £50 for each child under sixteen. In cases of genuine emigration, up to £5,000 per household may be transferred from funds in Great Britain in reasonable instalments over a period of four years. Switzerland was for the time being excepted from the provisions of this arrangement in view of the shortage of Swiss francs outside that country (the Swiss franc would seem to have been the world's most "scarce" currency in 1945).

(vi) In 1944 and 1945 a number of payment agreements affording certain reciprocal facilities for the monetary authorities concerned were concluded between the United Kingdom and other countries; the character and scope of these agreements will be dealt with later in connection with a review of similar agreements to which the United Kingdom was not a partner.

In general it may be said that the purpose has been to activate commercial and other transactions on the current account of the balance of payments without waiting for a final settlement of the capital liabilities to which the war has given rise.

In the **United States** also steps have been taken to free movements of funds from wartime restrictions. In the course of 1940 and 1941 the assets in the United States of occupied and certain other foreign countries were frozen by order of the U. S. Government, it being still possible, however, to authorise the owners, under licence, to draw upon their funds for certain specific purposes. In the course of the autumn of 1945 a general export and import licence was granted, in the first place, to France and Belgium, these two countries having been ready to certify that the French and Belgian assets which had been frozen were now in the hands of their own nationals. Then, at the beginning of December 1945, the U. S. Secretary of the Treasury announced a relaxation of the freezing control, according to which controls would be removed over current transactions for all countries with the exception of (i) enemy assets (i. e. German and Japanese assets, with Italian, Bulgarian, Hungarian and Roumanian assets forming a separate category) and of (ii) assets belonging to Spain, Portugal, Sweden, Switzerland, Liechtenstein and Tangier, it being intimated that a liberation of these last-mentioned assets would not be possible until the countries concerned "have taken effective action to search out, immobilise, and control all enemy assets within their jurisdiction, and until a satisfactory solution has been reached concerning the disposition of enemy assets in these countries".

After negotiations with representatives of certain Allied countries, Sweden and Switzerland submitted German assets in their countries to a census, of which the preliminary results were announced in November 1945. The total value of German assets held in Switzerland was given as about Sw.fcs 1,000 million, of which some Sw.fcs 375 million represented assets held by German nationals domiciled in Switzerland. (These figures do not include holdings which may be brought to light by an impending investigation of the contents of bank safes.) When giving the above information, the Swiss Clearing Office announced that the total value of Swiss assets blocked in Germany was estimated at Sw.fcs 3–4 milliard.

In Sweden declarations have been filed in respect of German assets to a total value of about S.Kr. 350 million, of which S.Kr. 100 million were declared by owners resident in Sweden. Another S.Kr. 130 million must be added for German clearing claims, making an aggregate of about S.Kr. 480 million of German assets in Sweden. Swedish claims on Germany, on the other hand, were estimated earlier at about S.Kr. 1 milliard.

While the measures of adjustment adopted by the United Kingdom and the United States in the years 1944 and 1945 did not involve a change in the dollar-sterling rate, a number of other countries, in those years, proceeded to modify the exchange value of their currencies. The following table gives a list of exchange quotations in relation to the U. S. dollar in 1939 and in 1945.

Few countries are this time in the throes of a galloping inflation, but in Greece the movement has gone far beyond even the worst depreciation resulting from the last war. When Greece was liberated in October 1944, the note circulation stood at Dr. 2½ trillion (i.e. 2,500,000 million millions). The gold sovereign was quoted at Dr. 30 milliard (as compared with Dr. 1,000 before the war) and the price of bread had increased to about 2 million times the pre-war price. With British aid an attempt to stabilise the currency was made in November 1944, when at the new level chosen the note circulation had a

Currency Rates: Percentage Change in Value 1939–1945.

Countries	National units	U. S. Dollar Rate 1939 Aug. 24	1939 Dec. 30	1945 July 31	Percentage depreciation (—) or appreciation (+) August 1939 to July 1945
United Kingdom	£	4/3¼ d.	4/11½ d.	4/11½ d.	— 14
Greece (1)	Dr.	117.60	140.20	25,000 mrd (4)	— 99.999...
Italy	Lit.	19.00	19.80	100.00	— 81
Germany	RM	2.493	2.493	10.00	— 75
Finland	FM	48.60	49.35	120.80 (5)	— 60
Iran	Rials	17.41	17.113	32.01	— 46
Belgium	B.fcs	29.58⅛	29.95	43.83	— 32½
Holland	Fl.	1.86	1.87⅞	2.65	— 30
France	Fr.fcs	37.755	43.80	49.625	— 24
Spain	Pes.	9.05	10.05	10.95	— 17
Norway	N.Kr.	4.27	4.40	4.96	— 14
Portugal	Esc.	23.3645	27.027	24.814	— 6
Turkey	£T	1.26675	1.30361	1.32	— 4
Sweden	S.Kr.	4.15	4.20	4.20	— 1
Denmark	D.Kr.	4.79½	5.18	4.79	+ 0.1
Switzerland	Sw.fcs	4.435	4.46	4.30	+ 3
Brazil (2)	Cruzeiro	19.608	19.417	19.048	+ 3
Argentina (3)	Pesos	4.325	4.4135	4.025	+ 7

(1) Selling rate. (2) Via New York. (3) Free market rate.
(4) Old drachmae. 50 milliards old drachmae = one new drachma.
(5) In October 1945 the rate was altered to FM 136=$1, with a consequent depreciation of 64 per cent.

gold cover of 100 per cent. One new drachma note was issued for every 50 milliard old notes and the exchange was fixed at 600 new drachmae = £1 (as compared with Dr. 550=£1 before the war). This attempt, however, proved unsuccessful. Political troubles added to inflationary confusion, increased supplies from abroad were not forthcoming at the rate which had been expected, and government expenditure could not be met by current revenue. No wonder, then, that people continued to think in terms of gold, pounds and dollars, which sapped any psychological basis for exchange stability. Instead of trying to peg the new rate (which would have required heavy selling of gold and foreign exchange), the authorities decided upon a fresh devaluation in June 1945 with a rate of Dr. 2,000 = £1.

A peculiarity in Greece has been the official quoting of a special rate for the gold sovereign, this being practically unavoidable since in all countries of the Near East there is a widespread speculation in gold coins which permeates all frontiers. Thus, in November 1944 the gold sovereign was officially quoted in Athens at Dr. 2,400, i.e. at four times the rate for the paper pound, instead of twice that rate, as, with an official price of 168s. per ounce, it should have been. The official price of the sovereign was, however, raised in the course of the winter to Dr. 2,750–2,850, but soon became purely nominal at that level, since the authorities virtually discontinued their sales of gold and in the outside market prices went to as much as Dr. 39,000 (reached in October 1945).

Upon the landing of the Allied forces in Italy in July 1943 rates of £1 = Lit. 400 (in July 1939: £1 = Lit. 89) and $1 = Lit. 100 (in July 1939: $1 = Lit. 19) were fixed and these have remained unchanged, but rates twice or three times as high have been quoted in the black market under the influence of the long drawn-out fighting, the continued scarcity of goods and the large issues of notes by the two rival governments and for the account of the troops of the different fighting powers. In November 1945 the circulation of all notes (including 81 milliard so-called Am-lire issued as an allied military currency) had reached Lit. 366 milliard (as compared with Lit. 24 milliard at the end of 1939), while the public debt (mostly short-term) was approaching Lit. 1,000 milliard — a figure five times as high as in 1940.

In the monetary upheavals of the 1930's the Reichsmark had been protected by exchange restrictions instead of being devalued and the official rates quoted in Berlin were accordingly about \$1 = RM 2.50 and £1 = RM 10. When Allied troops first entered the territory of Germany in September 1944, rates of \$1 = RM 10 and £1 = RM 40 were announced and so-called "Allied Military Mark notes" were issued in denominations of Marks 1 to 100. After the surrender in May 1945 such notes were put into circulation in all the occupied zones, the value of these issues being counted as part of the occupation costs. As regards the liberated population of the Départements of Bas-Rhin, Haut-Rhin and Moselle (collectively known as Alsace-Lorraine), the French Government decided to allow it to benefit from a preferential rate of Fr.fcs 15 (and for certain purposes Fr.fcs 20) for RM 1 but, once the Reichsmarks held in these two provinces had been exchanged, the rate was brought into line and became Fr.fcs 5 = RM 1.

The significance of the rates fixed by the occupying powers for the Reichsmark appears inter alia from the fact that, for instance, members of the U. S. forces may convert into dollars only a part of their pay, received by them in occupation marks, while members of the U.S.S.R. forces, also paid in occupation marks, cannot exchange any marks for roubles. The German population itself would seem at times to have preferred the occupation marks to notes of the Reichsbank, but there is no quotation of any premiums which are regularly applied.

In Austria a monetary plan was prepared, during the autumn, to establish a national currency by recalling the Reichsmark notes circulating in the country as well as Allied military notes — the circulation having suddenly increased to a total estimated at roughly RM 5,000 million. After an initial failure to agree, the Allied Control Council in November 1945 approved the creation of a new currency, the national Austrian shilling, which is to take the place of the Reichsmark, the occupation marks and military schillings. When the notes are exchanged, only a small quota of the amounts surrendered will be released at once, the liberation of further portions taking place at long intervals. The National Bank of Austria had already been reestablished, at an earlier date, as a central bank acting for the whole of the country.

At the time of the liberation, seven different currencies were circulating in Yugoslavia, and in September 1945 these were exchanged for a new national unit, the D.F.Y. dinar (democratic and federal Yugoslavia dinar), at the following rates:

5	D.F.Y. dinars for	100 Serbian dinars
2.50	,, ,, ,,	100 Croatian kunas
10	,, ,, ,,	100 Bulgarian leva
250	,, ,, ,,	100 Albanian francs
50	,, ,, ,,	100 Albanian leks
30	,, ,, ,,	100 Italian lire
100	,, ,, ,,	100 Hungarian pengö.

For certain Eastern European countries the rates of exchange shown in the following table were fixed in relation to the rouble.

Rouble Rates fixed for Eastern European Currencies.

Country	1 Rouble =	Percentage change*
Bulgaria	Leva 15.00	+ 1
Poland	Zloty 1.00	0
Czechoslovakia . .	Kčs 5.50	— 1
Austria	Sch. 2.00	— 50
Hungary	Pengö 2.50	— 62
Roumania	Lei 100.00	— 74

* As calculated against pre-war rates via the U.S. dollar on the basis of $1 = Roubles 5.30.

For Bulgaria, Poland and Czechoslovakia the rates corresponded approximately to the exchange values already current before the war, while for Austria, Hungary and Roumania the new rates represented a depreciation amounting to between one-half and two-thirds of the previous exchange values of these currencies.

On 1st November 1945 a monetary agreement was signed between Czechoslovakia and the United Kingdom, under which each central bank was to sell its own currency to the other up to limits not exceeding £1 million and Kcs. 200 million respectively. At the same time the rate of exchange of the newly established Czechoslovak currency was fixed at £1 = Kcs. 201.50 (compared with a rate of about £1 = Kcs. 140 of the old currency as an average for the year 1938) and at $1 = Kcs. 50. It should be mentioned that about two months previously the British Government had already extended a special credit of £5 million to Czechoslovakia.

In Finland the note circulation rose from FM 2.2 milliard in the summer of 1939 to FM 17–18 milliard in the autumn of 1945. In the spring of the latter year substantial increases were allowed in agricultural prices and also in wage rates, which brought wholesale prices to four times the pre-war level. In view of these increases and with the possibility of a resumption of foreign trade after the end of hostilities, it was decided in the second half of May 1945 to adjust the exchange value of the currency, the authorities having already an official devaluation of about 60 per cent. in mind. Since, however, the forest products then ready for shipment, forming the main part of Finland's exports, had been produced at lower costs, it was thought expedient to reach the desired level in two stages, the new exchange rate fixed at the end of May corresponding to a depreciation of 43 per cent. while a second alteration in July brought the total depreciation to about 60 per cent. The procedure adopted was to increase the existing exchange rates uniformly by 75 per cent. in May and then by 40 per cent. in July; in that way the Finnish authorities did not need to select any one foreign currency as a primary link with the Finnish mark. In the autumn, however, a further depreciation was found necessary for the support of export trade; the foreign exchange rates were increased by about 12½ per cent., which brought the total depreciation within the year to about 64 per cent.

In the winter and spring of 1945 deliveries of wheat, sugar and other important materials were obtained from the U.S.S.R., followed in August by a general commercial agreement with that country; and at the beginning of August a commercial agreement was concluded with the United Kingdom after a Finnish trade delegation had visited London. That was the first agreement which the United Kingdom entered into with an enemy state, it being intimated that it might conceivably serve later on as a pattern for similar agreements with other enemy states. Its main provisions were as follows:

> First of all, there is a relaxation of the effect of the Trading with the Enemy legislation in force in the United Kingdom. Moneys becoming payable to Finland in respect of private trading and financial transactions will no longer be payable to the Custodian of Enemy Property. Instead, such sums may be credited with any bank in Great Britain, and the Bank of Finland — as agent of the Finnish authorities — will make corresponding payments to the Finnish creditors. Twelve and one-half per cent. of all moneys due from the United Kingdom Government departments to the Finnish Government, in respect of commercial transactions, will be paid into a separate Finnish account with the Bank of England, which will be used to liquidate British claims. The Finnish debt will likewise be settled from this account. Finnish property in Great Britain will be returned to its owners as soon as possible after the conclusion of the peace treaty with Finland.

In the other Northern countries the alterations in exchange rates have been more limited in scope. In Sweden the U. S. dollar rate, which, after negotiations with the other Northern countries, was altered on 28th August 1939 from S.Kr. 4.15 to S.Kr. 4.20 = $1, has remained unchanged at the latter figure. In Norway the freeing of the lines of communication with the Western countries and the reopening of the Oslo bourse in May 1945 made it imperative that an early decision should be taken regarding the foreign exchange rates. In the autumn of 1939, when Norway as a neutral country ceased to belong to the sterling area, the rate of the pound was no longer held at N.Kr. 19.90 but went to N.Kr. 17.47 = £1. In view of the losses suffered through the occupation and in order to facilitate the resumption of foreign trade, a return was made in May 1945 to approximately the pre-war level in relation to sterling, the rate being fixed at N.Kr. 20 = £1, which also was in accordance with the exchange rates provisionally fixed by the Soviet authorities in the northern parts of the country. As compared with the pre-war quotation of the U. S. dollar (N.Kr. 4.27 = $1), the new rate of the Norwegian crown (N.Kr. 4.96 = $1) corresponds to a devaluation of about 14 per cent.

After a series of discussions in London on commercial and monetary questions and after comprehensive deliberations at home, it was decided

Sterling and Dollar Rates of Denmark, Finland, Norway and Sweden.

Dates	Denmark		Finland		Norway		Sweden	
	£	$	£	$	£	$	£	$
1939, August 24 . .	22.40	4.795	227	48.60	19.90	4.27	19.40	4.15
December 31	20.48	5.18	197	49.35	17.47	4.40	16.90	4.20
1940, "	20.91	"	191	"	17.75	"	"	"
1941, "	20.93	"	196	"	"	"	"	"
1942, "	19.34	4.79	"	"	"	"	"	"
1943, "	"	"	"	"	"	"	"	"
1944, "	"	"	"	"	"	"	"	"
1945, May 16 . . .	"	"	"	"	20.00	4.96	"	"
" 31 . . .	"	"	343	86.30	"	"	"	"
July 27 . . .	"	"	485	120.80	"	"	"	"
August 20 . .	19.36	4.81	"	"	"	"	"	"
October 16 .	"	"	547	136.00	"	"	"	"

in Denmark, in August 1945, to maintain almost unaltered the wartime exchange value of the crown and thus to fix a rate of £1 = D.Kr. 19.36 (in July 1939: £1 = D.Kr. 22.40) and $1 = D.Kr. 4.81 (in July 1939: $1 = D.Kr. 4.79½). To understand the significance of this decision it is necessary to recall that in the autumn of 1939, when sterling became devalued by 14 per cent., the Danish crown was allowed to follow this movement to the extent of 8 per cent. in order to safeguard the country's export position on its then most important market. But, when trade with Great Britain was cut off in the spring of 1940 and Germany acquired a predominant position in the Danish export trade, Danish commodity prices were exposed to the influence of the higher German level. In order to counteract this influence as far as possible, it was decided to appreciate the crown sufficiently to restore the exchange value which it had before September 1939; accordingly, in January 1942, after negotiations with the German authorities, the crown was appreciated by 8.2 per cent. The result was that in May 1945 the crown was quoted at £1 = D.Kr. 19.34 instead of the pre-war rate of £1 = D.Kr. 22.40, i.e. it stood about 14 per cent. higher than before the war in terms of sterling, while at about the same value in terms of gold and of the dollar.

For France, Belgium and Holland new rates of exchange were already fixed by agreement with the Anglo-Saxon countries in 1944; in fact, the rates of $1 = Fr.fcs 50 and £1 = Fr.fcs 200 had been agreed upon with regard to North Africa as early as February 1943.

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

Currency	Sterling rates			Dollar rates		
	1939 August 24th	1944–45 arrangements	Percentage decline in exchange value	1939 August 24th	1944–45 arrangements	Percentage decline in exchange value
French franc	176.715	200.—	*— 12*	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, provisionally fixed in September 1944 at Fl. 10.691 = £1, was confirmed in the Anglo-Dutch payment agreement of September 1945; the corresponding cross rate for the dollar has been calculated on the same basis.

When the above rates were adopted, few data were yet available for judging the relative values of the currencies and no real balance had yet been reached in the national economies concerned; there was therefore nothing inherently final about these rates, it being left for subsequent developments to determine how far they might become permanent "equilibrium rates".

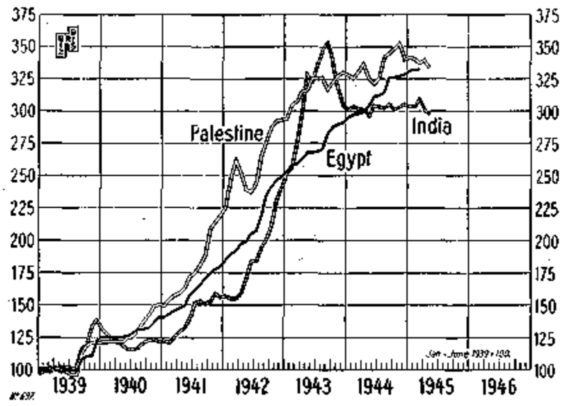
Measured by the official dollar rate, the peseta in Spain lost 17 per cent. between August 1939 and the end of July 1945. Slightly over one-half of this reduction occurred in the autumn of 1939. In terms of the pound, the rate has been much more stable, the net change over the war period being from £1 = Pesetas 42.45 to £1 = Pesetas 44.

In more than one country account has had to be taken not only of changes in official rates but also of premiums of different kinds. Thus, in Iran, up to the end of September 1941, a premium of Rials 105½ had to be added to the basic rate of Rials 68½ — together making Rials 174 = £1. The authorities then decided to put the official rate at Rials 140, at the same time abolishing the premium — a change which meant an appreciation of the currency by about 19½ per cent. In the summer of 1942 a further appreciation brought the rate to Rials 129 = £1, this being made possible by the fact that large holdings of sterling had been accumulated from the expenditure of British forces stationed in the country.

In Ethiopia a new currency was introduced on 23rd July 1945 by a proclamation dated 29th May 1945, when the sole right of issuing notes and coins was vested in the State Bank of Ethiopia, acting for and on behalf of the government. The new monetary unit — the Ethiopian dollar, divided into 100 cents — is equal in value to 5.52 grains of fine gold and is the legal tender of the country. From the date of the proclamation the Maria Theresia dollar, which for over a century had been circulating in Ethiopia (being minted in Vienna up to 1935) would no longer be legal tender. It is to be treated as silver bullion and purchased by the State Bank as a commodity at rates fixed by the bank. Obligations expressed in Maria Theresia dollars are to be converted into Ethiopian dollars at the rate of 1 Eth.$ = 1 Maria Theresia dollar. The new currency of Ethiopia is issued and redeemed at the rate of 1 Eth.$ for 40.25 U. S. cents or 2 shillings sterling (one-tenth of a pound) or against such other currencies and at such rates as may be determined by the State Bank. This bank will maintain a currency fund which, to a minimum extent of 75 per cent., shall consist of gold, silver and foreign currency balances, or prime securities readily convertible into foreign currencies, or bank balances; for the remainder, i. e. to a maximum extent of 25 per cent., the bank may hold obligations of the Ethiopian Treasury.

In a number of territories, especially in the Near East, the monetary authorities have usually been able to make substantial additions to their foreign reserves (mostly in sterling, but also in dollars and gold) and they are thus in a position to support the foreign exchanges strongly should any

Wholesale prices in Palestine, Egypt and India.
Monthly indexes January-June 1939 = 100.



pressure set in. Heavy outlay both by foreign armies and in payment for exports, while making it possible to augment the reserves, has nevertheless represented an effective demand which has lifted commodity prices well above the level on the world markets — a development which may be pregnant with difficult problems of readjustment, the strong reserve position representing only one of the important factors.

In the Far East inflationary tendencies connected with the financing of war expenditure have made their appearance in several centres. In "Chungking China" the wholesale price level in March 1945 was fully 1,200 times the 1937 level. Faced with such developments on the home market, the Chinese Currency Stabilisation Fund has been unable to exert any decisive influence on the real value of the Chinese dollar. In March 1945 the British authorities decided to reimburse British banks £5 million, thus honouring in advance a guarantee given in respect of contributions made by these banks to the Stabilisation Fund. With a view to adjusting official values more closely to dealings in the market, and in order to absorb the largest possible amounts of liquid money, the price applicable to the sales of gold by the authorities was raised at the end of March 1945 from 20,000 to 35,000 Chinese dollars per ounce of fine gold, and then again in June from 35,000 to 50,000 Chinese dollars (the American price being U. S. $35 per ounce of fine gold). According to these price quotations U. S. $1 would be equal to about 1,430 Chinese dollars, while the official rate of exchange has long been U. S. $1 = 28 Chinese dollars. Even higher prices for gold were reached in July, but with the surrender of Japan the black market rates registered a fall.

In Shanghai chaotic currency conditions prevailed for months after the liberation. In that area notes of the Central Reserve Bank of Nanking (an institution sponsored by Japan) had been circulating. These notes were declared invalid when Shanghai was retaken but did not at once lose their entire value. At the beginning of October 1945 $200 of the Central Reserve Bank of Nanking were, for instance, exchanged for 1 Chinese (national) dollar. On the whole, the public showed a tendency to discard the local currencies and to acquire, as far as they could, either gold or U. S. dollars.

In Hong Kong the pre-war dollar currency was restored and in Burma the pre-war rupee, in the Philippines the peso and in the Dutch East Indies the guilder. The exchange value of the last-mentioned currency was fixed in the Anglo-Dutch monetary agreement (of September 1945) at the old rate of Fl. 7.60 = £1, while the rate for the guilder of the mother country was to be Fl. 10.691 = £1. It has been contended that with these rates the Dutch East Indian guilder was given too high an exchange value, but apparently exports have been possible and imports have been obtained at relatively low prices in terms of the colonial currency.

In Japan an announcement was made at the beginning of September 1945 that the occupying power had fixed the exchange rate for the Bank-of-Japan yen and sen notes, when used as currency by the Allied forces, at Yen 15 = $1, as compared with a pre-war rate of Yen 4.23 = $1. In the following months Japanese holdings of gold, silver and platinum were seized and set aside to cover reparation payments.

Payment Agreements.

Reference was made above to the payment agreements (also called financial or monetary agreements) which the United Kingdom had concluded with a number of other countries. The first agreement of such a character was, however, one to which the United Kingdom was not a partner: it was signed on 21st October 1943 in London between the Refugee Governments of Belgium and Luxemburg, on the one hand, and the Dutch Government, on the other, its purpose being to stabilise monetary relations and to facilitate the mechanism of payments between the Belgo-Luxemburg Economic Union and Holland. To achieve that end the rates of exchange between the currencies of the two partners were fixed, reciprocal facilities were provided for payments in these currencies and methods of consultation were established. Since this first agreement has served, so to say, as a model for the elaboration of those which followed, some more detailed information may be given about it:

(i) The rates of exchange agreed upon were B.fcs 16.52 = Fl. 1, which is equivalent to Fl. 6.053 = B.fcs 100. No change was to be made in these "official rates" without previous agreement between the governments, and any deviation from the corresponding rates applied to third currencies was subject to the same condition.

