BANK FOR INTERNATIONAL SETTLEMENTS

EIGHTEENTH ANNUAL REPORT

1st APRIL 1947 — 31st MARCH 1948

BASLE

14th June 1948

EIGHTEENTH ANNUAL REPORT

ERRATA:

Page 28: the table should be corrected as follows:

Other current transactions, including shipping, travel and military expenditure, etc. (net) . . .	+ 0.5	+ 0.2	+ 0.7	— 0.5	— 0.5	— 1.0
Balance on Current Account	— 0.3	+ 0.3	—	— 3.0	— 4.5	— 7.5

Page 85: paragraph 1, line 3,
instead of: FM 12,400
read: FM 12,400 million.

Page 108: table – Operating Statistics of the Transvaal Chamber of Mines, column 7; Working costs per ton,
instead of: £. s.
read: s. d.

Page 121: paragraph 2, last sentence,
instead of: ; persons who had contravened previous regulations...
read: ; persons who had contravened previous regulations will not be prosecuted unless the fact of the contravention was already established before the entry into force of the law.

Page 158: paragraph 6, last line,
instead of: (i. e. 31st March 1947),
read: (i. e. 31st March 1948).

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ANNEXES

EIGHTEENTH ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held at

Basle, 14th June 1948.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the eighteenth financial year, beginning 1st April 1947 and ending 31st March 1948. The results of the year's business operations are set out in detail in the section from page 154 to page 160 together with a general review of the current activities of the Bank and an analysis of the balance sheet as at 31st March 1948.

The financial year closed with a surplus of 9,541,433.80 Swiss gold francs, of which 500,000 Swiss gold francs has been transferred to an account for exceptional costs of administration and 9,041,433.80 Swiss gold francs to the Special Suspense Account established in 1945. This latter account now shows a balance of 13,547,201.77 Swiss gold francs.

The surplus for the year is almost comparable in amount with those shown in the years prior to the war but, as may be seen from the section dealing with the current activities of the Bank, wider fluctuations must be expected in the financial results than was previously the case, as a much smaller proportion of the income is now derived from interest on investments.

Since the end of the financial year, satisfactory agreements have been concluded with the competent authorities with regard to the unblocking of the assets of the Bank in the United States and as to the liability arising for the Bank from its undertaking to restitute any part of the gold received from the Reichsbank during the war, for the service of the funds invested in Germany in application of the Hague Agreements of 1930, which might prove to be looted monetary gold. The agreements concluded on 13th May 1948 are described later in this Introduction, on page 11.

* * *

The year 1947 saw the beginning of the European Recovery Program, which had its origin in Mr Marshall's address at Harvard University on 5th June 1947. Never before has a speech led to so much comment and so much action within so short a time. On 12th July 1947 a conference of sixteen countries was already at work in Paris on the drafting of a European programme setting out — as suggested by Mr Marshall — the requirements of the situation and the part which participating countries could themselves play in giving proper effect to whatever action might be taken by the Government of the United States. Thus the Committee of European Economic Co-operation came into being, and on 22nd September 1947 its report (in two parts) was signed in Paris by (in most cases) the Foreign Ministers of the countries represented.

Even before the signature of this report, investigations of the European problem had been taken in hand, in the United States, by committees appointed by the President and by delegations nominated by Congress. In the autumn, steps were already being taken to arrange for "interim aid" of $522 million to France, Italy and Austria; such aid was granted by Congress in a session specially convened for that purpose, additional aid being voted at the same time for China ($ 18 million). And on 3rd April 1948 the President signed the "Foreign Assistance Act of 1948", envisaging a total appropriation of $6,098 million, including an allocation of $5,300 million for European recovery, to be expended partly in the form of grants and partly in the form of loans in the period up to the end of March 1949. An allocation was also made for China, together with additional appropriations for special aid programmes in Greece and Turkey and for the International Children's Emergency Fund of the United Nations, as well as for assistance to Trieste and the occupied areas.

The machinery set up to handle the European Recovery Program is known as the Economic Co-operation Administration. Mr Paul G. Hoffman is at the head of it, with Mr W. Averell Harriman as an Ambassador-at-large specially charged with the representation of the United States in negotiations inside Europe.

In Europe itself an organisation for permanent economic cooperation by the sixteen nations was set up under a special charter signed in Paris on 16th April 1948. This organisation embraces seventeen European countries (including western Germany), with a total population of about 270 million.

Its main organs are a Council composed of all the members, this being the body (with a Chairman and two Vice-Chairmen) from which all decisions derive; an Executive Committee consisting of seven members, to be designated annually by the Council; and a Secretary General, assisted by a first and second Deputy Secretary General, all three appointed by the Council.

This gives a bare outline of the funds made available and the machinery set up. The European Recovery Program represents a new departure in the field of international cooperation, confined, for the time being, to the United States and the participating countries in Europe but open, for adherence, to other countries also; it is not intended that the new machinery shall replace the peace structure of a more general character set up at the end of the war. In the Special Report, issued in May 1948 by the National Advisory Council on International Monetary and Financial Problems (with its seat in Washington), on the operational policies of the International Bank for Reconstruction and Development and the International Monetary Fund, it is thus expressly stated that the "measures of special United States assistance are not intended to supersede the activities of the International Monetary Fund and the International Bank, which will continue to operate along the lines originally laid down". On the contrary, the Bank and the Fund both welcomed the European Recovery Program. While the Bank did not feel that it would be in a position to assume the risks involved for more than a small proportion of that part of the Program which would be placed on a loan basis, it was emphatically of the opinion that, in so far as the Program satisfied the need of the participating countries for foreign exchange with which to purchase foods, feeding stuffs, clothing, fuel and raw materials, it would improve their balance-of-payments positions and make it easier for the Bank to negotiate long-term loans, such loans contributing, in their turn, to the successful outcome of the European Recovery Program. And the International Monetary Fund noted that the participating countries should have little occasion to require U.S. dollar assistance from it, save under unforeseen and exceptional circumstances. Non-European countries would also benefit from the Recovery Program, since dollars would become available to them from the payments for goods procured outside the United States for the purpose of the Program. Consequently, aid under this Program would make it easier to preserve the resources of the Fund for the post-transitional period, when they could be used more directly and effectively for the attainment of exchange stability and the elimination of discriminatory currency practices.

In the year and a half during which the International Bank for Reconstruction and Development has been in operation, the main emphasis has been on reconstruction, and this not only by reason of its great urgency but also because of the great opportunity for rapid improvement in productivity and, as a result, in world trade also. Of the loans shown in the table on page 8, all but one have been for the purpose of reconstruction in countries suffering from damage inflicted during the war. The only exception is the loan to Chile, which was made specifically for the purpose of providing foreign exchange to enable the country to purchase equipment and supplies required for the development of electric power, water facilities and agricultural resources. It is intimated, however, that in the coming months greater emphasis will be laid on the development phase of the Bank's operations.

The loans have all been in dollars, with the exception of \$2 million worth of Belgian francs made available out of the capital subscribed by Belgium, the purpose being to pay for the railroad equipment purchased by Luxemburg.

Although the Bank's paid-up capital is equivalent to over \$1½ milliard, more than half of this amount consists of currencies other than U.S. dollars.

I.B.R.D.:
Position of Loans on 31st March 1948.

Borrower	Date of the Loan	Loan commitments	Disbursements	Unused balance
	In millions of dollars			
France	9th May 1947	250	250	—
Netherlands	7th Aug. 1947	195	138.5	56.5
Denmark	22nd Aug. 1947	40	7.3	32.7
Luxemburg	28th Aug. 1947	12	7.0	5.0
Chile	25th March 1948	16	—	16
Total . .	—	513	402.8	110.2

The Bank's primary source of loanable funds is, therefore — as originally intended — the private investment market. During the winter of 1946–47 the U.S. Executive Director of the Bank discussed with the Bank's Council various problems connected with the floating of the Bank's securities in the United States. As a result, the first public offering of bonds of the International Bank for Reconstruction and Development was made on 15th July 1947, consisting of $100 million 10-year 2¼ per cent. bonds due on 15th July 1957, and $150 million 25-year 3 per cent. bonds due on 15th July 1972. Both issues were favourably received.

A first bond issue by the International Bank in other than dollar denominations was the sale to the Bank for International Settlements, in May 1948, of an issue of 2½ per cent. Swiss Franc Serial Bonds, maturing in 1953 and 1954, in the aggregate principal amount of Sw.fcs 17 million, the proceeds to be made available to the Netherlands Government. The President of the International Bank, Mr John J. McCloy, said that the principal purpose of the sale of bonds abroad and similar transactions was to make currencies other than dollars available to the Bank for use in its lending operations. He added that "the interest and cooperation of the Bank for International Settlements in working out this financing by the International Bank has been encouraging and is greatly appreciated", the International Bank being hopeful that this would be one of a continuing series of international transactions.

On 18th December 1946 the International Monetary Fund accepted the parities proposed by thirty-two of its members and announced that exchange transactions would begin on 1st March 1947. It was, however, recognised both by the Fund and by the member countries that the acceptance of par values was tentative and that some of the rates would need modification sooner or later; in point of fact, several countries have been in consultation with the Fund regarding modification of their foreign exchange régimes. In dealing with these matters, as also with regard to questions of exchange restrictions and multiple currency practices, the Fund has been able to act on the basis of fairly wide discretionary powers, especially since it was dealing with the exceptional circumstances of the transitional period. Furthermore, members of the Fund have received from it several statements on policy, including one on 18th June 1947 deprecating international transactions in gold at premium prices, and one on 11th December 1947 emphasising the necessity of member consultation with the Fund on all matters relating to gold subsidies, since such subsidies might constitute a threat to exchange stability or change the par values of currencies as expressed in gold.

One of the major problems confronting the Fund has been the formulation of an appropriate policy with regard to the use of the Fund's resources by member countries, these resources including about $3,500 million in gold and dollars. On 26th September 1946 the Board of Executive Directors gave an interpretation, which was accepted by the Board of Governors, to the effect that the use of the Fund's resources was "limited to use in accordance with its purposes to give temporary assistance in financing balance of payments deficits on current account for monetary stabilisation operations". This has introduced considerable flexibility into the Fund's operations, the aim being to strike a balance between the extreme course of conserving the Fund's resources entirely for the post-transitional period and using them to meet the pressing exchange needs of the members at the present time.

Up to the end of March 1948, i.e. during the first year of operations, approximately $600 million of the Fund's resources had been used by members — mostly by European countries. These countries had, at the same time, drawn largely on their own gold and dollar reserves and the credit lines extended to them by agencies of the United States Government — all this confirming the conclusion that "the post-war financial crisis has proved to be more serious than was anticipated at the time the Fund was established" (to quote once more from the Report of the National Advisory Council).

The European Recovery Program was, indeed, born of the imperative need for immediate measures pending the long-term results which European countries might be expected to produce in the field of reconstruction, by their own efforts or with the aid of the operations of the International Bank for Reconstruction and Development and the International Monetary Fund. The United States alone was in a position to provide immediate and decisive aid. The most urgent task was to furnish European countries with sufficient resources to enable them to continue their purchases, in the United States and elsewhere, of vital goods and especially of foodstuffs and raw materials, these purchases having already been so greatly compressed by the depletion of the importing countries' gold and dollar reserves that there was a serious danger of slowing down the recovery of Europe. It was, therefore, natural that in the earlier examinations of the problem the main accent should be placed on deliveries of foodstuffs and raw materials to be furnished as part of the Program, though in the original speech made by Mr Marshall on 5th June 1947 not only the material but also the financial and monetary aspects of the problem had already received due recognition.

At their meetings in Basle the central banks naturally consulted one another with regard to these questions, and then the Bank for International

Settlements was able to make its contribution by clarifying certain aspects of the problem closely connected with its own activities and experience. Emphasis was thus laid on the impossibility of separating the question of commodity shortages (food, fuel, etc.) from the financial and monetary aspects of the general situation, especially since the shortages of goods and services were to some extent a direct result of financial and monetary instability, including the inflationary tendencies persisting in many European countries. It was not only that distrust in the national currency gave rise to widespread hoarding of gold and foreign exchange and to the accumulation of hidden stocks of foodstuffs and manufactured articles (which farmers and others hesitated to sell for money in which they had no confidence), but also that the inflationary expansion of purchasing power at home acted as a magnet for imports and as a brake on exports, with dwindling monetary reserves as a result. For the central banks it was natural to stress the intimate relation which existed between methods of internal financing and the state of the balance of payments, and to urge the elaboration of a really comprehensive programme of financial and monetary reconstruction, including the establishment of an adequate degree of budgetary equilibrium, the adjustment of investments to available resources and the restoration of balance in the cost and price structure, together with a repayment of government debt to the central bank itself, whenever this was necessary in order to fortify its position.

As a practical contribution to the continuing work of the Committee of European Economic Co-operation, which met in Paris in the summer of 1947, the Bank for International Settlements acceded to a request made to it to act as technical Agent under the Agreement on Multilateral Monetary Compensation, which had been signed in Paris on 18th November 1947 by the Governments of Belgium (acting also for Luxemburg), France, Italy and the Netherlands. As described more fully on pages 142 and 159, the scheme for multilateral monetary compensation has been put into operation. Although the volume of compensations arranged during the early months has not been considerable in itself, the scheme may be regarded as the germ of something more useful which may develop in the future, and its operation has, moreover, made it possible to gain a new insight into the working of the monetary system under the difficult circumstances of present-day Europe.

Moreover, the Bank for International Settlements has continued and developed its cooperation with the International Bank for Reconstruction and Development. This cooperation, which was first established between the research departments of the two institutions, has been gradually extended to include technical assistance given to officials of the International Bank who had been sent to Europe in order to examine the situation of particular countries. And in the spring of 1948, as mentioned above, the Bank for International Settlements was able to assist in the issue of Sw.fcs 17 million bonds, which allowed the International Bank for Reconstruction and Development to lay greater stress on the international character of its operations, especially with regard to the placing of its securities.

Between the Research Department of the International Monetary Fund and the Monetary and Economic Department of the Bank for International Settlements documents have been exchanged and contact and consultation established through mutual visits of officials, etc.

* * *

In the spring of 1948 the Bank for International Settlements obtained a final and satisfactory settlement of certain outstanding questions to which the war had given rise. One of these questions concerned the Bank's assets in the United States, which had been blocked by the U.S. authorities in 1941 (at the same time as similar assets of other holders on the continent of Europe); another question referred to gold which had been received by the Bank for International Settlements as payment from Germany during the war and which the Bank had subsequently been able to identify, as having been looted in countries occupied by Germany.

Work preparatory to a solution of these questions had been in progress since the end of the war. After a preliminary exchange of letters between the Secretary to the Treasury of the United States and the Chairman of the Board of Directors of the Bank for International Settlements, the latter paid a visit to Washington, accompanied by the General Manager of the Bank, and concluded two final agreements, both signed on 13th May 1948.

One of these agreements, concluded between the Treasury Department of the United States and the Bank for International Settlements, concerned the unblocking of the Bank's funds in the United States. As a result, all the funds in question belonging to the Bank itself, as well as funds corresponding to deposits of which the beneficiaries are no longer blocked, were finally released and exempted from any restriction.

On the other hand, funds corresponding to deposits of which the beneficiaries are still blocked have been segregated in a special account with the Federal Reserve Bank of New York, and this account cannot be drawn upon without the consent of the competent U.S. authorities, the amount involved being, however, very small.

The other agreement was concluded between, on the one hand, the Government of the United States, the British Government and the French Government and, on the other hand, the Bank for International Settlements. The three governments acted on their own behalf and on behalf of all the other governments signatory to the Paris Agreement of 14th January 1946 and of the banks of issue of the signatory governments.

This agreement finally fixed at 3,740 kilogrammes the amount of gold which the Bank places at the disposal of the three governments, the gold in question having been received from Germany during the war and subsequently identified as looted. The amount thus defined includes, to the extent of 10 per cent., gold received by the Bank for account of a third party (another central bank). Consequently, the sum to be restituted by the Bank for its own account amounts to 3,366 kilogrammes of fine gold.

Such payments as were received by the Bank for International Settlements from Germany during the war were — as previously reported — connected with operations carried out by the Bank in 1930–31 in application of the Hague Agreements, the Bank then acting in virtue of the Trust Agreement through which it was associated with the creditor governments recipients of the annuities under the Young Plan. These operations gave rise to a series of investments, the origin and nature of which were described in the seventeenth Annual Report (page 160). During the war the Reichsbank continued to effect transfers in the form of remittances of gold or Swiss francs (against Reichsmarks) corresponding to the interest earned on these investments together with a very limited redemption of capital.

The Bank was obviously not in a position to refuse these payments, which were in accordance with the contractual obligations governing the investments. It was, indeed, incumbent upon the Bank to do its utmost to secure the payments in question, since any interruption in the transfers would have led to an increase in its holdings in Reichsmarks and that would have been tantamount to economic assistance to the market of a belligerent country, which would have been contrary to the rules of strict neutrality laid down in the Bank's declaration of 18th December 1939.

When receiving the payments from Germany, the Bank had to run the risk of taking over gold which might not be the lawful property of the Reichsbank. It did all it could to avoid receiving such gold in that it asked for assurances, on each occasion, that the gold had belonged to the Reichsbank itself since before the war. The gold which the Bank for International Settlements received was taken from the Reichsbank deposit with the Swiss National Bank and placed by the latter at the disposal of the Bank for International Settlements on instructions from the Reichsbank.

It was obviously not possible either for the Bank for International Settlements or for the Swiss National Bank to ascertain what was the origin of the gold in question. As early as September 1945 the Bank for International Settlements offered, however, to cooperate unreservedly with such central banks as had notified it that they were looking for monetary gold of which Germany had deprived them during the occupation of their respective countries. For its own part, the Bank for International Settlements arranged for a technical examination of the question; thanks to the work thus undertaken, it was possible to produce a complete list of all the bars received from Germany during the war and full particulars of their characteristics.

At the same time, considerable work was being done by the Allied authorities in Germany to trace, from the book-keeping records of the various German institutions, the monetary gold that had been seized in the occupied countries.

The Bank for International Settlements was able, after a close examination of the facts, in collaboration with the Bank of France and the National Bank of Belgium in 1946 and with the Nederlandsche Bank in 1947, to prepare detailed minutes relating to monetary gold which might have been looted in occupied countries. Moreover, the Board of Directors of the Bank for International Settlements decided, as early as 1946, to authorise the restitution of all gold with regard to which it could be proved by reasonably convincing evidence that it represented looted monetary gold within the meaning of Part III of the Paris Agreement on Reparations dated 14th January 1946.

During the conversations in Washington, the technical experts of the Allied Governments and the Bank for International Settlements were able to examine and compare all the available documents. On the basis of these records, the amount to be restored was finally fixed at 3,740 kilogrammes of fine gold. This gold is now at the disposal of the Allied Governments for distribution among the rightful claimants by the Brussels Tripartite Commission for the Restitution of Monetary Gold, created for that purpose in 1946.

II. Recovery and Setbacks in 1947.

Developments in Europe during 1947 formed a strange mixture: on the one hand, there was further recovery, especially in the industrial sphere, sustained by continued full employment and, on the other hand, a series of disappointments, including another poor harvest, caused by an unusually cold and long winter and an unusually long and warm summer, the growing political antagonism between east and west, an increasing tension in the balances of payments (typified by the general "dollar scarcity" and the failure to maintain the convertibility of sterling) and the continued low state of activity in Germany. These disappointments have received wide publicity, while the undoubted recovery in the majority of European countries has been less generally realised. It may, indeed, be appropriate to review briefly the substantial improvements which have taken place since the summer of 1945, before noting the character and effects of the various setbacks in the course of 1947.

The more immediate tasks which confronted both victors and vanquished at the end of the war were well described in Chapter III, para. 17, of the Potsdam Declaration of August 1945, which laid down for Germany that "measures shall be promptly taken:

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

While relatively little progress has been made in Germany itself, in other European countries the work of repair and reconstruction has been vigorously pursued and, apart from agriculture, where the results are so largely dependent upon the weather, statistical data confirm personal observation that the post-war efforts have not been in vain.

Railway Freight Traffic.

Country	1937	1946	1946	1947
	In millions of net ton-kilometres			
Austria	4,107	—	2,864(1)	4,392(1)
Belgium	6,228	2,052	4,692	5,868
France	35,304	21,120	36,384	41,622
Hungary	2,460	660	1,368	2,556
Netherlands	2,256	2,040	1,944	2,300(2)
Sweden	3,768	6,024	6,900	6,969
Poland	22,077	—	24,881	26,661
United Kingdom(3)	26,256(4)	36,024	33,648	33,095
United States	526,500	994,248	864,216	955,703

(1) Including traffic on behalf of the Allied forces.
(2) Partly estimated. (3) Excluding Northern Ireland.
(4) Yearly estimate for 1938 based on 20 weeks to December.

In the field of communications, the railway bridges, marshalling yards, locomotives, rolling stock and tracks destroyed during the war have, as a rule, been repaired or replaced in most European countries. By the end of 1947, railway traffic exceeded the pre-war volume, as may be seen from the table.

The increase in freights carried by the railways reflects, to some extent, a decline in the transport facilities on inland waterways and on the roads. Almost inevitably, part of the repair work has been of a provisional character and much old material is still in use. Further progress will be mainly dependent upon increased production of waggons and locomotives and on the availability of sufficient supplies of coal and electricity.

As regards merchant shipping the pre-war level of traffic has not been reached but considerable progress has been made. At the end of the war the world total of merchant tonnage was 6½ per cent. above the pre-war figure, but for all the European countries taken together the reduction came to nearly 40 per cent.

During the year 1947 the total output of new merchant vessels was as much as 2,200,000 gross tons, the British output being 1,202,000 gross tons or 57 per cent. of the world total. At the end of the year 3,982,000 gross tons were under construction in the world as a whole, including not less than 2,173,000 in Great Britain and Northern Ireland.

Steam and Motor Tonnage.

Countries	1914	1939 June	1947 June	Difference 1939–47 Tonnage	Difference 1939–47 Percentage
	in thousands of gross tons				
Great Britain and Northern Ireland	18,892	17,891	17,848	— 43	— 0.2
British Dominions and Colonies, etc.	1,632	3,111	3,474	+ 363	+ 11.7
Total British	20,524	21,002	21,322	+ 320	+ 1.5
Denmark	770	1,175	1,024	— 151	— 12.8
France	1,922	2,934	2,315	— 619	— 21.1
Germany	5,135	4,483	591	— 3,891	— 86.8
Greece	821	1,781	1,027	— 754	— 42.3
Italy	1,430	3,425	1,301	— 2,124	— 62.0
Japan	1,708	5,630	5,809	+ 179	+ 3.2*
Netherlands	1,472	2,970	2,436	— 533	— 18.0
Norway	1,957	4,834	3,761	— 1,073	— 22.2
Spain	884	902	1,130	+ 228	+ 25.2
Sweden	1,015	1,577	1,829	+ 251	+ 15.9
United States (sea)	2,027	8,910	30,166	+ 21,256	+ 238.6
United States (lakes)	2,260	2,452	2,257	— 194	— 7.9
Other countries	3,477	6,436	8,546	+ 2,109	+ 32.8
World Total.	45,404	68,509	83,514	+ 15,004	+ 21.9

* No reliable figures of losses had been received when this table was compiled. Later information shows that more than 4 million tons at present recorded had been lost; details of vessels built since 1939 are not known.

For the first two and a half years after hostilities had ceased the coal shortage, as in the years 1919–20, was probably the most troublesome bottleneck hampering European recovery. As it happened, in the course of 1947, the demand for coal was intensified by the reduction in the output of hydroelectric power caused by insufficient rainfall but, by the end of the year, abundant rains made it possible generally to suspend restrictions on the use of electricity and, by then, the output of coal for Europe as a whole was within

20 per cent. of the pre-war figure. It may be said that, at the beginning of 1948, thanks to higher production and continued imports from the United States, the shortage of coal had ceased to be a serious obstacle for most of the European countries in their efforts to increase industrial output.

Production of Hard Coal in Europe.

Countries	1935–1938	1946	1947
	Annual, in millions of tons		
Great Britain	230	193	204
France	46	47	45
Belgium	28	23	•24
Netherlands	13	8	10
Germany (1)	135	62	82
Poland (2)	61	47	59
Czechoslovakia . . .	13 (3)	14	16
Italy.	1.4	1.1	1.4
Turkey	3.0 (4)	3.8	3.9

(1) For Ruhr, Aachen and Saar.
(2) Including Upper and Lower Silesia, now within Polish frontiers. (3) Average 1935–1937. (4) For 1940.
Note: Some countries have in addition a not unimportant production of brown coal. In 1947, the gross production of such coal in western Germany was 59 million tons and in Czechoslovakia 22 million tons.

The distribution of coal on the continent of Europe is in the hands of the Geneva Coal Committee, a subsidiary of the Economic Commission for Europe set up by the United Nations. The Committee in question includes members from eastern and western Europe, the supply and distribution of Polish coal, for instance, being of considerable importance for the meeting of the needs of a number of European countries.

In the course of 1947 Europe received 34 million metric tons of coal from the United States, whose coal output of 613 million metric tons in 1947 was greater than the aggregate output of coal in Europe. But, in the United States, coal production remained limited by an inadequate supply of railway coal-waggons, since in that country coal is not stored at the mines and, when transportation is hampered, production is considerably curtailed.

The progress made with regard to emergency repairs to housing and public utilities has varied greatly from country to country. As far as gas and electricity works have been concerned, the owners, whether local authorities or private companies, have invariably taken steps to put the installations into working order; thanks to enlargements, even during the war years, the European production of electric power rose from 130 milliard kilowatt hours in 1938 to 170 milliard in 1947 — an increase of 30 per cent.

The output of gas has been primarily dependent on the supply of coal — a noticeable tendency being the increased use of electricity for cooking and heating and, in some countries, a greater use of oil also for heating purposes.

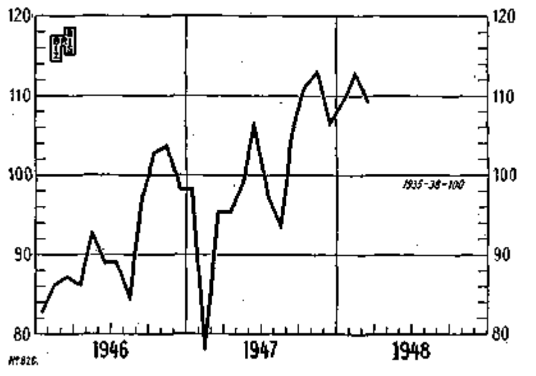
In the countries which were the theatre of active warfare or otherwise exposed to bombing from the air, the repair of damaged premises, together with the construction of new houses, has been given high priority, especially in areas where labour would have to be adequately housed in order to be able to increase output to, or beyond, peacetime levels. In the United Kingdom, where no fewer than 4 million houses were damaged by enemy action (including 460,000 destroyed or otherwise unrepairable), public authorities assumed the main responsibility for rehousing; but in that country, too, much repair and reconstruction has been carried out through private initiative and enterprise. By the end of 1947, some 900,000 houses had been repaired in the United Kingdom and 350,000 houses newly built.

In Italy, as in Austria, there has been comparatively little new construction, quicker results being obtained by giving priority to the repair of damaged houses instead of erecting new ones. By the end of 1947, almost all slightly or heavily damaged apartments in Italy had been fully repaired, while in Austria the more lightly damaged houses had also been repaired and a fair proportion — probably one-half — of the more heavily damaged houses. Considering the general shortage of building materials, it often seems a miracle how much has been achieved within a relatively brief period.

But even greater progress has been made in the repair and reconstruction of industrial plants. While damaged armament works have often been left as they were, it is no mean achievement that, not only in the United Kingdom, France and Belgium but also in Holland, Italy and Austria, the physical damage suffered by industrial capacity through bombing or other acts of warfare has practically been repaired. This does not necessarily mean that the industrial output has reached peacetime levels, since in some countries efficiency has been impaired by lack of food and fuel, insufficient supplies of raw materials, the use of old tools and machines and the absence of certain key plants; but, as the graph shows, a very remarkable recovery has taken place in the field of industrial production, which in the majority of countries has risen above the pre-war level.

That has also been the case in the United Kingdom. For the first time since the war, indexes of the volume of industrial production were published early in 1948: an official index with 1946 as base period, and another with 1935 and also the average of 1935–38 as base period, the latter being published in the "London & Cambridge Economic Service" by four investigators, C. F. Carter, W. B. Reddaway, J. R. N. Stone and N. F. Winter. According to the calculations made, the index figure for 1938 and also that for 1947 work out as equal to the 1935–38 average and, since this index makes a comparison with pre-war years possible, the main results have been reproduced in the table and are also shown in a special graph. (1)

United Kingdom: Industrial Production.
Index 1935–38 = 100.



United Kingdom: Index of Industrial Production.

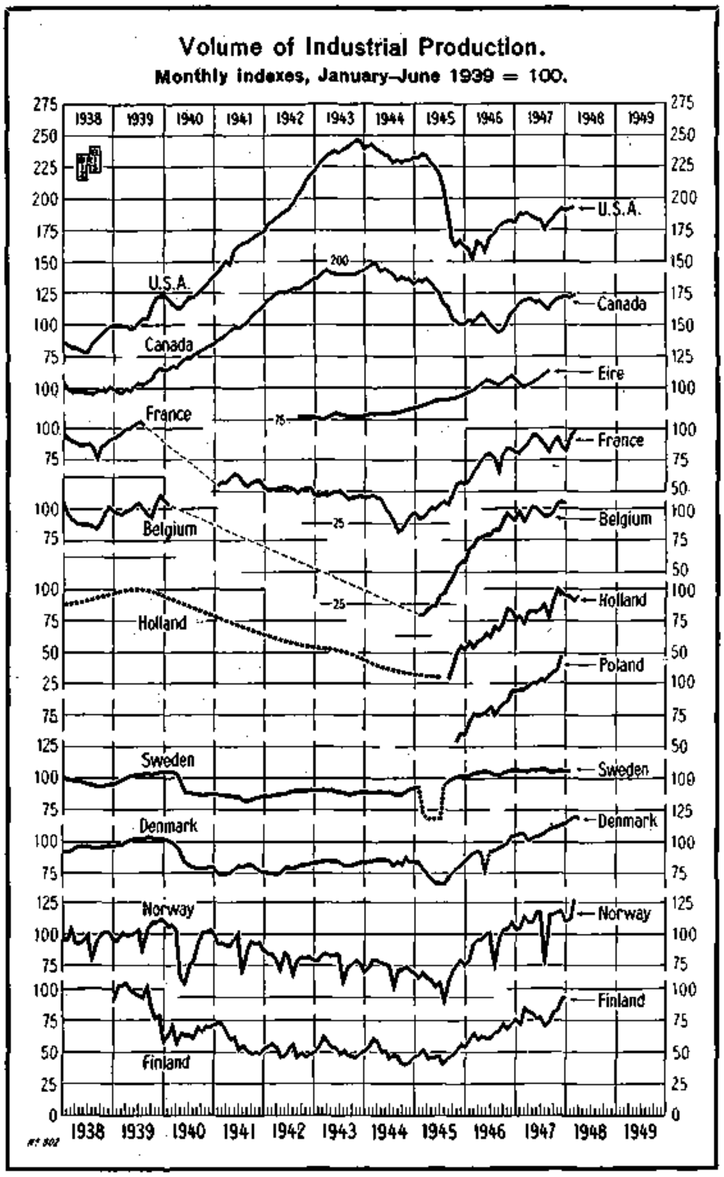
1935–38 average	100
1937 ,,	107
1938 ,,	100
1946 ,,	92
1947 ,,	100
1947 4th quarter	110
1948 1st ,,	110(2)

(1) See page 53. (2) Provisional figure.

The provisional figure for the first quarter of 1948 is 10 per cent. above the 1947 average and indicates that the improvement in output which had been attained in the last quarter of 1947 has been broadly maintained, despite the increase in sickness and other factors which normally have a depressing effect in January and February.

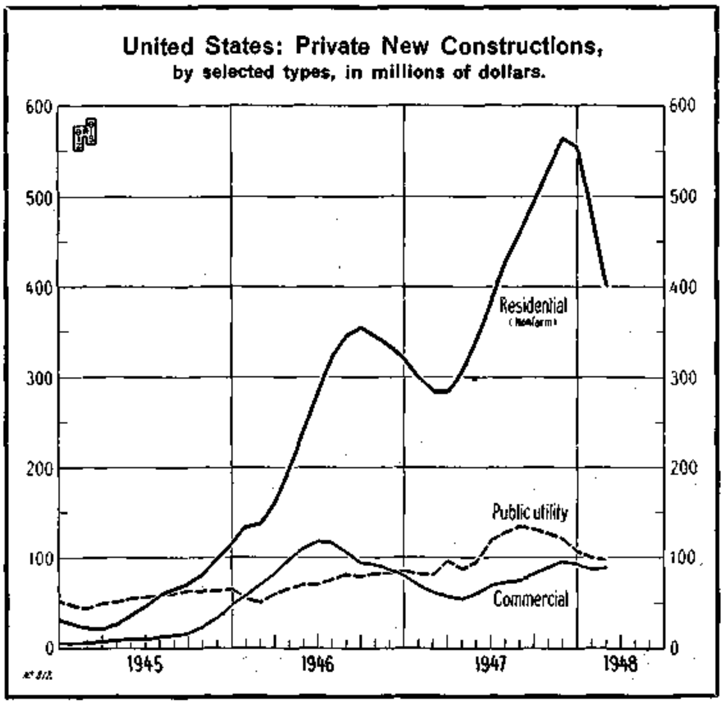
In Greece an index of the volume of production (1939 = 100), compiled by the Federation of Greek Industries, shows an increase from 54 for 1946 to 67 for 1947, an index figure of 74.4 being attained in October 1947 — the highest since the liberation.

As will be seen from the graph on this page, the increase in the volume of industrial production was particularly rapid in 1946, when it was largely a question of making fuller use of capacity already existing and when — thanks to foreign aid through UNRRA and in other ways — European countries were able to obtain badly needed supplies of raw materials. In 1947, however, the improvement did not continue at the same rate but was slowed down and even reversed, with a most conspicuous drop in the third quarter of the year. That was the case in Europe and also in the United States and Canada — which seems to indicate that the slower pace may not have been primarily due to specifically European causes (such as a lack of hydro-electric power in consequence of the drought) but may have represented a moderate yet typical change in the



business trend. In the spring and summer of 1947, prices in the United States declined simultaneously with the reduction in industrial output, and these movements had their counterparts in European countries. But, in the fourth quarter of 1947, there was already an upturn, both in prices and in production — and in America as well as in Europe. Perhaps the world witnessed a change in the business trend which might have developed into a post-war depression, had not the downward movement been interrupted by a number of sustaining forces, operating more particularly on the American market — although their influence soon made itself felt in other continents also. Notable among these forces were the unsatisfied demand for motor vehicles; a sharp resumption of residential building activity already in the spring of 1947; the granting of continued aid to European and other countries; the removal of restrictions on instalment buying; the continuance of relatively cheap money after some necessary upward adjustment, and of the influx of gold into the United States; and, finally, legislation permitting redemption of armed-forces leave bonds after 1st September. It is, indeed, astonishing to find, even in a world so hampered by barriers to the movement of goods and capital, a high degree of correspondence between the business trends in different countries and continents.

For the whole year 1947, the index of industrial production in the United States stood, on an average, 10 per cent. higher than in the previous year. Several countries in Europe, and among them the United Kingdom, Belgium, Denmark, Finland, France, the Netherlands and Italy, attained a similar increase in production. The realities of European industrial production may even be better than appears from the statistics, since much repair work carried out in different countries is often insufficiently recorded and, moreover, many producers have sold part of their output on the black market and refrained from reporting that part to the authorities.



The character of Europe's industrial development is shown by the fact that the combined output of the three investment-goods industries (iron and steel, engineering and building) has been rising much faster than industrial production in general, and continued to do so all through 1947. In the United States particularly, there was an expansion in typical reconversion industries and thus in the output of durable goods such as household electrical equipment, radios, motor vehicles, tyres, freight and passenger cars. At the same time expenditure on new construction increased by almost one-third from 1946 to 1947, continuing the advance which had begun in 1945.

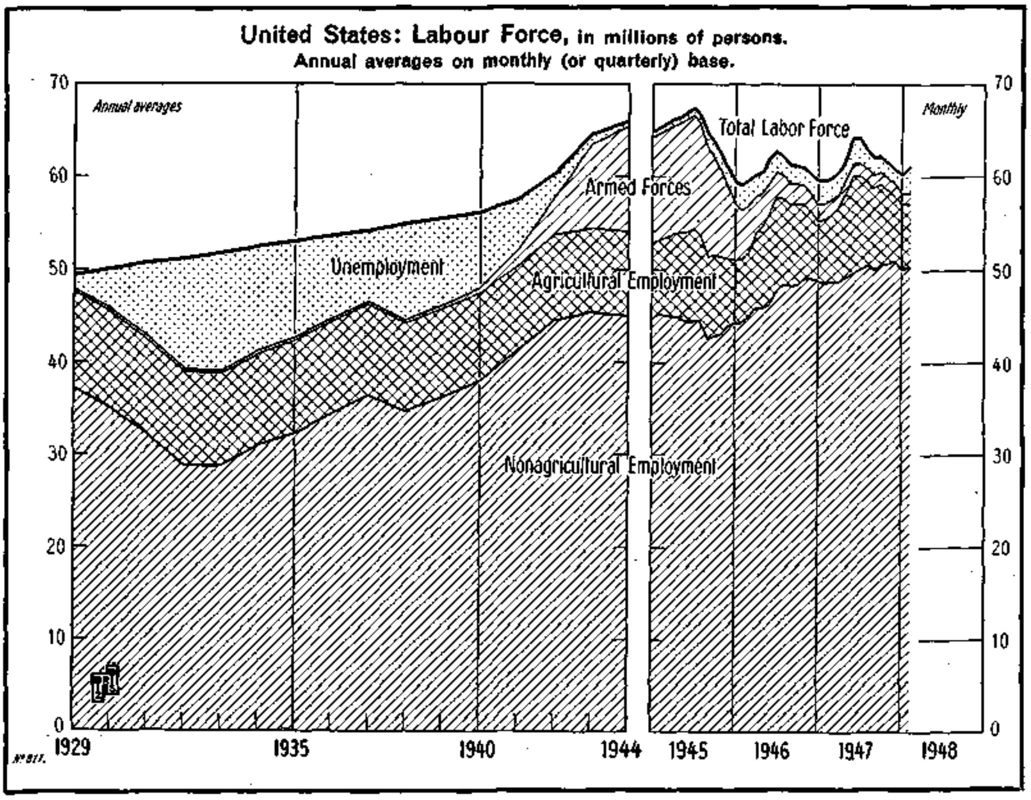
That actual living conditions of the people in so many European countries have not improved in the same degree as industrial production is due to a number of circumstances, the most important being, perhaps, that agricultural production has lagged behind (see page 23). Another reason is that much of the present work continues to be devoted to reconstruction of war damage and the restoration of depleted reserves and thus leaves a smaller share in the form of consumption goods than before the war. It is, for instance, reported that in Austria (outside agriculture) one worker in five has been engaged in repairs and reconstruction. For another reason, also, the home consumer may get a smaller share. The United Kingdom, having to export more than before the war, managed in 1947 to increase its exports (at 1938 prices) by 8 per cent. above the 1938 level, while its imports (also at 1938 prices) were 23 per cent. less than in 1938, the result being a reduced supply of consumers' goods for the British public as a whole. This country was, however, an exception to the general rule for European countries in this respect; over the greater part of Europe, imports have risen more than exports.

A careful examination of the over-all figures for European production makes it possible to affirm that the general improvement has been fully as rapid as after the first world war. The most important fact to remember in this connection is that, except in Germany and Italy, full employment has prevailed not only in Europe but all over the world. Efficiency may here and there have been reduced* by malnutrition as well as by inadequate technical training or by the use of old tools and machinery, and sometimes by a lack of raw materials; but, when, with the still relatively modern methods of production, workers are fully employed, the results are seen to be impressive.

Moreover, there has been an extension of working-hours in some countries. Thus, in France, the average working-week was 45 hours in 1947, as compared with only 38½ hours in 1938. In the nationalised mines of Great Britain, where in 1946 the working-week was reduced to 40 hours, the workers agreed, after the fall in coal output early in 1947, that they would work up to 44 hours a week.

While much credit must go to all those in the various European countries who have striven to overcome the many serious difficulties of the

* In Germany, which is an extreme case, the decline of productivity in industry has been estimated at 45–50 per cent.



post-war situation, it needs to be emphasised that the industrial recovery actually attained in Europe could not have been achieved without the financial and other aid from the United States. The following tables show the total of United States Government aid to all foreign countries, approximately 60 per cent. of the unilateral transfers (grants and other relief) and 90 per cent. of the loans and property credits (excluding the subscriptions to the International Bank for Reconstruction and Development and to the International Monetary Fund) having been for European account.

Between July 1945 and the end of 1947 unilateral transfers and long-term loans and investments together provided a total of $17,350 million, of which about $14 milliard has been utilised, the most important amounts not yet utilised being the greater part of the subscriptions to the International Monetary Fund (cf. pages 8 and 9 and also table in Chapter VII on production and movements of gold).

The external aid thus received has been useful in many ways: it has furnished exhausted countries with food, without which social disintegration might have set in and the manpower of these countries could not have performed the work it managed to get done; it further provided raw materials, as well as much needed tools and machines. In addition, the foreign aid represented resources from abroad which added to the amount of savings available and thus permitted a higher proportion of the productive power to be devoted to repairs and reconstruction and other forms of investment than

United States Government Aid to Foreign Countries.

A. Unilateral Transfers.(1)

Period	Straight lend-lease	UNRRA and post-UNRRA aid	Civilian supplies for occupied territories	Greek-Turkish aid	Other government transfers(2)	Gross unilateral aid	Less reverse transfers(3)	Net unilateral transfers
	in millions of dollars							
1945 July-Sept. .	1,015	168	310	—	134	1,627	— 481	1,146
Oct.-Dez. .	593	291	34	—	70	988	— 50	938
1946 Jan.-March	109	532	107	—	20	768	— 52	716
April-June	46	414	207	—	69	736	— 24	712
July-Sept.	6	382	115	—	133	636	— 8	628
Oct.-Dec. .	—	194	125	—	72	391	— 10	381
1947 Jan.-March	—	264	225	—	101	590	— 140	450
April-June	—	189	262	1	115	567	— 120	447
July-Sept.	—	152	315	39	68	574	— 99	475
Oct.-Dec. .	—	142	205	54	56	457	— 76	381
Cumulative total	1,769	2,728	1,905	94	838	7,334	—1,060	6,274

(1) Not including net private payments of $695 million for 1947.
(2) Including interim aid to France, Italy and Austria and also grants to the International Refugee Organisation.
(3) Including lend-lease settlements.

B. Long-Term Loans and Investments.(1)

Period	Lend-lease credits	Surplus property (2)	Export-Import Bank	Subscriptions to the International Bank	Subscriptions to the Monetary Fund	Loan to United Kingdom	Other	Total outflow	Inflow	Net outflow
	in millions of dollars									
1945 July-Sept. .	495	—	5	—	—	—	1	501	— 14	487
Oct.-Dec. .	321	71	25	—	—	—	1	418	— 35	383
1946 Jan.-March	271	135	137	—	—	—	—	543	— 22	521
April-June	173	414	333	159	—	—	—	1,079	— 19	1,060
July-Sept. .	78	110	231	—	—	400	17	836	— 18	818
Oct.-Dec. .	24	201	270	159	5	200	2	861	— 20	841
1947 Jan.-March	14	113	280	159	2,745	500	27	3,838	— 50	3,788
April-June .	6	89	249	159	—	950	48	1,501	— 34	1,467
July-Sept. .	2	51	61	—	—	1,300	2	1,416	— 39	1,377
Oct.-Dec. .	2	64	206	—	—	100	3	375	— 47	328
Cumulative total	1,386	1,248	1,797	636	2,750	3,450	101	11,368	— 298	11,070

(1) Not including net private outflow of $736 million for 1947. (2) Including ship sales.

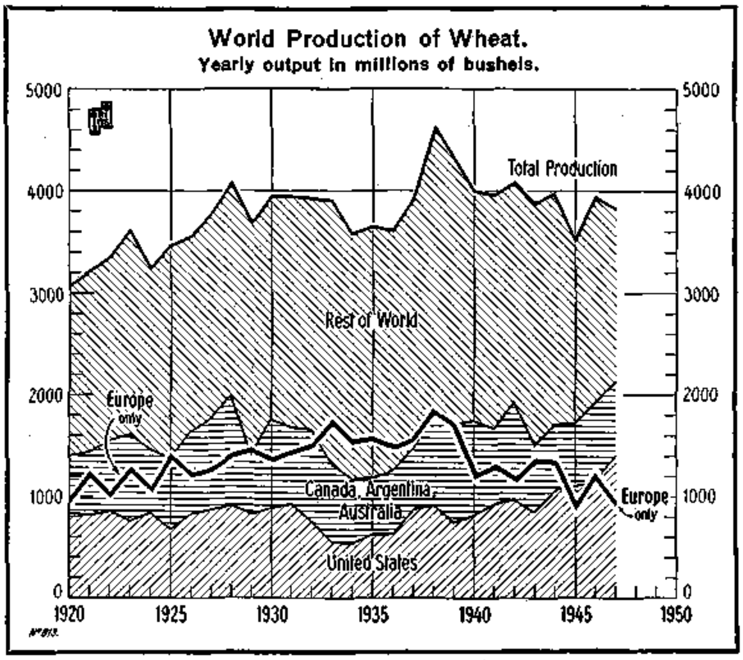
would otherwise have been possible. Without the aid, the volume of production and the national income in the various countries would manifestly have been less — often much less — than is now the case; and a smaller income would have brought down the revenue from taxation, and that would have made it even harder to balance budgets and to overcome the monetary difficulties. There could be no greater misconception than to imagine that the aid so far furnished has been of no avail or somehow "wasted". Mistakes have, of course, been unavoidable in a period of unsettlement after a long war; but serious efforts have also been made, often under very difficult circumstances.

If, notwithstanding the recovery which had taken place and the aid obtained from abroad, the economic and financial situation of Europe became more tense in 1947, this was due to a series of setbacks and disappointments, which in varying degrees affected all European countries.

1. The first setbacks began with the unusually sharp cold weather early in the year, which, inter alia, led to a reduction of the industrial output in Great Britain and temporarily caused a resurgence of unemployment, this being embarrassing at a time when the country badly needed to keep up its flow of exports. The winter crop was damaged not only in Great Britain but also in France and some other continental countries. This was the first of a series of blows which agricultural production had to sustain.

2. In 1947 Europe had an incredibly bad harvest, the failure of the crops being due to an unusually warm and dry summer following the cold winter.

   By the end of the war agricultural production in Europe was vulnerable for many reasons: large areas had been affected by actual warfare and, in some cases, there were hardly any of the pre-war inhabitants left; in general, European agriculture had been suffering from a lack of manpower and from the cumulative effect of insufficient use of fertilisers for many years past. The substance of agricultural capital had been seriously reduced through losses of livestock and deterioration of equipment — to which should be added the effects of agrarian reforms. As a result of all these factors, total agricultural production in Europe (excluding the U.S.S.R.) for the harvest year 1945–46 would seem to have reached only 60 to 65 per cent. of the pre-war volume. In the following year, 1946–47, the result was already better, with an average of about 75 per cent. — a figure which covers wide variations in conditions, however. While in western Europe the output approached, and in some countries exceeded, the pre-war standard, eastern Europe was hit by a severe drought in 1946–47 — Bulgaria and Roumania both for the third



year in succession. It might be added that in the U.S.S.R. the drought was the most destructive for over fifty years, affecting not only western Russia but also the important agricultural regions of Siberia.

In 1947 the drought moved westwards, bringing a calamity from which no European country wholly escaped, although its severity was not so pronounced in Finland, Roumania and Yugoslavia, and rainfall was more or less normal in large parts of the U.S.S.R.* Preliminary figures would seem to indicate that the damage inflicted by the drought reduced agricultural production in Europe (excluding the U.S.S.R.) to about two-thirds of the pre-war standard. The effects of these losses were most important from both an economic and a political standpoint. When food gets scarce, it becomes more difficult to prevent black-market prices from soaring and consequently to safeguard the purchasing power of money. Since the governments in the afflicted countries necessarily had to secure a minimum supply of food for their people, they were obliged to turn to overseas countries, or to the U.S.S.R., with demands for increased deliveries, even if that meant, in some cases, further drafts on already slender monetary reserves, or the conclusion of commercial treaties with burdensome clauses.

It has been estimated that, in order to make good the whole deficiency of the 1947 harvest, the European countries would have had to import 25 million tons of wheat and rye, in addition to the normal imports of 14 million tons. At $3 or more per bushel — a price to which wheat had been pushed by the failure of the European harvest and the consequent world scarcity — this would have meant an extra cost of some $3,000 million. For the countries taking part in the European Recovery Program the deficiency caused by the poor harvest in 1947 came to about 7 million tons. Fortunately, the United States has had eight good harvests in succession, of which four have been bumper harvests — perhaps a sign that, thanks to the use of more fertilisers and other improvements in production methods, a new level of agricultural output has been reached. United States exports of wheat and flour in 1947 amounted to 9.6 million tons as compared with an average of 1.3 million tons in the years 1934–38. Grain exports from the U.S.S.R. are reported to have exceeded 2 million tons in the harvest year 1947–48.

3. The deepening cleavage between the east and west of Europe, with all the concomitant signs of growing discord, has had unfortunate consequences, especially in regard to confidence, which is

* Swiss meteorologists have found that during the period of 120 years for which they possess reliable weather records there was never anything like the sustained high temperatures reached in the summer of 1947. It is, indeed, possible that in the whole known history of Europe there has only been one summer equally hot, and that was the summer of 1540, which was long spoken of as something quite abnormal. As regards the lack of rainfall, the summer of 1947 was less exceptional; but, if account is taken of the high degree of evaporation in the prevailing heat, it is likely that in modern times the ground has never been so excessively dry. Weather reports are not available from the U.S.S.R. but, from a comparison with the year 1911 (when the weather, though less warm, would seem to have taken much the same course), it seems probable that, in 1947, more rain fell in the U.S.S.R. than in other parts of the Eurasian land-mass.

so important in all matters of currency and credit. But it seems probable that popular opinion has formed an exaggerated idea of the effects of this cleavage on the currents of trade within the continent. Poland, for instance, greatly increased its exports of coal to the west in 1947 and also its purchases from western countries. Political differences need not necessarily lead to economic isolation: the European countries realise that it is to their mutual advantage to exchange goods and services. Thus, it was expressly stated in the Paris Report of the sixteen C. E. E. C. Nations that trade with the eastern parts of Europe was of crucial importance for these nations. And, in March 1948, the new Czechoslovakian Minister of Commerce declared that his country was most anxious to develop its trade, not only with the east but also with the west. In March 1948, moreover, Switzerland concluded a commercial treaty with the U.S.S.R. for an increased volume of trade in both directions. It would be hard to find, in Europe, any person responsible for foreign commercial and other affairs who would not testify to the importance of intensifying the interchange of goods and services, notwithstanding the political cleavage which has developed.

But, when all this has been said and admitted, and when the whole volume of goods and services ensuing has been duly registered, it cannot be denied that the political division of Europe, with all the uncertainty it engenders, has had some distinctly harmful effects. In particular,

(a) it has proved impossible to prepare and apply a homogeneous recovery programme for the whole of Europe (and consequently one method of cooperation is being tried out in the east and another in the west); and

(b) it has proved impossible to prepare and agree upon a uniform economic system for the whole of Germany.

Europeans are, however, anxious to maintain and develop the Economic Commission for Europe (which, as the European branch of the United Nations Economic and Social Organisation, has its seat in Geneva and comprises members from both ends of Europe) in the hope that the work carried on there will help to diminish the existing antagonisms and be of practical assistance to the development of trade, with closer cooperation in technical and other ways.

4. The continued low state of activity in Germany is perhaps best illustrated by the fact that the volume of that country's industrial production has reached only 40–45 per cent. of pre-war, while foreign trade is still more depressed. The exports of the three western zones were in 1947 equal to about 25 per cent. of the corresponding volume of trade in 1937 (it being assumed that about 60 per cent. of Germany's foreign trade in the latter year represented the share of the area now comprising those three zones).

If coal has been, and steel remains, a serious bottleneck in the European economy, the cause must largely be sought in the inadequacy of German production.* This inadequacy is not confined to such basic products: it is also of importance with regard to a variety of consumers' goods which countries in and outside Europe used to obtain from Germany, where they were manufactured with great efficiency and could, therefore, be sold at moderate prices. Now that a number of countries cannot exchange part of their current production for materials and articles obtained from Germany, they suffer a "hidden loss", in that their own output, even if it has attained the pre-war volume, is no longer as useful to them as it was. Besides the deficiency of German production, monetary difficulties also place obstacles in the way of trade: Norwegians used to send frozen fish, and Italians fruit, to Germany in exchange for coal, iron and steel, manufactures, etc.; but under the post-war régime dollars have had to be paid for German coal, iron, steel and phosphates, while nobody will pay the Norwegians in dollars for the frozen fish or the Italians for the fruit. Recently permission has been given for compensation deals, which in fact means that a kind of barter is being arranged — this form of transaction being a throwback to a not very advanced stage in the world's economic development.

