BANK FOR INTERNATIONAL SETTLEMENTS

TWENTIETH ANNUAL REPORT

1st APRIL 1949 — 31st MARCH 1950

BASLE

12th June 1950

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ANNEXES

TWENTIETH ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held at

Basle, 12th June 1950.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the twentieth financial year, which began on 1st April 1949 and ended 31st March 1950. The results of the year's business operations are set out in detail in the section from page 244 to page 254, together with a general review of the current activities of the Bank and an analysis of the balance sheet as at 31st March 1950.

The financial year closed with a surplus of 6,027,272.95 Swiss gold francs, of which 400,000 Swiss gold francs have been transferred to the account for exceptional costs of administration and 3,000,000 Swiss gold francs to the provision for contingencies. The balance of 2,627,272.95 Swiss gold francs has been carried forward.

At the end of the previous financial year (on 31st March 1949), the surplus had amounted to 5,101,855.91 Swiss gold francs and the Board of Directors had decided that it was necessary to transfer the whole amount to contingencies accounts: namely, 300,000 Swiss gold francs to the account for exceptional costs of administration and 4,801,855.91 Swiss gold francs to the provision for contingencies.

The moderate extent to which the surplus has increased does not in itself sufficiently indicate the substantial expansion of the activities of the Bank for International Settlements during the past financial year. There was, first of all, a considerable increase in the deposits entrusted to the Bank. Apart from the long-term funds connected with the Hague Agreements, the total amount of deposits rose from 242 to 497 million Swiss gold francs. The total of the balance sheet (when calculated so as to render the figures comparable with those of last year) rose from 722 to 984 million Swiss gold francs and there was a considerable expansion of the volume of the Bank's business.

Having thus obtained an increase in the means at its disposal, the Bank has generally been able to comply with the requests that it has received from the various central banks with which it has relations. The resulting transactions, whether they have consisted in the arrangement of short-term credits or the carrying-out of foreign exchange operations or sales, purchases or exchanges of gold, have in each case been undertaken in conformity with the monetary policy of the central banks concerned, the Bank having ascertained — as is incumbent upon it — that there was no objection on their part. The Bank wishes to acknowledge the spirit of co-operation which has been shown by the central banks and which does so much to facilitate the Bank's operations.

Another important development has been that, as regards the presentation of the balance sheet, it has been found possible to segregate the assets and liabilities connected with the execution of the Hague Agreements of 1930 from the other items. These assets and liabilities have been placed under a separate heading forming a second division of the balance sheet. Their total amounts to 297 million Swiss gold francs, which is the same figure as last year, no new developments having occurred affecting the sums involved.

This new arrangement of the balance sheet has been made possible by an agreement concluded with the principal Creditor Governments under the Hague Agreements concerning the interpretation which should apply to the Bank's commitments in this connection. Particulars of the agreement in question will be found on page 244 of this Report.

The present changes in the balance sheet together with those introduced last year, when the provision for contingencies was shown as a separate item, enable a clear and complete view of the position of the Bank to be obtained.

The Bank has continued to perform the functions of Agent under the Agreements for Intra-European Payments and Compensations and in the carrying-out of this task has had all the assistance needed from the governments and other bodies concerned. The Bank has also continued to co-operate on a satisfactory basis with the International Bank for Reconstruction and Development and with the International Monetary Fund.

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The financial year which has just come to an end is the twentieth since the establishment of the Bank and it has, therefore, seemed of interest to give here a brief review of its activities during these twenty difficult years, covering an unusually critical period in the history of the world and especially of the continent of Europe.

When the Bank for International Settlements began its operations, in May 1930, the most immediate disturbances caused by the first world war had, in general, been overcome: there were no longer any shortages of food or other commodities; and inflation had been mastered, practically every country having returned to the gold standard at old or new parities. But some of the more remote consequences of the great rupture of 1914–18 were beginning to make themselves felt: world prices were definitely declining from the levels at which they had settled down in the course of the twenties; the first sign of this development had been the weakening of the prices of agricultural products as early as 1927; and in the autumn of 1929 the collapse of the New York stock exchange ushered in a downward movement which was to become "the great depression".

The decision to create the Bank had had a place in the negotiations and agreements which led to acceptance of the Young Plan, the hope then being to provide a commercial basis for a "definitive settlement" of the question of German reparations. But with this was combined another idea arising out of a long-felt need, viz. that of establishing a permanent institution for co-operation between central banks.

Even before 1914 there had been a number of occasions when central banks had found it useful to co-operate with one another in order to facilitate international settlements in times of acute difficulties. In connection with the currency stabilisation which followed the first world war and extended over the period 1922 to 1930, groups of central banks had repeatedly been formed for the granting of special "stabilisation credits", active assistance being rendered, in particular, in the work of financial reconstruction undertaken by the Financial Committee of the League of Nations. But there were certain weaknesses inherent in these ad-hoc groupings: they were apt to break up again as soon as their immediate object had been attained and it was difficult to keep political considerations from entering into the question of their formation.

The essentially new feature added by the foundation of the Bank for International Settlements was the permanent form which it gave to the co-operation between central banks by providing an organisation established on a technical basis and in that way insulated from political influences, and ready to act in the general interest of all concerned.

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Article 3 of the Bank's Statutes laid down the tasks of the new institution *in the following words:*

> "The objects of the Bank are: — to promote the co-operation of central banks and to provide additional facilities for international financial operations; and to act as trustee or agent in regard to international financial settlements entrusted to it under agreements with the parties concerned."

In 1930 the largest international transfers were those occasioned by the payment of war debts and German reparations, and it was one of the original duties of the Bank to carry out the New Plan for the receipt and distribution of German reparations as defined in the Hague Agreements. In the first year of its activities, the Bank received and distributed the annuities paid by Germany and served, in addition, as Agent in connection with the original issue of the German Government International 5½ per cent. Loan 1930, for the service of which it agreed to act as Trustee. This loan was placed on nine markets and yielded a net amount of about $300 million, one-third of which the German Government received (in accordance with the Hague Agreements) for the German Post Office and the German Railway Company, the remaining two-thirds going to six Creditor Governments. Under the Hague Agreements, the Bank was to intervene, within the limits of the funds available to it and having regard to its liquidity, with a view to preventing any suspension of the transfers in favour of the various Governments, more especially by placing on the German market, with the approval of the Reichsbank, an appropriate part of the annuities paid by Germany.

When in 1931 the financial crisis broke over Europe and, through the Hoover Moratorium of 1st July of that year, the machinery of the Young Plan was brought to a standstill, the Bank, having acted in conformity with the obligations imposed upon it, had invested on the German market amounts corresponding to long-term deposits placed at its disposal by the Creditor Governments for the particular purpose of facilitating transfers, as well as a portion of its own funds.

At the International Conference held in London in the third week of July 1931, the Governments of the United States, the United Kingdom, France, Italy, Belgium and Japan recommended that the volume of credits previously granted to Germany should be maintained; in conformity with this recommendation, no reductions were made in the Bank's investments on the German market, which have not increased since that time. The Agreement reached at the Lausanne Conference of 1932 was never ratified by the governments; thus the rights and obligations of the Bank under the Hague Agreements have not been altered in regard to such matters as still derive from those agreements, which therefore continue to govern the position of the Bank.

The Bank at the time took an active part in the attempts made to counteract the pernicious effects of the financial crisis. On the particular recommendation of the London Conference mentioned above, a committee was appointed by the Bank and this committee, under the chairmanship of Mr Albert H. Wiggin (from the United States), issued a report signed by all the members in August 1931. In accordance with the Young Plan, a further committee, under the chairmanship of Professor Alberto Beneduce (from Italy), met in December 1931 in Basle to consider the transfers which could be made by Germany, the following being some of its unanimous conclusions of a more general character:

"The Young Plan, with its rising series of annuities, contemplated a steady expansion in world trade, not merely in volume but in value, in which the annuities payable by Germany would become a factor of diminishing importance. In fact, the opposite has been the case. Since the Young Plan came into effect, not only has the trade of the world shrunk in volume, but the very exceptional fall in gold prices that has occurred in the last two years has itself added greatly to the real burden, not only of German annuities but of all payments fixed in gold.

In the circumstances, the German problem — which is largely responsible for the growing financial paralysis of the world — calls for concerted action which the Governments alone can take ...

In this connection, certain considerations seem to us of great importance. The first is that transfers from one country to another on a scale so large as to upset the balance of payments can only accentuate the present chaos ...

Again, the adjustment of all inter-governmental debts (Reparations and other War Debts) to the existing troubled situation of the world — and this adjustment should take place without delay if new disasters are to be avoided — is the only lasting step capable of re-establishing confidence which is the very condition of economic stability and real peace ...

We appeal to the Governments on whom the responsibility for action rests to permit of no delay in coming to decisions which will bring an amelioration of this grave crisis which weighs so heavily on all alike."

In the event, some special agreements between governments were reached, but no general agreement covering the main economic and financial problems. However, considerable efforts had been made during 1931 to grant emergency help, and in this the Bank participated. It was mentioned in the second Annual Report of the Bank that "if there be added together the total amount of external advances granted by central banks, by the Bank for International Settlements, by the principal capital centres and by Treasuries, including the sums advanced to the British market, a figure of approximately 5 milliard Swiss francs is reached, or about one-tenth of the total amount of short-term indebtedness outstanding at the beginning of 1931". The Bank was concerned with the emergency credits to the National Bank of Hungary, the National Bank of Austria, the Reichsbank and the National Bank of Yugoslavia, a temporary advance being also granted to the Bank of Danzig. In addition to the credits granted on its own account, the Bank for International Settlements organised and participated in syndicates of central banks: three central banks — the Federal Reserve Bank of New York, the Bank of England and the Bank of France — accordingly participated, to the extent of $25 million each, in the credit of $100 million to the Reichsbank, and twelve central banks in the credits of approximately $26 million to the National Bank of Hungary.

It is interesting to note that the emergency credits with which the Bank was thus connected have all been fully repaid, most of them within the space of a few years, while in the case of the credit granted to the National

Bank of Hungary, for which a much longer period had been arranged, the final repayment was made in 1946.

Outside the sphere of credits, the Bank for International Settlements helped in the preparation of, and assisted in a consultative capacity at, the World Economic and Monetary Conference which met in London in June 1933 and represented a last great combined effort, under the auspices of the League of Nations, to bring order into the economic and monetary situation. Unfortunately, on the monetary problems relating to the stabilisation of currencies the Conference made no headway, the participating countries grouping themselves in different monetary blocs; but with regard to more long-range monetary policy for the world in general the Conference adopted five resolutions, in which renewed stress was laid on monetary co-operation. Central banks should recognise, it was said, "that in addition to their national they have also to fulfil a task of international character. Their aim should be to coordinate the policy pursued in the various centres in order to contribute towards the satisfactory working of the international gold standard system."

In its fifth Annual Report (for the financial year ended 31st March 1935) the Bank devoted a section to general observations on "the co-operation of central banks". The views expressed in it may in some respects reflect the particular situations and problems prevailing at the time, but the fact remains that the Bank has consistently kept to the fore the need for greater monetary co-operation internationally, and it is gratified to find the increased recognition of this need and the further measures taken to meet it since the second world war.

In its more current banking activities, as distinct from the granting of special emergency credits, the Bank has naturally felt the effect of the many disturbances, particularly in its operations on the gold and foreign exchange markets.

The initial idea in the first year of the Bank's existence, when the monetary authorities in a great number of countries held fairly large amounts of foreign exchange in addition to their gold reserves, had been to receive and administer a portion of the foreign exchange holdings of the central banks with as little recourse as possible to the actual markets, since it was thought that in that way it would be possible to avoid upsetting the equilibrium of the markets. To achieve that object, it was hoped to create what was then known as a "foreign exchange clearing system", and a part of the effort then exerted was in the direction of unifying the rates quoted for operations in the different currencies. The disruption of the monetary system in 1931 cut short these various endeavours to achieve uniformity of treatment irrespective of particular market conditions; but it seems likely that, even if a more stable order had survived, it would have been necessary to apply those initial ideas with a greater degree of realistic flexibility. What actually happened was that the financial and other convulsions in 1931 not only put an end to the Bank's receipt of the annuities under the Young Plan but also caused central banks to reduce their holdings of foreign exchange, with a consequent decline in the amount of funds available which could be entrusted to the Bank for International Settlements. In addition to the devaluations, there was in some countries an embargo on transfers and a paralysis of the delicate mechanism by means of which commercial transactions had previously been carried on with a minimum of cost and delay and under conditions which made for a semi-automatic correction of disequilibria arising in the ordinary run of affairs.

As from the autumn of 1931 the Bank endeavoured to adapt itself to the new circumstances. It was not only that its resources had become smaller but that the increasing tension both in the political and in the economic sphere was hardly conducive to stronger international co-operation in monetary matters. Even so, it proved possible to arrange credits, more especially of a commercial type, according to a method which consisted in obtaining credits from a central bank in its own currency, offset by a credit in gold or in another currency. To the extent to which they were utilised, such credits provided an exchange guarantee (thus helping to make up for the absence, in so many currency relations, of forward exchange markets) and, at the same time, afforded a means of commercial financing. By 1938 more than ten European central banks had concluded arrangements of this kind with the Bank for International Settlements.

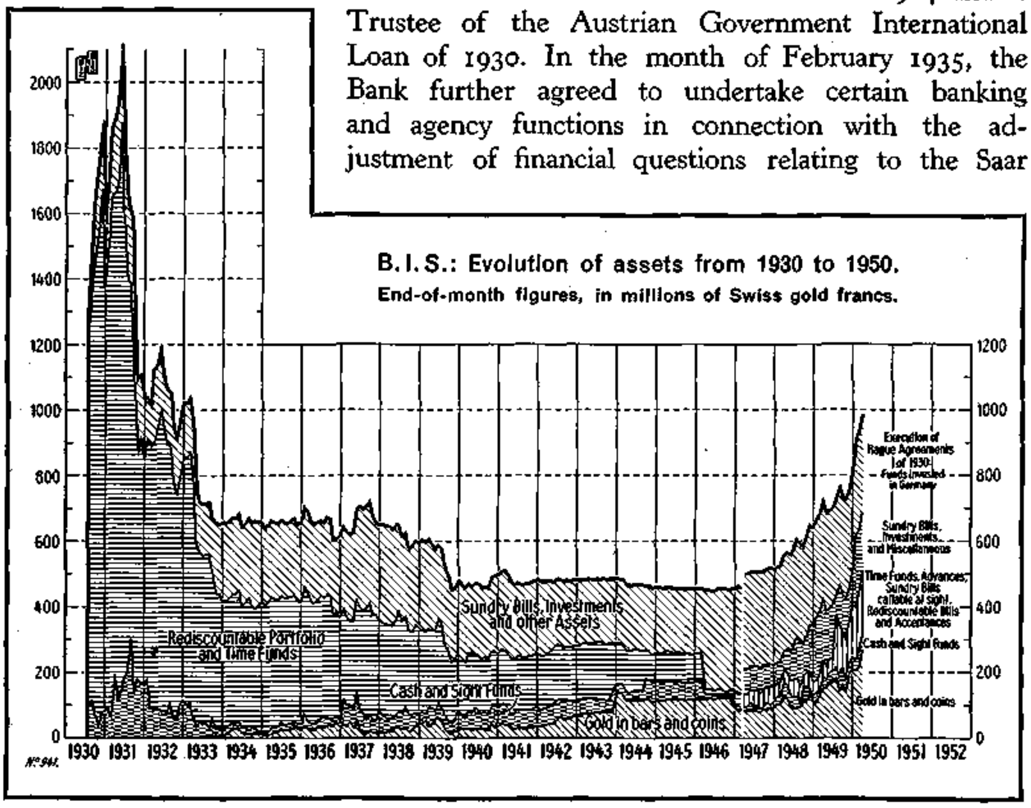
Since the central banks had gone over to keeping more and more of their reserves in gold (being increasingly influenced by both monetary and political considerations), they made a practice of converting the amounts acquired in currency from day to day — and this was reflected in a certain increase in the Bank's gold operations. At the same time, the Bank continued to act as intermediary in any purchase, sale and exchange operation desired by a central bank, being able to offer relatively favourable terms thanks to its central position and to the fact that its available resources were held partly in gold and partly in the leading currencies.

Furthermore, a system of bank accounts expressed in a "weight of gold" was created to facilitate transfers in gold values of any desired amount. It was used chiefly for payments between postal administrations within the scope of the World Postal Union.

While remaining in contact with all markets, the Bank decided, as a matter of policy, to keep aloof from the bilateral clearing arrangements which, from 1931 onwards, had been adopted by the majority of countries in central and eastern Europe. For the time being, this may have somewhat restricted the volume of the Bank's operations, but as a fundamental principle it had been thought wise to effect the Bank's operations only in freely convertible currencies (which, of course, did not necessarily mean that special arrangements could not be made to give the Bank a specific exchange and convertibility guarantee — such arrangements making it possible for particular operations to be undertaken in certain controlled currencies as if they were convertible). With regard to the Bank's investments in the German market, the aggregate amount of which had remained below the figure reached at the time of the Hoover Moratorium in July 1931, interest, after being made available in Reichsmarks, was regularly transferred in gold or in convertible currencies.