(ii) Payment facilities were to be provided by each country in its own currency. Thus, the monetary authorities in Holland would furnish the Belgian monetary authorities with florins at the official rate against payment in Belgian francs, the florins to be used for such payments as the Belgo-Luxemburg Union, the Belgian Congo or the territories under Belgian mandate had to make in Holland, the Dutch Indies or any other part of the Kingdom of the Netherlands. Vice versa, the monetary authorities in Belgium would provide francs against payment in florins. Each partner would consequently acquire a claim in the currency of the other. If after offsetting the claims against each other either country should become a creditor with a net balance exceeding Fl. 60.5 million in the case of Belgium and B.fcs 1 milliard in the case of Holland, the two governments would consult with each other, the debtor having always the right to make payments in gold and, under certain conditions, in foreign currencies also. On the other hand, no collateral in the shape of gold or in any other form must be demanded, nor might conversion of such balances into gold or foreign exchange be claimed. If the convention came to be cancelled, any credit balance would be converted into Treasury bonds issued by the debtor country but expressed in the currency of the creditor country; these bonds would bear interest at 3 per cent. and would be redeemable within a period not exceeding five years.

Should the gold value of the currency of one of the partners be altered, any balance to the credit of the other partner would be correspondingly adjusted.

(iii) The governments and the monetary authorities further agreed to confer from time to time with a view to maintaining flexibility in the balance of payments and to adopting concerted measures for the prevention of operations incompatible with the monetary and economic policy of Belgium and Holland. Third parties might adhere to the convention thus adopted and nothing in it would prevent Belgium or Holland from adhering to any international multilateral agreement for the stabilisation of exchange rates; but the two countries bound themselves not to take such action except jointly.

In examining what monetary innovations were introduced by these decisions, it may first be noted that in several respects the new arrangement goes further than the Tripartite Agreement of 1936. That agreement did not fix the exchange rates which would 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 monetary authorities of the respective parties or for periodical consultations on questions of economic policy. Indeed, any balance resulting from the transaction under the agreement was to be settled, from day to day, by transfers of gold.

In this connection it is of some interest to recall that, in the report which Monsieur Paul van Zeeland presented on 26th January 1938 to the Governments of the United Kingdom and France on "the possibility of obtaining a general reduction of the obstacles to international trade", he had in mind that the Tripartite Agreement "should be adapted to the new conditions and extended in such a way as to embrace all the countries participating in the effort of collaboration". The parties to the new monetary agreement which he outlined would, in particular, "agree to define the reciprocal parities of their currencies, in relation to each other, and would pledge themselves to keep any eventual variations within certain limits". He further proposed "a liquidation of the past", in the form of "an agreed adjustment of external debts which weigh on the country, as far as may still be necessary and warranted" and, once that had been done, it would "be desirable to ease the transition" and, in particular, "provide those countries which have been freed from restrictions with credit facilities"; to secure such an object he suggested "an agreed extension of the method of reciprocal credits recently instituted by the Bank for International Settlements".

To understand the monetary developments which gave rise to the conclusion of clearing agreements during the great depression and up to the beginning of the second world war, it must be remembered that the sharp fall in commodity prices from 1929 onwards was chiefly responsible for the monetary convulsions which came to a head in 1931 and for the subsequent paralysis of so much of the international credit system. In 1931, when the pressure on the exchange markets became acute, some countries, following the example of sterling, allowed their currencies to depreciate, and that enabled them to retain, in general, a free exchange market, while other countries decided to protect the parities of their currencies (often newly established) by imposing restrictions of a monetary and commercial character. Whenever a system of exchange control was introduced it became impossible to purchase foreign exchange freely on the markets; those in charge of the control had to allot available supplies of foreign exchange for purposes which were deemed essential. This meant, however, that for other purposes no exchange would become available and as more and more applications for allotment of exchange were refused, the amount of unpaid commercial and financial claims would steadily increase. The countries which no longer received payments due to them did not simply resign themselves to the new state of affairs but took steps (i) to obtain payment for goods already delivered; (ii) to continue their exports to the country in question, if only on a reduced scale; and (iii) to secure at least partial repayment of their financial claims.[1]

It was thus the creditor countries which took the initiative in the matter of clearing agreements, in an attempt to protect their legitimate interests. The first clearing agreement dates from November 1931 and was concluded between Switzerland and Austria. It covered both commercial and financial claims, with provision for the service of Austrian debts in Switzerland. In the same month a similar agreement was concluded between Switzerland and Hungary.

As far as the United Kingdom was concerned, the first agreement arose out of a controversy between the British and German Governments over the service of British loans to Germany. On 14th June 1934 the German Government announced a complete transfer moratorium for six months on all long and medium-term foreign debts, including the Dawes and Young Loans. As a reply to this measure, legislation was passed by the British Parliament authorising the government to establish clearing offices for the clearing of funds payable to a specified foreign country or its nationals, such funds to be used to pay British creditors of that country or its nationals.[2] It was not necessary to impose any unilateral measure, however, for negotiations were opened with Germany and a payment agreement was signed on 10th August 1934.

In the course of the next two years the United Kingdom concluded other payment agreements, with Roumania, Italy, Turkey, Spain, Hungary and Yugoslavia as well as with certain Latin American countries (Brazil, Uruguay and the Argentine).

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(1) See "Enquiry into Clearing Agreements", League of Nations, Geneva, 1935.

(2) See an article on "British Financial Agreements with Foreign Countries" by Thomas R. Wilson, published in the "International Reference Service" of the U. S. Department of Commerce, March 1941.

On the continent of Europe an intricate network of bilateral payment agreements was gradually being established; some attempts were made to institute, in certain cases, a triangular clearing of outstanding balances, but hardly any success was achieved. Agreements were concluded as a "necessary evil", as a means of ensuring payment of debts due and of keeping a certain amount of trade going even under very difficult conditions. The root cause of this whole departure into bilateralism was the exchange control, the situation on the continent of Europe being dominated by the deliberate maintenance of such control in Germany, where it was used as a substitute for devaluation, since German commodity prices (at the official rates of exchange on which the clearings were based) were some 30 per cent. above the world level and thus had to be artificially sustained by a complicated system of monetary and commercial control with export premiums and special import charges. It is, indeed, instructive to note that in a few countries, where a gradual alignment of the exchange rate was carried through, an alleviation of exchange control soon became possible, this being, for instance, the case in Austria while still an independent country.

When the war broke out in 1939, an entirely new situation arose: the United Kingdom had itself to husband its gold and foreign exchange resources for purposes of the war effort and, in particular, it had to institute exchange control, the first regulations being issued on 3rd September 1939. Already in the autumn of 1939 negotiations were opened with other countries (in particular France and Sweden) to work out methods which would enable trade to be carried on and, in particular, to determine the nature of the commercial and other accounts which could be kept by nationals of the respective countries in each others' markets. On 12th December 1939, a comprehensive financial agreement was concluded between the British and French Treasuries and summarised in the following official report:

"1. The two governments have agreed that it is in the interest of both countries to avoid alterations in the existing official rate of exchange between the pound and the franc.

2. The francs required by the United Kingdom (including those for the British Expeditionary Force) will be provided against payment in sterling, and the sterling required by France (including that required for the purchase of raw materials in the British Empire) will be provided against francs. Both countries will, for the duration of the war, be in a position to cover the whole of their requirements in the currency of the other country by payment in their own currency without any question of their having to find gold.

3. The sterling held by the French monetary authorities will be available for expenditure throughout the sterling area and the francs held by the United Kingdom monetary authorities will be available for expenditure throughout the French Empire.

4. The question of sharing equitably the expenses necessitated by the conduct of the war, which the two governments have to defray in gold and dollars, will be kept under review.

5. The United Kingdom and French Treasuries will have frequent meetings to review the position of the Allied governments as regards their resources in gold and foreign exchange.

6. Neither government will raise a foreign loan or credit except in agreement with (or jointly with) the other government.
7. Neither government will impose fresh restrictions on the imports from the other country during the war for protective purposes or for exchange reasons.
8. The two governments will maintain contact as regards their policy in regard to prices.
9. Finally, the two governments will share certain items of expenditure in the common cause, such as financial assistance to other countries and the cost of the armed forces of their Polish Ally. The contribution of the two governments will be fixed on a basis which will take due account of the national wealth of each. In general, the French contribution will be 40 per cent. and the United Kingdom contribution 60 per cent. of the total.
10. These arrangements will remain in force till six months after the signature of the treaty of peace."

The agreement thus concluded between the British and French Treasuries naturally lost most of its practical significance through the events in the spring and summer of 1940. New arrangements were needed to regulate the financial relations between the United Kingdom and Free France, as represented by the Committee of National Liberation in London. The last of these agreements bears the date ot 8th February 1944, and provides, inter alia, for the free French colonies, as part of the sterling area.

But these and other arrangements with Allied and neutral countries were among the measures taken to carry on the war. A new departure was made by the agreement of 21st October 1943 between the Belgo-Luxemburg Union and Holland (summarised on page 96 above), since this agreement had in view the conditions which would obtain when hostilities had ceased. It was in fact the first agreement concluded for the purpose of facilitating peacetime monetary relations. Almost a year passed before the example thus set was followed; but in the autumn of 1944 and in 1945 new agreements came thick and fast, as may be seen from the list on this page.

Payment and Monetary Agreements.

Dates	Contracting countries
1943, October 21 (1)	Belgo-Luxemburg Union—Holland
1944, October 5	United Kingdom—Belgium
,, 10	France—Belgium
,, 11	Belgium—Holland
1945, January 3/6	United Kingdom—Egypt
February 23	France—Belgium
March 6 (2)	United Kingdom—Sweden
,, 22	France—Switzerland
,, 27	United Kingdom—France
May 4	United Kingdom—Turkey
,, 28	United Kingdom—Iraq
,, 30	Sweden—Belgo-Luxemburg Union
June 13	Sweden—Norway
,, 21	France—Sweden
July 13	France—Belgium (3)
,, 25	Switzerland—Belgo-Luxemburg Union
August 10	Switzerland—Italy
,, 16	United Kingdom—Denmark
,, 17	United Kingdom—Finland
,, 20	Sweden—Poland
September 7	United Kingdom—Holland
,, 12	Switzerland—Turkey
October 6	France—Belgium
,, 22	France—Argentine
,, 24	Switzerland—Holland
November 1	United Kingdom—Czechoslovakia
,, 8	United Kingdom—Norway
,, 16	France—Switzerland

(1) In force since 20th August 1945.
(2) In force since 1st January 1945.
(3) Rider to old agreement.

Without dealing with each individual agreement, it may be of interest to trace the broad lines which have been followed:

1. The agreements have invariably been concluded between the governments, but with the central banks acting as "agents", certain definite functions being allotted to them. It is natural that in a period of great monetary uncertainty, when essential parts of the ordinary monetary legislation are suspended, the governments should themselves assume responsibility for at least the decisions of principle and for whatever credit arrangements are required.

As a consequence, the liabilities arising out of the agreements are at the charge of the respective governments, even when the necessary funds are furnished by the central banks. The exact relationship between the government and the central bank remains essentially an internal matter for each country to decide according to its own circumstances. In addition to the question of the ultimate responsibility for any liabilities resulting from the agreement, there is the immediate problem of procuring the funds which are required for the facilities to be granted to other countries: in this connection it has to be remembered that funds furnished directly by the central bank represent, as a rule, newly created means of payment; to avoid any excessive addition to the volume of liquid money on the market, resort must be had to funds already existing, and such may be either borrowed by the government directly from the public or mobilised via the banking system.

The government may itself borrow the funds needed, in the same way as it would borrow to cover, for instance, a budget deficit, or it may operate through an exchange equalisation account and thus seek to offset any undesirable expansion in the credit basis. In general, when gold is transferred under the "old" — sometimes called "automatic" — gold standard, there is a tendency to credit restriction in the market where the central bank loses gold and a tendency to credit expansion in the market where the central bank gains gold. It is somewhat different under "the gold exchange standard" for, although the central bank which buys foreign currencies will tend to expand the volume of credit, there may be no contraction in the other market involved; what happens there may partly depend upon the way in which the central bank acquiring the currency employs it (whether the currency is left as a deposit or actively used in the market). Where "exchange equalisation accounts" operate in the two markets concerned, the respective tendencies to contraction and expansion may both be effectively counteracted. And under "payment agreements" it is not possible to tell, a priori, what the effects on the volume of credit will be, since so much depends on the manner in which the financing is handled. But it is obvious that a country acquiring the currency of its partner (which means that it extends credit to its partner) may have to take special steps in order to avoid an undesirable expansion in the volume of domestic credit.

2. Sometimes the agreements may contain provision for a liquidation of past liabilities, so as to furnish a better basis for the resumption of monetary relations. This is particularly the case with regard to the Anglo-French financial agreement of 27th March 1945, which specifically abrogated the Anglo-French financial agreement of 12th December, 1939, and also the financial agreement of 8th February, 1944, between the French Committee of National Liberation and the Government of the United Kingdom. Indeed, the two governments reached the conclusion that no claims should be made by either of them against the other in respect of the 1939 agreement and, moreover, declared themselves "desirous of waiving all further financial claims against one another arising out of the prosecution of the war".

3. In the agreements, supplementary provisions invariably accompany the fixing of the exchange values of the currencies concerned. Thus:

(i) Certain margins (corresponding more or less to the distance between the gold points) are either specified there and then or left to the respective central banks to determine in concert.

(ii) A certain procedure is prearranged for any alteration in the rates. Under the Belgo-Luxemburg-Dutch agreement, alteration must be approved by both governments; but this constitutes an exception, explicable by the fact that the Refugee Governments of Belgium and Holland had in mind a wider plan for the establishment of close economic and financial relations between the two countries after the war. In other agreements provision is usually made for consultations before any alteration in rates, or it is at least stipulated that the rate fixed "shall not be varied by either of the contracting governments except after giving to the other as much notice as may be practicable" (clause in the Anglo-Swedish agreement of 6th March, 1945).

(iii) As regards third currencies it seems to be only the Belgo-Luxemburg-Dutch agreement that provides directly for uniformity of treatment. The rule is, as expressed in the Anglo-French agreement, that "each of the two Governments shall be alone responsible for its monetary relations with third countries" but, notwithstanding this, they agree to "maintain contact wherever the monetary relations of one affect the interests of the other". In addition, there is, in the later agreements concluded by the United Kingdom, a general provision to the effect that the contracting governments shall, throughout the territories under their jurisdiction, enforce the use of the official rates as the basis of all transactions involving a relationship between the two currencies; and a similar clause is also found in other agreements.

4. The kind of payments to be covered by the provisions agreed upon was in no way restricted in the Belgo-Luxemburg-Dutch agreement, no distinction being made between payments on current and on capital account. But other agreements have made certain distinctions and have specified the nature of the transactions which are to benefit from the facilities granted. Because of the liquidation of the past, which formed an integral part of the Anglo-French agreement, provision was made, in that agreement, for the settlement of a number of capital claims arising out of the war, including certain balances belonging to private persons resident in the respective countries. But as a rule — and this applies also to the Anglo-French agreement — the chief aim has been to facilitate payments on current account. The Anglo-French agreement thus provides that the authorities responsible for exchange control shall assist each other in keeping capital movements between the sterling and franc areas "within the scope of their respective policies", and, in particular, in preventing "transfers which would not serve direct and useful economic or commercial purposes".

In a number of other agreements much more detailed provisions are found, as, for instance, in the Belgo-Swiss agreement, where fifteen different categories are specified as commercial payments within its meaning; for payments of a non-commercial character, particular provisions are laid down, these payments benefiting only to a minor extent from the special facilities provided through the respective central banks.

5. As regards the area covered, the Belgo-Luxemburg-Dutch agreement, by including the colonial possessions of the two countries, sets an example which has been followed in a number of others, the rule being that the agreements apply to, or at least have important repercussions on, the

comprehensive currency areas of the respective parties. Thus, the Anglo-French agreement regulates payments between the sterling area and the franc area, it being stated that the former area has the meaning assigned to it from time to time by the exchange control regulations in force in the United Kingdom (see page 84 above), while the expression "Franc Area" is specifically defined in the agreement.* The predominant partner in each area has, of course, to consider the special circumstances of its various associates and the principles to be applied can often be indicated only in a general way. The following clause in the Anglo-French agreement of 27th March 1945 is in many respects typical, it being noticeable that stress is specially laid on the need to facilitate current payments:

> "The French Government and the Government of the United Kingdom shall endeavour, with the consent of the other interested parties —
>
> (a) to make the francs which may be at the disposal of residents of the sterling area and sterling which may be at the disposal of residents in the franc area available for payments of a current nature to residents of countries not included in the franc and sterling areas;
>
> (b) to permit residents of countries not included in the franc and sterling areas to use the sterling which may be at their disposal to effect payments of a current nature to residents of the franc area and francs which may be at their disposal to effect payments of a current nature to residents of the sterling area."

Compare herewith the following clause in the Anglo-Turkish trade and payments agreement (this type of clause would seem to be common to all the agreements so far concluded by the United Kingdom with countries outside the sterling area):

> "To the extent to which the Central Bank (i. e. of Turkey) requires sterling area currencies, other than sterling, for the purpose of providing for payments in the countries where such currencies are legal tender, the Central Bank shall purchase them through the Bank of England against payment in sterling."

As to the conditions under which the sterling area is working, it is of interest to note certain statements regarding Iraqi foreign exchange requirements in the agreement between the United Kingdom and the Iraq Government. It is pointed out that

> "there remains at the present time a shortage of certain currencies, perhaps the most important of these being United States dollars, Canadian dollars, Swiss francs, Swedish crowns and Portuguese escudos. Payments made in these currencies by members of the sterling area must of necessity continue to be subject to some limitation. This control is exercised by the governments of the countries concerned in whose interest it is to maintain the advantages of membership of the sterling area and to give the maximum support to sterling as the basic currency of the area."

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* According to the Anglo-French agreement of 27th March 1945, the expression "Franc Area" is to comprise the following territories (Monaco being added later):

Metropolitan France
(which includes Corsica and Algeria),
Monaco,
French West Africa,
French Equatorial Africa,
Madagascar and its dependencies,
Réunion,
French Somali Coast,
French Guiana,
Guadeloupe,
Martinique,
St. Pierre et Miquelon,
French Establishments in India,
Indo-China,
New Caledonia,
French Establishments in Oceania,
Condominium of the New Hebrides,
The Protectorate of Morocco and Tunisia,
The French Mandated Territories
of Cameroon and Togo,
Syria and Lebanon.

As regards Indo-China it was laid down that the provisions would apply to this territory only when it had been wholly liberated. Further, with regard to the Condominium of the New Hebrides and the French Establishments in India, it was stated that the provisions of the agreement did not modify the existing arrangements, under which these territories were, for certain purposes, regarded as forming part of the sterling area.

6. Since one of the main objects of the payment agreements is the *provision of facilities for payments*, it is in this connection that some of the principal questions arise. The following points may be noted:

(i) The facilities are invariably extended *in the home currency of each contracting party*.

(ii) As regards *the extent of the facilities*, methods vary. In some agreements the amounts involved are clearly stated, as, for instance, in the Anglo-French agreement, under which the United Kingdom made a non-interest-bearing credit up to £100 million available to France and the French Government made a similar credit up to Fr.fcs 20 milliard available to the United Kingdom. It is, however, provided that, if either of these amounts should prove insufficient, the two governments shall consult together with a view to increasing them, so as to ensure that there will always be sufficient funds available.

In a number of other agreements the amounts involved have been indicated in a more roundabout way. That was, for instance, the case in the original Belgo-Luxemburg-Dutch agreement and the same method has been employed in the Franco-Belgian agreement, which contains the following provision: if the balance, after compensation, should exceed either Fr.fcs 1 milliard or B.fcs 883 million, the two central banks shall enter into consultation and the creditor can demand conversion of the balance into gold at the agreed price, a loophole having been left, however, for an increase in the figures originally indicated.

In a third group of countries no limit has been fixed in the agreement itself, that being the case in, for instance, the Anglo-Swedish agreement. It is, however, reported that, in connection with certain trade arrangements, an understanding was arrived at regarding the magnitude of the facilities which the partners contemplated.* For each individual country it is, of course, imperative to know, at least in a general way, what are the maximum commitments to which it has subscribed by accepting a series of payment agreements.

(iii) In the first place, each government assumes a liability in its own currency (as furnished in exchange for the currency of the other party); and under some agreements (e.g. the Anglo-Belgian agreement) this commitment also expresses *the final liability*. But, in most agreements to which the United Kingdom is not a partner, provision has been made for readjustment of the value of the commitment should the exchange value of the currency in question be modified; and provision may have been made for the repayment of any outstanding balance in the currency of *the creditor country*, should the agreement come to an end. Such was the method adopted in the first Belgo-Luxemburg-Dutch agreement and it has been followed in a number of others. There are sometimes additional provisions as to the rate of interest and the period of redemption.

(iv) When amounts accumulate to the credit of a country, the question arises *under what conditions these amounts may be invested*. The rule is that investments can only be made through the respective central banks. In the Anglo-Swedish agreement it is stated that "any sterling held by Sveriges Riksbank shall be held and invested only as may be

* Since there is often no published information regarding the limits which the partners have had in mind, it is not possible to ascertain the grand total of the amounts provided for in the many payment agreements which have been concluded between various countries since 1943. It would, however, seem as if, by the autumn of 1945, the net balances (on one side only) might come to as much as £300 million or over $1 milliard. The turnover (including the amounts set off against each other) will naturally reach a higher figure.

agreed by the Bank of England and any Swedish Kronor held by the Bank of England shall be held and invested only as may be agreed by Sveriges Riksbank".

Sometimes more detailed provisions have been laid down. In the Franco-Swiss agreement it is, for instance, provided that, when on the principal account the credit balance reaches at least Fr.fcs 50 million, the Swiss National Bank has at any time the option of acquiring three-month French Treasury bonds, carrying interest at the official rate of the Swiss National Bank, and to be held at the Bank of France. The Swiss National Bank further has the right, at any moment, to discount the whole or a part of such bonds at the Bank of France at the latter's official rate. Conversely, when the credit balance reaches at least Sw.fcs 4 million the Bank of France has a similar right to acquire three-month Swiss Treasury bonds, carrying interest at the rate of discount of the Bank of France; and these bonds may be discounted at the Swiss National Bank.

7. The period of validity of the agreements varies considerably. The Anglo-French agreement was concluded for one year, but at least three months before the end of that period conversations are to take place with a view to examining the possibility of prolonging the essential provisions for a further period of one year, account being taken of any modification which circumstances may render necessary. The Anglo-Swedish agreement, on the other hand, was concluded for a period of five years, but either government may give three months' notice at any time. The French-Swiss agreement has been concluded for a definite period of three years and will be automatically renewed for a year at a time unless either contracting party gives notice of termination six months before its expiry.

In spite of all variations in the different payment agreements, the examples given above may be regarded as representative; for there is a distinct uniformity in the general structure, such deviations as are found being introduced to fit in with the special circumstances affecting individual countries.

It should be observed that, in fixing the exchange rates, while provision is made for consultation and orderly change in case of need, emphasis is laid on the primary responsibility of each country for its own monetary policy, the task being in some measure lightened by the facilities extended, which allow increased flexibility in handling commercial and other current transactions in the balance of payments. The facilities which are provided may be said to correspond to the resources otherwise obtained through gold shipments — a parallel which holds good even with regard to the origin of the funds under the payment agreements, since they are as a rule derived in the first place from the central banks.