The importance of German peacetime production to the recovery of Europe is being increasingly recognised — and, indeed, in a most striking manner — by the admission of western Germany as a participant in the European Recovery Program. The International Chamber of Commerce adopted the following text, in February 1948, as part of a general statement on European Recovery: "Germany is one of the key points of European recovery. Until Germany is reintegrated, with all proper safeguards, into the European economy, Europe cannot give of its best."

5. In a spectacular way the monetary difficulties were brought to a head when the convertibility of sterling, which had been put fully into effect on 15th July 1947 in accordance with the provisions of the Anglo-American loan, had to be discontinued less than six weeks

* The crude steel production of all European countries (excluding the U.S.S.R.) amounted to about 56 million tons in 1937, 31 million tons in 1946 and 35 million tons in 1947 (the last figure being equal to 63 per cent. of the production in 1937). In the United Kingdom, production in 1937 was 13.2 million tons and 12.7 million tons in 1947. The aggregate output of crude steel in the eastern European countries (Poland, Czechoslovakia, Hungary, Yugoslavia, Bulgaria and Roumania) was not quite 5 million tons in 1947.

One of the limiting factors of steel production in Europe has been the relatively small exports of coke from Germany, these exports being determined by the low level of German coal production.

In Germany itself the maximum output of crude steel was reached in 1939, when it amounted to 22 million tons; but, by the end of 1944, output had already fallen to 16 million tons. The Potsdam Industrial Plan limited the yearly output to 5.8 million tons, with a maximum capacity of 7.5 million tons. In the revised plan for the Bi-Zone (August 1947) the limit was raised to 10.7 million tons; and in February 1948 yearly imports of 4 million tons of Swedish iron ore were allowed, with a target of 6 million tons of steel for the year beginning 1st July 1948.

Another basic commodity in short supply is timber, European production in 1947–48 being about 15 per cent. below pre-war. For a review of the position of these and other commodities, see "A Survey of the Economic Situation and Prospects of Europe" by the Research and Planning Division of the Economic Commission for Europe, Geneva 1948.

later, i. e. from 21st August 1947. It was not that a considerable part of the loan had been used up for the sake of sustaining the direct convertibility — perhaps one-tenth of the proceeds had been devoted to that purpose — but the fundamental reason was that neither the economic nor the financial structure was sufficiently in equilibrium to permit a return to full convertibility for current transactions. The British themselves had still a considerable deficit in their balance of payments (£675 million in 1947) and were also burdened by releases of sterling balances accumulated during the war; equally important was the fact that, inside and outside Europe, dollar needs were so great that the London market was exposed to demands for dollars against sterling on a scale unknown in pre-war days.

The lesson would seem to be that there is little point in trying to fix in advance precise dates for any particular action to be taken. The aim must rather be to establish, internally in the various countries and in their relations with one another, a state of affairs in which sufficient reserves are available to make convertibility, when it is eventually re-established, appear a natural step in accordance with the realities of the situation. But, for that to happen, time will be needed, and the foreign aid which European countries require should serve this very purpose of providing a respite during which reorganisation can be carried out.

It is the need for more time that has to be borne in mind; for otherwise it might well be wondered why, with the help which Europe has already received and the improvement in production which has already taken place, it should be necessary to look for additional aid on such a substantial scale as that provided under the European Recovery Program. In continuation of what has been said above, the following illustrations may be given.

(i) Inasmuch as Europe's main task is largely one of reorganisation — for instance, of the internal finances in the individual countries — considerable administrative reforms will have to be introduced, as regards both expenditure (reduction of amounts paid as subsidies, of the number of officials, etc.) and revenue (often a thorough recasting of the fiscal administration proves necessary). Such reforms take time.

(ii) It will also take time for Europe's agricultural production to regain and, still more, to exceed the pre-war level. While the poor harvest in 1947 was largely due to the weather, the fact cannot be overlooked that exhaustion of the soil (e. g. through lack of fertilisers) has reduced resistance to weather hazards. Moreover, Europe's population has increased by 10 million since 1938, while an increase in agricultural output, though no doubt possible through the application of improved methods, cannot be achieved all at once.

(iii) The plight of Germany, affecting the standard of living not only in that country itself but in Europe generally, cannot be remedied without protracted effort. In the same way the maintenance and development of trade between eastern and western Europe will require much patient work in bilateral negotiations and in international organisation.

(iv) Repairs and reconstruction after the war have absorbed much productive power which could otherwise have been used to produce goods for home consumption or increased exports. Three years having passed, several countries are at the stage of having almost repaired the damage of a material nature, being thus able to devote more attention to production offering a more immediate return in current output. At this stage, the principal aim must be to bring existing plant and equipment into working order and to extend them, rather than to embark upon large-scale modernisation requiring the investment of very substantial funds. As a matter of fact, the most appropriate direction of production would be similar to that which is likely to be brought about by higher interest rates.

(v) Europe's capacity to pay for imports has been impaired by some important structural changes connected with the war. Thus, Europe has lost much of its income from investments in other continents and several European countries have found the terms of trade moving against them. To some extent these changes are probably of a permanent character and it would be vain to dream of any fortuitous reversal of these basic facts. Indeed, the task must be for Europe to adjust itself as effectively as it can to the new conditions; but, at the same time, it is as well not to overrate the importance of the losses Europe has sustained:

(a) The net income from Europe's investments in non-European countries was equal to about $1.4 milliard in the years 1935–38 and accounted for about one-quarter of Europe's total imports from non-European countries; in 1947 the corresponding net income from investments would seem to have been only about $400 million, i. e. some 30 per cent. of what it was before the war. But many of the investments retained are of the equity type, which, in so

British and European Balance of Payments
with Non-European Countries.

Headings	1938			1947		
	United Kingdom	Rest of Europe	Total	United Kingdom	Rest of Europe	Total
	in 1000 millions of U. S. dollars					
Europe's imports . .	3.0	2.8	5.8	5.7	7.3	13.0
Europe's exports . .	1.5	2.2	3.7	3.0	3.1	6.1
Balance	— 1.5	— 0.6	— 2.1	— 2.7	— 4.2	— 6.9
Net income from investments	+ 0.7	+ 0.7	+ 1.4	+ 0.2	+ 0.2	+ 0.4
Other current transactions, including shipping, travel and military expenditure, etc. (net) . . .	— 9.2	+ 9.9	+ 0.7	— 0.5	— 0.5	— 1.0
Balance on Current Account	— 10.0	+ 10.0	—	— 3.0	— 4.5	— 7.5

Main source: "A Survey of the Economic Situation and Prospects of Europe", issued by the Research and Planning Division of the Economic Commission for Europe, Geneva 1948.

far as they are not being disposed of, should progressively yield more as, at the present high prices, production gets into full swing. And Europe is still interested in great tracts of land, in Africa and elsewhere, which can be developed and thus provide, for the European investor, a fair return on his capital and, for Europe, the wherewithal to meet, for instance, part of its payments in dollars.

(b) The terms of trade which European countries were able to count on in the 'twenties and 'thirties were as a rule more favourable to them than those which had prevailed before 1914. An examination of the facts shows, however, that the benefit derived from these favourable terms was often counterbalanced, in a large measure, by loss of income when industrial activity and exports declined as countries overseas, producers of foodstuffs and raw materials, suddenly became unable to maintain their purchases of industrial articles. It is likely that a high level of activity in the world will continue to mean higher prices for primary producers, and this will involve a loss for Europe owing to heavier payments for European imports. But to some extent a compensation may be found in the greater chances for brisk trade.

(c) Europe as a whole has had no net income from shipping in post-war years; but many new ships have recently been built and more are under construction, so that Europe is likely, in time, to regain a substantial part of its old position, having at its disposal a more reliable supply of able seamen than other continents.

(vi) With inflation prevailing in many European countries, there has necessarily been a persistent gap in the balance of payments: rising domestic prices attract foreign goods but make exports more difficult; anxiety regarding the currency provokes flight of capital, which it is practically impossible to prevent in its entirety by controls — and this deprives the authorities of resources which would otherwise be used to pay for imports; uneven price movements dislocate production, which fails to yield the expected results. When this happens, part of the deficit in the balance of payments may be regarded as artificial, while another part reflects lack of the capital required to get production going again after the exhaustion caused by the war. It is not possible to say exactly how much of the deficit should be ascribed to either of these causes; but, if inflation were stopped, it would be possible to narrow the gap between imports and exports and more definitely to ensure that the resources received from abroad are devoted to an improvement in the capital equipment of the individual countries.

It is fortunate that in Europe the connection between the methods of internal financing and the outcome of the balance of payments has become more widely understood and that this understanding has had an effect on practical policy in several countries.

It is certainly not thought possible to hold down prices and to force exports simply by the application of direct control, while allowing an abundance of money to persist. The year 1947 has seen determined efforts to balance budgets and to adjust the granting of credits to the volume of domestic savings and foreign resources currently available (in application of various methods of financial restriction).

With foreign aid forthcoming, it is necessary that programmes should be drawn up not only for the distribution of purchases and sales on particular markets and for the promotion of production in particular branches of industry and agriculture but also — and with the utmost resolution — for the restoration of a viable financial and monetary system. In that connection it is not only a question of arresting inflation in the individual countries but of arriving at a monetary mechanism which will enable the cost and price system to work smoothly, with goods moving from country to country unhampered by monetary restrictions. This will help to restore confidence as a firm foundation for economic activity in general and for savings to be made in a monetary form. The foreign aid must be so used as to render the countries self-supporting, which means that it must not become an integral part of the balance of payments, to which the economies of the receiving countries become adapted, but that such conditions must be gradually established as will enable the aid to be dispensed with, when it comes to an end. Unless these objectives are attained, the reconstruction plans will not be fully successful and an opportunity for righting world economic conditions will have been allowed to pass.

III. Restoration of Monetary Order.

No country — belligerent or neutral — was able either in the first or in the second world war to finance its current expenditure without some resort to inflationary measures. As a result, all countries have, since the end of the last war, been faced with a number of financial problems, which may be conveniently grouped as follows:

1. In occupied as in other countries the war left behind it a redundant supply of money in the form of notes in circulation, deposits in banks and other liquid resources such as Treasury bills, savings certificates, etc. Thus, whenever prices could be prevented from rising steeply, there was as a rule a dangerous tension between the volume of monetary purchasing power and the current supply of goods and services.
2. With the cost of living going up (as it did everywhere) and wages lagging behind, workers and others would naturally seek to regain their old standard of living. If the simple expedient of raising money wages was resorted to before more goods became available, the lack of balance not only continued but might even be intensified, since goods would often be kept back by farmers and other producers and not reach the market. It was obviously necessary to find some means of arresting the zigzag increase so harmful to the economy.
3. As long as heavy budget deficits continued to be financed by recourse to central banks, the methods of war financing were in fact maintained, fresh money being pumped into the economy. For balance to be restored these practices had to cease.
4. In addition to investments for the repair of war damage, for reconstruction and for reconversion, there was in all countries a vast accumulated need of investments for housing, etc., while the volume of current savings would generally tend to fall when, more goods being available, people were once more in a position to satisfy, up to a point, their consumption requirements. A lack of balance would then be apt to arise between savings and investments, with an inflationary effect.
5. Countries experiencing a scarcity of goods in relation to the supply of monetary purchasing power would find their imports apt to increase, while their exports would lag behind or even dwindle, the result being a widening gap in their balances of payments. With costs and prices rising at home more than on the world markets, their officially fixed exchange rates might soon be out of touch with realities.

Under the difficulties of the moment, measures had often to be taken in a piecemeal fashion, it being understood that, before full monetary order could be restored, much more comprehensive programmes would have to be adopted and applied.

* * *

To deal with the problem of redundancy of money, inherited from the war, Belgium had already in the autumn of 1944 effected an exchange of notes, of which the main object was a contraction of the available means of payment to an amount which would be compatible with the existing level of earnings and prices and the newly fixed exchange rates. Several other countries soon followed the example thus set. In fact it became the rule in liberated areas to carry out operations involving the withdrawal of old notes and the issue of new ones, the purpose often being merely to exclude from redemption the notes taken by the enemy or otherwise fraudulently removed from the country, since such a clean-up was a necessary preliminary to taking stock of the monetary circulation at home. A simple exchange of notes would not, of course, reduce the circulation by any appreciable amount. To achieve such an end, the blocking of the notes surrendered had to be a feature of the operation — and not even that was sufficient: the net would have to be cast more widely, to include bank deposits and other liquid resources. These operations, which were concentrated into the years 1944 and 1945, have been described in the fifteenth Annual Report, pages 59 et seq.

In the latter half of 1947, however, three further countries adopted currency reforms involving an exchange and partial cancellation of notes, together with far-reaching measures affecting bank deposits, etc.. These countries were Austria, the U.S.S.R. and Roumania.

In December 1945, Reichsmarks and military Schillings issued by the Allies in Austria had been converted into new Austrian Schillings at the rate of 1:1. Not more than RM/Sch. 150 was exchanged per head of the population, any excess being placed on blocked accounts; the amount thus issued was about Sch. 1,000 million. In addition, an aggregate amount of

Austrian National Bank:
Note Circulation and other Sight Liabilities.

Date	Notes in circulation: Issued for costs of occupation *	Notes in circulation: Others	Notes in circulation: Total	Free current accounts	Total of notes and free current accounts
	in millions of Schillings				
1937 December	—	944	944	253	1,197
1945 „	1,500	1,765	3,265	3,897	7,163
1946 June	2,380	2,509	4,889	4,293	9,181
1946 December	2,792	2,864	5,656	2,898	8,555
1947 June	2,923	2,624	5,547	3,179	8,727
1947 October	3,030	3,189	6,219	2,818	9,037

* The notes in circulation allotted since December 1945 for occupation costs can be grouped according to recipient and year of issue as follows:

Countries	1945	1946	1947	Total
	In millions of Schillings			
United States	200.0	177.5	30.4	407.9
United Kingdom	200.0	177.5	114.8	492.3
France	200.0	177.5	106.8	484.3
U.S.S.R.	900.0	759.5	147.5	1,807.0
Total	1,500.0	1,292.0	399.5	3,191.5

Sch. 765 million was issued to individual enterprises and about Sch. 1,500 million to the Allied troops for costs of occupation, etc. Though the main purpose of the operation was to separate Austrian currency from German and to check the inflow of Reichsmarks from abroad, the opportunity was taken to reduce the note circulation. While the amounts withdrawn totalled 7,700 million in Reichsmark notes (circulating in Austria) and about 1,000 million in Allied military Schillings, the new note circulation was reduced to Sch. 3,265 million, or about three and a half times as much as in December 1937. The circulation could not, however, be kept at its December 1945 level; further notes were issued, in particular for the payment of costs of occupation.

Total claims on Germany by the Austrian credit institutions amounted on 30th June 1947, to more than Sch. 8.5 milliard, that is to about 35 per cent. of their total assets and to 10 per cent. more than the amount of their free savings deposits and current accounts.

Prices and wages in Austria continued to be subject to fairly strict official control, with relatively moderate rises for the first two years after the war. Account being taken of the uninterrupted increase in the note circulation, there was undoubtedly a marked redundancy of money during those years. In August 1947, a price and wage agreement was concluded which allowed a sharp increase of 30 to 60 per cent. in prices as well as in wages, and this unquestionably reduced the redundancy of money. Substantial amounts of notes were, however, hoarded, largely among the farmers, the total being estimated at well over Sch. 1 milliard, while probably Sch. 1 to 1½ milliard was used for transactions in the black markets of the towns. Already in the spring of 1947, persons in positions of authority had hinted at the possibility of a monetary reform, and in the autumn it was increasingly rumoured that a cutting-down of the note circulation was imminent; the result was a growing uncertainty and an increasing reluctance to sell goods against Schillings. It soon became obvious that, in one way or another, the uncertainty had to be removed and, late in the autumn, the government decided in favour of the currency reform: on 19th November 1947, the "Currency Protection Law" was passed by Parliament and on 4th December it was unanimously approved by the Allied Council. The Minister of Finance had been able to reach an agreement with the Soviet representative involving the payment of Sch. 490 million in new Schillings in exchange for Sch. 133 million in old Schilling notes and the cancellation of a disputed claim of RM 600 million against the Austrian Government.

The principal features of the operation were as follows:

(a) Notes were exchanged at the rate of one new for three old notes, but each person was entitled to exchange Sch. 150 at par (1 : 1) and farmers received the same rate for an amount equal to the value of crops delivered at official prices since 15th July 1947.

(b) Bank deposits (either current or savings accounts) were divided into several categories:

(i) Deposits already blocked under the so-called Schilling Law of 30th November 1945 were definitely written off, which made it possible to restore the solvency of the banking system to a large extent, notwithstanding the fact that the banks held Reich debt among their assets. (ii) Free deposits accumulated by private individuals and undertakings retained their full value (being assumed to be mainly the result of current earnings and legitimate savings), but only 50 per cent. was immediately available for disposal, 25 per cent. being blocked for six months and the remaining 25 per cent. for nine months. (iii) Free deposits of public bodies, on the other hand, were written off to the extent of 25 per cent., while an additional 25 per cent. was blocked for one year, the remaining 50 per cent. being available for immediate disposal. Allied deposits in Austrian banks were treated as public deposits. *(iv) Certain old deposits (40 per cent. of deposits dating* from before April 1945 or accumulated in December 1945) were converted into negotiable Treasury bonds, to bear interest at 2 per cent.

(c) Overdrafts and other debts in old Schillings were not affected by the law, and this gave debtors the opportunity to repay debts and taxes and thus to escape part of the loss entailed in the conversion.

(d) A further feature of the currency reform was that a capital levy, with special taxation on war wealth, had to be imposed in order to equalise burdens, so that holders of notes and deposits would not be the only ones to suffer a reduction of their assets.

The following table shows the changes in some of the principal items in the balance sheets of the National Bank and of other credit institutions.

Austria: Note Circulation, Deposits and Current Accounts.

Date	National Bank			Other Credit Institutions			
	Notes in circulation	Current Accounts		Current Accounts		Savings Deposits	
		Free	Blocked	Free	Blocked	Free	Blocked
	in millions of Schillings						
1947 October 31	6,219	2,818	3,407	4,644	1,878	2,614	6,067
November 30 . . .	4,809	4,271	3,373	4,978	1,885	2,573	6,055
December 7 . . .	4,326	4,751	3,373	.	.	.	.
1948 January 23	3,440	2,279	2,034	4,503* (1)	.	891*	.
March 31	3,994	1,453	1,943	4,968*	.	999*	.
April 30	4,137	1,157	2,100	.	.	.	.

* Figures including temporarily blocked accounts. (1) 31st January 1948.

The final results of the currency reform cannot yet be assessed, but the note circulation seems to have been reduced by about a third, staying around Sch. 4 milliard. Unquestionably the amount of notes hoarded has been reduced and illusions have been dispelled with regard to the value of blocked accounts. In black markets, prices have fallen by 40—50 per cent. or more. There has been a growing scarcity of Austrian Schillings and, since people only save what is rare, the inclination to save seems to have been strengthened. On the whole, confidence in the Schilling and the business morale of the country show signs of improvement, the necessary restriction of credit being facilitated by the maintenance of high interest rates (7½ to 8½ per cent. for commercial credits).

It was with surprise that the world learnt in December 1947 that a drastic monetary reform had been introduced in the U.S.S.R., the relevant decree being published on the 14th of that month. The main features of this reform were as follows:

(a) exchange by the State Bank of all outstanding rouble notes into a 1947 issue, at the rate of ten old roubles to one new rouble;

(b) reduction of all outstanding Soviet state loans to one-third of their former nominal value (with conversion into a 2 per cent. loan), except the Second State Loan for Rehabilitation and Development of the National Economy issued in 1947 (which was left unchanged) and the state lottery loan of 1938, the bonds of the latter being converted at the rate of 5 : 1 into a 3 per cent. loan;

(c) the writing-off of savings and other accounts at the rate of two old roubles to one new rouble, except for the first 3,000 roubles, which are revalued rouble for rouble, and the next 7,000 roubles, which are revalued at the rate of three old roubles for two new roubles, a further exception being made in respect of cooperative establishments and organisations, as well as collective farms, the accounts of which were revalued at the rate of five old roubles for four new roubles.

Thus the decree imposed a capital levy on liquid assets, 90 per cent. of the note issue and 66²/₃ per cent. of government loans being cancelled, with certain exceptions for small savings and a few privileged non-private holders.

The Soviet monetary reform had been planned to take place at an earlier date but was postponed on account of the bad harvest in 1946. Simultaneously with the reform, rationing was abolished and certain prices were reduced, while wages, salaries, pensions and allowances were to be paid in full in the new roubles, the same applying to debts. Current income was not reduced.

It is not easy to assess the quantitative effect of the monetary reform, no figures for the note circulation in the U.S.S.R. having been published since 1937. If an attempt is made to estimate both the amount of notes outstanding and the amount cancelled (the basis for the calculation being:

(i) the relation between purchasing power and available goods, and

(ii) the amount of war expenditure presumably covered by inflationary methods),

it would seem that the Soviet war and post-war borrowing from the public and from the central bank (whether it took the form of issues of notes or of issues of bonds) was in the neighbourhood of R. 420 milliard, to which should be added some R. 160 milliard outstanding before the war. If the rates laid down in the decree are applied to the amounts thus obtained, it would seem likely that some R. 480 milliard were cancelled, leaving an amount of R. 100 milliard in new roubles, of which about 50 per cent. represented state loans, some 42 per cent. notes in circulation and 8 per cent. mainly accounts in savings banks. These figures can at best be only approximate; and further issues have very likely been made, to provide working capital for government enterprises and to meet the current needs of the public.

Russian monetary reform:
quantitative estimates. (1)

Items	December 1947 Old roubles	Cancelled by decree of 16th December	January 1948 New roubles
	in milliards of roubles		
Note circulation . .	420	378	42
State loans (2)	150	100	50
Savings accounts (3)	10	2	8
Totals	580	480	100

(1) Round figures giving the estimated order of magnitude only.

(2) The total of all Soviet loans issued between 1927 and the end of 1946 was R. 148 milliard, including R. 76 milliard during the war.

(3) Private deposits have always been very small in the Soviet economy. The total was R. 7.3 milliard in 1941 and probably reached R. 11 milliard in 1947. As the average deposit is small, the amount written off was probably only around one-fifth of the total.

In spite of the great difference in economic structure between the U.S.S.R. and the western countries, there has been a curious similarity between the two during the past three decades, not only in the form of the monetary measures taken, but also in the underlying philosophy. Thus, in 1924, i. e. at the time when the western countries were stabilising their currencies on gold at pre-war rates, the Soviet currency was stabilised by a series of decrees bringing in the new rouble at the rate of 50 milliard of old roubles to one new rouble. The new currency was given the pre-war parity of 0.77423 grammes of fine gold and had, moreover, to be covered to at least 25 per cent. in gold or foreign exchange held by the State Bank.

In 1936 — in the period of depression when most of the western countries had already devalued and the remainder were nearly all on the point of doing so — the rouble was reduced from the equivalent of 0.77423 grammes to 0.1776 grammes of fine gold, involving a devaluation of 77 per cent. In July 1937 the rouble was fixed at the rate of R. 5.30 = $1, which involved a further slight devaluation from 77.0 to 78.3 per cent. corresponding to 0.16767 grammes of fine gold per rouble. The gold reserve of the State Bank was revalued, and the "surplus gold" (above the 25 per cent. legal reserve) was transferred to the Commissariat of Finance.

In 1947 — after many western countries had already introduced an exchange of notes — the U.S.S.R. proceeded to introduce the monetary reform described above by which the exchange rate of the rouble was left unaltered but the monetary purchasing power was drastically cut by an exchange of notes and a contraction in the volume of other liquid funds also.

The note circulation in Roumania had risen from Lei 29.4 milliard at the end of 1937 to Lei 40,247 milliard in July 1947 and, even if this rise was proportionately less than in some other eastern European countries (where the value of the currency was practically annihilated), its prospective continuance presented a serious obstacle to economic recovery. On 15th August 1947 Roumania introduced a monetary reform, of which an exchange of notes was the most important part, with the following main features:

1. All "money" already issued and all other means of payment (Treasury bonds, payment certificates, etc.) were to be withdrawn from circulation.
2. New notes were to be issued by the National Bank of Roumania and the Ministry of Finance, the monetary unit being still called the "leu" but being now defined as equal to 6.6 milligrammes of gold of a fineness of

$^{9}/_{10}$ths (this corresponding to 66 per cent. of the leu of 1929). A ratio of 25 per cent. was again established between the gold cover and the sight liabilities of the National Bank.

3. Conversion took place at the rate of 20,000 old lei for one new leu. Certain maximum amounts were fixed for conversion: thus heads of families engaged in agriculture were entitled to convert Lei 5 million, while the limit for public and private officials, persons exercising a profession, invalids, war widows and war orphans was Lei 3 million, and for persons without a profession and military personnel living in barracks Lei 1.5 million.

   Public institutions were allowed to convert all amounts in their hands, while private business enterprises were wholly excluded from the privilege of conversion.

4. Sums not converted were placed on blocked accounts carrying no interest. All existing bank accounts were likewise blocked, as well as means of payment other than notes. Partial release of funds which had been blocked was to be admitted by decision of the Council of Ministers.

On 20th December 1947 — the date of the first return issued by the National Bank after the monetary reform — the note circulation amounted to Lei 24.5 milliard and, in the return for 30th April 1948, the figure had risen to Lei 29.8 milliard.

In France, a certain contraction of the note circulation was brought about by the cancellation of the Fr.fcs 5,000 notes of the Bank of France, which ceased to be legal tender as from 29th January 1948, this measure being adopted as part of the financial plans of the Schuman-Mayer Government, largely with a view to discouraging transactions in black markets and subjecting holders of the notes in question to an additional checking. The notes thus cancelled totalled Fr.fcs 321 milliard out of a circulation of Fr. fcs 920 milliard at the end of 1947. The cancellation as such did not involve confiscation; steps were immediately taken to repay, in notes of smaller denominations, holdings up to Fr.fcs 10,000, the limit being later raised to Fr.fcs 70,000; new notes were also issued to public bodies. Furthermore, machinery was set up for an examination of the tax liabilities of individual firms and persons, in order to ensure prompt payment of the amounts due, before the notes were redeemed. The accompanying table shows the development of the note circulation over the period of the monetary reform.

Bank of France: Notes in Circulation, Current and Deposit Accounts.

Weekly returns as at	Notes in circulation	Current and deposit accounts (1)
	in milliards of Fr.fcs	
1948, January 22 . . .	891.5	81.5
March 4 (2) . .	767.0	280.6
April 1 . . .	774.9	261.8
April 29 . . .	759.1	264.0
May 27 . . .	768.6	255.6

(1) This item comprises the special account opened in the name of the Caisse des Dépôts et Consignations credited provisionally with the value of Fr.fcs 5000 notes not yet reimbursed.

(2) First return published after the withdrawal of the Fr.fcs 5000 notes.

Note: The figures in the table include the notes circulating *in the Saar, for which territory the French franc became* legal tender on 20th November 1947, one Saar mark being exchanged for Fr.fcs 20.

* * *

Experience has shown that the effects of a withdrawal or blocking of liquid assets on the redundancy of currency depend partly on the incisiveness of the measure itself (for instance, on its scope — whether the operation is confined to notes or affects other liquid assets also) but largely on the attendant circumstances. While an exchange of notes was more or less essential for countries with, for instance, part of their circulation in the hands of the enemy, it is obvious that a conversion at par could not in itself reduce effective demand for goods and services. More definite results in this respect have been obtained when a certain proportion of the notes have been blocked or cancelled, especially in cases where the volume of money was clearly too large for the level of current earnings, consisting for the most part of income received in the form of wages and salaries. But the essential incidence of such measures is upon the residue of past inflation; they do not in themselves reduce current earnings, the rate of which is the main factor determining the volume of effective demand. As experience shows, an exchange of notes, even when fortified by cancellation or blocking of part of the circulation, is of no avail unless steps are taken at the same time to arrest the rate of current inflation by balancing the budget (without resort to the central bank) and by an appropriate credit policy. When these conditions for success have been fulfilled, it has been found that an exchange of notes may create a psychological situation in which it is possible to moderate the increase in money wages because the population feels that sacrifices are being imposed all round. This was the case in Belgium in 1944. But it is equally important to remember that in that country (as in Austria in 1947–48) there was an increase in supplies of goods and services, which helped to restore balance on the market and exerted an influence (of psychological as well as practical importance) on black-market prices. Prices in general are not likely to fall before goods appear in larger quantities and it is, therefore, natural that the Soviet Union did not introduce its currency reform after the bad harvest in 1946 but waited for the somewhat better harvest in 1947. Indeed, the whole setting in which the currency reform is introduced must be carefully examined, and particular attention must be paid to the budget situation, the rate of supply of goods and services, and the cost and price structure.

Germany presents an extreme case of redundancy of currency. The note circulation, which at the end of the war was about RM 65–70 milliard, has probably remained approximately at that figure, reductions and additions having cancelled each other out, while wages and prices have continued to be subject to a strict control, which for several years allowed increases in money rates only in exceptional cases. It should be noted that receipts in kind (free meals, distribution of articles of clothing and footwear, allocations of coal, and, maybe, a part of the current output of the factory where the worker in question is employed) often have a greater practical value than the whole money wage. Including such receipts in kind, it is estimated that the highest-paid workers — those occupied in the coal mines — obtain the equivalent of

RM 1,000 a month, which at the official rate of RM 10 = \$1 would be equal to about \$23 a week. For many workers the amounts received are more of the order of RM 500 a month, and for some categories even less. Compared with the sums which can be gained in the black markets, the regular wage payments are not very attractive. Germany is often said to be a typical case of repressed inflation, in that, with production at 40–45 per cent. of the pre-war volume, the level of costs and prices is too low in relation to the money in circulation. That is true, of course; but the disparity is so great that money as such begins to be eliminated as a means of payment. In fact, producers and others seek to exchange what they have to dispose of not for Reichsmarks but against other goods — a complicated system of barter taking the place of a smoothly working money economy. In his speech at Harvard on 5th June 1947, Mr Marshall explained that one of the dangers of a loss of confidence in the local currency, and of incapacity of town industries to produce an adequate supply of goods to exchange with the food-producing farmer, is that the latter finds it unprofitable to sell his farm produce for money which he cannot use; this danger constitutes an even graver threat to the German economy today and one which, if intensified, will have a disastrous effect upon the food supply of the towns. It has long been realised that in Germany a currency reform establishing a better relation between the volume of money and the supply of goods and services is imperative. The data available for Germany are still too uncertain, and the variations between different zones too great, to allow the material to be fitted into a comprehensive table.

For countries other than Germany it is possible to present a general picture by dividing the increase in the volume of the note circulation by the average of the increase in wholesale and retail prices so as to produce an index showing the "real value" of the circulation.

The data in the table reveal the great variation in the "real value" of the circulation — an unmistakable sign of the disparities existing between individual countries. But, even when the index figures for two countries are close to each other, material differences may exist. Only a few broad conclusions can, indeed, be drawn from the data in the table.

A more pronounced rise in the note circulation than in the price level may be a sign of redundant currency; but, in some countries, notably the United States and Canada, the volume of production and, consequently, the real national income have risen considerably, with the result that more notes are needed for the exchange of goods and services. Moreover, in both these countries the public began, during the war, to hold more cash per head (which meant a slowing-down in the velocity of circulation) and it has continued to do so ever since. A similar tendency has been noticeable, both during and since the war, in several European countries. In Sweden, for instance, an official enquiry revealed increased holdings of notes among all classes of the population. Of the Swiss note circulation a greater proportion than before the war (now, perhaps, as much as Sw.fcs 1,000 million) is held abroad.

"Real Value" of Note Circulation.*

Countries	End of 1945	End of 1946	End of 1947
	Indexes January–June 1939 = 100		
Austria	.	402	129
Bulgaria	363	341	318
Czechoslovakia	95	133	183
Denmark	211	210	198
Finland	132	150	142
France	106	76	63
Hungary	.	30	43
Italy	.	76	81
Netherlands	68	114	120
Norway	198	249	268
Portugal	180	184	187
Spain	105	98	100
Sweden	171	175	164
Switzerland	126	131	133
Turkey	111	120	112
United Kingdom	184	184	160
United States	306	249	220

* Index of circulation as divided by the average of the wholesale price index and of the cost-of-living (or retail price) index (in each case: January–June 1939 = 100). A similar index has been calculated by the Research and Planning Division of the Economic Commission for Europe in "A Survey of the Economic Situation and Prospects of Europe".

Note: An index figure of 100 means that the note circulation has risen to the same extent as prices (as was, for instance, the case in Spain at the end of 1947, according to the above table). In most countries the note circulation has risen more than prices — in the United Kingdom, for instance, 60 per cent. more than prices by the end of 1947. In France, Hungary and Italy, on the other hand, the rise in prices was greater than in the note circulation.
As regards the increase in note circulations, see Chapter VIII, and, as regards prices, see Chapter IV, Price Movements.

In a number of countries the proportion between the rise in prices and the increase in notes remained almost unchanged between the end of 1945 and the end of 1947. In general, such constancy may be regarded as a sign of stable conditions; and that is the probable explanation — especially when the budget has attained a measure of equilibrium (as was the case, for instance, in the United Kingdom, Switzerland, Sweden, Denmark, Austria, the United States and Canada). But a continual inflationary rise in prices, in conjunction with a corresponding increase in the note circulation, can also keep the proportion between the two unchanged. It will be seen from the table that the note circulation has risen appreciably less than prices in a number of other countries where the conditions attending a great upward surge of prices have not inspired much confidence; people have then been anxious to hold goods instead of notes, and this tends to increase the velocity of circulation.

The forces at work may, perhaps, best be seen from a brief review of the developments in a few individual countries.

Austria provides perhaps the best example of a country in which the redundancy of currency has been gradually reduced notwithstanding a difficult political situation. The currency reforms already mentioned contributed to this, but so did the cost and price policy, which from the spring of 1946 was designed to allow prices and wages to rise piecemeal, with prices generally a little in advance of wages so as not to discourage business activity. Up to May 1947 the official prices of food and the net wage rates had not been increased by more than one-third as compared with pre-war levels, the Austrian currency thus being saved from inflation. Without the close cooperation of the trade unions such a policy could not have been carried out. But Austrian workers understood that conditions could not be improved for them by increases in nominal wages as long as there was no real increase in the supply of goods and services. Since one-half of all the food in Vienna and other urban districts came under the heading of aid, mainly from the United States, the worker could rely on fixed prices for a minimum supply of food, to which he could usually add something by his own ingenuity and exertions.

Austria: Prices and Wages.

Date	Wholesale Prices			Cost of living (1)	Net wage rates (2)	Auction prices at the Vienna Pawn-shop (3)	Black-Market Prices	
	Food and drink	Industrial goods	Total				Food	Tobacco, wine, coffee, etc.
	Indexes: March 1938 = 100						August 1945 = 100	
1946 Averages . .	127 (4)	—	—	107 (5)	100	1,150	49	37
1947 March . . .	131	—	—	141	113	1,430	22	13
June	133	—	—	161	151	1,580	24	15
September .	288	—	—	291	244	1,910	27	20
December .	289	314	298	303	258	1,530	32	30
1948 January . . .	290	316	300	305	241	1,410	15	16
February . .	291	315	300	305	251	1,390	13	13
March . . .	290	316	299	311	.	1,250	13	12

(1) *April 1938 = 100.* (2) *August 1938 = 100.* (3) *Dorotheum.*
(4) Average for October–December 1946. (5) Average for April–December 1946.

Note: (a) The cost-of-living index is based on working-class family budgets in 1935 and reflects, in many respects, quite a different mode of living from that which has been possible in post-war Vienna. It may properly be regarded as an index of official retail prices. The index of net wage rates is calculated from average hourly rates paid, for a 48-hour week, to a married worker with two children (after deduction of direct taxes, contributions to social insurance and fees levied by the trade unions).

(b) There are two parallel sets of data now available: one starting from prices in Schillings existing prior to the Anschluss, the other starting from prices in Reichsmarks prevailing immediately after the Anschluss. The former series has been used in this Report. To convert such indexes into figures with a Reichsmark basis, it is sufficient to multiply them by 1.5, i.e. by the rate at which the Austrian Schilling was exchanged for Reichsmarks in March 1938.

In the summer of 1947 a more or less new situation arose, in that — as already mentioned on page 34 — prices and wages were allowed to rise more abruptly (on an average around 50 per cent.); but this rise, together with the end-of-year currency reform, by which the volume of money was cut by one-third, has brought about conditions in which the sense of an abundant money supply is gradually disappearing and the price and cost system is accordingly beginning to exercise its normal functions once more. It must be emphasised that such a result could not have been achieved had not the Austrian budget been practically balanced from the beginning of 1947.

In Germany nominal wages were fixed by a powerful official control and in Austria they were held by the aid of a strong trade-union organisation, which was able to make the workers understand that the little they received in the form of rations and in other ways might become even less as a result of premature increases in nominal wages, apt to engender inflationary tendencies. In some other countries on the continent of Europe it proved impossible, for one reason or another, to establish conditions which would secure stability in money wages. In France and Italy, for example, the price control was hardly effective, allocations of goods being uncertain; it seems to have been more difficult to ensure the regular distribution of food in an agricultural country than in countries like Great Britain and Austria, where the food, being largely imported, had not to be collected from a great number of farmers.

In France, for instance, once the country had been liberated, the authorities had to abandon the system of obligatory deliveries of agricultural products, so far as the bulk of small producers were concerned. That being so, the administration had no real means of control except in the case of certain essential commodities such as bread and sugar. As a consequence of the rise in agricultural prices, there were sudden increases in money wages in July 1946 and then again in the spring and autumn of 1947. These general and substantial increases, however, gave a new impetus to the rise in prices, with the result that real wages were in no way improved. It is, indeed, possible that the official fixing of prices and wages led to greater increases than would probably have resulted from a freer play of economic forces. As may be seen from the graph in Chapter IV, page 68, the rise in prices after the second world war was decidedly steeper and went farther than the rise after the first world war.

At the beginning of 1948 a fresh effort was made through the adoption of a comprehensive programme, including the establishment of budgetary balance, a reform of the exchange régime and a stabilisation of prices and wages (this being the so-called "Schuman-Mayer Plan"). At the time of writing (May 1948), it is still too early to say what will be the result of the various measures which have been taken; but such data as are available for the early months of 1948 show that, after the increase in the late autumn of 1947, the rise in prices has been arrested, while the note circulation has remained remarkably stable.

It is singularly difficult, in France, to draw reliable conclusions from a comparison of the wage index and the price index, since these indexes do not make full allowance for the total income of the wage-earners or the real prices at which purchases are actually made. According to a study of conditions in February 1948, the total income of wage-earners had then risen to an index figure of 14 when 1938 = 1, this being close to the index numbers for retail prices (15) and the average income per wage-earner (13). It should further be remembered that the income which wage-earners receive indirectly through social

France:
Note Circulation and Prices.

Date	Notes in circulation *	Wholesale prices	Retail prices
	in milliards of Fr.fcs	Indexes 1938 = 100	
1947 December. .	921	1,217	1,354
1948 January . . .	892	1,463	1,414
February . .	767	1,537	1,519
March . . .	775	1,536	1,499
April	759	1,565	1,499
May	769	1,663	1,511

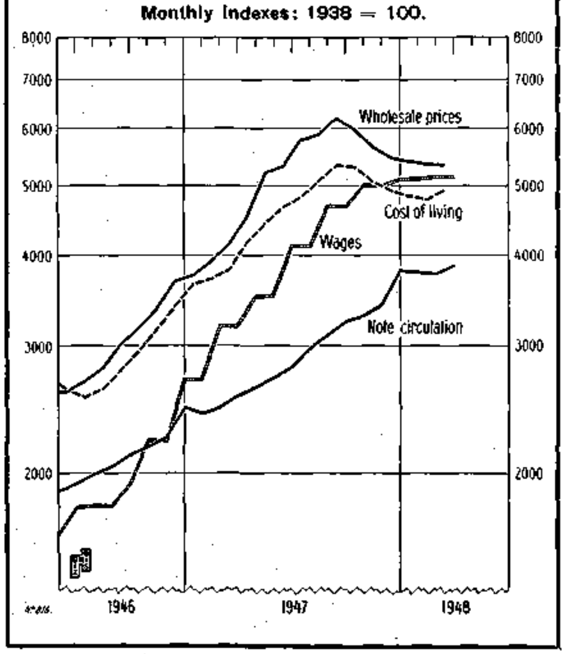
* Nearest to end of month.

insurances has increased much more than the direct wage, but also that wage-earners engaged in actual production are at a disadvantage as regards their remuneration, owing to the larger average increase in the salaries of those who are not so employed (most of them being government employees).

The problem of wages and prices in France, as in other countries, can find a real solution only in a better supply of foodstuffs and a reduction in the many indirect fiscal and social charges, together with an all-round improvement in productivity. Experience shows that, until these conditions are fulfilled, nominal increases in wages remain ineffective and, standing in the way of a decline in prices, aggravate the situation, especially for the workers with the lowest rates of pay and for persons with a fixed income.

Once the wage-price spiral has been set in motion, the difficulty is to secure a respite of sufficient length for proper measures in the financial field to become effective as part of a general stabilisation. In Italy that would seem to have been possible in the latter half of 1947, when the rise in prices was reversed.

Italy: Note Circulation, Prices and Wages.
Monthly Indexes: 1938 = 100.



(Logarithmic scale)

In the winter months of 1946–47 wages rose more steeply than prices; but prices were then pressed up, with wages making a vain attempt, in the summer months, to recoup their losses. Then came the turning-point in the latter half of 1947, when, in response to the new financial policy involving a better balancing of the budget and a restriction of credit, both wholesale prices and the cost of living were reduced; the increase in money wages was appreciably slowed down but, thanks to the fall in prices, the wage-earners would seem almost to have regained their real pre-war purchasing power. The increase in the note circulation continued: evidently more notes were required if the cash holdings of the public were to assume more normal proportions when confidence returned — which meant that the velocity of circulation was reduced.

The example of Italy drives home the importance of the general financial policy. Indeed, wage increases in themselves need not necessarily be inflationary. There was a much discussed occasion in the United States in 1936–37, when a rapid increase in costs of production (mainly due to an increase in wages) led to a disequilibrium in the cost and price structure, which brought about a downturn in business and, in consequence, a fall in prices. This brings us back once more to the question of changes in the volume of means of payment in each particular economy. There are three main possibilities in the present situation:

(i) the economy may itself make the means in question available through an increase in the velocity of circulation and a fuller utilisation of other liquid resources;

(ii) funds may be pumped in by budget deficits; and

(iii) investments may exceed the volume of savings.

It should never be forgotten that the power of the public to increase or decrease its holdings of cash and thus to alter the velocity of circulation can exert a great influence on the monetary situation in a particular country. This influence may be intensified if the holders of short-term government securities ask for payment at maturity, thus adding to the volume of active purchasing power (by a process which in the United States is called the "monetisation of debt").

Whether the public will, in fact, alter the amount held as cash depends on a multitude of circumstances, one of them being the degree of confidence felt in the future value of the national currency. Political considerations of a general character (such as fear of war, etc.) may play a rôle in this connection but probably a smaller one than is often supposed; the propensity of the public to retain the national currency has varied greatly from country to country. The degree of confidence seems to be determined chiefly by the prospect of monetary stability or its absence; in the course of examining what has actually been the trend in different countries, it is impossible not to be struck by the outstanding importance of the soundness or precariousness of the budget position — hardly surprising in our days, considering the extent of government activities in the economies of modern countries.

A great effort has been made all round to bring about an improvement in the budgetary situation. In countries which, for one reason or another, have not continued to apply a strict control but have more or less reverted to a free price system (as has been the case in the United States, Belgium, Switzerland, Italy, France, etc.), it has, of course, been imperative to make more definite use of financial controls, among which a balancing of the budget is necessarily of paramount importance. But also in countries in which a direct control has been retained or, maybe, even intensified (as happened in the United Kingdom, Norway and Sweden during 1947), it has been fully admitted that, without restriction of the volume of monetary purchasing power, the strain on the domestic resources and on the balance of payments might become intolerable. Accordingly, the policy in those countries, also, has been to balance the budget. Indeed, in some of the countries a further step has been taken: in view of the boom conditions prevailing, characterised by extensive outlay for private investments, it has been considered desirable to secure a substantial surplus of actual revenue over expenditure. Owing to the diversity of accounting systems, it is difficult to compare the budget figures for different countries; but a few examples will be given in order to indicate the results which have been obtained, as well as some of the problems which still await solution.

The continuance of full employment, with a high degree of business activity and a consequent expansion of the national income, has generally kept up the flow of revenue to the governments, with the result that actual receipts have, more often than not, been larger than the estimates. It has even happened, in more than one country, that current revenue has not only covered all current expenditure but sufficed to meet the total capital outlay, whether for investments in public undertakings, for the repair of war damage or for other purposes.

In the United Kingdom actual revenue for the financial year 1st April 1947 to 31st March 1948 amounted to £3,845 million, which was £346 million above the estimate as revised in the autumn of 1947, while expenditure, including all items "below the line" (largely capital expenditure) but without the sinking-fund of £22 million, reached £3,879 million — indicating a general state of balance even when the strictest accounting methods are applied. In the budget for the following financial year 1948–49 total revenue has been estimated at £3,765 million, which would leave £330 million as an over-all surplus of all government revenue over all forms of government expenditure.

Switzerland had in 1947 (for the first time since 1935) an over-all surplus on current and on capital account; with revenue totalling Sw.fcs 2,154 million, the surplus amounted to Sw.fcs 320 million, which has been applied to redemption of debt.

Sweden also has met practically all its expenditure from current revenue: in 1946 the total national debt decreased by S.Kr. 166 million, and in the following year by S.Kr. 96 million. For the financial year 1948–49, the government has budgeted for a surplus of S.Kr. 539 million on current account, an amount not quite sufficient to cover the prospective capital outlay of S.Kr. 635 million.

In Denmark the financial year 1947–48 is reported to have closed with a surplus of D.Kr. 60 million on an ordinary budget of about D.Kr. 2,000 million; but, if extraordinary revenue (the yield of special taxes etc.) and extraordinary expenditure are added, the surplus is expected to rise to approximately D.Kr. 435 million.

In the budget estimates for 1947–48 the government of Norway expected to balance current expenditure and revenue, while capital account showed a net outlay of N.Kr. 213 million, likely to be covered in part by increased yield of current taxation over and above the estimates.

In a number of other countries where it has proved impossible to achieve full budget equilibrium, great efforts have been made to reduce the deficit.

In Austria, for instance, the deficit on all accounts — including costs of occupation and payments for the care and maintenance of displaced persons — amounted to Sch. 1,050 million in 1946, but was reduced to about Sch. 100 million in the following year, i. e. to less than 3 per cent. of the total budget.

Czechoslovakia: Budget Accounts of 1947.

Items	Estimates	Closed accounts
	in milliards of Kčs	
Revenue	48.4	58.1
Expenditure*	73.3	64.2
Balance	— 24.9	— 6.1

* Including investments under the Two-Year Plan amounting to Kčs 4.8 milliard in the estimates and Kčs 2.8 milliard in the closed accounts.

Czechoslovakia budgeted for 1947 with a deficit of Kčs 25 milliard but the deficit was actually compressed to Kčs 6 milliard — a notable achievement in a year with a particularly bad harvest, especially since the expenditure includes outlay connected with the Two-Year Plan.

If, in Poland, investments under the Three-Year Plan, fixed at Zl. 89 milliard for 1947, were included in the expenditure, there would seem to be, on balance, an over-all deficit. Leaving such investments out of account, however, there was a surplus of Zl. 37 milliard (four times as much as in the estimate), actual revenue in 1947 amounting to Zl. 224 milliard and expenditure (excluding the said investments) to Zl. 187 milliard.

U.S.S.R.: Budget Accounts.

Items	1947 Estimates	1947 Actual results	1948 Estimates
	in milliards of roubles		
Revenue	391	385	428
Expenditure	371	361	388
Balance	+ 20	+ 24	+ 40

In the U.S.S.R. the budget includes all investments under the Five-Year Plan and — it should be remembered — embraces, in addition to the general run of governmental functions, practically all industrial activities, something like three-fifths of the national income coming into the book-keeping system of the state budget. It will be seen from the table that in 1947 both revenue and expenditure fell short of the estimates; in particular, the turnover tax on commercial transactions yielded less than had been expected.

Total government expenditure in Hungary is reported to have amounted to Frt 4,420 million in 1947 and to have been increased to Frt 7,553 million in the budget estimates for 1948, about one-half of the increase being attributed to a rise in prices. Included in the estimate for 1948 is the sum of Frt 1,341 million on account of reparations to the U.S.S.R., Czechoslovakia and Yugoslavia.

In Finland the public debt increased from FM 105 milliard at the end of 1946 to FM 118 milliard at the end of 1947, with "actual" expenditure in 1947 amounting to FM 87.8 milliard (real expenditure being, however, somewhat less since several items are accounted for twice over in the budget).

Full statistics are not available for the outcome of the budgets in the different zones of Germany, but from scattered information the following table has been compiled.

Germany: Budget Accounts.

Fiscal Year	British Zone Revenue	British Zone Expenditure	American Zone Revenue	American Zone Expenditure	French Zone Revenue	French Zone Expenditure	Soviet Zone (1) Revenue	Soviet Zone (1) Expenditure	Berlin Revenue	Berlin Expenditure
	in milliards of Reichsmarks									
1945–46	5.7	6.7 (2)	2.5	3.5	.	.	.	.	1.9	1.0
1946–47	8.8	9.9	5.7	4.0	1.4	1.9 (3)	9.4	9.1	1.7	1.7
1947–48	6.6 (4)	.	6.2	6.8	1.8	2.2 (5)	8.5	8.3	2.1	2.1
1948–49 (4)	.	.	.	.	.	.	8.7	8.7	2.2	2.2

(1) Without Berlin. (2) Including emergency budget. (3) With the Saar Territory.
(4) Estimates. (5) According to unofficial sources of information.

By the autumn of 1947 the yearly tax revenue in the four zones of Germany was estimated at RM 27.3 milliard. Tax collections suffice, on the whole, to cover current expenditure, so that budget deficits no longer add to the redundancy of money.

Spain: Budget Accounts.

Items	1947 Actual Results	1948 Estimates
	in millions of pesetas	
Revenue	12,964	15,115
Expenditure	14,094	15,196
Balance	— 1,130	— 81

In recent years the public debt in Spain has shown a steady increase (from Pesetas 30.1 milliard in October 1942 to Pesetas 51.8 milliard in October 1947). The estimates for 1948 anticipate an improvement in the budget situation.

While in the general budget accounts of Belgium the deficit for 1946 was of the order of B.fcs 10 milliard, it rose to an estimated amount of B.fcs 30 milliard in 1947, but was compressed to about B.fcs 7 milliard for 1948 (total expenditure being estimated at about B.fcs 73 milliard).

The Netherlands: Budget Estimates.

Items	1947	1948
	in millions of florins	
A. Real expenditure:		
Investments	338	422
Military outlay	944	823
Education, civil administration, etc.	1,292	971
Service of productive debt	225	222
Others	266	381
Total A	3,065	2,819
B. Transfer expenditure:		
Subsidies for house building	109	270
War damage, etc.	437	473
Social benefits	147	226
Subsidies to lower prices	528	548
Service of unproductive debt	359	410
Total B	1,580	1,927
Total expenditure (A+B)	4,645	4,746
Total revenue	2,674	2,842
Total deficit	1,971	1,904

Greater difficulties have been experienced by the Netherlands, owing to the more extensive war damage and the heavy military and other charges to be met overseas (especially in the East Indies). The yield of extraordinary taxes (on capital, etc.) is additional to revenue shown in the table.

In commenting on these figures, the Nederlandsche Bank expresses the opinion that an endeavour should be made to bring about a reduction in the amounts paid as subsidies for the purpose of lowering prices.

Italy: Revenue and Expenditure.

Financial Year	Payments	Receipts	Receipts as percentage of payments
	in milliards of lire		
1938–39 July to June	36	26	73
1944–45 " " "	364	56	15
1945–46 " " "	407	149	37
1946–47 " " "	697	364	52
1947–48 (9 months)	711	484	68

The increase during 1947 in quotations for wheat and other foodstuffs on the world markets has made it difficult to make a clean sweep of subsidies designed to keep down the cost of living. In Italy the wheat subsidy (usually referred to as "the political price of bread") is practically the only subsidy retained in the 1948 budget. While expenditure has been going up with the rise in prices, revenue collections have improved even more rapidly, with the result that expenditure has been increasingly covered by actual revenue.