The administration of the Bank's business was invariably conducted with due regard for the need of maintaining a high degree of liquidity and of balancing all "exchange positions" as they arose — a state of balance having an added importance at a time when the international monetary system had been in so large a measure disintegrated. Thanks to the observance of these rules, the Bank was able, without any particular difficulty, to come through the recurrent periods of crisis in the years immediately before the outbreak of the second world war — especially the critical days in September 1938, in March 1939 and again in the summer of 1939.

It has already been mentioned above that the Bank acted as Agent in connection with the issue of the Young Loan, for which it also serves as Trustee. In addition, the Bank consented to act as Fiscal Agent of the Trustees of the German External Loan of 1924 and as Trustee of the Austrian Government International Loan of 1930. In the month of February 1935, the Bank further agreed to undertake certain banking and agency functions in connection with the adjustment of financial questions relating to the Saar



Note: In judging the significance of the reduction in the assets during 1931 and the following years, it should be remembered that the Bank's accounts are kept in Swiss gold francs and that, on this basis, the reduction will appear greater than if the accounts had been kept in any of the currencies which in 1931 and the following years were devalued in terms of gold. The break shown for the year 1947 reflects a change in the form of presentation of the balance sheet of the Bank as a result of which all reserves and provisions were shown on the liabilities side and not deducted in part from the value of the assets.

territory; and it also lent its aid in the execution of certain settlements regarding the Austrian Kredit-Anstalt, Vienna.

In accordance with the Bank's Statutes, the members of the Board of Directors, who are either governors of central banks or nominated by governors, meet regularly ten times a year; and the Annual General Meeting has provided an occasion for representatives of some twenty-five central banks to forgather. In monetary matters the psychological attitude prevailing on the various markets is often a factor of very great importance; and, in affording an opportunity for consultations and an exchange of views, the various meetings held at the Bank are conducive to mutual understanding and thus help to prepare the way for harmonious action.

In matters of more technical co-operation between central banks, the Bank as far back as May 1931 arranged a meeting between representatives of twenty-four central banks for the purpose of discussion of a number of monetary and credit problems (relating to gold and exchange transactions, medium-term credits, etc.).

Over the years, the Monetary and Economic Department of the Bank has been steadily extending the range of its activities, its work including not only the preparation of the Annual Report but also studies of the economic and financial situation of various countries and the publication of pamphlets dealing with foreign exchange regulations in different countries, etc.

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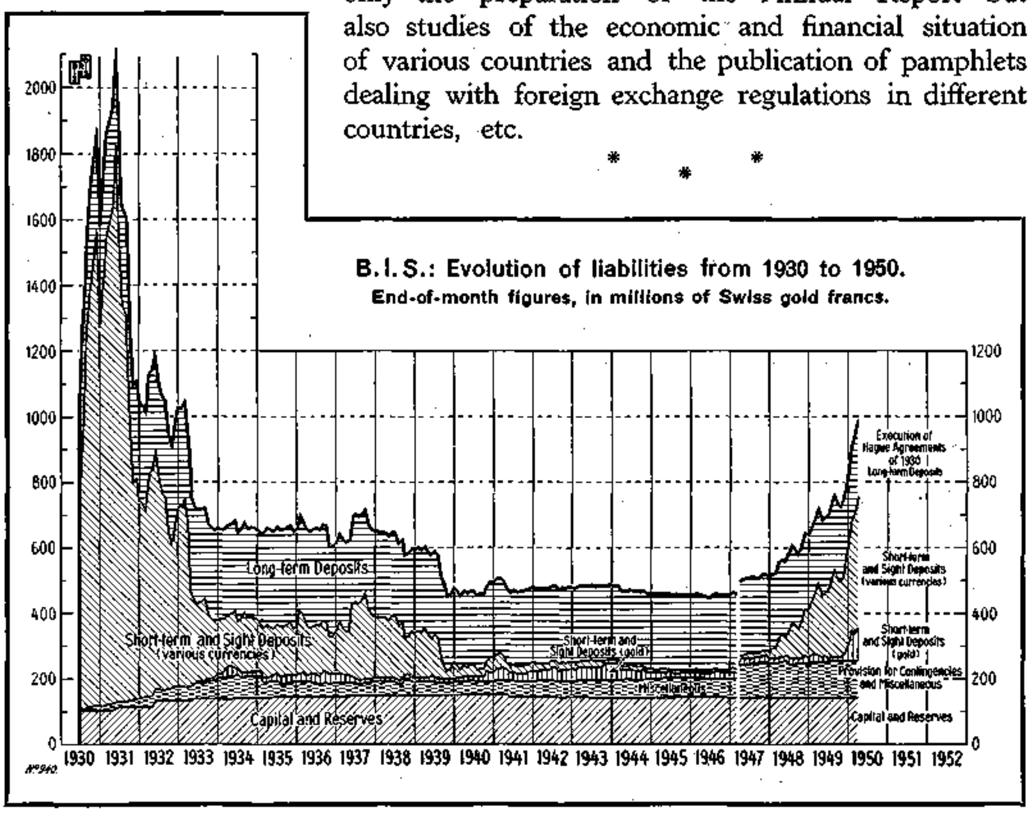

Note: The rapid increase in the Bank's liabilities in 1930 and the early months of 1931 reflects to some extent the relative abundance of funds in the hands of financial institutions at a time when a decline in prices and in the volume of business made for a slackening in the demand for credit accommodation but before the withdrawals set in which came to a head in the financial crisis of the summer and autumn of 1931. As regards the break in the curve for the year 1947, see the footnote to the graph on the previous page.

As an international institution situated in the middle of Europe, the Bank for International Settlements was, of course, subjected to a crucial test by the outbreak of the second world war. It is true that in Article X of the Hague Agreement of 20th January 1930 it was expressly laid down that:

> "The Bank, its property and assets, and also the deposits of other funds entrusted to it, on the territory of, or dependent on the administration of, the Parties shall 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."

A number of countries, not signatories of the Hague Agreements, had by special arrangements granted privileges of a similar nature to the Bank. But not all the countries in which the Bank conducted business were signatories of the Hague Agreements or had granted the Bank special rights, and it was, of course, clear beyond all question that the Bank should not in any way use its privileges to affect the relations between the belligerents. Several provisions in the Bank's Statutes indicate that the Bank must keep aloof from political questions and, moreover, especially during the periods of political tension preceding the war, the practice had been to conduct the Bank's operations on a purely technical plane.

The state of war necessarily gave rise to new and difficult problems for those whose task and concern it was to maintain unimpaired the financial position and the moral credit of the Bank, these being the very foundation of an international institution such as the Bank for International Settlements.

In the autumn of 1939, after individual consultations with the Governors of central banks who were members of the Board of Directors of the Bank, a number of decisions were taken fixing certain principles for the conduct of the Bank. It was thus decided:

1. to suspend all actual meetings of the Board of Directors and also the holding of General Meetings with the attendance of representatives from the different countries. The procedure adopted was that any necessary decision (for instance, in relation to the Bank's profit and loss accounts, etc.) should be approved by correspondence. The legality of decisions taken at the formal General Meetings which had to be held was ensured by the fact that voting by proxy is permitted under the Statutes;

2. to make a special declaration with regard to the nature of the Bank's operations during the period of hostilities. In the declaration in question, which was sent on 18th December 1939 to all the Bank's correspondents, the Bank announced its express intention of refraining from all operations which, although permissible in a purely legal sense, were not "above reproach both from the point of view of belligerents and neutrals";

3. to refrain from any act implying recognition of political or territorial changes which had not previously received unanimous recognition; appropriate measures were in fact taken to safeguard the rights of all the parties concerned, in so far as this depended upon the Bank;

4. in a general way, to subject every operation to a searching scrutiny not only as to its safety and to its bearing on the Bank's liquidity but especially from the standpoint of the rules of conduct which the Bank had laid down for itself.

With these decisions promptly taken and formally approved by all members of the Board of Directors, the Bank was in a position to protect itself in an effective manner when the changing circumstances of the war period gave rise to difficult problems. It was, in particular, necessary to ensure, on the one hand, that there should be no extinction of the validity of the special privileges which the Bank possessed in the countries which had signed the Hague Agreements or which had given it similar rights and, on the other, that none of these privileges should be used to effect operations which would be found questionable by the countries concerned or even operations which would merely be contrary to the line of conduct which the Bank ought to maintain in these matters.

The only way in which these two essential interests could be safeguarded was to place a very strict voluntary limitation upon the operations which the Bank would undertake. But, even within these limitations, the Bank had at times the opportunity of rendering certain services to the members of its association. Thus, in the winter of 1939–40, the central banks of a number of countries which were not yet involved in the war desired to transfer a substantial part of their monetary reserves to overseas centres (especially to New York) and the Bank was able to handle a considerable part of these transfers. As the war went on, the volume of possible business became more and more limited, but particular problems continually arose which required much thought and care.

The military occupation of a large number of countries made it imperative for the Bank to take special protective measures in order to prevent amounts which had been transferred by the Bank to such countries from being, de facto, seized by the occupying authorities. It was also necessary to cope with the cases of duality in the management of central banks which had arisen when one managing body had remained in the occupied territories and another was conducting its business on foreign soil. Since the Bank for International Settlements was obviously not qualified to settle questions of this kind, it was, whenever practicable, decided to offset, in the books of the Bank, its claims and its debts vis-à-vis each one of the markets involved; and in each case it proved possible to obtain the approval of the interested parties for the compensation thus effected.

In a few cases in which such a solution could not be adopted, protective measures were taken with the effect of postponing the disposal of the assets in question — the Bank having to arrange for independent legal advice on all points at issue.

In 1940 the United States established a system of licences as a result of which the Bank placed in a special account all amounts which it held in that country for the account of countries whose assets had been blocked in the United States. In 1941, Switzerland itself was added to the list of those countries, and then the Bank's assets in the United States were subjected to the licensing system of the U.S. Treasury.

The transfer by the Reichsbank of the interest on the Bank's investments in Germany (investments which all dated from the period 1930–31) gave rise to a particular problem when the transfers in question were made by means of gold deliveries. It was not legally open to the Bank to refuse payments made in accordance with the contracts entered into under the Hague Agreements — quite apart from the fact that any refusal would have been injurious to the interests of the creditor countries, especially France and the United Kingdom. The Bank could not, however, rule out the possibility that, in spite of declarations to the contrary, the gold transferred might have been seized, in one form or another, in the occupied countries.

While doing everything in its power to avoid receiving "looted" gold for the transfer of the interest payments made in Reichsmarks, the Bank, after careful examination of the question, decided:

1. to accept gold in respect of all transfers legally due to it; and
2. to lend its full assistance when at some future date there was occasion to search for and eventually restitute to the legitimate owners any "looted" gold which the Bank might unknowingly have received.

As regards the investments in Germany, it was obvious that questions connected with the Hague Agreements of 1930 and left in suspense since 1931 could not possibly be settled during the war. Apart from these investments in Germany, the Bank was able to realise and convert into assets with a high degree of liquidity all its old investments which in 1939 had still been outstanding. In this way an amount equal to 120 million Swiss gold francs was added to its net holdings of liquid assets in dollars, Swiss francs and gold on the American, British and Swiss markets during the period 1939–45.

Thus, at the end of hostilities, not only was the Bank the owner of completely liquid resources, but its old investments (apart from those in Germany) had practically all been realised; it had, on balance, suffered no loss, all the commitments entered into vis-à-vis the Bank by different central banks having been scrupulously respected, and this despite the exceptional and — one might well add — unforeseeable circumstances which had prevailed in the years that had passed since the foundation of the Bank. At the same time, the deposits which had been entrusted to the Bank as at 1st September 1939 had been safeguarded in full, largely thanks to the protective measures which had been taken in good time by the Bank.

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When the war in Europe came to an end in May 1945, the financial position of the Bank was as good as could possibly be expected but, even so, the Bank was faced with a number of difficult problems.

Since the spring of 1940 the total resources of the Bank had remained practically unchanged at a figure slightly below 500 million Swiss gold francs, the deposits received from central banks having been reduced to a minimum. But of the amount in question approximately two-thirds was made up of assets (covered to a large extent by corresponding liabilities) connected with the Hague Agreements, so that the Bank had actually at its free disposal a sum equivalent to less than 200 million Swiss gold francs, in the form of gold, dollars and Swiss francs — almost the whole of this amount being its own funds.

An answer had first of all to be found to the question of the Bank's future rôle and particularly what should be its relations to the new international institutions which had just been set up, viz. the International Monetary Fund and the International Bank for Reconstruction and Development. With regard to this particular question, it was very soon found that the Bank for International Settlements, which since 1930 had acted as a technical centre for increased co-operation between European central banks, would not duplicate the functions of the new organisations, with their world-wide competence and their clearly defined statutory functions, but would rather be able to co-operate with them along useful lines. In this connection it was of importance that most of the countries participating in the Bank for International Settlements were likewise members of the new institutions; indeed, several Governors holding office on the Board of Directors of the Bank for International Settlements were at the same time among the Governors of the International Monetary Fund and the International Bank for Reconstruction and Development. As a first step, in the autumn of 1946, an agreement in principle regarding technical co-operation between the Bank for International Settlements and the International Bank for Reconstruction and Development was under consideration. At this juncture, it was thought that the time had come for the Bank for International Settlements to resume the actual meetings of its Board of Directors, which had been suspended since the outbreak of war in 1939.

At their first meetings, in December 1946 and February 1947, the Board of Directors, with full information before them about the action taken in the war years, expressed their approval of the way in which the Bank had been managed during the period of hostilities and found it possible to authorise a progressive resumption of the Bank's operations. At the same time, preparations were made for the settlement of the various problems which had arisen for the Bank as a result of the war.

As from April 1947, the Bank was again able to operate a free dollar account with the Federal Reserve Bank of New York, which was a necessary basis for the resumption of its normal business.

Furthermore, the Bank with the co-operation of the central banks concerned, instituted a detailed enquiry with a view to tracing the origin of all the gold bars received during the period of hostilities, since it was possible that, without its knowledge and in spite of the assurances given to it, it might have received gold which had, in one form or another, been seized by Germany in occupied territories. It was finally possible to compare the results of the long and intricate investigations carried on by or on behalf of the Bank with the data available to the governments which had been entrusted with the task of settling the question of looted gold under an agreement concluded in Paris in 1946. A formal agreement between the governments in question and the Bank was concluded in Washington in May 1948. The amount identified as taken from occupied countries and unknowingly received in payment by the Bank was fixed at 3,740 kilogrammes, of which 3,366 kilogrammes was for the Bank's own account and the balance for the account of a central bank.

At the same moment, the Bank's accounts in the United States were all definitely freed, with the exception of certain limited amounts corresponding to deposits of the central banks of countries whose own accounts in the United States were still blocked.

In addition, technical co-operation in various ways was arranged between the Bank for International Settlements and the International Bank for Reconstruction and Development and the International Monetary Fund. Frequent personal contacts have been established. The Bank for International Settlements has, in particular, been represented at the Annual Meetings of the Monetary Fund and the International Bank, while these two institutions have been represented at the Annual General Meetings of the Bank for International Settlements. In the banking field, a further form of co-operation has been established in that the Bank for International Settlements has facilitated the placing of two series of bonds in Swiss francs issued by the International Bank for Reconstruction and Development.

Moreover, as has been indicated at the beginning of the present Report (see page 2) and will be explained more fully in Chapter X, an agreement has been concluded with the principal creditor governments regarding the Annuity Trust Account deposits. There had been no particular occasion before the war to reach an agreement on the interpretation of the provisions of the Hague Agreements relating to this matter, which had obviously developed in a way not foreseen at the time when the original texts had been drafted and adopted. The arrangements so far concluded provide a basis for the fixing of the Bank's responsibilities in this field.

The consolidation of the Bank's position by a settlement of the questions arising out of the war went hand in hand with a vigorous resumption of the business activity of the Bank.

It soon became clear that the Bank has not ceased to be of use to the central banks availing themselves of its services but rather that circumstances have rendered it more than ever necessary for a central institution in Europe to play its part in furthering monetary co-operation. As things are, the European central banks find themselves faced with new and difficult problems. Most of them cannot neglect any means which, by enabling them to administer their inadequate reserves to the best advantage, will help them to overcome difficulties arising from the war or assist them in coping with temporary fluctuations (often made more intense by the absence of the comparatively large exchange markets in which arbitrage operations could, in the past, be effected with relative ease).

It is largely these needs which explain the rapid increase in the business activity of the Bank, as indicated by the following summary statistics:

Totals of the Bank's balance sheet

31st March 1947	499 million Swiss gold francs
„ „ 1948	556 „ „ „ „
„ „ 1949	722 „ „ „ „
„ „ 1950	984 „ „ „ „

As regards the Bank's active resources (that is to say, the funds remaining after the deduction of assets and liabilities connected with the execution of the Hague Agreements, now shown apart in the lower section of the balance sheet), the movements have been as follows.

B.I.S.: Active resources.

Dates	Short-term and sight deposits	The Bank's own funds	Total	Utilisation: Actual gold and investments in gold	Utilisation: Credits and investments in currencies	Utilisation: Total
	in millions of Swiss gold francs					
1947 31st March	28	174	202	101	101	202
1948 „ „	75	184	259	143	116	259
1949 „ „	242	183	425	188	237	425
1950 „ „	497	189	686	285	401	686

The increase in active resources, which is due mainly to deposits made by central banks, has enabled the Bank to expand its operations beyond the pre-war scale. Calculated on the basis of comparable figures, the yearly turnover (arrived at by adding together the sums of different operations) was about 4 milliard Swiss gold francs before the war but had fallen below 100 million in the financial year which saw the cessation of hostilities. In the following year, 1946–47, the turnover increased to 169 million and in 1947–48 to 892 million; in 1948–49 it reached a figure of 2.3 milliard and in 1949–50, with a total of 6.8 milliard, it even exceeded the pre-war turnover.