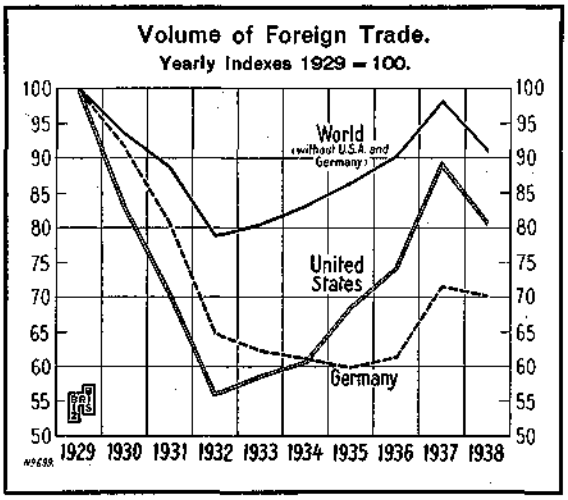
But this is one of the reasons why the facilities arranged through the payment agreements can, as such, furnish only a partial solution of the financial problem — an easing of the procedure of payment, especially at the time of establishing peaceful commercial relations. These facilities have to be supplemented by the normal working of the banking system and by other forms of international lending and investment. There is, indeed, a noticeable tendency to enlist the help of the ordinary banks more and more in the task of trade financing; thus some of the facilities granted by Switzerland to Holland were extended by private banks. Another aspect of the same tendency is the fixing of forward rates, which should aid in a return to the ordinary channels of financing. Since foreign financing on any large scale must be based on current savings, such financing has naturally to operate through those institutions which serve as a conduit-pipe for genuine savings.

The end and aim of financial facilities is, of course, to assist in the movement of goods and services. That this is the main consideration became manifest again and again during the negotiation of the agreements, an undertaking to deliver specified quantities of commodities within a certain time being insisted on by one or both partners as an essential condition for the continuance of the negotiations. Some of the agreements even contain an enumeration of certain deliveries to be made. That is the case with the Anglo-French agreement of 27th March 1945, for instance. But, even when the agreements themselves are silent on this point, it will often be found that in annexes or letters, not always published, fairly detailed provisions are laid down as to the deliveries agreed upon. (With regard to the much sought-after commodity, coal, even small deliveries, of a token nature so to say, are sometimes specifically mentioned, chiefly perhaps, in order to ensure a resumption, however modest, of the deliveries in question.)

On the whole, however, an attempt would seem to have been made to keep the agreements about the payment mechanism free from any concern with arrangements of a strictly commercial nature and in that way to avoid the besetting danger of bilateral agreements, viz. that they may so easily force commercial currents into unnatural channels.

One of the great inconveniences of bilateral trade agreements has been that a country acquiring a credit balance in the clearing has either had to reconcile itself to seeing the amount blocked for an indefinite period, or to take payment in goods which it often did not really need, or to pay higher prices than would have been necessary if it could have bought on the cheapest market. And higher prices for imports, including supplies of essential raw materials, may easily prove a serious handicap to the development of export trade. Moreover, care must be taken lest the interdependence established by the clearing arrangements should involve a danger of political subjection and the economic exploitation of one contracting party by the other.

In this connection the experience of Germany in the 'thirties is of considerable interest. As already mentioned on page 90 Germany did not, at the time, allow the Reichsmark to be formally devalued but developed a complicated system, including bilateral agreements together with all kinds of devices for the buying and selling of goods abroad. In spite of these expedients, Germany signally failed to recover the volume of trade which it had enjoyed in 1929. Indeed, all through the 'thirties Germany's foreign trade was, in volume, some 30 to 40 per cent. below the 1929 level, while in other countries, which had not applied exchange control, the volume of trade was, by 1937, not far from the 1929 level.



Under the German commercial system as applied in the 'thirties, an attempt was made to offset the difference between a high domestic price level and the lower prices on the world market through the imposition of special import charges and the granting of special export premiums (this being the solution adopted in preference to devaluation). Quite apart from the arbitrary element which such a system contains (since premiums can be made to vary from case to case, while depreciation applies equally all round), it did, in practice, prove incapable of restoring the old trade volume. Since 1939 "price equalisation funds" have in many cases been established, to levy special charges or grant special premiums necessary for securing a minimum movement of goods. For the purpose of coping with acute wartime shortages, resort may be had to the most varied devices, but it does not follow that similar devices can bring about an expanding volume of trade in a progressive economy. It is indeed a fact that the highest premiums have usually to be given to those with the heaviest production costs (since they might otherwise be unable to export); but that means awarding a special prize to the most inefficient.

The Bretton Woods Agreements.

In the various payment agreements a clause is almost invariably included to the effect that, if either of the contracting governments should adhere to a general international and monetary agreement, the terms of their particular agreement will be reconsidered with a view to such amendments as may be required. The reason for this has been, of course, a desire to keep the way open for possible adherence to the agreements recommended for adoption at the conference held at Bretton Woods from the 1st to the 22nd of July 1944. At that conference 44 countries were officially represented and the deliberations led to the acceptance (subject to ratification by the respective countries) of "Articles of Agreement" as to the setting-up of an "International Monetary Fund" and an "International Bank for Reconstruction and Development".

As far as the International Monetary Fund is concerned, the questions arising are, of necessity, similar to those posed by the payment agreements — in fact, the Fund has had its origin in very much the same complex of ideas as formed the background of those agreements. There is no need to review the Bretton Woods agreements in full detail here, since they have received very wide publicity; but there may be some point in grouping the most important provisions under approximately the same headings as in the analysis given above of the payment agreements.

1. The agreement setting up the Fund (and the same applies to the Bank) is essentially an agreement between the governments, who are the members of the Fund; but central banks and similar agencies, even if they are not state-owned, may assume essential functions when it comes to the practical working, it being laid down that "each member shall deal with the Fund only through its Treasury, central bank, stabilisation fund or other similar fiscal agency, and the Fund shall deal with or through the same agencies".

2. Liquidation of the past is no concern of the Fund, it being expressly stated that "the Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war".(1)

3. Promotion of exchange stability, maintenance of orderly exchange arrangements among the members, and avoidance of competitive exchange depreciation are, on the other hand, among the main purposes of the Fund.

The gist of the relevant provisions is as follows:

(i) Each currency is to be given an initial par value expressed in terms of gold as a common denominator or in terms of U. S. dollars at $35 per fine ounce. Except in cases where special arrangements are necessary, the par values of member currencies are to be established at the rates prevailing on the sixtieth day before the entry into force of the agreement, i. e., at the latest, the rates prevailing on 1st November 1945 since, according to the final provisions, the last day for the entry into force of the agreements is 31st December 1945.(2)

(ii) All trading in gold and exchange between members is to be on the basis of the par values, plus or minus certain prescribed margins; in the case of gold the margins have to be prescribed by the Fund; in the case of spot exchange transactions they are fixed at a maximum of 1 per cent., but in the case of other exchange transactions the extra margin above the spot rates must not be more than the Fund considers reasonable.

Any member wishing to obtain directly or indirectly the currency of another member in exchange for gold shall, provided it can do so with equal advantage, acquire such currency by selling gold to the Fund. Gold newly produced from mines in a member's territory may, however, be sold by it in any market. Moreover, a member may be required to sell its currency to the Fund for gold — a provision which is of particular importance should the Fund wish to increase its holdings of any one currency.

(iii) As regards changes in the par value of a member's currency, it is first of all stipulated that such a change may be made (a) only on the proposal

(1) A further step towards a definition of the exact scope of the Fund was taken in the United States by the Bretton Woods Agreements Act of 31st July 1945, by which the President was authorised to accept membership for the United States in the International Monetary Fund and in the International Bank for Reconstruction and Development. Section 13 of this Act aims at obtaining an interpretation of the powers of the Fund according to which the resources of the Fund shall be used only for current monetary stabilisation operations with a view to affording temporary assistance to members in connection with seasonal, cyclical and emergency fluctuations in any member's balance of payments from current transactions, but not to provide facilities for relief, reconstruction or armaments or to meet a large or sustained outflow of capital from any member country (cf. footnote to page 115).

(2) It was decided at Bretton Woods that, as regards the governments represented at that conference, the agreements should remain open for signature at Washington until 31st December 1945. To enter into force, the agreements must be signed by governments having, between them, 65 per cent. of the total quotas fixed at Bretton Woods. As regards the fixing of initial par values, it should be added that the agreement setting up the International Monetary Fund provides for certain possibilities of fixing other par values than those automatically resulting from the exchange rates prevailing on the sixtieth day before the entry into force of the agreement. Special rules apply, moreover, to a member whose metropolitan territory has been occupied by the enemy.

of the member itself; (b) only after consultation with the Fund; and (c) only for the purpose of correcting a fundamental disequilibrium.

And, faced by the conflicting claims of freedom and flexibility, on the one hand, and the desirability of stable exchanges, on the other, the Bretton Woods conference laid down that:

> each member has a right to depart, by as much as ten per cent., from the gold parity (including all previous changes), the Fund being debarred from raising any objection in such a case;
>
> if the change proposed does not exceed a further ten per cent., the Fund may concur or object but must give its decision within 72 hours;
>
> if a more far-reaching change is proposed, the Fund is entitled to a longer period in which to give its answer.

The Fund must, however, concur with the proposal "if it is satisfied that the change is necessary to correct a fundamental disequilibrium".[1] In that connection, however, it cannot "object to a proposed change because of the domestic, social or political policies of the member proposing the change" — a clause by which certain internal matters have been placed outside the purview of the Fund, when considering alterations in par values.

(iv) It is also provided that "a member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund" — a provision which is reported to have been agreed to after discussion of a point raised by the U.S.S.R. delegation.

(v) An interesting innovation is the possibility, under certain circumstances, of uniform changes in the par values of all currencies, which means that the price of gold might be changed all round in order, it may be gathered, to mitigate either a scarcity or a redundancy in the supply of gold, and thus to promote a greater stability of commodity prices.

4. The kind of payments to be met by the Fund's resources must be consistent with the purposes of the Fund. A particular aim has been to avoid "restrictions on the making of payments and transfers for current international transactions", and thus to ensure convertibility of balances "recently[2] acquired as a result of current transactions" or "needed for making payments for current transactions", such balances to be convertible either into the currency of the member making the request or into gold (the member to whom the request is made having the choice between these two modes of payment).

On the other hand, the Fund's resources must not be used "to meet a large or sustained outflow of capital" and the Fund may even request a member to exercise control in order to prevent such a use of its resources. It follows that each member is entitled to impose whatever control is necessary to regulate international capital

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(1) No definition has been given of the concept "fundamental disequilibrium". In the rapidly growing literature on the Bretton Woods proposals much space is, as a rule, devoted to a discussion of what should be understood by "fundamental disequilibrium". One main reason why no attempt was made to define this concept was probably that many different situations may arise; a country may, for instance, be exposed to a structural disequilibrium or to one caused by internal budgetary inflation or to the repercussions of a persistent fall in prices on world markets; and it would be hard to frame a rule which would adequately cover all these cases. In view of the desirability of correcting any substantial lack of balance in a country's exchange relationships, the practical test will probably be that a disequilibrium which cannot be eliminated by any other method than an alteration of exchange rates must be regarded as fundamental. This is, however, in a large measure a purely formal guide; for a country's willingness, or otherwise, to take the domestic measures required to correct a disequilibrium will probably depend very much upon the general attitude prevailing among people concerned with these matters as to the importance of maintaining exchange stability even if this should require the taking of some "disagreeable" measures on the home market. It must not be forgotten that there are "fashions" in economic and monetary as in other thought. (cf. in this respect the twelfth Annual Report of the Bank for International Settlements, pages 41–44.)

(2) The word "recently" is evidently used to ensure that accumulated liabilities, such as the sterling balances held in London by a number of countries in consequence of the war, do not fall under the rule of convertibility as laid down in the Agreements.

movements, but that should be done without restricting payments for current transactions. The distinction between payments on current and on capital account is throughout of fundamental importance for the working of the monetary system contemplated by the Bretton Woods Conference.*

5. As regards the areas covered, each government's signature is deemed to indicate acceptance of the agreement not only on its own behalf but also on that of all colonies and other territories under its authority. (The British Dominions and India, of course, count as full members of the Fund in their own right.) Should a member propose a change of parity, however, it can declare that the proposal relates only to one or more specified currencies in the area under its authority.

Undue differentiation in treatment as between separate areas should be obviated by the obligation assumed by the members not "to engage in any discriminatory currency arrangements or multiple currency practices":

6. The arrangements as to provision of facilities for payment are in more than one respect reminiscent of the payment agreements.

Thus, each member has to make amounts of its own currency available. Under the payment agreements the amounts required are as a rule made available only pari passu with the stream of actual payments; but under the Bretton Woods scheme each member has to subscribe a definite amount and to do so partly in its own currency and partly in gold — the latter to the extent of either 25 per cent. of its quota or 10 per cent. of its net holdings of gold or U. S. dollars — whichever is the smaller amount. If, in the judgement of the Fund, a part of a member's currency is not needed for the Fund's operations, non-negotiable, non-interest-bearing securities may be accepted in its place at their par value.

Thus, the Fund becomes the owner of certain assets according to the quota assigned to each member. At Bretton Woods the following quotas were fixed for the countries represented at the conference (without any indication of the basis of calculation, but it is understood that weight was given to the size of monetary reserves, the volume of foreign trade and the national income of the prospective members).

As regards the right to use the Fund's resources, several of the fundamental notions of the payment agreements have a counterpart in the Bretton Woods scheme:

As under the payment agreements one country "purchases" what it needs of the currency of the other country, so a member of the Fund wishing to use the Fund's resources will "buy the currency of another member from the Fund in exchange for its own currency". Thus, transactions with the Fund are not construed as "credit transactions" (i. e. the borrowing of specified amounts on certain conditions); but, even so, certain elements reappear which are akin to the usual constituents of credit transactions, e. g. the payment to the Fund of various "charges" expressed as percentages — not so different from the commission and interest payable in the case of a credit.

While under the payment agreements the amounts made available by one partner can be immediately used by the other, the right which a member has to avail itself of the Fund's resources is regulated by a set of fairly complicated rules.

* Payments on current account have been defined, from a practical rather than a theoretical point of view, as follows: "Payment for current transactions means payments which are not for the purpose of transferring capital, and includes, without limitation, (i) all payments due in connection with foreign trade, other current business, including services, and normal short-term banking and credit facilities; (ii) payments due as interest on loans and as net income from other investments; (iii) payments of moderate amount for amortisation of loans or for depreciation of direct investments; (iv) moderate remittances for family living expenses.

The Fund may, after consultation with the members concerned, determine whether certain specific transactions are to be considered current transactions or capital transactions."

Quotas assigned to members of the International Monetary Fund.

Countries	Millions of U.S.$	Countries	Millions of U.S.$	Countries	Millions of U.S.$
Australia	200	El Salvador	2.5	New Zealand	50
Belgium	225	Ethiopia	6	Nicaragua	2
Bolivia	10	France	450	Norway	50
Brazil	150	Greece	40	Panama	0.5
Canada	300	Guatemala	5	Paraguay	2
Chile	50	Haiti	5	Peru	25
China	550	Honduras	2.5	Philippine Commonwealth	15
Colombia	50	Iceland	1	Poland	125
Costa Rica	5	India	400	Union of South Africa	100
Cuba	50	Iran	25	U.S.S.R.	1,200
Czechoslovakia	125	Iraq	8	United Kingdom	1,300
Denmark	*	Liberia	0.5	United States	2,750
Dominican Republic	5	Luxembourg	10	Uruguay	15
Ecuador	5	Mexico	90	Venezuela	15
Egypt	45	Netherlands	275	Yugoslavia	60

* The quota of Denmark shall be determined by the Fund after the Danish Government has declared its readiness to sign this Agreement but before signature takes place.

Note: The fixing of fair quotas has been a matter of outstanding importance, since the quotas determine:
(i) the voting power of each member (which may be of no mean importance considering the many special provisions for qualified majorities in the daily decisions of the Fund);
(ii) the subscription to be made to the Fund; and
(iii) in many respects the right to use the resources of the Fund.

Something of an "automatic" right has, however, been retained. Thus, a member is entitled to avail itself of the Fund's resources up to 25 per cent., i. e. a quarter of its quota within a period of twelve months, provided the total use the member is thus making of the Fund does not exceed 200 per cent., i. e. twice its quota.*

This right is, however, not altogether unconditional. The member must show that the currency it wants "is presently needed for making in that currency payments which are consistent with the provisions of the agreement". Furthermore, the Fund must not have given notice that the currency in question is "scarce"; and, finally, the member must not have been declared "ineligible to use the resources of the Fund" (as it could be if it had used those resources in a manner contrary to the purposes of the Fund or otherwise failed to fulfil any of its obligations under the agreement). Without special permission, the Fund's resources may not be used to acquire currency to be held against forward exchange transactions.

Some elasticity is, however, provided by the fact that the Fund may waive the conditions limiting the use a member may make of the Fund's resources, more particularly "in the case of members with a record of avoiding large and continuous use of those resources". Special consideration is to be given to "periodic or exceptional requirements" of a member asking for extra accommodation — and this must be regarded as natural, since an international monetary fund cannot be expected to provide for other than relatively small and temporary surpluses and deficits.

Since a member when it makes use of the Fund's resources does so by buying the currency of another member from the Fund in exchange for its own currency, the net result of the transaction is that the Fund increases its holdings of the buying member's currency. If the transaction were constructed on a credit basis, one might

* In the first year of the Fund's existence the amount of currency a member could normally count on obtaining from the Fund would thus be limited to the amount of gold paid by it to the Fund as part of its subscription. When the Fund's holdings of a member's currency fall below 75 per cent. of its quota, which normally means that the Fund would hold less than the amount which, in its own currency, the member in question originally delivered to the Fund, then the 25 per cent. limitation will not apply, i. e. the member can always obtain currencies from the Fund to offset, so to say, sales by the Fund of any part of its own original subscription.

say that the member had become indebted in its own currency. Certain charges are levied; and these are so adapted as to discourage an excessive and prolonged use of the Fund's resources. Members must first of all pay a non-recurring service charge of ½ to 1 per cent. on the value of any currency obtained. In addition, a member has to pay "on the average daily balances of its currency held by the Fund in excess of its quota" a percentage charge on a progressive scale varying with the size and duration of the holding. The charges rise gradually to 5 per cent., after which penalty surcharges may be imposed. Once the charge for any bracket of currency holdings reaches 4 per cent., the Fund and the member must consider ways and means of reducing the Fund's holdings of the currency concerned.

7. Since the Fund is, indeed, meant to aid members in overcoming temporary difficulties, it is necessary to ensure that accommodation extended to a member is refunded as speedily as possible. In other words, a member who has made use of the Fund's resources must repurchase its own currency from the Fund. The rules on this point are somewhat complex but their purpose is to prevent a member from making extensive use of the Fund's resources when it is in reality able to sustain the volume of its own monetary reserves (in gold and convertible currencies); when that is the case, the member in question will be bound to use a portion of its reserves for the repurchase of its own currency. How much must be so employed depends partly on the amount of accommodation which the member has obtained from the Fund during the previous year, partly on the changes in its own monetary reserves and partly on whether it has accumulated currency of some other member of the Fund. But in no case must the repurchase bring the member's own monetary reserves below its quota or the Fund's holdings of its currency below 75 per cent. of its quota (i. e. below the normal amount of the member's original subscription in its own currency). And other members' rights are safeguarded by the rule that the use of any currency in a repurchase transaction must not increase the Fund's holding of that currency to more than 75 per cent. of the quota of the member concerned.

Since it is a rule that the gold value of the Fund's assets shall be maintained, provision has been made for an additional in-payment to the Fund by a member, if the value of its currency has been reduced in terms of gold.

8. For the proper working of the Fund it is, of course, imperative that the members' theoretical right to make use of the Fund's resources can be effectively exercised — in other words, that the Fund should be in a position to supply the currencies demanded. If need be, the Fund may take action to replenish its holdings of a particular currency either by sales of gold in exchange for that currency or by borrowing the currency in question either from the member itself or, with its approval, from some other source. If, however, the Fund finds "that a general scarcity of a particular currency is developing, the Fund may so inform members and may issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. A representative of the member whose currency is involved shall participate in the preparation of the report."

This will enable the Fund to review the fundamental causes of a disequilibrium which has arisen and to suggest appropriate remedies.

But, even if no such report is issued, the Fund must formally declare a currency scarce should it become evident that the demand for it "seriously threatens the Fund's ability to supply that currency". Such a declaration has some important consequences:

(i) the Fund "shall thenceforth apportion its existing and accruing supply of the scarce currency with due regard to the relative needs of members, the general international economic situation and any other pertinent considerations";

(ii) the Fund shall issue a report concerning its action;

(iii) the formal declaration operates as an authorisation to any member, after consultation with the Fund, to impose temporary limitations on the freedom of exchange operations in the scarce currency. These limitations are to be no more restrictive than is necessary and are to be relaxed or removed as soon as possible. The authorisation lapses as soon as the Fund formally declares the currency in question to be no longer scarce.

9. Once the International Monetary Fund Agreement has entered into force its future validity is regulated by a series of provisions:

(i) First of all, there is a transitional period during which members may maintain exchange restrictions even on current payments; but such restrictions are to be withdrawn at the earliest possible date. The Fund has, in particular, to report on the restrictions in force after three years, and after five years the Fund is to be consulted regarding the retention of any restrictions.

(ii) "Any member may withdraw from the Fund at any time by transmitting a notice in writing to the Fund at its principal office. Withdrawal shall become effective on the date such notice is received."

(iii) If a member persistently fails to fulfil its obligations, it may be required by the Fund to withdraw.

(iv) "In the event of an emergency or the development of unforeseen circumstances threatening the operations of the Fund", certain provisions may be suspended.

(v) Finally, the Fund may be liquidated by a decision of its Board of Governors, detailed provisions being laid down for such an eventuality.

10. In addition, the International Monetary Fund Agreement contains important provisions concerning the status, immunities and privileges of the Fund, the furnishing of statistical and other information by its members, and the organisation and management of the Fund.

It is thus provided that the Fund shall have:

(i) a "Board of Governors" as its supreme authority, consisting of one Governor and one Alternate appointed by each member;

(ii) at least twelve "Executive Directors", to which the Board may delegate all except such primary powers as the admission of new members, a revision of quotas, a uniform change in the par values of the currencies of all members, and decision to liquidate. Of the Executive Directors five are to be appointed by the five members having the largest quotas, two by the Latin American Republics and five by the remaining members. Should either of the two member countries having the largest net creditor position in the Fund not be represented under these rules, such a member will be entitled to an additional Executive Director, and this provision may bring the minimum for the Directorate up to fourteen;

(iii) a "Managing Director" who will be appointed by the Executive Directors to serve as their Chairman, with the right to participate in the meetings of the Board of Governors. The Managing Director will be chief of

(iv) the "Operating Staff" of the Fund which (together with the "Managing Director") owe their duty entirely to the Fund and to no other authority.

* * *

It need not be emphasised that, in practice, the smooth working of the new institution will largely turn on the degree of confidence which it is able to win. Not infrequently more can be achieved by intimate friendly relations than by authority based on legal provisions; indeed, the power to approve or disapprove an alteration in the par value of a currency may often turn out to be merely formal: when matters have gone so far that a request for a change is made, there is often little help for it, since the basic conditions are probably such that no alternative solution is practically possible. In order to make a real contribution to increased exchange stability, the Fund must gain an influence over all those essential factors which determine the currency developments in the different countries, and these are largely of a domestic character (public finances, nominal wages, tariffs, etc.). Thus it is by gradually acquiring authority and inspiring confidence that the Fund will best attain a position enabling it to exert a decisive and useful influence on the currency developments in the various countries and consequently in the world in general.

The amounts which may be furnished under the payment agreements result in each case from the terms settled between the two partners (the exact terms being sometimes left unpublished). Under the Bretton Woods scheme the possible operation of the "scarce currency clause" makes it theoretically impossible to tell what amount of a particular currency a member may obtain in response to a request. In discussions on these matters it is often assumed that, if any currency becomes scarce, it will most probably be the U. S. dollar. According to the schedule of quotas, the Fund will receive as the subscription of the United States $687.5 million in gold and $2,062.5 million in dollars, while other countries will furnish the equivalent of $5,050 million, of which perhaps $1,000 million will be in gold, the grand total of the subscriptions, if all join, being $8,800 million.* If the Fund were to use all the gold in its possession to buy dollars, it might have at its disposal as much as $3,750 million. This would go a long way towards meeting the "automatic rights" of members to use the Fund's resources at the rate of 25 per cent. of their quotas within each twelve-month period.