The first objective of the financial reform inaugurated in France during the autumn of 1947 was to put the budget sufficiently in order to make it unnecessary for the government to have resort to the Bank of France. The ordinary and extraordinary budgets (including repair of war damage but excluding reconstruction and the equipment of different branches of the economy) were made to balance at a total of Fr.fcs 913 milliard; an original revenue estimate of Fr.fcs 685 milliard was raised by

(i) Fr.fcs 65 milliard, to allow for the automatic increase entailed by higher prices,
(ii) Fr.fcs 108 milliard resulting from increased taxation and
(iii) Fr.fcs 55 milliard resulting from an improved fiscal administration.

While expenditure had also to be raised because of the rise in prices, subsidies were largely abolished and the government undertook to discharge 150,000 officials. Outside the budget, a special levy was imposed on higher incomes, the taxpayer being, however, entitled to meet his obligations under the levy by subscribing to a 3 per cent. ten-year government loan to be issued during the first half of 1948, with a yield estimated at Fr.fcs 110 milliard. The proceeds of the levy, and of the alternative special loan, were to be allocated to a special Reconstruction Fund. By the middle of April 1948 subscriptions to the loan had brought in Fr.fcs 73 milliard; at the same time it was announced that the government had been able to repay part of its debt to the Bank of France.

As regards countries outside Europe, truly amazing revenue figures have been attained in the United States. The total of Federal expenditure, which had reached its maximum at $100 milliard in the fiscal year 1944–45, was brought down to less than $64 milliard by the end of the first post-war fiscal year ending 30th June 1946, a revenue surplus already making its appearance in February and March 1946. For the fiscal year 1st July 1946 to 30th June 1947 the surplus amounted to $754 million and for 1947–48 may exceed $8 milliard. Even with a tax-cut of $4.8 milliard, an additional $3 milliard for rearmament and $5.3 milliard voted for the European Recovery Program, current revenue may, in 1948–49, again be sufficient to meet the whole of the expenditure, which, as in the previous years, includes the amounts voted as aid to foreign countries. Actual results will, of course, be largely dependent upon whether boom conditions are kept up or not.

Total cash requirements of the Federal Government in Canada in the financial year ending 31st March 1947 included Can.$640 million under the United Kingdom Financial Agreement Act (of 1946) and Can.$113 million for the International Monetary Fund and the International Bank for Reconstruction and Development, and amounted in all to Can.$3,205 million, of which Can.$2,800 million was covered by current revenue. In the budget for 1947–48, cash requirements were reduced to Can.$1,966 million and revenue was estimated at Can.$2,156 million, giving a surplus of Can.$190 million.

Among other members of the British Commonwealth, South Africa is likely to produce a surplus of over £SA 6 million in the fiscal year 1947–48, total revenue amounting to £SA 128 million. In Australia a surplus of revenue over expenditure was achieved in the latter half of 1947, while in New Zealand the budget for the financial year 1946–47 closed with a surplus of £NZ 4.6 million, total revenue of £NZ 108 million having exceeded the estimates by £NZ 9 million.

* * *

In his budget speech on 6th April 1948, the Chancellor of the Exchequer, Sir Stafford Cripps, said that the size of the surplus realised was "to some extent itself a measure of the inflationary situation". As long as prices are rising, or are held down by control while the volume of money continues to expand, revenue collections will partly reflect the fictitious additions which help to swell the profits of business enterprises and the money income of individuals. But, important as this factor may be, its signifiance must not be exaggerated. Factors of greater influence in bringing about the widespread disappearance of budget deficits have been, on the one hand, the serious fiscal reforms put into effect in the various countries and, on the other hand, the continued high level of employment and output, and consequently of real income, all over the world. Almost freed from wartime control, the economy of the United States has escaped any immediate post-war depression, having been able to provide steady employment for about 60 million workers. In most European countries the continuance of a high level of economic activity has been the paramount condition for speedy recovery; as a rule such activity would not have been possible without large surplus imports of food and raw materials. Although the proceeds of sales of goods received as aid from abroad may not have been counted as revenue in the budgets of the various countries, the very fact that such aid was forthcoming has helped to keep up the volume of production, and with it the national income and the yield from taxation. Indirectly, therefore, the budgets have benefited — and will continue to benefit — from foreign aid; but it is, of course, necessary to prepare for the day when that aid will cease, it being well to remember the difficulties which arose in the years 1931–32 after the sudden stop in the flow of loans and credits from the United States.

As already mentioned, the surpluses so laboriously struggled for by the governments and the parliaments are required to neutralise purchasing power in excess of the supply of goods and services or, more specifically, to offset, under a system of compensatory budget policy, the boom conditions of the economy in general, when the volume of investments tends to exceed due limits. In a number of countries careful investigations are now regularly undertaken with regard to the claims which public consumption expenditure, capital development (both public and private) and private and personal consumption make upon the available national resources.

United States: Gross National Product.

Expenditure	1946	1947
	In milliards of $	
A. Personal consumption expenditure		
Durable goods	14.9	19.8
Non-durable goods	87.1	99.3
Services	41.7	45.3
Total A . . .	143.7	164.4
B. Gross private domestic investment		
New construction	8.5	10.7
Producers' durable equipment . .	12.4	17.9
Changes in business inventories.	3.7	— 0.7
Total B . . .	24.6	27.8
C. Net foreign investment	4.8	8.7
D. Government purchases of goods and services	30.7	28.7
Gross National Product	203.7	229.6

In the United States, the "Survey of Current Business", published by the Department of Commerce, regularly gives detailed figures relating to the national product and its uses, including gross investment and savings, etc.

The "net foreign investment" corresponds to the expenditure in the form of loans granted by the U.S. Government to foreign countries, the amount of those loans being shown separately and not as part of "government purchases of goods and services". In its correspondingly restricted sense, U.S. Government expenditure showed an absolute decline in 1947, and an even greater relative decline in comparison with the national product.

The following table shows the resources available in relation to gross private investment.

United States:
Gross Private Domestic Investment
and corresponding resources.

Investment and Resources	1946	1947
	in milliards of $	
Gross private domestic investment .	24.6	27.8
Resources:		
Capital consumption allowances*	11.0	12.4
Undistributed profits	6.9	10.6
Personal saving	14.8	10.9

* In other words: depreciation charges.

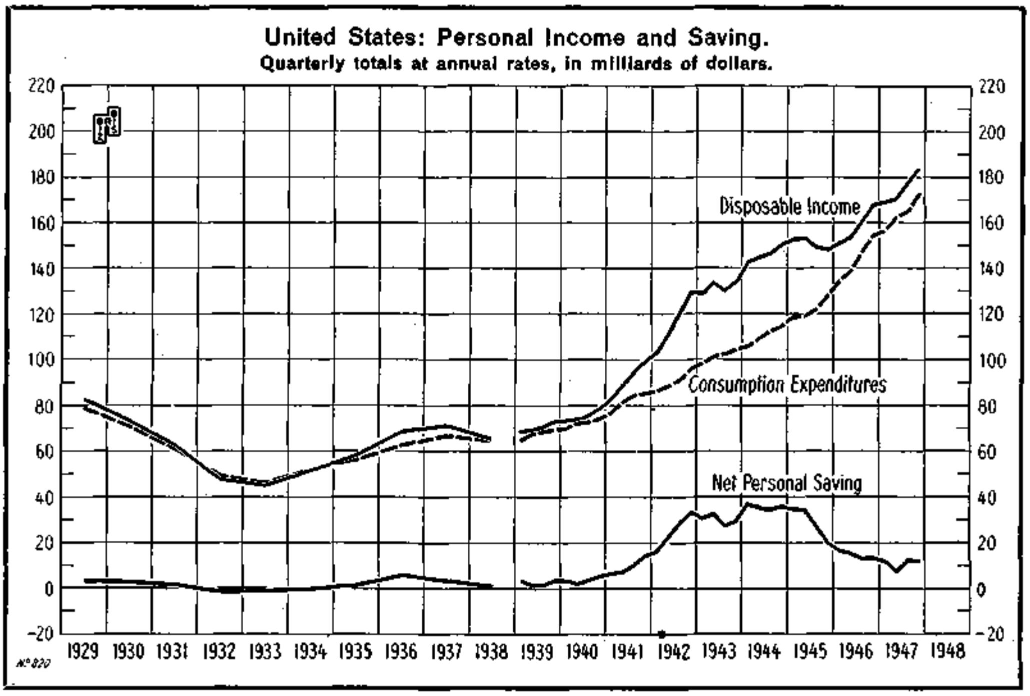
If the various resources shown in the accompanying table are added together, it will be seen that they amount to a higher figure than the gross investment itself. This indicates a strong position, especially since the government also had a surplus after making its loans to foreign countries. The reality behind these figures is reflected in the continued additions to the country's capital structure, together with a steady flow of funds into the money and capital markets.

But there are, even so, some indications of tension and some difficulties, which must not be overlooked. Apart from the general uncertainty always attaching to national-income estimates (and perhaps most of all to the estimates of savings in their various forms),* it should, in the first place, be noted that in the national-income statistics the "capital-consumption allowances" include depreciation charges in respect of all capital assets (houses, etc.) even if the owner makes no special provision for depreciation. The capital-consumption allowances give rise to funds readily available for financing when they appear as "depreciation" in the accounts of corporate businesses ($4.1 milliard in 1946 and $4.3 milliard in 1947).

United States:
Use and Sources of Corporate Funds.

Sources	1946	1947
	in milliards of $	
Total use of funds	23.8	26.7
Sources of funds:		
Retained profits	6.3	10.1
Depreciation	4.1	4.3
U.S. Government securities	6.1	1.5
Bank and mortgage loans	3.9	3.7
Net new issues	2.3	4.1
Others.	0.6	3.0
Total sources	23.3	26.7
Discrepancy.	0.5	—

* In addition to the statistical errors which, of course, are bound to creep into such comprehensive estimates as those of the whole national product and related matters, there are some specific dangers lurking in this particular field of investigations. There is, for instance, the not only practical but also theoretical difficulty of accountancy in connection with the activities of governments. Generally, the services of officials are regarded as adding to the national income and thus to the welfare of the country. This means, inter alia, that the services of those who control prices, foreign trade, the volume of investments, etc. increase the figure of the national income, while ordinary people



The problems of an important sector of business financing are thrown into relief by the accounts of corporations. The second table on page 50 shows the main sources of financing of business corporations (other than banks and insurance companies), according to a special study published in the "Survey of Current Business" for March 1948.

Internal financing from retained profits and depreciation came to \$14½ milliard in 1947, being equal to 54 per cent. of total financing requirements. Conspicuous is the decline in the amount mobilised by sales of U.S. Government securities (down from \$6.1 milliard in 1946 to \$1.5 milliard in 1947). While the total of new financing through bank and mortgage loans remained

are apt to consider the remuneration of those officials as a net burden, made doubly heavy by the fact that private businesses are bound to devote part of their staff to answering questionnaires, filling in forms, etc. The danger is that the compilations of national product statistics may give a reassuring impression that all is well as regards the growth of income, when in fact encroachments are being made on real earning power.

Another danger is that the neatly balanced statements of the gross national product and its uses, of capital formation and savings, may give a false sense of security in that the two sides of the accounts are always made to add up to the same figure. It often seems to be insufficiently realised that the balance shown in the accounts may largely reflect an inflationary movement or a reduction in monetary reserves. It is, moreover, important to remember that the depreciation charges which have to be deducted from the gross national product in order to arrive at the national income may not always correspond to "sums set aside" by the individual owners of assets but may, to a larger or smaller extent, represent consumption of capital through neglect of maintenance and renewals.

When trouble is taken to compare forecasts for a given year in the past with what actually happened during that year, great discrepancies are often found. It should be recognised that estimates relating to the future, even when they are supported by an impressive technical apparatus, are often not much more than intelligent guesses. The true character of forecasts is frequently stressed by the investigators. In the "Economic Survey for 1948", issued by the British Government, it is stated on page 50, after some pertinent observations, that "any estimate of voluntary net saving in 1948 in the absence of inflation can, thus, be no more than guesswork".

practically the same, there was a very substantial increase in security issues; the $4.1 milliard of net new issues representing funds raised on the capital markets in 1947 by corporations (other than banks and investment companies) was probably the largest amount ever raised in this way. The amount of money raised on the capital markets in the 'twenties was in fact much smaller than is commonly thought: even in the latter part of that period, including the year 1929, the net new issues were not much in excess of $2.5 milliard annually, while in the 'thirties, and up to the end of the war, retirements of securities generally exceeded new issues.

Although the volume of private savings declined from $14.8 milliard in 1946 to $10.9 milliard in 1947, the increase which occurred in the net issues must have been financed with relatively little difficulty, the liquidity being helped by Federal Reserve purchases of government securities, especially towards the end of the year.

While in the United States the "gross private domestic investment" was equal, in 1946 and 1947, to about 12 per cent. of the gross national product, in Canada what is called "gross home investment" rose from 15 per cent. of the gross national product in 1946 to 21½ per cent. in 1947 — a rate of investment which, in the latter year, put a distinct strain on the national resources. In absolute amounts, total private investments at home increased from Can. $1.8 milliard in 1946 to Can. $2.8 milliard in 1947 and the funds required by private investors to finance this outlay rose by a like amount. By way of contrast, personal savings by individuals (not shown in the table) declined from Can. $1.1 milliard to Can. $0.8 milliard. Thus, while investments went up by Can. $1 milliard, savings fell by Can. $ 300 million.

Canada: Gross National Expenditure.

Items	1938	1946	1947
	In millions of Can. dollars		
Personal expenditure on consumers' goods and services	3,714	7,682	8,711
Government expenditure . . .	721	1,843 *	1,500 *
Gross home investment . . .	583	1,796	2,822
Excess of exports (+) or imports (—) of goods and services	+ 102	+ 320	— 38
Errors	+ 21	+ 15	+ 57
Gross national expenditure. .	5,141	11,656	13,052

* Including Mutual Aid, UNRRA and Military Relief.

The government helped in two ways to supply funds to the capital market: (i) from an over-all surplus for the Dominion Government of about Can. $750 million and (ii) by the decline of Can. $743 million in the gold and foreign exchange holdings of the Foreign Exchange Control Board, which amount — with the exception of Can. $74 million subscribed to the International Monetary Fund — yielded a roughly equivalent amount of Canadian dollars. (With regard to the balance of payments, cf. Chap. V.) The government put these funds at the disposal of the market by redeeming securities to the tune of Can. $ 1,112 million: Can. $ 23 million (net) to the Bank of Canada, Can. $669 million to the Chartered Banks and Can. $420 million to all other investors. It was mainly through this return of funds that the Chartered Banks were able to increase by Can. \$461 million their current loans to customers and to purchase Can. \$316 million of securities from corporations and from municipal and provincial governments. Thus Canada used foreign resources to the extent of about Can. \$675 million for the purpose of financing the increase in the real capital formation at home.

For the United Kingdom, estimates of the gross national product and related matters are given in the White Paper on "National Income and Expenditure" presented to Parliament in April each year at the same time as the budget.

United Kingdom:
Gross National Product and its Uses at cost prices.

Resources	1938	1946	1947	National cost of:	1938	1946	1947
	in millions of £ sterling				in millions of £ sterling		
National income. . . .	4,707	8,100	8,770	Personal consumption.	3,713	5,573	6,161
Provision for depreciation and maintenance	450	725	775	Government	767	2,411	2,115
Gross national product	5,157	8,825	9,545	Gross capital formation at home	747	1,221	1,944
Borrowing from abroad and sale of assets to foreigners	70	380	675				
Total resources available for use at home . . .	5,227	9,205	10,220	Resources used at home	5,227	9,205	10,220

In terms of money, the national income increased by 8.3 per cent. from 1946 to 1947, but the average cost of that part of the national output which entered into consumption rose by 7 per cent. and the physical output used for capital investment would seem to have risen even more. J. R. N. Stone, Director of the Department of Applied Economics, Cambridge, estimated in an article on the national income, appearing in the (London) "Times" of 3rd June 1948, that, in "real" terms, the increase in goods and services available between 1946 and 1947 was about 3 per cent. This result was compatible, he went on to explain, with a greater rise in physical output — for instance, the 8 per cent. rise between 1946 and 1947 shown by the index of industrial production excluding finished munitions. The fact is that industrial production accounts for less than half the national income; certain services (inter alia those of the armed forces) which enter into the other half declined very considerably between 1946 and 1947. The conclusion seems to be that, allowance being made for changes in the value of money, the output of goods and services of all kinds rose slightly in the United Kingdom between 1946 and 1947, but that the rise in the output of mining, manufacturing and constructional trades was substantial.

United Kingdom: Personal Expenditure and Saving.

Items	1938	1946	1947
	In millions of £ sterling		
Personal expenditure*	4,288	6,739	7,421
Personal saving	154	717	445
Personal disposable income .	4,442	7,456	7,866
Personal saving as percentage of personal disposable income	3.5	9.6	5.7

* At market value (while the figures in the previous table were at cost prices).

While the "gross capital formation at home" rose from £1,221 million in 1946 to £1,944 million in 1947, the volume of personal saving (i. e. saving from personal disposable income) declined.

"Private saving" includes, in addition to personal savings, such items as profits retained by industrial firms, etc. and is estimated to have reached a figure of £705 million in 1947.

In the "Economic Survey for 1948", published by the British Government in March 1948, a table sets out a "Combined Capital Account". The figures for 1946 and 1947 are reproduced here, slightly adjusted in the light of data contained in the White Paper.

United Kingdom: Saving and Capital Formation.

Sums set aside	1938	1946	1947	Capital formation	1938	1946	1947
	In millions of £ sterling				In millions of £ sterling		
Depreciation allowances	450	725	775	Gross capital formation at home	770	1,255	2,020
Saving by public authorities	—89	—617	—135				
Private saving	339	767	705	Less: net borrowing abroad and sale of assets to foreigners .	—70	—380	—675
Total sums set aside .	700	875	1,345	Total capital formation	700	875	1,345

The net borrowing abroad and sale of assets to foreigners correspond to the deficit on the current account of the balance of payments and the table throws into relief the close connection which exists between the total of domestic capital formation, the volume of private and public savings at home (plus depreciation allowances) and the outcome of the balance of payments. This is stressed by the British Government in the "Economic Survey for 1948", e. g. in the following passage from the "Foreword":

> "Without United States aid, in short, we should be compelled to cut consumption and employment, and to abandon many of our development plans. With adequate aid present levels of consumption and employment can be maintained, and development can go forward. But there is still likely to be uncertainty from year to year about the continuance and amount of dollar aid. On no account, therefore, must such aid be used merely to provide us with greater ease and comfort. It must be used rather to sustain our working strength and efficiency while we develop those new sources of supply at home, in the sterling area, and elsewhere, which will enable us to stand on our own feet when the period of aid is finished."

In January 1948 the Government of Norway submitted to Parliament an official review called "The National Budget", setting out actual figures of the national product and its uses in 1946 and 1947 as well as a detailed forecast (a "budget") for 1948. For the year 1947 gross and net figures of the national product and capital formation are given but, for 1946 and pre-war years, only net figures. The following table, therefore, gives the net figures.

Norway: Net National Product and Its Uses.

Resources	1938	1946	1947	National cost of:	1938	1946	1947
	in millions of N. Kr.				in millions of N. Kr.		
National income [1]	4,509	7,912	8,704	Consumption			
				Private	*	6,021	6,830
Current surplus (—) or deficit (+) in the balance of payments	— 104	+ 772	+ 1,412	Government	*	1,438	1,129
				Total consumption	*	7,459	7,959
				Net capital formation			
				Private	*	1,000	1,586
				Government	*	225	571
				Total net capital formation	*	1,225	2,157
Total net resources available for use	4,405	8,684	10,116	Total national expenditure	4,405	8,684	10,116

* Not separately available.
(1) The national income is equal to the net national product less the net payments abroad of interest and dividends.

The review estimates that neither in 1946 nor in 1947 was there any "personal saving" in Norway but actually a "dissaving".

The sharp increase in the real capital formation from 1946 to 1947, without any corresponding increase in domestic savings, is reflected in the doubling of the deficit in the balance of payments — from N.Kr. 772 million in 1946 to N.Kr. 1,412 million in 1947. It should be added that the value

Norway: Saving and Capital Formation 1946 and 1947.

Saving	1946	1947	Real capital formation	1946	1947
	in millions of N. Kr.			in millions of N. Kr.	
Personal saving	— 52	— 238*	Net capital formation at home	1,225	2,157
Retained profits	400	400			
Private saving	348	162	Current deficit (—) in the balance of payments	— 772	— 1,412
Saving by the government and local authorities	105	583*			
Total savings	453	745	Net real capital formation	453	745

* The appearance of "negative saving" (i. e. consumption of capital) is due partly to the counting of private purchases of furniture, etc. as outlay for current consumption and partly to the payment of war-indemnification tax and a non-recurrent tax, which reduced the income at the disposal of private people but increased the surplus in the hands of public authorities.

of imports of ships (including the cost of extraordinary repairs to ships) amounted to N.Kr. 416 million in 1946 and N.Kr. 785 million in 1947, i.e. to more than half the deficit in the balance of payments.

In Sweden a "national budget" on much the same lines as in Norway has been in preparation. Preliminary figures indicate that the gross national budget in 1947 amounted to about S.Kr. 23.0 milliard, with private consumption at S.Kr. 16.2 milliard and government consumption at S.Kr. 2.4 milliard,* while gross investments (gross capital formation) totalled not less than S.Kr. 6.7 milliard (with net capital formation at S.Kr. 3.5 milliard). Gross capital formation thus represented nearly 30 per cent. of the gross national product, which is an unusually high percentage and provides an explanation for the fact that the current deficit in the balance of payments rose from S.Kr. 365 million in 1946 to about S.Kr. 1,400 million in 1947, while a reduction occurred in the monetary reserves of the Sveriges Riksbank from S.Kr. 1,909 million at the end of 1946 to S.Kr. 724 million at the end of 1947 (with further losses in the opening months of 1948).

The effect which the large volume of investment has upon the balance of payments seems to be even more clearly demonstrable in Sweden than elsewhere: the expansion in domestic purchasing power which led to increased imports and thus to the high import surplus was not caused directly by the budget, which had been balanced for two years (page 45); nor was it caused by an extraordinary scarcity of goods, since domestic production had risen to record levels and imports were larger than ever; there remains the unprecedented increase in investment, not checked by any increase in long-term interest rates but, on the contrary, facilitated by the large-scale purchases of government bonds which were carried out by the central bank (see also Chap. VIII). Indirectly, however, the rising level of government expenditure and of other charges may have been of importance, in that it reduced the volume of savings and thus increased the tension on the capital market.

Italy:
National Income and Investment.

Items	1938	1946	1947
	In milliards of lire — 1938 value		
National income	116	71	81
Foreign aid	—	11	10
Available income	116	82	91
Real investment	11.5	14.5	15.5
Investment as percentage of available income	*10*	*18*	*17*

The percentage relation of real saving to available income shows the effort made in Italy during the last two years. True though it is that this effort was rendered possible by foreign aid, it is also true that the Italian people have played their part not only by the work they have done but also by the savings they have made available out of reduced incomes.

* It should be borne in mind that these are figures of real consumption by the public and by the government and that, therefore, all "transfer expenditure" of the government appears not as government consumption but as private consumption, although it represents, of course, a part of the burden of taxation and, moreover, a part unmatched by any direct services which would compensate those who pay more in taxes for this particular purpose than they receive as their share of the "transfers".

For Belgium no official estimates of the gross national product and gross capital formation are available, but it looks as if investments had been held back, partly by a government decision to postpone the reparation of war damage so long as funds were needed for the reconversion of industry, and partly by the increases in interest rates, which brought the market quotation of 4 per cent. government bonds down to 85 at the beginning of 1948 and thus made it less profitable to sell out such bonds in order to procure funds for industrial investment. Notwithstanding a deficit still remaining in the general budget, it has been possible to maintain equilibrium in the foreign exchange position — which would seem to show that the question of a (moderate) deficit (not requiring resort to the central bank) or a surplus in the budget is less important than the part which credit policy (and, especially, the facility with which funds can be obtained) plays as an independent factor in determining the monetary purchasing power generated by provision for the volume of investments.

The question to what extent investments could be curtailed by government measures of control has been carefully examined in Sweden, where it has been found that in 1947, of gross investment at S.Kr. 6.7 milliard (which, being "gross", includes the cost of maintenance and repairs), about 30 per cent. represented constructions for which special permits would be required. The remaining volume of investments could to some extent be controlled in more indirect ways such as, for instance, a regulation of imports of machinery, or the convenient fact that the acquisition of machinery and other equipment depended partly on the construction of factories. Account being taken of all direct and indirect action, it has been estimated by the "Konjunkturinstitut" in Stockholm that 70 per cent. of gross investments might be "affected" by government control measures; but the volume of investments which can be effectively controlled (e. g. cut down) by such measures would seem to be less than one-half of the total in question.

This is an inference which applies to peacetime conditions. While the war lasted and the governments had powers of directing labour and allocating raw materials, direct control was naturally more effective. Control was then a necessity, in order to concentrate the nations' efforts on one main purpose — that of winning the war — the maximum curtailment of civilian consumption being an inevitable concomitant. Peacetime production, on the other hand, involves the output of a great variety of products for sale at home and abroad — and the direction of productive power then becomes a much more difficult affair.

A question often raised is that of the extent to which control of foreign trade may serve to re-establish equilibrium in the balance of payments, notwithstanding the fact that the volume of monetary purchasing power on the home market may be too large (as in a case of "repressed inflation"). The difficulty seems to be (see, further, Chap. V) that, even if imports are effectively curtailed, strong demand at home may easily divert goods and services and productive power from export markets, with the result that the trade deficit will not be reduced. Experience of this kind has made countries return more and more to the application of financial control exerted through an absorption of the redundant purchasing power. For judging the magnitude of the amount involved and determining the steps to be taken, the surveys of national income and related matters have proved useful in several ways.

Such a survey makes it possible, for instance, to compare the different competing purposes for which the national product may be used, and thus affords a "vue d'ensemble". Naturally, additional tables will be required beyond those reproduced above. The government obviously competes not only with private consumption but also with capital formation, i. e. with the investments on which economic progress and, consequently, an improvement in the standard of living depend. To form a true idea of the burden weighing upon an economy, it is necessary that all charges — civil and military, administrative and social, domestic and foreign, current and capital — should be compared with the available resources.

Such a comparison serves several purposes. It is a reminder that the budgetary problem is not merely one of guarding against inflation in the narrow sense (i. e. of ensuring that expenditure is covered by current revenue without any resort to the central bank), it being also necessary that the cost of government should not encroach too much upon other uses of the national income, and — especially in countries with a free economy — that the burden of taxation should not stifle private enterprise or too greatly reduce the volume of savings, indispensable for continued economic expansion.

Another advantage is that the comparison affords an opportunity for a realistic appreciation of available resources. The devastated countries in Europe need much new investment; the abundance of money found in most markets might easily lead to confusion between the liquid monetary funds and the real economic resources available for reconstruction. The investment programmes seem sometimes to have been based more on monetary appearances than on the existing manpower and the supplies of materials set free by current savings and by assistance from abroad.

The comparison may further indicate the prospect of what is commonly termed an inflationary gap in the coming period — maybe the next financial year — which the investigation covers. In its simplest form the calculation of such a gap involves an answer to the question how certain lines of policy (often the continuance of lines already adopted) will influence the volume of effective demand and, in particular, whether they will cause it to exceed the prospective supply of goods and services, with the result that an inflationary pressure will set in. In France it was, for instance, calculated by the Commissariat Général du Plan de Modernisation et

France: Inflationary Gap in 1948.*

Items	Full year 1948	First half-year 1948
	in milliards of Fr.fcs	
Resources:		
Agricultural production	1,765	815
Industrial production	2,212	1,044
Services rendered by the state .	387	187
Other services	271	135
Gross national product . .	4,635	2,181
Imports	437	205
Exports	178	81
Net foreign aid	259	124
Total resources	4,894	2,305
Demand:		
Current functioning of public services (personnel and materials)	552	268
Public and private investments .	968	430
Personal income available for consumption	3,739	1,806
Total demand	5,259	2,504
Excess of demand over resources	365	199

* Estimated on the basis of the situation existing on 20th November 1947.

Note: It was considered important to make a special estimate of the "gap" likely to arise in the first half of 1948, because measures for closing that gap in particular were contemplated in the financial-reform plan which was being prepared. Moreover, such an estimate would be the more reliable in that it would not call for any assumptions about the outcome of the 1948 harvest.

d'Equipement that, on the basis of the situation existing on 20th November 1947 (and in the absence of any further increase in taxation), there was likely, in 1948, to be a gap of Fr.fcs 365 milliard between, on the one hand, total demand for goods and services for consumption and investment and, on the other hand, the total of resources available from national production and foreign aid. The realisation of this fact led to a series of measures for increased taxation, the issue of a loan, reduction in subsidies and some other items of government expenditure, credit restrictions, etc., all forming part of the so-called "Mayer Plan".

In the United Kingdom the "Economic Survey for 1948" put "private saving" in 1948 at the figure of £575 million. It was made clear, however, that this was "not an estimate of the savings which private savers will wish to make" but an "estimate of the purchasing power which private income receivers must voluntarily refrain from exercising if our home investment plans and our planned reduction of the scale of foreign borrowing are to be carried through with existing tax rates, and without raising prices and incomes above the current levels", *i. e.* without inflation.

It was feared, in fact, that £575 million was too high as a probable figure for private saving and, in the budget presented in April (the "Economic Survey" had been published in March), the Chancellor of the Exchequer proposed to increase taxation with a view to providing a surplus (see page 48) in order to achieve a more reliable state of balance in the national economy. The increase in taxation would, however, further reduce private saving; by various government decisions, gross capital formation at home has also been curtailed. The following table shows the changes introduced between the time of the compilation of the "Survey" and the date of the Chancellor's budget speech. For purposes of comparison, the corresponding figures for 1947 are also given.

United Kingdom: Saving and Capital Formation.

Sums set aside	1947	1948 Survey	1948 Revised estimate	Capital Formation	1947	1948 Survey	1948 Revised estimate
	in millions of £ sterling				in millions of £ sterling		
Depreciation allowances	775	700	800	Gross capital formation at home	2,020	1,800	1,800
Saving by public authorities	— 135	275	400	Less: net borrowing abroad and sale of assets to foreigners .	— 675	— 250	— 250
Private saving	705	575	350				
Total sums set aside .	1,345	1,550	1,550	Total capital	1,345	1,550	1,550

The intention has thus been: (1) to reduce gross capital formation at home from £2,020 million to £1,800 million and also reliance on foreign borrowing from £675 million to £250 million — these changes being already in the "Survey"; but, on the other hand, (2) to turn a "dissaving" of £135 million by the public authorities in 1947 into a saving of £400 million; a reduction of private saving from £705 million to £350 million in 1948 is accepted as a consequence of these changes. If, under the influence of the European Recovery Program, the amount of resources available from various forms of saving were to improve, the likelihood is that some of the cuts in investment introduced during the winter of 1947–48 would be restored.

The close relation which is being established, in reviews of the national product, between capital formation at home, domestic saving in its various forms and the outcome of the balance of payments has helped (as pointed out on page 54 above) to make clear to the public, and to those in power, the intimate connection which exists between internal financing and the foreign balance of a country. It is true that there are some important problems (for instance, that of the appropriate levels of exchange rates) which must be examined in other ways than through an analysis of the national product; but such an analysis has the great merit of bringing home to all and sundry the need of dealing with financial and economic problems in a comprehensive way.

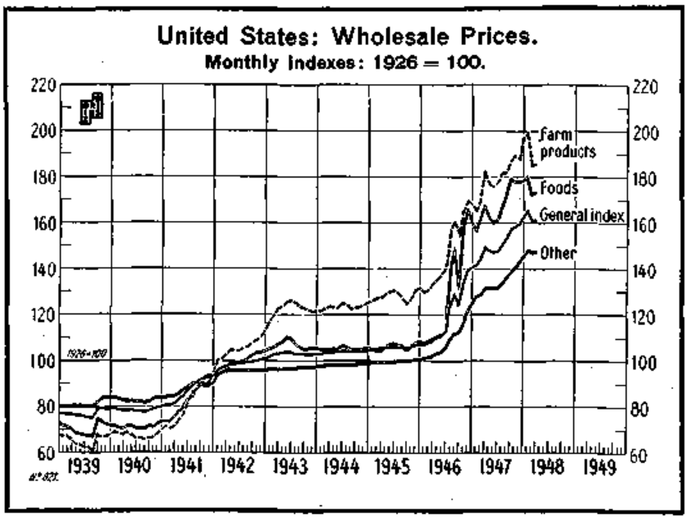
When developments in 1947 began to be examined more closely, the steepness of the increases in the volume of real investments caused a certain amount of surprise. If several countries found it necessary to curtail capital formation, this was in order to avoid inflationary tendencies at home and a further deterioration in their balances of payments.

In reviewing the year 1947 it may, however, be a consolation to note that the deterioration of the foreign exchange position has generally been matched not by higher consumption but by an increase in real capital formation, the fruits of which should become visible in the not too distant future.

IV. Price Movements.

The year 1947 and the early months of 1948 did not see the end of the post-war rise in prices but, except in a few countries, the rise was less violent and more than once it seemed as if the situation were ripe for a turn in the trend. This was typically the case in the United States.

After a steep climb in the autumn of 1946 and the first quarter of 1947, there came a period of relative stability in the second quarter of the year (which gave rise to forebodings — or hopes — of a fall in the price level); but the upward movement soon began again and by the end of the year wholesale prices were twice as high as in the summer of 1939. Prices of food and farm products led the way, the crop failures in Europe having increased foreign demand. Wheat prices rose in Chicago from about $2.20 per bushel at the end of 1946 to $2.45 in June 1947 and to a maximum of $3.20 in January 1948. Other grains followed a similar course. A remarkable aspect of this rise was that it happened notwithstanding an increase in the food production of the United States by some 35 per cent. above pre-war, thanks to favourable weather (during nine years in succession), increased mechanisation, hybrid seeds with a heavier yield, and also the higher prices which stimulated production. If supply rose, demand has risen even more. The population of the United States has increased by 14 million since 1940, under conditions of full employment; people's incomes (in money) have risen, on an average, by two and a half times and they spend more on food. As already mentioned, foreign demand is stronger: agricultural exports have been at a rate of five times pre-war, while imports of food into the United States are below pre-war. As a result, the wheat carry-over, which on 1st July 1943 still exceeded 600 million bushels, had fallen to less than 100 million bushels on 1st July 1947 — almost the smallest stock on record.



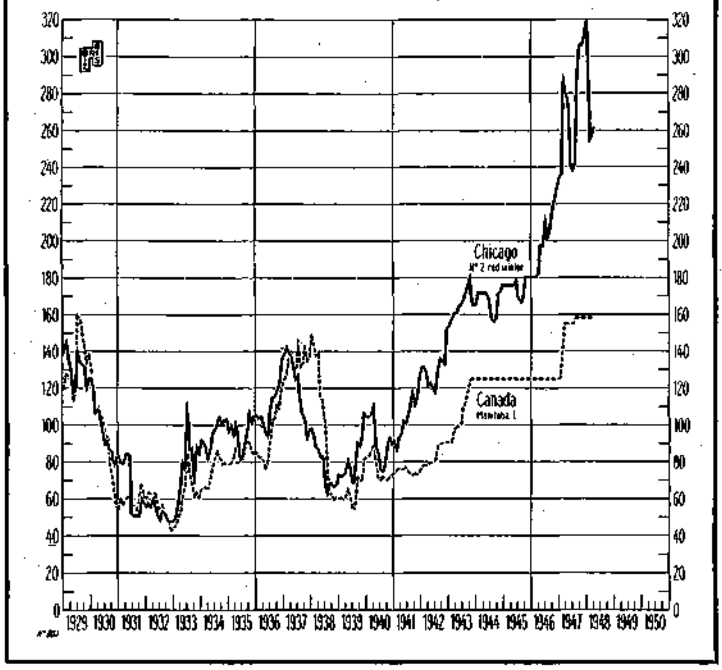
With the population of Europe 10 million above pre-war and European food production below pre-war — and less available for export from other great food-producing areas — the export of farm products from the United States has gained in importance. Of the wheat entering world trade, Canada, before the war, provided nearly 30 per cent., the Argentine and Australia about one-quarter each and the United States not quite 7 per cent. In 1946 and 1947, on the other hand, the United States provided over one-half, while, of the others, only Canada was able to furnish the same proportion as before the war. A factor of some consequence is that, owing to the rise in grain prices, it has been less remunerative to feed wheat to cattle, and more has been reserved for human consumption both at home and in the importing countries.

In February 1948, the price of wheat returned to about $2.50 per bushel, to recover in the following months to about $2.60. In the spring of 1948, it was announced that more wheat was available for export purposes than had previously been thought possible. It thus seems as if the steep rise in grain prices in the latter half of 1947 had brought about an increase in available supplies and consequently its own reversal, with a return to a more balanced position.

In Europe, much attention has been paid to the movement of agricultural prices in the United States, partly because they have been leaders in the American price development and partly because the variations in the American price level in general are among the decisive factors in world price movements today. When, therefore, in the early months of 1948, not only the price of wheat but the prices of some other products began to decline in the United States, it was natural to wonder whether this was the forerunner of a coming decline and, maybe, a business recession. But, in the course of the spring, prices hardened again, reflecting the pressure of demand in an economy operating close to capacity. It seems that the industrial demand for plant and equipment is bigger than ever (according to plans laid down at the beginning of the year, new construction will reach a total of $18.7 milliard in 1948 — or about 15 per cent. more than in 1947); there are heavy state and municipal requirements in the matter of highways; residential building is forging ahead despite higher costs; and "shortages" arise, due as a rule to increased demand, which makes itself felt even when supplies are well above pre-war (the average family is, for instance, using 50 per cent. more electricity than before the war). In view of the foreign-aid programme, larger military outlay and the cut in the income tax, demand is likely to be kept up. Moreover, in so far as statistical data can serve as a guide, production did not rise appreciably in the course of 1947 — the index of industrial production stood at 189 per cent. (of the 1935–39 average) in the first quarter of the year and at 191 in the fourth. Full capacity had already been reached in regard to some basic materials such as steel, while supplies of agricultural products required in industry were rather smaller than in previous years. Altogether, production and transportation of goods, and also trade and most other service activities, showed little rise during 1947; and, according to the Federal Reserve Bulletin for January 1947, "the possibilities of further increase in the near future appear to be limited". There are obvious limits to the speed with which production can be increased once a point has been reached at which there is no longer considerable unemployment or any other form of unused capacity. Production will then expand only as a result of further real investments and an increase in the number of workers employed.

Between December 1946 and December 1947 wholesale prices in the United States increased by 15 per cent. and the cost of living by 8 per cent. In Canada, up to 1946, prices had risen considerably less than in the United States — the index for general wholesale prices stood at 155 in Canada in December 1946 (August 1939 = 100), as compared with an index figure of 188 in the United States, and the cost of living at only 126, as compared with 153. Under the combined influence of upward pressure from foreign and domestic sources, wholesale prices in Canada rose by 28 per cent. in 1947 and the cost of living by 15 per cent. The Bank of Canada lays stress on the difficulties with which a country with imports and exports on the Canadian scale has to contend, in trying to prevent domestic prices from reacting to price changes abroad. "Short of substantially appreciating its exchange rate and increasing its taxation, no country could have insulated itself completely from the world-wide rise in prices. Theoretically it might be contended that this could be done by means of direct controls, but these would have to be very much more rigorous and complete than those of wartime, to say the least."

Wheat Prices, in cents per bushel.



In a number of countries the level of costs and prices had not, between the summer of 1939 and the end of 1946, risen more than in the United States, and in some of them (as in Canada) the rise was decidedly less than in the States. But, as shown above, the stage was then set for an upward pressure of prices in response to the general world trend.

Price Increases in 1947.

Countries	Wholesale prices end of 1946	Percentage increase during 1947	Wholesale prices end of 1947	Cost of living end of 1947
	January–June 1939 = 100			
United States . . .	184	+ *15*	214	169
Australia	140	+ *13*	158	133
New Zealand . . .	148	+ *14*	168	126
United Kingdom . .	185	+ *13*	209	137 (1)
Venezuela	157	+ *11*	175	171 (2)

(1) Estimated. (2) November 1947.

Up to the end of 1947 the price level had still risen less in Australia and New Zealand than in other countries, the rise in the cost of living being exceptionally low for post-war conditions; but these countries are exporters of food.

When comparisons are made between increases in costs and prices in the United Kingdom and in other countries, it should be remembered that the exchange value of the pound was reduced by about 14 per cent. in August-September 1939. If this reduction is taken into account, the increase in British wholesale prices and the cost of living since the summer of 1939 is less than the rise in the United States and in most other countries. On the other hand, it must not be forgotten that British prices are still held down by government control measures and by the granting of price subsidies to the extent of £400 million a year, while in the United States official price control has been practically abolished and subsidising greatly reduced.

In the wholesale index for the United Kingdom, prices of industrial materials rose by 14.9 per cent. and prices of "food and tobacco" by 9.8 per cent. in 1947; "food" alone was 6.5 per cent. higher. The Board of Trade Journal for 17th January 1948 explained that "purchases of supplies from overseas had to be made at higher average prices and the total government subsidies were not increased sufficiently to cover these".

The Board of Trade publishes index numbers of export and import prices, which show that, in comparison with the base year (1938 = 100), the prices of retained imports have risen more than the prices of exports.

United Kingdom:
Index of Import and Export Prices.

Prices of:	End of			
	1938	1946	1947	March 1948
Imports	100	223	263	277
Exports	100	212	244	248
Terms of Trade	100	95	93	90

Other calculations would seem to indicate that the terms of trade turned even more sharply against the United Kingdom during 1947 than the figures in the table indicate; every calculation shows, in fact, a deterioration in the position in comparison with 1938, with a consequent addition to the burden weighing upon the British balance of payments.

That the worsening of the terms of trade corresponds to a reality is borne out by the fact that, for instance, in the United States index of wholesale prices, prices of raw materials (of which Europe is on balance an importer) have risen by about 150 per cent. since 1939, as compared with a rise of 95 per cent. in finished goods (of which Europe is an exporter). But all countries in Europe are not equally affected: Finland and Sweden are, for instance, great exporters of timber — a raw material which has risen substantially in price, while Poland profits from its coal exports. And in some

European countries where inflation has not been arrested prices of finished goods were high — often too high, with the result that exports were shrinking (a result which could not be permanent but which would "statistically" improve the terms of trade for a time). Finally, it must be mentioned that the virtual disappearance of Germany from world trade has allowed exceptionally high prices to be charged for certain types of machinery, chemical products, etc. — a situation which is not likely to last (since, quite apart from the question of a come-back by Germany, the production of many such commodities is, as a matter of fact, being started in the importing countries). For Europe, in general, it will be necessary, in years to come, to try to recoup from a larger volume of business what is likely to be lost by a deterioration in the terms of trade.

Among the countries in which the price level (even when recalculated to allow for alterations in the exchange value of the currency) was already on the high side by the end of 1946, the price rise which occurred on world markets in the course of 1947 served, in many instances, to bring the cost and price level nearer to equilibrium. Even though the countries concerned were mostly unable to escape an increase in prices, especially of imported raw materials, they were often successful in keeping the rise in their wholesale prices within narrower limits than, for instance, the 15 per cent. rise in the United States.

For Belgium no official index of wholesale prices is published but unofficial calculations show that this country falls into the same category as those in the table below; Belgian retail prices rose about 9 per cent. during 1947. At the end of 1947, the wholesale price level in the Netherlands, when adjusted for the devaluation, was equal to about 197 — a relatively low index figure but held down to that level only with the aid of heavy subsidies (see page 47). In Sweden also, subsidies are being maintained. In that country — as in Canada — the influence of general world tendencies had been moderated by the appreciation of the exchange rate in July 1946; this meant that prices and money wages could not be allowed to increase there at the same rate as in countries which had retained the pre-war parity. In Sweden discussion has largely centred in the question of the extent to

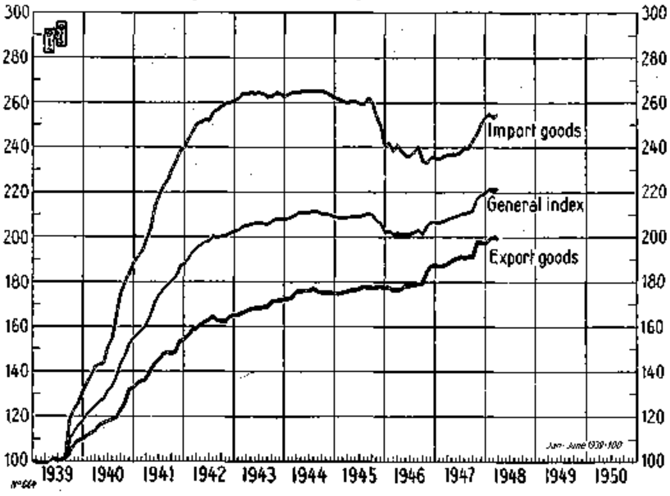
Price Increases in 1947.

Countries	Wholesale prices end of 1946	Percentage increase during 1947	Wholesale prices end of 1947	Cost of living end of 1947
	Indexes: January-June 1939 = 100			
Argentina	234	+ 7	250	186 (¹)
Czechoslovakia*	178	+ 2	182	168
Denmark	202	+ 9	220	164
India	285 (²)	+ 9	312 (²)	269
Netherlands	267	+ 5	281	202 (³)
Norway	177	+ 3	182	158
Palestine	347	+ 6	369	.
Portugal	230	+ 4	239	205
South Africa	164	+ 7	175	141
Sweden	176	+ 7	188	157
Switzerland	207	+ 6	219	164
Turkey*	193	+ 3	199	151

* Recalculated with allowance for alteration in exchange rate.
(¹) September 1947. (²) 19th August 1939 = 100. (³) 1938-39 = 100.

which an increase in wage rates would be permissible; according to the Swedish Federation of Trade Unions, the wage agreements in the winter of 1947–48 have resulted in an average increase in pay of just over 6 per cent., with the disparity between men's and women's pay still further diminished. Through agreements with a number of other countries (including the United Kingdom), the authorities in Denmark have been able to secure higher prices for the chief Danish export products: butter and bacon. As a result, the percentage rise in prices of exported goods has exceeded, since October 1947, the rise in the prices both of imported and of domestic goods. In Switzerland, the opening of the frontiers to the west for foreign trade in the autumn of 1945 brought down the prices of imported goods, which remained comparatively steady for two years until, in the autumn of 1947, a determined rise set in. The average prices of Swiss export goods have stiffened without interruption since the end of the war and, according to a weighted index prepared by the Customs Authorities, fully attained the level of import prices.

Switzerland: Wholesale Prices.
Monthly indexes: January-June 1939 = 100.



Portugal, with a relatively high level of prices for a country which has retained the pre-war parity of its currency, managed in 1947 to reduce the gap, the price level falling steadily from May to the end of the year (after a rise during the first four months). Three other countries which have likewise retained their pre-war parities, viz. Egypt, Lebanon and Mexico, actually registered a decline in prices during 1947.

Price Decreases in 1947.

Countries	Wholesale prices end of 1946	Percentage change during 1947	Wholesale prices end of 1947	Cost of living end of 1947
	Index figures			
Egypt	316 (1)	— 2	311 (1)	280 (1)
Lebanon	874 (2)	— 8	800 (2)	501 (3)
Mexico	254 (3)	— 4	244 (3)	307 (3)

(1) June-August 1939 = 100. (2) Base June 1939 = 100.
(3) January-June 1939 = 100.

While wholesale prices fell somewhat during the year, the cost-of-living index registered a slight increase (of about 2 per cent.) in Mexico, but a decrease in both Egypt and Lebanon. This was, however, before hostilities had broken out in the Near East.

But not all countries managed to keep in line with the United States by holding the rise in the price level within the limit of about 15 per cent. to which the upward movement in that country was confined.

A few South American countries experienced rather sharp price increases between December 1946 and December 1947 — among them Chile (about 25 per cent.) and Peru (about 40 per cent.). And much steeper increases were recorded in the Far East: in China wholesale prices were, by the end of 1947, some 100,000 times as high as in 1937, the value of the currency being quickly annihilated under the stress of internal warfare and disorganised finances. During 1947, retail prices in Japan trebled, and by the end of that year they were about 50 times as high as in 1941.

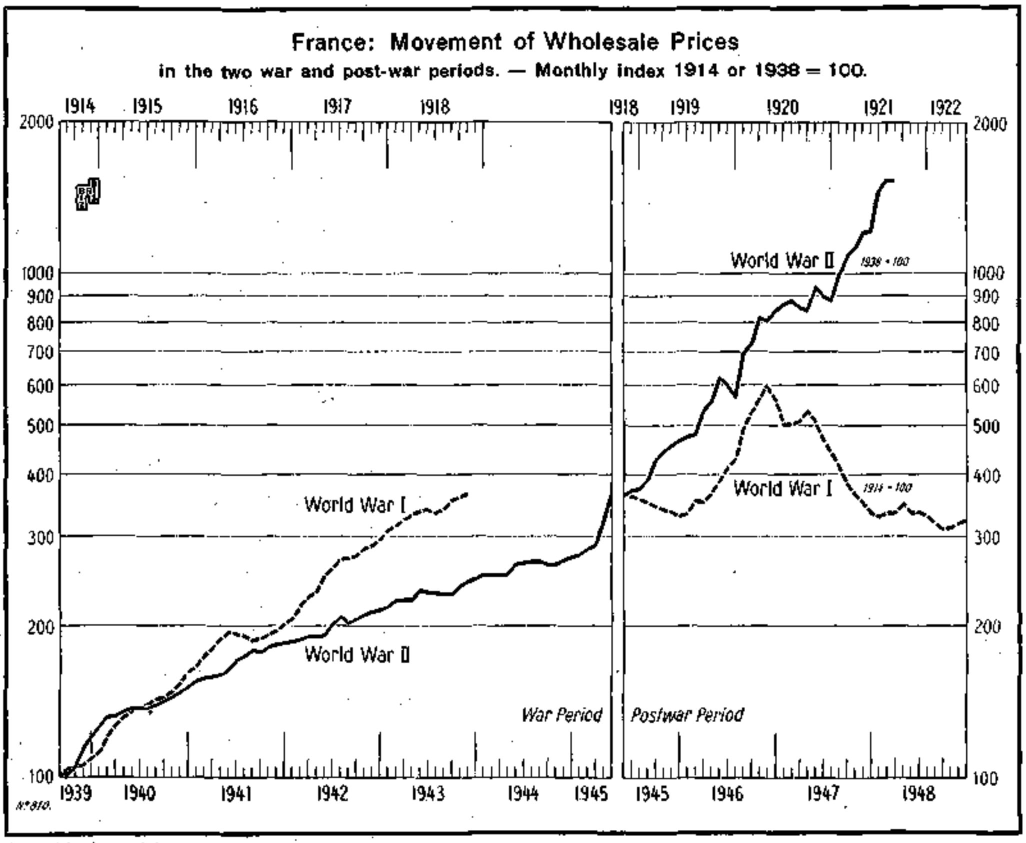
Among European countries, Roumania was overwhelmed by an inflationary rise in prices which continued until the monetary reform in August 1947. Poland also grappled with inflationary tendencies but on nothing like such an extreme scale, retail prices showing certain signs of becoming steadier in the course of 1947, after having risen about 160 times above the level of 1938. In Hungary wholesale prices and the cost of living rose by about 40 per cent. between December 1946 and December 1947. In Greece and in Finland the price increases were of the same order of magnitude, with an acceleration in both countries during the latter half of 1947. The most recent reports from Greece would seem to point to a consolidation and even a decline in the price level during the first four months of 1948.

Two European countries — France and Italy — adopted new methods of mastering their financing problems in the course of 1947 and the opening months of 1948.

Just before the war, i. e. in 1938–39, the level of wholesale prices in Italy was about five times as high as in 1913, while between 1939 and September 1947 prices rose about sixty times, to an index figure of 6,200 (1938 = 100). That was the high watermark, however. As shown by the graph on page 43, a downward movement set in early in the autumn of 1947, and by the end of the year the index figure had been brought back to 5,525. Experience had shown the difficulty of applying price-control measures in a country which had been distracted by internal warfare and had to cope with serious administrative problems. In the course of 1947, there was a general lifting of price control and only one subsidy — for bread — was really retained, while measures of financial restriction were applied (see, again, page 43). The distinction between official and black-market prices soon disappeared, the prices on which the index is based being those quoted in genuinely free markets. The fact that the price rise could be not only arrested but also reversed helped to restore confidence in the currency. The reversal would not have occurred, had not stringent internal measures brought about a reduction in the budget deficit and limited the granting of new credits by banks and other financial institutions; but the continuance of aid from abroad was likewise an essential condition for, without the supply of foreign raw materials, unemployment would have risen well above the two million actually registered in the winter of 1947–48.

When the first world war came to an end, in 1918, wholesale prices in France had risen about three and a half times above the pre-war level; and again, in the summer of 1945, when the second world war had been brought to an end in Europe, French prices were about three and a half times as high as they had been before the outbreak of war — in 1939.