As was to be expected, net profits declined during the war, and in 1945 the suspension of the transfer of interest payments from Germany created a completely new situation; from that time onwards the profits had to be derived from the more active operations of the Bank. The result was the emergence of a slight deficit in 1945–46; but in the following year current costs were already covered. Net surpluses of 9.5, 5.1 and 6 million Swiss gold francs were achieved in the financial years 1947–48, 1948–49 and 1949–50 respectively.

Growing experience, now extending over a period of more than twenty years, coupled with the need for the Bank to adapt itself to continually changing conditions, has led, from time to time, to considerable modifications in the conception and the practical execution of the Bank's operations.

Since the war, the Bank has consistently kept its business activities within the field of genuinely short-term operations (covering three, six or nine months and only in very exceptional cases more than a year). Adherence to this rule has enabled it to help in meeting the needs of a larger number of central banks than it could otherwise have done. Moreover, the practice of holding gold, dollars and Swiss francs, as well as receiving deposits in sterling and other currencies, makes it possible for the Bank to supply, in most cases, the counterpart for any exchange and gold operations desired — a service facilitated by the fact that its assets are distributed between the United States and Europe. The turnover of its funds has become very rapid: thus in the course of its twentieth financial year (1949–50), with its active resources amounting to some $200 million, the turnover was equivalent to a total of over $2,000 million.*

It is the endeavour of the Bank to work on a commercial basis in agreement with the central banks, with due regard to the conditions governing each particular currency and market. In several instances, credits granted to central banks or, with their consent, to other institutions have been remobilised, with or without the addition of the Bank's signature, on markets having a surplus of available funds, on terms which the original borrower could hardly have obtained directly.

It is hoped that the Bank may fulfil a useful function in the transition from the often rather artificial methods of finance employed after the war to a more normal system based on a genuine flow of savings and a more satisfactory working of the various money and capital markets.

The Bank's Annual Report has continued to appear year by year all through the war and post-war period and there has been no interruption in the publication of special pamphlets on exchange restrictions and similar matters of interest to central banks and to financial circles generally. Moreover,

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* This figure refers to the ordinary business of the Bank and thus excludes the turnover in connection with the Bank's work as Agent under the Agreements for Intra-European Payments and Compensations (see Chapter IX).

a number of countries have again since the war availed themselves of the *technical services of the Bank for a review of their own situation and the* finding of lines of action tending to bring about a lasting improvement.

The Bank has further co-operated, on a technical plane, in the efforts which have been made during the last three years to improve the system of payments in Europe. A First Agreement on Multilateral Monetary Compensations was concluded in November 1947 between the Governments of Belgium, France, Italy, Luxemburg and the Netherlands; other countries subsequently joined the group and the Bank for International Settlements was entrusted with the task of giving effect to the agreement. The scope of its work in this field was extended when, in October 1948, the Bank consented to act as Agent, in the execution of the Agreement for Intra-European Payments and Compensations concluded between the participating countries in Europe. In the following year, this agreement was superseded by that of 7th September 1949, also concluded within the orbit of the European Recovery Program. In accordance with special arrangements, the Bank for International Settlements receives from the various central banks all the necessary data for the working of the payments scheme, under conditions to which the normal rules of banking secrecy apply; and it is thus able to ensure the functioning of the scheme under the supervision of the competent bodies, as provided for in the agreement itself. (For further details, see Chapter IX.)

* * *

The Bank's Statutes were drafted by a number of experienced and public-spirited men; and, after twenty years of their application, the Bank can only affirm how well these Statutes have stood the test of hard realities. It is very much thanks to the wisdom and practical sense of those responsible for the early preparatory work that the Bank has been able to master the difficulties it has had to face.

There are also many who as Presidents, members of the Board of Directors or the Management, Officials and Employees have given of their best to the Bank but who have either done their day's work or otherwise ceased to be part of the organisation. The Bank for International Settlements is aware of the debt which it owes to them all for the support so generously given by them to its various activities in years past.

II. The Significance of Mounting Production.

Five years have now elapsed since the war came to an end. In retrospect, it is apparent that, politically, the high hopes which were summed up in the notion of "one world" have not been fulfilled. But, despite much political anxiety, economic recovery has in general been achieved on a more substantial scale than seemed possible after the convulsions and destruction brought about by the second world war — hostilities being this time really world-wide and not, as in 1914–18, mainly on European soil. It is calculated that for the world as a whole the volume of industrial production at the end of 1949 was perhaps 35 per cent. above the pre-war level, while in the United States it had increased by fully 70 per cent. In western Europe the volume of industrial production at the time of writing (in the spring of 1950) seems to be not less than 15 per cent. above the 1935–38 level; and, with the exception of Greece, where recovery has been retarded by internal strife, and of western Germany, where output began really to increase only after the monetary reform in the summer of 1948, every western European country's production is higher than before the war. The five years 1945–50 will undoubtedly stand out in history as a period of remarkable constructive achievement not only in the economic sphere but also in the social conditions within a great number of countries.

Such outstanding results could not have been attained without great efforts on the part of peoples still often weary from their wartime exertions; another very important contributory factor was the provision of aid through international co-operation at certain critical stages.

1. The first critical stage was, of course, immediately after the war, when exhausted countries had, to a great extent, to obtain their bare necessities in the way of food, fuel and raw materials from abroad, while their own monetary reserves were clearly insufficient to meet even their most imperative needs. Inside Europe, steps were taken to get trade restarted by arranging credits within bilateral agreements, the total of such credits probably reaching $1,500 million; already in 1944 food and other essential supplies were being distributed direct to the civilian population in the form of Allied military assistance (mainly from the United States and United Kingdom); and in 1945 and the next two years this work was continued by UNRRA. Further measures followed, namely the conclusion of the Anglo-American loan, which became available from July 1946, and of various loans granted by Canada and by the Export-Import Bank in the United States, as well as the provision of additional grants and loans under special authorisation, the International Bank for Reconstruction and Development and the International Monetary Fund beginning their activity in 1946. In its second report on the European Recovery Program, published in February 1950, the O.E.E.C. estimates the external deficit of western

Europe for the two years 1946 and 1947 together at \$14 milliard, of which about \$3.5 milliard was met by grants (relief supplies, lend-lease, UNRRA, etc.), and about \$7.5 milliard by loans from the U.S. Government, the Export-Import Bank, the International Bank for Reconstruction and Development, etc.; lastly, about \$3 milliard was financed by the utilisation of gold and foreign exchange reserves and by the liquidation of foreign assets.

With the aid of these additional resources from abroad it was possible to make quite good progress (see the graph on page 32 recording the indexes of industrial production), although the rate differed from country to country. Perhaps there was a tendency towards over-confidence. Be that as it may, a rude awakening was in store, for in 1947 everything seemed to go wrong all at once.

2. The second critical stage was ushered in, early in 1947, by an unusually cold winter, which affected both industrial and agricultural production; this was followed by an unusually warm and dry summer, with the result that, for instance, the harvest was some 30 per cent. below normal. The extreme vulnerability of the European situation was enhanced by the lack, in all except a few countries, of anything like sufficient reserves of either commodities or monetary resources and also by a generally very low level of domestic savings. The accompanying table shows the decline in the gold and dollar reserves of most European central banks and governments in the period 1945–49.

Gold and dollar reserves of European countries.(1)

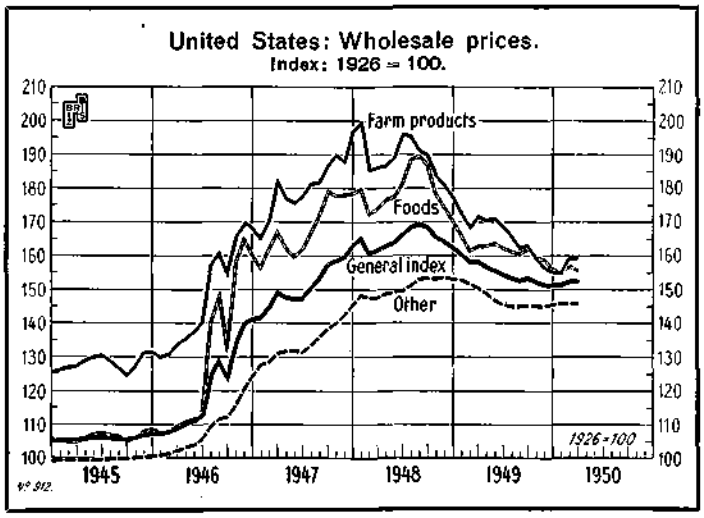
Country or group of countries	End of 1945	End of 1946	End of 1947	End of 1948	End of 1949
	In millions of dollars				
United Kingdom	2,476	2,696	2,079	1,856	1,688
Switzerland	1,380	1,467	1,379	1,442	1,565
Belgium	743	758	597	652	727
Total	4,599	4,921	4,055	3,950	3,980
Other countries in western Europe (2)	2,980	2,700	1,950	2,070	2,340
Other countries in eastern Europe (3)	350	490	450	400	400 (4)
Total for Europe (5)	7,930	8,110	6,450	6,420	6,720

(1) Whenever possible, gold and dollar reserves only.
(2) For the thirteen countries.
(3) Estimates for four countries.
(4) Provisional.
(5) Round figures.

Switzerland and Belgium were able to replenish their commodity markets without any real reduction in their gold and dollar holdings. The United Kingdom suffered heavy losses in 1947 but still had the Anglo-American loan to draw on, \$400 million being the amount not used up when the decision regarding the convertibility of the pound was reversed in August 1947. For most of the other countries in western Europe the losses involved a reduction of reserves which were already clearly insufficient.

It was in this critical year that Marshall aid was set on foot; what it meant to western Europe has been stated again and again: here, for example, is the testimony of the Governor of the Nederlandsche Bank, whose country derived particular benefit from the receipt of Marshall aid*: "There can be no doubt that if Marshall aid had not become available in 1948 it would have been impossible for the Netherlands to procure the resources required to cover the deficit in its balance of payments. The government would have had to interrupt the course of the reconstruction work then in progress. Since many other countries would have been in a similar position, a great catastrophe would without any doubt have overtaken Europe."

3. In the spring of 1949, a number of countries in and outside Europe passed through a third critical stage — although less threatening in its dangers than the two already mentioned. As will be shown more in detail in Chapter IV, the prices of a number of raw materials and foodstuffs then fell sharply, a decline in American quotations leading to a downward movement on the world markets. The reduction was most conspicuous in those particular prices which, in the post-war period, had risen very sharply to levels clearly out of keeping with the average price increase. In this respect — and especially from a European point of view, since European countries are large purchasers of the commodities in question — the adjustment could clearly be regarded as a healthy development, but in the shorter run it inevitably had a very disturbing influence in quite a number of countries.



When the decline set in it was only natural that retail and wholesale traders, gradually followed by manufacturers as well, should reduce their stocks rather than add to them. Thus it happened in the United States that an increase in inventories at the rate of over $8 milliard (calculated on an annual basis) in the second half of 1948 suddenly gave place to a reduction, which towards the middle of 1949 was running at the rate of about $3 milliard (also on an annual basis). Since about 60 per cent. of the imports of the United States

* Quotation from a speech made at a meeting of the "Zürcher Volkswirtschaftliche Gesellschaft" on 15th February 1950.

consist of raw materials and foodstuffs, a slackening of demand for these commodities was bound to have an immediate effect on the trade balance of overseas suppliers, most of which had not completely recovered from the war and were still in a precarious state, with only slender monetary reserves affording no real margin of safety when difficulties arose. In cases where the raw-material-producing countries were members of the sterling area (which, in contrast to the pre-war position, had a dollar deficit of its own, apart from that of the United Kingdom) the reduction in their exports to the United States materially affected sterling and thus added to the difficulties caused by the decline in the volume of direct dollar exports from the United Kingdom and from other countries in Europe. The British gold and dollar reserves were reduced by around $570 million between the beginning of April and the middle of September 1949; under the impact of these losses and in order to avoid higher prices for materials in the United Kingdom than on the world market (see Chapter VI), the pound was devalued by 30.5 per cent. on 18th September, a measure which was followed within a few days by devaluations — although not always to the same degree — of most currencies outside the dollar area and eastern Europe. If the results of these currency changes could be measured by the recovery in monetary reserves, it would be sufficient to point to the almost immediate reversal of the downward trend, as most clearly exemplified by an increase of $560 million in the British reserves between the end of September 1949 and the end of March 1950 (see Chapter VII for the improvement in the reserve position of a number of other countries).

It is difficult, however, to tell to what extent the replenishment of the monetary reserves was due to the devaluation. For the recession in the United States did not last long: in the late summer of 1949 there was already an upturn, characterised, inter alia, by a refilling of inventories which, during the autumn, made itself felt in an increase in imports. Therefore, in spite of its spectacular nature, the crisis of 1949 cannot be regarded as more than a temporary setback to the substantial progress which had been made since 1947 with the help of the Marshall Plan.

Since the great immediate danger in the situation which had developed in the course of 1947 was a breakdown in foreign trade, the first task for those who had to determine the way in which Marshall aid was to be applied was clearly to provide the machinery and means of payment which would make it possible for the countries of Europe to continue trading in goods and services, both with the rest of the world and with one another. To help with payments in relation to the United States, so-called "direct aid" (in dollars) was granted (with some possibility of switching a part of the payments to other countries), while intra-European trade was facilitated by a system of "drawing rights", which, for some countries, meant an increase, for others a reduction, in the total "net" aid, as shown in the table on the next page.

The Marshall Plan was eminently successful in its attempt to prevent a breakdown in the international flow of goods and services. From 1947 to the beginning of 1950 the volume of trade between the countries of western Europe rose by nearly one-half, while the combined exports of western European countries to the rest of the world increased by about one-third. At the same time, a better balance between imports and exports was achieved. The current statistics produced in connection with the intra-European payments scheme for the months following the devaluations in September 1949 show a general reduction of the more excessive deficits and surpluses and, indeed, seem to indicate a return to a more normal pattern of trade (see Chapter IX). Moreover, the combined trade deficit of these western European countries vis-à-vis the rest of the world fell from \$7½ milliard in 1947 to an annual rate of less than \$3½ milliard by the beginning of 1950, and the improvement in the balance of payments was even more marked.

For the countries of western Europe the net receipt of goods and services paid for by Marshall aid meant an addition to the resources which they obtained from their own productive efforts. In that way, the countries

E.R.P. aid in the period April 1948 to June 1950.

Countries [1]	April 1948 to June 1948	July 1948 to June 1949			July 1949 to June 1950		
		Direct and conditional aid	Net indirect aid [2] granted (—) received (+)	Total net aid	Direct and conditional aid	Net indirect aid [2] granted (—) received (+)	Total net aid
	In millions of dollars						
Austria	62	215	+ 64	279	166	+ 83	249
Belgium-Luxemburg *	20	248	— 208	40	312	— 312 [3]	nil
Denmark	20	109	+ 7	116	87	+ 15	102
France *	335	981	+ 323	1,304	673	+ 200 [3]	873
Germany (western zones) [4]	129	510	— 9	501	333	— 164	169
Greece	50	145	+ 67	212	156	+ 108	264
Iceland	2	5	nil	5	7	nil	7
Ireland	10	78	nil	78	45	nil	45
Italy	158	555	— 20	535	389	— 25	364
Netherlands *	115	470	+ 71	541	296	+ 97 [3]	393
Norway	20	83	+ 32	115	90	+ 72	162
Portugal	nil	nil	nil	nil	32	+ 26	58
Sweden	nil	47	— 25	22	48	— 48	nil
Trieste	4	18	nil	18	13	nil	13
Turkey	10	40	— 12	28	59	+ 45	104
United Kingdom *	400	1,239	— 290	949	920	— 97 [3]	823
Commodity reserve	nil	13	nil	13	150 [5]	nil	150
Total programme	1,335	4,756	± 565	4,756	3,776	± 646	3,776

* Including overseas territories.

(1) Switzerland did not receive E.R.P. aid.

(2) Amounts established at the beginning of the respective payments plans whether or not the amounts in question have been fully utilised. For convenience of presentation, the amounts given for 1949–50 take account of the bilateral drawing rights plus one-third in each bilateral relationship, although the multilateral drawing rights may, of course, be utilised in other relationships also.

(3) Including multilateral drawing rights under Belgian Loan agreements (but not, of course, the Belgian loans).

(4) The direct aid to Germany remains wholly a charge against the country, pending eventual settlement, and is, therefore, not necessarily in the nature of a grant.