Whether such an amount will represent a sufficiently substantial contribution to exchange stability depends, however — as is generally admitted — on the fulfilment of a number of conditions connected with the flow of world trade, the settlement of international indebtedness, the general trend of prices and the balance individual countries are able to preserve in their internal economies and in their relations with one another.

In this respect the Fund must not be considered by itself but in conjunction with the International Bank for Reconstruction and Development.

The Bank is also to be established under an agreement between governments, and all its members must be members of the International Monetary Fund. It will

* Cf. "Bretton Woods" by W. T. G. Hacket, published by the Canadian Institute of International Affairs, Toronto 1945.

have a *maximum authorised capital* of $10,000 million, of which the 44 nations represented at Bretton Woods are to subscribe $9,100 million, the balance to come either from new members or from additional voluntary subscriptions by the original members (the subscriptions are with a few exceptions proportionate to the quotas under the International Monetary Fund).

Of the *amount subscribed* only 20 per cent. will be immediately allotted to the Bank's loan fund (2 per cent. being payable in gold; 8 per cent. in the national currency of the member within the first year of the Bank's operation, and a further 10 per cent. in currency to be called if and when needed). The remaining 80 per cent. constitutes a contingent liability to be called only as required to meet losses (the amount to be payable "at the option of the member either in gold, in U. S. dollars or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made").

With the funds thus put at its disposal, the Bank may undertake *three kinds of operations* as follows:

(i) it may make or participate in direct loans from its own loan fund;

(ii) it may make or participate in direct loans by means of funds which it will obtain through borrowing (thus borrowing funds in one market and lending them elsewhere); and

(iii) it may guarantee, in whole or in part, loans made through the ordinary channels of private international investment.

The resources and the facilities of the Bank are to be used exclusively for the benefit of members, and equitable consideration will be given to projects both for *development*, (i. e. the exploitation of productive facilities and resources particularly in less-developed countries) and for *reconstruction* (i. e. the restoration of economies destroyed or disrupted by war and the reconversion of productive facilities to peace-time needs).* "For the purpose of facilitating the restoration and reconstruction of the economy of members whose metropolitan territories have suffered great devastation from enemy occupation or hostilities, the Bank, in determining the conditions and terms of loans made to such members, shall pay special regard to lightening the financial burden and expediting the completion of such restoration and reconstruction."

The Bank may guarantee or participate in or itself make loans to any member and to any business, industrial or agricultural enterprise within the territories of a member; it has, indeed, "to promote private foreign investments by means of guarantees or participations in loans and other investments made by private investors". But all dealings between the Bank and members are to take place only through a member's treasury, central bank, stabilisation fund or other similar fiscal agency, i. e. *through some official channel*. When the member in whose territory the project is to be carried out is not itself a borrower, the member or its central bank or some comparable agency must fully guarantee the payment of interest and other charges as well as the repayment of the loan.

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* In the "Bretton Woods Agreement Act" (see footnote on page 108) the U. S. representatives on the International Bank for Reconstruction and Development (the Governor and the Executive Director) were "directed to obtain promptly an official interpretation by the Bank as to its authority to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans. If the Bank does not interpret its powers to include the making or guaranteeing of such loans, the governor of the Bank representing the United States is hereby directed to propose promptly and support an amendment to the Articles of Agreement for the purpose of explicitly authorizing the Bank, after consultation with the Fund, to make or guarantee such loans. The President is hereby authorized and directed to accept an amendment to that effect on behalf of the United States."

In the opinion of the United States, the task of monetary reconstruction would thus devolve upon the Bank rather than upon the Fund, but provision is made for consultation between the two bodies. This concurs with the view often expressed that the Fund will have full scope for its operations only when the dislocation of the post-war period has been largely overcome. In this respect the Fund clearly differs from the "payment agreements", which have been designed, in the first place, to cope with the difficulties arising immediately after the war.

Certain safeguards have been stipulated. Before the Bank grants or guarantees a loan a competent technical committee must have studied and recommended the project in question and the Bank must be satisfied that in the prevailing market conditions the borrower would otherwise be unable to obtain the accommodation needed on reasonable terms. Moreover, in making or guaranteeing a loan the Bank will have to consider whether the borrower (or the guarantor, as the case may be) is likely to be in a position to meet its obligations under the loan; and the Bank is required to act prudently both in the interests of the particular member in whose territory the project is located and of the members in general. In particular, it must make arrangements to ensure that the proceeds of any loan are used only for the purposes for which it was granted, with due attention to considerations of economy and efficiency but without regard to political or other non-economic influences or considerations.

Important provisions regulate the Bank's use of any funds at its disposal, as well as its power to deal with defaults and to modify the terms of loan contracts, etc.

While "the Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members", a series of provisions ensure that members whose currencies are being used for lending or conversion purposes may, in some instances, have a special say in the operations contemplated. Thus, the approval of the member is needed for a loan in a currency which has been paid into the Bank as part of such member's subscription to the Bank's direct loan fund; and the same applies to funds received by the Bank in amortisation of direct loans from the Bank's own loan fund. In such cases the provisions likewise exclude any conversion into other currencies without the approval of the member whose currency is involved. But a general exception to these restrictions applies if the currencies in question are needed for the prompt fulfilment of the Bank's own contractual obligations.

When funds are raised in the market or otherwise borrowed to enable the Bank to make direct loans, it is only natural that the member whose currency is borrowed or in whose currency the loan is denominated (usually the same member) should be asked for its approval; such a member can refuse to give its consent but, if such consent has been given, it is not entitled to place any obstacle in the way of the conversion of the funds involved into the currency of any other member. In cases other than those just indicated, the funds at the disposal of the Bank can be used without restriction; this applies, for instance, to amounts repaid on loans made from borrowed funds and to funds obtained by the sale of gold.

The Bank will usually furnish a borrower with the foreign exchange needed by him to meet his expenditure in other territories than his own. In exceptional circumstances, when the local currency required for the purpose of the loan cannot be raised by the borrower on reasonable terms, the Bank may provide the borrower with an appropriate amount in his own currency and in some cases also make special arrangements regarding the foreign exchange needed in excess of the borrower's local expenditure.

Whenever the Bank itself grants a loan, it will, of course, fix the terms and conditions under which it is granted; but even when the Bank only guarantees a loan it will be able to exert a considerable influence on the conditions of the loan contract. It is explicitly laid down that whenever the Bank borrows funds and relends them, or guarantees a loan, it shall receive a commission, to be paid by the borrower in addition to the interest charges; and for the first ten years of the Bank's operations this commission shall not be less than 1 or more than 1½ per cent. per annum on the outstanding portion of each loan. The proceeds from such commissions are to be paid into a special reserve fund, which will serve as a first line of defence against possible losses.

In cases of default, "the Bank shall make such arrangements as may be feasible to adjust the obligations under the loans" — a provision made in general terms to cover the variety of cases which may arise. Should a member suffer from an acute exchange stringency, so that the service due cannot be provided in the stipulated manner, the member concerned may apply to the Bank for a relaxation of the conditions of payment. The Bank may then agree to a special transfer arrangement under which it accepts payments in the member's own currency for a period not to exceed three years, together with appropriate terms regarding the use of the funds thus accumulating and the maintenance of their foreign exchange value as well as the ultimate conversion of these funds into other currencies. The Bank may at the same time (or alternatively) "modify the terms of amortisation or extend the life of the loan, or both".

In order to be able to carry out its task of lending and guaranteeing, the Bank has been given certain specific powers, including the right to borrow the currency of any member with the approval of that member and to buy and sell such other securities as the directors, by a three-quarters majority of the total voting power, may deem appropriate for the investment of the Bank's special reserves. In exercising these particular powers the Bank is no longer limited to official agencies but may deal with any person, partnership, association, corporation or other legal entity in the territories of any member.

An interesting provision of a general character is that "the Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Art. 1".

The Agreement also contains provisions regarding the organisation and management of the Bank, its status, immunities, and privileges, etc., these being planned on very much the same lines as those of the International Monetary Fund. An additional feature is the provision for an Advisory Council of seven members elected by the Board of Governors, this Council to include representatives of banking, commerce, industry, labour and agriculture.

* * *

There would seem to be general agreement about the need for an institution formed for the particular purpose of stimulating international investment. After all the unhappy experiences with regard to the loans and credits granted in the 'twenties and the beginning of the 'thirties, it does not seem possible to count on a revival of unaided private lending. But reconstruction and development require large amounts of capital if they are not to be unduly delayed. An international institution may be useful in several important ways: in helping to raise the necessary funds; in taking the operations in question as far as possible out of the field of conflicting political interests; and in improving the lending country's chances of being promptly paid.

The total amount which the Bank may lend or guarantee is limited to its "unimpaired subscribed capital, reserves and surplus", i.e. presumably to an amount of $9,000–10,000 million in the first few years of its existence. For purposes of comparison, it may be mentioned that between the years 1920 and 1929 the actual outflow of long-term capital from the United States was approximately $11,250 million. This time the needs will hardly be less and the relevant price level will very likely be at least as high as in the years 1921–1929.

The ultimate aim of the facilities to be extended both by the International Monetary Fund and by the International Bank for Reconstruction and Development is to assist in "raising productivity, the standard of living and conditions of labour"; but in order to do that the immediate task must be "to promote the long-range balanced growth of international trade and the maintenance of equilibrium in the balances of payments".

International Trade.

In the Act of 31st July 1945 by which the United States adopted the Bretton Woods proposals, the final section deals in the following terms with the question of "Further Promotion of International Economic Relations":

> "In the realization that additional measures of international economic cooperation are necessary to facilitate the expansion and balanced growth of international trade and render most effective the operations of the Fund and the Bank, it is hereby declared to be the policy of the United States to seek to bring about further agreement and cooperation among nations and international bodies, as soon as possible, on ways and means which will best reduce obstacles to and restrictions upon international trade, eliminate unfair trade practices, promote mutually advantageous commercial relations, and otherwise facilitate the expansion and balanced growth of international trade and promote the stability of international economic relations. In considering the policies of the United States in foreign lending and the policies of the Fund and the Bank, particularly in conducting exchange transactions, the Council and the United States representatives on the Fund and the Bank shall give careful consideration to the progress which has been made in achieving such agreement and cooperation."

These general principles have already been given a practical application through a decision, taken at the beginning of July 1945, to prolong, for another three years, the Reciprocal Trade Act authorising the government to lower customs tariffs by as much as 50 per cent. These powers apply to the current customs duties, including such rates as had already been lowered under the authority of the Reciprocal Trade Act when voted for previous periods.

The following table shows the imports and exports of the United States in 1938 and during the war, with separate columns for commercial (sometimes also called cash) exports and lend-lease exports.

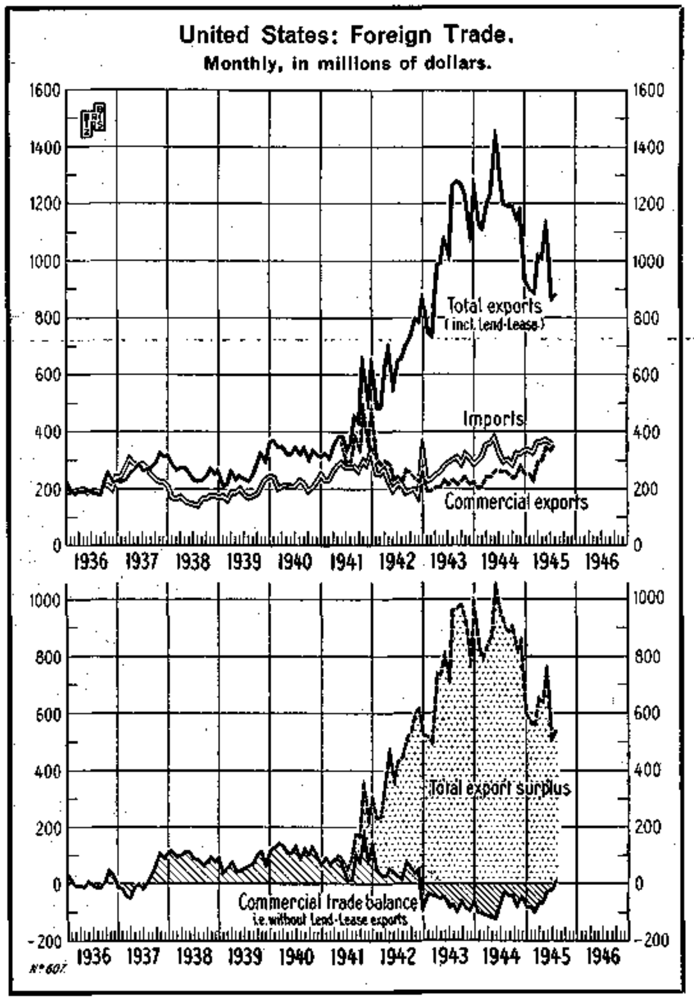
In 1942 — the first year of U. S. participation in the war — the lend-lease exports reached a higher figure than the commercial exports, and that was the position until the discontinuance of lend-lease deliveries according to an announcement by the U. S. President on 21st August 1945. The peak in

United States:

Foreign Trade on Lend-lease and Commercial Account.

Items	1938	1941	1942	1943	1944	1945 Jan.–June
	in millions of dollars					
Exports:						
Commercial exports	3,094	4,406	3,147	2,606	2,956	1,759
Lend-lease exports	—	741	4,933	10,357	11,305	4,050
Total exports	3,094	5,147	8,080	12,963	14,261	5,809
Imports	1,960	3,345	2,742	3,371	3,916	2,122
Balance	+ 1,134	+ 1,802	+ 5,338	+ 9,592	+ 10,345	+ 3,687
Balance between imports and commercial exports	+ 1,134	+ 1,061	+ 405	— 765	— 960	— 363

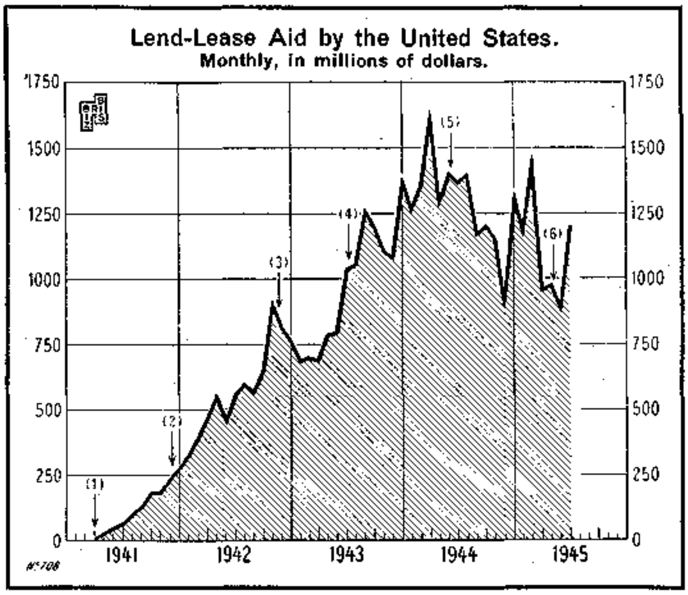
lend-lease was reached early in 1944, when preparations were being made for the landings in Normandy and the Soviet offensives of the eastern front. About four-fifths of total U. S. exports were then on lend-lease account. During the whole period up to 30th June 1945, munitions, including aeroplanes, ships, military vehicles, etc., accounted for nearly one-half of the deliveries, while industrial materials and products, including engineering equipment, medical supplies, chemicals, machinery, metals and minerals, made up about one-fifth. The combined total of foodstuffs and other agricultural products accounted for about 14 per cent. of the total value of lend-lease deliveries; in 1944, when food production in the United States was at an all-time peak, about 6 per cent. of the total food supplies of the country was sent abroad on lend-lease account.



Lend-lease Aid by the United States.
Cumulative from 11th March 1941 to 1st July 1945.

Items	In milliards of U.S. $	Percentages
Goods transferred:		
Munitions (including ships) . . .	20.7	*49*
Petroleum products	2.2	*5*
Industrial materials and products	8.6	*21*
Agricultural products	5.9	*14*
Shipping and other services . . .	4.6	*11*
Total . . .	42.0	*100*

Note: In addition, goods to the value of $0.8 milliard (not included in the above table) were consigned to U.S. commanding generals for subsequent transfer in the field to lend-lease countries.



(1) Lend-Lease Act.
(2) Pearl Harbor.
(3) Invasion of North Africa.
(4) Invasion of Sicily.
(5) Invasion of France.
(6) End of War in Europe.

As mentioned in the twentieth report to Congress on lend-lease, submitted in September 1945, the total amount of U.S. lend-lease was $42.0 milliard from March 1941 to 1st July 1945, subdivided as shown in the table.

Reverse lend-lease received by the United States up to 1st April 1945 is valued at $5.6 milliard (it being understood, however, that a valuation not at local prices but at the prices applied to U. S. goods and services would lead to distinctly higher figures for the reverse lend-lease). The major share of reverse lend-lease has been furnished by the United Kingdom, partly in the form of equipment and partly in the form of barracks and airfields, which were provided for American forces, especially during the time when the British Isles were the principal base for operations in the western part of Europe. Similar aid was later furnished by the countries on the continent of Europe, i. e. France, Belgium and Holland, and in the Far East deliveries were made by the United Kingdom, Australia, New Zealand, India and China.

The tables on "Lend-lease and Reverse Lend-lease by Countries" reproduce data obtained from U. S. accounts. In November 1945 the British Chancellor of the Exchequer stated, in a written reply to a question in the House of Commons, that up to 30th June 1945 the total value of reciprocal aid (the British term for reverse lend-lease) provided by the United Kingdom to the United States amounted to £1,080.3 million, made up as shown in the second table on the next page.

Even before lend-lease aid was discontinued, agreements had been concluded with France, Belgium and Holland under which lend-lease goods in

U. S. Lend-lease and Reverse Lend-lease by Countries.

Lend-lease Aid by the U.S.A.

(Cumulative from 11th March 1941 to 1st July 1945)

U.S.A. granted to:	Milliards of U.S. dollars
United Kingdom	13.5
U.S.S.R.	9.1
Africa, Middle East and Mediterranean Area	3.3
China and India	2.2
Australia and New Zealand	1.4
Latin America	0.2
Other countries	1.6
Total	31.4

Note: Shipping, ships and certain goods and services not exported to any particular country had a total value of $10.6 milliard.

It is expected that the final figure for the lend-lease aid by the U.S.A. *will not be far from $50 milliard.*

Reverse Lend-lease Aid to the U.S.A.

(Cumulative from 11th March 1941 to 1st April 1945)

U.S.A. received from:	Milliards of U.S. dollars
United Kingdom (1)	3.8
Australia	0.8
New Zealand	0.2
India	0.5
Total British Empire (2)	5.3
French Empire	0.3
Others (3)	0.033
Total	5.6

(1) Including $19.5 million from British Colonies.
(2) Including $0.9 million from South Africa.
(3) Including $26.1 million from the Belgian Empire, $1.7 million from the Dutch Empire, $3.7 million *from China and $2.1 million from the U.S.S.R.*

Reciprocal Aid by the United Kingdom to the United States.

Cumulative up to 30th June 1945	In millions of £ sterling
Goods and services in the United Kingdom	675.0
Food and raw materials shipped to the United States	45.7
Munitions, *etc. exported to or transferred in the United States*	43.1
Goods and services in colonies and other oversea areas	122.2
Capital facilities in the United Kingdom and abroad	194.3
Total	1,080.3

store or under contract were to be taken over on the basis of a 30-year credit bearing interest at 2$^3/_8$ per cent. In August 1945 France thus had contracts still running to the amount of about $250 million; in order to pay the cost of such contracts and to be able to purchase additional much-needed goods, France obtained from the Export-Import Bank, in December 1945, a 30-year loan of $550 million at 2$^3/_8$ per cent.

At the end of the lend-lease period it was found that Belgium had a credit balance of nearly $90 million in respect of reverse lend-lease (the difference between the $177 million that reverse lend-lease had cost the country and the $78 million representing lend-lease supplies to Belgium). By an agreement of October 1945 the United States undertook to compensate this balance, partly by delivery of goods and rendering of services amounting to a total of $42 million (this having already been authorised in August 1945) and partly by an additional delivery of goods useful for civilian purposes and no longer needed by the American army, the value of this delivery being $45 million. The United States, moreover, made a $61 million transfer in repayment of Belgian franc advances to American forces. With other countries also discussions took place with a view to disposing of the lend-lease goods already "in the pipe-line", as the phrase went.

In the sellers' market which is naturally prevailing in the period immediately after hostilities, alternative outlets to lend-lease shipments are found without difficulty for a wide range of products, but that does not blind the American people to the fact that, in determining the country's post-war line of action, much weight has to be given to the promotion of foreign trade. It would seem as if public opinion in the United States had been much impressed by the fact that the economic policy applied in the first part of the inter-war period and evidenced by such tariff-raising measures as the McCumber-Fordney Act in 1922 and the Hawley-Smoot Act in 1930 did not avail to save the American economy from participation in a world-wide depression or even to reduce the degree of unemployment as compared with other countries. In particular, it is realised that for a number of agricultural products there is bound to be a surplus in the American market, and this surplus will have to be exported; but exporting on an adequate scale will not be possible unless foreign countries have dollars at their disposal, and the bulk of the necessary dollars can be obtained only through imports into the United States. Thus American commercial policy must in future be as much concerned with attaining a high level of imports as with the promotion of exports — quite apart from the country's interest as one of the world's great creditor nations.

By its geographical situation and the structure of its economy, Canada has in the past had surplus exports in relation to the British market and surplus imports from the United States and it is naturally anxious to be able to use foreign exchange obtained through sales in one direction for the settlement of purchases from the other direction. This has determined Canada's attitude to, for instance, the Bretton Woods proposals, which have been promptly adopted and are regarded as a first step towards a multilateral settlement in the commercial and monetary field.

Canada: Foreign Trade.

Items	1938	1939	1940	1941	1942	1943	1944	1945 Jan.–June
	in millions of Canadian dollars							
Exports (1) . .	996	1,081	1,389	1,842	2,548	3,113	3,550	1,768
Imports (2) . .	666	739	1,043	1,346	1,579	1,671	1,699	759
Balance . .	+ 329	+ 342	+ 346	+ 496	+ 970	+ 1,443	+ 1,850	+ 1,008

(1) Including net non-monetary gold.

(2) Retained imports do not include articles imported from the United Kingdom for use of the armed forces of that country stationed in Canada nor articles admitted free under Order in Council.

Note: The Statistical Summary of the Bank of Canada points out that "it is important to note that under wartime conditions import and export statistics are not reliable indicators of international payments arising out of commodity trade, e.g. goods may be shipped overseas for use of Canadian forces, or may be shipped to destinations other than the country of purchase".

The exports include deliveries in the form of mutual aid, but no separation between commercial and other exports is made in the foreign trade returns. Canada's total help to the United Nations during the war (cf. page 20) is estimated at $4.5 milliard, made up as follows: $1.7 milliard as mutual aid (including $1,442 million to the United Kingdom, $113 million to other British countries and $121 million to the U.S.S.R.), a $0.7 milliard loan to the United Kingdom in 1942, an outright gift of $1 milliard to the United Kingdom in the following year, repatriation of $0.8 milliard British-owned Canadian securities and the refunding of British expenditure in munition plants in Canada to the extent of $0.2 milliard. One-third of the total help has been in the form of loans and repatriations, while two-thirds of it represents outright contributions.

By concentrating on war production to the extent of drawing on foreign investments and entering into debt, the United Kingdom has necessarily created for itself some difficult problems as regards its foreign balance of payments in years to come (cf. pages 16 and 85). The following table shows the figures now published for the country's exports and imports from 1938 to 1945.

United Kingdom: Foreign Trade.