In both cases, prices rose during the first eighteen months of the post-war period to about six times the pre-war level. But from that point they followed different courses: between the middle of 1920 and the end of 1922 the French price level went back to about three times the pre-war level, while after the second world war the inflationary rise continued, until in 1948 prices stood fifteen times as high as before the war. The difference is to some extent a sign of greater exhaustion after the second world war; but it is also evidence of the fact that the system of official control of prices and exchange rates, as applied after the second but not after the first world war, not only failed to prevent a steep rise in prices but may even have added to the price rise. It is, indeed, debatable whether a mistaken belief in the sufficiency of control as such did not for a time delay the taking of really effective measures. When, contrary to expectations, the cost of living was found to have suddenly risen, the unrest thereby engendered was apt to lead to sharp increases in wages, only to be followed by further price increases. Since a wage and price adjustment late in 1947 and the

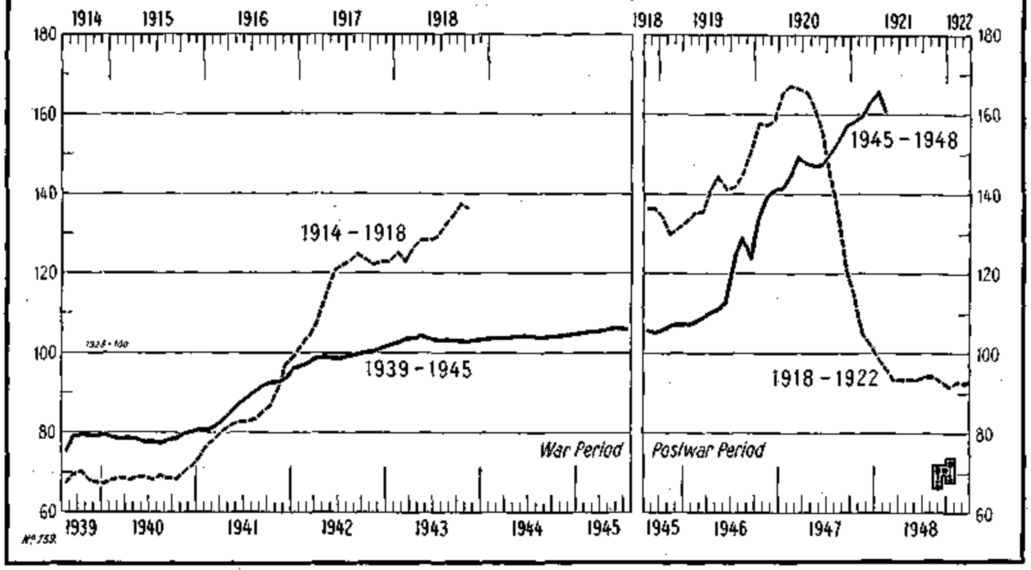


France: Movement of Wholesale Prices
in the two war and post-war periods. — Monthly index 1914 or 1938 = 100.

(Logarithmic scale)

United States: Movement of Wholesale Prices

in the two war and post-war periods. — Monthly indexes 1926 = 100.



adoption of a series of financial measures in the last month of that year and the early months of 1948, French commodity prices have remained remarkably steady up to the time of writing (May 1948), having achieved a better relative balance between different groups. Subsidies were reduced and official price control was lifted (except for a small number of commodities), so that the price indexes reflect, for the most part, price quotations in free markets. It has not been possible to bring real wages back to their former level; but better supplies — partly due to foreign aid — are beginning to give the consumer greater freedom in apportioning his expenditure for different purposes, while the market position would, of course, be further improved if the harvest should turn out well, as it promises to do.

France: Movement of Prices.

Groups	1947		1948			
	April	December	January	February	March	April
	Indexes: 1938 = 100					
Wholesale prices:						
Agricultural products .	938	1,434	1,567	1,584	1,554	1,590
Industrial products . .	757	1,001	1,359	1,491	1,518	1,520
Raw materials	771	1,029	1,348	1,517	1,528	1,538
General index . .	847	1,217	1,463	1,537	1,536	1,555
Retail prices (Paris):						
Foodstuffs	830	1,393	1,437	1,541	1,518	1,524
Heating and lighting .	591	761	1,012	1,159	1,159	1,092
General index . .	837	1,354	1,414	1,519	1,499	1,499

Note: Between April 1947 and April 1948 prices of agricultural products increased by about 70 per cent. while prices of raw materials practically doubled, catching up with the average of the general index.

Price developments in Austria have been examined in another section (see page 41). Since the monetary reform carried out in December 1947, prices have been falling in black markets and at the same time there has been an improvement in supplies. Thus France, Italy and Austria — the three countries which were beneficiaries of interim aid from the United States — have all been able to put a stop to the rise in prices, which, in some sectors, are even registering a downward movement.

* * *

With the continuance of a general rise in prices, there has been widespread discussion of what can be done by individual countries to bring the upward surge to an end. At the same time, dread of a fall in prices is by no means extinct, it being feared that this might prove the starting-point for a real depression. Whenever prices have weakened in any sector of the economy, there have been signs of concern, not only among those engaged in the particular trade or industry, but also in government circles, the "authorities" being increasingly regarded as responsible for the course which business takes. Something approaching alarm was aroused in February 1948 — the most anxious period through which the international commodity markets have passed since the end of the war. By 20th February, wheat and maize had fallen about 30 per cent. from the peak price reached some weeks earlier, and the majority of other agricultural commodities had also gone down in price, although not to the same extent as the leading cereals.

But the "fears" of a general fall in prices, with untoward effects on current business, soon proved to be without foundation. While the setback on the agricultural markets had a certain psychological influence on trading in other staples (the temporary result being an all-round slackening in demand) it had no influence whatever on prices of non-agricultural products. Moreover, the decline from the high level to which wheat and maize prices had climbed during the typical boom in foodstuffs must be regarded as a healthy reaction. By the end of 1947 prices for raw materials were, on an average, two to three times as high as before the war, while the prices of the most important foodstuffs had risen five to six times. Even after the recession, agricultural commodities continued to be relatively dearer than raw materials.

The adjustment of relative prices to a more normal pattern after the wartime dislocation is bound to cause some disturbance; but, provided that the general price level remains comparatively stable while the adjustment is in progress, the process should not be too difficult and, in any case, it is unavoidable. The period from the beginning of 1947 to the spring of 1948 has seen considerable progress in reconversion from war to peace conditions in practically all commodity trades, with production approaching the pre-war level or even exceeding it, especially as regards oil (for which commodity, however, a rise by 50 per cent. above the 1938 output has not been large enough to meet the extraordinary expansion in demand).

In contrast to what happened in connection with the first world war, the second world war did not lay the foundation for a large-scale expansion of raw materials production. As a matter of fact, actual warfare, this time, damaged many producing areas (especially in the East) which had been untouched by the first world war. To meet the growing demand due, inter alia, to a 6 per cent. increase in the world population since 1938, both potential and actual production of primary commodities must be expanded, and that will require new investments on a large scale and additional workers of all grades. The facile assumptions of an all-round abundance which were entertained in the 'thirties, and never well founded even then, have now given place to a more realistic but also a more constructive attitude.

V. The Tense Position of International Trade.

Never, perhaps, since the exhortations of the mercantilists in the seventeenth century have countries been more preoccupied than in 1947 with the anxieties of an adverse balance of trade or, to use a more modern expression, with the problem of meeting a growing deficit in the balance of payments. During the war, lend-lease and mutual aid were sufficient to cover immediate needs, and in the first two years after the war the same purpose was served by assistance from UNRRA, special loans and the use of accumulated reserves. As these resources began to run out, however, practically all countries (the United States and Switzerland being almost the only exceptions) had to concern themselves increasingly with the lack of balance in their foreign accounts.

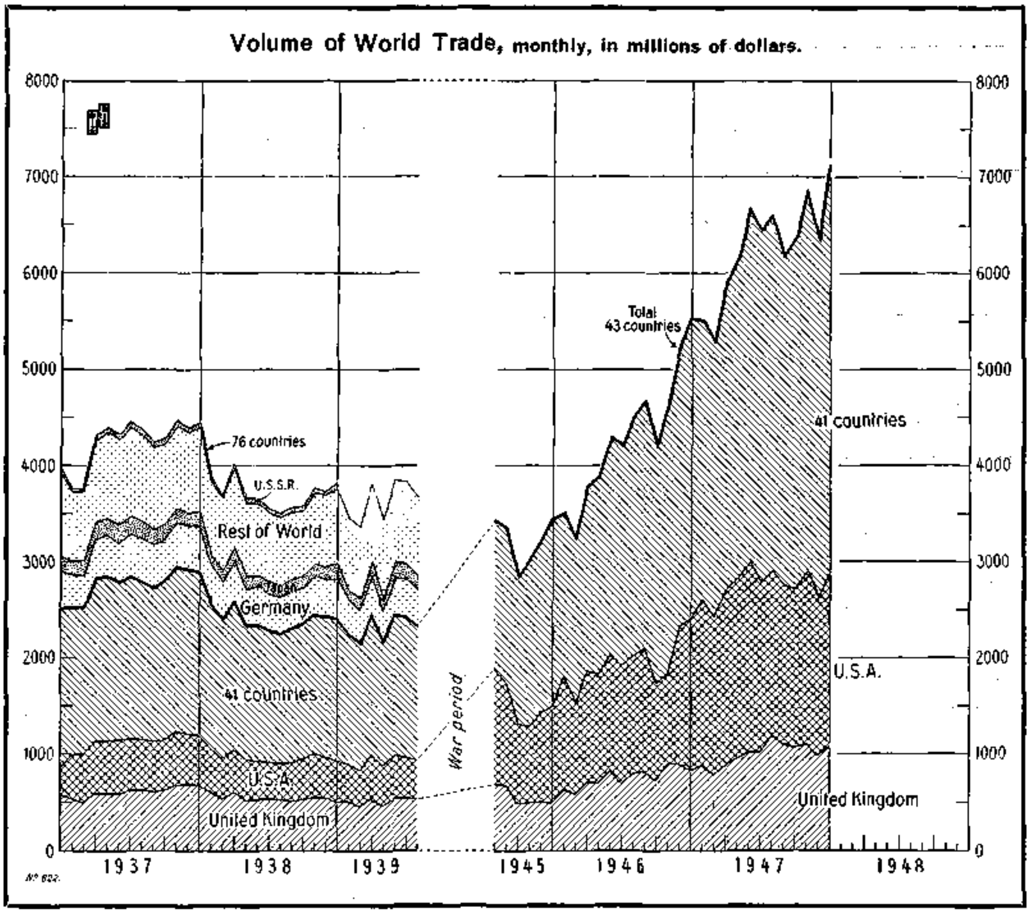
Since more and more administrations have resumed the issue of their regular trade statistics and are also making careful estimates of other items in their balances of payments, a fairly complete picture can be formed of the network of international payments. The following table gives pre-war and post-war trade figures for forty-three countries responsible, in 1938, for about two-thirds of the total foreign commerce of the world and, in 1947, when Germany and Japan had almost dropped out, for four-fifths of world trade.

The monthly turnover of the foreign trade of the forty-three countries was equal to about $6.1 milliard in 1929 but only $2.4 milliard in 1938 (when, however, dollar prices were about 20 per cent. lower than in the boom year 1929). After the war, the monthly turnover reached $6½ milliard in July 1947 and exceeded $7 milliard in the following December. By the end of the year, prices were probably some 120 per cent. higher than in 1938, account being taken of the effect of freights on import prices. On this basis, $7 milliard a month corresponds to about $3¼ milliard a month at 1938 prices, and this would make the volume of foreign trade of the forty-three countries larger than in 1938, but not yet up to the 1929 level. Account being taken of the virtual disappearance of the foreign trade of Germany and

World Trade Turnover.

Countries	Pre-war *			Post-war	
	1929	1937	1938	1946	1947
	Yearly, in milliards of dollars				
United Kingdom	15.2	7.3	6.5	9.1	12.0
United States.	16.1	6.3	5.0	14.3	21.1
41 other countries	42.1	19.7	17.2	28.3	42.5
Total for 43 countries	73.4	33.3	28.7	51.7	75.6
Germany (and Austria). . . .	12.2	5.1	4.7		
Japan	3.3	2.0	1.5		
U.S.S.R..	1.6	0.6	0.5		
Rest of the world.	25.7	12.8	11.6		
Total for 76 countries	116.2	53.8	47.0		

* According to League of Nations monthly tables of "world trade", covering 76 countries.



Japan, the recovery is less pronounced than the above figures suggest; and, of course, the loss suffered by those two countries has also an effect on the real-income position of their previous trade partners (compare page 26). It is, moreover, one of the changes that have enhanced the importance of the United States in world trade at the expense of Europe, as may be seen from the following tables based on material contained in the volume "A Survey of the Economic Situation and Prospects of Europe", issued by the Research and Planning Division of the Economic Commission for Europe, Geneva 1948.

World Trade: percentage shares of Europe and the United States.

Countries	Imports		Exports		Total	
	1938	1947	1938	1947	1938	1947
	In percentages					
Europe* . . .	55	47	48	32	52	39
United States .	9	12½	14	33	11	23
Others	36	40½	38	35	37	38

* Excluding the U.S.S.R.

The decline in the volume of trade which European countries carry on with one another (so-called "intra-European trade") is even more striking: its share in world trade fell from 30 per cent. in 1938 to about

Europe: Foreign Trade Turnover.

European Trade divided into:	1938	1947	1947
	at current prices		at 1938 prices
	in milliards of dollars		
Intra-European*	13.9	16.3	7.8
Trade with non-European countries	9.6	19.1	9.1
Total . . .	23.5	35.4	16.9

* Including the U.S.S.R.

Trade of Europe* with the United States.

Items	1938	1947	1947
	at current prices		at 1938 prices
	in milliards of dollars		
Imports	1.3	5.8	2.6
Exports	0.6	0.9	0.4
Balance	—0.7	—4.9	—2.2

* Including the U.S.S.R.

18 per cent. in 1947. Here the disappearance of Germany's trade makes itself particularly felt, since Germany accounted for about 20 per cent. of intra-European trade before the war but only 4 per cent. in 1947.

Expressed in terms of real values, the trade of European countries with one another in 1947 represented only 56 per cent. of the pre-war volume, while Europe's trade with non-European countries amounted to 78 per cent. as regards exports and 106 per cent. as regards imports — owing, in particular, to the magnitude of imports from the United States.

The table of Europe's balance of payments with non-European countries on page 28 shows that, in 1947, European exports covered not quite one-half of the continent's imports. With the United States alone the position was even less favourable for Europe, exports covering only one-sixth of imports.

If account is taken of the rise in prices, it will be found that Europe's exports to the United States totalled perhaps two-thirds of pre-war, but Europe's exports to other areas were nearer to the pre-war level. There was thus a shift in the current of European exports which has certainly not been the result of any deliberate move, since countries have been anxious to earn dollars. The "Survey of Current Business" issued by the U.S. Department of Commerce (for March 1948) suggests that "higher prices and smaller selling expenses in

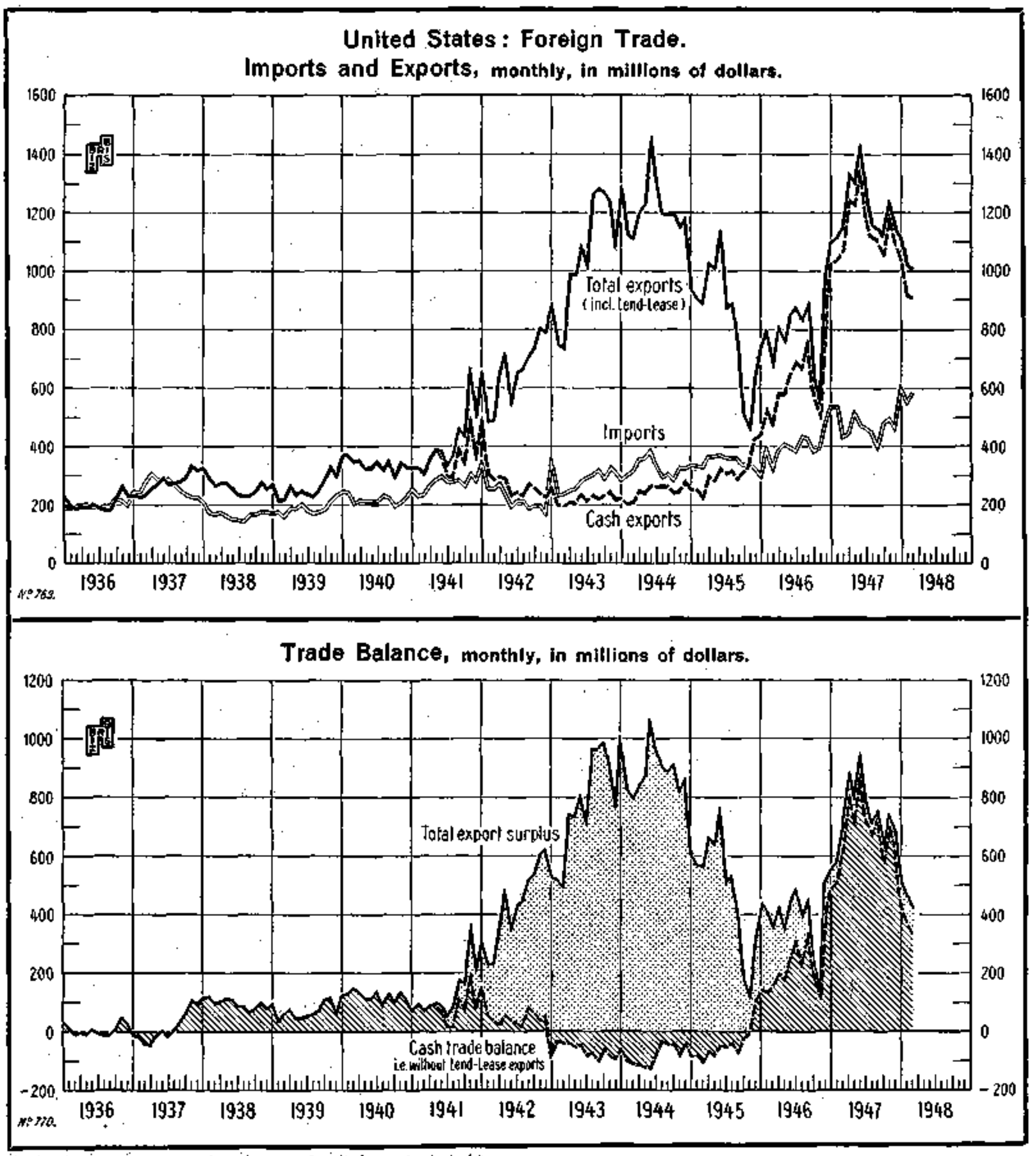
United States: Exports and Imports of Goods and Services.

Year	Gross National Product	Exports of goods and services		Imports of goods and services	
	Amount in milliards of dollars		As percentage of gross national product	Amount in milliards of dollars	As percentage of gross national product
1919	81.6	10.8	13.2	5.9	7.2
1920	94.7	10.3	10.9	6.8	7.2
1929	103.8	7.0	6.7	5.9	5.7
1937	90.2	4.5	5.0	4.3	4.8
1938	84.7	4.3	5.1	3.1	3.7
1944	210.6	21.4	10.2	9.0	4.3
1946	203.7	15.3	7.5	7.1	3.5
1947	229.6	19.6	8.5	8.3	3.6

other countries, as compared with the United States, may have been responsible for this shift in trade". At the same time, it also reflects the grants and credits obtained from the United States, which naturally find expression in actual movements of goods and services. Normally, of course, boom conditions in the United States would attract imports and bring them to a higher level than in 1938, which was a year of comparative depression.

In relation to the gross national product of the United States, imports into that country were in 1947 proportionately somewhat larger than in 1946 but not as large as in the two boom years 1929 and 1937.

It is somewhat surprising to find that, in relation to the gross national product, exports from the United States were slightly larger in the years



(In lend-lease exports other forms of relief are included.)

Visible and Invisible Trade of a number of countries.

Countries	Years	Currencies	Exports	Imports	Surplus of exports (+) or imports (—)	Surplus (+) or deficit (—) of service items	Surplus (+) or deficit (—) on current account of balance of payments
			in millions of national currency units				
United States . . .	1938	Dollars	3,243	2,173	+ 1,070	+ 210	+ 1,280
	1946		12,140	5,264	+ 6,876	+ 1,257	+ 8,133
	1947		16,022	6,047	+ 9,975	+ 1,301	+ 11,276
Canada	1938	Can. $	844	649	+ 195	— 95	+ 100
	1946		2,393	1,822	+ 571	— 214	+ 357
	1947		2,723	2,535	+ 188	— 141	+ 47
Argentina	1939	Pesos	1,573	1,223	+ 350	— 406	— 56
	1946		3,935	1,975	+ 1,960	— 251	+ 1,709
	1947		5,332	5,351	— 19	.	.
Austria	1937	U.S.$	228	273	— 45	.	.
	1946		20	180	— 160	+ 10	— 150
	1947		85	340	— 255	+ 15	— 240
Belgium	1938	B. fcs	21,670	23,069	— 1,399	.	.
	1946		29,654	52,561	— 22,907	.	.
	1947		61,609	85,528	— 23,919	+ 18,419	— 5,500
Denmark	1938	D. Kr.	1,582	1,665	— 83	+ 194	+ 111
	1946		1,624	2,863	— 1,239	+ 533	— 706
	1947		2,316	3,087	— 771	+ 291	— 480
Finland	1938	FM	8,607	8,398	+ 209	+ 600	+ 809
	1945		5,228(1)	6,820	— 1,592	+ 832	— 760
	1946		23,051(1)	24,274	— 1,223	.	.
	1947		43,193(1)	46,888	— 3,695	.	.
France	1938	Fr. fcs	22,700	36,700	— 14,000	+ 13,700	— 300
	1946		54,000	236,000	— 182,000	— 62,000	— 244,000
	1947		112,000	253,000	— 141,000	— 48,000	— 189,000
Italy	1938 (2)	U.S.$	515	708	— 193	+ 171	— 22
	1946		416	928	— 512	+ 61	— 451
	1947		768	1,678	— 910	+ 51	— 859
Netherlands. . . .	1938	Florins	1,086	1,245	— 159	+ 176	+ 17
	1946		815	2,143 (3)	— 1,328	+ 236	— 1,092
	1947		1,752	4,066	— 2,314	+ 312	— 2,002
Norway	1938	N. Kr.	787	1,193	— 406	+ 510	+ 104
	1946		1,202	2,197	— 995	+ 223	— 772
	1947		1,814	3,817	— 2,003	+ 591	— 1,412
Sweden	1938	S. Kr.	1,843	2,082	— 239	+ 266	+ 27
	1946		2,547	3,386	— 839	+ 474	— 365
	1947		3,220	5,175	— 1,955	+ 555	— 1,400
Switzerland	1938	Sw. fcs	1,317	1,607	— 290	.	.
	1946		2,676	3,423	— 747	.	.
	1947		3,268	4,820	— 1,552	.	.
United Kingdom .	1938	£ stg	533	835	— 302	+ 232	— 70
	1946		888	1,092	— 204	— 176	— 380
	1947		1,125	1,574	— 449	— 226	— 675

(1) Excluding exports for reparation payments and commodities surrendered in compensation for German assets.
(2) At June 1946 purchasing power. (3) F. o. b. imports.

immediately after the first world war than in the corresponding period after the second world war. But, in dollars, the export surplus of $10 milliard in 1947 represents the highest total of any peacetime year. The increase in exports particularly affected such lines as machinery and vehicles during the first half of 1947 and food and farm products towards the end of that year. Since the figure for commodity imports was only 17 per cent. higher in 1947 than in the previous year but prices of imported goods were 21 per cent. higher, the actual volume of imports was smaller in 1947 than in 1946.

With regard to service items, the United States had, on balance, a substantial amount to its credit both in 1946 and in 1947, owing to the fact that not only income from investments but also the other items yielded a surplus in those years.

United States: Service Items in the current account of the Balance of Payments.

Year	1929	1938	1939	1946	1947
	In millions of dollars				
Credit items					
Income relating to:					
Investments	1,139	585	541	611	1,026
Transport	390	267	303	1,815	1,728
Travel	139	130	135	218	278
Miscellaneous . . .	27	111	106	480	549
Total credit items . .	1,695	1,093	1,085	3,124	3,581
Debit items					
Payments relating to:					
Investments	330	200	230	173	226
Transport	509	303	367	699	730
Travel	483	303	290	429	535
Miscellaneous . . .	119	77	81	566	789
Total debit items . .	1,441	883	968	1,867	2,280
Balance	+ 254	+ 210	+ 117	+ 1,257	+ 1,301
Balance apart from investments	— 555	— 175	— 194	+ 819	+ 501

While the income of the United States from foreign investments is likely to increase, there should be a reverse movement as regards the remaining items. The proportion of exports carried in American ships fell from 60 per cent. in 1946 to 50 per cent. in 1947; and the number of American tourists coming to Europe promises to establish a new record in 1948.

The table on page 76 shows, for a number of countries, the balance of trade and also the net balance of service items (including net income from investments) together with the net surplus or deficit on the current account of the balance of payments. The export of newly-mined gold by any country is usually regarded as forming part of ordinary exports; the shipment of gold from monetary reserves, however, is regarded not as a current item but as the employment of a capital asset for the settlement of a balance on foreign account. On the other hand, the import of gold — except when clearly for industrial purposes — is left outside the current account, being regarded as a balancing item of a capital nature.

Before the war, when most currencies were still freely convertible, the existence of a surplus on the current account of a country's balance of payments generally sufficed for it to pay its way in relation to all other countries (in the absence of the relatively rare phenomenon of large-scale movements of capital funds). Nowadays, however, it may not suffice to have the current account of the balance of payments in order, since amounts earned in trade with one country or group of countries may not be available for payments elsewhere. In 1947 Canada had a net over-all surplus of Can. $47 million on the current account of its balance of payments but that was the resultant of a deficit of Can.$1,138 million in relation to the United States and a surplus of Can.$1,185 million in relation to other countries. As a matter of fact, Canada was forced to increase its indebtedness to the U.S. dollar area by about Can.$500 million, official reserves declining to the extent of Can.$743 million (as mentioned on page 114), while Canada's capital debts to the United States were reduced by about Can.$250 million. This example shows the importance which must be attached to the possibility of so-called "off-shore" purchases, by which, under the European Recovery Program, the cooperating countries in Europe may use dollars in payment for deliveries from countries other than the United States.

On the other hand, it does not always follow that a deficit in the balance of payments creates difficulties for a country.

In Switzerland the excess of imports over exports reached the record figure of Sw.fcs 1,550 million in 1947. The Swiss National Bank considers it quite possible that net income earned by Switzerland from tourist traffic, foreign investments and other current sources fully paid for the heavy trade deficit. It is, however, admitted that the uncertainty of the statistical material does not permit the drawing of any hard and fast conclusion, and another investigator has arrived at the probably too high figure of Sw.fcs 400–500 million as the deficit on the current account for 1947.(1) Since the extent to which Switzerland reduced its monetary reserves in that year was relatively small (see page 110), the gap — if any — was easily filled by an influx of foreign funds sufficiently large to provide a counterpart for the deficit and also for the credits granted to foreign countries in the course of the year.(2)

In 1947, Swiss imports and exports were, in volume, respectively 47 and 15 per cent. larger than in 1938. The biggest supplier was the United States, followed by France and Belgium-Luxemburg. An interesting feature was the increase in imports from eastern European countries; thus, Swiss imports from Czechoslovakia rose from Sw.fcs 166 million in 1946 to Sw.fcs 261 million in 1947 and imports from Poland from Sw.fcs 29 million to Sw.fcs 79 million (most of this increase being, however, due to the rise in prices).

(1) See pamphlet on "Schweizerische Zahlungsbilanzprobleme" by Professor V. F. Wagner (Basle), issued by the Privat-Kommerzbank A. G., Zurich, January 1948.

(2) In 1947 the combined reserves of the Swiss National Bank and the Swiss Government fell by Sw.fcs 378 million, of which, however, Sw.fcs 250 million represented a payment to the Allied Governments, in accordance with the Washington Agreement of 1946. The remaining Sw.fcs 128 million formed part of a total of Sw.fcs 480 million made up of gold sold in the first nine months of the year by the Swiss authorities on the domestic market (including sales to industry). It is believed that perhaps the greater part of the gold thus sold within Switzerland actually left the country; and the Sw.fcs 128 million may thus, indirectly, have served to provide foreign resources for the balance of payments.

In 1947, the indications pointed to more intense trade between eastern and western Europe, and the opening months of 1948 have seen no reversal of this tendency. It is true that, through various trade treaties, the U.S.S.R. has secured for itself larger imports from some of the countries in eastern Europe. Of the total exports of Czechoslovakia, for instance, the U.S.S.R. took 5 per cent. in 1947 and it is planned to increase the proportion going to that country to 16 per cent. In the first quarter of 1948 Czechoslovak exports to the U.S.S.R. had already risen to 12 per cent. of total exports. The declared intention is, however, to maintain commercial relations with the west. Moreover, Poland, in April 1948, concluded an agreement with Sweden for increased trade in both directions, deliveries of coal being raised from 3 to 4 million tons per annum.

The contraction in intra-European trade, as compared with before the war, is due not so much to tendencies in eastern Europe as to the decline in Germany's trade. In 1947 trade in relation to the western zones was barely half the turnover of the same area in 1936.

It has been estimated that the share of the three western zones in pre-war trade was about 60 per cent. as regards both imports and exports. The Russian zone, including Berlin, accounted for about 30 per cent., the remainder being the share of territories in the east now incorporated in other countries.

Germany: Foreign Trade
according to zones of occupation.

Zones	Imports			Exports		
	1936	1946	1947	1936	1946	1947
	in millions of dollars					
Bi-Zone	954	685	689	1,096	170	225
French Zone	132	45*	138	154	64	123
Total western zones .	1,086	730	827	1,250	234	348
Total Germany . . .	1,700	—	—	1,922	—	—

* August 1945 to December 1946.

Two of the main obstacles to a recovery of trade in the Bi-Zone have been the compulsion to pay for exports in dollars and the fixing of particular exchange rates for each separate business transaction according to current world prices. In 1947, 97 per cent. of exports went to western European countries.

Though coal was still the most important export item, followed by timber, its share dropped from 81 per cent. of total exports in 1946 to 54 per cent. in 1947 — the main recipients of the exported coal being Belgium, Luxemburg, France and the Netherlands.

At the beginning of April 1948 a conversion rate of 30 cents to the mark was adopted instead of differential exchange rates, but barter transactions are still being arranged. This measure, together with the decision to grant licences for the conclusion of contracts up to $10,000 without prior approval by the Anglo-American Joint Export Import Agency (JEIA), may prove most helpful, for in the 'thirties the German exchange control had to deal with some 30,000–40,000 transactions daily.

Italy: Balance of Payments for 1947.
Estimate on the basis of the data for the first six months of the year.

Items	Dollar area	Sterling area	Other currencies, clearings and reciprocity deals	Total
	in millions of U.S. dollars			
Receipts:				
Exports	183	231	285	699
Invisible items	54	18	2	74
Total receipts	237	249	287	773
Payments:				
Imports	829	231	380	1,440
Invisible items	21	4	7	32
Purchase of Liberty ships	71	—	—	71
Total payments	921	235	387	1,543
Balance	— 684	+ 14	— 100	— 770

Note: The totals in this table differ somewhat from the final totals for the year, final figures for the components being not yet available. Thus the final deficit was equal to $859 million, as compared with $770 million in the above table.

Whereas, before the war, Germany was Italy's leading trade partner, in 1947 the first place in exports was taken by Switzerland and in imports by the United States, the latter country supplying about 40 per cent. of Italian imports. The table shows Italy's estimated balance of payments for 1947, expressed in U.S. dollars and subdivided into different areas.

In relation to the sterling area, exports and imports were in equilibrium but, in relation to the dollar area and other countries as a whole, Italy had to cover (by credits, loans and grants) a deficit corresponding to one-half of total payments abroad for goods and services.

France: Balance of Payments
(provisional results).

Items	1946	1947
	in milliards of French francs	
Current account		
Trade balance:		
Imports	— 236	— 253
Exports	+ 54	+ 112
Balance	— 182	— 141
Overseas expenditure	— 35	— 22 (1)
Invisible expenditure	— 27	— 26
Balance on current accounts	— 244	— 189
Capital account		
Charges:		
Balance on current accounts	— 244	— 189
Net change in capital assets	— 26	— 12 (2)
Total	— 270	— 201
Resources:		
Net change in reserves and private assets	+ 135	+ 60
Credits and foreign investments	+ 135	+ 141 (3)
Total	+ 270	+ 201

(1) Excluding Indo-China.
(2) Subscription to the International Monetary Fund and net amortisation of old loans.
(3) Including utilisation of credit margins under payments agreements.

The foreign trade of France showed a marked improvement in the first half of 1947 and, for the whole year, reached higher figures in value and weight, especially for exports. But, in the third quarter, exports began to slow down, being hampered by rapidly rising prices.

For wines and spirits, which make up 8 per cent. of French exports, the decline had already set in during the second quarter. About one-quarter of France's foreign trade is with its overseas possessions (in North Africa and

France: Capital Operations by Areas in 1947

(provisional results [1]).

Items	Dollar area	Sterling area	Others	Total
	In milliards of French francs			
I. Expenditure:				
Net balance on current account	— 169.5	— 5	— 14.5	— 189
Special capital charges	— 12	—	—	— 12
Gold sold to obtain foreign exchange	— 8	—	—	— 8
Total	— 189.5	— 5	— 14.5	— 209
II. Receipts:				
Foreign credits and investments	+ 125	+ 7	+ 9	+ 141
Reserves and private assets	+ 64.5	+ 15.8	+ 2.7	+ 83 [2]
Gold sold to obtain foreign exchange	—	+ 4.2	+ 3.8	+ 8
	+ 189.5	+ 27	+ 15.5	+ 232

[1] Source: French Ministry of Finance.

[2] This total is higher than the amount given in the previous table on the balance of payments, the latter being a net amount.

elsewhere) and, in relation to them, balance had been practically achieved by the end of 1947. The introduction of the new exchange system (with flexible rates for some areas) at the beginning of February 1948 was at once followed by an increased volume of trade in March and April. As a result, however, exports have, as yet, covered only 40 per cent. of imports.

The tables give, in a summary form, estimates of the French balance of payments, indicating a compression of the deficit on current account (especially if allowance is made for the rise in prices). It will be seen that in 1947 almost the whole deficit in the balance of payments was in relation to the dollar area.

In 1947 Belgium had an estimated deficit of B.fcs 5,500 million on current account but it has nevertheless been able to make certain reimbursements on loans and to grant certain credits in payments agreements with other countries, etc., the total (of the trade deficit, repayments and credits) amounting to about B.fcs 9,100 million. To make this possible, Belgium drew on capital assets in 1947, certain assets (mostly in sterling) being repatriated, commercial credits being arranged, etc., while $11 million was drawn from the International Monetary Fund. The relative ease with which Belgium has succeeded in balancing its foreign capital account seems to indicate that the financial and monetary policy followed by the authorities — including the discontinuance by the government of resort to the National Bank, as well as the increase in interest rates — has exerted a beneficial effect on movements of capital.

From 1946 to 1947 the exports of the Netherlands rose by 115 per cent. and imports by 90 per cent.; but, even so, the import surplus increased

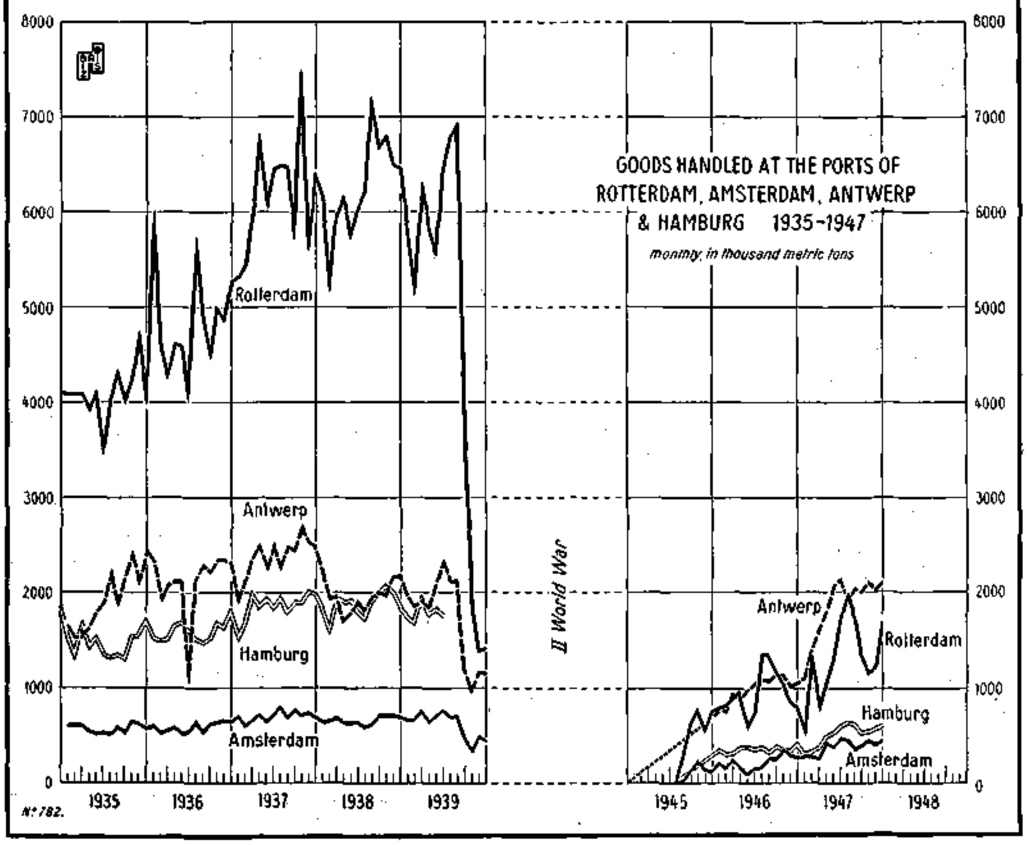
The Netherlands:

Capital Account of the Balance of Payments.

Items	In millions of florins
Expenditure:	
Deficit in current account (goods and services)	2,002
Redemption of credits	245
Change in balances of monetary credits	209
Total expenditure	2,456
Receipts:	
Foreign credits	1,173
Use of foreign balances	500
Sale of foreign securities and collection of amortisations	430
Gold transfers	100
Sundry capital charges	253
Total receipts	2,456

from Fl. 1,328 million to Fl. 2,314 million; including invisible items, the current account of the balance of payments registered, in 1947, a deficit of Fl. 2,002 million, which, together with other items of expenditure, was covered in the following way (according to estimates by the Ministry of Finance). Two-thirds of the expenditure and receipts shown in the table concerned transactions in U.S. dollars. Taking into account the rise in prices for export goods, the volume of exports from the Netherlands in 1947 comes to approximately 50 per cent. of the 1938 volume.

Merchant Shipping.



In the table on page 76, as in the following table, both export and import figures for the United Kingdom are given f. o. b. (according to the post-war method of estimating the British balance of payments), while in the trade statistics issued by the Board of Trade, as elsewhere, imports are counted c. i. f. The consequence is that the shipping income (as given in the following table) does not include the amount earned by British-owned ships for the carriage of goods to the United Kingdom (and is, therefore, less than the figures previously given).

If account is taken of the rise in prices, the trade deficit, by itself, was less in 1947 than it had been in 1938; but in 1947, as in 1946, the British balance of payments was burdened by heavier government expenditure overseas and by the decline in invisible income.

The increase shown for 1947 in British external assets represents, to the extent of £181 million, net movements of funds (for investments or other purposes) by residents in the United Kingdom to other parts of the sterling area. The figure is, however, very tentative, since it incorporates, in effect, the "balancing item" of the whole balance of payments.

United Kingdom: Balance of Payments.

Items	1938	1946	1947*
	In millions of £ sterling		
Current Account			
Visible trade:			
Imports (f. o. b.)	— 835	— 1,092	— 1,574
Exports and re-exports (f.o.b.)	+ 533	+ 888	+ 1,125
Balance	— 302	— 204	— 449
Government expenditure overseas (net)	— 16	— 290	— 211
Film remittances (net)	— 7	— 17	— 13
Net invisible income from:			
Shipping	+ 20	+ 9	+ 17
Interest, profits and dividends	+ 175	+ 75	+ 51
Other sources (net)	+ 60	+ 47	— 70
Total net invisible income	+ 255	+ 131	— 2
Balance on current account	— 70	— 380	— 675
Capital Account			
Net change in British gold and other reserves	—	— 226	— 1,023
Net change in British external capital assets	—	— 114	+ 206
Net change in sterling balances	—	— 40	+ 142
Balance	—	— 380	— 675
The deficit on current account was incurred in relation to:			
the sterling area	—	— 30	+ 80
the western hemisphere	—	— 360	— 680
the rest of the world	—	+ 10	— 75
Total	—	— 380	— 675

* Provisional.

In volume the retained imports in 1947 reached 77 per cent. of the 1938 figure but exports were 8 per cent. larger than in 1938. As regards imports, the compression was greatest in "wholly or mainly manufactured articles" (with a decline of 28 per cent.) and in "food, drink and tobacco" (with a decline of 26 per cent.), while in imports of "raw materials and articles mainly unmanufactured" the decline was only 17 per cent. As regards exports, some groups were still much below 1938 while others showed impressive increases. The greatest fall was in coal, exports in 1947 being only 3 per cent. of what they had been in 1938. Increases were registered by "wholly or mainly manufactured articles": vehicles (including motor cars, locomotives, ships and aircraft); machinery of different kinds; chemicals, drugs, dyes and colours; cutlery, hardware and instruments; electrical goods and apparatus; silk and artificial silk, as well as non-ferreous metals and manufactures of non-ferreous metals (thus of aluminium, copper, etc.). These are, in general, high-quality products demanding much skill in their production, while exports of more standardised products have been lagging behind (cotton yarns and manufactures, for instance, reaching only 43 per cent. of the 1938 level, against 86 per cent. for woollen and worsted yarns and manufactures).

Faced with a growing trade deficit, the British Government, with a budget policy aiming at a contraction of purchasing power at home, has decided, in the first place, to reduce all dollar purchases to an absolute minimum; secondly, to divert purchases as far as possible to other sources of supply, importers being, to some extent, free to seek an offset in "softer" markets (more particularly in the case of food) for the cuts which have had to be imposed in the dollar markets; and, thirdly, to establish "export targets" as part of an export drive. The aim is that by the end of 1948 the volume of exports should be 54 per cent. larger than in 1938, as shown in the table taken from the "Economic Survey for 1948".

United Kingdom: Export Targets for the end of 1948.

Items	Percentage increase (+) or decrease (—) in relation to the 1938 export volume
Machinery	+ *103*
Vehicles	+ *172*
Electrical goods and apparatus	+ *135*
Textiles and clothing	+ *31*
Chemicals	+ *84*
Pottery, glass, abrasives, etc.	+ *123*
Coal	— *61*
All other exports	+ *27*
Total	+ *54*

These figures apply to the end of 1948. For the whole of 1948 it is forecast that exports will be 30 per cent. above 1938, as compared with the 8 per cent. increase realised in 1947.

Among the Scandinavian countries, Sweden and Norway had heavier deficits on current account of the balance of payments in 1947 than in the previous year, while Denmark was able to reduce its deficit somewhat. Judging from the trade return for the first quarter of 1948, it would seem as if Denmark were on the point of re-establishing equilibrium in its balance of payments. The more favourable trend of foreign trade is noticeable in an easing of the strained foreign exchange situation, the net foreign liabilities of the National Bank were reduced from D.Kr. 702 million at the end of September 1947 to D.Kr. 482 million at the end of March 1948.

In the course of 1947 a stricter control over foreign trade was introduced both in Norway and in Sweden, and negotiations had to be carried on, especially with the United States but also with other countries, in order to square the obligations under earlier commercial agreements with the newly-imposed measures of control.

In 1947, Finland's commercial exports amounted to FM 43,200 million, while the value of deliveries of war-reparation goods and of commodities surrendered in compensation for German assets in Finland was FM 12,400, together making a total of FM 55,600 million. Imports, on the other hand, were valued at FM 46,900 million. In volume, commercial exports in 1947 reached 62 per cent. and imports 93 per cent. of the 1935 figure.

* * *

As monetary reserves became more and more depleted in the course of 1947 and countries had increasingly to apply measures of control, it was generally feared that the cumulative effect would be a sharp contraction in the volume of foreign trade. The most recent statistics indicate, however, that very little contraction, if any, has occurred and an explanation must be sought for this somewhat surprising result. Not one but several factors would seem to have kept the flow of trade from ebbing. In the first place, the need to maintain health and efficiency has forced a number of countries to allow an even increased supply of foodstuffs to come in, and thus left them no opportunity of saving much on this account. Secondly, the movement of goods has been kept up by the continued granting of American aid in cases of special urgency (including interim aid under the European Recovery Program). Thirdly, imports of raw materials have usually been maintained, the governments being anxious not to imperil the attainment of full employment, having committed themselves most strongly to such a policy. To pay for these imports, drafts have been made, when necessary, on what remained of the monetary reserves. Fourthly, many ready-made articles have continued to be imported, especially such as were not obtainable from domestic sources. Fifthly, orders already placed abroad with official approval could not, as a rule, be cancelled all at once; trade cannot simply be curtailed overnight.

Finally, with regard to articles which were of a luxury character or could be dispensed with for other reasons, it was not always possible to stop the granting of new licences. A country would usually want to sell some of its own products of a luxury character and, in order to do so, it would often have to accept luxury articles from its trading partners in return. In bilateral negotiations much time was often taken up in the settlement of such questions, the result usually being that a large volume of trade was maintained — fortunately, one might add; for it would be of little benefit to the European economy if what ought to be merely a temporary difficulty were allowed to force fundamental structural changes upon the countries concerned (as might happen, for instance, if no consideration were shown to Dutch bulb-growing and certain branches of the Swiss textile trade). Even more than immediate unemployment and the resulting charge upon the budget, such a contingency would be likely to impair the future economic strength of Europe.

It is also generally realised that the entry of goods of all kinds helps to hold back inflation. Assuming that a country has succeeded in curtailing imports, it is most unlikely that the purchasing power which would have bought the goods thus kept out will remain unused (and take the form of increased saving). Instead, such purchasing power is likely to turn, for the most part, to domestic goods and services and, in doing so, it withdraws productive power from manufacture for export, especially at a time of full employment, and thus tends to reduce exports. It is, therefore, anything but surprising that the trade control of recent years has, in many cases, signally failed even to compress the deficit in the balance of trade, let alone to do away with it.

It is true that, under the totalitarean régime in Germany, control of external trade seemed to be successful in maintaining equilibrium in the country's foreign commerce, even though the monetary purchasing power was expanded and interest rates reduced. But it should be remembered that, at the time, Germany was gradually introducing a war economy (with increasing stress on armaments) and, to that end, enforced control all along the line, including such measures as the wage-stop and official direction of labour. Moreover, despite all export premiums, there was a shrinkage in Germany's foreign trade, accompanied by a reduction in the standard of living, the bulk of the population having to subsist on a bare sufficiency with very few frills. Full employment was kept up by means of heavy state investment and continuous monetary stimulus; but the control grew tighter and tighter, and in the end it was found that — even during the war — efficiency could not hold its own against the industrial expansion in the Anglo-Saxon countries. Thus the German system by no means invites imitation. And experience shows that it will not do to adopt some of its less objectionable features, in the hope of succeeding in the field of trade regulation, while leaving out the more comprehensive control. The continent of Europe has not yet recovered from the low level to which trade was reduced by the war and its consequences. In 1947 the danger was that exhaustion of foreign resources would force upon that continent another reduction in trade and thus upset and retard recovery at a time when production was getting quite well under way.

One of the blessings that may be hoped for from the European Recovery Program is that it will make it unnecessary to contract imports, driving trade down into a deep valley out of which it would be most difficult to climb. An easing of monetary restrictions — not least between the countries in Europe — is an indispensable part of the solution which has to be found for the problem of maintaining and developing a flourishing foreign trade; but the question has other aspects which must not be neglected. Should the individual countries fail to establish internally an adequate balance between the volume of purchasing power (especially as manifesting itself in the flow of current incomes) and the supply of goods and services, monetary reserves, if they were replenished, would soon be depleted again. Moreover, as regards production and trade, Europe has several weak spots, Germany being one of the most obvious. Certain commodities are still in particularly short supply and require the taking of special action. It should, for instance, be possible, by judicious investment in certain specific branches (such as the cutting of timber), to obtain relatively quick results in the form of increased supplies of particularly scarce products.

As a wider problem, mention may be made of investments in colonial possessions, both in order to procure direct supplies for Europe and in order to foster triangular trade. The task of making European countries self-supporting again is partly bound up with the success attending schemes put into operation outside Europe. Stimulation of foreign investment is part of the problem and, as a rule, the provision of capital must be combined with the supplying of technical knowledge and organisation under conditions which promise a fair return on the amounts invested, especially since a surplus of income cannot, as a rule, be expected during the first few years.

In regard to commercial policy, one of the first objectives will no doubt be the abolition of quantitative restrictions — a job successfully tackled in the 'twenties, after the first world war. In addition, there is the most intricate but very important question whether a greater commercial cohesion in Europe can be furthered by the formation of one or more customs unions or, in cases where such a solution appears impracticable, by the establishment of low-tariff areas (in which, for instance, protective duties might not generally exceed, say, 15 per cent. ad valorem). These questions are not made easier by the fact that commercial problems cannot be solved without taking into account the allegiance of a political character which binds some European countries to one another or to countries outside Europe.

The result of the efforts to be made should be a greater freedom from the obstacles which now stand in the way of the interchange of goods and services. Production is increasing up to, and beyond, pre-war levels. But, when trade is hampered, countries do not get the same benefit from their production as would be the case if they could buy and sell freely in relation to other countries. No small weight must be attached to the time and energy lost in dealing with all the formalities which are nowadays so often required. "Dispatch is the soul of business", Lord Chesterfield wrote to his son, in the middle of the eighteenth century — and, when rules and regulations are being drafted, it would be well to remember this, not only in order to ease the task of the business man but because all waste of time and effort has to be paid for ultimately by the consumer, in the form of higher prices and a correspondingly lower standard of living.

VI. Foreign Exchange Rates.

Despite the great strain on monetary reserves which characterised the year 1947 and the opening months of 1948, an examination of the relevant facts shows that in this period some progress was nevertheless made towards a better exchange equilibrium. Only in a few countries was this the result of alterations in official exchange rates; in general, it was the outcome of a whole series of movements affecting the international relation between cost-and-price levels, coupled with an improvement internally in the financial and credit position of a number of countries.

Only three countries included in the table, viz. France, Italy and Roumania, show any significant change in their official quotation of the dollar between the end of March 1947 and the end of March 1948. In

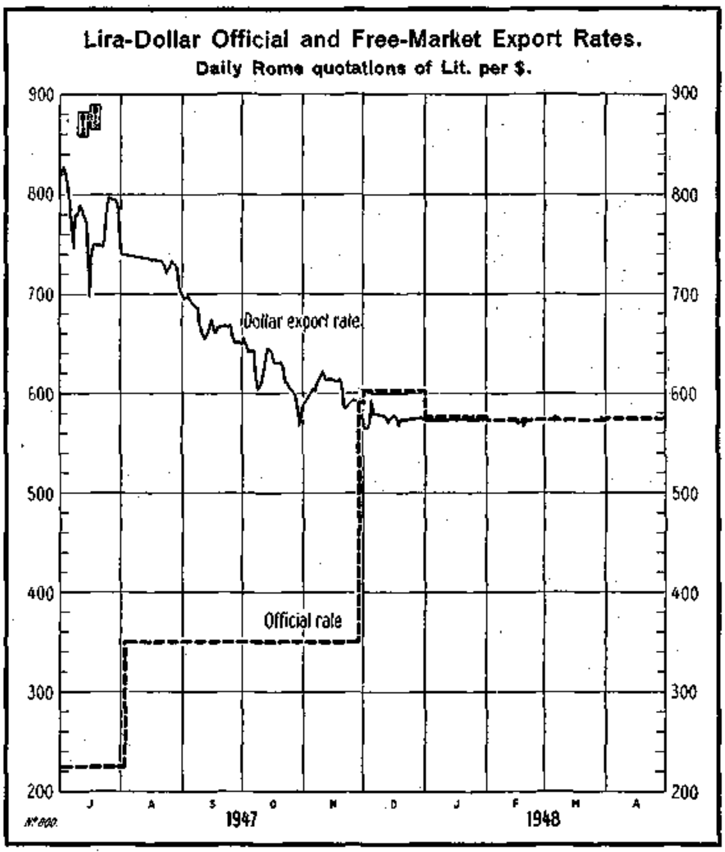
Official Alterations in Exchange Rates 1939–48.