(5) Dollar reserve fund.

were helped to re-establish a better internal balance between the effective monetary demand and the volume of current supplies — with the exception of only a few countries the post-war inflation came to an end in western Europe in the years 1948–49. Thanks to the additional resources received, particularly those furnished by Marshall aid, it was possible for the public and the government to maintain their expenditure (for consumption and investment) at a higher level than would otherwise have been the case. At the same time, the efforts made to arrive at a better balance in the public finances prevented the level of consumption in most countries from rising as quickly as the yield of domestic production, with the result that a greater proportion of the national income became available in the form of savings, to which the resources obtained from abroad could be added. Since reference has already been made to the statement by the Governor of the Nederlandsche Bank regarding the importance of Marshall aid, it may be of interest to note from the following table how in the Netherlands a more rapid increase in the national income (resulting from current production) than in total consumption on private and government account brought about a recovery in savings and consequently a reduced reliance on foreign aid.

Netherlands:
Relation between savings and investments and the resources obtained from abroad
(all at market prices).

Items	1946	1947	1948	1949
	in millions of florins			
National income	9,900	12,100	14,000	16,000
Consumption	10,200	12,100	13,600	13,800
Total savings. . .	— 300	—	+ 400	+ 2,200
Total net investments	900	1,600	1,800	2,500
Difference between savings and investments, covered by resources from abroad and appearing as deficit (—) in the current account of the balance of payments	— 1,200	— 1,600	— 1,400	— 300

In 1946 domestic production had not yet picked up, so that savings were a minus quantity, and in 1947 they were still non-existent, with the result that in both years all investments had to be made with resources obtained from abroad. In the following year, however, savings showed a remarkable recovery, which continued in 1949 on such a scale that they were then sufficient to support over four-fifths of the country's net investments (and, together with the amounts set aside for depreciation, an even higher proportion of its gross investments).

Figures as complete as those obtainable for the Netherlands are not available for all countries, but a similar recovery in savings seems to have taken place in the majority of the western European countries; this means that Marshall aid has not had to be diverted to consumption but has been able to make a significant contribution to the volume of investments, i.e. to the permanent equipment of the nations with more capital goods in the form of better machinery, additional houses, etc.

It should be pointed out that, where no net aid has been received but only amounts in dollars corresponding to "drawing rights" granted, as has been the case in 1949-50 with Belgium and Sweden, the advantage gained by recipients of the dollars has been something not unlike the outcome of a normal payments mechanism with convertible currencies. On the other hand, neither Belgium nor Sweden received any substantial net aid from abroad which could have enabled them to increase their domestic investments beyond the limits set by their own savings. The case of the United Kingdom presents somewhat similar features, in fact if not in theory. As may be seen from the following table, less than one-quarter of the total of the E.R.P. receipts of the United Kingdom in 1949 was required to cover the deficit on the current account of the country's balance of payments. From an economic point of view, the remainder was passed on, mainly to sterling-area countries in the form of repayments of sterling liabilities and as exports of capital leading to an increase in British assets abroad.

United Kingdom: Balance of payments.

Items	1949 preliminary figures in millions of £ sterling
Current account: balances in relation to the	
sterling area	+ 215
dollar area	— 275
other countries	— 10
Balance on current account	— 70
Capital account had to meet, in addition to the deficit on current account	70
charges for:	
reduction in sterling liabilities	15
increase in British assets abroad	296
Balance on capital account	381
The balance on capital account, being equivalent to the net gold and dollar deficit, was met by:	
receipts and E.R.P.	330
use of gold and dollar holdings, etc.(1)	51
Total	381(2)

(1) Includes £8 million drawn from the International Monetary Fund by India and £7 million by Australia.

(2) The net gold and dollar deficit amounting to £381 million in 1949 was used to the extent of £275 million to pay for the deficit on the United Kingdom's current account with the dollar area and to the extent of £5 million for other transactions. £31 million was paid on behalf of the rest of the sterling area and £70 million for account of the sterling area as a whole (for technical reasons, it is not possible to make an exact separation between the share of the United Kingdom and that of the rest of the sterling area).

If in 1949 London had obtained payment in gold or dollars for the British surplus on current account in relation to sterling-area countries, those receipts would have corresponded to nearly four-fifths of the current deficit in relation to the dollar area. But the sterling-area countries could pay for the deficit in their visible and invisible trade with the United Kingdom by drawing on sterling balances or by using the proceeds of capital transferred to them. For that reason dollars were required to meet the whole of the British deficit towards the dollar area and, in addition, to cover the net gold and dollar payments made out of the pool in London for the account of sterling-area countries. In a speech on 17th February 1950, the Chancellor of the Exchequer, Sir Stafford Cripps, explained that the foreign aid which Britain had received was nearly balanced by the aid which it had given to other countries. The result has been that the overseas territories of the British Commonwealth and other recipients were able to increase their expenditure, particularly for investments, beyond what would otherwise have been possible.

The above examples show how the final use to which Marshall aid is put varies from country to country. In order to trace the channels into which the aid in the form of real resources has flowed, it is necessary to make a general examination of the changes in the economies of the receiving countries. Such an examination having been carried out, it is satisfactory to be able to affirm that by far the greater part of Marshall aid has led to increased investments or strengthening of reserves either in the recipient countries themselves or in their overseas territories. That a large part of the goods imported with the aid of Marshall funds have consisted of consumer goods does not, of course, rule out the possibility that the resources in question were actually used for investment purposes. Account has to be taken of the final destination of the funds procured by the sale of the goods (of whatever nature); from an economic point of view it may simply have happened that any consumer goods imported served to provide subsistence for workers occupied with the production of capital goods. This accords with previous experience: for instance, when Sweden in the latter half of the nineteenth century borrowed, mostly on the French capital market, to build railways, it had no need to buy rails or locomotives from abroad (being able to produce them in its own workshops) but imported wheat from Canada, bacon from the United States, coffee from Brazil and textiles from England to feed and clothe the workers building the railways or engaged in the production of the rails and locomotives. In a somewhat similar way, Marshall aid deliveries of consumer goods have helped to sustain a production of capital goods in the country directly receiving the aid or in the overseas territories to which the aid may have been passed on. Also of interest in this connection are certain observations in an article* on "Finland's foreign debts and balances" containing the following passage:

> "In Finland's economic life there occur periods in which foreign loans are required and obtained, and periods in which these debts are rapidly reduced. The former are periods characterised by a great expansion in trade and commerce, when foreign credits are required primarily for the expansion of the machinery of production. But, in addition, foreign credits are required for housebuilding and even for people's daily consumption, because a considerable proportion of the population are engaged in expanding the machinery of production, which is not yet giving any return. When the objective is attained and production increases — and exports increase or imports of some goods become unnecessary — a turning-point is reached: the foreign loans can be repaid without disturbing the economic activity."

The economic structure of the borrowing country is clearly the factor which should determine the nature of the goods which have to be obtained from abroad. When in the nineteenth century the United States was a

* The article in question was written by Professor A. E. Tudeer, Head of the Institute of Economic Research of the Bank of Finland, and appeared in "Unitas", the Quarterly Review of A. B. Nordiska Föreningsbanken, for February 1950.

capital-importing country, it produced sufficient food — both wheat and meat — to feed those who were, for instance, engaged in building railways and factories, but (at least in the early years of American expansion) capital goods, such as certain types of machines, had to be obtained from abroad. And the same has generally been true of capital exports to Latin American countries. No wonder then that, in the American way of thinking, capital exports are generally not connected with the provision of a "subsistence fund" but with direct deliveries of capital goods. It is, however, important that a wider concept should be adopted, especially in connection with loans to European countries, since such a concept will correspond more closely to the economic realities of these countries and also permit a freer flow of multilateral trade.

The net result of all the new capital development has been that the volume of industrial production in the western European countries has taken a great leap forward, increasing more rapidly in the years 1946 to 1950 than in any other four-year period covered by the economic records of the countries in question.

As already mentioned on page 22, industrial production in western Europe seems in the spring of 1950 to have been not less than 15 per cent. above the 1935–38 level. This is, of course, an average — account being taken of the fact that in some countries, and among them western Germany, only the pre-war volume of production had as yet been reached; but in quite a number of countries, including the United Kingdom, France, the Netherlands, Denmark, Norway, Sweden, Finland and Ireland, indexes of industrial production registered increases of 25 per cent. or more above the pre-war volume. If that is the case — and the statistical evidence cannot in general be doubted — the question may fairly be asked why these balance-of-payments and other difficulties still affect most of the western European countries and why, for instance, goods cannot be made more fully available for export, to fill the gap on the foreign account so that not so much outside aid is needed. There is no simple answer to these questions; a number of different circumstances must be taken into account, some of a more statistical nature, but most of very real importance for the economies concerned.

Before these various circumstances are examined in greater detail, they may be summarised as follows:

(i) industrial production has generally risen more than the output of other activities (agriculture, services, etc.) and it is a fact that the increase in the total national income has not kept pace with the increase in population;

(ii) owing to the damage suffered during the war and to the fact that upkeep was neglected for many years both during and after the war, an increased proportion of the available resources is still required for repair and reconstruction;

(iii) appropriations for defence are now absorbing more resources than, for example, after the first world war;

(iv) the pattern of trade has been disarranged, e. g. in the relations between the east and west of Europe and also as regards the triangular trade via the south-eastern part of Asia;

(v) disturbing influences have affected the monetary system, and other forms of disorganisation have been left behind by the war.

The cumulative effect of these various circumstances is considerable, as may be gathered from an analysis of each particular item.

1. In the first place, it is necessary to understand the significance of output as indicated by the various indexes of industrial production, since they clearly do not measure the national product in its entirety.

In the United States the index of industrial production covers a little over one-third of all economic activities, and for the United Kingdom the corresponding proportion would seem to be about one-half. Not only is agriculture excluded (as is natural) but, in most countries, building activity is also omitted, while "services" are obviously quite outside the scope of the index. Now it is a fact that, as a result of the exhaustive exploitation of the soil and the stock of animals during the war, agricultural output has generally lagged behind industrial production, and these deficiencies are not easily overcome. Helped by favourable weather, the harvests both in 1948 and in 1949 were distinctly good (especially in the former year) and, with the building-up of herds, the output of agriculture in western Europe is beginning to approach, but has not yet reached, the pre-war average — which means that if agriculture were included in an index of production for western Europe the increase shown would be less than the average increase of the industrial production.

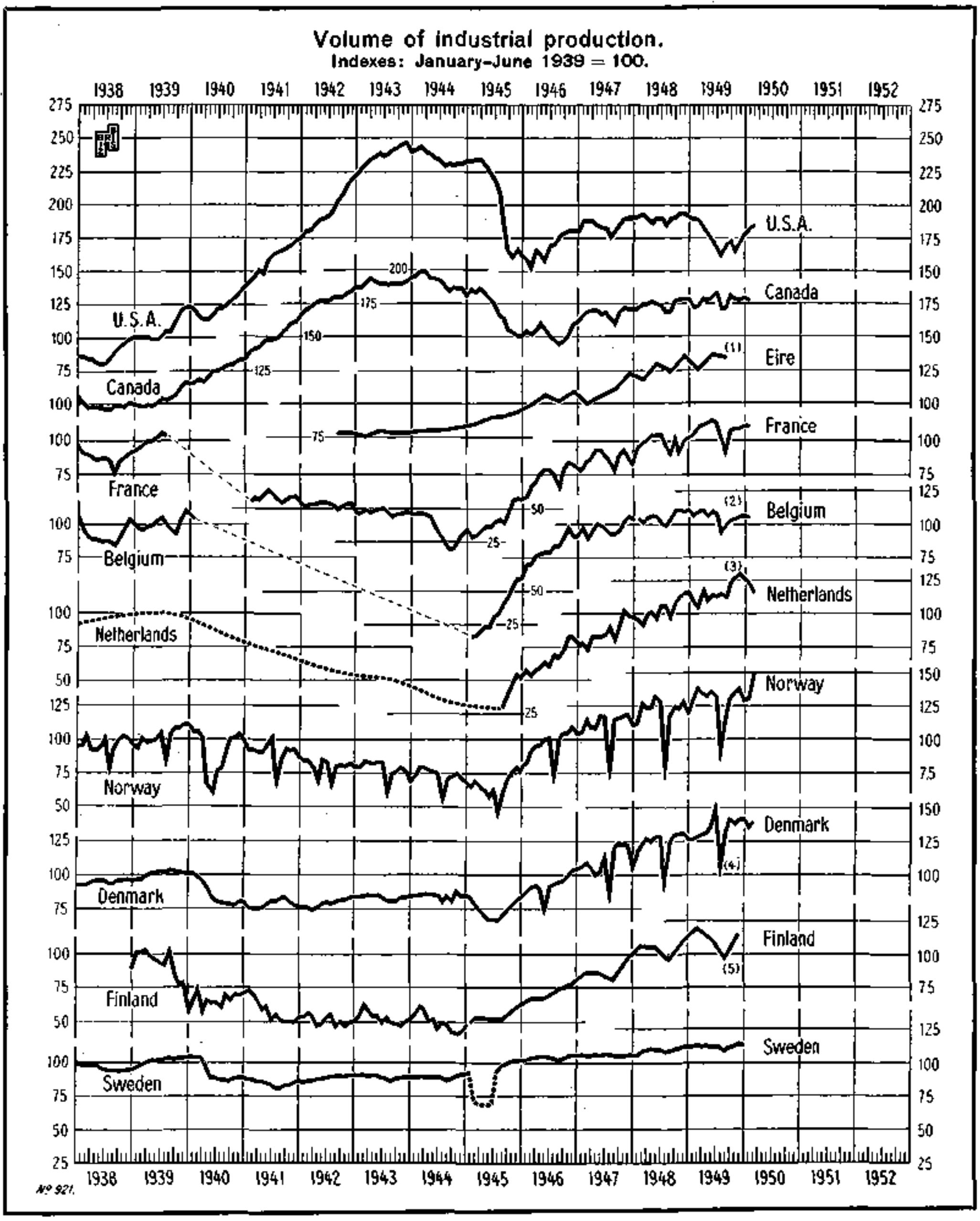
This is also the case when account is taken of "services", since in modern economies the part played by services is, in comparison with physical production, becoming increasingly more important — the term "services" covering the facilities offered under the heading of commerce, transport and banking, as well as professional services (from doctors, lawyers, etc.), catering in restaurants and hotels (in connection with holidays or otherwise), entertainments of all kinds, etc., and also the more and more multifarious services rendered by central and local governments. For countries with a high standard of living the total value of "services" is very nearly equal to that of the output of goods, both industrial and agricultural. Clearly, therefore, the index of industrial production covers only a section of economic activity, although a section which in the post-war period has received particular attention and aid from the authorities — a fact which is the more important since an increase in material production seems often to have been considered (perhaps a little too one-sidedly) as almost the sole key to economic salvation.

In an article entitled "A National Income Matrix" by Dudley Seers and P. F. A. Wallis,* certain estimates have been made for the main sectors of

* Appearing in the Bulletin of the Oxford University Institute of Statistics for July-August 1949.

the national output in the United Kingdom at 1948 prices, and on the basis of the data thus provided the following indexes have been calculated, from which the increase in "services" and the relative importance of the part played by them may be seen.

While the output of goods is estimated to have gone up by 25 per cent. the total of other items — mainly services — has risen by only 9 per cent. above pre-war levels. It is probable, however, that, in countries with less



(1) Quarterly indexes: 1939 = 100.
(2) New index since 1948.
(3) Index 1939 = 100.
(4) New index since January 1947.
(5) New quarterly index since 1945.

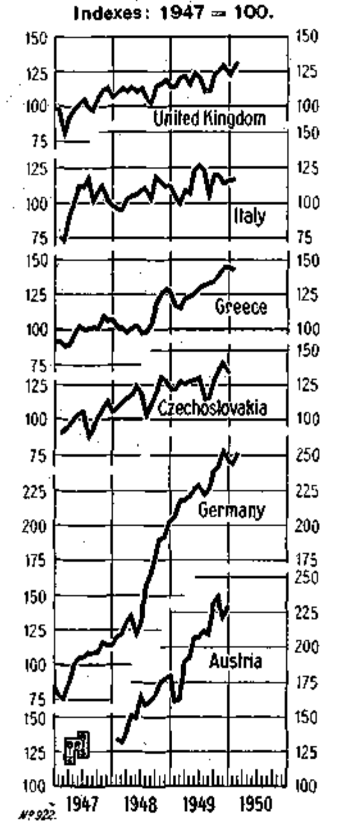
United Kingdom: Gross national output at 1948 prices.

Items	Index numbers				Percentage share of each item in total output in 1948
	1938	1946	1947	1948	
Output of goods:					
manufacturing and mining	100	104	112	125	50
agriculture	100	120	112	125	5
Total output of goods	100	106	112	125	55
Services:					
government services (1)	100	188	160	145	10
general services	100	102	106	106	30
other items (2)	100	65	77	82	5
Total output of services	100	111	111	109	45
Total output of goods and services (gross national product)	100	108	111	118	100

(1) The value of government services is measured simply by the salaries and wages paid to the civilian staff of the administration and the pay of the armed forces. It will be seen that, but for the increase in this item — part of which, e.g. the outlay for defence, clearly represents a burden — the total of the service items would have shown an even smaller increase.
(2) The heading "Other items" in the table includes such heterogeneous components as net income from abroad, rent of dwellings and direct taxes paid by foreigners.

direction of investment than the United Kingdom, service trades have had a chance to develop to a greater extent — which means, for instance, that relatively more restaurants and cinemas have been opened, business premises have been erected, etc. — but, even so, it is most unlikely that in any part of Europe the increase in services has been at all commensurate with the increase in industrial production. This conclusion is further confirmed by such estimates as have been made of the changes in the national income in terms of real value: for 1949 they show a real increase of 5 to 7 per cent. in the output of goods and services for the western European countries as a whole. Since the population has increased by 10 per cent., it would appear that in 1949 the production of goods and services was not yet keeping pace with the increase in population of the western European countries, the supply of goods and services per head still being less than in 1938.