Foreign trade	1938	1939	1940	1941	1942	1943	1944	1945 Jan.–June
	in millions of £							
Total retained imports. munitions only	858 .	839 .	1,126 .	1,132 .	1,195 203	1,872 645	2,351 1,052	. .
Retained imports without munitions	858	.	.	.	992	1,227	1,299	579
Exports	471	440	411	365	271	233	258	171
Balance (without munitions)	— 387	0	.	.	— 721	— 994	— 1,041	— 408

Note: Imports and exports under lend-lease, mutual aid and reciprocal aid are included in the figures of the table.

Imports of munitions have consisted of deliveries under lend-lease and mutual aid, but a substantial part of imports other than munitions has also been received under lend-lease and mutual aid. From a statement in the (London) "Times" of 30th August 1945, it appears that the net deliveries under lend-lease and mutual aid were at the rate of about £700 million a year in 1944–45. When lend-lease was discontinued, the problem of reviving the British export trade came more than ever into prominence. To assist a speedy revival, the authorities have introduced, or are planning, measures of various kinds; only a few examples can be mentioned here.

Early in October 1945, an extension of the facilities provided by the Export Credit Guarantee Department was announced; in future, guarantees will be given not only in respect of consumers' goods but also of capital goods, although long-term facilities continue to be discouraged owing to the need of obtaining foreign exchange at the earliest possible moment. In the previous month details had already been published regarding a scheme prepared by the Board of Trade under which quotas for home deliveries and export sales have been fixed for a number of industries; in most cases, electrical appliances being an example, one-half of the output is released for export, while as regards bicycles, for instance, 40 per cent. of the output is reserved for the home market and 60 per cent. for the export trade.

The orientation of British foreign trade will no doubt largely depend upon the arrangements made for the settlement of the country's external liabilities and upon the negotiations with regard to new post-war credit facilities. The existence of abnormal sterling balances may well act as a stimulus to export trade, since the countries holding sterling are likely to use at least part of these balances to acquire badly needed goods, or for investment and other purposes. But it cannot be overlooked that sales to sterling-area countries do not provide the British market with those non-sterling-area currencies which are needed to pay for imports of many raw materials and other necessary goods. If consideration for British currency requirements were allowed to give rise to discrimination against holders of sterling balances, harm might easily be done to London's position as a financial and commercial centre;* thus it will not be easy to find a satisfactory solution unless allowance is made for the fact that claims on capital account cannot be made available all at once for purchases on current account — a principle which has found expression in the Bretton Woods proposals, where convertibility is ensured only for balances "recently acquired as a result of current transactions" (cf. page 109).

In the autumn of 1945 there was some improvement in the volume of British exports, but it is still difficult to appreciate the exact significance of the figures, since the exports include such items as deliveries of cigarettes to British troops abroad. This kind of shipment is, however, being reduced with the result that more foreign means of payment are being obtained from exports.

It is still too early to obtain any clear view of trade currents since the cessation of hostilities in Europe, but some indications are beginning to be available. As far as Sweden is concerned, the extension of substantial facilities under payment agreements and in other ways is reflected in an export surplus of dimensions never before attained.

Switzerland also has seen an increase in its foreign turnover in the course of the autumn of 1945 and has, moreover, experienced a marked reduction in transport charges; the average freight for wheat imported from oversea sources was equal to Sw.fcs 21.40 per 100 kilos in 1944, but by the autumn of 1945 a 45 per cent. reduction had already been made. With a recovery in Swiss imports, providing an opportunity for the active employment of foreign assets, the National Bank is beginning to relax the restrictions previously imposed with regard to its acquisition of dollars and gold from Swiss exporters.

Real recovery in international trade is, of course, conditional upon the availability of more shipping tonnage, and in this respect an improvement has been noticeable notwithstanding the requirements for demobilisation purposes. Thanks to the fact that the port of Antwerp was only slightly damaged, Belgium was soon in a position to import goods for civilian needs; and in the autumn of 1945 imports on a large scale are being arranged for France, so that, for

* This was stressed by the (London) "Financial Times" in articles of 7th and 8th November 1945.

Trend of Foreign Trade.

Countries	1938	1944	January to June	1945 July	August	September	October
	monthly averages						
	in millions of national currency units						
France:							
Exports	2,549	1,997	422	994	1,161	1,383	1,487
Imports	3,839	645	1,411	3,633	4,979	4,663	9,881(²)
Balance	— 1,290	+ 1,352(¹)	— 989	— 2,639	— 3,818	— 3,280	— 8,394
Belgium: (³)							
Exports	1,806	452	96	233	355	501	566
Imports	1,922	305	457	1,173	1,523	1,694	1,896
Balance	— 116	+ 147	— 361	— 940	— 1,168	— 1,193	— 1,330
Switzerland:							
Exports	110	94	99	150	129	129	148
Imports	134	99	48	87	106	107	168
Balance	— 24	— 5	+ 51	+ 63	+ 23	+ 22	— 20
Sweden:							
Exports	154	71	49	209	268	245	265
Imports	174	140	61	40	69	135	162
Balance	— 20	— 69	— 12	+ 169	+ 199	+ 110	+ 103

(¹) The wartime export surplus from France reflects deliveries to Germany.
(²) The sharp increase in the import figure from September to October is partly due to a change in the method of compilation, in that the French customs administration has discontinued the practice, adopted since the beginning of the war, of leaving goods at the quays until their value has been fixed in accordance with the price control regulations; it now includes such goods in the monthly returns at a provisional value.
(³) The figures for 1938 and from May 1945 refer to the Belgo-Luxemburg Economic Union.

instance, in spite of a bad wheat harvest, it was possible for bread to be taken off the list of rationed commodities from 1st November 1945.

On the continent of Europe exchange of goods with Germany has remained practically nil, the only arrangements made so far having been for local trade over certain frontiers, in particular between the French zone and Switzerland. The Potsdam Conference decided that questions of foreign trade should be regulated from Berlin, but the organisation of a central administration in Germany has been a slow process. For Austria also, a frontier trade arrangement has been negotiated between the French zone and Switzerland.

While the war lasted, arrangements between the United Nations ensured that the war effort should not be impeded by a lack of means for the payment of goods and services from abroad. With a return to peace, these special arrangements have lapsed, but in many cases new measures have already been put into effect and in others they are under discussion, to prevent a cut in foreign trade on account of financial stringency. The proceeds made available through payment agreements and loans by the Export and Import Bank of the United States, as well as other arrangements, help to replenish the foreign resources of the various countries and thus affect the distribution of gold and foreign exchange.

The Supply and Movement of Gold.

The most uneven distribution of the world's monetary reserves occurred in the autumn of 1941, after a steady influx of gold into the American market for eight years on end. The following table shows the great change which occurred in the world's gold holdings from the height of the boom in the late 'twenties, i.e. at the end of 1928, up to the end of 1941, and it also gives the position at the end of June 1945.

Gold Reserves in the United States and elsewhere.

Gold reserves of:	At the end of 1928	1941	1942	1943	1944	June 1945	Changes from end of 1941 to June 1945
	in milliards of $ at $35 an ounce						
United States	6.5	22.7	22.7	21.9	20.6	20.2	— 2.5
Other countries	10.8	10.8	11.8	13.5	15.6	16.4	+ 5.6
Total reserves . .	17.3	33.5	34.5	35.4	36.2	36.6	+ 3.1
Percentage share of the United States.	38	68	66	62	57	55	—

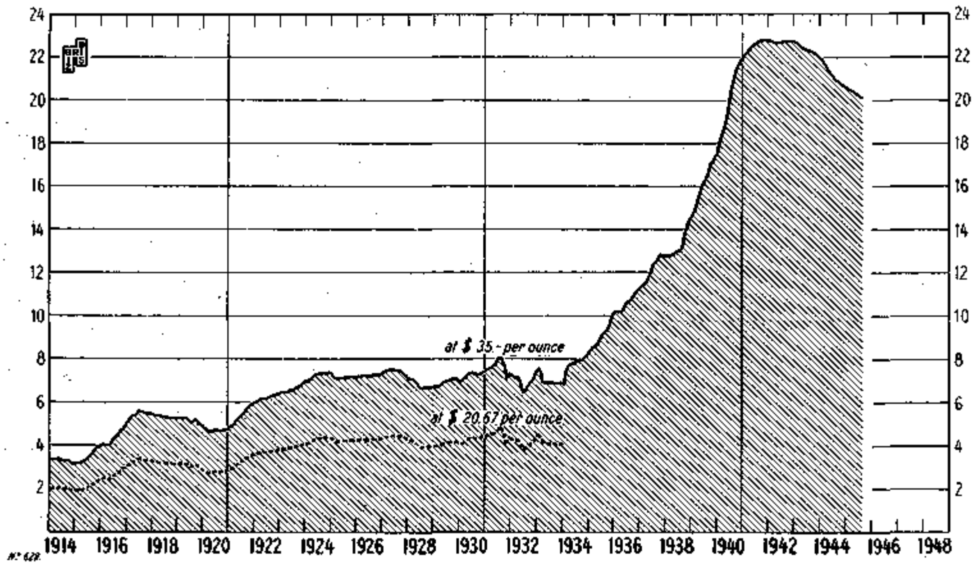
Note: In the autumn of 1945 the gold and dollar holdings of other countries than the United States approached a figure of $30 milliard, but this total includes assets outside the monetary reserves of central banks and governments.

In 1928 the United States held about 38 per cent. of the world's gold reserves, a proportion more or less corresponding to the share of the United States in the total of the national incomes of all the countries in the world (cf. page 32). From 1928 to 1934 there was practically no change, on balance, in the size of the gold reserves of the United States, the gold newly produced during that period flowing to other countries.* Then from 1934 the monetary gold stock of the United States increased from $6.8 milliard (in January 1934) to the peak figure of $22.8 milliard in October 1941, i.e. by no less than $16 milliard. Of this amount $10 milliard had already been received before the outbreak of war in 1939, the transfers of gold being occasioned mainly by repayment of credits and other liabilities to the American market or by flight of capital from Europe, while barely $2 milliard represented the surplus on the current account of the balance of payments of the United States (this surplus reflecting in the main an excess of exports over imports).

The rapid increase in the monetary gold stock of the United States in the first two years from the autumn of 1939 had its counterpart in a demand for dollars by other countries, and especially those of the sterling area, in order to pay for purchases required in the prosecution of the war. The situation changed, however, with the adoption of the Lend-Lease Act by the United States in March 1941, at a time when British gold and dollar resources were practically exhausted; with America's entry into the war in December 1941, lend-lease exports grew in importance, as shown by the table on page 119 and soon exceeded commercial exports in value, leaving the United States with a deficit

* At the beginning of 1928 the U. S. monetary gold stock amounted to 198 million ounces and in January 1934 to 195 million. But, owing to the change from $20.67 to $35 per ounce, the value of the gold stock increased from $4.1 milliard at the beginning of 1928 to $6.8 milliard at the end of January 1934.

Monetary Gold Stock of the United States.
End of month, in milliards of dollars.



in its commercial trade balance. To pay for the excess commercial imports and to meet war expenditure in various parts of the world and particularly in the Far East, the country's gold stock was drawn upon to the extent of $2.5 milliard up to June 1945.

While the United States was losing gold, the proceeds of the world's current gold production went to other countries. Unfortunately, full information about the gold output is not obtainable in all cases: in particular, there are no figures for the U.S.S.R. and the areas which have been dominated by Japan. The table on the following page shows the output in so far as relevant data are published or reliable estimates can be made; it also gives, tentatively, a figure for the whole world, but it must be understood that this figure is subject to a fairly wide margin of error and merely indicates the general tendency of the current gold supply.

World gold production reached its peak in 1940, followed by a decline, which accelerated from 2 per cent. in 1941 to 9 in 1942 and 17 in 1943; in 1944 there was a slowing-up in the decline, the rate being probably only 7 per cent. During the war the volume of production was affected by increased working costs, shortage of labour and difficulties in obtaining materials and machinery; in a number of countries (and notably the United States, Canada and Australia) an additional factor came into play, viz. government intervention to curtail the mining of gold in order to set men, materials and machinery free for the all-important war effort. Now that the war is over, the deliberate curtailment is being abandoned, but costs are likely to remain on a higher level than before the war. In Canada exemption from Excess Profits Tax had been granted only to base-metal mines, but in the Canadian budget introduced on 13th October 1945 this privilege was extended to gold mines also. As far as the sterling area

World Gold Production.

Gold-producing countries	1929	1940	1943	1944
	Weight, in thousands of fine ounces (¹)			
Union of South Africa	10,412	14,038	12,800	12,277
Canada	1,928	5,311	3,651	2,923
United States (³)	2,208	6,003	1,395	1,022
Australia	426	1,648	787(²)	691(²)
Mexico	652	883	635	650
Rhodesia	562	833	657	593
British West Africa	208	939	600	566
Colombia	137	632	565	554
Nicaragua (⁴)	12	155	220	225
Peru	121	281	230	210
Chile	26	343	175	204
Brazil	107	264	210	200
British India	364	289	252	187
New Zealand	120	186	149	150
Venezuela	43	147	83	78
Other countries (⁵)	1,874	9,048	7,791	7,470
Estimated World Production	19,200	41,000	30,200	28,000
	Value, in millions of dollars (⁵)			
Value of Estimated World Production	672	1,435	1,060	980

(¹) Figures partly revised. (²) Estimated.
(³) Including Philippine Islands production received in U. S. A.
(⁴) For 1940, 1943 and 1944 exports, representing about 90% of total production.
(⁵) At the present rate of $35 per ounce of fine gold.

is concerned, an increase in the price of gold from 148s.5d. per fine ounce in the summer of 1939 to 172s.3d. from September 1945 will go some way towards meeting the rise in costs.

Taxation is, in South Africa, of considerable importance, absorbing a greater proportion than profits, and it has often been contended that a reduction in taxation would stimulate an expansion in gold production if need be; but the poorer mines, with high marginal costs, will find it difficult to maintain their output should costs continue to rise. In the middle of September 1945 the South African Minister of Finance advised the Transvaal Chamber of Mines that the gold realisation charge, amounting to 38s.3d. per £100, would come to an end on the following 1st October. Through the abolition of this charge the Witwatersrand gold mining industry would receive an additional £2 million per annum, but about 60 per cent. of this would go to the government in taxation and share of profits, leaving about £800,000 for the mines.

Recent Trend of Gold Production.

Countries	January–June 1943	1944	1945
	In thousands of fine ounces		
South Africa	6,432	6,129	6,116
Canada	1,973	1,524	1,329
United States	749	505	419
Rhodesia (Southern)	338	298	286
Colombia	282	288	277
Gold Coast	301 (¹)	265 (¹)	273
Western Australia	272	215	223
Nicaragua (²)	114	115	104
British India	128	98	83

(¹) Total for West Africa.
(²) Exports representing about 90 % of total production.

The recent trend of gold production in some countries for which information has been available is shown by the accompanying table.

In Canada the output of gold during the first six months of 1945 was much below that of the corresponding period of the previous year, while for the other producing areas the change is not great.

The following table shows the reported gold reserves of central banks and governments and also an estimated figure for unreported reserves, the latter amounting to about 12 per cent. of the combined total of reported and unreported reserves.

Gold Reserves of Central Banks and Governments.

Reporting countries	End of 1938	End of 1943	End of 1944	Loss (—) or gain (+) during 1944	End of June 1945
	in millions of dollars (at $35 per fine ounce)				
Argentina (1)	431	939	1,111	+ 172	*
South Africa	220	706	814	+ 108	878
Switzerland	701	964	1,052	+ 88	1,069
Sweden	321	387	463	+ 76	478
Brazil	32	254	329	+ 75	342
Cuba	*	46	111	+ 65	166
Turkey	29	161	221	+ 60	234
Roumania	133	316	369 (2)	+ 53	369 (3)
Venezuela	52	89	130	+ 41	176
Uruguay	69	121	157	+ 36	175
Iran	26	92	128	+ 36	128 (3)
Colombia	24	59	92	+ 33	102
Mexico	29	203	222	+ 19	231
Spain	525 (4)	91	105	+ 14	109
Chile	30	51	56	+ 5	57
Peru	20	31	32	+ 1	28
Canada (5)	192	5	6	+ 1	6
British India	274	274	274	0	274
Czechoslovakia	83	61	61	0	61
Denmark	53	44	44	0	44
Egypt	55	52	52	0	52
Holland	998	500	500	0	500
New Zealand	23	23	23	0	23
Portugal	69	60	60	0	60
United Kingdom (6)	2,690	1	1	0	1
Belgium (7)	581	734	732	— 2	713
France	2,430 (8)	2,000	1,777	— 223	1,777
United States (9)	14,512	21,938	20,619	—1,319	20,213
Reserves: (10)					
Reported	25,200	31,300	30,600	— 700	29,700
Unreported	*	4,100	5,600	+1,500	6,900
Total	*	35,400	36,200	+ 800	36,600

* Not available.
(1) Including gold of Central Bank held abroad and gold belonging to Argentine Stabilisation Fund.
(2) End of June 1944. (3) Latest estimate available. (4) End of April 1938.
(5) In May 1940, gold belonging to the Bank of Canada transferred to the Foreign Exchange Control Board. Since, gold held by the Minister of Finance.
(6) Not including gold held by the Exchange Equalisation Fund, viz. $759 million in September 1938.
(7) Not including gold held by the Treasury: $44 million in December 1938 and $17 million in December 1943 and 1944.
(8) Not including $331 million of gold held in the Exchange Stabilisation Fund and Rentes Fund.
(9) Not including gold held in the Stabilisation Fund: $80 million in December 1938, $43 million in December 1943, $12 million in December 1944 and $32 million in March 1945.
(10) Estimated and including other countries (but not the U.S.S.R.).

It should be emphasised that even countries which report variations in their gold holdings often keep a certain amount of gold outside the published holdings. In some cases the reason may be that the unreported gold belongs to the government and not to the central bank. Another reason may be a wish to keep part of the gold as "a commercial reserve" to be employed as soon as commodities become available. Furthermore, no complete information has so far been published regarding the gold seized in Germany and in other occupied territories by the armies of the United Nations. This gold is considered frozen until the claims of the various governments have been examined, and it, too, constitutes a part of the unreported reserves.

The largest holder of unreported gold would seem to be the United Kingdom: with regard to the approximate amount of the monetary reserves in British hands, some indications became available in the summer of 1945.

No official figures of British gold holdings have been published since 1939 but, after the virtual exhaustion of the British monetary reserves in 1941 (when the Lend-Lease Act was voted), a reconstitution of reserves is known to have taken place; in the White Paper published in December figures were given for gold and dollar reserves from 31st August 1938 to 31st October 1945 (see the table reproduced on page 86). By April 1941 the gold and dollar reserves had fallen from £864 million (on 31st August 1938) to barely £3 million. At the end of June 1945 they had been built up to an amount of £453 million, and the same figure is given provisionally for the end of October 1945.

To understand how this amount has been accumulated it is necessary to remember that under the régime of wartime exchange control the British balance of payments (like the balance of payments of most other countries) has been, so to say, subdivided into separate compartments, among which the sterling area and the United States have been the most prominent. On 24th August the British Prime Minister stated in Parliament that the gap between in- and out-payments "on the eve of the defeat of Japan" could be estimated "at a rate of some £1,200 million" a year. On the basis of trade figures, it may be surmised that this gap was caused to the extent of £1,000–1,050 million by surplus imports and to the extent of perhaps £150 million by an adverse balance of invisible items (excluding lend-lease and mutual aid). The trade deficit had as its counterpart deliveries under lend-lease and mutual aid (some £700 million — cf. page 121) and was, for the rest, largely covered by the running-up of sterling liabilities (only a few countries, obtained payment in gold for exports and services rendered to the United Kingdom, while a few secured a guarantee as to the exchange value of sterling). In addition, the cost of British troops in the East was paid for mainly by additions to the country's sterling liabilities. This being the case, the dollars accruing to the British exchange control from U. S. expenditure in the British Isles (largely representing outlay by members of the American forces on personal account and therefore outside reverse lend-lease) would to a great extent remain unspent and thus serve to rebuild Britain's monetary reserves.

United Kingdom:
Trade Deficit 1938 and 1944.

Groups	Trade deficit (1) 1938	Trade deficit (1) 1944
	in millions of £	
U. S. A.	— 89	— 513
Other foreign countries	— 170	— 177
Empire countries (2)	— 128	— 351
Total	— 387	—1,041

(1) I. e. import surplus on merchandise account excluding (for 1944) munitions.

(2) Egypt is included among Empire countries.

The cessation of lend-lease has meant that the British have to pay cash for all their imports from the United States. It is true that imports which have served simply to maintain war production will cease and custom may be transferred to cheaper markets, while it will no longer be necessary, from considerations of shipping, to import relatively expensive but space-saving finished products instead of bulky raw materials. Furthermore, exports will be increased. But most of these changes cannot be effected overnight.

The countries which report additions to their gold holdings (as shown by the table on page 129) are — apart from the great gold-producer South Africa — countries which were neutral during the war, such as the

Argentine (neutral up to 26th March 1945), Switzerland and Sweden, or Latin American countries, which practically all carried on an active foreign trade (cf. pages 22/23).

In the autumn of 1944 the French gold reserves suffered a reduction by Fr.fcs 9.4 milliard (equivalent to $223 million) owing to a transfer of 198.4 tons of fine gold from the Bank of France to the National Bank of Belgium in conformity with a convention signed on 8th October 1944 between the two institutions. The origin of this transfer is briefly as follows: in November 1939 the National Bank of Belgium, having already placed two-thirds of its gold reserves in oversea countries, confided the remaining third to the Bank of France, which on 10th May 1940 held 245.5 tons of fine gold for the account of the National Bank of Belgium. To provide funds for Belgian refugees in France, a part of the gold was turned into French francs. After the remaining gold had been transported to Dakar, the French authorities had to deliver this gold to the German Reichsbank in 1941, this being done for account of the National Bank of Belgium. Having examined the instructions given in this connection, other relevant events in the years 1939–41 and such items as might be offset against the gold in question, the Bank of France and the National Bank of Belgium reached an agreement regarding the quantity of gold which had to be restored. It was at the same time agreed that the National Bank of Belgium and the Belgian Government should give every assistance to any measure which the French authorities might be in a position to take against the German Government and the German Reichsbank with a view to recovering the Belgian gold.

By an agreement between the French Treasury and the Bank of France, signed on 20th September 1945, the bank transferred Fr.fcs 10 milliard of gold (= 210 tons of gold) to the Exchange Stabilization Fund to be used to pay for $230 million's worth of commodities ordered, or to be ordered, by France in the United States. By this transfer the gold holdings of the Bank of France have been reduced to 1,369 million tons of fine gold, as compared with 2,407 million tons in 1939 — a reduction by 43 per cent.

* * *

In the unsettled conditions after the first world war, the almost universal return to the gold standard was hailed as an achievement, and great disappointment was felt when, after only a few years, this standard broke down in the midst of a world-wide depression. Apart from the difficulties of regaining balance after a long war, the failure was specifically due to some mistakes of a general character made by the governments themselves, for instance, in their commercial policy and as regards reparation and certain other international liabilities; it is unlikely that any monetary system could have functioned tolerably under similar conditions. But the gold standard itself was not free from defects: at the level of commodity prices, which from 1923 to 1929 was, in terms of gold, some 40 to 60 per cent. higher than in 1914, the current supply of newly mined gold was hardly sufficient to keep pace with the rapidly rising output of goods and services, scarcity of gold being thus partly responsible for the disastrous fall in commodity prices from 1929 to 1932. Too much should not be asked of the gold standard as such — it would surely be superstitious to believe that all would be well with the world's monetary system if only currencies were linked to gold, whatever the conditions in which the standard would have to operate.

Awareness of the defects and shortcomings of the gold standard must not, however, be allowed to obscure certain rare advantages which it possesses:

(i) Gold is an excellent form in which to keep monetary reserves; it can be maintained in the home country or kept earmarked abroad and is not — like foreign currencies — subject to unilateral changes in value by the authorities in other lands (but it may of course, if held in foreign markets, be exposed to transfer prohibitions, etc.).

(ii) The annual output of gold brings an expanding element into the monetary system. Since most countries receive their gold from abroad, gold imports have meant an increased foreign demand, acting as a stimulus to foreign trade and neutralising in some measure the restrictive effects of customs barriers, etc.