Countries	National currency units	U. S. Dollar rates				Percentage change	
		24th August 1939	End of December 1945	End of March 1947	End of March 1948	24th August 1939 to March 1948	December 1945 to March 1948
Austria	Sch.	5.34 (1)	10.00	10.00	10.00	*— 47*	*0*
Belgium	B.fcs	29.58	43.83	43.83	43.83	*— 33*	*0*
Bulgaria	Leva	83.90	286.56	286.56	286.56	*— 71*	*0*
Czechoslovakia	Kčs	29.235	50.00	50.00	50.00	*— 42*	*0*
Denmark	D.Kr.	4.795	4.81	4.81	4.81	*— 0.3*	*0*
Finland	FM	48.60	136.00	136.00	136.00	*— 64*	*0*
France	Fr.fcs	37.755	119.10	119.10	214.39(2)	*— 82*	*— 44*
Germany	RM	2.493	10.00	10.00	10.00	*— 75*	*0*
Greece	Dr.	117.60	500.00	5,000.00	5,000.00	*— 98*	*— 90*
Hungary	P/Frt	5.20	104,000.00	11.74(3)	11.74	*— 56*	—
Italy	Lit.	19.00	100.00	225.00(4)	573.00(5)	*— 97*	*— 83*
Netherlands	Fl.	1.86	2.65	2.65	2.65	*— 30*	*0*
Norway	N.Kr.	4.27	4.96	4.96½	4.96½	*— 14*	*— 0.1*
Poland	Zl.	5.325	—	100.00	100.00	*— 95*	—
Portugal	Esc.	23.36	24.815	24.89	24.91½	*— 6*	*— 0.4*
Roumania	Lei	143.59	3,635.00(6)	225,195.00(6)	151.50(7)	*— 5*	—
Spain	Pes.	9.05	11.085	11.085	11.085	*— 18*	*0*
Sweden	S.Kr.	4.15	4.20	3.60(8)	3.60	*+ 15*	*+ 17*
Switzerland	Sw.fcs	4.435	4.30	4.30	4.30	*+ 3*	*0*
Turkey	£T	1.267	1.305(6)	2.81	2.81	*— 55*	*— 54*
United Kingdom	£stg	4/3¼d	4/11½d	4/11½d	4/11½d	*— 14*	*0*
Yugoslavia	Dinars	44.05	50.00(10)	50.00	50.00	*— 12*	*0*
Canada	Can.$	100.47	110.25	100.25(9)	100.25	*+ 0.2*	*+ 10*
Argentina (11)	Pesos	4.325	4.0675	4.10	4.01	*+ 8*	*+ 1*
Brazil (11)	Cruz.	19.93	19.50	18.72	18.72	*+ 6*	*+ 4*
Peru (12)	Soles	5.36	6.50	6.50	6.50	*— 18*	*0*
Iran	Rials	17.41	32.50	32.50	32.50	*— 46*	*0*
China (13)	Chinese $	3.33	20.00	12,000.00	12,000.00	*— 99.9*	*0*

(1) January 1938.
(2) Devaluation on 26th January 1948.
(3) The Forint was introduced on 1st August 1946 and was equal to 400,000 quadrillion pengö.
(4) Official rate, plus additional quota of 125 per cent.
(5) Rate fixed monthly by decree of 28th November 1947.
(6) Including the supplementary premiums.
(7) The new leu was introduced on 15th August 1947 and was equal to 20,000 old lei.
(8) Revaluation in July 1946.
(9) Official rates, excluding premiums.
(10) Official rate, fixed at the time of the unification of the currency.
(11) Free market.
(12) Official rate.
(13) Official rate (Central Bank selling rate).

France and Italy, systems of exchange rates, some of which are flexible, have been applied in order to establish, under the play of market forces, a series of more appropriate exchange relations.

As early as 1946 Italy had begun to apply a system of multiple exchange rates in order to establish, for commercial transactions, rates more in harmony with relative costs and prices than the official rates which had been fixed by agreement with the Allies (Lit. 100 for \$1 and Lit. 400 for £1). The essence of the new system was that, in general, exporters were required to deliver only 50 per cent. of their receipts in foreign currencies to the official control (the "Ufficio Italiano dei Cambi"), being free to sell the remaining 50 per cent. in the free market, while importers of specified categories of goods from countries with free currencies would have to buy the foreign currencies they required in the free market fed by the 50 per cent. of foreign exchange sold by exporters. Since more essential imports were brought in at the official rates, the "expensive" rates paid by private importers were thought to be justified as a tax levied on less essential private imports for the benefit of basic government imports, and also as a substitute for specific customs duties, which had been kept at their normal pre-war level, with the result that, in relation to the prices of the goods imported, their weight now represented only a fraction of the original impost.



But with the official rate for the dollar at Lit. 225 (to which it had been raised by a decree in January 1946) and export rates at Lit. 800–900, the "gap" between the different sets of rates had become very wide, with undesirable repercussions on the internal cost and price structure and also on export trade. Since the rates at which imports had generally to be paid for were higher in terms of lire than the export rates, goods for the production of which a large proportion of imported materials was required could be less profitably exported than goods with a smaller "import content". It was found, moreover, that the multiple system acted as a brake on normal trade in relation to countries with which payments agreements had been concluded, and with which the official rates were accordingly applicable in principle. For these and other reasons the aim of the Italian authorities was to return to more uniform rates.

On 2nd August 1947, the official rate for the dollar was raised to Lit. 350 for $1, with corresponding rates for other currencies (Lit. 1,400 for £1 etc.). A more decisive step was taken on 27th November 1947, when another new régime was inaugurated, the main features of which were the following:

(i) The rates at which the Control would purchase the 50 per cent. of foreign currencies derived from exports would no longer be the old official rates. Instead, the rate was to be fixed, month by month, on the basis of the average quotation on the "free export" market for the preceding month.

(ii) The rates thus fixed were to apply also to currencies sold by tourists and emigrants and to proceeds of freights and financial remittances.

The table and the graph show how the different rates have been brought closer to one another.

While a regular supply of foreign exchange for official purposes is ensured by the obligation still imposed upon exporters to cede 50 per cent. of their foreign currencies to the Control, practically the same rates are now obtainable for amounts so ceded as for sales by exporters on the free market. Since importers have to buy their foreign exchange in that market, they, too, need only pay the new "normal rates". The spread between the different rates has thus almost disappeared — and that applies also to "black-market rates", the only ones which are still of importance being close to the official quotations.

Dollar rates in Italy.

Date		*Official rates* for cession to the Exchange Control	Free-market export rate	Average between official and free-market export rates
1946	December (1)	225	566½	395¾
1947	August (2)	350	722½	536¼
	November (3)	589½	603	596¼
	December	603	576	589½
1948	January	576	573	574½
	February	573	573	573
	March	573	574	573½
	April	574	575	574½
	May	575	575	575
	June	575	.	.

(1) Since 18th January 1946. (2) Since 2nd August 1947.
(3) Official rate changed on 28th November 1947.

Since the rates fixed monthly under the new régime in Italy are based on free-market rates, they do not correspond to the "legal parities" between the various foreign currencies, but reveal a close correspondence to the market quotations in Switzerland for bank-notes. This makes the Italian quotations somewhat out of keeping with the official cross rates — for instance, between the pound and the dollar; it should be noted, however, that the Italian system has never embodied any aggressive discriminatory practices but has sought to combine a gradual adjustment to existing conditions with a return to freedom for current exchange transactions, which is one of the objectives of the International Monetary Fund.

In fulfilment of its obligations as an adherent to the Bretton Woods organisation, the Italian Government, in November 1947, made a communication to the International Monetary Fund regarding the modifications in connection with its foreign exchange rates, and in its reply the Fund expressed the opinion that the new system, in that it eliminated some objectionable features, was a step in the right direction. Although the Fund considered, as a general principle, that any system of fluctuating exchange rates was not in accord with its long-term objectives, it also recognised that extraordinary measures might be required to meet temporary situations. The Fund accepted the Italian Government's assurance that it would work in the direction of fixed and stable exchange rates and that the fluctuating-rate system was merely a temporary expedient, to be used until such time as the internal situation of Italy and its balance of payments should make it possible to establish a rate consonant with the Fund's objectives. It should be added that, for the lira, no "initial par value" had as yet been declared by the Italian Government and accepted by the Fund.

In France, during the whole of 1947 the official rates remained fixed at the level of Fr.fcs 119.10 = \$1 and Fr.fcs 480 = £1 adopted in December 1945. But continuous increases in prices and wages, after the unrealised hopes of their stabilisation in the early part of the year, created an unbearable strain on the French economy; the average of the wholesale price level (1938 = 100) rose from 375 in 1945 to 989 in 1947, the monthly figure moving, in the course of the latter year, from 874 in January to 1,217 in December and to 1,463 in January 1948. The cost of food in Paris also trebled between 1945 and 1947, reaching an index figure of 1,393 in December 1947 and 1,437 in January 1948 (1938 = 100).

As regards the balance of trade (see page 80), the expansion of exports in relation to imports was not unfavourable up to the middle of 1947, which shows that the devaluation adopted in 1945 had gone a good way towards establishing a balance as far as commercial relations with other countries were concerned. But in the latter half of 1947 the import surplus increased. After a thorough examination of the situation, the French Government, on 25th January 1948, took the decision to modify the foreign exchange régime, adopting provisions similar in many respects to those which had been introduced in Italy between 1945 and 1947 and were described in the seventeenth Annual Report of this Bank (see page 71).

The main features of the new French regulations are as follows:

(i) The official rates at which the French Exchange Stabilisation Fund buys and sells foreign exchange have been increased by a premium of 80 per cent., i.e. to the following actual rates: Fr.fcs 214.39 = \$1; Fr.fcs 864 = £1; and Fr.fcs 49.74 = Sw.fcs 1.

(ii) In addition, a free market for foreign currencies has been established in Paris.

(iii) In this market 50 per cent. of export proceeds are freely sold, the other 50 per cent. being bought by the Exchange Stabilisation Fund at the official rates.

(iv) Foreign exchange derived from sources other than exports (the outlay of tourists, financial remittances, etc.) is also sold in the free market.

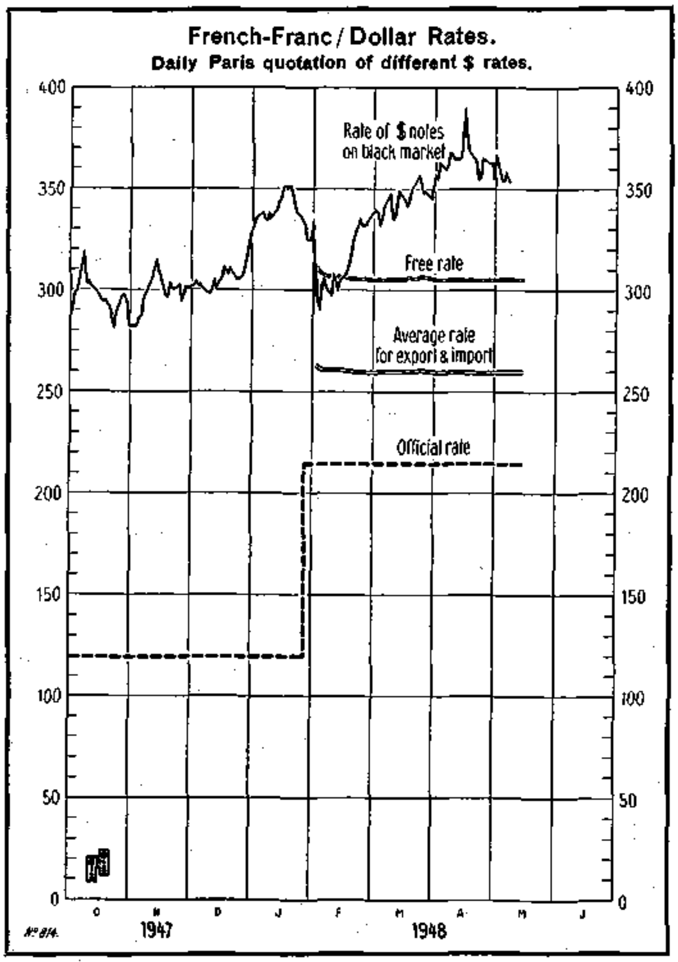
(v) The foreign exchange required for normal French imports and for financial transfers has to be procured on the free market, while imports of products of primary importance (coal, wheat, etc.) benefit by the official rates, being brought in either directly by government agencies or by private importers operating with special licences.

Access to the free market was at first limited to the dollar and the escudo. With the United Kingdom it was agreed that purchases and sales of foreign exchange for exports and imports were all to take place at the official rate. With Switzerland also, negotiations had to be initiated, the Swiss being averse to the differential treatment of imports and exports; finally, it was decided that in relation to Switzerland both imports and exports should be settled at the average between the official and the free-market rate. At the beginning of April the same system was extended to imports to be paid for in dollars and escudos, which meant that the necessary foreign exchange would be procured 50 per cent. on the free market and 50 per cent. from the Exchange Stabilisation Fund at the official rates. Except for some privileged goods of prime importance, imports and exports thus received the same treatment, which represented a step towards a consolidation of rates and the elimination of a cause of disequilibrium in the domestic price structure. In a special agreement with Italy a rate of Fr.fcs 45.45 = Lit. 100 was adopted, as against the official rate of Fr.fcs 61.20 The rate thus adopted is very near to the ratio between the average rates for the dollar in France (about Fr.fcs 257) and in Italy (Lit. 573). As from 15th April 1948 a "tourist franc" has been introduced for the benefit of Belgian residents visiting France. The rate is fixed every month by the Bank of France on the basis of the average between the free-market rate for the dollar in Paris and the parity of the Belgian franc to the dollar.

In various compensation and clearing arrangements particular rates have been adopted, an attempt being made to adjust them as closely as possible to the average between the free-market rate and the official rate for the dollar in Paris. While this average thus forms a crystallisation point for the whole rate structure, there are still a number of rates quoted in the market, those for the dollar being, at the end of May 1948, as follows:

(a) The official rate, applied by the Exchange Stabilisation Fund .	Fr.fcs 214.39
(b) Free-market rate around	„ „ 305
(c) The average of the official and free-market rates around . . .	„ „ 260
(d) Black-market rate around	„ „ 340

The French Government having presented its proposal for a modified exchange régime to the International Monetary Fund, the question was



discussed at length in Washington. The Fund fully agreed that a change in the rate of the franc was desirable, but no agreement was reached regarding the actual system proposed by France. While the Fund recognised the special difficulties of France, it found itself unable to agree to a system which involved the inclusion of any part of the proceeds of exports in a market with fluctuating rates, since this might have adverse effects on other members of the Fund and the system adopted might also give rise to competitive depreciation, which might encourage trade distortions and cast unwarranted doubt on the real strength of many currencies. The system being put into effect, France became disqualified for using the Fund's resources, but contact was maintained for reconsideration of the problem. The French Government has indicated that its present system is a temporary device and that its intention is to return to a uniform-rate system when circumstances permit.

In October 1947 Greece, too, introduced a new exchange system, which did not in itself involve the creation of multiple rates but allowed the effective rates to fluctuate. The official rates remained fixed at Dr. 5,000 = $1 and Dr. 20,000 = £1 but, when foreign currencies were ceded to the Bank of Greece, exporters received, in addition to payments at the official rate, a certificate for the full amount of the foreign exchange handed in. There is a free market for such certificates, these being bought by prospective purchasers of foreign exchange, since the Bank of Greece sells exchange only against surrender of certificates for the amount required.

Thus the effective rate has two components: the official rate of exchange and the market price of the certificates. By the end of 1947 the exchange certificates were being quoted at about Dr. 3,600 for the dollar and Dr. 6,000 for the pound. The effective rates had thus become Dr. 8,600 = \$1 and Dr. 26,000 = £1.

From the beginning of 1948, a certain improvement could be traced in Greece, together with a moderate decline in commodity prices, as well as in the market price for gold.

In Poland, the official rate is Zl.100 = \$1, but it applies only to a limited number of transactions. The country's foreign trade is largely carried on by official organisations, which buy and sell abroad in terms of foreign currencies (Swiss francs, dollars, etc.). As far as financial transfers are concerned, a premium of Zl.300 is generally charged, which makes the effective rate for the dollar Zl.400 = \$1. Special rates have been applied to sales of currencies by tourists, the payment of harbour dues, etc.

In Latin America two countries — Chile and Ecuador — have had recourse to the creation of a free market for foreign exchange — in both cases with the approval of the International Monetary Fund.

Ecuador reorganised its foreign exchange system in June 1947, introducing four different dollar rates:

For exports:	official rate	\$1	= Sucres 13.13
For imports:	A. rate for essential goods	\$1	= Sucres 15.04
	B. rate for quasi-essential goods	\$1	= Sucres 20.04
	C. rate for non-essential goods		= free rate

The free rate, moving around Sucres 22.50–25.00 = \$1, has been of relatively little importance so far, since it has been used for only 2 per cent. of total imports, while rate B, applicable to quasi-essential goods, covers 26 per cent. of total imports, and rate A, for essential goods, is used for 72 per cent. of total imports.

The practice followed for some time in Chile was to recognise black markets as soon as they developed, thus turning them into grey markets. By a reform adopted at the beginning of 1948, it was expected to reduce the number of differential rates for foreign exchange from six to two.

The official rate of Chilean Pesos 31 = \$1 remains in force and still applies to about 70 per cent. of the proceeds of Chilean exports, while the remaining 30 per cent., derived from the export of certain specified raw materials, is dealt in on the free market, purchasers of this foreign exchange being entitled to use it for non-essential imports.

In countries which have permitted the quotation of fluctuating rates as part of their exchange régime, the purpose has been to arrive at rates at which goods would be imported and exported, and services paid for, on a basis more in conformity with the economic realities of the situation.

But, even so, the countries in question have generally continued to use official rates for certain purposes, applying them, for instance, to the cession of part of the foreign exchange received from exports, and to the import of essential commodities, e. g. foodstuffs and raw materials (often paid for by means of foreign grants or credits). It was felt that, at any rate for the time being, it would be hazardous to leave payments for essential imports (with all the influence which such payments exert on the cost of living and the cost of production) to the sway of free market rates; and it was also felt that the government should secure a minimum supply of foreign exchange for itself.

But it was further thought that, as soon as the situation became more consolidated, it should be possible to apply a greater uniformity of rates all round. In Italy, which has had considerable experience of the system of multiple rates, with, for some time, a great disparity between the various rates, it was soon found that such a system involved many inconveniences and dangers; when the supply of goods became more normal again and general financial safeguards could be more effectively applied, action was taken to establish a more uniform rate-structure, without losing touch with the forces operating in the free market.

* * *

Events of outstanding importance in the foreign exchange field were the re-establishment of the convertibility of sterling on 15th July 1947 (in accordance with the Anglo-American Loan Agreement of 6th December 1945) and its suspension as from 21st August of the same year (see also page 26). As part of the preparation for sterling convertibility and especially in order to lessen the shock which it might produce, the United Kingdom had entered into a series of payments agreements with individual countries. On the date when general convertibility was due to become effective, there were still fourteen agreements in course of negotiation, and the authorities of the United States granted a respite of two months, to give these agreements time to become operative.

In addition, the United Kingdom had negotiated a number of trade agreements all aiming at a certain equilibrium in the balance of payments with the partner countries. The fact that, notwithstanding these precautions, convertibility could not be maintained is evidence of the great lack of balance — a legacy from the war — affecting the United Kingdom as well as other countries.

Since the suspension of convertibility, the British system of payments has undergone a number of changes:

(i) As regards the dollar-area countries, there has been no variation in relation to the convertibility and transferability of the so-called "American accounts", apart from a general endeavour on the British side to reduce the deficit in the balance of payments with the western hemisphere.

(ii) Inside the sterling area, some agreements have been concluded for the purpose of limiting freedom of drawing on the dollar pool and of providing better regulations for the blocking of sterling balances. A case in point is the agreement with Eire, in which it is stipulated that the amount of dollars which that country can draw from the pool, above the amount earned by means of exports, shall not exceed £14 million (the agreement remaining in force from 1st October 1947 until the end of June 1948). By an agreement of November 1947, expiring in June 1948, Iraq is allowed to draw dollars up to the equivalent of £5.8 million — inclusive of export earnings. An agreement was concluded with South Africa in October 1947, to which further reference is made in Chap. VII. Under this agreement, South Africa lent the United Kingdom gold up to an amount of £80 million in 1948, while, at the same time, undertaking to meet its own dollar requirements. Another interesting feature is that the two governments decided to prohibit such capital movements from the United Kingdom to South Africa as are not considered necessary, this being the first agreement in which restrictions have been imposed on the free movement of capital inside the sterling area.

Among other sterling-area countries, India and Pakistan concluded financial agreements with the United Kingdom, ceilings being fixed, in both cases, for the drawing of dollars on the blocked-sterling-balance accounts.

Egypt left the sterling area in July 1947 and Palestine at the end of February 1948. Under agreements with the United Kingdom, they are allowed to convert part of their sterling balances into gold and dollars.

(iii) As regards countries outside the dollar and sterling areas, many agreements have been concluded, representing either a new departure or a modification of agreements already in operation. An attempt has been made, on the one hand, to render the British currency more widely acceptable by increasing the number of countries for which transferable-sterling accounts have been opened but, on the other hand, to reduce to a minimum the possibility for the countries in question to come into possession — through the transfer of sterling accepted in payment for their exports — of sterling balances so large as to exceed the inconvertibility limit generally fixed in the agreements. Thus, the benefit of transferable accounts has been withdrawn from certain countries and replaced by a restricted form of transferability in which, for instance, a special authorisation from the U.K. Control is necessary (as explained more fully in another section of this Report — see Chap. IX). These are the so-called "bilateral countries" and include Italy, Belgium, Portugal and some Latin American countries such as the Argentine, Brazil and Uruguay. On the other hand, recent agreements with Poland and the U.S.S.R. have brought these two countries into the "transferable-account group".

By the end of March 1948, for purposes of the British foreign exchange regulations, countries having trading and financial relations with Great Britain could be grouped as follows:

(a) STERLING-AREA OR SCHEDULED TERRITORIES:

British Empire (with the exception of Canada and Newfoundland), Cameroons, Nauru, New Guinea, South West Africa, Tanganyika, Togoland, Western Samoa, Burma, Iraq, Iceland and the Faroe Islands.

(b) DOLLAR-AREA OR AMERICAN-ACCOUNT COUNTRIES:

United States, Philippines and territories under the sovereignty of the United States, Bolivia, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Peru, El Salvador and Venezuela.

(c) TRANSFERABLE-ACCOUNT COUNTRIES:

the Argentine,* Brazil,* Czechoslovakia, the Dutch monetary area, Egypt, Ethiopia, Finland, Iran, Norway, Poland, Siam, Spanish monetary area, Anglo-Egyptian Sudan, Sweden and U.S.S.R.

(d) BILATERAL COUNTRIES:

Austria, Belgian monetary area, Bulgaria, Canada, Newfoundland, China and Formosa, Denmark, French monetary area, Greece, Hungary, Italy, Japan, Palestine, Paraguay, Portuguese monetary area, Roumania, Switzerland, Transjordan, Turkey, Uruguay, Yugoslavia.

(e) OTHER COUNTRIES:

Among these are Afghanistan, Albania, Nepal, Saudi Arabia and Yemen. For this residual group there is quite a wide range of transferability of sterling claims within the group and with the sterling area.

While the suspension of the convertibility of sterling was a result of the strained conditions in the field of foreign exchange generally, it added to the existing tension and necessitated the making of new arrangements as regards the foreign exchange position in relation to various countries.

In Sweden a growing deficit in the balance of payments, together with declining monetary reserves, made the authorities decide (in November 1947) to call in all hard foreign exchange in private hands, the amount collected to be handed in to the Riksbank. Estimates put the countervalue of the foreign exchange requisitioned at about S.Kr. 300 million.

At the beginning of November 1947, Belgium signed a new agreement with the United Kingdom in place of the one concluded in October 1944. Under the new agreement Belgium left the group of countries with transferable accounts; the ceiling for the inconvertible amount to be held by Belgium was raised to £27 million, an exchange guarantee being granted for £12 million of it. Almost at the same time Belgium introduced new regulations for imports of American goods, for which it became necessary to have permits from the Belgian Exchange Office. Thanks to the progress made in establishing a general balance, the National Bank of Belgium hardly had to draw on its own holdings of gold and dollar exchange in the opening months of 1948

* Transferred to the group of bilateral countries at the end of May 1948.

but drew $33 million on the International Monetary Fund between December 1947 and February 1948. The Fund for its part drew the equivalent of $6,8 million in Belgian francs on the National Bank of Belgium in May 1948.

In the so-called Andes Agreement, signed in Buenos Aires on 19th February 1948 between the United Kingdom and the Argentine, a new basis was provided for the relations between the two countries, which were complicated by the existence of wartime sterling balances, on the one hand, and of liabilities arising from the repurchase of British-owned railways, on the other, together with the need of finding means of payment for current surplus exports to the United Kingdom (largely of food).

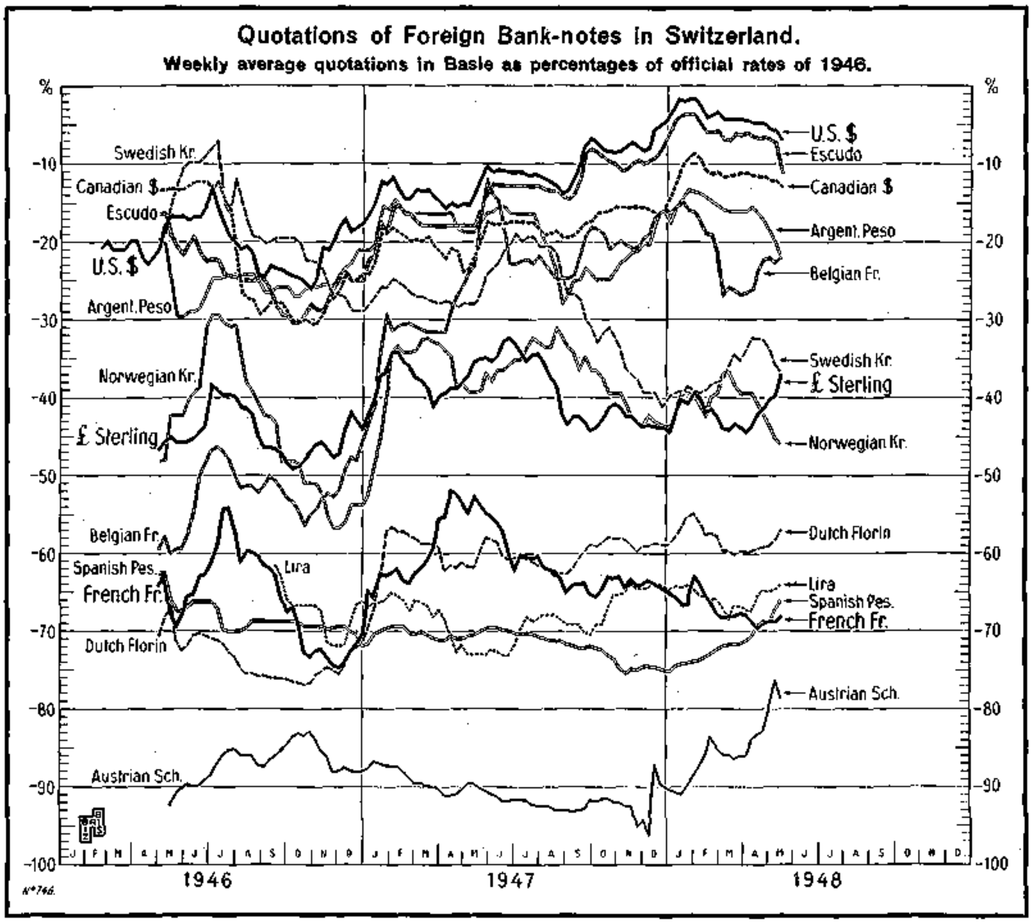
Portugal, too, has been compelled to introduce a number of restrictions, the measures taken in the autumn of 1947 relating especially to imports of non-essential goods. In February 1948 the whole of the country's foreign trade (except individual transactions involving less than Esc. 2,500) became subject to registration, combined with the compulsory cession of foreign exchange to the Bank of Portugal.

The failure of sterling convertibility drives home the lesson of the fundamental importance of first achieving a real balance in the economy of each country and in the relations of the countries with one another. But, if full convertibility is not always practicable, other possibilities must be developed. As shown in Chapter IX on "European Payments Agreements, Multilateral Monetary Compensation and the European Recovery Program", new methods are being tried, involving the extension of transferability (sometimes on a limited scale) to an increasing number of countries, together with arrangements for compensation. In this way real progress may be made in facilitating commercial relations, the work gaining new impetus from the contacts and cooperation initiated under the European Recovery Program.

* * *

When official rates remain unchanged and are firmly held by administrative control, as is at present the case for most countries, they are even less indicative of a trend than used to be the case with movements of exchange quotations within the gold points under the old gold standard. Black-market rates are certainly not ideal indicators of real values, but the public is apt to attach importance to changes in quotations on such markets, with the result that, for psychological and other reasons, these changes are not without significance. The following graph shows the trend of quotations on the Swiss market for foreign bank-notes (or more precisely: the weekly average quotations in Basle for various foreign bank-notes as percentages of the official rates in force in the autumn of 1946).

The general impression which emerges from the movements of this graph is that — with the exception of one or two currencies — the situation



Quotations of Foreign Bank-notes in Switzerland.
Weekly average quotations in Basle as percentages of official rates of 1946.

has at least been held since the middle of 1947 and in several cases even greatly improved (as with regard to the U.S. dollar, the Canadian dollar, the escudo and the Austrian schilling).

An interesting phenomenon is the continued tendency of rates to group themselves in bundles. The quotations of the currencies in the first group, including the escudo, the Canadian dollar, the Argentine peso and the Belgian franc, have some affinity with the movements of the U.S. dollar. The Belgian franc moved into the top group from the lower one in the course of 1947.

The second group, with the pound sterling as the main currency, includes the Norwegian crown and the Swedish crown, the last-mentioned currency leaving the top group in the autumn of 1947.

In the third group the Dutch florin consolidated, and even somewhat improved, its position in the latter half of 1947 and the opening months of 1948, and the same applies to the Spanish peseta. As regards the French franc and the lira, it should be remembered that the graph is based on the official rates in force in the autumn of 1946, i.e. that subsequent changes in the official parities have not been taken into account. For the Italian lira the change made in November 1947 in the official method of fixing the rate has actually brought the free valuation on the Swiss market very close to, and sometimes even above, the official rates. And, if the new parity of Fr.fcs 214.39 to the dollar and Fr.fcs 49.74 to the Swiss franc were taken as a basis, the quotation for French bank-notes would now bring the French franc into the second group. It is interesting to note that in both Italy and France the official devaluations, which for the former currency took place in November 1947 and for the latter in January 1948, did not really affect the quotations for bank-notes, which remained very much the same as before. The Swiss market obviously regarded the devaluation more as a rectification of an already existing situation than as introducing a new element.

While the Austrian Schilling is still at the bottom of the graph, the improvement during the first five months of 1948 was spectacular, following as it did upon the monetary reform carried through in the closing month of 1947.

In themselves, the quotations for bank-notes on the Swiss market cannot, of course, be regarded as accurately reflecting the intrinsic values of the different currencies; has not, indeed, the rise in the quotation for the dollar note to a position near par occurred simultaneously with a steady increase in the domestic price and cost level in the United States? In addition to the many political, fiscal and, in general, psychological considerations, some technical factors relating to the extent to which the bank-notes of a particular country can be used play a very important part. With few exceptions (one being Belgium), bank-notes may not be reintroduced into the issuing country, or the reimport is permitted only for very small amounts.

Furthermore, the basis of the graph is the Swiss franc. This currency, too, although in recent years the hardest in the world, is influenced by monetary and commercial factors, such as the increasing deficit in Switzerland's balance of trade and also certain technical changes with regard to the sale and purchase of gold on the Swiss market. Thus, in the autumn of 1947, the Swiss National Bank decided first to restrict and later to discontinue sales of gold coins and bars. This decision probably had a steadying effect on the quotation for the dollar note in Switzerland and also for the "financial dollar" (i.e. dollars from free balances in the United States, transferable as capital and dealt in through Swiss banks on the free Swiss exchange market, such dollars not falling into the categories in which funds are eligible for conversion into Swiss francs at official rates). The quotation for the financial dollar, which had been as low as Sw.fcs 3.00 = \$1 in 1945, rose slightly from Sw.fcs 3.65 in the middle of February 1947 to Sw.fcs 3.88 by the end of May; but by the end of August 1947 the quotation had fallen again to Sw.fcs 3.67. It was then that the sale of gold coins by the Swiss National Bank was reduced (before being discontinued as from 9th September). By the end of September the quotation for the financial dollar was above Sw.fcs 4.00 and at the end of December 1947 it reached Sw.fcs 4.15. In the early months of 1948 the movement has been irregular; the quotation dropped to Sw.fcs 3.95 in the middle of May 1948, recovering to Sw.fcs 4.05 on the last day of the month.

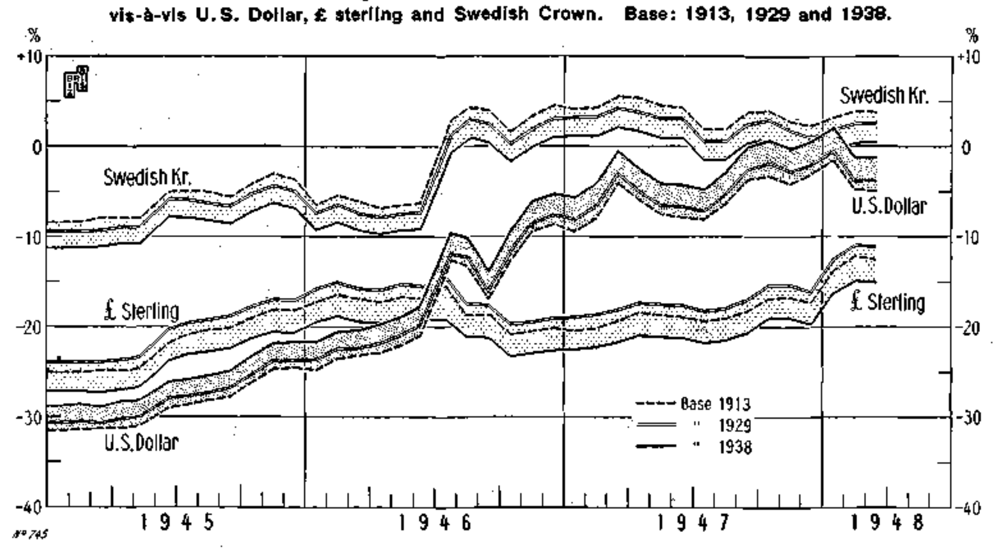
Between Switzerland and the United States, both without exchange restrictions, capital movements are completely free, although most of the funds transferred are not, as far as Switzerland is concerned, convertible at the par rate but at the rate for financial dollars; the fluctuations of the latter rate are in part a reflection of the extent of capital movements. Between the various members of the sterling area, with a few exceptions, capital movements are also free, the funds transferred being converted at the fixed official rates. (But they affect the monetary reserves of the countries between which the movements take place.) In markets which are separated from one another by exchange control all along the line (as is generally the case in Europe), capital movements are as a rule prohibited, except under special licence. This does not mean, however, that no attention need be paid to the capital account of the balance of payments: not only is it impossible to close every loophole against a flight of capital, but control can, at best, retain for a country such assets as are already within its jurisdiction, without being able, however, to force a movement of free capital into the area under control. Worse still, it usually deters people from bringing in funds which, under a system of freedom, would come willingly. Countries wishing to encourage foreign investment in their industries (with a view, for instance, to providing work for the unemployed) may find it in their interest to grant special privileges of retransfer to equity investments of foreign capital in particular enterprises. Such privileges have, for example, been granted by the Italian Government.

As regards countries outside Europe, the situation in China is rapidly deteriorating, the U.S. dollar being valued on 17th May 1948 at Chinese $474,000 in the open market, as compared with an official rate of Chinese $12,000 (as fixed in February 1947), the black-market rate being much higher. Nor has the monetary system been put in order in Japan as yet. There is no official rate of exchange for the yen; Allied personnel can obtain small amounts for local purchases on a restricted scale at Yen 50 = $1 but this rate does not claim to represent the intrinsic value of the Japanese currency. On the basis of export prices fixed by the Supreme Commander for the Allied Powers ("SCAP"), an average rate of Yen 174 = $1 could be calculated for November 1947, while black markets quoted rates of Yen 260–300 = $1 for ordinary dollar notes. In the Near East, on the other hand, a gradual improvement has been noticeable (reflected, inter alia, by somewhat lower quotations for gold coins at the beginning of 1948, cf. page 116).

* * *

The year 1947 was a year of mixed tendencies in the field of foreign exchanges also: obviously the position was rendered more vulnerable by the depletion of monetary reserves (and without the initiation of the European Recovery Program it could have become critical indeed). But in Italy and France modifications of the exchange régime meant the adoption of more realistic rates, and the trend of quotations for foreign bank-notes on the Swiss market points, on the whole, to a closer approximation of free to official rates. Such basic improvement as this approximation reflects is, indeed, in a large measure due to the various movements of commodity prices over the year and thus, in particular, to the increase by 15 per cent. in the level of wholesale prices in the United States with, as a rule, less pronounced increases in other countries (see the tables in Chapter IV, "Price Movements". By way of illustration, the influence of the various price movements on the purchasing-power parities of a particular country — Denmark — is indicated below (a graph from the seventeenth Annual Report of this Bank being brought up to date).

Purchasing-Power Parities of Danish Crown
vis-à-vis U. S. Dollar, £ sterling and Swedish Crown. Base: 1913, 1929 and 1938.



Thus, for the Danish crown, a state of balance has been fully attained in relation to the Swedish crown, almost attained in relation to the U.S. dollar and more nearly approached than a year ago in relation to the pound sterling.

In cases where the disparity between the internal purchasing power and the foreign value of a currency, as measured by its official rates of exchange, was too great — that being the case in, for instance, France — the rise in American prices could not, by itself, be expected to right the relation; and the solution then had to be some form of devaluation. But, in countries where the disparity is not very great, it is unlikely that the monetary authorities will make a major alteration in the parity as long as the upward movement of costs and prices in the United States continues at a rate of increase anything like that of 1947. This does not mean that the countries in question have reason to regard their own affairs or the situation in general with complacency. On the contrary, there are certain things they will be bound to do and others they would be well advised to avoid.

In the first place, they will have to take care not to allow their own domestic cost and price levels to rise at the same rate as those of the United States; for, if they did so, they would not be getting any nearer to a state of equilibrium.

Secondly, they have every reason to use the time at their disposal to restore balance in their internal cost and price structure. They may have to get rid of major distortions arising out of subsidies, etc. or the perpetuation of officially fixed low prices, liable to keep back an increase in the output of essential commodities.

Thirdly, they will naturally continue to deal with the problem of promoting all-round efficiency in order to bring down the (real) costs of production — the only way in which the national output and general welfare can be truly increased. Devaluation should, of course, never be regarded as a facile substitute for rationalisation.

Finally, more and more countries have taken steps to examine whether the over-all relation between the volume of money and the output of goods and services, between liabilities and assets, between earning power and spending at home and abroad, is such as to hold out the hope that permanent equilibrium will be attained in the not too distant future. As long as a sellers' market prevails, the course being still, on the whole, set for a boom, it may be comparatively easy to disregard many maladjustments; but, when the tide turns, dislocations and other troubles are likely to make themselves felt once more, as has happened so many times in the past. Some of the problems arising will clearly be international in character and will, therefore, have to be taken up for consideration by the international organisations which have been set up for such a purpose.

VII. Production and Movements of Gold.

The world output of gold in 1947 is estimated to have reached 27.7 million fine ounces, or practically the same quantity as in 1946, there having been relatively little variation since the big drop by nearly one-third, in 1944, from the peak of 41 million ounces in 1940.

World Output of Gold.

Years	Estimates in millions of ounces
1940	41.0
1944	28.0
1945	27.0
1946	27.6
1947	27.7

Behind the lack of variation in the world output from 1944 to 1947, however, there is a great diversity in trend in the different countries. In South Africa, which still accounts for 40 per cent. of the world's gold production, there was a certain acceleration in the continued decline (2.4 per cent. in 1946; 6 per cent. in 1947), while in some of the other producing areas — Canada, United States and Australia — output again increased (for all of them together, at the rate of 23 per cent. in 1946 and 18 per cent. in 1947). The estimated world production of gold, including a conjectural amount of 4 million ounces for the U.S.S.R., was equal to $970 million in 1947; excluding the output of the U.S.S.R., Japan and Korea, for which no exact figures are available, the total would be about $800 million.

The outstanding movement of gold in 1947 was reflected in an increase of $2,225 million in the gold reserves of the United States — the largest addition on record, apart from those which occurred in the first two years of the second world war, when the monetary gold stock of the United States increased by $3,132 million (in 1939) and by $4,351 million (in 1940).

Only three other countries reported an increase in their gold holdings for 1947 ($53 million for Cuba, $10 million for Hungary and $5 million for Austria). It is likely that the U.S.S.R. also was able to increase its gold reserves; the equivalent of $28 million was received by the United States from Russian exports, while domestic output is estimated to have been at the yearly rate of $140 million.

A further large recipient of gold was the International Monetary Fund, which in 1947 received the equivalent of $1,341 million as initial contributions from member countries. Together with $15 million received in 1946, the Fund's holdings of gold amounted to $1,356 million at the end of 1947. So far none of this gold has been used, but dollar drawings, which in 1947 amounted to $462 million, have been financed by the Fund through the realisation of demand notes of the U.S. Treasury, in which the bulk of its dollar holdings have been invested.

The combined increase in the United States monetary gold reserves and the gold holdings of the International Monetary Fund, amounting to $3,566 million, had as its counterpart, on the one hand, a net loss of about $2,700 million in the monetary reserves of countries other than the United States and, on the other hand, the newly-produced gold, of which the major part — some $600 million — would seem to have been absorbed into monetary reserves (including those of the U.S.S.R.). This would leave about $350 million for net industrial consumption and accretions to private hoards in the East and elsewhere — a figure which, however, may well be too low, since movements out of unpublished reserves may not have been fully taken into consideration.*

Output of Gold.

The amount of gold produced in the U.S.S.R. is still an unknown quantity, no data having been published either on current output or on the country's monetary reserves. In the table on World Gold Production the

World Gold Production.

Gold-producing countries	1929	1940	1944	1945	1946	1947
	Weight, in thousands of fine ounces					
Union of South Africa	10,412	14,038	12,277	12,214	11,918	11,198
Canada	1,928	5,311	2,923	2,697	2,832	3,069
United States (1)	2,208	6,003	1,022	929	1,625	2,321
Australia	426	1,644	658	657	824	875
British West Africa	208	939	545	548	586	630
Rhodesia	562	833	593	568	545	552
Mexico	652	883	509	499	418	400*
Colombia	137	632	554	507	437	383
Belgian Congo	173	555	356	343	320	308
Nicaragua (2)	12	155	225	200	182	210
Chile	26	343	204	179	231	200
India	364	289	187	170	131	173
Peru	121	281	175	173	160	160*
Brazil	107	264	178	195	170	134
New Zealand	120	186	142	125	131	100
Venezuela	43	147	59	58	50	50*
Other Countries (3)	1,701	8,497	7,393	6,938	6,940	6,937
Estimated world production	19,200	41,000	28,000	27,000	27,500	27,700
	Value, in millions of dollars (4)					
Value of Estimated World Production	672	1,435	980	945	963	970

* Provisional. (1) Including Philippine Islands production received in the United States.
(2) Gold exports representing about 90 per cent of gold production. (3) Estimated.
(4) At the present rate of $35 per ounce of fine gold.

* In the seventeenth Annual Report it was suggested that in 1946 the newly-produced gold had almost all "disappeared" (i. e. gone elsewhere than into published or unpublished monetary reserves), some of it being accounted for by an increase in the industrial use of gold (in the jewellery trade, etc.), but the largest part having found its way into private hoards in Europe and Asia. At the time of writing, no figures had yet been published for the amounts of gold and dollars held by the British Equalisation Account at the end of 1946, but it is now possible to estimate that the gold reserves of the United Kingdom increased by some $445 million in that year. Account being taken of this increase and also of the increase of $182 million in the Exchange Fund of Canada, it would seem as if gold available for industrial uses or entering private hoards might be put at perhaps $400 million for the year 1946. This is, however, a residual figure and, as mentioned in an informative article on "The Post-War Drain on Foreign Gold and Dollar Reserves" in the *Federal Reserve Bulletin* for April 1948, "no degree of precision can be claimed" for such a figure. (In that article a sum of around $700 million is given as presumably representing net industrial consumption and accretions to private hoards for the two years 1946 and 1947 together.)

figure of 4 million ounces has been retained as the probable output for 1947, this being the annual amount assumed to have been produced during the war, whereas higher estimates were made for the pre-war years, viz. 6.5 million ounces for 1936 and 5.8 million ounces for 1938. While it is possible that during the war years an output of 4 million ounces may not always have been reached (the U.S.S.R. suffering just as much as other countries from a scarcity of labour in those years), during the post-war period there have been reports concerning new gold discoveries in parts of Siberia; and the Soviet authorities very likely take into account the fact that gold has preserved its efficacy as an international means of payment, of value both in peace and in war, so that gold production is probably looked upon with favour, although shortage of new equipment may make it difficult to bring mines into full production.

To understand the diversity which characterises the post-war trend of gold output in the different countries, it is necessary to revert to the fact that the causes of the wartime decline in gold production were not the same in all countries.

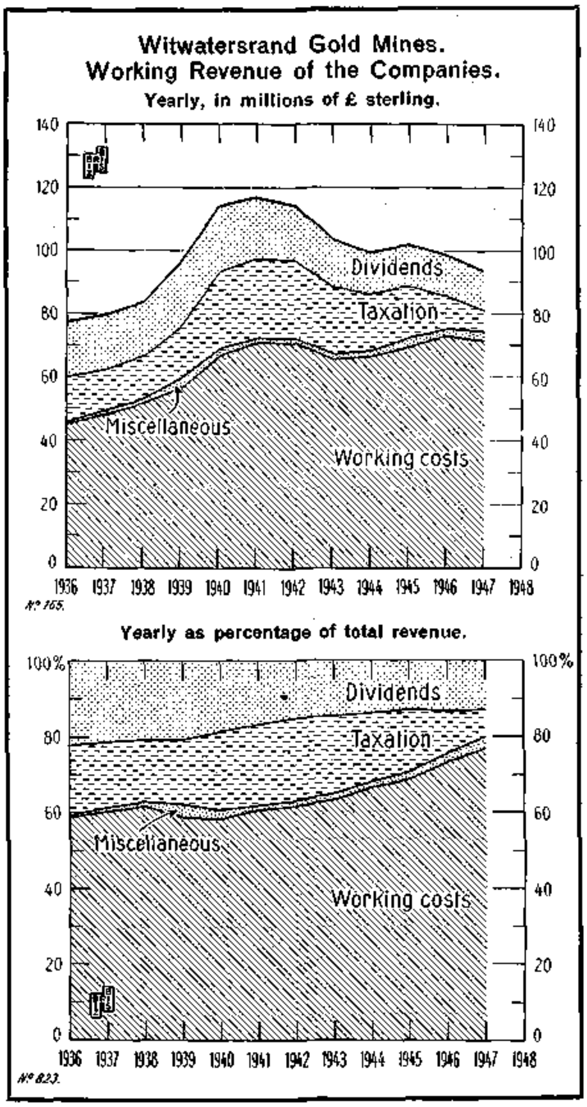
Trend of Gold Output in Various Countries.

Region	1940	1945	1946	1947	
	in percentages				value in millions of $
A. Union of South Africa	100	87	85	80	392
B. Three other main gold producers:					
Canada	100	51	53	58	107
United States	100	15	27	39	81
Australia	100	40	50	53	31
Total A + B	100	61	64	65	611
C. Latin American countries	100	67	61	57	54
D. Other countries	100	77	76	77	305
Total A to D	100	66	67	68	970

In the United States, Canada and Australia — three important gold-producing countries — the production of gold was largely curtailed by direct action on the part of the governments in stopping or reducing operations at the mines in order to transfer men to enterprises of immediate importance for the war effort. This policy was not carried to anything like the same lengths in South Africa, since that country was largely dependent on the gold industry and its gold output represented an indirect but very important contribution to the war effort of the whole British Commonwealth. There, gold production was curtailed mainly by the shortage of labour as men joined the fighting forces or became increasingly employed on specific forms of war production. While in South Africa the gold output was reduced by 13 per cent. between 1940 and 1945, the combined output of the United States, Canada and Australia fell by as much as 67 per cent.

The continued rise in costs and prices since 1945 has meant a general increase of pressure, eliminating marginal mines and hampering the expansion of production. In the United States, Canada and Australia, however, the reopening of idle mines has ensured an increase in production, although the gold output in each of these countries is still far short of the pre-war level.

In South Africa, on the other hand, as a consequence of keeping up production during the war, there were no idle mines to be brought into operation, and output continued to decline under the influence of increased costs, the price of gold remaining substantially unchanged. Working costs per ounce of fine gold produced had risen from 88s. 4d. in 1938 to 127s. 4d. in 1946, and, for a time, it looked as if costs could be stabilised near the latter figure; but towards the end of 1947 there were signs of a renewed increase, which carried costs to 130s. 10d. per ounce in the last month of the year. The rise in the cost of living tends to reduce the available supply of native labour and is, in general, a cause of difficulties in labour relations. In February and March 1947 production was partially interrupted by labour strikes, the output for February falling to 572,720 ounces and for March to 815,157 ounces, as compared with a normal monthly production of around 950,000 ounces.



In a statement at the annual general meeting of the South African Reserve Bank in August 1947, the Governor emphasised the abstention of the Union from dealings in free and black markets for gold and pointed out that selling at a premium could completely undermine the Bretton Woods Agreements. Other steps had to be taken; as an alleviation, the wartime imposition of taxation absorbing, at the beginning of the war, nearly 22 per cent. of the total amount realised by gold sales was abolished in February 1947 and replaced by a new tax, which reduced the percentage of taxation to about 7 per cent. and also made it possible to speed up writings-off. These concessions have not, however, completely overcome the difficulties of the mines; further efforts have to be, and are being, made to lower working costs. This is the more important since the South African gold industry has continually to apply new methods, especially with regard to ultra-deep mining. New veins of gold

Operating Statistics of the Transvaal Chamber of Mines.

Year	Production		Working revenue		Working costs			Working profit		Dividends	
	Ore milled	Gold output									
	Million tons	oz. millions	Total £ millions	Per ton s. d. (1)	Total £ millions	Per ton £ s. (1)	Per oz. s. d. (2)	Total £ millions	Per ton s. d. (1)	Total £ millions	Per ton s. d. (1)
1936	49.2	11.0	77.4	32 1	45.3	18 9	82 3	32.0	13 4	17.2	7 2
1937	50.7	11.3	79.7	31 6	48.0	18 11	84 9	31.7	12 7	17.0	6 9
1938	53.8	11.7	83.6	31 1	51.7	19 3	88 4	31.9	11 10	17.2	6 5
1939	58.3	12.4	92.3	31 8	56.6	19 5	91 8	35.7	12 3	19.9	6 10
1940	64.5	13.5	114.2	35 5	66.7	20 8	98 6	47.5	14 9	21.1	6 6
1941	67.3	13.9	117.0	34 9	71.1	21 2	102 6	45.8	13 7	19.4	5 9
1942	67.0	13.6	114.5	34 2	70.8	21 2	104 4	43.7	13 0	17.5	5 3
1943	60.0	12.3	103.6	34 7	65.7	21 11	106 11	37.9	12 8	15.3	5 1
1944	58.5	11.8	99.6	34 1	66.7	22 10	112 11	32.9	11 3	13.6	4 8
1945	58.9	11.8	101.8	34 7	69.9	23 9	118 10	31.9	10 10	13.1	4 5
1946	56.9	11.5	99.3	34 10	72.9	25 7	127 4	26.3	9 3	13.4	4 9
1947	53.7	10.7	92.7	34 7	71.3	26 7	133 4	21.4	8 0	11.8	4 5

(1) Per ton of ore milled. (2) Per ounce of gold won.

have been discovered, but it takes time and money to bring a new mine into production; it is estimated that to do so requires about double the expenditure which was needed before the war, while the price of gold has remained unchanged.

In spite of the upturn in production in the United States since 1945, the output of gold in 1947 was still 61 per cent. below the pre-war peak reached in 1940.

In Canada the improvement in production has been somewhat quicker, the country being more dependent on its output of gold, especially at a time of pronounced shortage of U.S. dollars. In November 1947 the Canadian Finance Minister announced a project for a subsidy to gold production, intended to prevent further decline in the country's gold mining as a consequence of increased operating costs, and began consultations with the International Monetary Fund and with the U.S. Government, which, as the principal buyer of gold, was naturally interested in the matter. In the course of these discussions, the Fund took the position that a subsidy of a fixed amount per ounce of gold produced would be in violation of its Articles of Agreement, which prohibit members from buying gold at a price above par value (plus an agreed margin). In deference to the Fund's objection, the Canadian Government revised its proposal so that the subsidy would be used to defray part of the increased costs of production and would vary with the costs of individual producers. The payment will be determined by taking half of the amount by which the mines' current costs of gold production for each fine ounce exceeds $18 an ounce, and applying this to the amount by which production exceeds two-thirds of that during the year ending 30th June. In the case of new mines, payment will be made on the entire production in the first year and, in the succeeding two years, on the amount by which production exceeds two-thirds of the first year's output. Assistance will be given for three years, applying to production since 1st December 1947.