Volume of industrial production.
Indexes: 1947 = 100.



Had there been no war, and with a normal run of business, it might have been expected that the volume of production in western Europe would have increased, on an average, by 2 per cent. per annum (of which roughly one per cent. would have corresponded to the increase in population and one per cent. to greater efficiency resulting from additional capital goods, etc.); by 1949 the total supply of goods and services would then have been some 20 per cent. above the 1938 level. The difference between that figure and the actual increase of 5 to 7 per cent. is some indication of the setback which Europe has suffered in this field through the war and of the extent to which the ground lost had not yet been regained by the beginning of 1950, in spite of all the outside aid received since 1945. It is, of course, the two wars, much more than any other handicap, which have brought Europe into economic difficulties, as may be seen from the relative prosperity and well-being of Switzerland, a small country almost without any sources of raw materials of its own, but a country which escaped direct participation in the wars and has applied an appropriate monetary and financial policy.

II. This leads to the second consideration, viz. that the destruction and neglect due to war have their after-effects in increased requiremente of materials, capital and labour for the repair of all the damags and for all the accumulation of postponed maintenance claiming attention once peace returns. The following table shows some of the estimates of the material damage suffered in various countries, the figures being those "noted" by the Paris Conference on Reparation of November and December 1945.

The question of the damage suffered by the U.S.S.R. and Poland was not considered by the Reparation Conference in Paris. At the meeting of the Council of Foreign Ministers on 17th March 1947 the Soviet representative made a statement on war damage: "The total loss of property, i.e. of the fixed and circulating capital of the U.S.S.R. or the direct damage inflicted on the state and the population by the destruction and looting to which state, co-operative and personal property in the occupied territory of the U.S.S.R. was subjected during the war, amounts to 679 milliard roubles or (at the official rate of R. 5.30 = $1) to 128 milliard U. S. dollars, at pre-war state prices."* The loss is estimated to account for two-thirds of that part of the national wealth of the U. S. S. R. which before the war was located in the occupied territories.

Reparation claims by countries as submitted to the Paris Conference on Reparation in 1945.

Country	Direct damage on national territory	National income in 1948 (estimates)
	In millions of U. S. dollars of 1938 purchasing power	
Albania	296	.
Australia	5	2,800
Belgium	2,273	2,650
Canada	62	6,000
Czechoslovakia	4,202	2,000
Denmark	159	1,570
Egypt	41	.
France	21,093	10,000
Great Britain	6,383	19,000
Greece	2,545	720
India	61	8,000
Luxemburg	179	100
Netherlands	3,922	2,500
New Zealand	8	700
Norway	1,260	950
Union of South Africa	4	1,470
United States	468	108,000
Yugoslavia	9,145	1,800

Note: Although the estimates of damage have been officially "noted", it cannot be taken for granted that exactly the same method of assessment has been applied in all countries.

The total war losses of Poland have been officially estimated at 258 milliard pre-war zlotys, equal to nearly 50 milliard dollars of

* Quoted from "The Economy of the U.S.S.R. during World War II" by Nikolai A. Voznesensky.

pre-war purchasing power. In Hungary, also according to official estimates, the war damage was equal to 22 milliard pre-war pengö or about 4 milliard pre-war dollars — representing about four times the national income for the last pre-war year.

The problems which present themselves may perhaps best be illustrated by a consideration of the developments in a few individual countries. Whilst it is true that the general situation of the particular countries does not bear any very close relation to the extent of the war damage suffered in each case, since other circumstances have usually made themselves felt, it remains an inescapable fact that until such damage has been repaired it constitutes a real burden, which the country in question has to carry and which will leave its mark in the budget for years to come.

In Norway, as may be seen from the preceding table, the damage totalled 1,260 million U. S. dollars of 1938 value — an amount which is estimated to have been equal to about one-quarter of the national wealth. About one-half of the mercantile marine was torpedoed or otherwise lost, causing a decline from 4.5 million tons at the end of 1939 to 2.7 million in May 1945. In the post-war reconstruction high priority has been given to the building and acquisition of ships and by the end of 1949 the tonnage, at 4.9 million, had already passed the pre-war level. In other fields also, such as the exploitation of waterfalls and the revival of mining activity, great efforts were made, involving new ventures in some cases; and the result was that in 1949 gross investments rose to 37 per cent. of the gross national product and net investments to 24 per cent. of the net national product. These are very high percentages for the rate of investment in any country, and it is not surprising to find that, of the net investments, only one-half was being supported by domestic savings, the remainder being obtained partly as compensation (e. g. from the United Kingdom for losses of ships) partly through Marshall aid and partly through utilisation of the country's own monetary reserves.

Norway: National income, savings, investments and use of foreign resources
(at market prices).

Items	1946	1947	1948	1949
	in millions of Norwegian kroner			
National income	7,891	9,095	9,894	10,413
Consumption	7,303	8,304	8,585	9,155
Savings . . .	588	791	1,309	1,258
Net investments . .	1,225	2,064	2,126	2,568
Resources obtained from abroad corresponding to the deficit on current account of the balance of payments	— 637	— 1,273	— 817	— 1,310

Of the savings, the major part has represented amounts provided by the government out of budget revenue.

Norway: Private and public savings.

Kind of saving	1946	1947	1948	1949
	In millions of Norwegian kroner			
Private savings	311	14	468	548
Public savings	277	777	841	710
Total . . .	588	791	1,309	1,258

The budget revenue of central and local authorities (including social-security contributions) was in 1949 equal to about 37 per cent. of the national income. In the so-called "national budget" submitted to Parliament in January 1950 (from which the above data have been quoted) the Norwegian Government explains:

> "The fact that such a considerable part of the available supplies of goods and services has been and still is employed for investment has its repercussions on the standard of living, the more so since defence absorbs quite an important part of the nation's resources. The consequence has been that only a limited increase could be made in the standard of living from the low level at the end of the war .... As regards the economic policy after the war, the government adopted the line of large investments and, if it considered that necessary, it was because an alternative policy with a slower investment tempo would, after the lapse of a few years, have resulted in a lower standard of living."

But the government stressed the fact that such a high rate of investment could only be sustained with the aid of resources from abroad; since for 1950 the government could not count on any notable increase in the supply of goods and services, it has foreshadowed a reduction by N.Kr. 400 million in net investments as compared with the previous year. Similarly, the Governor of the Bank of Norway, in his address to the annual general meeting on 13th February 1950, laid great emphasis on the point that the high rate of investment, to a large extent financed via the banking system, intensified inflationary pressure at home and led to a deficit in the balance of payments, and he proposed, inter alia, that particular investment items should be spread over a longer period than had been originally intended.

*

In the Netherlands, as in Norway, great efforts have been made to repair the damage caused by the war: for instance, the Dutch merchant fleet, which had also been reduced by about one-half during the war, has made good its heavy losses and by the beginning of 1950 the pre-war tonnage had already been exceeded. Such a rapid rate of reconstruction could not be kept up without the aid of resources derived from abroad, as shown by the table already given on page 27.

In Belgium the total amount of war damage, as measured by the figure approved by the Reparation Conference (see table on page 34), was equivalent to $2,273 million. This is in no way a negligible amount, but the Belgian policy has been to limit the investment programmes both on public and on private account to the total of the available resources (this has been done by postponing indemnification and by adopting a monetary policy which avoided an inflationary expansion of credit). As was pointed out by the Governor of the National Bank of Belgium in his address to the annual general meeting on 27th February 1950, it is intended that also in the future the progress of repairs and of other investments shall not exceed the rate of formation of domestic savings.

Between 1939 and 1945 the actual destruction in France was less spectacular but much more widespread than it had been between 1914 and 1918. All the ninety departments were affected, as compared with only thirteen in the earlier war; moreover, through the diminution of stocks and the wear and tear of clothes and other belongings, the country was, in an economic sense, brought nearer to exhaustion than it had been in 1919. In accordance with the law of 28th October 1946, indemnification covers the total amount of war damage on the basis of the reconstruction costs at the actual time of reconstruction — a decidedly more generous measure of indemnification than is the rule in most other countries, where repair and reconstruction have been practically limited to the productive sector and, even there, have not represented full indemnification at current prices. The budget for 1949 allotted Fr.fcs 81 milliard to the reconstruction of railways and the mercantile marine (now largely completed) and Fr.fcs 270 milliard for other reconstruction purposes, and at this rate it will take some twenty years for all the payments to be made in full. Actual reconstruction is, however, taking place in advance of indemnification — thanks to individual and local efforts, partly on a co-operative basis.

In Italy it is estimated that, in the war, material assets were destroyed to an amount of 12 milliard pre-war dollars, i.e. about one-fifth of the total accumulated wealth and more than a year's national income. It was fortunate, however, that the important industrial centres in the northern part of the country suffered comparatively little damage and were, in fact, able to resume peacetime production as soon as raw materials, electric current, fuel and semi-manufactured products became available again. Government outlay has been concentrated on the reconstruction of the railways and other public services; other kinds of restoration have mostly depended on private efforts; under the system of practical freedom in the internal economy, great progress has been made. It is even probable that more has been devoted to repairs and renewals than is recorded by the official data, the people having speeded up reconstruction in a way which may have temporarily lowered the standard of living but which has greatly contributed to the country's recovery.

Germany had to suffer the effects of actual fighting on its territory for only two months in the final phase of the war (from the crossing of the Rhine to the collapse on VE Day), but much damage and disorganisation had already been caused by bombing from the air. As far as the industrial capacity of western Germany was concerned, however, it would seem that the destruction did not exceed 20 per cent., while other losses were heavier: over 3.8 million dwellings (out of 19 million), representing between 20 and 25 per cent. of the pre-war total, had been either completely wiped out or very badly damaged. Thus the war left behind it a very real problem, especially as regards the provision of adequate housing facilities for a population which in western Germany has increased by about 20 per cent. After the monetary reform in the summer of 1948, when the work of reconstruction could be taken in hand, it was imperative to concentrate at first on restoring productive capacity as the quickest means of re-establishing the earning power of the people. This meant that efforts came to be directed in the first place to the restoration of industrial and commercial equipment and to the building of houses for such workers, of all ranks, as were especially important for the advancement of production or for other purposes clearly conducive to economic recovery. It was only in the spring of 1950 that decisions were taken to proceed with the first stage of a general rehousing programme embracing 250,000 flats, it being understood that investments of this kind must, in order to avoid inflation, be based on careful financing with long-term resources out of budget revenue or genuine private savings (possibly supplemented by foreign aid).

But in Germany as elsewhere it is evident that the damage to physical assets in no way represents the whole of the economic loss which has to be made good for the attainment of a satisfactory standard of living. No less than 40 per cent. of the food requirements of western Germany must be obtained from abroad; and the present derangement of the country's commercial position must, more especially in view of the increase in population, be regarded as a matter of considerable importance, with all that it entails in the way of further investments and increased industrial exports before a new equilibrium can be achieved.

It is even more true in the case of the United Kingdom that, in the second world war, as in the 1914–18 war, purely physical damage did not constitute the main loss sustained. In both wars, of course, great losses were inflicted on the mercantile marine (40 per cent. of the existing tonnage in the first and 60 per cent. in the second world war); but it was not many years before the fleet was back at its pre-war size — an indication that in this particular line great efforts were expended to make good the purely material damage. In housing, more reconstruction was needed after 1945, since about 30 per cent. of the houses existing at the outbreak of the war in 1939 had been either destroyed or damaged. And the loss involved in the non-maintenance of capital equipment is alone estimated to have amounted to £1,500 million. On the financial side, moreover, the United Kingdom, in the first world war, used up some £850 million of overseas investments and during the second world war over £1,100 million; at the same time, debts to other countries were incurred which, on the second occasion, added about £3,000 million to the existing amount of liabilities in sterling. The British earning position in general, being largely dependent on commercial and monetary pre-eminence, was unavoidably affected by the weakening of the country's capital structure and by the monetary and other disturbances to which the two world wars gave rise. To a large extent it proved possible, in the course of the 'twenties, to build up foreign-investment income to the same nominal amount in pounds; but that still meant a real loss, since commodity prices were 40 to 60 per cent. higher than in 1914. Since the second world war there has again been a tendency to renewed overseas investment in the form of capital exports from the British market, together with certain repayments by which sterling liabilities have been reduced from the high figure of about £3,660 million registered at the end of 1945 to about £3,350 million at the end of 1949; still, in terms of net capital assets, the creditor position remains very greatly impaired.

Not only the United Kingdom but other European countries also lost foreign investments in the first as well as in the second world war. For 1938, the net income of Europe from foreign investments has been estimated at the countervalue of $1,200 million — which at 1949 prices would correspond to nearly $2,500 million — while the actual net income from Europe's foreign investments in 1949 would not seem to have been more than $500 million. During the first years after the war there were also substantial losses on other items of invisible income (e. g. shipping and tourist traffic) but the pre-war tonnage of the mercantile marine had practically been restored by the end of 1949 and tourists were again arriving in as large numbers as ever from overseas countries.

It may be expected that the part of the income from foreign investments which is derived from participations and other forms of equity holdings

Europe's balance of payments on current account.[1]

Items	1947			1948			1949 [2]		
	United States	Other countries	Total	United States	Other countries	Total	United States	Other countries	Total
	in milliards of dollars								
Europe's imports (f.o.b.)	6.1	7.6	13.7	4.7	9.6	14.3	4.5	9.1	13.6
Europe's exports (f.o.b.)	1.0	5.4	6.4	1.3	7.5	8.8	1.1	8.5	9.6
Balance on trade account	−5.1	−2.2	−7.3	−3.4	−2.1	−5.5	−3.4	−0.6	−4.0
Net income from:									
investments	—	+0.4	+0.4	—	+0.5	+0.5	—	+0.5	+0.5
transport	−0.7	+0.3	−0.4	−0.3	+0.4	+0.1	—	+0.5	+0.5
other services	+0.2	−0.3	−0.1	+0.3	−0.6	−0.3	+0.3	−0.2	+0.1
Balance on service account	−0.5	+0.4	−0.1	—	+0.3	+0.3	+0.3	+0.8	+1.1
Balance on current account	−5.6	−1.8	−7.4	−3.4	−1.8	−5.2	−3.1	+0.2	−2.9

(1) The above table has been prepared jointly by the Research Department of the International Monetary Fund in Washington and the Research and Planning Division of the Economic Commission for Europe in Geneva.
(2) The estimates for 1949 are provisional.

will gradually yield increased amounts; on the other hand, there will be increased payments in respect of debts already contracted; all in all, it is possible that, in its debtor-creditor position vis-à-vis overseas countries, western Europe will have to reckon with a situation which, at present prices, would represent a deterioration of around \$2 milliard annually as compared with the pre-war period. That is not a large amount in relation to Europe's total income (an aggregate of \$120 milliard for all the western European countries, at the rate of £1 = \$2.80 and corresponding rates for other European currencies). But the loss is unevenly distributed and the making-good of such an amount in the balance of payments will, moreover, necessitate a difficult change in the pattern of trade — presumably involving more direct trade with the dollar area, since the necessary adjustment can hardly be effected in its entirety through an increase in the indirect trade via the raw-material-producing countries. It should also be remembered that the manner in which Marshall aid has been granted (mostly in the form of payments for goods acquired in the dollar area) has been anything but conducive to a rapid reduction of the direct dollar deficit. Fortunately, Europe's current balance-of-payments deficit in relation to all other continents has been brought down from \$7.4 milliard in 1947 to \$2.9 milliard in 1949, but this net amount of \$2.9 milliard is the resultant of a deficit of some \$4½ milliard vis-à-vis the dollar area (which is, of course, a wider conception than the United States) and a surplus of \$1¾ milliard in relation to the rest of the world — which clearly means that a decided effort has still to be made to acquire dollars through direct and triangular trade. It being one of the essential aims of Marshall aid to enable the beneficiaries "to gain time for reorganisation", it is imperative that during the two remaining years those internal and external measures should be taken which can help to restore a balanced position. But before an approach is made to the problems involved in a reorientation of commercial currents, attention must be directed to the heavy burden now falling on the world in regard to armaments.

III. A third consideration is, indeed, the fact that the present tension in the international field, which contrasts so markedly with the atmosphere of the Washington Disarmament Conference of 1922, has been reflected in substantial increases in the defence expenditure of most countries.

In 1913–14 the total budget expenditure of the United Kingdom was equal to 8–10 per cent. of the national income, i.e. not much more than the percentage now absorbed by defence expenditure alone. And, after the reductions which followed the first world war had become effective, British defence expenditure in 1922–23 was equivalent to no more than 3½ per cent. of the national income at that time. In 1949–50, on the other hand, defence expenditure is absorbing as large a proportion of the national income as at the height of the rearmament period just before the second world war.

In 1949–50 the total appropriations for defence in the budgets of the western European countries (including the payment of occupation costs) came to the equivalent of about \$5½ milliard (which, before the devaluations in the

Current defence expenditure as a percentage of national income.

Estimates for 1949 or 1949-50.