(iii) When the gold standard was at its height, it was part of the system that adjustments should be made in the economy of each country according to gains or losses of gold. This ensured a high degree of coherence in the world's economic structure, which was of the greatest importance for a relatively smooth working of the monetary system. Thus, it was accepted — indeed, regarded as self-evident — that each country had to submit to a certain discipline, involving inter alia a definite code of behaviour as regards costs and prices; and note: this discipline was exercised without any impairment of the sovereignty of the different countries.

It is no easy matter to replace a voluntary observance of the kind just mentioned by a system with definite legal obligations and in some cases, perhaps, pressure from abroad. Governments and public opinion in every country are apt to object to any interference from outside in the formation or execution of domestic policies; but it is, as a matter of fact, impossible to keep an international monetary system functioning properly unless the different countries in some measure adjust their policies to the requirements of the common system. This applies pre-eminently to the larger countries, whose actions are of such decisive importance for the trend of world trade and production, the volume of employment and the different financial settlements. Fiscal, social and economic policies have all of them a bearing on the monetary situation; and the task in the monetary — as in the political — field must be, not exclusively to seek remedies when an emergency has arisen, but to follow developments so closely that a critical stage can be averted. A repetition of the disastrous fall in prices which overtook the world after 1929, and which had so untoward repercussions of a political character also, must at all costs be avoided.

Trends of Prices and Employment.

The following table shows the percentage increase in wholesale prices and cost of living from the first half of 1939 and also from the end of 1942.

Percentage Change in Wholesale Prices and Cost of Living.

Wholesale Prices			Cost of Living		
Countries	Percentage change from		Countries	Percentage change from	
	Dec. 1942 to June 1945	Jan.–June 1939 to June 1945		Dec. 1942 to June 1945	Jan.–June 1939 to June 1945
Argentina	+ 13	+ 111	Argentina	+ 19	+ 34
Australia	+ 3	+ 40	Australia	+ 1	+ 23
Canada	+ 6	+ 41	Bolivia	+ 17	+ 237
Chile	+ 12	+ 118	Brazil	+ 30	+ 84
Costa Rica	+ 21	+ 90	Canada	+ 1	+ 19
Czechoslovakia (1)	+ 7	+ 58	Chile	+ 28	+ 134
Denmark	— 1	+ 94	Colombia	+ 49	+ 58
Egypt	+ 30	+ 223	Costa Rica	+ 25	+ 75
Finland	+ 47	+ 237	Czechoslovakia (5)	+ 3	+ 63
France	+ 78	+ 244	Denmark	+ 2	+ 59
India (Calcutta)	+ 23 (2)	+ 197 (2)	Egypt	+ 32	+ 183
Iran	+ 26	+ 377	Eire	+ 7	+ 69
Iraq	— 8	+ 388	Finland	+ 34	+ 143
Mexico	+ 61	+ 100	Iceland	+ 1	+ 175 (6)
New Zealand	+ 7	+ 50	India	+ 25	+ 127
Norway	+ 2	+ 83	Mexico	+ 63	+ 110
Palestine	+ 9	+ 219	Norway	+ 4	+ 56
Peru	+ 16	+ 117	Peru	+ 34	+ 85
Portugal	+ 30	+ 144	Portugal	+ 28	+ 86
Spain	+ 17	+ 109	Southern Rhodesia	+ 12	+ 26
Sweden	+ 1	+ 80	Spain	+ 9	+ 82 (7)
Switzerland	+ 3	+ 110	Sweden	+ 1	+ 43
Syria	+ 26 (2)	+ 861 (3)	Switzerland	+ 5	+ 54
Turkey	— 15	+ 331	Turkey	+ 8	+ 262 (8)
Union of South Africa	+ 7	+ 59	Union of South Africa	+ 11	+ 33
United Kingdom	+ 5	+ 75	United Kingdom	+ 4	+ 35
United States	+ 5	+ 39	United States	+ 7	+ 31
Venezuela	+ 19 (4)	+ 40 (4)	Uruguay	+ 21	+ 32

(1) Figures for Bohemia, Moravia and Silesia. (2) Up to May 1945. (3) Compared with June 1939. (4) Up to April 1945. (5) Figures for Prague. (6) Compared with average January-March 1939. (7) Compared with July 1939. (8) Compared with annual average 1939.

In peacetime, there is as a rule a distinct similarity between the price trends in different countries — a sign of the operation of powerful international influences. But also in wartime some common tendencies emerge; an interesting example is the almost simultaneous introduction of price and wage stop measures by a number of countries in the autumn of 1942. (At least in one country, the protagonist of the new move — himself a man with a number of international contacts — was greatly surprised when he afterwards found that very much the same measures had been adopted elsewhere at the same time, so that his country had simply conformed to the "fashion" of the moment.)

In most cases the price and wage stop has not been absolute, a certain elasticity being allowed. On the whole the measures introduced have been remarkably successful. As the table shows, in two-thirds of the countries the price increases registered since the end of 1942 have been quite moderate and in the same countries the rise in the level of wholesale prices since 1939 has reached its maximum around 100 per cent. and in the cost of living around 60 per cent. That the cost of living has been kept down more effectively than wholesale prices is partly due to severe rent restriction (under which rents have mostly been frozen at pre-war levels), partly to the relatively slight increases in the charges of many public services (tramways, railways, etc.) and partly to the subsidies allocated in the various national budgets to keep down prices of necessities. Now that the war is over, it will not be easy to restore a better balance in the price structure; but in some sectors the task will be facilitated by a reduction in maritime transport costs, which will cheapen the prices of imported goods.

In the United States the level of wholesale prices has risen by not quite 40 per cent., while the cost of living, according to the official index, has gone up 30 per cent. One reason for the success in holding down prices has been the great expansion in production (cf. page 8), which in its turn was aided by the existence of considerable idle resources at the beginning of the war (when there were about 9 million unemployed). The agricultural sector provides an exception to the general stability in that increases in real-estate values have been greater than in the first world war; there have also been sharp increases in urban values. The sums paid for farms naturally reflect the high level to which prices of farm products rose during the war, as shown by the graph on page 80.

In the United Kingdom the cost of living (as measured by the prices of necessities, which are kept down by subsidies) shows about the same percentage rise as in the United States; but the level of British wholesale prices (affected by high transport costs and other circumstances) has risen by 75 per cent., i. e. more than in the United States. In making international comparisons, however, account has to be taken of alterations in currency values, i. e., for the United Kingdom, the reduction in the exchange value of sterling by 14 per cent. in the autumn of 1939 (cf. page 89).

In a number of other countries also, the gold value of the currency, and consequently the exchange rate in relation to the dollar, has been modified since 1939. For some currencies such reductions as were made in the exchange value up to the autumn of 1944 were insufficient to restore an equilibrium position; but it may also happen that the reduction is too great. From Holland, for instance, it is reported that prices and especially wages under the German régime had been strictly kept down by the control; however hard such measures were at the time, the result is that costs and prices in that country seem to have risen no more than, say, on the British market. The German price control was founded on a harsh limitation of wage rates, which, together with restriction of profits, kept spendable income down and, with it, the demand for consumers' goods and services. Even after the military collapse the small volume of free income in Germany acted for a time as a counterpoise to inflationary forces, notwithstanding the extreme shortage of goods.

In a certain number of countries the price level has, however, shown a rise more in conformity with what happened in the first world war. In Portugal, for instance, keen demand from abroad for some of the country's export products led to an expansion in purchasing power on the domestic market, the result being reflected in the official indexes (wholesale prices up 145 per cent.; cost of living up 85 per cent.). In Turkey and India similar forces have been at work, especially since price control in those countries could not easily be made effective in the agricultural sector. In some of the European countries which had been occupied during the war a sudden rise in wages was demanded and accorded immediately after the liberation, and this had an effect upon the general level of prices. France is a case in point. As long as extreme shortages prevail, no proper idea can be formed of the level at which an enduring balance will be possible.

Central Italy:
Retail Prices of Particular Commodities.

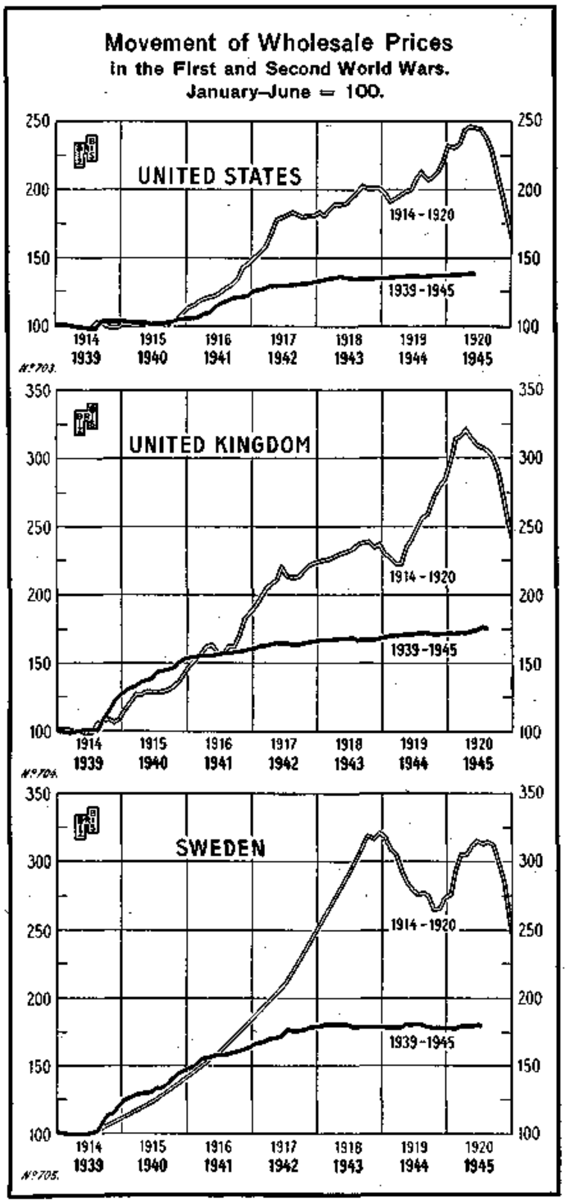
Commodity	Unit of measurement	1938	July 1945		November 1945
			Legal price	Black and free markets	Black and free markets
		Lire			
Bread	1 kg	1.94	16	76	110
Macaroni, etc. . .	„	2.72	21	97	170
Sugar	„	6.60	21	708	830
Oil	1 litre	7.86	78	450	620

For Italy no official price indexes have yet been published but current price quotations show great increases, especially in the so-called "black" and "free" markets.

The "black" and "free" market prices are regularly published in the daily press.

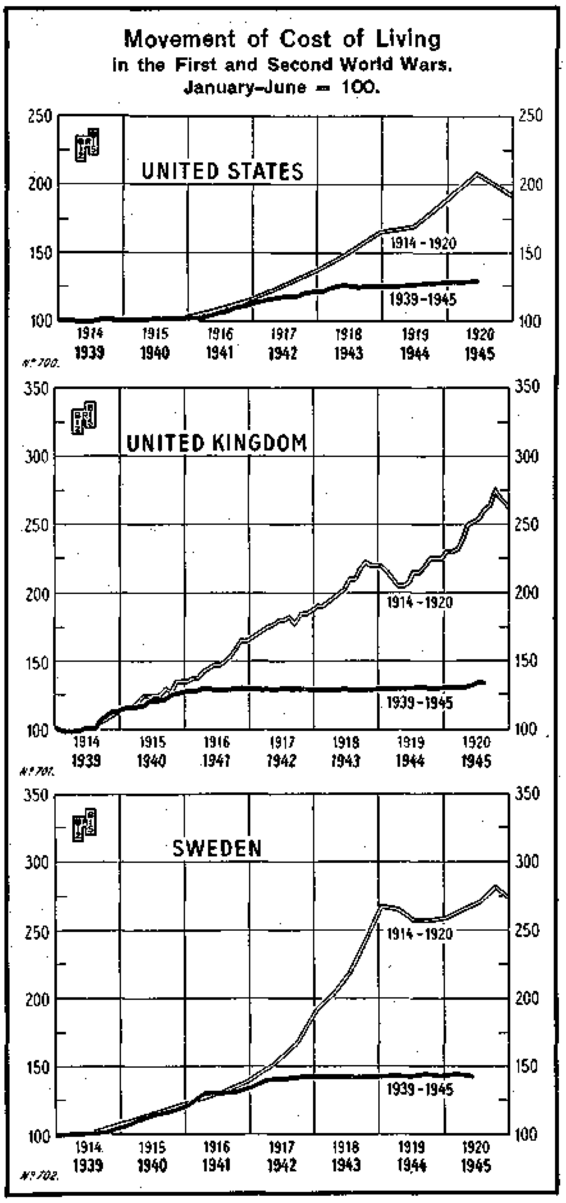
In Roumania and Bulgaria similar or even more pronounced price rises are found. Measures are being taken to bring the situation under control with a view to escaping extreme forms of inflation. For Hungary it is difficult to speak of a price level in the ordinary sense because of the extreme scarcity of goods. In the open market the amount paid for a particular article may be 1,000 or even 5,000 times the price charged for a similar article in 1939. Living costs, including rents and such rationed goods as are actually obtainable had risen 10–12 times in the late summer but more than 1,000 times in the late autumn. In all, it is considered that the real national income has fallen by about 50 per cent.; and from the reduced volume the cost of reparations and most urgent repairs has to be met.

Although in this war the proportion of economic resources devoted to war purposes has been much greater than during the first world war, price advances have been considerably less in the majority of countries. The governments have this time been able to exert their influence much more effectively and they have done so not simply through the price control but by a whole series of measures, including heavier taxation (thanks to which a higher percentage of expenditure has been covered by current revenue), direction of labour and allocation of materials. How striking the difference is may be seen from the accompanying graphs.



After the armistice in November 1918, a certain downward pressure on prices set in, but the decline did not last long; within less than a year prices had again moved upwards and in most countries reached their highest point in the course of 1920. But, in the autumn of that year, a change suddenly occurred, prices falling by 50 per cent. or more within a year or eighteen months. This phase of the first post-war business cycle was characterised by bankruptcies, widespread unemployment and much unrest. As far as present conditions are concerned, the aim of the governments and of private business must naturally be to avoid a calamity like the post-war depression of 1920–22.

To some extent the mere memory of what happened last time will probably suffice to deter business men and others from an accumulation of large stocks at high prices and from speculative investments of other kinds. Wartime tax legislation seems everywhere to have allowed a valuation of commodity stocks at moderate prices, with the result that firms in general are more able to face a fall in prices than was the case twenty-five years ago. But, even so, the authorities must seek to prevent a repetition of that sudden sharp rise in prices which came in 1919 and the still sharper fall which occurred in the autumn of 1920 and in 1921. Considerations of this kind militate in favour of a continued application of some price-control measures, which is, indeed, the policy announced by most countries. It has been said, however, that "competition is the best price control"; as increased supplies of goods become available, the maintenance of measures designed



to prevent price advances will largely disappear. "Price controls will need to be continued on scarce goods", wrote the Federal Reserve Bulletin for September 1945, and added:

> "For many goods and services demands are so great and supplies so limited that without controls prices might rise sharply. Such a price rise could not bring forth adequate supplies and would not curtail demand but would instead stimulate speculative buying. Situations of this sort are the essence of inflation. They should be prevented from developing. Price rises should be permitted only to the extent necessary to bring forth increased production."

In practice, it will, however, be anything but easy to tell whether or not a particular price rise is necessary to bring forth increased production. While a continued price stability is eminently desirable and, if secured, holds out the hope that a grave post-war crisis may be avoided, it may be just as well to remember that in some respects price increases may have quite useful results. During this last war, both in the United States and in the United Kingdom, workers were attracted to war industries very much through an economic incentive: they obtained higher rates of pay and premiums for overtime. Under the reverse process which must now take place, the workers released from armament factories and other wartime jobs will in a large measure have to accept employment in less well-paid occupations, especially where the products remain subject to strict price control. It is probable that the upward surge in prices which occurred in 1919 — bad as it was on balance — facilitated the shift from war to peacetime occupations, although it by no means solved the whole problem. Under the present system "the automatic forces" are likely to be less strong; instead, highly developed labour exchanges and similar agencies will have to make deliberate efforts to meet the need. The situation now, immediately after the cessation of hostilities, is characterised by too many resources in some parts of the economy and insufficient resources in others; a transfer will have to be effected; and, in so far as raw materials are available and a balance can be maintained between costs and prices, there is every reason to expect that a keen demand for goods will help re-employment in peacetime industries.

In the United States much time has been devoted to studies of the problems which seemed likely to arise in the transition period. Of the total numbers of workers employed in agriculture and elsewhere it was calculated that a maximum of 6½ million (or 12 per cent. of all employed) would be affected by the cessation of the special wartime demand; in addition nearly 9 million would be released from the armed forces in the period up to the end of June 1946. These are large numbers to reintegrate into the country's economic life. Peacetime production in the United States will have to increase at least 30 per cent. above previous high points; will conditions be such that the dynamic forces of private business are capable of achieving an expansion of that order?

In other countries less spectacular achievements are contemplated; and, in those which have endured the war within their boundaries, the task is first of all to avoid starvation and then to repair the worst war damage.

The Napoleonic wars were followed by long dreary years of depression. In the decade after the American Civil War the economy of the United States had also to cope with great difficulties, largely due to falling prices. The first world war — once the immediate post-war depression had been overcome — enjoyed a period of rapid advance, tempting people to a belief in "prosperity for ever". But the great depression of 1930–33 soon crushed these hopes and put the last war in the same category as the previous ones with regard to severe post-war difficulties.

Will it be possible this time to do better than after the great wars of the past?

In the monetary field the authorities may well prove capable of avoiding a prolonged deflation, i.e. one of the most important factors in the depressions after other wars. It is also to be hoped that success will crown the efforts made to mitigate the fluctuations of the ordinary business cycle.

But there are other kinds of unemployment than that arising from a deficiency in monetary purchasing power or as a recurrent feature of the business cycle (the two may unfortunately appear at the same time). There is, for instance, a particularly obnoxious kind of unemployment connected with structural dislocation after a great war.* Some industries will have excess capacity — the machine tool and aircraft industries, for instance, because of wartime expansion (but even peacetime industries can suffer in this way, an example being the cotton industry in the United Kingdom after

* Cf. "War and Unemployment" by Henry Clay, M. A., London, Oxford University Press, Humphrey Milford, 1945.

the last war, other countries having developed their own manufactures during the period when normal sources of supply were cut off). When it comes to correcting the fundamental dislocation which thus arises, it may be found that the changes to which industry will have to adjust itself are "too great for the unaided working of a market economy" and for that reason the authorities may have to concern themselves with the thorny problems arising from the existence of excess capacity and redundant supplies. But correction presupposes a transfer of resources and the authorities must therefore assist in increasing the mobility of labour and of other factors of production. That is the essence of the problem; and, when schemes are discussed for an increase in the volume of money or great public works, such schemes should always be carefully examined as to their probable effect on economic flexibility. *In the Soviet economy the transfer of labour and material resources from one locality to another usually enters into all plans as an important element.*

For most people it is a wrench to have to change their place of abode and, therefore, a transfer of enterprise and workers to another locality is usually unpopular. That being the case it becomes more than ever necessary that the reasons for any measures taken should be fully explained. While the war lasted, the authorities were, as a rule, prevented by defence reasons from explaining or even making public mention of their plans or decisions; and much statistical material was kept secret. Now that peace has returned, it is quite imperative to abandon the habit of secrecy. The unrest noticeable in many lands is not unconnected with a lack of knowledge. People want to be informed about such matters as profoundly affect their lives; they also want representatives of their particular groups to take part in deliberations on important social and political questions. People are not unreasonable; but they want to be sure they are not being misled or unfairly treated.

This is eminently true of the question of wages, particularly when actual pay is being reduced by the termination of overtime, etc. As always happens when money wages go down, resistance is offered by those who find their income diminished; strikes are breaking out, endangering in some instances very vital branches of the national economies. The feelings of those affected are not difficult to understand, especially since most people naturally think in terms of money. During the war large amounts were spent on armaments; now that the money is no longer needed for the prosecution of the war, does it not look like sheer illwill that the funds which previously flowed so abundantly for destructive purposes are withheld from the satisfaction of civilian needs and that, to cap everything, pay is actually being reduced? The least that can be done is to explain, by adducing facts, firstly, that government expenditure for the time being remains almost at the same high level as during the war, no "money" having been as yet set free; secondly, that the people's ordinary requirements can be effectively met only when more consumers' goods come in the market, which necessarily takes time. In the United Kingdom the new

Chancellor of the Exchequer emphasised very strongly in his budget speech on 23rd October 1945 that the danger now was "lest too much money should run after too few goods" and "that by far the best defence against inflation in present conditions is large and continuous savings by all sections of our people".

One of the most healthy signs of the present time is the insistence upon a high level of employment, for work is the basis of welfare in more than one sense. But the measures contemplated for securing employment must be really appropriate; in the end, government policy will be judged by results.

Interest Rates and Stock Exchanges.

The future trend of prices will be of importance in most fields of economic activity and, as experience shows, not least as regards the level of interest rates; for it is one of the most firmly established facts of economic history that, in a competitive economy, commodity prices and interest rates tend to rise and fall together — not only within the ordinary business cycle but in "secular" price movements also. Thus, up to the end of the Napoleonic wars, interest rates rose along with prices but declined during the general fall in prices until the middle of the nineteenth century, after which both prices and interest rates rose until the turn came in the 'seventies and carried them both downwards till the end of the century. From then up to the outbreak of the first world war, prices as well as interest rates stiffened, rising together during the war; they remained high until the end of the 'twenties, when with falling prices a decline in the interest level again set in. The reason for this correlation is not difficult to find, if it be assumed (as the facts would seem to warrant) that, under the influence of variations in gold production etc., the changes in commodity prices have been the primary development. When commodity prices rise it becomes profitable to borrow in terms of money and buy "real values" (houses, shares, commodity stocks, etc.), which leads to an increase in the demand for loanable funds. Moreover, when prices rise wages usually lag behind, and this tends to increase the rate of profits and with them the level of interest rates.

During the second world war commodity prices rose but this time without any rise in interest rates. As may be seen from the following table, the official discount rates have as a matter of fact been reduced in a number of countries, the general interest level being adapted accordingly.

This development — unique in economic records — is easily explainable: by the control established during the war, the governments acquired what was practically a monopoly on their money and capital markets and this enabled them, with the assistance of credits from the central banks and other banks, to be largely autocratic in fixing the terms on which they borrowed. It was clearly to the advantage of society as a whole that borrowing for such unproductive purposes as the prosecution of a war should be effected at as low

Official Discount Rates.

Central Bank of:	End of July 1939	End of October 1945	Difference
Portugal	4½	2½	— 2
Belgium	2½	1½	— 1
Bulgaria	6	5	— 1
Canada	2½	1½	— 1
Hungary	4	3	— 1
Yugoslavia	5	4	— 1
Czechoslovakia	3	2½	— ½
Eire	3	2½	— ½
Germany	4	3½*	— ½
Italy	4½	4	— ½
Norway	3½	3	— ½
United States (N.Y.)	1	½	— ½
France	2	1 $^5/_8$	— $^3/_8$
Great Britain	2	2	—
Finland	4	4	—
Japan	3.28½	3.28½	—
Spain	4	4	—
Sweden	2½	2½	—
Switzerland	1½	1½	—
Turkey	4	4	—
U.S.S.R.	4	4	—
Denmark	3½	4	+ ½
Holland	2	2½	+ ½
Roumania	3½	4	+ ½
Greece	6	7	+ 1

* Last rate given.

interest rates as possible. On the other hand, the governments felt themselves limited by the considerations that the financial system (consisting of banks, insurance companies, etc.) should not be impaired in its efficiency and that private individuals entrusting their savings to the state should not feel themselves unfairly treated. (Borrowing in wartime cannot be wholly avoided, partly because the government must gain command over all possible resources, including those which are formed by savings, and partly because it is probable that an attempt to cover the whole cost by taxation would, psychologically, impose too great a strain on the public. But care has to be taken lest the future burden be unnecessarily aggravated.)