On 11th December 1947, the International Monetary Fund issued a policy statement, which emphasised the necessity for member consultation with the Fund in all matters relating to gold subsidies, since such subsidies might threaten to undermine exchange stability or change the par values of currencies as expressed in gold. The Fund also believed that such subsidies were objectionable, for example, "if subsidies were to cast widespread doubt on the uniformity of the monetary value of gold in all member countries". The Fund would deal with each particular case as it arose, and it came to the conclusion that, "in the present circumstances", the proposed Canadian action was not inconsistent with the policies pursued by the Fund. On the following day the Secretary to the Treasury Department of the United States, on behalf of the National Advisory Council, issued a statement approving of the position taken by the International Monetary Fund, and announcing, in particular, that "the United States would view with disfavour any tendency for countries to become dependent on subsidised gold production as a solution to the problem of arriving at and maintaining equilibrium in their balances of international payments". The Secretary stated at the same time that the National Advisory Council did not believe there was any reason for granting a subsidy to gold production in the United States.

Gold production in Australia has largely overcome the bottlenecks formed by shortage of labour, machines and material but is still suffering from financial difficulties. Proposals have been put forward for the reduction of railway freights and also for the granting of direct subsidies. The problems are being studied by experts, and it is understood that, before any final decision is taken, the International Monetary Fund will be consulted.

In the other gold-producing countries there are unmistakable signs of stagnation and in several the output fell in 1947 in comparison with 1946. More and more governments are trying to support the gold industry by indirect subsidies such as the financing of technical research, reduction in taxation and the introduction of preferential railway rates, etc.

The decline in the output of gold in a large number of countries and the increasingly widespread practice of granting direct and indirect subsidies to the gold industry are signs of a tension caused by the rise in the costs of current work and the still greater rise in the cost of installing new equipment.

Movements of Gold.

The onesidedness of recent gold movements is brought out by the following table, which shows the United States and the International Monetary Fund to have been the two principal — almost the sole — net recipients of gold in 1947.

Gold Reserves of Central Banks and Governments
(including International Institutions).

Reporting Countries	End of 1938	End of 1944	End of 1945	End of 1946	End of 1947	Loss (−) or gain (+) during 1947	Loss (−) or gain (+) during 1938–1947
	in millions of U.S. dollars						
United States (1)	14,512	20,619	20,065	20,529	22,754	+ 2,225	+ 8,242
Cuba	•	111	191	226	279	+ 53	+ 279
Hungary	37	24	24	24	34	+ 10	— 3
Austria	88	0	0	0	5	+ 5	— 83
Brazil	32	329	354	354	354	0	+ 322
Canada (2)	192	6	7	7	7	0	— 185
Egypt	55	52	52	53	53	0	— 2
India	274	274	274	274	274	0	0
Iran	26	128	131	127	127	0	+ 101
Italy	193	24	24	28	28	0	— 165
Spain	525(3)	105	110	111	111	0	— 414
New Zealand	23	23	23	23	23	0	0
Venezuela	52	130	202	215	215	0	+ 163
Peru	20	32	28	24	20	— 4	0
Denmark	53	44	38	38	32	— 6	— 21
Norway	94	•	80	91	72	— 19	— 22
Chile	30	79	82	65	45	— 20	+ 15
Uruguay	69	157	195	200	175	— 25	+ 106
Netherlands	998	500	270	265	231	— 34	— 767
Colombia	24	92	127	145	83	— 62	+ 59
Turkey	29	221	241	237	170	— 67	+ 141
Switzerland (4)	701	1,159	1,342	1,430	1,356	— 74	+ 655
Mexico	29	222	294	181	100	— 81	+ 71
Belgium (5)	728	732	716	735	597	— 138	— 131
South Africa	220	814	914	939	762	— 177	+ 542
Sweden	321	463	482	381	105	— 276	— 216
France (6)	2,430	1,777	1,090	796	548	— 248	— 1,882
United Kingdom (7)	2,690	1,855	1,925	2,380	1,855	— 525	— 835
Argentina	431	992	1,197	1,072	319	— 753	— 112
International Monetary Fund	—	—	—	15	1,356	+ 1,341	+ 1,356
Bank for International Settlements	14	37	39	32	30	— 2	+ 16
Reserves: (8)							
Reported	25,700	32,000	32,100	32,600	33,500	+ 900	+ 7,800
Unreported	*	4,300	4,900	4,900	4,600	— 300	*
Total	*	36,300	37,000	37,500	38,100	+ 600	*

(1) Not including gold held in the Exchange *Stabilization Fund:* \$ 80 million end of 1938, \$12 million end of 1944, \$18 million end of 1945, \$177 million end of 1946 and \$ 114 million end of 1947.

(2) In May 1940, gold belonging to the Bank of Canada was transferred to the Foreign Exchange Control Board. Since then gold reported is gold held by the Ministry of Finance. Gold held by the Foreign Exchange Control Board amounted to \$354 million end of 1945, to \$536 million end of 1946 and to \$ 287 million end of 1947.

(3) End of April 1938.

(4) Including gold owned by the Swiss Government.

(5) Not including gold held by the Treasury: \$44 million end of 1938 and \$17 million end of 1944 and 1945.

(6) Not including gold held by the Exchange Stabilisation Fund and the Caisse Centrale de la France d'outre-mer: \$331 million end of 1938, \$214 million end of 1944 and \$457 million end of 1945. No corresponding figures published for 1946 and 1947.

(7) Partly estimated.

(8) Partly estimated, and including other countries.

As shown by the table, the monetary gold stock of the United States increased by $2,225 million in 1947. In that year, however, net sales of gold by other countries to the United States amounted to $2,836 million, the difference being accounted for by the fact that the United States used substantially that amount of the newly-acquired gold for its initial payments in gold to the International Monetary Fund, this payment being equivalent to $687.5 million.

In 1946, the net sales of gold to the United States amounted to $705 million and for the two years 1946 and 1947 together they totalled $3,541 million. In the number of the Federal Reserve Bulletin for April 1948 a table is given setting out the international transactions affecting foreign gold and dollar holdings in the United States.

Despite the scale on which gold was shipped to the United States in 1946 and 1947, the shipments paid for only one-sixth of the net purchases of goods and services in the United States during those two years,

International Transactions affecting Foreign Gold Reserves and Banking Funds in the United States.

Items	1946	1947	Aggregate for 1946-1947
	In milliards of dollars		
Net purchases of goods and services from the United States by other countries:			
U.S. exports of goods and services	15.3	19.6	34.9
U.S. imports of goods and services	7.1	8.3	15.5
Net U.S. sales to other countries	8.1	11.3	19.4
Sources of financing utilised by other countries for their net purchases in the United States:			
U.S. Government (net): Credits	2.9	4.1	7.0
Donations	2.4	1.7	4.1
Total U.S. Government	5.3	5.8	11.1
Private (net): U.S. foreign investments	*	0.6	0.6
Donations	0.7	0.7	1.4
Total private	0.7	1.3	2.0
International Institutions (net):			
a. Dollars disbursed by International Bank	—	0.3	0.3
b. Dollars drawn from International Monetary Fund	—	0.5	0.5
Total international institutions	—	0.8	0.8
Foreign countries' own capital assets (net):			
a. Sales of gold to the United States	0.7	2.8	3.5
b. Reduction of banking funds in the United States	1.1	1.2	2.3
c. Liquidation of other assets in the United States	0.4	0.5	0.9
Total foreign countries' own capital assets	2.2	4.5	6.7
Total Sources of Financing	8.3	12.3	20.6

Note: In the above table, the International Bank for Reconstruction and Development and the International Monetary Fund are shown among the sources to which foreign countries have resorted for net purchases in the United States. On the other hand, transactions between the U.S. Government and the International Bank and the Monetary Fund are not included in the table. No account has been taken of 22 million dollars in gold and 75 million in U.S. dollars paid by other countries than the United States during 1946—47, upon their subscriptions to the International Bank for Reconstruction and Development.

while the three items: "sales of gold", "reduction of banking funds" and "liquidation of other assets in the United States", constituting the use of capital assets, covered just over one-third. Gold movements during 1946 and 1947 must be viewed in the light of what happened at the beginning of, and in the course of, the 1939–45 war. The gold holdings of the United States increased steadily up to the end of 1941 when they reached an end-of-year peak of $22.7 milliard. At that date other countries would seem to have had, together, a total of $10 to 11 milliard, and the United States thus possessed about 70 per cent. of the world's monetary gold stock. In the autumn of 1941, lend-lease operations began to provide for a growing proportion of the requirements of the allies of the United States — especially the European allies — and at the same time many of the Latin American countries found it impossible to spend more than a part of their current dollar earnings, since the goods they wanted to import were in short supply. While the war continued, the gold reserves of the United States declined; thus, at the end of 1945, they stood at $20.1 milliard, the gold reserves of other countries having risen to about $16 milliard. But the movements in the two following years reversed the trend once more: by the end of 1947 the United States held $22.8 milliard, while the gold holdings of the rest of the world had declined to about $13 milliard.

In addition to gold, many countries hold foreign currencies, especially dollars, as part of their monetary reserves. According to the table on page 111, the amount of banking funds held in the United States was reduced by $1.1 milliard in 1946 and by $1.2 milliard in the following year, the reduction for the two years together actually accounting for nearly two-fifths of the combined losses of gold and banking funds. The data given in the April 1948 number of the Federal Reserve Bulletin (already referred to above) have made it possible to compile the following comprehensive table of gold and banking funds held by the different countries at the end of 1945 and 1947.

Of their combined gold and dollar holdings, Europe and Latin America each lost about one-quarter; but, although most countries were losers, there was a great difference in the size of the losses. Proportionately, the biggest drop is shown by Sweden (with a reduction of 76 per cent.), followed by France (63 per cent.) and Norway, Canada and the Argentine (59 per cent. each). The fall in gold and dollar balances does not, of course, tell the whole story of the amounts used by individual countries to cover deficits in their balances of payments. For that purpose France, for instance, is reported to have spent over $4 milliard between the summer of 1945 and the end of 1947, of which less than one-third is accounted for by the reduction shown in the above table. For 1946 and 1947 the United Kingdom had a current deficit of £1,055 million (say, $4,200 million), while the reduction shown in the above table is only a fraction (about 7 per cent.) of this amount. In the "Economic Survey for 1948" of the British Government the net drain on gold and dollar reserves in 1946 and 1947, including U.S. and Canadian credits, was put even higher, at £1,249 million (equal to about $5,000 million); but this included certain amounts paid on account of the sterling area. Account must, however, be taken of drawings in 1947 on the International Monetary Fund to the extent of $240 million, by which the gold reserves were pro tanto reconstituted.

Under an agreement with South Africa, the latter country undertook to sell gold to the United Kingdom to the value of £80 million in each of the years 1946 and 1947, while the British authorities agreed to cover South Africa's foreign exchange requirements. Under a new agreement, of October 1947, South Africa placed 9,275,000 ounces of fine gold (equivalent to £80 million) at the disposal of the British Government as a loan, this being a net figure, since South Africa was to assume responsibility for its own supply of hard currencies. It will be seen from the table that the gold and dollar

Change in Central Gold Reserves and Foreign Banking Funds in the United States.

Region	End of 1945			End of 1947			Change in total from end of 1945 to end of 1947	
	Gold reserve	Banking funds in U.S.A.	Total	Gold reserve	Banking funds in U.S.A.	Total	in millions of dollars	in percentages
	in millions of dollars			in millions of dollars				
United Kingdom	1,966	755	2,721	2,025	399	2,424	— 297	— 11
France (and dependencies)	1,577	518	2,095	570	195	765	— 1,330	— 63
Netherlands (and N.W. Indies)	421	310	731	255	158	413	— 318	— 44
Belgium - Luxemburg (and Belgian Congo)	749	247	996	613	168	781	— 215	— 22
Switzerland	1,342	304	1,646	1,356	446	1,802	+ 156	+ 9
Sweden	482	210	692	105	59	164	— 528	— 76
Norway	100	216	316	72	56	128	— 188	— 59
Other countries in E.R.P.	1,036	275	1,311	782	425	1,207	— 104	— 8
Total E.R.P. countries	7,673	2,835	10,508	5,778	1,906	7,684	— 2,824	— 27
Rest of continental Europe (excluding U.S.S.R.)	690	77	767	688	153	841	+ 74	+ 10
Total Europe (excluding U.S.S.R.)	8,363	2,912	11,275	6,466	2,059	8,525	— 2,750	— 24
U.S.S.R.	2,250	28	2,278	2,575	74	2,649	+ 371	+ 16
Union of South Africa	914	6	920	762	46	808	— 112	— 12
Remainder of sterling area (excluding U.K.)	471	106	577	446	153	599	+ 22	+ 4
Canada and Newfoundland	361	1,366	1,727	294	410	704	— 1,023	— 59
Total Latin America	2,768	1,008	3,776	1,653	1,194	2,847	— 929	— 25
Argentina	1,197	77	1,274	289	236	525	— 749	— 59
Brazil	354	195	549	354	105	459	— 90	— 16
Mexico	294	116	410	100	139	239	— 171	— 42
Cuba	191	128	319	279	235	514	+ 195	+ 61
Rest of Latin America	732	492	1,224	631	479	1,110	— 114	— 9
Rest of the World (excluding U.S.A.)	828	1,643	2,471	685	916	1,601	— 870	— 35
Total for the World (excluding U.S.A.)	15,955	7,069	23,024	12,881	4,852	17,733	— 5,291	— 23
United States	20,065	—	20,065	22,754	—	22,754	+ 2,689	+ 13
World Total (including U.S.A.)	36,020	7,069	43,089	35,635	4,852	40,487	— 2,602	— 6

holdings of South Africa decreased by $112 million during the two years 1946 and 1947 — a decline clearly due to increased imports of American goods.

For the sterling area as a whole, newly-mined gold in 1938 could pay for about one-third of that area's imports from the western hemisphere. As a consequence of the fall in gold production, on the one hand, and the rise in commodity prices, on the other, the newly-produced gold of the area has lost as much as two-thirds of its pre-war purchasing power.

From the end of 1945 to the end of 1947 Sweden used $528 million of its gold and dollar reserves to meet balance-of-payments deficits, which for 1946 totalled S.Kr. 365 million on current account and S.Kr. 230 million as capital export (say, together S.Kr. 600 million), and for 1947 about S.Kr. 1,400 million on current account, the aggregate of the deficits in these two years being equivalent to $550 million; thus almost the whole of the deficits led to payments in gold or dollars. Norway's loss of gold and foreign exchange is mainly connected with heavy outlay for reconstruction purposes (see page 55).

The sharp reduction in the gold and dollar reserves of Canada calls for special explanation. Notwithstanding heavy outlay for extraordinary capital development and consequent large imports of capital goods, Canada has not had a deficit on the current account of its balance of payments with the world as a whole; both in 1946 and in 1947 it exported more goods and services in toto than it imported. But, in 1947, Can.$560 million of Canadian sales to other countries were financed out of drawings on Canadian export credits, and roughly Can.$40 million out of Canadian relief appropriations. Thus, for approximately Can.$600 million of Canadian sales there was no immediate cash return while, for all but, perhaps, Can.$70 million of its own purchases from other countries, Canada had to pay cash. This gave rise to a cash deficiency of some Can.$530 million and a corresponding drain on the foreign exchange reserves which, together with the payment of Can.$74 million as subscription to the International Monetary Fund plus reductions of holdings of Canadian bonds outside the country and other net capital payments abroad, accounted for the over-all reduction of Can.$743 million in Canada's gold and foreign exchange reserves during 1947. The annual report of the Bank of Canada for 1947 mentions that more than three-quarters of the total credits granted in earlier years had been drawn upon by the end of 1947, and adds that:

> "Proposals with regard to a European Recovery Program by the United States are, of course, of great interest to Canada. Implementation of such a program would not remove the need for Canada to increase the present small current account surplus in her over-all balance of payments. We need to increase this surplus if we are to be able to build up our exchange reserves to a more normal level and extend aid to other countries even on a much smaller scale than in recent years. What a European Recovery Program could do, in the short run, is to facilitate the continuance of Canadian shipments to western European countries where they are badly needed; and without such a program the exchange problem of Canada, and indeed of practically all other Western Hemisphere countries, would be greatly aggravated. But

we have an even greater interest in the long-run implications of a European Recovery Program. When the present unusually heavy demand for goods has declined, Canadian exports and employment will be influenced to an important degree by the extent of recovery in Europe. We are, therefore, vitally concerned with any program which will help to strengthen the European economy and re-establish it as a substantial factor in normal international trade."

The Argentine is estimated still to have had, in 1946, a surplus of Pesos 239 million in its balance of payments but in the following year imports rose sharply. A preliminary estimate for 1947 puts the adverse balance as high as Pesos 2,000 million and, in relation to the United States, at a figure of Pesos 3,366 million (equal to about $1,000 million). Credits granted to Spain, France, Italy, Chile, Bolivia, Roumania and the Netherlands, the repatriation of overseas debts and the repurchase of foreign investments in the Argentine entailed a further drain on the reserves.

For the Argentine, transactions with the United Kingdom and other sterling-area countries also play a considerable part but, at the time of writing, detailed figures for 1947 are not available. Indeed, in many countries, the composition of the reserves is such that account has to be taken of other currencies than dollars; but the dollar shortage arising from the large export surplus of the United States has, in recent years, concentrated attention on gold and dollar holdings. Apart from a sale to the Netherlands of £1.5 million (equivalent to $6 million), the transactions in which the International Monetary Fund has engaged have been all in dollars.

Dollar Drawings on the International Monetary Fund.

Country	Maximum right of drawing in any twelve-month period	Amount drawn in 1947
	in millions of dollars	
United Kingdom . .	325.0	240.0
France	131.3	125.0
Netherlands	68.8	46.0
Belgium	56.3	11.0
Mexico	22.5	22.5
Denmark	17.0	3.4
Chile	12.5	8.8
Turkey	10.8	5.0
Total . . .	644.2	461.7

During the first quarter of 1948, total dollar drawings from the Fund amounted to a further $132 million, of which $60 million was taken by the United Kingdom.

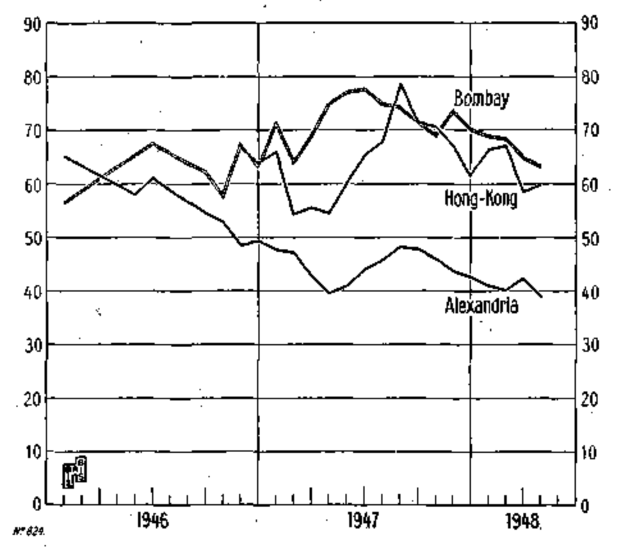
* * *

The loss of $5,300 million in gold and banking funds by countries other than the United States during 1946 and 1947 has not as a rule had much effect in restricting credit in the countries which lost gold. In some countries inflation went ahead and the decline in reserves was partly a consequence of an expansion of monetary purchasing power on the home market and of the rise in domestic prices. When the gold is held by an exchange fund (as is now the case in many countries), the amounts in national currency derived from sales of gold by the fund are generally reinvested on the market or directly placed at the disposal of the Treasury. Thus they are not withdrawn from active employment, as has been the tendency when gold and dollars have been sold by a central bank. It is true that a central bank could — by giving support to the government bond market, for instance — itself neutralise any restriction of the volume of domestic credit; but this would require the taking of special steps, and such a policy would be likely to meet with resistance within an institution whose function it is to safeguard the value of the national currency. In present circumstances such measures can only be "anti-inflationary" in character, there being no question of causing a deflation; but it is imperative that, in the monetary sphere, a serious attempt should be made to establish conditions calculated to act as a check on the loss of gold and dollars.

In the United States — the main recipient of the gold and dollars — the result of the inflow of gold has been to add substantially to the capacity of the banking system to extend credits. The newly-acquired gold goes, as usual, to the Treasury, which issues "gold certificates" and credits them to the account of the Federal Reserve Banks; and this has the effect of expanding — at the same time and by a corresponding amount — the deposits of commercial banks, the reserves of those banks with the Federal Reserve Banks, and the monetary reserves of the Federal Reserve Banks themselves.

In general, a decline in foreign dollar balances has a similar effect. The Federal Reserve Bulletin mentions that the net reduction in foreign banking funds during the two years 1946 and 1947 is accounted for by a decline of about half a milliard dollars in deposits held by foreign central banks and governments with the Federal Reserve Banks, and by the liquidation of about $1.7 milliard in foreign holdings of U.S. Government securities. It is only with regard to the latter that an expansion might not always follow, since the effect in that case depends upon the purchaser of the securities — whether the Federal Reserve Banks, the commercial banks or others. On most occasions, however, it would seem that foreign sales have necessitated additional purchases by the Federal Reserve Banks, and in that way the credit base has been further expanded. The inflow of gold and the reduction in foreign dollar balances have thus been two of the factors contributing to the relative ease of conditions in the American money market.

Price of Gold on Various Markets.
Free-market price given at $ rate for bank-notes, in U.S. dollars per fine ounce.

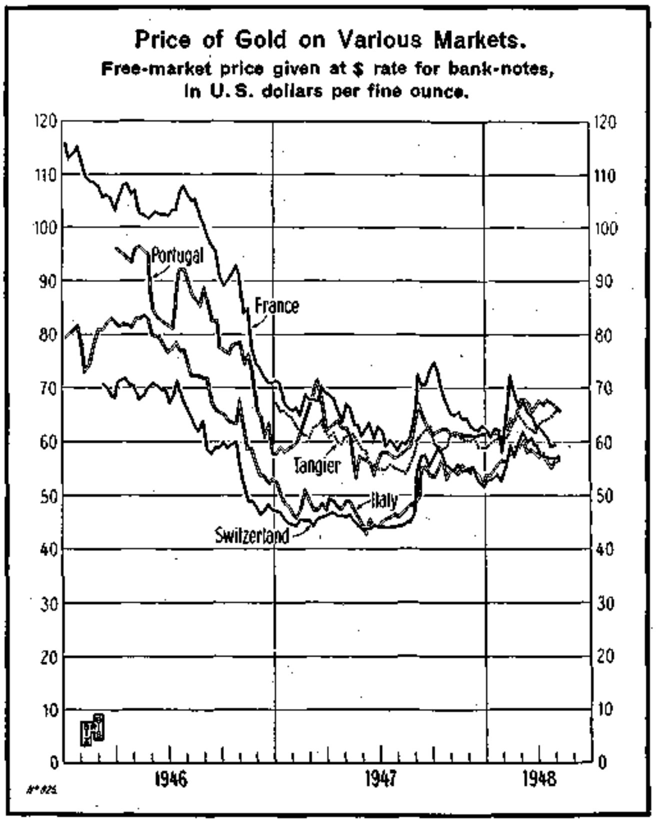


Hoarding of Gold.

The post-war world has seen a recrudescence of the hoarding of gold, which has been intensified by monetary uncertainty and a desire to possess, for political or other reasons, durable and easily transportable assets which can be sold without difficulty in almost any market, and will thus retain their purchasing power under almost any circumstances.

In the East, hoarding of gold (and silver) has been practised for centuries. In the fifty years before the first world war, shipments to India and China usually absorbed more than a quarter of the world's current production of gold — a welcome outlet when, after the discovery of the deposits in the Transvaal, the output became sufficiently abundant to cause a steady rise in prices, the level being pushed up by about 30 per cent. between, say, 1895 and 1914. But, when gold becomes scarce in relation to the value of the goods to be moved and the deficits in the balances of payments to be covered, then "the sink in the East" puts a strain on the monetary system (though it should not be forgotten that dishoarding of eastern gold in the years 1931–34 helped to ease monetary conditions in the West during the critical period).

In the course of the second world war, the demand for gold by eastern countries began to increase, and some gold is reported to have been sold at the time by governments in the West, which found this a cheaper way of procuring local currencies than buying them via the exchanges. Since the war, Hong Kong, Alexandria, Bombay, Manila, Tangier, Macao and Beirut have emerged as important markets for gold, most of them applying a more or less highly developed technique of international arbitrage.



But, in the West also, gold has been sold to the public, and there have been regular quotations for various kinds of coins and for gold in bars on free, semi-free or black markets.

The graphs show the quotations in Switzerland, Belgium, France, Italy and Portugal, in addition to the prices quoted in a number of eastern markets (Bombay, Hong-Kong and Alexandria, see graph on the opposite page). Greece and Tangier are in a sense borderline cases: they serve partly as links between East and West in the movement of gold.

It will be seen from the second graph that, in the European countries, quotations for gold fell steadily until the middle of 1947; the same was the case in many of the eastern markets, with the exception, however, of Bombay, where prices stiffened appreciably in the spring of 1947.

At this point it may be asked where the free, semi-free and black markets obtained their supplies. The movements of gold from one country to another were rarely on a larger scale than during 1947 and the early months of 1948, but during this period nearly all the movements were on official account, being the outcome of direct arrangements between central banks and governments, without any dealings in private markets. In some cases, however, the monetary authorities (central banks and governments) have placed gold at the disposal of such markets out of their official reserves.

At the end of 1945 a so-called "export float scheme" was introduced by the Bank of England in order to revive the London gold market to some extent. An initial quota of about 50,000 ounces was put at the disposal of the market, the intention being that it should be exported, but only in the form of processed and manufactured gold, which would yield a return in foreign exchange beyond the bare value of the bullion.* The "float" was gradually increased to 100,000 ounces, but the original scheme was revised with restrictive effect at the time of the convertibility crisis in August 1947 and, by the end of that year, a stricter system of allocating export licences was in operation. By the spring of 1948 the business transacted under the scheme is said to have become almost negligible.

As a further measure, towards the end of 1946, the Bank of England began to permit purchases and sales of gold against U.S. dollars, provided that the London dealers acted as intermediaries between principals outside the sterling area. Supplies for this traffic came largely from Mexico, from Central and South America and from pre-war gold deposits still maintained in London by non-residents, while most of the demand came from the Middle and Far East. It is reported that gold could be bought from Central America at between 10 and 20 per cent. above the U.S. Treasury price of $35 per ounce, while the ultimate buyers in the Middle and Far Eastern countries at times paid premiums up to 50 per cent. on the U.S. parity. This traffic was considerably reduced in the latter half of 1947 as a result of a general pronouncement by the International Monetary Fund against international dealings in gold at other than official prices (see page 120).

Private gold business has also been handled in the New York market, often in conjunction with London. After the pronouncement by the International Monetary Fund, the New York market was able to continue

* See an article on "The Traffic in Free Gold" in the London "Economist" for 17th April 1948.

dealings for some months, until new regulations were issued by the U.S. Treasury, in November 1947, specifically prohibiting the export of gold at increased prices.

The National Bank and the Treasury Department in Switzerland have sold gold, mainly in coins, on the market and to industry, as part of an anti-inflationary monetary policy, funds in Swiss francs being drained from the market by such sales. A little over Sw.fcs 1 milliard was sold up to the end of 1946 and a further Sw.fcs 480 million was sold during 1947 (see page 78).

In Greece also, gold coins have been released to the market as an anti-inflationary monetary measure. In its half-yearly review for January 1948, the Bank of Greece stated that it would certainly be preferable to meet monetary demand by offering goods and raw materials but that the country was going through a period of acute shortage of goods and, as long as the fear of banditry was most intense and a feeling of mistrust left behind by monetary devaluations in the past persisted, the government had to undertake the sale of gold coins as a short-term means of stabilisation. It is admitted that intervention can have no permanent results as long as it is not combined with other essential economic measures. Without such measures, the sale of gold coins could do nothing more than create a superficial economic stability concealing an economic invalidism due to continuous gold bleeding; but intervention could check sudden rises in the price of the sovereign — rises which would create a still greater demand for gold and further price increases.

The Bank of Greece mentions that the U.S. State Department agreed to unfreeze $1.2 million worth of gold ingots which had been given by Greece as a pledge against a loan granted by the Federal Reserve Banks.

The Bank of Mexico has sold gold coins at a high price in order to obtain foreign currencies (mainly dollars) relatively cheaply. The gold sales were at first reported to be for domestic use, but much of the gold found its way to the Near and Far East.

Further, there is no doubt that private markets have been fed by newly-mined gold. Part of the current output of the Philippines is reported to have been sold at premium prices and most of the newly-mined gold in Ethiopia appears to have found its way to the Alexandria market, to which gold is also exported by Syria and Lebanon. Part of the gold output of Latin America has gone to London and part has probably been sent to other markets, including New York.

The Reserve Bank of South Africa has emphasised its abstention from sales of gold on free and black markets; but some newly-mined gold may have been smuggled out of the country, the main destinations being India, Egypt and south-eastern Europe.

It is not possible to describe all the sources and centres of clandestine movements of gold since, for obvious reasons, transactions of this kind are not officially reported. While in some countries gold sales, acting as an antidote to inflation, undoubtedly had a salutary effect, it was often felt that the whole economy of the countries concerned was suffering certain disadvantages from the disappearance of the gold — especially when private hoarding of gold increased at the expense of more important imports, or savings were sterilised instead of being put to more productive use.

In a number of countries steps began to be taken against sales of gold to the public. Thus, at the beginning of 1947, the Chinese Government published a drastic currency law by which, inter alia, trade in gold and foreign currencies was prohibited. In March the Indian Government imposed a ban on private imports of gold bullion. In April of the same year the Hong Kong Government prohibited the importation of gold into the Crown Colony, in order to protect the foreign exchange reserves and to prevent premium sales and smuggling of gold to China.

Furthermore, a most important move was made on 24th June 1947 by the International Monetary Fund, which asked all member countries to take steps to end transactions in gold at premium prices:

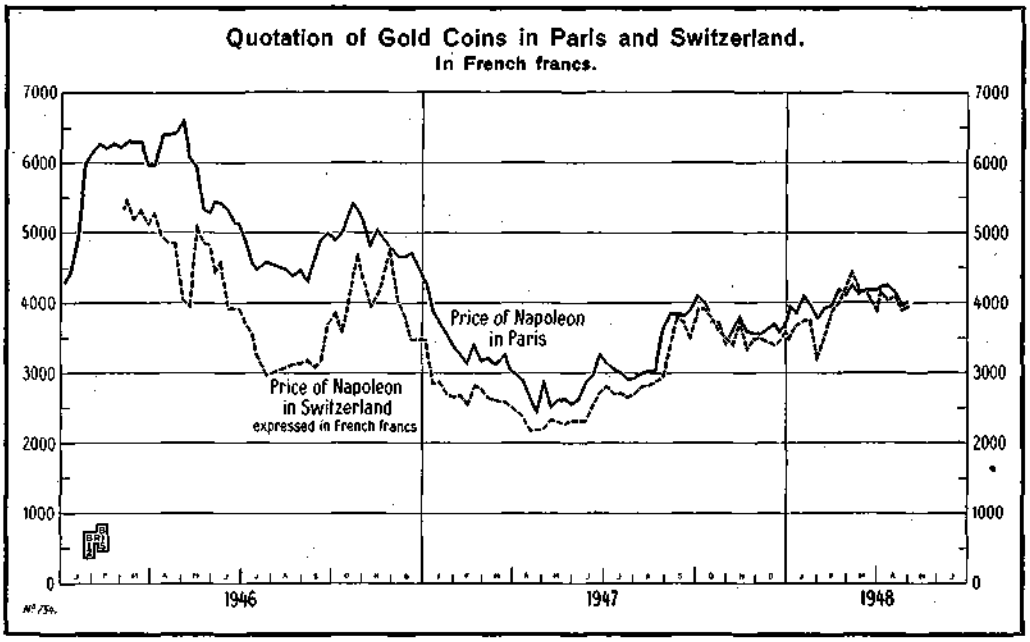
> "A primary purpose of the Fund is world exchange stability and it is the considered opinion of the Fund that exchange stability may be undermined by continued and increasing external purchases and sales of gold at prices which directly or indirectly produce exchange transactions at depreciated rates. From information at its disposal, the Fund believes that unless discouraged this practice is likely to become extensive, which would fundamentally disturb the exchange relationships among the members of the Fund. Moreover, these transactions involve a loss to monetary reserves, since much of the gold goes into private hoards rather than into central holdings. For these reasons, the Fund strongly deprecates international transactions in gold at premium prices and recommends that all its members take effective action to prevent such transactions in gold with other countries or with the nationals of other countries."

This announcement by the International Monetary Fund had an immediate effect on the policy of several countries. As already mentioned, the authorities in London placed a ban on dealings in foreign gold at a price above the official parity.

As also indicated, the monetary authorities in the United States appealed to individuals, banks, etc. to assist in stopping speculation in gold on foreign markets and, in the course of the autumn of 1947, they introduced strict control over the movement of gold from the United States into foreign markets; only semi-processed refined gold could be exported, and then only if the country of destination permitted the importation of such gold.

In Mexico, the authorities suspended export sales of gold bars and coins, but manufactured gold (e. g. in the form of statuettes) may be exported upon payment of a duty of 30 centavos per kilo plus 5 per cent. of the value of the article. Under direct or indirect pressure from the International Monetary Fund, several smuggling centres (and among them Hong Kong and Manila) imposed restrictions on private movements of gold; such steps made it more difficult to smuggle gold into and out of the respective territories.

As a consequence of all these bans and abstentions, the current supplies of gold became more restricted. But the public's demand for gold persisted, the result being a general upward movement in quotations for gold in free and black markets in the autumn of 1947, as may be seen from the graph.



The higher prices represented an increased temptation to resort to smuggling, either directly, in contravention of the regulations, or by using such loopholes as dealings in semi-manufactured or manufactured gold. Hence the need for further clarification of the position. Not all countries are members of the International Monetary Fund, but non-members would seem to have generally fallen into line. It is important to note that the International Monetary Fund's policy statement in this matter is specifically directed against international transactions in gold, thus leaving each country free to sell gold, even at premium prices, on its domestic markets. France availed itself of this freedom in enacting, by a law of 2nd February 1948, the establishment of a free market for gold, side by side with the free market for certain currencies: the dollar, the escudo and, later, the Swiss franc. By that law, holding of, transport of, and trade in, gold was made free on French territory; persons who had contravened previous regulations could deposit their gold or convert it into French francs upon payment of a charge which was fixed at 25 per cent. up to the end of June 1948 (afterwards to be increased by 1 per cent. per month).

On the free market, prices were quoted which were well above not only the official prices fixed for gold but also the price corresponding to even the highest market quotation for the dollar. Moreover, different prices were quoted for different kinds of coins and also for gold in bars (see page 117).

The graph on the previous page gives, however, an impression of the general tendency: the increase in the quotations in March (at the time of the Czechoslovak crisis) and the drop in the quotations round about 12th May 1948, when it was believed that negotiations would be resumed with the U.S.S.R., show to what an extent political events are apt to influence the quotations.*

In Italy the black market for gold, as well as the black markets for foreign currencies, was gradually legalised; as shown in the graph, the price of gold fell in the summer and autumn of 1947 by 25–30 per cent., moving parallel with the quotation for the dollar. This strengthening of the purchasing power of the lira in relation to gold greatly helped to increase confidence in the national currency; the public in more than one country is inclined to place greater faith in the movements of free — or even black — market quotations than in any official price lists. For that reason monetary authorities have often looked with a certain amount of favour on sales of gold on black markets, such sales helping to keep down the unofficial price of gold.

Regulation of free markets and, especially, bans on the flow of gold to such markets will, at best, only deal with a number of symptoms of the prevalent monetary malaise. To get rid of the real causes of hoarding, it is imperative to put a stop to inflation and also to find a true balance in the valuation of the different currencies. Fear of war is a further motive for hoarding but, as a rule, it is not too difficult to deal with, once the fear of inflation is conquered.

History shows that conditions making for hoarding and dishoarding vary from time to time not only in the West but also in the East. Especially in the present abnormal situation, it is clearly impossible for any immutable rules to be laid down, and those responsible for dealing with these problems may, indeed, find it necessary to adapt their policies to the circumstances of individual countries and the needs of the times.

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* It is usually impossible to give even an approximate figure for the value of gold hoarded in individual countries. For France the equivalent of $3 milliard has often been quoted as a likely figure for the amount of gold hoarded by the beginning of 1947. A close examination of available data would seem to show that the influx of gold from 1938 to 1947 cannot have been on a very large scale (but that there was some influx is certain, and it may well have amounted to several hundred million dollars in the two and a half post-war years). The size of present-day hoards will thus depend upon how much gold was in fact in the hands of the French public before the second world war. Judging from information which has become available in connection with the settlement of estates and on other occasions, many families in France have been in long-standing possession of gold.

So far (May 1948) no great proportion of the existing hoards would seem to have been sold on the free gold market set up in France on 2nd February 1948 but, with the restoration of monetary confidence, a part of the gold hoarded may be expected to reach the markets.

VIII. Internal Credit Conditions and the Trend of Interest Rates.

The year 1947 produced a display of central banks and finance ministries bowing to the inevitable — with varying degrees of grace and reluctance. The movement away from artificially low interest rates (for which strong arguments had been advanced in connection with war-financing) spread from the United States over the greater part of the world, irrespective, one might add, of differences in monetary theory and practice.

The urgent need for reconstruction and restocking, with booming business activity and high commodity prices, provided the basic conditions for full employment of current savings, pressure being put on the banking mechanism for further facilities, thus provoking a wide-spread tightening of money markets and upward adjustments of interest rates. The increases have been usually on a moderate scale and have tended to restore healthier market conditions, bringing a better balance between the supply of and demand for disposable funds.

The following table gives the discount rates of central banks from 1945 onwards, with three earlier years for comparison. Although not in themselves furnishing a comprehensive view of market conditions, they form a useful indication of the trends.

Discount Rates of Central Banks.

Central Bank of	Discount rates at the end of							Change from Dec. 1946 to March 1948
	1929	1932	1938	1945	1946	1947	March 1948 *	
United States (1)	4½	2½	1	½	1	1	1¼ (2)	+ ¼
Canada	.	.	2½	1½	1½	1½	1½	.
Switzerland	3½	2	1½	1½	1½	1½	1½	.
England	5	2	2	2	2	2	2	.
Czechoslovakia	5	4½	3	2½	2½	2½	2½	.
Eire	6	3	3	2½	2½	2½	2½	.
France	3½	2½	2½	1⅝	1⅝	2½	2½ (3)	+ ⅞
Netherlands	4½	2½	2	2½	2½	2½	2½	.
Norway	5	4	3½	3	2½	2½	2½	.
Portugal	8	6½	4½	2½	2½	2½	2½	.
Sweden	5	3½	2½	2½	2½	2½	2½	.
Austria	7½	6	4	3½	3½	3½	3½	.
Belgium	4½	3½	2½	1½	3	3½	3½	+ ½
Denmark	5	3½	4	4	3½	3½	3½	.
Turkey	.	7	4	4	4	4	4	.
Yugoslavia	6	7½	5	3	2½–6	1–4 (4)	1–4 (4)	—1½ to —2
Bulgaria	10	8	6	5	4½	4½	4½	.
Spain	5½	6	4	4	4	4½	4½	+ ½
Hungary	7½	4½	4	3	7	5	5	— 2
Roumania	9	7	3½	4	4	7	5 (5)	+ 1
Albania	9	8	6	5½	5½	5½	5½	.
Italy	7	5	4½	4	4	5½	5½	+ 1½
Poland	8½	6	4½	4½	4½	6	6	+ 1½
Finland	7	6½	4	4	4	5¼	7¼ (6)	+ 3¼
Greece	9	9	6	7	10	10	10	.

Footnotes to the table, see next page.

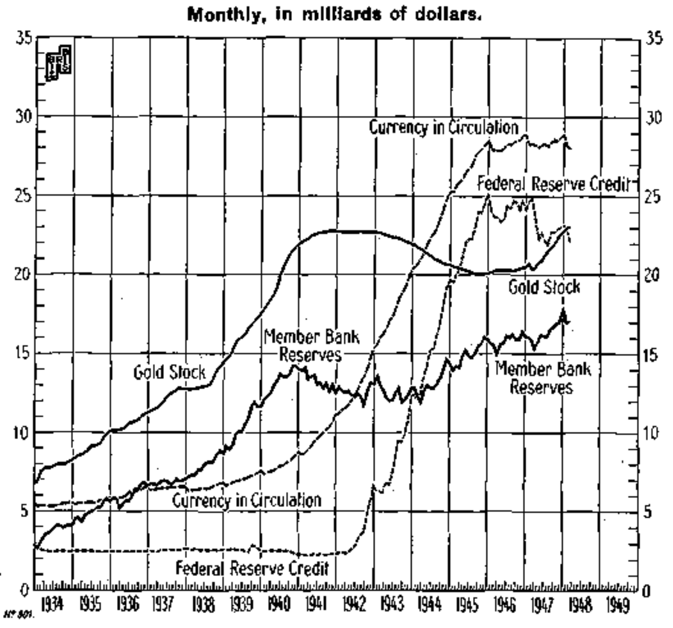
The movement towards firmer interest rates received its primary impulse from the United States; besides reflecting the stronger demand for funds, the adjustments indicated the willingness of the monetary authorities in that country to permit some hardening of credit conditions.

The first step was taken during April and May 1946, when all the Federal Reserve Banks abolished their preferential rate of ½ per cent., introduced in 1942, on advances to member banks secured by government obligations maturing within one year; as a result, 1 per cent. again became the rate at which member banks had to borrow.

In the spring and summer of 1946, both short and long-term rates rose somewhat from the very low levels which had been in force during the war; then, from the autumn of 1946 to the summer of 1947, there was a period of relatively stable rates, apart from a certain tendency for long-term rates to decline, under the weight of funds seeking investment (although various Treasury accounts unloaded some $1,800 million of government securities on the market).

With a view to increasing the cost to member banks of obtaining additional reserves and to restoring the Treasury bill as a market investment, the Federal Reserve System discontinued, from July 1947, its fixed buying rate for Treasury bills, which had been held at $^3/_8$ per cent. since 1942; rates for these bills rose sharply (the yield being around 1 per cent. early in 1948). From July 1947, the U.S. Treasury assisted the rise in rates by exchanging maturing twelve-month certificates at seven-eighths for eleven-month certificates with the same rate, this new policy being continued in the form

U.S. Member Bank Reserves, Reserve Bank Credit and related Items.
Monthly, in milliards of dollars.



* At the end of March 1948, the following rediscount rates were in force: Danmarks Nationalbank: 3 per cent., National Bank of Poland: 3½ per cent., Bank of Portugal: 2 per cent., Bank of Spain: 3.6 per cent., Sveriges Riksbank: 2 per cent.

(1) Rates of Federal Reserve Bank of New York for advances secured by government obligations and for discounts of, and advances secured by, eligible paper.

(2) In effect since 12th January 1948. For other secured advances: 1¾ per cent.

(3) For public securities and bills representing sales. For other commercial bills: 3 per cent.

(4) Since the amalgamation of institutions of the public sector with the National Bank, differential rates have been introduced according to the type of debtor.

(5) In effect since 25th March 1948. For agricultural bills: 3 per cent.

(6) In effect since 6th February 1948.

of a gradual improvement of conditions for the investor; by March 1948, the rate for newly issued twelve-month certificates was $1^1/_8$ per cent. Other short-term rates, such as those for bankers' acceptances and loans to brokers, also became firmer.

Further action, by the Federal Reserve System, was taken in January 1948 when discount rates were increased from 1 to $1^1/_4$ per cent., in order to make member-bank borrowing more expensive, an increase in reserve requirements from 20 to 22 per cent.* being made at the end of February for demand deposits in New York and Chicago (the two "central reserve city" banks).

While official encouragement was given to the rise in short-term rates, action was taken against an unwanted increase of long-term rates, especially from mid-November 1947 onwards, when the market for government bonds was supported by the Federal Reserve System and the Treasury. Towards the end of December 1947, the "support level", at which bond quotations were pegged, was somewhat lowered, a new level being established, which was held in the following months. In March 1948, the average yield of high-grade corporate bonds was nearly $2^7/_8$ per cent., compared with 2½ per cent. early in September 1947, other rates showing a corresponding advance; the average yield of preferred stocks rose, during the last quarter of 1947, from $3^3/_4$ to 4 per cent., while common-stock yields rose from 4½ to 5½ per cent. during the course of the year 1947, partly owing to the substantial increase in dividends.

At current levels, long-term rates on U.S. government bonds are near to pre-war (1939) and short-term rates are, in general, higher than at any time since 1933; thus the relationship of long and short-term rates has returned very closely to the pattern that prevailed in more normal times and especially in the days before the official pegging of low rates for the sake of facilitating the war financing.

The primary cause of the change in interest rates in the United States has doubtless been the strong demand for funds in excess of the supply of savings available for investment, and the consequent pressure of demand on bank credit and thus on the liquidity positions of the banks; adapting their policy to the change in these basic conditions, the Federal Reserve System and U.S. Treasury reaffirmed their hold on the market and thus guided the banks along the lines of a more cautious credit policy.

The following table (and the graph on page 124) shows a certain decline in the total Federal Reserve credit outstanding since its high point, which was around $24,850 million at the end of February 1947 (the reduction largely offsetting the growth of member bank reserves due to gold acquisitions); but of greater moment is the change in the composition of the Federal Reserve open-market investments, especially since November 1947; the fact that the

* The reserve requirements in New York and Chicago were again increased from 22 to 24 per cent. as from 11th June 1948.

U. S.: Federal Reserve credit outstanding.

End of month	Bills and certificates	Bonds and notes	Total *
	In milliards of dollars		
1941 December . .	0.0	2.2	2.4
1946 December . .	22.2	1.1	24.1
1947 December . .	18.2	4.3	23.2
1948 January . . .	15.6	6.3	22.8
February . . .	13.6	7.4	22.1
March	13.3	7.6	21.6

* Including some minor items.

holdings of short-term bills and certificates have been reduced and those of long-term notes and bonds increased reflects the intention to stiffen up short-term rates while preventing any sharp rise in long-term yields. Owing to the dominating position of the United States, the rise in interest rates in that country had more than local influence and, as the basic conditions in other countries were even more clearly characterised by a tension between the supply and demand for liquid funds, the new credit policy initiated in the United States had often to be pushed further in other markets.

The Bank of Canada has maintained the low rate of 1½ per cent. unchanged since 1944 but, as in previous years, the chartered banks had little occasion to borrow from the central bank in 1947. A strong demand for credit at home, due to intense business activity, and a large volume of foreign lending have been offset to some extent by the budget surplus of Can.$670 million for 1947–48 — the largest in Canadian history; during 1947, Dominion Government bonds and certificates held by the chartered banks were repaid to the extent of Can.$670 million, but the banks expanded other investments and loans by the record total of Can.$780 million and their deposits rose by Can.$180 million.

The 3 per cent. Dominion 1961–66 bonds, which had been quoted at 105 (with a yield of 2.6 per cent.) in the summer of 1947 and still stood at 104¾ in December, fell abruptly early in January 1948, when the Bank of Canada withdrew its support (two weeks after the similar step taken by the Federal Reserve Banks in the United States); and by March these bonds had fallen to par, yielding a flat 3 per cent. At the end of February 1948, the Bank of Canada issued a statement which said that

> "the degree of change in interest rates does not appear to the Bank to be inappropriate in the circumstances.
>
> On the other hand, the Bank does not regard the increase in interest rates as one of the most important factors in combating a general rise in price levels. The Bank is not in favour of a drastic increase in interest rates which would be likely to create a situation that might hamper and might even prevent essential forms of capital investment which Canada needs and which it is desirable should be proceeded with."

In the United Kingdom the trend towards higher interest rates was at first stubbornly resisted, then somewhat reluctantly admitted and, finally, accepted and applied with consistency. The decisive change came rather suddenly: long-term rates had continued to fall after the war and had reached their lowest point in October 1946, the trend being greatly "helped" by the official intervention tactics.

At the end of October 1946, a new irredeemable 2½ per cent. Treasury stock was issued at par — the best terms obtained by the U.K. Treasury during this century. But the market almost immediately weakened and remained weak, and then, in July 1947, there was a slump which took the price down nearly to 80. After some irregularity during the remainder of 1947 the price declined again in the new year, reaching a low point of 75 in April 1948. A fall in the quotation of a government security by 25 points in a year and a half shows the strength of the economic forces at work and also brings home the distortion in capital values which artificially cheap money produces when pushed too far.

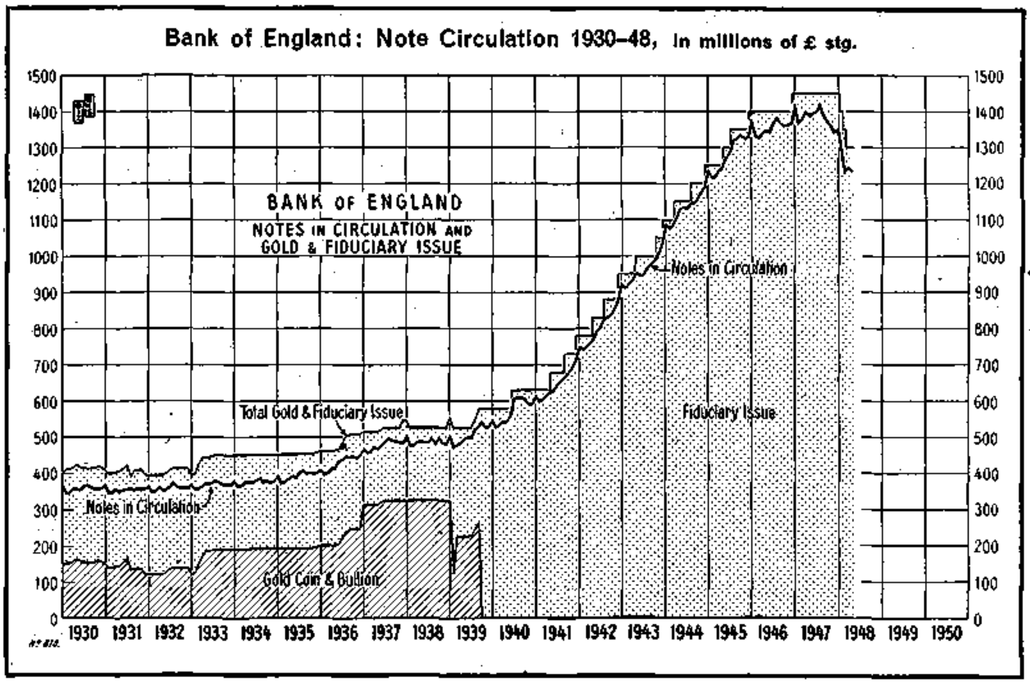
Low interest rates are of particular importance for the London market at the present time, since they influence the yield on the British external debt (largely held in sterling money-market securities) and, therefore, the current balance of payments; they also provide the basis for the issue of large amounts of government stock indemnifying previous shareholders of nationalised industries.

In January 1948, the U.K. Treasury announced the creation of a British Transport 3 per cent. Guaranteed Stock 1978–88 to be issued at par to holders of railway and similar securities as compensation to the previous owners of the nationalised undertakings. The yield on this stock was very close to the prevalent market rates at the time of issue. Further, the Treasury announced an upward adjustment of the rates charged by the central government for advances to the local authorities, these rates being brought back to the levels from which they had been "adjusted" downwards in June 1946.

The change on the market was generally welcomed as restoring sounder conditions. The chairman of the National Provincial Bank expressed a widely-held opinion when he stated at the annual general meeting of the bank in January 1948:

> "There can be little doubt that the position is healthier for this change. A 3 per cent. basis which is realistic is infinitely preferable to a 2½ per cent. basis which can be only precariously maintained by unpredictable manoeuvres."

The year 1947 was notable also for other events in the financial sphere. At the end of the brief period of convertibility, during which the sharpest decline in interest rates took place, there followed a significant contraction of the note circulation. In October 1947, for the first time since 1938, the active note circulation fell to a lower figure than in the same month of the previous year; and this was repeated each month up to the early months of 1948, when the total permitted "fiduciary issue", or legal "plafond" of the note circulation, was reduced from £1,450 million to £1,300 million, i.e. to the same level as in the spring of 1945; this movement must be considered as the more remarkable since prices and wages were still rising.



The paying-in of currency to the banks naturally increased bank deposits, which also rose as a result of new advances to the public; but the total expansion of currency and bank deposits in 1947 was less than one-quarter of what it had been in 1946 (that being the time of the most rapid expansion of bank deposits in British financial history).

England: Currency and Bank Deposits.

December figures	Currency (1)	Bank deposits (2)	Total
	In millions of £ stg		
1938	455	2,183	2,638
1939	496	2,322	2,818
1940	559	2,665	3,224
1941	697	3,167	3,864
1942	871	3,443	4,314
1943	1,034	3,831	4,865
1944	1,200	4,350	5,550
1945	1,343	4,648	5,991
1946	1,380	5,424	6,804
1947	1,325	5,669	6,994

(1) Notes and coin held by the public.
(2) Net deposits (after deduction of balances with other banks and items in transit).