Country	National currency unit	National income (in millions)	Defence expenditure in the budget (in millions)	*Percentage*
United Kingdom	£	10,000	740	*7.4*
France	Fr.fc	7,000,000	350,000	*5.0*
Italy	Lit.	6,500,000	250,000	*3.8*
Germany (western zones)	DM	67,000	4,500(1)	*6.7*
Austria	Sch.	29,000	529(1)	*1.8*
Belgium	B.fc	250,000	6,280	*2.5*
Denmark	D.Kr.	16,500	316	*1.9*
Ireland	£	350	4	*1.1*
Luxemburg	Lux.fc	8,800	130	*1.5*
Netherlands	Fl.	14,000	850	*6.1*
Norway	N.Kr.	10,500	266	*2.5*
Portugal	Esc.	(2)	1,400	.
Sweden	S.Kr.	24,000	855	*3.6*
Switzerland	Sw.fc	18,000	485	*2.7*
Turkey	Lira	7,900	460	*5.8*
United States	$	222,000	13,000	*5.9*
Canada	Can.$	13,000	385	*3.0*

(1) Occupation costs. A part of the occupation costs is for the upkeep of civilian services, for which reason the figures given for Germany in the table may be reduced by one-fourth. (2) No estimates available.

autumn of 1949, corresponded to over $7 milliard), the amounts voted being, on an average, equal to about 5 per cent. of the national income. While the estimated outlay for defence of the British Commonwealth of Nations (apart from the United Kingdom itself, whose expenditure is included in the western European figure) amounted for the same period to something like $1.5 to 2 milliard, the corresponding outlay in the 1949–50 budget of the United States was fixed at $13 milliard. With the inclusion of Latin America, the direct defence outlay of the western world would seem to be in the neighbourhood of $20 milliard. But such a figure does not represent the whole burden, since there are cost items not fully reflected in the budget figures, the most important of them being compulsory military service, with its many direct and indirect effects (including delay in the training of young people, whether in special educational establishments or in actual business practice).

In the budget accounts of the U.S.S.R. the total defence expenditure was given as equal to Roubles 79 milliard in 1949, or about 10–12 per cent. of the national income. At the then official rate of R. 5.30 = $1 this sum would correspond to $15 milliard. But in interpreting these figures great care has to be taken, since they may not be directly comparable with those for countries in, say, western Europe. It seems that, when converted at the official rate of exchange, prices for consumer goods in the U.S.S.R. are often considerably higher than in the countries of the western world; and a difference in price may also affect the figures for defence expenditure. Further, the Soviet concept of the national income seems to be narrower than the one usually adopted since, roughly speaking, it takes account only of the material product — mainly from industry and agriculture — and excludes most activities with no material output, i.e. services of different kinds.

It is becoming increasingly difficult to tell whether some of the considerations with regard to the Soviet methods also apply, to a lesser or greater degree, to some of the countries in eastern Europe.

Current defence expenditure as a percentage of national income.
Estimates for 1949 or 1950.

Country	National currency unit	National income (In milliards)	Defence expenditure in the budget (In milliards)	*Percentage*
Albania	Lek	12	1.2	*10*
Bulgaria	Lev	425	14.2	*3½*
Czechoslovakia . .	Koruna	225	9.6	*4½*
Hungary	Forint	26	1.2	*4⅓*
Poland	Zloty	2,250	129.7	*5¾*
Roumania	Leu	725	52.3	*7¼*
Yugoslavia	Dinar	245	28.4	*11½*

The tension existing in the political field is, indeed, having important repercussions on the economic and financial life of the different nations, burdened as they are by heavy armament expenditure and by an increase in other charges also (as will be seen in the next chapter, dealing more particularly with a number of general budget problems). And in the commercial field there are further effects of this tension, in the form of hindrances to trade. Perhaps that is unavoidable, since military conflicts nowadays involve the nations' whole life — but it is rather a novelty for peacetime and naturally constitutes an additional handicap in the endeavours to bring about full economic rehabilitation.

IV. In the fourth place, therefore, account has to be taken of special factors resulting from the war and the international tension, which have seriously interfered with the normal pattern of trade, to the detriment of the real benefits to be derived from man's economic efforts.

(i) A most spectacular drop has occurred in the east-west trade of Europe. If account is taken of the split inside Germany, it will probably be found that the real volume of trade crossing the division line between west and east in Europe is barely one half of what it was in 1938; intra-German trade, however, has been proportionately more seriously affected than the remainder of east-west trade, which, excluding this interzonal traffic, would seem, in 1949, not to have fallen far short of two-thirds of the pre-war volume.

In 1948 the level of dollar commodity prices was more than twice as high as before the war and in 1949 about 90 per cent. above the pre-war level. When adjustments are made for these price changes, it appears that about 40 per cent. of the east-west trade of Europe has been lost.

East-west European trade.

Period	Western Europe: Imports from eastern Europe	Imports Total *	Exports to eastern Europe	Exports Total *	Balance with eastern Europe
	In millions of current dollars				
1938 . .	1,506	5,924	1,127	3,391	— 379
1948 . .	1,346	15,424	939	8,239	— 407
1949 . .	1,331	14,707	1,127	8,985	— 204

* ~~Trade with the rest of the outside world~~.
Source: According to O.E.E.C. figures.

The deficit of western Europe in the balance of trade with eastern Europe as shown in the preceding table has, of course, its counterpart in a corresponding surplus for eastern Europe, and this surplus was used, in the past, for payments in respect of invisible items (tourist traffic, debt service, etc.) and for the purchase of extra-European currencies, mostly U. S. dollars. After the war there were, moreover, certain prepayments by eastern European countries on contracts for delivery of capital goods (machinery, etc.); in 1948 there seems to have been a "free" surplus at the disposal of eastern European countries, while in 1949 the merchandise trade of the two areas appears to have been more nearly in equilibrium. The western part of Europe used to receive from the eastern part agricultural products (largely foodstuffs) and certain raw materials (coal from Poland, bauxite from Yugoslavia, and timber and oil, especially from Roumania); the disappearance of a substantial part of that trade is making it necessary for western Europe to turn more actively to distant markets. From a commercial point of view, the loss in east-west trade is no doubt regrettable, but the magnitude of the transactions involved should not be exaggerated.

While the exports to and imports from eastern Europe used to represent about 10 per cent. of western Europe's total exports and imports, the proportion has fallen to about 5 per cent. in the post-war years. Although practically no commodities are involved which cannot be obtained by western Europe from other sources, the obvious effect of the change is that the economic fortune of western Europe is becoming more dependent on strong currents of two-way trade between western Europe and extra-European countries belonging to what is often called the western world, with all its associated territories and dependencies.

(ii) As things stand, the need of reorientating the trade currents of western Europe in relation to the outside world is particularly pressing in the case of western Germany, affected as this area is by the split inside the old German economy and by the fact that, more than other countries in western Europe, it used to have markets in eastern Europe. It is not easy to form an exact statistical picture of what the split in question involves, partly because, for many items, no precise data are available in past records on either side of the new demarcation lines. But the following table gives some indication of what the present territory of western Germany accounted for in 1936 as compared with the whole of Germany.

The share of western Germany varies from trade to trade and, as far as the rôle of the eastern area is concerned, it must be recalled that in some lines, such as the electrical industry, Berlin alone accounted for 50 per cent. of the country's total production. If an attempt is made to strike an average, it would seem that western Germany, having in particular the output of the Ruhr and Rhineland regions, accounted for not much less than two-thirds of the pre-1939 Germany's productive capacity.

Proportion represented by western Germany in the economy of 1936 Germany.

Items	Germany in 1936		*Percentage proportion*
	Total	Western Germany	
Pre-war population .	68,400,000	39,300,000*	57
Production: (in millions of tons)			
Wheat and rye	11.90	5.44	46
Barley and oats	9.96	4.71	47
Potatoes	43.80	17.80	41
Meat and meat products	3.31	1.91	58
Butter and cheese . . .	0.66	0.38	58
Sugar	1.62	0.52	32
Coal.	109.8	84.1	77
Coke.	28.6	26.3	92
Brown coal	35.9	12.9	36
Pig iron	15.3	14.8	97
Crude and semi-finished steel	18.6	16.9	91
Finished steel and foundry products . . .	17.0	15.0	88
Machinery	2.76	1.67	61
Chemical products . . .	7.72	5.21	67
Textile products:			
Cotton.	0.228	0.18	79
Wool	0.087	0.0266	31
Knitted goods	0.821	0.285	11

* Excluding the Saar territory.

It may be of interest to mention in passing that the exchange of goods and services between the western zones and the eastern zone in Germany came almost to a standstill in the months after the currency reform of June 1948, since the two sides blockaded each other and the divided currency system proved a great handicap in the resumption of anything like normal trading relations. It was only after the lifting of the blockade in May 1949 and the conclusion in October 1949 of a trade agreement (with a swing of DM 15 to 20 million for overdrafts either way) that an officially permitted exchange of goods and services was resumed between the two parts of Germany. But the actual turnover was only a fraction of what it had formerly been. In the period from May to December 1949 the total "official imports" of the western zones from the eastern part amounted to only DM 205 million, while the "official exports" came to DM 222 million. Because of the bilateral basis — with a comparatively unimportant swing — the expansion of trading relations was in practice limited to the export capacity of the eastern zone; for, once the swing was exhausted, exports from the west had to be slowed down. It was only in the spring of 1950 that deliveries from the east began to exceed the amount of western exports, so that the debit balance of the eastern zone was progressively worked off — this paving the way for a renewed expansion of the bilateral trade. It should, however, be understood that the figures given above refer to the official trade returns and that there has been quite a considerable volume of "unofficial" trade in both directions, helped inter alia by the fact that, at the current quotations of the eastern mark in the unofficial markets, prices in the eastern part are relatively low for outside buyers.

In 1948, the year of the currency reform, the volume of exports to foreign countries from the American and British zones still barely reached one-quarter of the 1936 level while, thanks to the aid received from abroad, the volume of imports had made better progress towards recovery — exceeding two-thirds of the 1936 level.

The marked recovery which took place in the course of 1949 in western Germany's foreign trade, and especially in the volume of imports, had a connection with the liberalisation measures adopted in accordance with decisions of the O.E.E.C. Council in Paris. Of special importance were commercial agreements concluded with Switzerland, the Netherlands and France, providing for a considerable freeing of trade. It cannot be denied that the sudden increase in imports (accompanied by substantial trade deficits) gave rise to some anxiety in western Germany itself (and the tempo of the increase may well have been somewhat rapid from a monetary point of view); but there can be no doubt that the sudden expansion of exports to Germany by a number of European countries came at a very opportune moment, since in the autumn of 1949 and the early months of 1950 some of them might otherwise have been affected rather adversely by the repercussions of the wave of devaluations. Quite apart from this temporary advantage, however, there is the more important consideration that Germany's reappearance as an active partner in foreign trade is adding to the advantages to be obtained from the general efforts to increase production. As long as a number of countries could not exchange part of their current production for the materials and articles which they used to obtain from Germany, they suffered a "hidden loss", in that their output, even if it had attained the pre-war volume, was no longer as useful to them as previously.

Western Germany (Bizone): Volume of trade.

Period	Exports	Imports
Index numbers: 1936 = 100		
1936	100	100
1948	22	67
1949 1st quarter . . .	34	77
2nd „ . . .	39	102
3rd „ . . .	43	100
4th „ . . .	53	130
1950 1st quarter* . . .	69	115

* The index number for the first quarter of 1950 applies to the foreign trade of the Federal Republic (the three western zones).

Note: It is assumed that about 60 per cent. of Germany's foreign trade in 1936 represented the share of the area now comprising the British and American zones. For 1948 the trade statistics are still somewhat unreliable but for 1949 they probably give a fairly true picture of the actual expansion of trade.

For Germany, the year 1936 is generally considered the best year for comparison between pre-war and post-war trends because in that year the German economy had recovered from the severe depression of the early thirties and was not as yet greatly inflated and distorted by the "guns instead of butter" policy. But a particular reservation must be made on account of the very low level of foreign trade in that year: German exports in 1936 represented less than 50 per cent. of the 1913 volume and imports less than 40 per cent.; and in current Reichsmarks the foreign trade turnover in 1936 was not much more than one-third of what it had been in the boom year 1928. It should be added, however, that in 1936 there was an active balance of about RM 550 million corresponding to 13 per cent. of the value of the country's imports.

A special point in favour of adopting 1936 as base for comparisons is that in that year a census was taken of German industry; this makes it less difficult to bring the data for that year into line with the post-war data for the separate zones.

Up to the middle of 1948 the reduction in the reciprocal trade of the western European countries as compared with pre-war conditions had been chiefly due to the decline in Germany's importance as a market and a source of supply. But by the autumn of 1949 western Germany was again an importer on a pre-war scale; like the United Kingdom, Belgium and Switzerland, western Germany has to import some 40 per cent. of its food requirements, and it would be quite normal if a considerable part of these requirements were again obtained from the eastern European countries, which are likely to need many German products and could thus provide an outlet for German exports. At the end of 1949, it might be said that, in its volume of exports, as in certain other respects, Germany was one or two years behind most of the other countries of western Europe, whose total exports by the beginning of 1950 were fully up to the pre-war volume.

(iii) Another disturbance affecting the currents of trade arose out of the wartime convulsions of the south-eastern part of Asia. In the first world war this area had been practically unharmed and its output had even tended to rise under the impact of the intense wartime demand. But between 1941 and 1945 it was an actual theatre of war. For years a large part of it remained under Japanese occupation and, in particular, it seems to have suffered great damage at the time of the liberation.

The importance of this area from the point of view of world commerce is due to the fact that it has made in the past, and is again in a position to make, an essential contribution to a triangular trade pattern in which the south-eastern countries of Asia, being mostly producers of raw materials, have an export surplus vis-à-vis the United States and use that surplus to pay for an import surplus of textiles and other ready-made goods, especially from the industrial countries in Europe, and for the transfer of debt service and dividends to very much the same countries, which have made substantial investments in that area during the past.

This triangular trade became a means of enabling the European countries to earn dollars, thus making it unnecessary for them to balance their own trading accounts directly with the dollar area. It remains, moreover, of material importance that more than 60 per cent. of the imports of the United States have consisted of raw materials and foodstuffs and that these commodities are mostly let in without payment of any import duties, while imports of fully manufactured goods are subject to ad-valorem duties which in many cases are as high as 30 to 50 per cent. or even more; through indirect trade it has been possible to get round the American tariff, while direct trade makes it necessary, so to say, to climb over the tariff.

The triangular trade via the south-eastern part of Asia, so useful in the past, has in recent years suffered from two handicaps:

(a) In the first place, there has been, as already mentioned, the physical damage resulting from the war. For instance, in the Malay States the output of rubber, tin and tea up to the summer of 1945 was only a very small percentage of the normal volume, and in Indonesia the reduction was on a similar scale. Instead of contributing to the dollar resources of western Europe, these countries needed fresh capital to get production going, and some of the investments led to increased dollar expenditure.

Fortunately, it proved possible in some areas to achieve a rather quicker recovery than had been expected, and that was particularly the case in the Malay peninsula. In Burma, on the other hand, the difficulties persisted; and the same was true of Indonesia, where in the autumn of 1949 production for export was still only at the rate of 35 per cent. of the pre-war volume.

(b) In *addition to the physical* damage, there was, in the second place, a circumstance which brought a change in the amounts available for indirect settlements (as distinct from the *merchandise trade as such*), and *that was the sudden alteration in* the debtor-creditor relation as a result of the British wartime indebtedness and the new relations between, for instance, the Netherlands and Indonesia. As already indicated on page 28, the possession of large claims on European countries (e.g. in the form of sterling balances) meant that, for the time being, the overseas countries in question could obtain goods and services from Europe without having to furnish any commensurate supplies in return.

A recovery in the production of the countries in the south-eastern part of Asia is, however, already manifest in a gradual return to triangular trade, and the using-up of part of the balances held by them at the end of the war has in certain cases proceeded rather rapidly, India and Pakistan, for instance, having some £800 million left as compared with £1,300 million at the end of 1945.* The overseas countries in question will increasingly *have to find cash to pay for their imports from* Europe, *i.e. they will* have to use part of their dollar income for this purpose. But they are not likely to do so unless the Europeans are able to quote the most favourable terms in competition with goods obtainable from other sources. As a result of the devaluations in the autumn of 1949, European prices in general are at a competitive level; it is imperative that they should remain so, for then — and only then — will the countries in question find it in their interest to continue to buy in Europe while selling a considerable part of their output in the United States.

Indeed, Europe's chance to reconsolidate its own economic position, with a satisfactory standard of living for its growing population, depends essentially on the extent to which the various European countries can develop their trade with overseas producers of all the goods that Europe needs.

For a number of reasons, European countries must make serious efforts "to integrate" (to use the latest expression for a long-felt need); and in

* Of this reduction in sterling balances, not all was due to surplus exports from the United Kingdom, a part representing payments for surplus war stores and for the settlement of government pensions.

order to work more closely together they must get rid of the whole brushwood of quantitative restrictions and prohibitions which grew up during the war (and, to some extent, was sprouting already in the thirties) and also allow payments for all current and normal capital transactions to be made freely. Further, in their tariff policy they must pay increasing attention to the avoidance of uneconomic production and, with this in view, they must allow foreign competition to make itself more strongly felt on their respective markets.