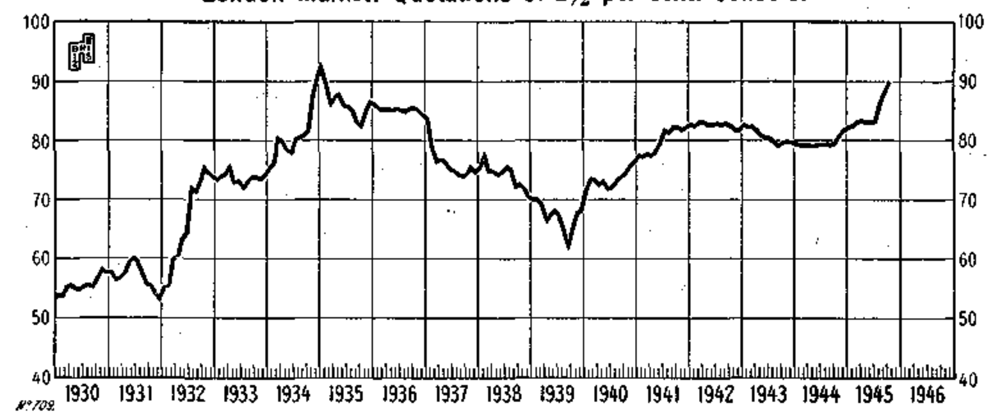
Now that hostilities have ceased, economic life is turning again to the satisfaction of civilian needs. For some time, however, there is bound to be heavy government borrowing to cover budget deficits and, that being the case, it obviously remains most desirable that the amounts required should continue to be borrowed at low interest rates, especially since the bulk of government expenditure is still of an unproductive character.

On 19th October 1945 the British Government announced certain steps to lower short-term interest rates, the method adopted being that the Treasury reduced the rate paid on Treasury Deposit Receipts from $1^1/_8$ to $^5/_8$ per cent. These receipts, which have been the wartime form of government borrowing directly from the banks, amounted at the end of September 1945 to a total of £2,122 million, of which £1,970 million were from the clearing banks (exceeding the combined total of investments, at £1,146 million, and advances, at £763 million, in the balance sheets of the same banks). It has been calculated that by this reduction in interest rates the clearing banks will lose some £12 million of the revenue earned on their liquid assets (Treasury deposit receipts plus bill holdings and call money).

In order to protect their position, the banks proceeded to reduce the interest rates paid by them. No interest will in future be allowed on current accounts and ½ per cent. will be the maximum interest on deposits, payable only if the deposits are lodged for a minimum period of fourteen days or are subject to fourteen days' notice of withdrawal.

The reduction in the Treasury Deposit Receipt rate was sufficient to bring about a general decline of ½ per cent. in all short-term rates. Thus, the clearing-bank rate for bill money was reduced from 1 per cent. to ½ per cent., automatically bringing down the Treasury bill rate to a mere fraction over ½ per cent. In his budget speech of 23rd October 1945, the Chancellor of the Exchequer re-emphasised his intention to examine the possibility of securing lower rates on medium and long-term loans. There was a certain immediate response, in the gilt-edged market, to the steps taken and announcements made, Old Consols (with interest at 2½ per cent.) reaching 92¾ — their highest level since 1935. Also share quotations stiffened somewhat.

London Market: Quotations of 2½ per cent. consols.



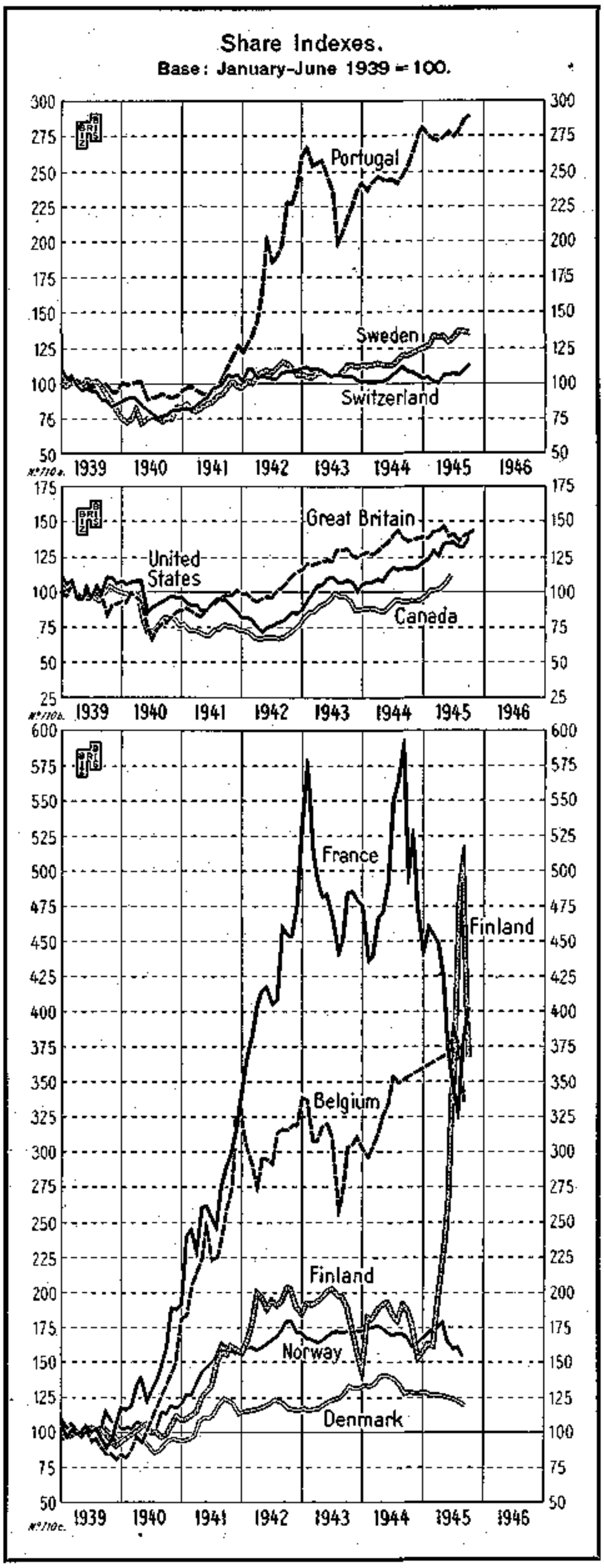
The level of interest rates is, of course, one important factor in determining the value of capital assets. But other factors, such as the rate of profits, the burden of taxation and the general feeling of certainty or uncertainty in the political and economic field, exert their influence. If stock exchange indexes are compared for a number of countries, it is evident that one important factor is the degree in which the real value of money has been reduced as a result of the rise in commodity prices, together with the alternate fears and hopes entertained as to future currency developments.

The marked rise in commodity prices in Finland once hostilities had ceased, has been reflected in the more than doubling of the quotations on the Helsinki stock exchange since the summer of 1944. A movement to some extent in the opposite direction occurred in Paris;

Index of Share Quotations.

Stock exchanges	1939 December	1944 June	1945 June	1945 September
	Index January–June 1939 = 100			
Helsinki	90	184	343	367*
Paris	118	551	346	429
Brussels	84	354	370	335
Lisbon	100	244	275	289
Oslo	102	169	159	133*
New York . . .	108	118	135	142*
London	93	140	141	141
Stockholm . . .	75	113	132	136
Copenhagen . .	94	140	125	119
Montreal	101	91	112	112*
Zurich	87	106	107	112

* Provisional.



it should be borne in mind that in 1943 and the greater part of 1944 the average yield of 300 shares on the Paris Bourse was only just above 1 per cent. (the lowest yield for France since records have been kept, and thus probably for all time), a state of affairs obviously reflecting intense fears of inflation. The decline in share quotations in the autumn of 1945 represents to some extent an adjustment to a more normal conception of acceptable yields; but it also reflects fears of a more political character, with regard to nationalisation of enterprises or compulsory sales of assets in foreign currencies, including foreign shares quoted on the Paris bourse. In these matters waves of optimism or pessimism make themselves felt, and this helps to explain the fluctuations in the quotations. In Brussels the stock exchange was closed from August 1944 to June 1945. The trend in the autumn was definitely downwards, presumably because fears of a domestic monetary inflation were subsiding. With regard to stock exchange quotations (as in the case of prices generally), Portugal presents a very different picture from that of the other neutral countries. Share quotations in Montreal in 1944 were still below the pre-war average, but a recovery set in during 1945. In Zurich, where quotations in 1944 had also been comparatively low, an improvement occurred especially in the latter half of 1945. In New York also an upward pull is noticeable. As regards this and the stock exchanges in London, Stockholm and Copenhagen the impression is one of rates some 20 to 45 per cent. above the pre-war average — roughly in conformity with the real increases in the cost of living of the respective countries.

In northern Italy the stock exchanges were closed at the end of April 1945, i. e. in the final stages of the fighting, but were opened again in the second half of June. The 3 per cent. turnover tax, which had for some time been levied in Rome, was extended to the north, where it replaced the 25 per cent. tax imposed by the neo-Fascist authorities. At first, there was a considerable expansion in the volume of dealings; quotations fluctuated greatly but the trend was generally downward.

The Allied military authorities in Germany approved the reopening of certain stock exchanges as from August 1945. By November those in Frankfort, Hamburg, Munich, Mannheim and Stuttgart had resumed their activities. Special rules were laid down, such as the fixing of ceiling prices; but the military authorities did not interfere in current administrative problems. In Frankfort quotations were in general some 30–40 per cent. below the frozen levels of 1943, with sharp reductions in life insurances, banks, destroyed war industries, and enterprises situated in the eastern part of the country.

For the time being, the stock exchanges are no doubt benefiting by the liquidity in the money markets, which is largely connected with the methods used for government financing. But for equities, as for government bonds, the market valuation will reflect in a large measure the strength of genuine investment support from current savings; and this will be the case even when account is taken of the technique of modern monetary management.

As regards the supply of savings, it seems to be often assumed that the flow of voluntary savings will in most countries soon be so abundant that in practice the difficulty will rather be to find a sufficiency of suitable investment outlets. It is expected that, with rising income standards, wide circles of the population will put aside a substantial proportion of their earnings. During the war the population of the United States showed a very high rate of saving, an average of some $40 milliard being saved in the years 1943 and 1944 by individuals and business firms out of a national income of about $155 milliard. During the same years net private savings in the United Kingdom amounted to £1,600 million out of a private income of about £9,000 million.

These matters need, however, careful watching, for peace-time tendencies may be different from behaviour during the war, when the feeling of national emergency prevailed and, moreover, many outlets for spending were shut off. It also remains to be seen whether or not high taxation, and perhaps heavy death duties more especially, will adversely affect the available volume of savings. Interesting in this connection is certain information provided by the White Papers published along with the annual budgets in the United Kingdom.

According to these White Papers, private savings in the United Kingdom during 1938 were made up as follows:

	In millions of £
Gross personal savings	273
less Death duties, etc.	– 90
Gross personal savings after allowance for death duties, etc.	183
Gross impersonal savings	182
Total gross private savings	365

The 1938 total of private (personal and impersonal) savings was thus £365 million, but public authorities were shown to have had in that year negative savings of £90 million (amount borrowed to finance current expenditure), so that the real total of the nation's gross savings came to £275 million.*

In 1938 the domestic gross capital formation in the United Kingdom is further shown to have been £550 million in the private sector and £235 million in the public sector — making together £785 million, which was met by:

	In millions of £
Savings (as above)	275
Sums allowed for depreciation and maintenance	440
Net draft on overseas assets	70
Total resources available for gross capital formation	785

According to these estimates, Britain's net savings in 1938 (after deduction of the negative savings of public authorities) came to £275 million or about 5 per cent. of the national income. An additional £70 million of capital was obtained by a draft on the country's overseas assets, this amount corresponding to the deficit in the current account of the balance of payments. The peacetime rate of savings was thus low indeed, as compared with the high proportion of savings attained during the war.

If the supply of genuine savings should, despite heavy taxation, continue to be abundant, then no real need will arise for rationing capital between different uses, since there will be enough to go round. Interest rates would then very likely remain low without any special intervention (provided, of course, that the general price level does not show a prolonged upward movement). With savings maintained at high levels, the governments may even have to intervene to ensure that these savings are fully invested.

This is, however, not likely to be the trouble for some time to come, since reconversion of industry to peacetime purposes and reconstruction of devasted areas will require much capital and, now that the war is over, people in general are likely to spend proportionately more of their current income on replenishing stocks run down during the war or acquiring new durable and

* In the White Paper submitted in April 1945, "saving which forms a net addition to personal wealth" appears as "a residual figure, being what is left of personal income after deducting outlay on consumer's goods and services and direct taxes. It can also be regarded as the sum of net personal lending and personal capital formation. Looked at in this way, saving appears as the sum of the cash outlay by persons on all forms of assets and financial claims, including assets that have just been produced such as new houses. This is a net sum in the sense that personal sales of such items are reckoned as negative outlay."

In the very valuable analysis which the White Paper contains, the different forms of savings are not specified in all cases but it may be hoped that this subject also will be dealt with in sufficient detail, so that in the difficult branch of economics relating to savings and capital formation more factual data will be available, to the great advantage of the administrator as well as the theoretician, both of whom have hitherto been largely compelled to proceed by guesswork when examining these questions.

other goods. Some may even draw on their wartime accumulations for such purchases. It must not be forgotten that the high rate of wartime saving was partly due to a scarcity of goods, the civilian population, including businesses as well as consumers, being unable to spend a substantial portion of the great increase in their money income. In view of the uncertainty which thus attaches to developments in this field, the authorities are likely to walk warily and not to relax the financial controls before the situation has become more settled.

But in this connection it should be remembered that during the war the control exercised over investments was not even primarily of a financial character but more in the form of direct physical control through the direction of labour and allocation of materials. In some countries the labour control has been much eased since the termination of hostilities, and as shortages disappear control of materials will presumably disappear also. Only experience can tell how financial control by itself will work. As a result of accumulations during the war, private individuals as well as industrial and commercial firms are in a more liquid position then ever before and, with funds of their own at their disposal, do not need to turn to the capital markets with issues of shares or bonds. The liquid funds are for the most part held directly in government bonds or as deposits in banks, to which government securities largely form the counterpart; disposal of the funds may in either case result in a sale of government securities.

For a cheap-money policy to be effective, government securities, even when carrying only a low interest rate, must be quoted close to par. If savings continue to be abundant and insurance companies and similar bodies maintain a keen demand for government paper, quotations will presumably be held without any large-scale intervention from the central bank; in such a case, the cheap-money rates will be the natural rates of the market. If, however, the volume of current savings is insufficient to secure such an effective demand for government securities, the central bank may have to intervene by open-market operations. This will naturally raise a number of difficult problems as regards the proper functioning of the market in a period of very high liquidity. The task of the central banks may prove to be more difficult than during the war, when the main objective was simple, government financing enjoyed a monopoly and physical controls were enforced. In peacetime the cheap-money policy will be pursued perhaps less in order to reduce the cost of government borrowing than to provide cheaper capital for industry and public undertakings. Whatever control is exercised, it must be so arranged that the ready flow of capital into industry is not impeded.

Current Activities of the Bank.

1. Operations of the Banking Department.

The balance sheet of the Bank as on 31st March 1945, examined and found correct by the auditors, is reproduced in Annex I to the present Report. It shows a total of 458.7 million Swiss gold francs (of 0.2903... grammes of fine gold) against 467.3 million on 31st March 1944. 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.

In all its operations the Bank has continued to apply the principles of strict neutrality which have governed its policies since the beginning of the war. Circumstances have caused a further decline in the volume of its business. As in the past the Bank has endeavoured to follow the main economic, financial and monetary developments in individual countries and in the world as a whole and has in a large measure been able to overcome the difficulties arising from the curtailment of postal facilities and the interruption of personal contacts so long as the war lasted. Besides its Annual Report, the Bank has published a series of pamphlets containing the texts of laws and decrees concerned with exchange restrictions and similar matters and has also produced compilations of financial documents; these various publications would seem to have been appreciated as useful works of current reference.

As soon as circumstances permitted, direct contacts were resumed with the governors and other representatives of the central banks, and the opportunity was taken to communicate much detailed information which it had hitherto been impossible to supply.

The Bank has pursued a policy aiming at an increase in its liquidity and the security of its investments even at the cost of a decrease in its current earnings. At the end of the financial year (31st March 1945) the Bank's assets in gold for its own account attained the all-time maximum of 95.2 million Swiss gold francs, representing some 21 per cent. of the balance-sheet total. At the beginning of the war the corresponding assets had amounted to less than 10 million Swiss gold francs. The balance-sheet total, as shown in the monthly statements, declined from 470 million Swiss gold francs on 30th June 1944 to 458.1 million on 30th November, after which it remained practically unchanged, being 458.7 million at the end of the financial year.

Earmarked gold, not entered in the balance sheet, after falling from 54.5 million Swiss gold francs at the beginning of the financial year to 47.7 million on 30th April 1944, rose again to 54.8 million on 31st July and remained at that level until 28th February 1945, the end-of-year figure being 51.4 million.

A comparison of the principal items in the Bank's balance sheet on 31st March 1944 and on 31st March 1945 calls for the following observations;

A. Liabilities.

The reserves have increased from 19.6 to 19.9 million Swiss gold francs and the item "Miscellaneous" has risen from 54.3 to 56.2 million.

Deposits of central banks for their own account rose more or less steadily from 7 million Swiss gold francs on 31st March 1944 to 9.5 million on 31st July. Falling to 6.6 million on 31st October, they remained approximately at that level until 28th February 1945 and finished the financial year at 7.9 million.

Deposits of central banks for account of third parties declined slightly in the course of the year. On 31st March 1945 they totalled 1,156,000 Swiss gold francs, against 1,273,000 a year earlier.

Deposits of other depositors showed the same general trend but with somewhat larger deflections. After a rise from 1,575,000 Swiss gold francs on 31st March 1944 to 1,834,000 on 31st July their total at the end of the financial year was 778,000.

Bank deposits expressed in a weight of gold, which totalled 29.6 million Swiss gold francs on 31st March 1944, remained more or less at that level, without any great fluctuations, until 31st October 1944. A rather large withdrawal brought the figure down to 20.1 million on 30th November; after a temporary increase, the total declined progressively to 18.8 million on 31st March 1945, the minimum for the financial year.

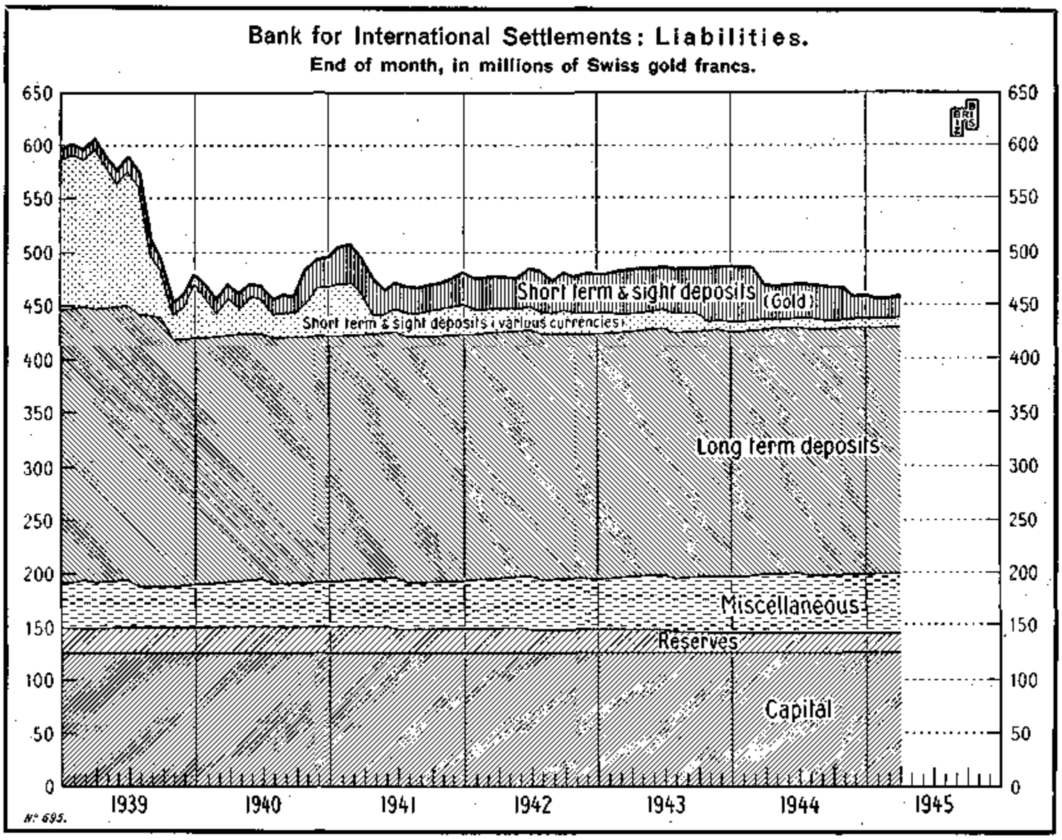
A financial institution such as the Bank for International Settlements must not only respect ordinary banking rules but also accommodate its activity to the monetary policies of the central banks with which it has dealings and to the special wartime legislation in force in the different countries — all of which has naturally tended to complicate the task of the Bank.

It thus happened that an operation as simple as the repayment to a central bank in a neutral country of a deposit expressed in the currency of another country gave rise to protracted negotiations requiring most careful handling, one difficulty being that while the Bank for International Settlements naturally endeavoured to fulfil its own obligations in the strictest manner, the financial policies pursued in the two countries concerned were not in every respect reconcilable. All the practical possibilities of effecting a repayment had then to be explored and a number of successive steps proved necessary, including the conversion of the deposit in question into gold; its subsequent reconversion into the original currency; and a further conversion into the currency of the creditor central bank, to which gold had to be sold at an agreed rate; all this being carried out in such a way that the Bank for International Settlements had not to effect a larger payment than the execution of the original obligation would have involved. An example of this kind shows what difficulties have been caused by wartime legislation and conflicting monetary policies even in the case of an intrinsically simple operation with a neutral central bank. But the example also shows that, thanks to the goodwill of the parties concerned, it has been possible to find practical solutions which answered all the requirements of the existing situation.

The number of operations carried out for the settlement of international postal payments was approximately the same as in the preceding year but the total amount involved in the transfers was somewhat smaller. Activity in this field was naturally reduced by current events.

The number of gold deposit accounts in the Bank's books was 26 on 31st March 1945, against 27 a year earlier.

The following graph shows the movement of the principal items on the liabilities side, month by month, from the beginning of hostilities until 31st March 1945.



B. Assets.

The changes which have taken place during the financial year in the composition of the Bank's assets may be summarised as follows: there was an increase of some 10 million Swiss gold francs in the easily realisable assets resulting from an increase of 31 million in gold, in the currency holdings and in the sight funds and a decline of 21 million in the portfolio. There was also a decline of 18 million in time funds; on the other hand, sundry bills and investments remained unchanged. The following table shows the position, at certain representative dates of the Bank's holdings of gold in bars and of its own stock of gold.

Bank's Holdings of and Commitments in Gold.

End of month	Gold in bars	Weight-of-gold deposits	Bank's own stock of gold
	in millions of Swiss gold francs		
1944 March. . .	118.3	29.6	88.7
October . .	119.7	29.4	90.3
November.	111.3	20.1	91.2
1945 March. . .	114.0	18.8	95.2

The reduction which occurred in November 1944 both in the Bank's gold assets and in its weight-of-gold commitments was due to the particular operation referred to above in relation to a neutral central bank. As regards the Bank's own stock of gold, there was a steady increase all through the year until the maximum of 95.2 million Swiss gold francs was reached at the end of March 1945. Indeed, in the prevailing circumstances, one of the main considerations in framing the policy of the Bank, with its balance sheet expressed in gold values, has been to maintain the greatest possible liquidity backed by a strong position in actual gold.