The various corrective measures taken in England appear to be producing their effects. In addition to the increase in interest rates, importance should be attached to the budget policy; for the year 1947–48, current revenue approximately covered all budget expenditure above and "below the line" (largely capital expenditure), while for 1948–49 an over-all surplus of £330 million is expected (see page 45).

In spite of serious efforts, the public finances in France had not yet been brought properly under control in 1947, the inflationary trend being still dominant on the markets. The official discount rate of the Bank of France, which had been raised by an eighth to $1^3/_4$ per cent. in January 1947, was further increased by 3/4 to 2½ per cent. early in October 1947, and, at the same time, directives for moderation and discrimination in the granting of credits were issued by the National Credit Council.

As the rise in commercial-bank deposits slowed down during the year, the banks could not meet even legitimate demands for credit, without unloading part of their portfolios of Treasury bills and having recourse to rediscounts at the Bank of France. Deposits at the savings banks also failed to expand (this being part of a general decline in money savings). Private credit conditions were characterised by market quotations which corresponded to an effective bond yield of more than 6 per cent. — while the average yield of shares on the stock exchange was scarcely more than 1 per cent.; anxiety to preserve the capital value of past savings outweighed the attraction of current yields.

By the end of December 1947, the note circulation at over Fr.fcs 900 milliard was 7½ times pre-war; during the year, the note issue had risen nearly twice as much as bank deposits. In January 1948, the withdrawal and blocking of the Fr.fcs 5,000 denomination caused a sharp but temporary reduction by some Fr.fcs 300 milliard in the circulation; by March, a proportion of these notes had been reimbursed and at the end of April the circulation was around Fr.fcs 760 milliard. Efforts made to bring order into public financing, to slow down investment and to check the inflationary trend were helped by the anti-inflationary effect of large imports, under "interim aid" and, later, from deliveries under the European Recovery Program. The financial measures adopted at the end of 1947 and the beginning of 1948 (see page 42) have had an effect in stabilising the note circulation of the Bank of France, but further efforts are clearly required to maintain the results thus achieved and particularly to encourage private saving and to arrange public expenditure so that no further advances will be required by the Treasury from the central bank.

While budgetary equilibrium has not yet been fully achieved in Italy (cf. page 47), a determined effort has been made to prevent an undue expansion of commercial-bank credit based partly on rediscounts from the central bank. In January 1947, the banks were reminded of their liquidity obligations; still their credit-granting continued to expand more rapidly than their deposits, with the result that the ratio of loans to deposits, which fell during the war to the low level of 31 per cent. (at the end of 1944), rose again until in the spring of 1947 it exceeded 70 per cent., approximately the pre-war level.

An inter-ministerial credit committee formulated recommendations which were put into force by the following decisions, taken at a meeting held at the Banca d'Italia on 20th August 1947: in so far as a bank's deposits exceeded ten times its capital and reserves, 20 per cent. of the excess deposits according to the return at the end of September 1947, and 40 per cent. of subsequent increments, was to be compulsorily tied up by investments in Treasury paper

Notes in Circulation.

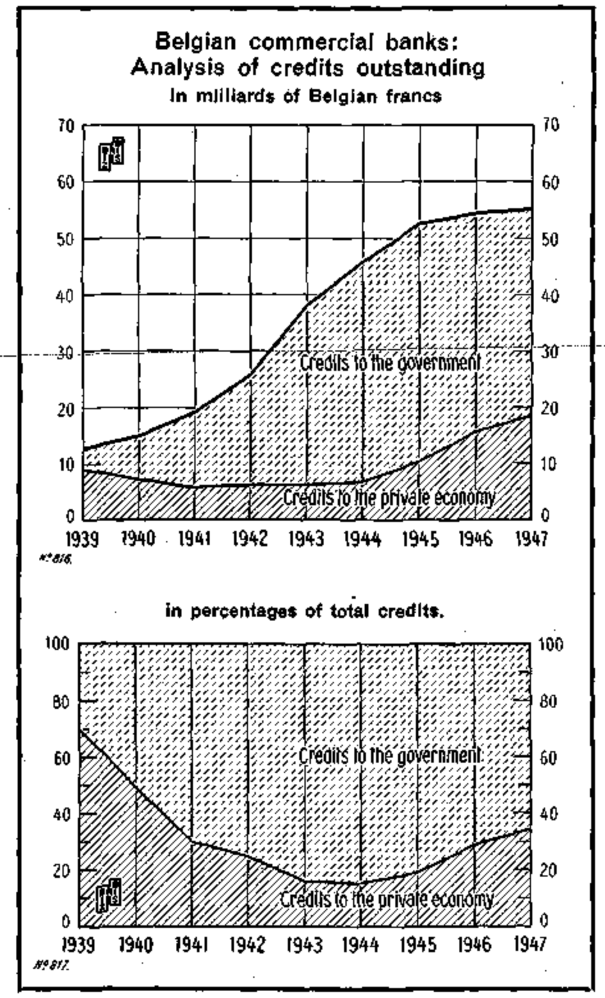
Countries	End of June 1939	End of Dec. 1945	End of Dec. 1946	End of Dec. 1947	Dec. 1947
	in millions of national currency units				Index June 1939 = 100
Austria	900 (1)	.	5,656	4,326 (2)	*481* (3)
Belgium	22,212	71,798	73,891	79,761	*359*
Bulgaria	2,891	69,921 (4)	74,206 (4)	72,684 (4)(5)	*2,514* (5)
Czechoslovakia	10,740 (6)	24,233	43,589	58,539	*545*
Denmark	446	1,561	1,633	1,641	*368*
Eire	16	42	45	48	*298*
Finland	2,200	13,598	18,233	25,162	*1,144*
France	122,611	579,093	733,797	920,831	*751*
Greece	8,002	104,083	537,463	973,609	*12,167*
Hungary	885 (7)	765,446 (7)	968 (8)	1,992 (8)	*225* (8)
Iceland	12	177	167	107	*861*
Italy	19,411	382,050 (9)	505,052 (9)	788,127 (9)	*4,060*
Netherlands	1,045	1,386	2,744	3,010	*288*
Norway	475	1,478	1,933	2,088	*440*
Poland	1,848	26,319	60,066	91,483	*4,951*
Portugal	2,096	8,166	8,793	8,752	*418*
Roumania	38,683	1,212,925	6,117,603	24,536	*63*
Spain	13,536 (10)	18,961	22,777	26,014	*192* (11)
Sweden	1,059	2,782	2,877	2,895	*273*
Switzerland	1,729	3,835	4,091	4,363	*254*
United Kingdom	499	1,375	1,422	1,350	*270*
Canada	213	992	1,031	1,046	*491*
United States	7,047	28,515	28,952	28,868	*410*
Argentina	1,128	2,830	4,065	5,346	*474*
Bolivia	301	1,541	1,683	1,848	*613*
Brazil	4,803	17,535	20,494	20,395	*425*
Chile	866	2,892	3,565	4,067	*470*
Colombia	57	205	260	298	*519*
Costa Rica	28	80	72	86	*311*
Ecuador	64	335	362	339	*527*
Guatemala	8	26	29	30	*388*
Mexico	318	1,731	1,804	1,762	*553*
Nicaragua	11	47	44	49	*464*
Paraguay	12 (12)	27	32	43	*350* (13)
Peru	113	602	599	699	*618*
Salvador	15	46	50	54	*367*
Uruguay	91	179	214	219 (14)	*240* (14)
Venezuela	133 (12)	388	505	608	*456* (13)
Turkey	211	881	937	891	*418*
Egypt	21	141	137	138	*664*
India	1,846	12,109	12,352	12,388	*671*
Iran	893	6,574	6,959	6,905	*773*
Iraq	4	40	39	34	*791*
Palestine	6	47	42	41	*688*
South Africa	19	68	66	66	*343*
Australia	48	200	207	205	*432*
New Zealand	16	46	50	52	*334*
Japan	2,490	55,441	93,398	219,142	*8,900*

(1) 7th March 1939. (2) 7th December 1947. (3) Compared with 7th March 1938.
(4) Including special Treasury bonds in circulation. (5) 28th February 1947.
(6) Estimate of total circulation in Bohemia, Moravia, Silesia and Slovakia. (7) In pengö.
(8) In forints, compared with the pengö circulation. (9) Including Allied Military currency.
(10) End of December 1941. (11) Compared with end of December 1941. (12) End of December 1939.
(13) Compared with end of December 1939. (14) End of November 1947.

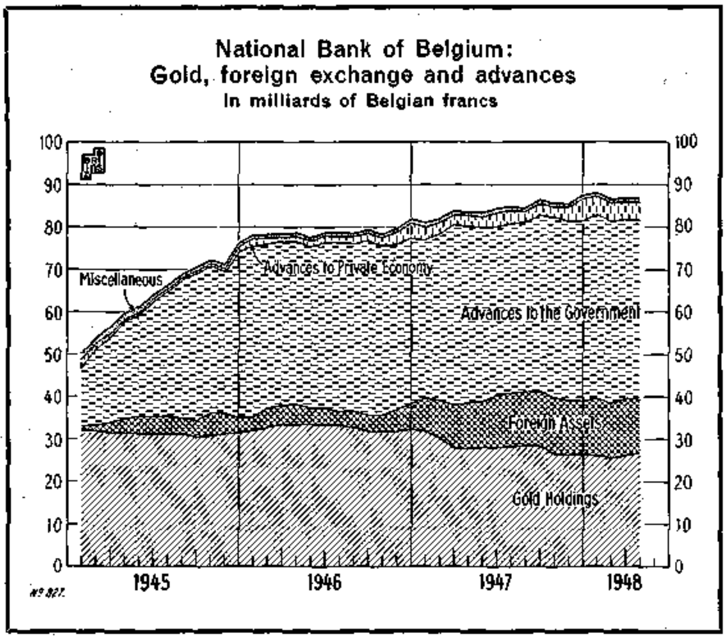
or placed on the bank's blocked account at the central bank or with the Treasury (these percentages to be reviewed, in the light of experience, at a later date). In September 1947, the official discount rate of the Banca d'Italia was raised from 4 to 5½ per cent. (the lombard rate being left unchanged at 4½ per cent. in the interests of the government bond market).

These and other measures (including the sale of American relief deliveries), exerting a downward pressure on the price level, naturally caused some temporary disturbance, but soon the cost of living declined, the margin between official and black-market commodity prices narrowing considerably; the banks again attracted deposits and began to reconstitute their liquidity positions (so that further rediscounting at the Banca d'Italia was checked).

The National Bank of Belgium has continued its anti-speculation policy tending to combine a gradual restriction of the volume of credit with an increase in interest rates: the Governor of the National Bank asked the commercial banks to exercise great discrimination in the granting of credit; in August 1947, the official discount rate was again raised by ½ per cent., this being the third increase since October 1946; in this way, the rate was brought up to 3½ per cent. as compared with only 1½ per cent. at the liberation. This tightening of credit reacted on the long-term market, where the 4 per cent. Unified rente of the Belgian Government fell below 85 in December 1947. Further progress is at the same time being made towards achieving a real equilibrium in the budget (cf. page 47).



The commercial banks have continued to unload part of their holdings of government securities to meet the pressure of demand for credit from the private economy; but they cannot go much further since they are bound by law to maintain 60 to 65 per cent. of their assets in government paper. The government has been able to cover its needs on the market with the help of some foreign borrowing; there has in fact been



hardly any change during the year in the account recording advances by the National Bank to the state. The annual report of the National Bank for 1947 says in this connection:

> "The stability of the account of the state at the National Bank was certainly a determining element in the stability of the national currency and of public credit in the country and abroad. It is essential that this stability should be maintained in the future."

The aggregate monetary reserves in the form of gold and foreign assets held by the National Bank of Belgium remained stable throughout the period covered by the graph, notwithstanding the demands made on the bank.

In contrast to the trend of policy in most countries today, the Netherlands Finance Ministry continues a cheapmoney policy, endeavouring to get 3 per cent. accepted as the standard rate for government long-term securities, despite a certain resistance of the market. At the beginning of 1947, a conversion issue was made at 3 per cent., replacing earlier loans issued at 4 and 3½ per cent.; the success of the issue is reported to have been partly due to the pressure put upon holders — those who would not convert receiving funds blocked for five years, at 2¼ per cent.

The Dutch banks continue to hold a large proportion of their assets in government paper; there appears to be little increase in direct lending to commerce and industry — at any rate, none on a scale comparable to that in other European countries (this being mostly due, it is said, to self-financing by large companies). With a big budget deficit (page 47) and the maintenance of strict control, the Netherlands economy has retained some features of typical war financing, including a relative abundance of liquid funds. It is interesting that, contrary to the general run of quotations in other countries, the share market in Amsterdam had a frankly "hausse" tendency throughout 1947 (with an index figure of 177 in December, 40 points higher than a year previously).

While the official rate of the Nederlandsche Bank remained unchanged, the discount rate in the market fell again (one-year Treasury bills being down to 1½ per cent.); as a further symptom it may be mentioned that in March 1948, the Dutch mortgage banks reduced their rate of interest from 4 to 3½ per cent. The pressure on the profits of the banks has encouraged further concentration in the banking system, e. g. the merger of the Amsterdamsche Bank with the Incasso Bank.

In its annual report for 1947 the Twentsche Bank says that

> "we are firmly of the opinion that the endeavour to force interest rates down will lead to what is called monetizing the government debt, which exacts too high a price for the doubtful benefits to the Government's budget of lower interest rates".

The situation in Sweden, where reliance has been increasingly placed on direct controls, gets more interesting as the cheap-money policy is unremittingly pursued. The evolution of the situation during 1947 is described in the annual report of Svenska Handelsbanken:

> "The bond market showed signs of a reversal of the long-standing cheap-money trend and was marked by a very uneasy tone, attended by a strong downward pressure on the security price level. The tightness of the money market caused heavy offerings of bonds ... particularly in two periods, in February and in September–October, these sales were very extensive under the pressure of persistent rumours of an imminent raising of the discount rate. As, however, the authorities did not abandon their interest-stabilization policy, the otherwise inevitable fall in quotations has been kept within very narrow limits."

The monetary history of the period since July 1946, when the Swedish crown was revalued by 16.6 per cent., can be summarised in a short table.

Sweden: Position of the Riksbank and the commercial banks.(1)

End of month	Sveriges Riksbank			Commercial banks		
	Assets		Liability	Assets		Liability
	Gold and foreign exchange (2)	Swedish securities (3)	Note circulation	Swedish securities	Advances	Deposits
	in millions of Swedish crowns					
1946 July	2,660	945	2,450	1,747	6,617	7,160
1948 March	568	2,716	2,730	692	8,161	7,494
Movement	− 2,092	+ 1,771	+ 280	− 1,055	+ 1,544	+ 334

(1) As the main items only are given, the net movements of assets and liabilities do not exactly balance; in particular, the commercial banks drew down their cash balances with the Riksbank and there was some rediscounting.
(2) Gold at market price plus net foreign exchange.
(3) Swedish bonds, Treasury bills and claims on National Debt Office.

In the face of a heavily passive balance of trade and payments, the monetary authorities allowed no natural rise in interest rates and no appreciable tightening of the market to take place; the Sveriges Riksbank, the bank of the Swedish parliament, bought securities, mostly at long term, on the market, thus supporting the quotation of government bonds and stabilising the interest yields, at a rate of 3 per cent. and, at the same time, providing the market with the Swedish crowns necessary for further investments, which led to increased imports and further purchases of foreign exchange.

The Swedish commercial banks were enabled to unload the bulk of their holdings of government securities, in order to be able to satisfy a considerable demand for private credit, with the result that, for the first time for many years, their advances exceeded the total of their deposits.

Short-term rates, on the other hand, have been raised quite considerably. Thus the rate of interest on three-month Treasury bills has risen from ½ per cent. in June 1946 to 1¼–1½ per cent. in May 1948, while for one-year government paper 2¼ per cent. was paid in May 1948 as compared with only 1 per cent. in June 1946.

Although the note circulation remained little changed on balance, the existing regulations put great pressure on the central bank, which, under its statutes, was required to keep "supplementary cover" in a special form for that part of the note circulation in excess of twice the gold holding. In order to relieve the Riksbank from this embarrassing provision, a change in the note cover regulations, completely divorcing the note issue from the gold and foreign exchange reserves of the Riksbank, was proposed early in 1948.

In Norway and Denmark the official discount rates have remained unchanged at the relatively low levels to which they had been reduced in January 1946; and in both countries the note circulation continued to increase in 1947, but at a much slower pace than in the previous year. In other respects the situation of the two countries is largely different. As far as Norway is concerned, the market has been kept easy by out-payments from the government deposits at Norges Bank and, in spite of a considerable increase of discounts and advances to private customers, the Norwegian joint-stock banks remain very liquid; there was a large passive balance of trade during 1947 and the bulletin of Norges Bank for April 1948 says, "a dominating factor in keeping the expansion back was undoubtedly the heavy import surplus".

Serious efforts have been made in Denmark to check the secondary expansion of bank credit and, although the loans and discounts of the commercial banks have increased during the year, their deposits have fallen, their cash position is becoming very tight and interest rates show a tendency to rise. The government has continued its wartime policy of "anti-inflation loans" for the absorption of excessive liquidity; the Nationalbank circularised the Danish banks, at the turn of the year, urging them to observe the utmost caution in the granting of new loans.

Finland continues its struggle to fulfil its reparation obligations and at the same time to keep the expansion of its currency and credit under constant control. Three increases of the official discount rate have been made since early 1947: in June 1947 the rate was raised from 4 per cent. (where it had remained since 1934) to 4½ per cent.; a further increase to 5¼ per cent. was made in December, followed by a jump to 7¼ per cent. in February 1948. Although the government has sought to exercise restraint and even partially repaid its debt to the Bank of Finland, rediscounts by the commercial banks have been large, especially over the turn of the year, and the note circulation at the end of 1947 was more than one-third higher than a year previously.

The official discount rate of the Bank of Spain was raised from 4 to 4½ per cent. in October 1947 — the first increase in the rate since 1938; at the same time the rediscount rate for banks was moved from 3.2 to 3.6 per cent. and other rates rose accordingly (with preferential treatment reserved for loans against government securities). Bank rate in Portugal remains unchanged at 2½ per cent. but market rates show some tightening: the index of long-term government bonds (1938 = 100) fell from 133 in December 1946 to 121 in December 1947, the yield rising from 2.9 to 3.2 per cent. over the same period.

In Switzerland, the situation is characterised by a state of over-employment and a fairly high level of prices; it is not surprising to find that growing demands for private credit put pressure on the liquidity of the banks, their security portfolios declining appreciably in 1947 for the first time since 1933. The official discount rate of the National Bank has been maintained unchanged, but the private discount rate, which had been stationary for years, rose slightly, from 1¼ to 1½ per cent.; and, in order to obtain funds, the banks issued six-year Kassenscheine at rates rising from 3 to 3½ per cent. In these circumstances, the long-term rates hardened somewhat and the authorities decided to postpone the issue of a Confederation loan, which was to have been made in the autumn of 1947.

Very large imports have increased the trade deficit so that, even with considerable invisible exports (from tourist traffic, etc.) and continued repatriations of Swiss capital from the United States as well as a further influx of flight capital from Europe, the balance of payments no longer produces the large surplus of recent years. With imports and general economic activity at record rates, the budgetary receipts from customs and from the turnover tax were on a far larger scale than had been anticipated, the budget showing a surplus (of more than Sw.fcs 300 million) for the first time since 1935.

The Governor of the National Bank at the annual general meeting of the bank, in March 1948, observed that the stiffening tendency of the market was taking place slowly and within comparatively narrow limits; he considered this the natural self-rectification of an abnormal situation which had arisen during the war; a certain equilibrium was being fostered by the fact that money was not so cheap and that the banks were beginning to show a degree of caution suited to the boom conditions.

Official bank rate in Austria has remained unchanged at 3½ per cent. but the monetary reform of December 1947 (described on page 33) has rapidly led to a tightening of the market, bank deposits being reduced from some Sch. 15 milliard to about 5 milliard. An acute demand for bank credit having set in, the banks charged 7½ to 8½ per cent. for accommodation. In that way, the banks (whose chief asset was Reich securities of uncertain capital value and unserviced since the end of the war) acquired new earning assets. As from January 1948 (for the first time since 1945) they have granted, with official approval, interest on deposits at rates ranging from ¾ per cent. at sight to 1¼–1¾ per cent. for 6–12 months' notice.

Slow progress is being made in Germany towards establishing conditions necessary for the long-awaited currency reform, at least in the western zones; such a reform in itself would clearly be insufficient to restore order in the internal economy unless it were accompanied by a whole series of appropriate economic and other measures — unless, indeed, it were fitted into a general programme of rehabilitation and reconstruction.

During the past year more uniformity has been introduced into the banking structure of the western zones. At the end of 1946, provincial central banks (the so-called Landeszentralbanken) were set up in the three American provinces in the south, to which Bremen was added later; the four banks thus established were connected by a clearing office in Frankfurt. Further, the commercial "Grossbanken" having a large branch network (Commerzbank, Dresdner Bank and Deutsche Bank) were, beginning in May 1947, split up and reduced to local banks, with business restricted to a single province (which raised a number of difficult administrative questions, especially where clients had their domicile or places of business in two or more provinces).

After the economic amalgamation of the British and American zones, the same banking structure was introduced into the former zone: on 1st April 1948, the Reichsbank formally ceased to exist, its central-bank functions in Hamburg being passed over to four newly created provincial central banks; and steps were taken to convert the big commercial banks into local banks. In the French zone also, three provincial central banks were opened.

On 1st March 1948, a new "Bank of the German States" (Bank Deutscher Länder) was founded in Frankfurt, its business being essentially to control the monetary and credit policies of the eleven local central banks set up in the western zones, under the supervision of the occupation authorities. The various presidents of the provincial central banks are members of the board of directors of the new institution, which has a capital of RM 100 million, subscribed by the provincial central banks in proportion to their deposits. In addition to its monopoly of issuing notes it will maintain contact with foreign countries and be in charge of foreign exchange control.

The decentralisation of the German banking system has been carried through in the exceptional circumstances of the immediate post-war period when credit business has been at a very low ebb, there being practically no outlet for investment at a time of super-liquidity with a surplus of purchasing power in the form of bank-notes and bank deposits. The real testing time for the new banking structure will come when the monetary reform has been carried through and when internal credit conditions and relations with foreign countries return to a more usual pattern.

The report of the Bank of Greece covering the war years, which was issued in November 1947, and the annual report for 1947, published in April 1948, shed light on the financial history of that disturbed country and make it clear, indeed, what little effect monetary measures can have when the economic and political basis for a sound policy is lacking. During the year 1947, the note circulation rose from 537 to 974 milliard drachmae, an expansion which was accompanied by a rise in the cost of living by some 40 per cent. over the year. Public finances were dislocated by the continuous unrest in the country, the inflation being kept within bounds only by the economic and financial aid received from abroad. To get the economic mechanism going in the country, the Bank of Greece even decided, as stated in the speech of the Governor at the general meeting, that, in various cases of credit applications, monetary considerations should be overruled by the necessity of increasing production. In such circumstances, with loans granted largely in "gold pounds", it is hardly realistic to try to describe internal credit conditions: the official discount rate of 10 per cent. has little real significance (the commercial banks were even unable to meet their normal expenses, "loans" being given by the Bank of Greece to enable them to pay their staffs).

The changes to which the economic structure of eastern Europe has been subjected directly affect the rôle of the central bank and the whole position of the banking system. In Yugoslavia, the National Bank was amalgamated with the Industrial Bank and the Artisans' Bank in September 1946 and, from that time, discontinued the practice of quoting a uniform bank rate, rates being applied according to the type of debtor and ranging from 2½ to 6 per cent.; these rates were reduced, in January 1947, to range from 1 to 4 per cent.

In both Yugoslavia and Poland, budget revenue is derived principally from the turnover tax and from the profits of state monopolies and nationalised institutions — thus closely following the model of the U.S.S.R. But, whereas in Russia the budget is comprehensive, covering all investments and other expenditure under the Five-Year Plan, this does not appear to be the case in some of the countries of eastern Europe which in other respects seem to have closely followed the Russian pattern.

The rediscount rate of the National Bank of Poland was reduced from 4½ to 3½ per cent. in August 1947; in the case of open credit accounts, the rates charged are 5 per cent. to banks and 7½ per cent. to directly financed enterprises. The Polish ordinary budget makes no provision for the Three-Year Plan — closing, consequently, with a surplus of revenue. The actual mechanism for the financing of the plan emerges clearly from the bank statistics.

Polish Banks: Credits granted and related items.

End of month	National Bank of Poland					Polish Banks			
	Assets			Liabilities		Assets	Liabilities		
	Credits granted			Notes in circulation	Giro accounts	Credits granted (4)	Borrowing at National Bank (5)	Deposits and current accounts (6)	Investment deposits (7)
	to industry (1)	to banks (2)	to state (3)						
	in milliards of zlotys								
1945 December	1.3	5.7	21.2	26.3	6.0	9.9	5.7	5.2	—
1946 December	17.5	37.8	21.0	60.1	23.6	60.6	37.8	25.2	3.6
1947 December	59.0	86.2	—	91.5	32.9	169.7	86.2	57.7	37.0

Note: The Polish banks referred to in the table include the National Economic Bank, the State Agrarian Bank, the National Cooperative Bank, cooperative savings and loans societies, two joint-stock banks, two municipal banks and the municipal savings banks. The Post Office Savings Bank is not included; its funds are brought into the Treasury largely through investment in Treasury notes.

(1) Credits granted to the three key industries: coal mining, electric power and metallurgy.
(2) Rediscounts and other credits to the banks (see contra item amongst the banks' liabilities).
(3) This is the Treasury debt which has now been repaid from the budget surplus.
(4) Credits granted by the Polish banks for other financing besides the key industries.
(5) Refinancing through the National Bank of credits granted. (6) Ordinary deposits and current accounts.
(7) Deposits made by the Polish Treasury for investment purposes.

The National Bank grants credits directly to the key industries under the Three-Year Plan (and appears to have taken over some other financing, including foreign trade). The other Polish banks have also granted various credits but, owing to the insufficiency of their resources, they have been forced to refinance with the National Bank about half the credits which they extended; ordinary deposits and current accounts with the banks have remained comparatively small, growing, however, in 1947 proportionately to the note issue. From the surplus on the ordinary budget, the Treasury has repaid its debt to the National Bank and has made long-term deposits called "investment deposits" at other Polish banks; this has added to the banks' resources for the granting of credits and helped to relieve the pressure on the National Bank; the ordinary budget surplus has thus been turned back into the banking system for the financing of industry. Further, the Treasury has made direct grants of working capital to state enterprises from the budget surplus.

To encourage the use of bank deposits, a decree of February 1947 prescribed that amounts due for payment within the state and cooperative sectors of the economy and as between these and the private sector must be paid by "cashless" transfers. Further, as the growth of bank deposits was not considered sufficiently rapid (the tendency of the public being to save in the form of dollar notes or precious metals), a new measure of compulsory saving was introduced in March 1948: money incomes of individuals and firms became subject to a graduated monthly levy, the amounts raised to be placed on blocked deposits and used for public investments; this levy, which was estimated to produce some Zl.20 milliard a year, is in the nature of direct taxation (a form of taxation generally of little importance in the eastern budgets) and compares with revenue estimated at Zl. 311 milliard in the 1948 budget.

In Czechoslovakia only a fraction, about one-tenth, of the investments provided for under the Two-Year Plan are included in the budget; however, under half the amount foreseen for industrial construction was actually expended in 1947, one reason for the reduction being the necessity of giving financial assistance to agriculture in a year with a particularly bad harvest.

Some two-thirds of the outlay under the Three-Year Plan in Hungary, as well as the reparation charges, are included in the budget; owing to losses through the drought, sums earmarked for productive investments had, however, largely to be used for immediate relief; in addition, deficits incurred by nationalised enterprises imposed a great burden on the public finances. In connection with the currency stabilisation, in August 1946, bank rate was raised abruptly, from 3 to 7 per cent., being maintained at this level until October 1947, when it was reduced to 5 per cent.; in spite of strict credit control the new circulation of forints doubled during 1947 to around 2 milliard — more than two-thirds of all credits granted by the commercial banks being rediscounted at the National Bank.

In Roumania, after a wild inflation similar to that a year earlier in Hungary, a monetary reform was carried out in August 1947 (see page 36); bank rate was then raised from 4 to 7 per cent., at which level it remained until it was reduced to 5 per cent. in March 1948; the severity of the cut in purchasing power is indicated by the level of the note circulation at the end of 1947 — barely two-thirds of 1938. It is reported that the government has prepared a Three-Year Plan; the Governor of the National Bank, at the general meeting in January 1948, indicated that the scope of the central bank's activity would be adapted to the new economic orientation.

Information from Bulgaria has become scarcer, no figures of the note circulation being available since February 1947; bank rate remains unchanged at 4½ per cent. (to which it was reduced in August 1946). Under the law of 26th December 1947, all Bulgarian banks are being nationalised, German participations being handed over to the U.S.S.R. under the terms of the peace treaty. All banking operations are being concentrated in two banks, the National Bank and a new Investment Bank; the rôle of the National Bank will be widely extended in order to conform to the new economic régime.

The budget in the U.S.S.R. is very comprehensive, including all investments and other expenditure under the Five-Year Plans; there is no special investment budget nor do the banks grant credits which are not covered by the Plan.

The monetary reform which was introduced in December 1947 is described in Chapter III (see page 35), a quantitative valuation being shown in a table. As a matter of fact, the monetary reform provided an independent basis for checking an earlier estimate of the note circulation, based on the "gap" appearing in the budget over a number of years. It may be remembered that, during the war, "new resources" were made available to close the gap between ordinary revenue and expenditure; the bulk of these resources consisted of "income and reserves" of state enterprises and organisms (see fourteenth Annual Report, pages 190–191). Important among these "resources" would seem to have been those of the State Bank, obtained mainly through the issue of new notes.

The table, based on estimates of the "inflationary gap" in the Soviet budget, has been drawn up to give a rough idea of the order of magnitude of the note circulation in the U.S.S.R.; although the figures are subject to a fairly wide margin of error they are believed to give a reasonably correct impression of developments.

The largest issues of notes would seem to have taken place in the years 1943, 1944 and 1945, i.e. towards the end of the war; but these issues did not have their full effect on prices until, the war being over, the needs of resettlement and reconstruction and the release of back pay to demobilised soldiers caused an increase in velocity of circulation.

U.S.S.R.:
Note circulation.(1)

End of year	In milliards of roubles
1938	40
1939	65
1940	85
1941	100
1942	115
1943	175
1944	260
1945	340
1946	385
1947	420
1947	42 (2)

(1) Etimates in round figures.
(2) After the monetary reform.

The drastic currency reform introduced at the end of 1947 brought the circulation down to one-tenth of what it had been and apparently to about the same level as in 1938. Money incomes were, however, left untouched and real incomes probably increased with the fall in prices and the abolition of rationing. It may have been found that incomes became too high, for, in May 1948, a new 20-year loan of R. 20 milliard was issued, to be taken up mainly by the workers over a period of months; such a loan would, during the period of subscription, have much the same effect as direct taxation, reducing current purchasing power accordingly. Money in the U.S.S.R. remains a medium of exchange as essential there as in capitalist countries; and for this reason a sound currency is as important in the U.S.S.R. as in the west.

In the Far East, currency troubles have become more and more threatening. Inflation in China is running its course with an ever increasing speed and the virtual collapse of the currency is ominously near. In Japan also, the inflationary spiral has gained in speed, the expansion of the note issue increasing by leaps and bounds; from 2½ milliard yen in June 1939 the circulation had expanded to 93 milliard by the end of 1946 and more than doubled in the course of the following year, reaching 219 milliard yen in December 1947. There can be no permanent reconstruction and rehabilitation until official expenditure has been cut down as part of a realistic budget reform and until the structure of commodity prices has been put on a sound basis.

In other parts of the world, credit conditions have generally remained without any considerable change but the tendency has almost everywhere been towards greater stringency. In South America, the only change of importance was the increase of the discount rate of the Reserve Bank of Peru from 5 to 6 per cent. in November 1947. An exception to the general rule was the reduction made by the National Bank of Iran from 7 to 5 per cent. in December 1947. Most central banks would, indeed, subscribe to the statement made by the Governor of the Reserve Bank of India at the annual general meeting held in August 1947, when he said:

> "It is being increasingly recognised that, beyond a certain limit, cheap money not only ceases to be beneficial but, in certain conditions, ... becomes positively harmful to the economy. It would seem that that limit has already been reached in many countries."

This brief review of monetary and credit conditions in the world leaves an impression of all-round reaction against an extreme ease of money — with only one or two obvious exceptions. More attention has been paid to monetary means of control in addition to those direct physical controls already in existence; budget surpluses are beginning to appear in a number of countries and, in any case, serious efforts are being made to discontinue government borrowing at the central banks. In pressing for a sounder policy, the central banks have often been able to exert a wholesome influence. They have generally given warnings to commercial banks to exercise restraint in the granting of new credits to the private economy and have made such recourse to credit more expensive by raising bank rates.

The increases in interest rates recorded in this chapter are moderate and cannot be considered inappropriate in the present atmosphere of full employment, with production reaching the limits of capacity; but the danger of further inflation is by no means completely overcome and the falling-off of "small savings" in a number of countries is not the least significant warning that private thrift needs to be encouraged and that an essential factor in a healthy economy must always be an adequate formation of genuine savings out of current income.

IX. European Payments Agreements, Multilateral Compensation and the European Recovery Program.

In the course of 1947 the payments difficulties of European countries further increased, not only in relation to overseas countries but also amongst themselves. The specifically European aspects of these problems were considered by the Committee on Payments Agreements, a prolongation of the Committee of Financial Experts which met in Paris in the summer of 1947, as part of the Committee of European Economic Co-operation. Thanks to the helpful attitude adopted by the monetary authorities in the countries concerned, it proved possible for the first time to collect comprehensive statistics on the working of the European payments agreements. Further, the Committee drafted the First Agreement on Multilateral Monetary Compensation, which was signed in Paris on 18th November 1947.

There has been much criticism of the whole system of payments agreements, but only now have the data become available for a comprehensive view to be taken of the position. As a background for an appraisal of the efforts now being made to arrive at a more multilateral system, in connection with the European Recovery Program, it is useful briefly to review the evolution over the past few years.

Payments agreements had their origin in methods of financing adopted during the war, but they first became an important factor in the system of European payments after the cessation of hostilities, when the network of agreements spread more particularly over western Europe (with important links with eastern Europe and also with some extra-European countries). The partners to the agreements had, as a rule, quite inadequate gold reserves, which forced them to continue the application of exchange control and also to enter into bilateral arrangements.

It cannot be too strongly emphasised that, in the situation which prevailed at the end of hostilities in Europe, the credits granted under bilateral agreements — reciprocal rights to overdrafts — served as much-needed oil in the European payments mechanism, without which it would have proved far more difficult to get trade going again after the disruption of the war. The agreements were usually concluded between governments, according to a fairly uniform pattern: the central banks, as technical agents, supplied their own currency at a fixed rate of exchange against that of their partner up to a certain limit, which was often referred to as the "swing", since it was intended to afford room for minor fluctuations in commercial deliveries between the two countries; beyond the limit thus fixed settlements had generally to be made in gold or convertible currency.

In 1945, during the first phase of their operation, the payments agreements had, indeed, the great virtue of making commercial relations possible on a scale that could not otherwise have been achieved; they got goods moving between countries which, in many cases, had been physically severed from each other for many years. They helped to establish a uniform and smoothly working payments mechanism with a series of reasonable and consistent exchange rates and with relatively flexible controls. They made it possible to economise the use of gold and international exchange and to develop export capacities. As a result, there was a widespread revival of intra-European trade after the barren years of war.

Position on Payments Agreement Accounts as at 30th June and 31st August 1947.

30th June 1947	Reporting countries (1)											
	Belgium (2)	Denmark	France	Italy	Netherlands	Norway	Portugal	Sweden	Switzerland (3)	Turkey	United Kingdom	Other Countries (4)
	in millions of dollars											
with												
Belgium (2) . . .	—	— 7.3	— 39.7	— 1.2	— 19.6	— 4.9	+ 0.1	+ 7.2	— 4.9	—	—131.5	—
Denmark . . .	+ 7.3	—	+ 4.0	— 1.3	+ 1.5	+ 0.3	—	— 6.5	—	—	+139.5	— 1.7
France	+ 39.7	— 4.0	—	— 7.3	— 19.0	+ 0.6	—	+ 12.1	+ 57.7	+ 3.7	—	+ 0.9
Italy	+ 1.2	+ 1.3	+ 7.3	—	— 1.9	— 1.0	—	—	—	—	—	—
Netherlands . .	+ 19.6	— 1.5	+ 19.0	+ 1.9	—	— 2.6	+ 2.0	— 0.7	— 2.7	—	— 52.1	— 0.9
Norway	+ 4.9	— 0.3	— 0.6	+ 1.0	+ 2.6	—	—	— 14.4	— 1.6	—	— 59.5	—
Portugal	— 0.1	—	—	—	— 2.0	—	—	—	—	—	— 6.8	—
Sweden	— 7.2	+ 6.5	— 12.1	—	+ 0.7	+ 14.4	—	—	—	—	— 14.1	—
Switzerland (3) .	+ 4.9	—	— 57.7	—	+ 2.7	+ 1.6	—	—	—	—	— 65.2	—
Turkey	—	—	— 3.7	—	—	—	—	—	—	—	— 61.7	—
United Kingdom	+131.5	—139.5	—	—	+ 52.1	+ 59.5	+ 6.8	+ 14.1	+ 65.2	+ 61.7	—	+ 0.9
Other Countries (4)	—	+ 1.7	— 0.9	—	+ 0.9	—	—	—	—	—	— 0.9	—
Total . . .	+201.8	—143.1	— 84.4	— 6,9	+ 18.0	+ 67.9	+ 8.9	+ 11.8	+113.7	+ 65.4	—252.3	— 0.8

31st August 1947	Reporting countries (1)											
	Belgium (2)	Denmark	France	Italy	Netherlands	Norway	Portugal	Sweden	Switzerland (3)	Turkey	United Kingdom	Other Countries (4)
	in millions of dollars											
with												
Belgium (2) . . .	—	— 13.5	— 48.0	— 2.3	— 24.5	— 12.7	— 1.2	+ 5.9	+ 0.2	—	— 55.6	— 0.3
Denmark . . .	+ 13.5	—	+ 6.7	— 1.3	+ 1.8	+ 6.8	—	— 7.3	—	—	+139.3	— 1.7
France	+ 48.0	— 6.7	—	— 4.0	— 16.3	+ 2.1	—	+ 11.6	+ 55.7	+ 2.9	—	+ 1.4
Italy	+ 2.3	+ 1.3	+ 4.0	—	— 2.4	— 0.2	—	—	—	—	—	—
Netherlands . .	+ 24.5	— 1.8	+ 16.3	+ 2.4	—	— 5.5	+ 2.7	+ 4.7	— 2.7	—	— 51.4	— 1.4
Norway	+ 12.7	— 6.8	— 2.1	+ 0.2	+ 5.5	—	—	— 10.8	— 1.5	—	— 82.1	—
Portugal	+ 1.2	—	—	—	— 2.7	—	—	—	—	—	— 12.6	—
Sweden	— 5.9	+ 7.3	— 11.6	—	— 4.7	+ 10.8	—	—	—	—	— 23.4	—
Switzerland (3) .	— 0.2	—	— 55.7	—	+ 2.7	+ 1.5	—	—	—	—	— 67.0	—
Turkey	—	—	— 2.9	—	—	—	—	—	—	—	— 69.0	—
United Kingdom	+ 55.6	—139.3	—	—	+ 51.4	+ 82.1	+ 12.6	+ 23.4	+ 67.0	+ 69.0	—	+ 1.3
Other Countries (4)	+ 0.3	+ 1.7	— 1.4	—	+ 1.4	—	—	—	—	—	— 1.3	—
Total . . .	+152.0	—157.8	— 94.7	— 5.0	+ 12.2	+ 84.9	+ 14.1	+ 27.5	+118.7	+ 71.9	—223.1	— 0.7

(1) The sign + or — indicates the creditor or debtor position of the country named above.
(2) Belgo-Luxemburg Economic Union.
(3) The debit balances of Switzerland represent freely transferable resources.
(4) Austria, Greece, Iceland and the French Zone of Occupation in Germany.
Source: Report of Committee on Payments Agreements, October 1947. The statistics apply only to countries participating in E. R. P.

Nevertheless, a second phase soon appeared in which the payments agreements began to show their fundamental weaknesses. Since they had been intended to cover current transactions only (hardly any European country being in a position to grant long-term credits), there was an absence of adequate provision for capital movements or non-seasonal deficits. Further, the agreements were essentially bilateral; but, if the free flow of productive energies is allowed to develop along natural lines, trade between two countries (or trading areas) is rarely, and only exceptionally, balanced bilaterally. Moreover, European countries were weakened and exhausted in varying degrees, with an uneven development in their productive capacity. For these reasons the "swings" on the payments accounts developed, in a number of cases, into semi-permanent credits and became enlarged out of proportion to the original intentions.

During 1946, as these tendencies became pronounced, a number of special steps were taken to bring in, for instance, particular ad-hoc "balancing" items of a capital nature (such as the proceeds of requisitioned securities) or to consolidate, in the currency of the creditor country, the whole or part of the credits which had been granted voluntarily or involuntarily. It became evident, however, that trade would have to be controlled if the volume of credit accommodation was to be kept within tolerable bounds; so a fresh start was made, and the bilateral agreements were reconsidered in conjunction with trade negotiations inspired by the inescapable need for a greater bilateral balance.

It was at this time that the United Kingdom consolidated about £100 million — the equivalent of part of the French francs which had come into the possession of the Bank of England against sales of sterling to the Bank of France. Belgium also consolidated debts which had been run up by the Netherlands, and Sweden granted further credits on commercial account, particularly to Finland, but also to the Netherlands and Norway, and consolidated S.Kr. 80 million due by France. These consolidations, together with the granting of new credits, afforded temporary relief to the debtors; but they did not — indeed, could not — alter the fundamental fact that the normal pattern of trade is not bilateral, it being thus against the nature of things to try to solve the payments relations of the various countries on a purely bilateral basis.

The third phase developed as the "dollar shortage" made itself more acutely felt (this was the case particularly in 1947 and especially after the suspension of the sterling convertibility on 20th August). As the creditors in intra-European trade found it increasingly difficult to supply dollars and gold to meet their payments in the United States, they found themselves less in a position to extend further credits inside Europe. As a rule, each country had to confine any further credit accommodation to what was compatible with its own economic capacity; for the debtor countries on the intra-European account, this often meant that an increasing proportion of their exports had to be allocated to the reduction of earlier debts, although they could ill afford to do so.

As an illustration of what happened, it is instructive to take the example of Belgium, which has been, and still is, a typical creditor country so far as Europe is concerned.

Belgian Payments Agreements at the end of 1946 and 1947.

At end of year	1946			1947		
	Credits	Debts	Net balance	Credits	Debts	Net balance
	equivalent in millions of dollars					
European	103	43	+ 60	279	11	+ 268
Overseas	—	39	— 39	—	68	— 68
Totals . . .	103	82	+ 21	279	79	+ 200

According to these figures, Belgium increased its net credits to countries in Europe by the equivalent of $208 million during the year 1947, i. e. at the time when the country was running further into debt on its agreements with overseas countries (the Argentine, Brazil, etc.). As a matter of fact, Belgium's aggregate "credit margins" to European countries were doubled, rising from $152 million at the end of 1946 to $304 million at the end of 1947.

Although statistics are not complete, it is clear that, since the end of the war, the total of the intra-European credits on payments agreements has amounted to some $1,500 million in the aggregate. The jam into which the bilateral mechanism has run is, therefore, at least partly connected with the very considerable volume of intra-European aid already granted. As pressure from outside the continent has been growing, it is not surprising that European self-help in its present form seems to be reaching its practical limits.

The distortion of bilateral relations has led to a situation such that, inside Europe, countries tend to become wholly debtors or wholly creditors. The bilateral system itself contains no natural checks and balances ensuring a more or less automatic adaptation, as was the case under the gold standard.

European Credits on Payments Agreements.

At end of 1947	In millions of dollars
Reported to B.I.S.*	770
Others: granted by	
United Kingdom.	400
Belgium	70
Sweden	160
Various.	100
Round total . .	1,500

* Working accounts reported for purposes of the multilateral compensation.

Moreover, as the credit limits have been reached and become rigid, they act virtually as gold points at which gold movements actually take place, any further excess purchases by the debtor country thus being covered up to a hundred per cent. in gold or dollars. In this way the weaker currencies in Europe are struggling under the burden of convertibility into gold and dollars, with the result that useful imports are being inhibited in one direction while economically unwarranted exports may be forced in some other direction.

This situation was already evident when the Committee on Payments Agreements met in Paris in October 1947. As the Committee explained in its report,

> "... the inadequacy of the system of bilateral agreements .. has led to increasingly serious drawbacks. In particular, the margins of credit possible under the payments agreements concluded by some countries are almost exhausted, and this is a quasi-permanent situation. For the expansion of trade to the extent which is possible, increasingly numerous gold payments would be necessary. This situation risks hampering not only the development of trade, but actually its maintenance at the present level ... In these circumstances, the Committee considers that greater flexibility in the present payments system is more than ever necessary."

While the Committee considered that, as an emergency measure, the existing credit margins might temporarily be enlarged, it felt that the countries concerned could make further progress only by taking "definite steps for the organisation of their mutual payments on a multilateral basis".

But the Committee explained that "an integral multilateral system presupposes a certain number of conditions which are not at present fulfilled and several of which depend upon external assistance". These conditions are:

> "Firstly, the production of each of the European countries must have reached a point where it will be able to provide the material for a sufficient flow of trade.
>
> Secondly, conditions of monetary stability, where they have not already been achieved, must be established in the participating countries. This, for some of them, implies the re-organisation of their public finances.
>
> Thirdly, the participating countries must be able to dispose of more abundant foreign currency resources to enable them to effect the settlement required.
>
> As shown by the work of the Committee of European Economic Co-operation, the fulfilment of these three conditions mainly depends upon the efforts of the European countries themselves. But it also depends, in varying degrees, upon adequate external assistance.
>
> Moreover, for such external assistance to be fully effective, an expansion of European economic activity must be furthered by an increasingly flexible and ever-widening system of payments."

The Committee, therefore, recommended that the return to full convertibility should be made in several stages, beginning with some simple steps which could be taken without further ado. "These recommendations", said the Committee,

> "appear to conform to the general principles of the International Monetary Fund and of the future International Trade Organisation. It is unnecessary to emphasise that any steps taken to apply these recommendations will remain in harmony with these principles and will promote their development".

As an immediate practical measure, the Committee drafted the First Agreement on Multilateral Monetary Compensation, which was signed in Paris by the Governments of Belgium (acting also for Luxemburg), France, Italy and the Netherlands on 18th November 1947 (the text of the Agreement being reproduced on page 170 as an annex to this Report). Soon after that date practically all countries participating in the European Recovery Program adhered to the Agreement, the complete list of the members being as follows:

PERMANENT MEMBERS	OCCASIONAL MEMBERS
Belgium (and Luxemburg)	Austria
France	Denmark
Italy	Greece
Netherlands	Norway
Bi-Zone of Germany	Portugal
	Sweden
	United Kingdom
	French Zone of Germany

The "permanent" members are those which accept the automatic application of simple offsetting operations amongst themselves; "occasional" members are open to propositions from the Agent, but reserve the right, on each occasion, to accept or reject such propositions, according to whether or not they consider them desirable.

Among the countries participating in the European Recovery Program, the only ones not on this list are Iceland (which has only one payments agreement, with France), Eire (with no payments agreement), Switzerland and Turkey; but the two last-mentioned countries, although not taking part in the actual compensations, cooperate by furnishing statistics and sending observers to the Committee of Delegates.

The Committee of Delegates and Representatives, appointed for the application of the Agreement of 18th November 1947, has continued in another form the work begun by the Committee on Payments Agreements. It is made up of representatives of all countries participating in the compensations; at four meetings (one in Brussels and three in Basle) it has drawn up "regulations" for the application of the Agreement, which give wide powers to the Agent to carry out the compensations.

The Bank for International Settlements has been acting as Agent (under Art. 5) since the Agreement was signed.* The work of the Agent is confined to the technical operation of the compensations, inter alia the collection and analysis of statistics on payments agreements, such statistics being received each month from the technical institution in each of the participating countries. These technical institutions are generally the central banks, with which the Bank for International Settlements has been on terms of close collaboration for many years — a circumstance which has undoubtedly facilitated the work and incidentally made possible the raising of bank secrecy necessary for the

* See Chapter X on "Current Activities of the Bank".

reporting of the figures and the smooth working of the technical side of the compensations. The Bank for International Settlements, as Agent, has been authorised to debit or credit the payments-agreements accounts for the purpose of compensations.

The Agreement of 18th November came into force on the date of signature and the technical organisation was set up with such speed that it was possible to start practical compensation operations from the end of December 1947, since when they have taken place regularly at the end of each month.

The Agreement made a distinction between two classes of compensation, those of the first category and those of the second category.

First-category compensations involve only a reduction of existing balances ("balances" in this context covering both debit and credit accounts). Such operations imply a "closed circuit" of countries each of which is debtor to its immediately preceding partner, while it is itself a creditor of its succeeding partner, the last country in the chain being the creditor of the first country, thus closing the circuit.

These operations are partially automatic (in so far as the "permanent" countries are concerned) and partially optional (in so far as they apply to "occasional" members). To obtain the optimum results from closed circuits of reductions, a mathematical system is applied by the Agent on the basis of the statistics received at the end of each month.

Second-category operations are those which produce one or more increases of balances, or the formation of new balances, in a given circuit. All member countries may participate; those countries which are wholly debtor or wholly creditor, and are automatically excluded from first-category operations, may take an active part in the second category. Such operations are entirely optional and each country enters with the rights of an "occasional" member, i. e. it may refuse any proposition. The theoretical possibilities of second-category operations are great and they cannot, by their nature, be reduced to a mathematical formula; they are, however, subject to practical limitations, some of which are discussed below.

The working accounts of the European payments agreements show debts (and credits) entering into the compensations to the equivalent of over \$700 million. About \$400 million of this total is net debt (or credit) which cannot be offset. Of the \$300 million which can be subject to compensation in theory, experience has shown that, at the present time, the maximum possibilities of the first category alone amount to about \$30–50 million. From this it follows that the possibilities for the reduction of debts (and credits) by operations of the second category are some ten times as great as those of the first category. The possible "turnover" of such compensations is much greater still.

The actual results attained so far are limited but they are, nevertheless, of importance for more general reasons. A mechanism has been set up, and this in itself required the surmounting of a number of obstacles (such as traditional banking secrecy); the task was carried through with a high degree of European cooperation and the mechanism already functioning is capable of adaptation and growth to meet new developments.

European Transferability and the Exchange Controls. The term "multilateral compensation" covers two quite separate conceptions:

(a) the simple offsetting (or "compensation parfaite") of the first category, which can lead only to reductions of outstanding debts (and credits) and presents no particular difficulties — except that, in some cases, countries may for one reason or another desire to maintain certain balances in one or more particular markets and thus are unwilling to reduce them, and,

(b) the transferability of currencies involved in second category operations, which are considered more fully in the following paragraphs.

A "second-category operation" may be defined as a payment made by one country to another by utilising the currency of a third country. A simple example would be the payment of a Norwegian debt to the Netherlands in sterling. I is evident that such a transaction involves a limited transferability of sterling; the Netherlands, creditor of both countries, has exchanged Norway as its debtor for the United Kingdom, to the extent that Norway's debt is repaid in sterling. Other transactions may be envisaged which produce a similar degree of transferability as regards any other currency.

Thus, second-category operations, unlike the simple offset of the first category, clearly presuppose the transferability of at least one of the currencies involved in any "circuit" of compensation. In this way the compensation is brought into direct contact with the foreign exchange policy of the countries concerned, finding its expression in the foreign exchange control, of which the payments agreements are a part. The strict bilateral application of the payments agreements may, indeed, be modified by the administration of the exchange control, and such considerations are of great significance for the working of the compensations. Owing to the rôle of sterling in European trade and the clear-cut arrangements of British control measures, these may serve as an example showing in what degree an exchange control can loosen up the severe bilateralism of the payments agreements.

Under the British Exchange Control regulations, the countries of the world may be divided into five groups:

I. Sterling Area, i. e. the "Scheduled territories";
II. American Account countries;
III. Transferable Account countries;
IV. "Bilateral" countries; and
V. "Other countries", a residual group.

A full list of the countries in these groups is given in the chapter of this Report dealing with exchange rates (see page 97).

As regards Groups I, II, III and V, so far as the U.K. Control is concerned, every country has the right to transfer sterling to and from any other country within its Group without permission. For Group III this right applies only to payments for current transactions (which other countries in the same Group are bound to accept) but block transfers resulting from a number of payments for current transactions would not be ruled out.