Liberalisation of trade within Europe is, indeed, called for, and should be pushed forward with persistence and daring. But progress in this field ought not to mean that Europe will be thrown back on itself; for any tendency to establish a closed area would be worse than a mistake, and any goal short of a return to all-round convertibility in gold and dollars, which of course automatically brings with it full and immediate transferability of the European currencies inter se, would represent the acceptance of an unmistakable setback in comparison with the situation between the two wars — not to speak of the period before 1914. There is, fortunately, general agreement regarding the goal of convertibility; and if, in some connections, less far-reaching solutions have been contemplated — e.g. mere transferability inside Europe — these have been recognised as a makeshift acceptable only as a temporary measure so long as the ideal goal seemed out of reach in the immediate future.

V. The problems of freeing trade and restoring convertibility of currencies constitute an important part — but only a part — of the general problem of overcoming the disorganisation brought about by the war. More than the physical damage or the loss of invisible income, the unsettling effect of disorganisation has to be regarded as the most pernicious consequence of the war. The modern economic system has depended for its satisfactory working on an intricate and largely (but by no means wholly) self-regulating mechanism of price movements, of supply and demand in the money and capital markets, etc. and, once this mechanism is impaired in any essential part, it is not easily put right. War economy is wasteful economy — and, when it comes to restoring prosperity and well-being, less crude methods have to be used than those suddenly seized upon in the war emergency. "Control" almost necessarily has to take as a starting-point some situation in the past (the production turnover or imports of a particular item in, for example, the pre-war year 1938) and it thus tends to become an enemy to flexibility and progress. For that and other reasons, countries cannot go on using the wartime controls but need to develop a peacetime order which will enable their economies to progress under conditions representing a sufficient degree of balance internally and on foreign account.

Restoration of a balanced system is not easy, however: in the twenties, after the first world war, an attempt was made (which, at the time, was even expected to ensure "prosperity for ever") but it failed because too many questions — including the proper adjustment of reparations and other indebtedness of

Europe and the adaptation of the U. S. balance of payments to the requirements of a creditor position — had been left unsolved; and when questions of such importance are left in abeyance they have a nasty habit of returning and hitting one hard in the face, as indeed happened in the great depression from 1930 to 1934.

To what extent progress has been made in the balancing of budgets and the restoration of monetary systems, as steps towards overcoming the wartime disorganisation, will be considered in the next chapter of this Report. Before that it may be well, however, to make it clear that an increase in production — although certainly useful and, indeed, necessary for an improvement in the standard of living — is not in itself sufficient for the attainment of a balanced position.

(i) It would, in the first place, be a mistake to suppose that an increase in production will necessarily mitigate inflation or even improve the balance-of-payments position. As long as the credit system is characterised by a very high degree of liquidity, which has been the case in these post-war years, money incomes are likely to rise at the same rate as production and in that way an amount of spending power will be engendered sufficient to absorb the increased supply of goods. If then, pari passu with the rise in wages and profits, the public increases its consumption, there will be no increase of saving to restore equilibrium between savings and investment and to fill a hole in the balance of payments. A balancing effect will be produced only if the proceeds of voluntary saving and the yield of taxes together rise to a greater extent than the volume of investment and of government expenditure. Should the increase in production be used mainly to bolster up investments and government spending, without leading to any increase in saving, the situation will become more inflationary, not less. And increased taxation will not be a remedy if the public pays its taxes simply by cutting down savings.

(ii) Secondly, as long as an extreme form of the sellers' market existed, it did not matter much what was produced. In such a case, once the exceptional phase is over, simply to increase production will not be enough: it will be necessary to ensure that the right thing is produced at the right price to permit competitive sales in the right market. Otherwise the full value will not be obtained from the productive efforts; on the contrary, a definite loss will be suffered.

Thus, before the effect of an increase in a country's production can be judged, it is necessary to know what is happening in the economy with regard to savings, the volume of investment, government expenditure and taxation and also what account is taken of market conditions abroad. It is only when sufficient balance has been restored in the financial field, as part of the post-war reorganisation, that the full benefit can be obtained from the production effort inside each separate economy and in the balance of payments relations between the different countries.

III. Return to a Balanced System.

The theory and practice of economics are both concerned with questions of balance. For a smooth working of the economic system there are certain conditions which must be fulfilled including the realisation of a proper balance between:

(i) government revenue and expenditure;
(ii) savings and investments;
(iii) costs and prices; as well as
(iv) receipts and payments on foreign account (i.e. in the balance of payments).

This list is not exhaustive. It is not enough for budget expenditure to be covered by corresponding budget revenue; the level at which equilibrium is reached must not be too high in relation to the national income — which simply means that the fiscal burden must not be so heavy that enterprise is thwarted and the flow of savings dries up. An adequate adjustment must further be ensured between the current increase in production (taken in its widest sense) and the simultaneous increase in means of payment. But, if equilibrium has been established in the four instances indicated above, it is highly probable that the remaining conditions for a balanced economy will likewise be found to have been fulfilled. These are not conditions peculiar to a "competitive market system"; they apply to planned economies as well. Management, which is to some extent required under any system, should never mean just arbitrary intervention but must include the attainment of a certain harmony between government revenue and expenditure, costs and prices, etc.

1. In most cases an advance has been made towards a state of balance between government revenue and expenditure.

It is difficult to generalise in matters of public finance, for the significance of such terms as current and capital accounts, ordinary and extraordinary budgets, varies considerably from country to country. In each individual country, however, it is possible to discover the trend by examining the figures from year to year, and it is evident from such a comparison that a significant improvement in the budget position has taken place all over Europe; for, even if the level of expenditure is often still too high, it has generally become possible to do away with inflationary methods of covering the remaining budgetary deficit. Part of the progress has consisted in the establishment of a better order from a technical point of view, in that expenditure of the kind previously entered on special Treasury accounts (a practice only too common during and after the war) has, in most cases, now been incorporated in the general budget.

It is possible to distinguish a variety of methods which have been employed for the purpose of putting an end to inflationary financing.

Belgium: Government revenue and expenditure.

Categories	1947	1948	1949	1950 estimates
	in millions of Belgian francs			
Ordinary budget*				
Revenue	47,041	62,849	65,368	62,438
Expenditure	61,231	63,169	67,992	62,350
Balance	— 14,190	— 320	— 2,624	+ 88
Extraordinary budget				
Revenue	124	677	754	248
Expenditure	6,763	8,120	15,757	17,484
Balance	— 6,639	— 7,443	— 15,003	— 17,236
Total net balance	— 20,829	— 7,763	— 17,627	— 17,148
Public debt at the end of the fiscal year (which coincides with the calendar year):				
Domestic debt	230,046	214,332	216,415	.
Sight debt	16,798	17,759	19,181	.
Foreign debt	30,152	32,590	37,766	.
Total public debt	276,996	264,681	273,363	.

* Including revenue and expenditure resulting from the war.

France: Government revenue and expenditure.

Categories	1947	1948	1949	1950
	in milliards of French francs			
A:				
Ordinary revenue	694	1,071	1,300	1,494
State expenditure	718	1,077	1,350	1,510
Balance A	— 24	— 6	— 50	— 16
B:				
Revenue (exceptional)	—	—	158	258
Expenditure				
1. for equipment and reconstruction	151	445	605	727
2. advances and special Treasury account	106	174	80	—
Expenditure (1 + 2)	257	619	685	727
Balance B	— 257	— 619	— 527	— 469
Total balance	— 281	— 625	— 577	— 485
Public debt at the end of the fiscal year (which coincides with the calendar year)				
Domestic debt	2,118	2,451	2,723	. . .
Foreign debt*	381	961	1,182	.
Total public debt	2,499	3,412	3,905	.

* Of the increase in foreign debt, the major part in recent years has been of a nominal character due to the devaluations, viz. Fr.fcs 413 milliard in 1948 and Fr.fcs 200 milliard in 1949.

It is often said that there has been a significant similarity between the policies pursued in Belgium, France and Italy, and in some respects that is no doubt true. There is a similarity in the turning-away from direct controls but, as to the task of sufficiently reducing the government deficit to avoid inflationary financing, Belgium was ahead of the other countries, especially since it had particular resources connected with the monetary reform which even helped to reduce the total of the public debt.

The table gives the figures for government revenue and expenditure excluding (as is the practice in Belgium) the special amounts collected in consequence of the monetary reform. Those collections come, however, to an amount of B.fcs 5,000 million in 1949 and, if they were taken into consideration, the "deficits" in the budgets, although not wholly wiped out, would become very much less.

Neither for Belgium, France nor Italy do the revenue figures here given include any proceeds of credit operations or receipts in the form of Marshall aid.

There has been a marked improvement in the budget position

Italy: Government budget revenue and expenditure.

Categories	1947–48 preliminary accounts	1948–49 preliminary accounts	1949–50 revised estimates	1950–51 estimates
	in milliards of lire			
Total Budget:				
Revenue.	775	944	1,108	1,127
Expenditure	1,547	1,519	1,406	1,397
Balance . . .	— 772	— 575	— 298	— 270
Public debt at the end of the fiscal year (which runs to 30th June)	1,730	2,108	2,276 *	.

* December 1949.

of these countries, but the interesting fact is that in all three of them the decisive break with the inflationary trend was achieved while the budget accounts were still closing with a deficit — the turn in the trend being brought about through the taking of resolute credit measures.

In Belgium the rate of B.fcs 176.6 = £1 or B.fcs 43.83 = $1 had been adopted from the beginning of October 1944, but in the domestic economy, partly under the influence of large-scale purchases by Allied troops supplied with newly-issued notes which were never afterwards reabsorbed, wholesale commodity prices rose from an average index figure of 240 for 1945 (1937 = 100) to 368 by the end of 1948. In the meantime, however, the government and the National Bank had reacted in four main ways:

Firstly, investment programmes (including the amounts allowed for reconstruction of war damage) were limited to what the available resources would warrant, which meant a certain holding-back both on public and on private account.

Secondly, quotations of long-term government bonds were allowed to find their own level in the market, and under the influence of market forces the yield increased from 3.80 per cent. in 1944 to 4.80 in the autumn of 1948.

Thirdly, the National Bank refused to renew any of its three or four-month credits automatically and adjusted its discount rate according to the conditions prevailing in the market, the result being a gradual increase from 1 ½ per cent. in 1945 to 3 ½ per cent. in the autumn of 1947 (followed by a reduction to 3 ¼ per cent. after the devaluation in October 1949).

Fourthly, the law made it obligatory (subject to certain discretionary powers of the Banking Commission) for the commercial banks to maintain a certain cover for some of their liabilities in the form of short-term government paper — which for the time being greatly reduced, or even eliminated, the inflationary danger which might have arisen from the floating debt.

After continuing to rise until the beginning of 1948, Belgian commodity prices remained comparatively stable up to the end of that year; during the first nine months of 1949 they fell by 8 per cent., under the influence of the decline prevalent at that time on the world markets, but since December 1949 they have recovered slightly.

In Italy, certain decisive steps were taken in September 1947 for the purpose of arresting inflation: the official discount rate of the Bank of Italy having been raised from 4 to 5 ½ per cent., fresh credit restrictions were imposed upon the banks, which at the same time were warned that they could not hope to replenish their credit resources from the Bank of Italy, the intention of the authorities being not so much to produce a contraction in the volume of loans granted as to prevent a further expansion not matched by new savings. As a matter of fact, the rate of expansion of bank credit slowed down, the average monthly increase being 0.8 per cent. in the last quarter of 1947 as against 7.6 per cent. for the three preceding quarters. In the resulting stringency, with interest rates for short-term credits (including commissions) ranging from 8 to over 10 per cent., an immediate need was felt for more cash (partly in order to pay increased money wages, which were linked — with a time-lag — to the cost of living) and, as confidence in the lira returned, cash balances began generally to be reconstituted. The result was that, in spite of further increases in the note circulation (largely on account of government borrowing from the Bank of Italy), the price level was under pressure and actually fell by 11 per cent. during the last quarter of 1947.

Thanks to a steady increase in production and to a continued reconstitution of cash balances (equivalent to a slowing-down of the velocity of circulation and essentially a sign of regained confidence), the price level has kept relatively stable, an increase in 1948 being counterbalanced by a fall in the following year when the downward pull exerted by the general world-market trend, together with greater labour efficiency in Italy itself, brought the index of wholesale prices (1938 = 100) to 4,750 in December 1949, as compared with 5,700 at the beginning of the same year and an average of 5,160 for the year 1947.

In France the first break with the extreme cheap-money policy, which had been pursued with only slight interruptions since 1938, was made in January 1947, when the Bank of France raised the rates applicable to discounts and open-market purchases and in that way began, in its own sphere, to react against the inflation, while still compelled, in the field of public finance, to extend advances to the Treasury. It raised its rates of interest again in October 1947 and once more, for a short period, in September 1948, when the discount rate was fixed at 3 per cent. while the rates charged for short-term credits by the commercial banks (whether nationalised or not) ranged as a rule from 5 to 8 per cent. Since 1945 certain restrictions had applied in the field of commercial banking and they were intensified by a number of decisive steps taken in September 1948 when, in particular, a "ceiling" for rediscounting facilities at the Bank of France was fixed for each bank individually — a provision by which the curb was brought to bear on commercial bills as well as on advances.

France: Indexes of prices and note circulation.

Date	Average of wholesale and retail prices	Note circulation
	Indexes 1929 = 1	
1929 December	1	1
1938 "	1.1	1.6
1945 "	5.2	8.3
1946 "	9.3	10.5
1947 "	13.9	13.4
1948 "	21.1	14.4
1949 "	21.2	18.6

Financial stability seemed on the point of realisation in the summer of 1948, but political difficulties supervened and it was only in the late autumn of that year that the inflationary trend was brought to a definite halt. Up to that time the note circulation had risen much less than prices — and, once confidence returned, it was natural that the amount of notes outstanding should increase (cf. Chapter VIII).

The level of wholesale prices, which had risen by a further 60 per cent. in 1948, showed only a very slight increase, on balance, between December 1948, when the index stood at 1,974 (1938 = 100), and a year later, when it registered 2,002.

Belgium was one of the first countries in Europe which deliberately set out to lift the wartime controls on prices and production — and in Italy and France the direct control applied to the domestic economy gradually ceased to be of material importance, while at the same time the financial controls were strengthened in all three countries. The result has been that the price-index figures have come to correspond more and more to the actual prices paid by the public, since the abolition of the direct control has led to an almost complete disappearance of black markets and a return to an increasingly free interplay of supply and demand. As will be shown later in Chapter V there has been in these countries a considerable improvement in the balance-of-payments position together with a tendency of the free-market quotations of the respective currencies to approach the official rates. The effect on the volume of investment and the state of employment has varied somewhat from country to country in response to special conditions, as will be shown more fully later in this Chapter.

United Kingdom: Government revenue and expenditure.

Items	1947–48	1948–49	1949–50	1950–51 estimates
	In millions of £ sterling			
Items "above the line"				
Ordinary revenue:				
Tax revenue	3,269	3,668	3,687	3,668
Other receipts including sale of war stores, and trading profits	576	339	237	230
Total ordinary revenue	3,845	4,007	3,924	3,898
Ordinary expenditure	3,187	3,153	3,356	3,435
Sinking funds	22	23	19	20
Total expenditure	3,209	3,176	3,375	3,455
Balance "above the line"	+ 636	+ 831	+ 549	+ 443
Items "below the line" (net)				
Payments to local authorities	225	231	268	271
War damage	280	130	174	100
EPT refunds and post-war credits	84	30	31	24
Advances made to the coal and cotton industries	33	57	10	18
Other expenditure	28	30	4	37
Net expenditure "below the line"	650	478	487	450
Overall balance	— 14	+ 353	+ 62	— 7
Public debt at the end of the fiscal year (which runs to 31st March)				
Internal debt:				
Floating debt	6,542	5,897	5,715	.
Funded and other debts	17,626	17,775	17,994	.
Total internal debt	24,168	23,672	23,709	.
External debt*	1,555	1,595	2,193	.
Total public debt	25,722	25,267	25,902	.

* "External debt" refers to debts due to the United States and Canada. A considerable part of the "internal" floating debt is held abroad. The sterling value of the external debt was increased during 1949-50 by £809 million as a result of devaluation.

In a number of other instances, including, in particular, the United Kingdom and the Scandinavian countries — a determined effort was made at an early date not only to cover current expenditure in the budget by means of current revenue but to produce substantial surpluses for the financing of programmes of capital expenditure.

For an understanding of public finances in the United Kingdom, it is necessary to take into account not only the ordinary revenue and expenditure ("the budget" in the traditional sense) shown "above the line" in the Exchequer returns but also what is shown "below the line" — mainly capital expenditure.

The "net" expenditure is arrived at after deducting repayments of loans and advances by local authorities and others and also the proceeds of "gifts" from Commonwealth countries but not any of the receipts under the Marshall Plan, these having been employed almost exclusively for repayments of short-term government debt.

In his budget speech on 18th April 1950, the Chancellor of the Exchequer insisted that the danger continued to be one of excessive spending or deficient saving, i.e. of inflation, and that in those circumstances the maintenance of a budget surplus was absolutely vital. A strong plea was also made for the continuance of the income-stabilisation policy.