At the same time, there was a fairly considerable expansion in the total amount of cash held in different currencies. For the first five months of the financial year, i.e. from the end of March to the end of August 1944, the total of this item showed only a slight change, from 17.8 to 18.6 million Swiss gold francs. Then there was a sudden increase up to 48 million on 30th September, followed by another period of relative stability with a total of 46.9 million at the end of the financial year. The increase that occurred was the result of certain measures taken to ensure a greater liquidity and inter alia the replacement, on a particular market, of an investment by a direct claim upon the central bank, the purpose being to make it easier to offset certain categories of assets and liabilities against each other, should occasion arise.

By the end of the financial year the aggregate amount of the Bank's holdings of gold and foreign exchange had risen to 161 million Swiss gold francs against 136.1 million a year earlier and 103.8 million on 31st March 1943.

The total of the sight funds invested at interest likewise increased. For the first five months of the financial year, the level remained practically unchanged at around 6.9 million Swiss gold francs, but in the following month there was a rise to 12.8 million (as on 30th September) with very little variation from then onwards, 13.1 million being the figure at the end of the financial year. Here again, the Bank's intention was to substitute direct claims at sight for portfolio securities.

While a development of this kind improves the Bank's liquidity and reduces its risks, it has, however, a less happy effect upon its earning power.

The result has necessarily been an appreciable reduction in the Bank's portfolio. The holdings of bills and acceptances declined by 11 million Swiss gold francs and the holdings of Treasury bills by 10 million during the year. The movements of the various portfolio items are thrown into relief by comparison with those of the cash holdings, the sight funds and the time funds invested at interest, as set out in the following table, which gives figures for certain representative dates.

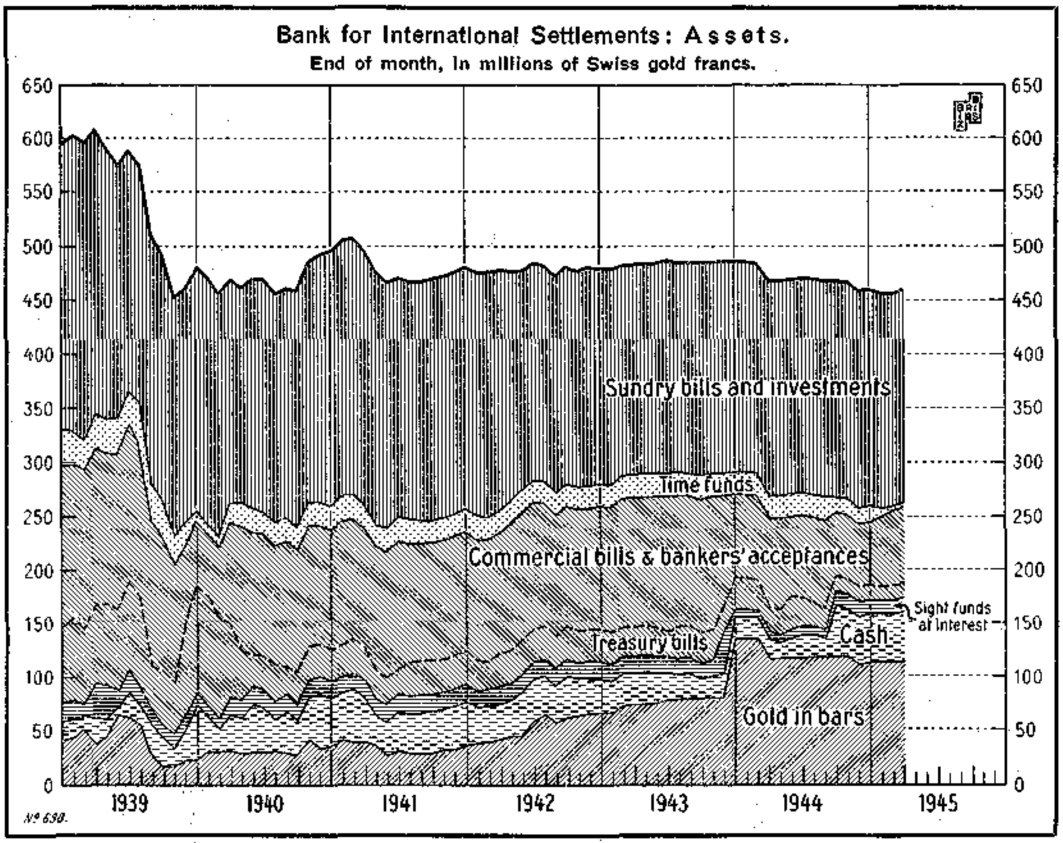
Various Items from the Balance Sheet.

End of month	Cash	Funds at sight	Bills and accept-ances	Treasury bills	Time funds
	in millions of Swiss gold francs				
1944 March . . .	17.8	6.9	81.3	24.1	21.1
August . .	18.6	6.7	81.4	19.9	21.0
September .	48.9	12.8	58.2	14.4	15.0
December .	45.5	12.1	58.2	14.6	15.0
1945 January . .	44.9	12.8	65.0	12.3	8.9
March . . .	46.9	13.1	70.3	14.0	2.7

This table shows clearly the difference between the developments in the first five months and in the remaining seven months of the financial year. It should be added that during the first quarter of 1945 some 12 million Swiss gold francs were withdrawn from the time funds for investment in portfolio securities. The amount held in the form of time funds reached its maximum for the financial year on 30th June 1944 with 21.6 millions Swiss gold francs, to be reduced to the low figure of 2.7 million on 31st March 1945.

Sundry bills and investments showed the same total, 197.5 million Swiss gold francs, at the beginning and at the end of the financial year, having registered a minimum of 197.3 million on 30th May and a maximum of 200.6 million on 31st December 1944.

The following graph shows the principal items on the assets side of the balance sheet, month by month, from the beginning of hostilities until 31st March 1945.



The following table shows the proportions of the Bank's assets as arranged from a liquidity point of view.

Percentage Proportions of various Assets.

Balance sheet of:	31st March 1944	31st March 1945
	Percentages	
Gold in bars	25.3	24.9
Cash, sight funds and rediscountable portfolio	27.9	31.4
Time funds, sundry bills and investments, other assets	46.8	43.7
Total	100.0	100.0

In August 1939 the assets belonging to the Bank and held in Switzerland, either in the form of Swiss francs (cash and securities) or in gold, were of a comparatively small amount, but on 31st March 1944 such assets were equal to more than 60 per cent. of the paid-up capital of the Bank. This notable increase was in the main a result of the transfer to Switzerland of the gold received in repayment of the Bank's investments with the Bank of Italy, as explained in the fourteenth Annual Report.

As regards the Bank's remaining investments, some precautionary measures were arranged in the course of the year with a view to ensuring a continuance of certain investments even if military events should lead to a severance of relations with the central banks on the markets concerned — a contingency that actually materialised shortly after the close of the financial year 1944–45. Thus, all possible steps have been taken to safeguard the Bank's investments, which moreover benefit by the legal guarantees of a general character possessed by the Bank, more especially under the Hague Agreements of 1930.

With one exception, all interest accrued on the Bank's investments was transferred in full up to the end of March 1945. The total amount of the Bank's portfolio of Treasury bills (issued by various governments), including as it does interest accrued but not yet paid, has again been slightly reduced, partly by contractual redemptions but partly as a result of negotiations leading to the receipt of interest which had been in arrears. In two cases those negotiations also had in view a change in the form of the investments; in one of the cases a definite conclusion was reached, while in the other the matter remained under consideration.

The credits granted by the Bank to the National Bank of Hungary before the war have been still further reduced by additional partial repayments. The amount outstanding has, indeed, come down to a figure which is less than the total of the funds held by the National Bank of Hungary with the Bank for International Settlements. The amount outstanding on 31st March 1945 was in fact little more than one-half of what it had been at the end of the preceding financial year and less than 10 per cent. of the total outstanding at the end of August 1939.

In spite of all difficulties, certain gold operations, covered by the usual guarantees, were handled by the Bank during the financial year. On the other hand, operations formerly undertaken with a view to facilitating international trade have practically come to an end.

* * *

The financial year of the Bank which has here been under review had hardly closed when hostilities in Europe ceased and, a few months later, hostilities in the Far East also. That being the case, the time would seem to have come for a comparison to be made between the chief items of the Bank's balance sheet as on 31st August 1939 and on 31st March 1945.

Between those two dates the Bank's aggregate resources declined by about 10 per cent. or a little more than 50 million Swiss gold francs. As appears from the graph on page 149, this decline was principally the effect of certain withdrawals of voluntary deposits by central banks. These withdrawals, mainly of short-term deposits, did not cause any special difficulties, since the Bank was in possession of ample liquid assets in the currencies of the markets concerned.

In the management of its assets the Bank throughout the war was able to secure the transfer of all interest due on its investments, although with some delay in a few instances. The Bank has been able to avail itself of opportunities for offsetting its own claims against payments which it had to effect in the debtor countries, this being possible especially in connection with the payment of the Bank's dividends. In view of the difficulties arising out of wartime legislation, the successive Annual General Meetings of the Bank from 1941 onwards decided that the dividends of the Bank should be effectively payable in the currency of the country of residence of each shareholder, this being the only solution which could be made applicable to all cases involved.

Such a method of payment had obviously the effect of facilitating the transfer of funds to the Bank and it is, indeed, possible that without this facility the Bank would not have received all the income necessary for the declarations of the respective dividends. A further advantage of the procedure adopted was that, especially in countries occupied during the war, the payment of the declared dividend could in reality be made without any actual remittance of foreign exchange (such remittances, had they occurred, might de facto have benefited the occupying power). The policy which the Bank steadfastly pursued throughout the war had as its objective the defence of the interests of the Bank and its shareholders, while avoiding any action to which the belligerent countries could take exception and which might thus have compromised the moral position of the Bank. But, besides securing the transfer of interest earned on its investments, the Bank has been able to improve the position of its own assets. The main improvements are the following: thanks to contractual provisions agreed upon several years before 1939, the Bank was able to arrange for a conversion into gold of all its investments on the Italian market; the Bank has further been able substantially to reduce the credits granted in 1931 to the National Bank of Hungary, so that, as mentioned above, the amount outstanding is less than the funds held with the Bank by the National Bank of Hungary; finally, by means of offsetting, a major part of the Bank's funds with the Bank Polski has been repaid.

Adequate remittances of gold and foreign exchange have been obtained from the German market to ensure the transfer of all the discount and interest earned during the period of hostilities and to bring about a slight reduction in the total of the investments made on this market during 1930 and 1931 in application of the Hague Agreements. As part of its general policy, the Bank has asked for an assurance that gold ceded to it, to effect transfers from its assets in Germany, already belonged to the Reichsbank before the war; and it placed on record the fact that such an assurance had been received.

To sum up: apart from the special investments made under the said Hague Agreements (these investments sharing in the guarantees provided under those Agreements), all the assets of the Bank — i.e. all the assets resulting from voluntary investments of a commercial character — are safeguarded by the best possible guarantees, thanks to the various arrangements made and the reimbursements received. Between 31st August 1939 and 31st March 1945 the liquid assets of the Bank on the American, British and Swiss markets, held in gold, dollars or Swiss francs, rose in the aggregate by more than 117 million Swiss gold francs.

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. The Trustees for the German External Loan 1924 and the Bank, as Trustee for the German Government International 5½% Loan 1930 and for the Austrian Government International Loan 1930, however, have addressed letters to the various governments concerned calling their attention to the securities and privileges attaching to the respective loans and requesting that all the rights of the bondholders be respected in connection with any future measures for reparations or other claims that may be made upon Germany.

3. The Surplus and its Allocation.

The surplus for the year, after making allowance for contingencies, is 4,429,562.41 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 5,253,903.12 Swiss gold francs for the fourteenth fiscal year. For the purpose of the Balance Sheet as at 31st March 1945, 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.

The Board of Directors has decided that, having regard to the exceptional circumstances at present existing it is necessary to make the maximum possible provision for future contingencies and, consequently, it is unable, at this time, to invite the Annual General Meeting "to make appropriations to Reserve and to Special Funds; and to consider the declaration of a dividend and its amount" as foreseen in Article 48 (b) of the Bank's Statutes. The surplus of 4,429,562.41 Swiss gold francs has been transferred, therefore, to a Special Suspense Account 1944/45. As a result of this decision and taking into account the reduced dividends in respect of the financial years 1942/43 and 1943/44, the total of the dividends declared is less than the 6 % cumulative dividends laid down by Article 53 (b) of the Statutes by 58 Swiss gold francs per share or in total 11,600,000 Swiss gold francs.

The accounts of the Bank and its fifteenth 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 is reproduced in Annex II.

4. Changes in the Board of Directors.

Since December 1944, the following changes have taken place in the composition of the Board of Directors. Upon his appointment on 4th January 1945 as Governor of the Banca d'Italia, Senator Luigi Einaudi became an ex-officio Director. Senator Einaudi designated Professor P. Stoppani to act as his Alternate. A second Italian Director has not yet been nominated.

In April last, M. Maurice Frère, Governor of the National Bank of Belgium, appointed M. Camille Gutt, under Art. 28 (2) of the Statutes, as second Director of Belgian nationality. Herr Ernst Weber, President of the Direktorium of the Swiss National Bank, was re-elected in June 1945 under Art. 28 (3) of the Statutes to serve for a further period of three years. Certain reappointments were made to the Board in May 1945 under Art. 28 (2) of the Statutes.

A list of the members of the Board in office in September 1945 appears at the end of the present report.

* * *

The Bank suffered a great loss, in November 1945, by the death of Mr S. E. Goodwin, its Chief Accountant. Mr Goodwin had held this responsible position since the foundation of the Bank in 1930, and by his professional ability and long experience had rendered valuable services to our institution.

Conclusion.

The war now at an end has, even more than the last one, led to an extension and refinement in the system of government control measures, and this has happened even in countries where, before 1939, state intervention was on a relatively moderate scale. The question which has thus arisen is to what extent these control measures should be either abolished or retained, or, maybe, refashioned to suit the conditions of peace.

Often the word "control" is used in a very loose way to denote all forms of "government intervention", even including measures to increase the volume of monetary purchasing power. But in the ordinary sense control implies selection, the power to refuse or approve. It is then by its nature restrictive; it does not initiate new enterprise but rather holds back and cuts down. Control is therefore particularly useful in times of heavy rearmament and war, when the problem is to restrict civilian consumption as far as possible in order to devote the nation's resources preponderantly to the war effort.

In conformity with the ideas that had become prevalent by the end of the first world war, there was a rapid removal of control followed by an impressive increase in economic activity from 1919 to 1920; but, being accompanied by an inflationary rise in prices, this initial achievement was paid for by a sharp setback, especially in those countries which had returned to the pre-1914 gold parity of their currencies. Production fell in volume and unemployment increased; on the other hand, most of the war profiteers lost their wartime gains, while depositors in savings banks, holders of insurance policies, etc. recovered the greater part of the purchasing power of their money claims. In a rough way, this made for social justice, the psychological importance of which may be gathered from a comparison with the repercussions in countries where continued inflation robbed the (usually) patriotic investor in government securities to the advantage of those who — maybe as a result of speculation — owned real assets ("Sachwerte").

The process as such was painful, and heavy losses were suffered; yet, with all the disadvantages caused by an early relaxation of control and widely fluctuating prices, the basis was laid for a substantial rise in production from 1923 to 1929. As regards the interruption of this rise, it should be remembered that the price decline from 1929 onwards began outside Europe; it was at least partly due to a deficiency in monetary purchasing power in relation to the rapid increase in the output of goods and services. Control in the form of restrictive measures would not have helped to prevent such a depression; at best, it might have held back the expansion — but that is, after all, the most undesirable effect government intervention can have.

The control applied this time has been incomparably more effective than during the last war; hence, less popular feeling against the various measures imposed and a decidedly more positive attitude among wide circles towards the idea of state intervention. But it should not be overlooked that control measures often conceal fundamental dislocations in the field of foreign exchange, for instance, and, more generally, in the relationship between different branches of production, owing to the fact that certain industries were stimulated by the war, while others, more directed towards peace uses (e. g. housing), were lagging behind. It would be a grave mistake to suppose that a continuation of control could bridge over these and other disparities and enable countries to avoid the often difficult adjustments required to attain a balanced position.

In the economic life of a country the motive power is obviously more important than the brake. In every economy there must be an active element, a driving force. Under a régime of state capitalism (which, in the natural order of things, would seem to be the true form for a collectivist society, since capital accumulation is essential for modern civilisation), decisions taken by the government and other authorities supply the driving force. In the plans drawn up for a year or five years, or whatever the period may be, certain definite resources (expressed in terms of money) are allocated to the production of different commodities and the construction of new factories, houses, etc., and labour and other agencies are then ordered to proceed with the works decided upon. This means, first of all, that a proper balance has to be achieved in the apportionment of available resources between the different undertakings which are covered by the plans; and, further, that apart from such exceptions as may have been expressly allowed in the plans, the various state undertakings must be managed in such a way as to show a "profit", representing the difference between the sale prices for the products and their cost of production. The realisation of a profit is necessary for a correct pricing of the commodities produced and also as a test of efficiency; moreover, it is on these profits that public institutions not directly engaged in production or distribution (the state administration, hospitals, schools, for example) are largely dependent for their subsistence. The earning of profits is not merely a principle of accounting — it is an economic necessity from which not even the activities of the state can escape. Nowhere is this more clearly recognised than in the U.S.S.R., where, moreover, individual remuneration according to results has been introduced, with different scales for different types of work — all with a view to stimulating an increase in effort and consequently in the national product.

In a society built on private enterprise and responding to the price mechanism the driving force is furnished directly by remuneration in the form of profits as determined by the level of costs and the intensity of effective demand (ultimately exerted by the consumers, among which the government has an important place). In the system prevailing during the war, when the task was relatively simple from an economic point of view, the authorities found that it was in the public interest to fix prices which were sufficient to cover costs and to allow a fair rate of profit. The extensive planning so characteristic of the war economies was, as a matter of fact, carried out in a way which spurred private enterprise to do its best. It was thus realised that there need be no logical or other incongruity between planning, on the one hand, and the working of private enterprise, on the other; but planning must take into account the fact that in such a society the profit incentive cannot be dispensed with if economic progress is to continue. It is reasonable that measures should be taken to prevent undesirable developments by exercising control and by giving positive stimuli when such are needed; but, if a system of control or other intervention were to impede current business or investment activity, it would deprive a society essentially based on private enterprise of its motive power without supplying any other driving force.

In the countries of western Europe and the New World the private sector still accounts for well over 80 per cent. of each national economy. There remains the public sector, where the state owns the capital assets and where activity naturally depends on decisions taken by the authorities.

Today there is no strictly "pure system"; there is everywhere a mixture of reliance on private effort and on public action, though the proportions and the methods differ from country to country. But this mixture should not be allowed to obscure the fact that the driving force appropriate to each particular field must be allowed sufficient scope; if not, there is grave danger of stagnation as shown by more than one example that could be cited from the inter-war period.

With the return to peace, the varied and complex needs of the public will have to be met in order to raise the standard of living; and the very fact that the want of commodities is so great is likely to facilitate an economic expansion. The aim must then be to ensure that this opportunity is utilised to the full, so that the technical achievements of our times are translated into a higher level of actual welfare.

Respectfully submitted,

THOMAS H. McKITTRICK,
President.

ANNEXES

BALANCE SHEET

IN SWISS GOLD FRANCS (UNITS OF 0.29032258...

ASSETS

			%
I—GOLD IN BARS		114,042,980.79	24.9
II—CASH On hand and on current account with Banks		46,937,326.55	10.2
III—SIGHT FUNDS at interest		13,061,270.56	2.8
IV—REDISCOUNTABLE BILLS AND ACCEPTANCES			
1. Commercial Bills and Bankers' Acceptances	70,285,466.11		15.3
2. Treasury Bills	14,033,668.78		3.1
		84,319,134.89	
V—TIME FUNDS at interest Not exceeding 3 months		2,748,845.91	0.6
VI—SUNDRY BILLS AND INVESTMENTS			
1. Treasury Bills	79,334,391.13		17.3
2. Railway, Postal Administration and Other Bills and Sundry Investments	118,201,561.38		25.8
		197,535,952.51	
VII—OTHER ASSETS		79,812.31	0.0
		458,725,323.52	100.0

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 by special measures, or as signatories of the Hague Agreement of 1930, which governs the rights and obligations of the Bank, 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 20.50 per share or in total Swiss gold francs 4,100,000.

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 ation and explanations we have required and that in our opinion the above Balance Sheet, together Bank's affairs according to the best of our information and the explanations given to us and as shown currencies concerned.

ZURICH, April 27, 1945.

AS AT MARCH 31, 1945

GRAMMES FINE GOLD — ART. 5 OF THE STATUTES)

LIABILITIES			%
I—CAPITAL			
Authorised and issued 200,000 shares, each of 2,500 Swiss gold francs	500,000,000.—		
of which 25 % paid up		125,000,000.—	27.2
II—RESERVES			
1. Legal Reserve Fund	6,527,630.30		
2. General Reserve Fund	13,342,650.13		
		19,870,280.43	4.3
III—LONG TERM DEPOSITS			
1. Annuity Trust Account Deposits	152,606,250.—		33.3
2. German Government Deposit	76,303,125.—		16.6
		228,909,375.—	
IV—SHORT TERM AND SIGHT DEPOSITS (various currencies)			
1. Central Banks for their own account: Sight		7,928,441.87	1.7
2. Central Banks for the account of others: Sight		1,156,488.36	0.3
3. Other depositors:			
(a) Not exceeding 3 months	87,634.09		0.0
(b) Sight	690,826.60		0.2
		778,460.69	
V—SHORT TERM AND SIGHT DEPOSITS (Gold)			
1. Not exceeding 3 months	249,756.32		0.1
2. Sight	18,592,020.52		4.0
		18,841,776.84	
VI—MISCELLANEOUS		56,240,500.33	12.3
		458,725,323.52	100.0

of the Bank for the financial year ending March 31, 1945, and we report that we have obtained all the inform-
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

PRICE, WATERHOUSE & Co.

PROFIT AND LOSS ACCOUNT

for the financial year ended March 31, 1945

		Swiss gold francs
Net Income from the use of the Bank's capital and the deposits entrusted to it, after allowance for contingencies		6,238,892.80
Commission earned as Trustee (or Fiscal Agent to Trustees) for International Loans		60,851.05
Transfer fees		31.—
		6,299,774.85
Costs of Administration:—		
Board of Directors — fees and travelling expenses	73,477.99	
Executives and staff — salaries and travelling expenses	1,425,468.62	
Rent, insurance, heating, light and water	94,044.34	
Consumable office supplies, books, publications	124,441.98	
Telephone, telegraph and postage	28,740.27	
Experts' fees (Auditors, interpreters, etc.)	12,186.34	
Cantonal taxation	35,421.50	
Tax on French issue of Bank's shares	23,747.90	
Miscellaneous	52,683.50	1,870,212.44
		4,429,562.41
The Board of Directors has decided that, having regard to the exceptional circumstances at present existing it is necessary to make the maximum possible provision for future contingencies and, consequently, it is unable, at this time, to invite the Annual General Meeting "to make appropriations to Reserve and to Special Funds; and to consider the declaration of a dividend and its amount" as foreseen in Article 48 (b) of the Bank's Statutes. There has been transferred, therefore, to a Special Suspense Account 1944/45, the balance of		4,429,562.41

BOARD OF DIRECTORS*

Ernst Weber, Zurich	Chairman

Baron Brincard, Paris
Lord Catto of Cairncatto, London
Prof. Luigi Einaudi, Rome
Maurice Frère, Brussels
Camille Gutt, Brussels
Emmanuel Monick, Paris
Sir Otto Niemeyer, London
Ivar Rooth, Stockholm
Dr L. J. A. Trip, The Hague
Marquis de Vogüé, Paris

Alternates

Hubert Ansiaux, Brussels
Cameron F. Cobbold, London
Prof. P. Stoppani, Geneva

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

* With regard to the German and Japanese membership of the Board, the legal consequences arising from the situation at the date of this report remain to be determined.

A second Italian Director had not yet been appointed at the date of this report.

Autumn 1945.