The facilities described above provide a large field of "automatic" transferability for sterling. But, in addition, sterling transfers are allowed without permission of the U.K. Control, for any purpose, from Groups II, III, IV and V to Group I (Sterling Area), and from Group II to Groups III and V. Moreover, Group III may also make sterling transfers to Group V in respect of current transactions.

In all other cases sterling transfers require the permission of the U.K. Control for each specific transaction. The importance of these "permissive" transfers of sterling ought, however, not to be underestimated as regards either the number and scope of the transactions involved or their aggregate value. In fact, such transfers enable the settlement on a sterling basis of a large number and amount of trade and other current transactions on a wide international basis. The facilities may be available for most types of transfer not covered by the automatic facilities described above; but they are particularly important in connection with the countries in the so-called "bilateral" Group IV.

Unlike the other categories of countries, Group IV is not a formal group. The countries included in it are the subject of bilateral payments arrangements with the U.K. (and covering the whole sterling area) but the bilateral form does not necessarily exclude "permissive" transfers by Group IV countries either with one another or with other countries outside the sterling area. In fact, the monetary and payments agreements between the United Kingdom and the bilateral countries do, in general, provide for such transfers of sterling between the countries concerned and other non-sterling countries, as may be agreed. In practice, a large volume of business has been and continues to be transacted on these lines.

As an extension of both the automatic and the "permissive" transferability, the U.K. Control will also, in many instances, allow merchants in one non-sterling country (X) to receive sterling from or pay sterling to another non-sterling country (Y) in respect of merchanting trade between Y and a third country (Z) even where sterling payments would not at present be permissible for direct trade between X and Y or between X and Z. The basis for such facilities is the extent to which direct payments between Y and Z are allowed either on automatic or on "permissive" grounds. In other words, such merchanting trade facilities, by widening the field for sterling payments, help still further to promote trade between the countries concerned.

The U.K. Control appreciates that "administrative" (i. e. permissive) transferability is not an end in itself and, where developing circumstances allow, this is replaced by untrammelled transferability for current transactions. Nevertheless, "administrative" transferability seeks to ensure the maximum possible flow of sterling in international payments for those countries to which more automatic facilities cannot, for whatever reason, be granted at present.

The effect of the grouping of countries with regard to second-category operations of the multilateral compensation is illustrated in the following table, which shows the position at the end of March 1948.

Members of the Multilateral Compensation arranged according to the grouping of the British Exchange Control.

GROUP I	GROUP II	GROUP III	GROUP IV	GROUP V
Sterling Area	American	Transferable	Bilateral	"Other"
(U.K.)	none	Netherlands (1) (2) Norway Sweden	Austria Belgium (1) (2) Denmark France (1) (2) Greece Italy (2) Portugal Bi-Zone (2) French Zone	none

(1) Monetary areas.

(2) The permanent members of the multilateral compensation; the other countries shown above are "occasional" members. Switzerland and Turkey, which cooperate with the compensation, are both in the "bilateral" group.

The reasons for the classification of the U. K. Control may vary from case to case, and countries may be reclassified but, in general, the Transferable Account countries (like those of the Sterling Area) are considered to have their payments position sufficiently in equilibrium amongst themselves and with the United Kingdom, so that unrestricted transferability may be allowed without too great danger of a onesided development. This group includes only three of the members of the multilateral compensation. All other members are in the "bilateral" sterling group, and third-country transfers in these cases can be made only with the express permission of the U. K. Control.

It is not surprising that the British Transferable Account group (based as it is on economic and monetary considerations) does not coincide with the multilateral compensation group (which is essentially the result of geographical contiguity — the western European nations participating in the European Recovery Program). Lack of homogeneity in the multilateral monetary compensation group is part of the problem which the European Recovery Program sets out to solve by removing the causes of the disequilibrium (vis-à-vis the United States and within western Europe itself) over the next three or four years.

The example of the British Control has been given much space in this chapter, but other Exchange Controls in Europe are equally aware of the need to obtain the highest degree of transferability for their domestic currencies and are equally favourable to the multilateral approach to the problem. And it should be remembered that the currencies of three continental compensation members, the French franc, the Belgian franc and the Dutch florin, are key currencies in overseas monetary areas of considerable importance. The weight of four important monetary areas being concentrated in the European payments agreements, Europe is thus the focal point where payments difficulties of a vast part of the world come to a head.

The foregoing paragraphs give some indications of the difficulties encountered by the multilateral compensations and the reasons for these difficulties. By attempting to initiate "second-category operations" involving transferability of currencies in the geographical area of the European Recovery Program, the multilateral compensation group is jumping ahead of events and anticipating a greater degree of equilibrium than actually exists at the present moment. This does not mean that such operations are not desirable — on the contrary they run directly in the line of progressive policy — but it does explain why the results of the multilateral clearing are, at first, not very large; and it shows that, left to itself in this matter of transferability, progress in Europe is likely to present very real difficulties.

European Transferability and the European Recovery Program. The multilateral compensation is the logical outcome of the European Recovery Program. Europe suffered greater devastation and dislocation during the war than any other closely populated area and the resulting disequilibrium inside the area and in relation to the world is probably the greatest. It is logical that it is precisely in this most difficult area that a special effort at collaboration in the form of the multilateral compensation should be made under the European Recovery Program, which aims at restoring equilibrium in western Europe. Sterling convertibility, while it lasted, was backed by "external aid", and it was particularly after 20th August 1947 that an acute need was felt to provide some new mechanism.

Some system of multilateral payments in Europe is thus essential to a proper working of the European Recovery Program. In Paris, last summer, the participating countries drew up their production figures for various products and added them together before estimating the requirements from outside Europe. This procedure was followed for many groups of commodities: food, coal, steel, timber, etc. As is well known, however, the present dislocation in this field is such that trade movements, essential for the carrying-out of the European Recovery Program, are not taking place — that, amongst many examples, Norwegian reconstruction has been held up for lack of Belgian steel, simply because it could not be paid for.

The urgency of the need to introduce more flexibility into the present bilateral payments system is well understood in Europe itself, the intense discussion of these problems being a sign of the awareness in Europe of this essential problem. Likewise, the policy of the British Control is to extend the field of transferability of sterling as widely and quickly as circumstances permit.

Further, the countries participating in the European Recovery Program — the group which began with the first step represented by the multilateral compensation — adopted a Charter on 16th April 1948, of which Article 4 reads as follows:

> "The Contracting Parties will develop, in mutual cooperation, the maximum possible interchange of goods and services. To this end they will continue the efforts already initiated to achieve as soon as possible a multilateral system of payments among themselves, and will cooperate in relaxing

restrictions on trade and payments between one another, with the object of abolishing as soon as possible those restrictions which at present hamper such trade and payments.

In the application of this article, the Contracting Parties will take due account of the necessity that they should, collectively and individually, correct or avoid excessive disequilibrium in their financial and economic relations, both among themselves and with non-participating countries."

Although breaking new ground, the attempt at multilateral compensation is but a modest step in the direction of freer exchanges; but the various discussions and the practical experience gained month by month in working the compensation system may, if a reasonable amount of outside aid is forthcoming, lead to an easing of the present restrictions and, with it, an opportunity of erecting a new and stronger monetary structure, better suited to intra-European trade and to relations with other continents.

X. *Current Activities of the Bank.*

1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1948, examined and certified by the auditors, is reproduced in Annex I to the present Report. It shows a total of 555.8 million Swiss gold francs (of 0.2903... grammes of fine gold) against 499.1 million on 31st March 1947. As in preceding years, the method of conversion of the currencies included 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. The few changes to be noted, in comparing these rates on the two dates mentioned above, are of no practical importance so far as the Bank's accounts are concerned.

There has been an appreciable increase in the Bank's operations, but the volume of business handled during the year still remains somewhat below the pre-war level.

As stated in the seventeenth Annual Report, the Bank followed, during the war, a policy of maintaining a very high degree of liquidity, thanks to which its operations could be progressively resumed, in favourable conditions, from 1946 onwards.

The close contact maintained or resumed with most of the central banks of Europe has enabled it to meet the short-term needs of these banks in a large number of cases.

The Bank's new operations are rather different from those which it handled before the war. Having participated, between 1930 and 1939, in various operations undertaken in the interests of economic and monetary restoration, the Bank had its funds invested in comparatively large amounts on a small number of markets, frequently with a gold guarantee, but in the form of investments which, though theoretically at short term, were actually tied up for fairly long periods. Since the war the Bank has had the opportunity of effecting operations with a larger number of banks, the short-term character of these operations being a reality. In making its investments, it aims at securing a type of paper which is, in many cases, remobilisable before maturity, and in such a way that the creditor markets become connected with the operations of the Bank.

Since the close of the financial year, the Bank has arranged with the International Bank for Reconstruction and Development a purchase of 2½ per cent. bonds denominated in Swiss francs. This has enabled the International Bank to obtain Swiss francs and to place them at the disposal of the Dutch Government in respect of the credit opened for the said government. These bonds will benefit by the first repayment maturities of the Dutch credit.

Some progress has been made in investments in gold and sales of gold entailing a forward repurchase, mentioned in the seventeenth Annual Report, and in exchanges between markets, by which physical transfers of gold are reduced to a minimum. In particular, the Bank's intervention has enabled European central banks to procure for themselves dollars against gold in Europe without the necessity of sending the gold to the United States, it being retained in Europe with a view to possible intervention on markets within this continent in due course.

In accordance with the rules which it laid down for itself, the Bank's operations have always been effected at the official rates applied by the central banks and with their express approval. Each central bank has a right to oppose its veto to any operation of the Bank on its particular market (under Article 20 of the Bank's Statutes). The resumption of dollar operations was made an occasion for reconsidering with the Federal Réserve Bank of New York the precise form in which Article 20 was to be applied in connection with such operations.

The Bank received an addition to its means of action in the form of a new free account in dollars, opened in April 1947 with the Federal Reserve Bank of New York. By an agreement concluded with the Treasury Department of the United States on 13th May 1948 (mentioned on page 11 of the Introduction), all formalities connected with the utilisation of the Bank's assets, whether old or new, in the United States have been abolished. Thus the greater part of the Bank's working funds once more consist of dollar holdings, as was the rule before the war.

Moreover, the Bank's resources have, to a certain extent, been increased by the receipt of fresh deposits for account of central banks (see page 5).

Earmarked gold, not included in the balance sheet, remained near the level at which it stood at the beginning of the financial year, namely 45.9 million Swiss gold francs. On 31st March 1948 this item amounted to 47.3 million.

Since 31st March 1947, the increase in the total of the Bank's monthly statement of account has suffered no setback. A rather flat stretch from June to September, at the level of about 508 million Swiss gold francs, was followed by another of 514 million, from October to December, after which the total sucessively reached 520.6 million on 31st January 1948, 522.9 million on 29th February and 555.8 million on 31st March.

A. Assets.

The item gold in bars and coins amounted to 82.7 million Swiss gold francs on 31st March 1947. After having remained in the neighbourhood of that figure until 31st July, it fell to 79.5 million on 31st August — the minimum for the financial year. From that point, a fairly regular increase brought the figure beyond 101 million on 31st January, the maximum being reached with 122.4 million at the end of the financial year. The maximum since the creation of the Bank had been reached in July–August 1946, with a figure of 124.8 million. It should be noted that, owing to certain loans in gold and spot sales combined with forward repurchases, the total of the Bank's assets in gold and gold claims exceeds the last-mentioned figure.

Thanks to the size of the Bank's gold holdings, their geographical distribution can be arranged in such a way as to make it possible to meet the requirements of the central banks without recourse to more than a minimum of physical shipments.

The total of gold in bars and coins shown in the balance sheet includes the amount which has to be restituted in virtue of the agreement concluded on 13th May 1948 in Washington with the Governments of France, Great Britain and the United States of America (cf. page 11 of the Introduction). The amount in question had not been finally fixed when the balance sheet was drawn up, and the material restitution of the gold has not yet taken place; but the amount to be transferred in this connection is 3,740 kilogrammes, equivalent to 12.9 million Swiss gold francs. The net gold holding of the Bank, after deduction of the gold to be restituted, thus amounted to 109.5 million Swiss gold francs on 31st March 1948.

As is explained in the note at the foot of the balance sheet, the entries to be made on both the assets and the liabilities side in consequence of the conclusion of the agreement of 13th May 1948 will amount only to about 6 million Swiss gold francs, provision having been made for as much of the gold to be restituted as could, at an earlier date, be fixed with certainty.

The item cash on hand and on current account with banks totalled 9.1 million Swiss gold francs on 31st March 1947. Having risen to nearly 25 million on 31st May, it dropped to 6.2 million on 30th September, regained the level of 23.5 million on 31st January, after various fluctuations, and reached its maximum with 42.6 million at the end of the financial year.

On 31st March 1947, the Bank's cash holding in Swiss francs represented about 80 per cent. of its total cash; on 31st March 1948 it represented no more than 7 per cent., the cash holding in dollars having risen to 92 per cent. of the total. It must be regarded as a normal development that the Bank's operations led it to retransfer the greater part of its active liquid reserves to the United States, where it had been held before the war.

The following are the most outstanding changes on the assets side of the balance sheet: the total increase in gold and cash holdings actually amounts to 73.2 million Swiss gold francs, while the increase in the balance-sheet total is only 56.7 million. Consequently, all the other assets together show, on balance, a total decline of 16.5 million Swiss gold francs, the distribution of which can be seen from the table.

Items	31st March 1947	31st March 1948	Difference
	In millions of Swiss gold francs		
Sight funds at interest	0.5	0.3	— 0.2
Rediscountable bills and acceptances:			
1. Commercial bills and bankers' acceptances	5.5	0.5	— 5.0
2. Treasury bills	22.1	23.4	+ 1.3
Time funds and advances (at less than 9 months)	13.0	15.9	+ 2.9
Sundry bills and investments:			
1. at less than 9 months	36.1	50.4	+ 14.3
2. at more than 9 months	38.5	8.0	— 30.5
Other assets	0.5	1.2	+ 0.7
Total	116.2	99.7	— 16.5

From time to time during the financial year, the amount of sight funds at interest rose above the initial and closing figures; on 31st July and 31st October 1947 these funds totalled 3.6 million Swiss gold francs.

The amount of rediscountable bills and acceptances also reached its lowest level at the end of the financial year. After having remained close to its initial total of 27.6 million Swiss gold francs throughout the first quarter, this item rose to 33.7 million on 30th June and to 36.2 million on 31st August, falling to 35.9 million on 30th November and then progressively declining to 23.9 million. It will be noted, however, that there was a slight increase in the Bank's holdings of Treasury bills. In general the bills included under this heading have been given a form which will permit, if need be, a relatively easy remobilisation.

The total of time funds and advances — the title given to this item in the balance sheet at 31st March 1948 differs slightly from that of the previous year, when it was called "Time funds at interest" — showed no great change, the minimum being registered on 30th April 1947 with 10.2 million Swiss gold francs and the maximum on 30th September with 19.8 million.

The initial and closing figures for sundry bills and investments, likewise represent the highest and lowest points reached by this item. Investments at more than nine months now account for only a small fraction of the total, while investments at more than one year, which still amounted to 5.6 million Swiss gold francs on 31st March 1947, had practically reached vanishing-point by 31st March 1948.

The balance sheet at 31st March 1948 shows no change in funds invested in Germany, funds invested in 1930–31 in application of the Hague Agreements. The claim on the Reichsbank resulting from the transfer by the latter to the Bank for International Settlements, during the war, of gold later on identified as looted and subsequently to be restituted is already included in the total appearing in the balance sheet, as regards the part for which it was possible to fix the definite amount in 1946. As a result of the final agreement of 13th May 1948, a further amount of about 6 million Swiss gold francs will have to be added to it.

B. Liabilities.

There has been no change in the form in which the liabilities are presented in the balance sheet; moreover, the items "Capital", "Reserves" and "Long-term deposits" show the same amounts at the end of the financial year as at the beginning.

As regards short-term and sight deposits in various currencies, the following tables show their distribution (both with regard to the depositors and with regard to the time involved) on 31st March 1948, as compared with 31st March 1947.

Items	31st March 1947	31st March 1948	Difference
	In millions of Swiss gold francs		
Central banks for their own account	8.1	48.4	+ 40.3
Central banks for account of others	0.9	8.5	+ 7.6
Other depositors	0.6	0.5	— 0.1
Total . . .	9.6	57.4	+ 47.8
Deposits at:			
not more than 3 months	3.6	24.4	+ 20.8
sight	6.0	33.0	+ 27.0
Total . . .	9.6	57.4	+ 47.8

The increase in the total of deposits was fairly regular, the minimum figure being registered on 30th April 1947 with 8.1 million Swiss gold francs and the maximum figure for the financial year — 57.4 million — on 31st March 1948. This was, moreover, the highest figure reached since 31st July 1939.

On the other hand, short-term deposits expressed in a weight of gold moved within narrow limits. They amounted to 18.1 million Swiss gold francs on 31st March 1947 and remained at much the same level throughout the financial year, touching their lowest point — 17.0 million — on 31st December and finishing the financial year at 17.7 million. Holders of gold deposit accounts in the Bank's books numbered twenty on 31st March 1948, against twenty-two a year earlier.

All the interest payable in the financial year on the Bank's investments other than those in Germany was duly received.

* * *

The settlement, by the Agreement dated 13th May 1948, with regard to the amount of the looted monetary gold delivered by the Reichsbank during the war in respect of part of the service of the Bank's investments in Germany, makes it possible to summarise finally the results of the operations of the Bank from the outbreak of the war to the close of the last financial year (i.e. 31st March 1947).

After deduction of the looted gold received from the Reichsbank, the amounts transferred from Germany have still been sufficient to cover almost the whole of the interest earned on the Reichsmark investments up to 31st March 1945, the last date to which such interest has been brought to account.

During the period from 1st September 1939 to 31st March 1948 the Bank has been able, even after deducting the gold to be restituted, to increase the total of its net assets in gold and currencies other than Reichsmarks by over 21 million Swiss gold francs. In addition, the Bank distributed as dividend in respect of the years 1939–40 to 1943–44, amounts totalling 33.4 million Swiss gold francs.

2. Multilateral Monetary Compensation.

The First Agreement on Multilateral Monetary Compensation was signed in Paris on 18th November 1947 by the Governments of Belgium (acting also for Luxemburg), France, Italy and the Netherlands, and entered into force on the same day. (The text of the Agreement is annexed to this Report. See also page 10 and pages 147—148.)

The Bank for International Settlements consented to act as technical Agent under Article 5 of the Agreement and was confirmed in this capacity by a letter from the French Minister of Foreign Affairs, acting on behalf of the signatory Governments.

The Committee of Delegates, appointed under Article 5 of the Agreement, meeting in Basle from 20th to 25th November and again in Brussels from 18th to 22nd December 1947, settled a number of technical questions and drew up the Regulations for the application of the Agreement. As a consequence of decisions taken at these meetings, obligations of banking secrecy were raised so that the condition of the accounts on payments agreements could be reported monthly to the Bank for International Settlements and, further, the Bank was authorised to operate the payments agreements accounts held at the central banks to the extent necessary to carry through the compensation operations.

In addition to the signatory countries, the Anglo-American Zone of Germany has adhered to the Agreement as a permanent member, while Austria, Denmark, Greece, Norway, Portugal, Sweden, the United Kingdom and the French Zone of Germany have adhered as "occasional" members (under Article 8 of the Agreement).

The first compensation operations were conducted on the basis of the situation at the end of December 1947 and further compensations have taken place at the end of each month since that date. In the period covered by this Annual Report (up to and including the end of March 1948) the "turnover" of the compensation (including two operations reported to the Agent) amounted to the equivalent of $39 million.

3. Trustee and Agency functions of the Bank.

There has been no change or development, during the year under review, in the Trustee and Agency functions of the Bank described in earlier Reports.

4. Financial Results.

The accounts for the eighteenth financial year ended 31st March 1948 show a surplus, including net exchange gains, of 9,541,433.80 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 surplus of 692,787.01 Swiss gold francs for the seventeenth financial year. For the purpose of the Balance Sheet as at 31st March 1948, 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 or in accordance with special agreements applicable to the respective currencies and all assets have been valued at or below market quotations, if any, or at or below cost.

It must be emphasised that although the surplus for the year is almost comparable in amount with those shown in the years prior to the war, it is derived to a much smaller extent from income of a regular nature and to a much greater measure from income arising from occasional operations. This position is the result of the suspension of the interest on the funds invested by the Bank in Germany in 1930–31 in application of the provisions of the Hague Agreements. It is to be expected, therefore, that there will be wider fluctuations in the financial results achieved than was previously the case.

The Board of Directors, considering that it is necessary to make the maximum possible provisions for contingencies, has decided that the surplus of 9,541,433.80 Swiss gold francs for the year should be transferred, as to 500,000 Swiss gold francs, to an account for exceptional costs of administration and, as to 9,041,433.80 Swiss gold francs, to the Special Suspense Account 1944–45. This latter account was established at the end of the fifteenth financial year when, having regard to the exceptional circumstances then existing, it was decided to place the surplus of 4,429,562.41 Swiss gold francs for that year to the credit of a Special Suspense Account 1944–45. The deficit for the subsequent financial year ended 31st March 1946 (616,581.45 Swiss gold francs) and the surplus for the financial year ended 31st March 1947 (692,787.01 Swiss gold francs) were also entered to this account. After the transfer for the past financial year, the balance on the account amounts to 13,547,201.77 Swiss gold francs.

Taking account of the reduced dividends for the financial years 1942–43 and 1943–44 and the absence of dividends for the financial years 1944–45 to 1947–48, the total of the dividends declared is less than the 6 per cent. cumulative dividends laid down by Article 53 (b) of the Statutes by 170.50 Swiss gold francs per share.

The accounts of the Bank and its eighteenth annual Balance Sheet have been duly audited by Messrs Price, Waterhouse & Co., Zurich. The Balance Sheet, together with the certificate of the auditors, will be found in Annex I and the Profit and Loss Account is reproduced in Annex II.

5. Changes in the Board of Directors and in Executive Officers.

In March 1948, the Board of Directors suffered a great loss by the death of the Marquis de Vogüé who had served as a Director since the foundation of the Bank in 1930 and as a Vice-Chairman of the Board from 1935 to 1939. The eminent services rendered to the Bank by Monsieur de Vogüé are recalled with deep gratitude.

On 12th May 1948 the Bank learned with much pleasure that Senatore Luigi Einaudi, Governor of the Banca d'Italia, who, since his appointment on 4th January 1945 as Governor, had been an ex-officio Director of the Bank, had been elected President of the Italian Republic. The Bank transmitted an expression of good wishes to President Einaudi upon his election to this high office.

The following appointments to the Board, under Article 28 (2) of the Statutes, were made in March last: Monsieur Albert Edouard Janssen by Monsieur Maurice Frère, Governor of the National Bank of Belgium, and Monsieur Henri Marie Jules Deroy by Monsieur Emmanuel Monick, Governor of the Bank of France.

In May, the following Directors were reappointed, under Article 28 (2) of the Statutes, for a further period of three years: Baron Brincard by Monsieur Emmanuel Monick, Governor of the Bank of France, and Sir Otto E. Niemeyer by Lord Catto, Governor of the Bank of England.

A list of the members of the Board in office in June 1948 appears at the end of the present Report.

* * *

The Board learned with deep regret of the death in December last of Prof. G. Bachmann, former President of the Direktorium of the Swiss National Bank. Prof. Bachmann had served as a Director of the Bank for International Settlements from May 1931 until May 1939.

* * *

In April 1948, Mr F. G. Conolly, who, since 1931, had been a senior officer in the Monetary and Economic Department of the Bank, was appointed a Manager.

Conclusion.

It is often difficult to discern behind the toil and strain of everyday work the more deep-seated tendencies of one's own times, or even to recognise what are the real achievements and, maybe, the dangerous developments in the economic life of the nations. This is especially true with regard to the present complex situation in Europe. On the one hand, there are all the difficulties and dangers brought to our notice with such appalling regularity: in parts of this continent there is still widespread hunger and distress, which lowers efficiency and is in itself a cause of further unrest. Means of transport may have been repaired but frontiers are not easily crossed either by goods or by men when, in addition to all other obstacles, foreign exchange is in short supply and strictly rationed for payments or journeys abroad. This means not only a loss of trade but a danger of moral isolation through reduced contacts, particularly regrettable at a time when Europeans ought to draw closer together.

In other respects, however, impressive progress has been made. With the exception of a few (though not unimportant) areas, the volume of industrial output has almost regained and (in some countries) even exceeded the pre-war level. But for the hazards of the weather, which was the main reason why the 1947 harvest yield was barely two-thirds of normal, many European countries would have come out well indeed, as far as their volume of production was concerned. Financially also, progress has been made: more and more budgets have been balanced, the remaining deficits being met, as a rule, without resort to the central banks; the abundance of money left over from the war, and often added to even when the war was over, has been reduced in several countries by monetary reforms and has, moreover, been increasingly kept under control by a fairly general tightening of conditions on the money markets. Notwithstanding the strain which arose through the gradual depletion of gold and dollar reserves, considerable progress has been made in establishing more realistic rates between the various currencies, partly by the adoption of new exchange régimes and partly owing to the fact that, in 1947, the rise in costs and prices was more pronounced in the United States than in most European countries.

In one respect Europe, in its efforts, has clearly overreached itself: naturally desirous of repairing war damage, building houses and renewing and modernising industrial plant and equipment, many countries pushed investment in capital assets beyond the extent warranted by current savings and such foreign resources as were available. While this investment activity on a larger scale than could be afforded placed a strain upon the balance of payments and led to other difficulties, it nevertheless produced some capital assets which will be of permanent benefit to the countries concerned.

Two particular conclusions emerge from an examination of the European situation. In the first place, the progress made in Europe is sufficient proof of the fact that the aid so far received through UNRRA and otherwise (mostly coming from the United States) has not been wasted. Without the food, the fuel and the industrial materials received from abroad, Europe could not possibly have attained the present volume of output, which in the countries concerned, forms the basis of the national income and, with it, the means of restoring sufficient budgetary equilibrium for inflation to be arrested. Secondly, the fact must not be overlooked that the recovery of Europe is still largely conditional upon the amount of aid received, so that if the aid were suddenly to cease a number of countries would be faced with almost overwhelming difficulties even in trying to secure a minimum of food and materials. They would incur the danger of widespread unemployment, a consequent decline in the national income and very likely a reappearance of budget deficits — a train of events which could not happen without a general weakening of the social and political fabric. After the first world war, it took several years to regain a balanced position, and the second world war spread much greater havoc and undoubtedly left behind it greater real needs. Even so, the effort this time compares not unfavourably with that of a quarter of a century ago.

Since physical damage can be fairly quickly repaired in most cases (given the facilities of modern technique), disorganisation has proved to be the great lingering injury caused by war. It is essentially to provide time for reorganisation that further aid is required, and it is only if this remains its chief purpose that such aid will be put to the best use. Obviously, "reorganisation" must not mean simply an attempt to restore the situation obtaining before the war — a mere return to pre-war conditions (this being the meaning generally given to the word "reconstruction" after the first world war). In quite a new sense, the process of reorganisation must aspire to a "refashioning" of a great many aspects of present-day economic life, first as regards the internal conditions of each individual country (often much in need of modernisation) but also in the community of nations and then with special reference to Europe, whose prosperity and dignity can be secured only by increased cooperation.

The greatest mistake of all, however, would be to imagine that peacetime reorganisation could be achieved simply by perpetuating the often improvised methods of the war economy. These methods, which consist in the use of physical controls (over raw materials, prices, wages, movements of labour, investments, etc.) and seem always to involve a strong admixture of inflation, had obviously to be employed so long as the war lasted, and they survived in the immediate post-war period during which the countries still had to take many emergency measures. But an undue prolongation of the use of these methods would be even more dangerous than an indiscriminate return to the pre-war modes of economic life.

With a new start in economic reorganisation, the time is now ripe for a genuine overhauling of the methods of official intervention in economic life. The criterion should be the effectiveness of the whole range of measures from the standpoint of the peacetime aims of restoring prosperity and stability. It will then be imperative not merely to think in terms of immediate results but to pay most careful attention to possible secondary effects, which may well be harder to foresee but may ultimately be of much more importance. In any case, it will be necessary to base the economy on a firmer foundation than pretence and, indeed, to be aware of the fact that pretence in its various forms is generally self-defeating in the end.

It is, for instance, no use pretending that price control was effective when, as happened in several countries, more than one-half (and sometimes more than three-quarters) of all actual transactions took place in black or grey markets. In such circumstances it is not surprising to find that prices generally rose, no matter what form of so-called control was administratively in force.

Another example may be chosen from the money and capital markets. No doubt "the authorities" have certain possibilities of influencing the level of interest rates (by limiting, for instance, the demand for capital on the part of official agencies or by the use to which official funds are put). If the markets fall into line (and whether that will happen depends largely on the total volume of investments and on the flow of money savings), then the official policy is a success. Should that not be the case, and should the authorities decide to keep interest rates down by means of large-scale purchases of market securities by the central bank, then a new factor — the use of central-bank funds — has been brought into play, with consequences which may go far beyond the results contemplated in the first instance.

Something similar may happen with regard to the balance of payments. Through control of trade, an attempt may be made to reduce a surplus of imports over exports; but, here again, it may often be found that the import surplus stubbornly refuses to be compressed. Should that be the case, the control will have failed; but the surplus imports will still have to be paid for and, in the absence of foreign aid, this will lead to drafts on the monetary reserves, which may be brought near to vanishing-point.

It is obvious that, for the establishment of balanced conditions — and for the harder task of maintaining them when established — more effective means than physical control are required. It then becomes necessary to have recourse to those essentially financial types of control which, in conjunction with the price mechanism, have repeatedly proved their usefulness in adjusting the balance of payments and in giving stability to the national currency. The point is to control the total volume of monetary purchasing power and especially the size of money incomes, which chiefly determines the volume of demand for goods and services. Expenditure in all its different forms — whether for current consumption, for the upkeep of the government or for investment purposes — must be related to the available volume of goods and services, with special attention to the flow of savings (including such aid as is received from abroad). The principle of balancing the budget is subordinate to the more general rule that the money income received by producers of all kinds should correspond to the real value of their output of goods and services (less taxes and other charges required for the upkeep of government establishments, etc.). In other words, there must be no dilution by issues of money having no counterpart in additions to the volume of goods and services, and, accordingly, the central banks must once more be in a position to exert their influence on the volume of currency and credit.

The boom conditions at present obtaining demand a curb on the creation of new money, though in times of depression a different policy may be justified. There is, indeed, a danger that ideas which were born during the great depression of the 'thirties may still retain their sway over people's minds and be allowed to influence practical action in entirely changed conditions. The actual course of events in many countries unmistakably points to the conclusion that, for peacetime reconstruction to rest on a firm foundation, measures of financial control must again be applied — adapted, maybe, to the circumstances of each particular country but without detriment to their effectiveness. It will then be found that a most useful step has been taken on the road to international cooperation. By their very nature most physical controls (and not least trade and exchange controls) tend to intensify the trend towards nationalistic insulation. As a matter of fact, a wider application of appropriate financial controls should permit the abolition of many existing hindrances and thus help to strengthen the ties of free international intercourse. Such application would, moreover, be consonant with the present-day orientation of ideas and action towards a system which combines close cooperation with the greatest possible freedom for the individual countries.

Respectfully submitted,

ROGER AUBOIN
General Manager.

(Translated from the French)

FIRST AGREEMENT

on Multilateral Monetary Compensation

of 18th November 1947.

The Government of Belgium, acting on its own behalf and on that of the Government of Luxemburg, and the Governments of France, Italy and the Netherlands, desiring to promote the development of intra-European trade and, as a first step in this direction, to establish closer monetary cooperation with one another, have come to the following agreement:

Article 1. The contracting parties undertake to carry out, on the largest possible scale, subject to the conditions laid down in the following articles, multilateral compensation operations between the balances resulting from the application of the payments agreements already concluded between them and of such agreements as may be concluded in the future.

Article 2. Whenever the sole effect of the compensations would be to reduce existing balances, they shall be applied automatically between the contracting parties, whose previous consent shall not be necessary.

Provisionally, in cases where compensations entail the increase of an existing balance or the formation of a new balance, the agreement of the countries concerned shall be expressly signified.

Article 3. The compensation operations provided for in Article 2 above shall take place monthly and according to the methods set forth in the Annex to this Agreement.

Article 4. Before the execution of the compensations provided for in Article 2, the contracting parties shall not claim settlements in gold or foreign currencies provided for in the payments agreements existing between them. Consequently, whenever a gold settlement shall be claimable, under a payments agreement, in the course of the current month, it shall be automatically postponed until the following monthly compensation.

When settlements in gold or in foreign currencies, provided for by the agreements, remain claimable at the termination of the compensation operations, they shall be made immediately.

Article 5. The technical problems to which the execution of the compensation operations may give rise shall be examined by a Committee of Delegates of the contracting parties and of countries occasionally participating in such operations in accordance with the provisions of Article 8 below. The Delegates shall settle these problems by agreement among themselves.

The contracting parties shall empower an Agent of their choice to prepare and prescribe the compensation operations in accordance with the procedure laid down in the attached Annex, and with such due instructions and powers as may be given to the said Agent by the Committee of Delegates.

Article 6. Each country that is party to this agreement shall communicate to the said Agent:

(a) All necessary information on the nature and operation of the payments agreements concluded with the other contracting parties, as well as a monthly statement of the accounts opened under these agreements.

(b) As regards countries which, in accordance with the provisions of Article 8, are occasional participants in compensation operations, such information as the Agent mentioned in Article 5 may require.

Article 7. Whenever necessary, the parties to the Agreement shall meet in order to examine together such general problems as may arise from the application of this Agreement, in consultation with countries occasionally participating in compensation operations in accordance with the provisions of Article 8 below.

In particular, they shall meet not later than one year after the entry into force of this Agreement in order to examine together the possibilities of extending the scope of the compensation provided for in Article 2 and, if necessary, to take steps with a view to more effective monetary cooperation.

Article 8. (1) Subject to the approval of the contracting parties, any country may adhere to the present Agreement.

(2) With the approval of the contracting parties, any country shall be entitled to join with them occasionally in compensation operations, provided that it undertakes:

(a) to communicate regularly to the Agent mentioned in Article 5 of this Agreement such information as that Agent may require;

(b) to reply, within the time-limit fixed by the Committee, to the compensation proposals submitted by the Agent for approval;

(c) to agree that the necessary data concerning its payments agreements shall be regularly communicated, by countries permanently or occasionally sharing in the compensation operations, to the Agent mentioned in Article 5 of this Agreement.

Article 9. This Agreement shall enter into force on 18th November 1947. Each of the contracting parties shall be entitled to denounce the Agreement, so far as it is concerned, subject to three months' notice to the other parties.

The original text of this Agreement, drawn up in French, shall be deposited in the archives of the Government of the French Republic, which will transmit certified true copies to the Governments of the signatory powers.

Paris, 18th November 1947.

For France:
(signed) GEORGES BIDAULT

For Belgium, acting on its own behalf and on that of the Government of Luxemburg:
(signed) J. GUILLAUME

For the Netherlands:
(signed) TJARDA VAN STARKENBORGH

For Italy:
(signed) QUARONI

Annex

to the First Agreement on Multilateral Monetary Compensation.

Compensation Procedure.

The Agent selected by the contracting parties in accordance with the provisions of Article 5 of the Agreement of 18th November 1947 shall prepare and prescribe the compensation operations according to the procedure set forth in this Annex and to such instructions as are given by the Committee of Delegates provided for in the said Article 5.

I. On the dates fixed by the Committee of Delegates, the Agent shall ascertain that all necessary information for preparing the compensations has been duly received from the countries concerned. The Agent shall make every effort to obtain such information as may not then have been communicated.

II. A. In the light of the information thus collected, the Agent, having previously reduced the balances by bilateral compensation and having also converted the net balances thus obtained to the same unit of account, shall prepare, for all countries signatory to the Agreement or occasionally participating in the compensation, a list of operations the sole effect of which would be to decrease existing balances.

B. From that list the Agent shall select:

(a) compensation operations which, between a certain number of countries, result in the same reduction of balances, whatever the method of calculation applied;

(b) those compensation operations which best correspond to the instructions given by the Committee of Delegates when, according to the method of calculation adopted, the various possible operations between the same number of countries result in unequal reductions of balances.

C. The Agent shall inform countries occasionally participating in the compensation of all the operations selected under paragraph B above that might be carried out with their agreement.

D. Taking into account the replies from the latter countries, the Agent shall, if necessary, revise the list prepared in accordance with paragraph B above, and shall then notify all the countries concerned that the operations included in this final list are prescribed.

III. A. The first series of compensation operations having been prescribed, the Agent shall prepare, for all signatory countries or occasional participators, a second list of operations, which, if carried out after the compensation mentioned in Article II above, would have the effect of increasing certain balances or forming new balances.

The Agent shall prepare this list in accordance with instructions which, on this point also, will be issued by the Committee of Delegates.

B. The Agent shall inform the various countries concerned of such additional operations as may thus be carried out with their agreement.

C. As soon as replies have been received from the countries concerned, the Agent shall prescribe such additional compensation operations as these replies may render possible.

IV. The various duties imposed upon the Agent shall be performed within such time-limits and under such conditions as shall be fixed by the Committee of Delegates.

V. The Agent shall forward to the signatory countries, and also to the countries occasionally participating in compensation operations, a monthly detailed statement of the operations thus effected.

SCHEDULE of PAR VALUES

as announced by the International Monetary Fund, and completed up to end of April 1948.

Foreword.

Following is a schedule of the par values that have been accepted as the Initial Rates under the International Monetary Fund. These rates were announced generally on **December 18, 1946.**

The Fund Agreement requires that "the par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944".

Members have communicated their par values either in terms of gold or of United States dollars or both. For convenience, all par values below have been expressed both in terms of gold and of United States dollars in a uniform manner and with six significant figures, i.e., six figures other than initial zeros. For these reasons, there may arise in a few cases inconsequential discrepancies in the last, rounded, decimal figures.

December 18, 1946,
Washington, D. C.

GUTT
Managing Director

Note.

The following par values have been added to the original schedule:

Venezuela,	established on April 18, 1947
Turkey,	established on June 19, 1947
Lebanon,	established on July 29, 1947
Syria,	established on July 29, 1947
Australia,	established on November 17, 1947
Dominican Republic,	established on April 23, 1948

I. Currencies of Metropolitan Areas.

Country	Currency	Par Values in Terms of Gold: Grams of fine gold per currency unit	Par Values in Terms of Gold: Currency units per troy ounce of fine gold	Par Values in Terms of U.S. Dollars: Currency units per U.S. dollar	Par Values in Terms of U.S. Dollars: U.S. cents per currency unit
Australia	Pound	2.865 07	10.856 1	0.310 174	322.400
Belgium	Franc	0.020 276 5	1,533.96	43.827 5	2.281 67
Bolivia	Boliviano	0.021 159 8	1,470.00	42.000 0	2.380 95
Canada	Dollar	0.888 671	35.000 0	1.000 00	100.000
Chile	Peso	0.028 666 8	1,085.00	31.000 0	3.225 81
Colombia	Peso	0.507 816	61.249 5	1.749 99	57.143 3
Costa Rica	Colón	0.158 267	196.525	5.615 00	17.809 4
Cuba	Peso	0.888 671	35.000 0	1.000 00	100.000
Czechoslovakia	Koruna	0.017 773 4	1,750.00	50.000 0	2.000 00
Denmark	Krone	0.185 178	167.965	4.799 01	20.837 6
Dominican Republic	Peso	0.888 671	35.000 0	1.000 00	100.000
Ecuador	Sucre	0.065 827 5	472.500	13.500 0	7.407 41
Egypt	Pound	3.672 88	8.468 42	0.241 955	413.300
El Salvador	Colón	0.355 468	87.500 0	2.500 00	40.000 0
Ethiopia	Dollar	0.357 690	86.956 5	2.484 47	40.250 0
France	Franc	0.007 461 13	4,168.73	119.107	0.839 583
Guatemala	Quetzal	0.888 671	35.000 0	1.000 00	100.000
Honduras	Lempira	0.444 335	70.000 0	2.000 00	50.000 0
Iceland	Krona	0.136 954	227.110	6.488 85	15.411 1
India	Rupee	0.268 601	115.798	3.308 52	30.225 0
Iran	Rial	0.027 555 7	1,128.75	32.250 0	3.100 78
Iraq	Dinar	3.581 34	8.684 86	0.248 139	403.000
Lebanon	Pound	0.405 512	76.701 8	2.191 48	45.631 3
Luxemburg	Franc	0.020 276 5	1,533.96	43.827 5	2.281 67
Mexico	Peso	0.183 042	169.925	4.855 00	20.597 3
Netherlands	Guilder	0.334 987	92.849 8	2.652 85	37.695 3
Nicaragua	Córdoba	0.177 734	175.000	5.000 00	20.000 0
Norway	Krone	0.179 067	173.697	4.962 78	20.150 0
Panama	Balboa	0.888 671	35.000 0	1.000 00	100.000
Paraguay	Guaraní	0.287 595	108.150	3.090 00	32.362 5
Peru	Sol	0.136 719	227.500	6.500 00	15.384 6
Philippine Republic	Peso	0.444 335	70.000 0	2.000 00	50.000 0
Syria	Pound	0.405 512	76.701 8	2.191 48	45.631 3
Turkey	Lira	0.317 382	98.000 0	2.800 00	35.714 3
Union of South Africa	Pound	3.581 34	8.684 86 (or 173 shillings 8.367 pence)	0.248 139 (or 4 shillings 11.553 pence)	403.000
United Kingdom	Pound	3.581 34	8.684 86 (or 173 shillings 8.367 pence)	0.248 139 (or 4 shillings 11.553 pence)	403.000
United States	Dollar	0.888 671	35.000 0	1.000 00	100.000
Venezuela	Bolivar	0.265 275	117.250	3.350 00	29.850 7

II. Currencies of Non-Metropolitan Areas.

Member and Non-Metropolitan Areas	Currency and relation to Metropolitan Unit	Par Values in Terms of Gold		Par Values in Terms of U.S. Dollars	
		Grams of fine gold per currency unit	Currency units per troy ounce of fine gold	Currency units per U.S. dollar	U.S. cents per currency unit
Belgium.					
Belgian Congo	Franc . . . . (Parity with Belgian franc)	0.020 276 5	1,533.96	43.827 5	2.281 67
France.					
Algeria					
Morocco					
Tunisia	Franc . . . . (Parity with French franc)	0.007 461 13	4,168.73	119.107	0.839 583
French Antilles					
French Guiana					
French West Africa . .					
French Equatorial Africa					
Togoland					
Cameroons					
French Somaliland . .	CFA Franc . . . . . (= 1.70 French francs)	0.012 683 9	2,452.20	70.062 8	1.427 29
Madagascar and dependencies					
Reunion					
St. Pierre & Miquelon .					
New Caledonia					
New Hebrides	CFP Franc . . . . . (= 2.40 French francs)	0.017 906 7	1,736.97	49.627 8	2.015 00
French possessions of Oceania					
French possessions in India	Rupee . . . . (= 36 French francs)	0.268 601	115.798	3.308 52	30.225 0
Netherlands.					
Surinam & Curacao . .	Guilder . . . . (= 1.406 71 Netherlands guilders)	0.471 230	66.004 9	1.885 85	53.026 4
United Kingdom.					
Gambia					
Gold Coast	West African Pound (Parity with sterling)				
Nigeria					
Sierra Leone					
Southern Rhodesia . .					
Northern Rhodesia . .	Southern Rhodesian Pound . . . . . . (Parity)				
Nyasaland					
Palestine	Palestinian Pound . (Parity)				
Cyprus	Cyprus Pound . . . (Parity)	3.581 34	8.684 86	0.248 139	403.000
Gibraltar	Gibraltar Pound. . . (Parity)				
Malta	Maltese Pound . . . (Parity)				
Bahamas	Bahamas Pound . . (Parity)				
Bermuda	Bermuda Pound . . (Parity)				
Jamaica	Jamaican Pound . . (Parity)				
Falkland Islands . . .	Falkland Islands Pound (Parity)				

II. Currencies of Non-Metropolitan Areas (continued).

Member and Non-Metropolitan Areas	Currency and relation to Metropolitan Unit	Par Values in Terms of Gold		Par Values in Terms of U.S. Dollars	
		Grams of fine gold per currency unit	Currency units per troy ounce of fine gold	Currency units per U.S. dollar	U.S. cents per currency unit
United Kingdom (continued).					
Kenya . . . . Uganda . . . . Tanganyika . . . . . . Zanzibar	East African Shilling (20 per pound sterling)	0.179 067	173.697	4.962 78	20.150 0
Barbados. . . . . *Trinidad* . . . . British Guiana	British West Indian Dollar . . . (4.80 per pound sterling)	0.746 113	41.687 3	1.191 07	83.958 3
British Honduras . . .	British Honduras Dollar . . . . . . (4.03 per pound sterling)	0.888 671	35.000 0	1.000 00	100.000
Ceylon	Cingalese Rupee . . (13⅓ per pound sterling)	0.268 601	115.798	3.308 52	30.225 0
Mauritius	Mauritius Rupee . . (13⅓ per pound sterling)				
Seychelles	Seychelles Rupee. . (13⅓ per pound sterling)				
Fiji.	Fijian Pound . . . . (1.11 per pound sterling)	3.226 44	9.640 20	0.275 434	363.063
Tonga	Tongan Pound . . . (1.2525 per pound sterling)	2.859 36	10.877 8	0.310 794	321.756
Burma	Burmese Rupee. . . (13⅓ per pound sterling)	0.268 601	115.798	3.308 52	30.225 0
Hong Kong	Hong Kong Dollar . (16 per pound sterling)	0.223 834	138.958	3.970 22	25.187 5
Malaya (Singapore and Malayan Union)	Malayan Dollar . . . (8.571 428 57 per pound sterling, or 2 shillings 4 pence per Malayan Dollar)	0.417 823	74.441 7	2.126 91	47.016 7
Sarawak British North Borneo	The Sarawak and British North Borneo Dollars which circulate alongside the Malayan Dollar (which is legal tender) have the same value.				

ANNEXES

BALANCE SHEET

IN SWISS GOLD FRANCS (UNITS OF 0.29032258...

ASSETS			%
I—GOLD IN BARS AND COINS		122,429,359.86	22.0
II—CASH			
On hand and on current account with Banks		42,637,081.61	7.7
III—SIGHT FUNDS at interest		251,432.56	0.0
IV—REDISCOUNTABLE BILLS AND ACCEPTANCES			
1. Commercial Bills and Bankers' Acceptances	503,095.75		0.1
2. Treasury Bills	23,342,820.99		4.2
		23,845,916.74	
V—TIME FUNDS AND ADVANCES			
1. Not exceeding 3 months	11,576,197.49		2.1
2. Between 6 and 9 months	4,336,423.59		0.8
		15,912,621.08	
VI—SUNDRY BILLS AND INVESTMENTS			
1. Treasury Bills			
(a) Between 3 and 6 months	6,850,992.47		1.2
(b) Between 9 and 12 months	5,883,546.59		1.1
2. Other Bills and Sundry Investments			
(a) Not exceeding 3 months	40,524,550.65		7.3
(b) Between 6 and 9 months	3,042,319.47		0.5
(c) Between 9 and 12 months	2,104,441.95		0.4
(d) Over 1 year	8,312.59		0.0
		58,414,163.72	
VII—FUNDS INVESTED IN GERMANY — invested in 1930—31 in application of provisions of Hague Agreements of 1930		291,160,279.10	52.4
VIII—OTHER ASSETS		1,160,849.18	0.2
		555,811,703.85	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 III and IV — Liabilities).

The use of bar gold held in the U.S.A. and part of the dollar assets was subject, as at March 31, 1948, to U.S. Treasury licence. As the result of a decision of the U.S. Treasury Department on May 13, 1948, however, all restrictions on these assets were removed; with the exception that amounts equivalent to about Swiss gold francs 460,000, corresponding to the deposits in dollars and gold deliverable in New York of depositors whose assets in the U.S.A. are blocked, still remain subject to U.S. licence. As regards assets held in other countries, the Governments concerned have, either by special measures, or as signatories of the Hague Agreements of 1930, declared the Bank, its property, assets and deposits of funds entrusted to it, on the territory of or dependent on the administration of the Parties 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".

The rights and obligations of the Bank, in particular with regard to its investments in Germany and to the Long term Deposits, are governed by the provisions of the Hague Agreements of 1930.

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
the information and explanations we have required. Subject to the value of the funds invested in
is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs
books of the Bank, as expressed in the above-described Swiss gold franc equivalents of the currencies

ZURICH, May 26, 1948.

AS AT MARCH 31, 1948

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.—	22.5
II—RESERVES			
1. Legal Reserve Fund	6,527,630.30		
2. General Reserve Fund	13,342,650.13		
		19,870,280.43	3.6
III—SHORT TERM AND SIGHT DEPOSITS (various currencies)			
1. Central Banks for their own account:			
(a) Not exceeding 3 months	16,364,269.15		2.9
(b) Sight	32,098,282.26		5.8
		48,462,551.41	
2. Central Banks for the account of others:			
(a) Not exceeding 3 months	7,904,946.—		1.4
(b) Sight	575,305.93		0.1
		8,480,251.93	
3. Other depositors:			
(a) Not exceeding 3 months	88,166.95		0.0
(b) Sight	401,662.33		0.1
		489,829.28	
IV—SHORT TERM AND SIGHT DEPOSITS (Gold)			
1. Not exceeding 3 months	244,319.37		0.0
2. Sight	17,406,193.27		3.1
		17,650,512.64	
V—LONG TERM DEPOSITS — received in application of provisions of Hague Agreements of 1930			
1. Annuity Trust Account Deposits	152,606,250.—		
2. German Government Deposit	76,303,125.—		
		228,909,375.—	41.2
VI—PROVISION FOR CONTINGENCIES AND MISCELLANEOUS ITEMS		106,948,903.16	19.3
		555,811,703.85	100.0

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.

At the date of the Balance Sheet, it was not possible to fix definitely the amount of the liability of the Bank arising from its undertaking to restitute any gold received from the Reichsbank during the war for the service of the Bank's investments in Germany which might prove to be looted monetary gold. A final agreement was, however, concluded on May 13, 1948, with the Governments of France, the United Kingdom and the United States with regard thereto and the amount which still remains to be included in the Balance Sheet in this respect is about 6 million 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 or in accordance with special agreements applicable to the respective currencies.

NOTE II — Bills rediscounted with the Bank's endorsement and guarantees given amount to Swiss gold francs 7,036,819.89.

NOTE III — 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 133.— per share or in total Swiss gold francs 26,600,000.

of the Bank for the financial year ending March 31, 1948, and we report that we have obtained all Germany, we report that in our opinion the above Balance Sheet, together with the Notes thereon, according to the best of our information and the explanations given to us and as shown by the concerned.

PRICE, WATERHOUSE & Co.

ANNEX II

PROFIT AND LOSS ACCOUNT

for the financial year ended March 31, 1948

		Swiss gold francs
Net Income from the use of the Bank's capital and the deposits entrusted to it (including net exchange gains)		11,788,994.12
Transfer fees		95.—
		11,789,089.12
Costs of Administration:—		
Board of Directors — fees and travelling expenses	117,608.35	
Executives and staff — salaries, allowances and travelling expenses	1,620,297.60	
Rent, insurance, heating, light and water	93,488.76	
Consumable office supplies, books, publications	165,063.31	
Telephone, telegraph and postage	45,129.98	
Experts' fees (Auditors, interpreters, etc.)	30,821.80	
Cantonal taxation	35,406.—	
Tax on French issue of Bank's shares	8,456.82	
Miscellaneous	131,382.70	2,247,655.32
		9,541,433.80
The Board of Directors, considering that it is necessary to make the maximum possible provisions for contingencies, has decided that there should be transferred		
to an account for exceptional costs of administration	500,000.—	
to the Special Suspense Account 1944/45	9,041,433.80	9,541,433.80

BOARD OF DIRECTORS*

Maurice Frère, Brussels	Chairman
Sir Otto Niemeyer, London	Vice-Chairman

Baron Brincard, Paris
Lord Catto of Cairncatto, London
Henri M. J. Deroy, Paris
Senatore Luigi Einaudi, Rome**
Dr M. W. Holtrop, Amsterdam
Albert E. Janssen, Brussels
Prof. Dr Paul Keller, Zurich
Dr Donato Menichella, Rome
Emmanuel Monick, Paris
Ivar Rooth, Stockholm

Alternates

Hubert Ansiaux, Brussels
Jean Bolgert, Paris
Cameron F. Cobbold, London
Prof. P. Stoppani, Rome**

EXECUTIVE OFFICERS

Roger Auboin	General Manager
Dr Raffaele Pilotti	Secretary General
Marcel van Zeeland	Manager, Head of Banking Department
Per Jacobsson	Economic Adviser, Head of Monetary and Economic Department
Oluf Berntsen	Manager
Frederick G. Conolly	Manager

* 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.

** Until 12th May 1948.

14th June 1948.