> "Wages and conditions of work have been left to free negotiations between employers and employees, but the government has done what is its duty — it has put before the country the very powerful considerations that should weigh with anyone who seeks to better their own position at the expense of the country as a whole...
>
> Some 55 per cent. of all company profits are required for taxation, probably not less than half of what is left is used for new capital expenditure in one way or another; so that some three-quarters of gross profits is already being utilised for essential economic purposes which otherwise we should have to finance in some other way: only one-quarter goes to personal consumption, and even some of that may be subject to surtax.
>
> In the meanwhile it is vital to the continued success of our efforts that the policy of restraint should not be broken down either in the matter of wages, salaries or profits, until a better policy has been worked out to take its place."

It should, however, be observed that the policy of restraint had been applied with a certain flexibility — the total amount of earnings in the form of wages and salaries, as mentioned by the Chancellor in the budget speech, had increased by £340 million from 1948 to 1949. In the money market the cheap-money policy was continued, with the rate for Treasury bills at ½ per cent.; but the monetary authorities abstained from artificial support of the capital market, the yield of long-term government bonds increasing from just over 3 per cent. in the spring of 1949 to around 3²/₃ per cent. a year later.

In Norway, a surplus on current account had already been achieved in 1946 and there was an "overall surplus" from 1947 onwards.

Norway: Government revenue and expenditure.

Items	1946	1947	1948	1949	1950 estimates
	in millions of Norwegian kroner				
Current revenue	2,247	2,836	3,175	3,058	2,975
Current expenditure	2,058	2,244	2,635	2,676	2,588
Balance	+ 189	+ 592	+ 540	+ 382	+ 387
Net state investments	191	364	253	348	332
Overall surplus	— 2	+ 228	+ 287	+ 34	+ 55

The closed accounts for the years 1946–49 together show an overall surplus of N.Kr. 547 million, to which may be added the estimated overall surplus of N.Kr. 55 million for 1950. Marshall aid receipts are not counted as part of the revenue, having been used mainly for repayment of debt to the central bank — to that extent offsetting what otherwise would have been an inflationary effect of the use of liquid resources for private investments. The discount rate of the Bank of Norway was reduced from 3 to 2½ per cent. in January 1946 and since July of the same year the yield on government bonds has been down at 2½ per cent., the maintenance of the bond quotations at par being facilitated by the very high degree of liquidity which has characterised the post-war money market, though, even so, they required special support in 1949.

The following table shows for Sweden the balance according to the budget and on a cash basis.

Sweden: Government revenue and expenditure.

Budget accounts	1945–46	1946–47	1947–48	1948–49	1949–50 estimates	1950–51 estimates
	in millions of Swedish kronor					
Current account						
Revenue	3,528	3,606	4,438	4,954	5,074	5,139
Expenditure	3,328	3,155	3,971	4,643	4,631	4,667
Balance	+ 200	+ 451	+ 467	+ 311	+ 443	+ 472
Capital account						
Net expenditure	978	749	645	776	304	561
Overall balance:						
in the budget accounts	— 778	— 298	— 178	— 465	+ 139	— 89
and on a cash basis	— 447	— 329	— 240	— 588	(1)	(1)
Public debt at the end of the fiscal year (which runs from 1st July to 30th June)	11,195	11,420	11,486	11,861	12,055 (2)	.

(1) Not yet available. (2) End of December 1949.

Note: Over a period of years the average budgetary balance and the average cash balance will tend to correspond, but for a particular year there may be a marked divergence between them. The expenditure on capital account includes amounts lent by the state, e.g. for the four years 1945–49 gross amounts of S.Kr. 1,085 million in internal loans (of which S.Kr. 809 million was for building purposes) and S.Kr. 975 million in loans and credits granted to foreign countries.

After the devaluation in September 1949, the budget subsidies to keep prices down were increased, the expenditure in question being chargeable against the current surplus, with the result that the overall surplus budgeted for in the estimates for 1949–50 will probably be turned into a deficit.

In February 1945 the rediscount rate of the Sveriges Riksbank was lowered from 2½ to 2 per cent., at which rate it has remained unchanged, although it should be mentioned that the Treasury bill rates were raised somewhat in the years 1946–48. On the other hand, the yield of long-term government bonds has been kept practically stable in the neighbourhood of 3 per cent. by open-market operations. When it became clear in the course of 1948 that the volume of investments (public and private together) exceeded the volume of current savings, the government had recourse to measures of direct control in order to curtail outlay, especially as regards housing; but no change was made in the interest policy. In fact, the volume of investment was reduced by about one-fifth and in that way internal balance was restored, equilibrium being also established in the current account of the balance of payments.

In Denmark, fairly considerable amounts of revenue (consisting, in particular of the proceeds of various excise duties) have remained outside the ordinary budget accounts, being credited direct to the account in the Danmarks Nationalbank against which the state had been debited for expenditure in connection with the German occupation. (By these and other allocations — including repayments from Marshall aid counterpart funds — the said account was reduced from about D.Kr. 8 milliard in 1945 to D.Kr. 4.8 milliard at the end of 1949.) Including the extraordinary receipts, the following are the figures for total revenue and expenditure.

Denmark: Government revenue and expenditure.

Items	1945–46	1946–47	1947–48	1948–49	1949–50 estimates	1950–51 estimates
	in millions of Danish kroner					
Revenue	1,403	1,998	2,151	2,330	2,200	2,066
Expenditure	1,935	1,897	2,020	2,010	2,100	2,057
Balance	— 532	+ 101	+ 131	+ 320	+ 100	+ 9
Public debt at the end of the fiscal year (which runs to 31st March)	11,996	11,601	10,712	10,289	.	.

The discount rate of the Danmarks Nationalbank was lowered from 4 to 3½ per cent. in January 1946 and in that year the yield of government bonds stood even below 3½ per cent. at times; but, when demand for long-term funds increased, the bond quotations were allowed to fall, so that the yield rose to an average of just under 4½ per cent. for 1949. By means of the policy thus adopted, it has been possible not only to prevent any increase in the supply of money but also to bring about a distinct contraction in the volume of deposits outstanding, Denmark being one of the few countries in which repayments of deposits have actually helped to bring the degree of liquidity down to more normal proportions.

A development common to the United Kingdom and the Scandinavian countries has thus been that soon after the war each of them established a surplus of current revenue above current expenditure, with which to finance at least a part of their volume of investments, and that, with the exception of Sweden, they achieved an overall surplus, which was a distinct help in combating inflationary tendencies. Great reliance has been placed on physical controls, especially as applied to the volume and direction of investments, and also on an "income stabilisation policy" put into effect largely through agreements with trade unions and employers' organisations, whilst less reliance has been placed on monetary and credit policy. Of the four countries, however, Norway is the only one in which no increase has taken place in either short or long-term interest rates, a certain flexibility being noticeable in long-term rates in the United Kingdom and, before 1949, in Denmark, while short-term rates have been deliberately varied within certain limits in Sweden.

While the early attainment of budget equilibrium enabled the United Kingdom and the Scandinavian countries to avoid a depreciation of their currencies in the period from the end of the war up to September 1949, this achievement was clearly conditional upon a maintenance of direct controls on a larger scale and for a longer time than in the countries already reviewed, in which prices as well as wages have come to be more and more determined by the interplay of supply and demand in increasingly free markets.

The impression of great diversity in the methods applied in order to attain equilibrium is strengthened by consideration of some of the other countries in Europe.

In the Netherlands perhaps even more effectively than in the United Kingdom and the Scandinavian countries, the authorities were able to impose a strict control over prices, wages and other income, foreign trade and investments. One reason was that, before trade with Germany recovered, the bulk of the country's imports and exports passed through two ports — Rotterdam and Amsterdam.

By a large-scale currency reform the volume of notes and free deposits was brought down from over Fl. 10 milliard in May 1945 to a level of about Fl. 5 milliard at the beginning of 1946; and special capital levies were imposed to provide the means of repaying part of the blocked balances, the yield of these taxes amounting to about Fl. 3.5 milliard, of which Fl. 2.7 milliard had been collected by the end of 1949. Nevertheless, it proved impossible to prevent the volume of money from increasing, the main reason being that the budget deficits were largely financed by the use of funds from the blocked balances, which thus in part found their way back into circulation.

As the financing of the budget deficits led to an "activation" of blocked balances, the money and capital markets were characterised by a high degree of liquidity and relatively low interest rates, the official discount rate having been maintained at 2½ per cent. since June 1941 and the yield of long-term government bonds keeping consistently at a level just a little above 3 per cent. In the course

The Netherlands: Government revenue and expenditure.

Items	1946	1947	1948	1949	1950
	in millions of florins				
Current revenue	3,584	3,826	3,855	3,645	3,541
Current expenditure	4,188	4,707	4,874	3,867	3,521
Balance	— 604	— 881	— 1,019	— 222	+ 20
Net capital expenditure	— 346	— 311	— 272	— 434	— 390
Gross balance	— 950	— 1,192	— 1,291	— 656	— 370
Public debt at the end of the fiscal year (which coincides with the calendar year)	20,900	22,100	21,700	22,300	.

Note: The considerable improvement in the position from 1948 to 1949 is partly due to a sharp reduction in the expenditure of a temporary nature (largely connected with Indonesia and reparation of war damage) and to a curtailment of the food subsidies by nearly one-half.

of 1949, however, signs of a better balance between the volume of monetary demand and the supplies of goods and services became visible, thanks to increased production, a stronger flow of domestic savings and the sterilisation of almost all of the counterpart of Marshall aid. It has become possible to do away with rationing and to restore a wide measure of freedom from controls over production and investments; but the adjustment of the cost of living and wage rates to the situation resulting from the devaluation in the autumn of 1949 is a problem which has still to be solved.

While in the Netherlands as in a number of other European countries prices and wages had, for the most part, been kept "frozen" during the war, Switzerland had allowed relatively substantial increases, — one of the effects being that the supply of money never shows the same degree of "redundance" in Switzerland as in other European countries.

In possession of ample reserves, the Swiss could, moreover, permit practically free imports after the war. This helped them to fill their markets with goods, and the resulting improvement in supplies, combined with a policy of budget surpluses and flexible interest rates, made it possible to get rid of rationing fairly quickly, the last traces of any "repressed inflation" also disappearing within a short time.

In addition to budgeting for a surplus, the Swiss authorities exerted a restrictive influence on the markets by selling gold (to the extent of some Sw.fcs 1½ milliard

Switzerland: Government revenue and expenditure.

Items	1946	1947	1948	1949	1950 provisional
	in millions of Swiss francs				
Current account					
Revenue	2,221	2,154	2,091	1,564 (1)	1,151
Expenditure	2,140	1,933	1,892	1,552	1,466
Balance	+ 81	+ 221	+ 199	+ 12	— 315
Balance on capital account	— 84	+ 99 (2)	— 23	— 10	+ 22
Overall balance	— 3	+ 320	+ 176	+ 2	— 293 (3)
Public debt(4) at the end of the fiscal year (which coincides with the calendar year)	8,929	8,151	7,992	7,976	.

(1) The reduction in the revenue for 1949 was, in particular, due to the provisional discontinuance of certain wartime taxes, while the reduction in expenditure was largely due to a liquidation of wartime services.
(2) The capital account is credited with amounts written off and allocations from various reserve funds, that being a reason why it may close with a surplus of revenue over expenditure.
(3) A new finance plan provides for additional revenue of about Sw.fcs 470 million; if this plan is adopted, the provisionally estimated deficit of Sw.fcs 293 million would be changed into an overall surplus of more than Sw.fcs 150 million.
(4) Excluding current administration liabilities as well as railway debt.

between 1945 and 1947) and also by refraining from central-bank intervention and thus allowing the yield on government bonds to rise from a low of 2.8 per cent. (at times) in 1947 to a high of 3.6 per cent. in 1948. Within a year the yield was down again to below 3 per cent. and by the spring of 1950 the Swiss money and capital markets were once more characterised by an extraordinary liquidity, due to a strong flow of domestic savings and — it would seem — a continued influx of capital from abroad.*

The economies of the western zones in Germany displayed a curious stability in wages and in the prices of certain absolute essentials, in spite of an extreme redundancy of money — and during the early years after the war it did not prove difficult to balance the budgets of these zones without creating additional money. An altogether new phase began after the currency reform in the summer of 1948. The budgets for the Länder show the following figures.

Germany (western zones):
Revenue and expenditure of the Länder.

Items	1948–49 results	1949–50 preliminary
	in millions of DM	
Revenue	11,984	17,045(1)
Expenditure	11,792	16,848
Balance	+ 192	+ 197

(1) The estimated revenue for 1949–50 includes as an item the surplus transferred from the previous years.

In the first few months after the currency reform in the summer of 1948 the tax revenue of the Länder (which collect the bulk of the public receipts) was relatively small and they had to draw on the initial funds (the so-called "Erstausstattungen") which had been allotted to them in lieu of the RM balances cancelled by the currency measures taken. But soon the revenue began to recover and in the last

* Up to the autumn of 1949 the Swiss National Bank did not in general give Swiss francs in exchange for gold or dollars arising out of capital transfers, it being thought important to avoid the creation of new monetary purchasing power not connected with commercial transactions or those of a similar nature. As a result, the exchange rate for so-called "financial dollars" was quoted at a certain discount compared with the official rate, the existence of such a discount probably acting as a check on an excessive inflow of funds.

quarter of 1948 there was already a small surplus of revenue over expenditure. At the time, this proved a very helpful reinforcement to certain restrictive measures imposed by the Bank deutscher Länder in order to check the opening spurt of an inflationary movement which had developed in the first half-year after the currency reform, before the increased supplies resulting from rising production had as yet become available.

The fiscal year 1948–49 (which came to an end on 31st March 1949) closed with a surplus of DM 192 million. In the course of the summer and the autumn of 1949 there was a certain deterioration in receipts but the accounts for the whole fiscal year 1949–50 closed with a surplus of DM 197 million (including, however, the surplus carried over from the previous fiscal year). The cash results (as distinct from the accounting results) must have been even better, considering that the deposits of the public treasuries showed a rising tendency during most of the fiscal year. In the first Federal budget, which covered the period from the constitution of the Federal Republic on 21st September 1949 to 31st March 1950, expenditure totalled DM 927 million and revenue DM 816 million.

The successive conversions of RM balances into DM as provided for by the currency-reform laws were on a decreasing scale during the first half of 1949 and at the same time the level of wages remained relatively stable, so that the upward trend of prices, which had set in during the latter half of 1948, gradually became out of touch with a market in which supplies were expanding in response to increased production — and, with the aid of a more careful credit policy, prices began to subside. As it became evident that the price trend had changed, consumers as well as business people restrained their demand — which made it possible to abolish the greater part of the rationing system and most of the direct controls without bringing about a new rise in prices or endangering the availability of supplies for the lower income-groups. By the end of 1949 food rationing had been practically abolished and food was on the whole somewhat cheaper than it had been at the beginning of the year. This does not mean, of course, that no problems remain. The great need for reconstruction in the public as well as the private sector gives rise to a considerable demand for capital of a long-term character, and in such cases there is always a tendency to call upon short-term credit creation to supply a part of the need; the disappearance of direct controls, however, has helped to make the western German economy much more dynamic, with the result that greater reliance must be placed in monetary and credit measures to prevent a new disequilibrium from emerging.

Austria: Government revenue and expenditure.

Items	1948 results	1949 (1) estimates	1950 estimates
	in millions of Austrian schillings		
Current account:			
Revenue (2)	5,725	6,090	9,617
Expenditure (2)	5,707	6,089	9,617
Balance on current account	+ 18	+ 1	0
Investments (net)	— 1,070 (3)	— 1,442	— 1,078
Overall balance	— 1,052	— 1,441	— 1,078

(1) Preliminary results for 1949 indicate an improvement by some Sch. 800 million in the tax revenue of the Federal government as compared with the estimates.
(2) Including, in the revenue, gross receipts of Federal undertakings and railways and, in the expenditure, the current expenses of these undertakings and railways, while the capital expenditure is shown under investments.
(3) Including occupation costs, costs of refugees etc.

In Austria (as in Germany six months afterwards) the currency reform of the late autumn of 1947 made for a great advance in production; but it took time for a position of equilibrium to be reached in regard to prices, wages and the money supply. The rather marked increase in prices, by some 65 per cent., from the beginning of 1948 to the beginning of 1950 has left its mark on the course taken by the public finances.

The increase in expenditure from 1949 to 1950 is also due to the fact that the costs of occupation, which had previously been met outside the budget, have been included in the current expenditure — representing an addition of about Sch. 400 million. It is understood that a considerable part of the investments will be covered by releases of Marshall aid counterpart funds.

The volume of credits granted by the banks (at interest rates generally above 6 per cent.) increased in 1949 and so did deposits (see Chapter VII); but there was no increase in the note circulation and, in general, a state of balance seems to have been reached between the amount of money and the supplies of goods and services, rationing having, in consequence, been almost completely abolished. There was a rise in prices during 1949 but a marked downward tendency in the first four months of 1950, with a reappearance of buyers' markets.

Among the countries in eastern Europe which have adopted or are in the process of adopting an economic system based on collectivist principles, the more important rôle of the state will naturally be reflected in the size and structure of the budget. The growth of the budget figures in Czechoslovakia thus goes with other changes of an economic and financial nature. If the budgets of local authorities and of social insurance funds were included, the estimate of total expenditure in 1950 would be increased to Kčs 131.6 milliard and the estimated revenue to Kčs 131.9 milliard, which would mean that exact equilibrium would be reached. About one-third of the expenditure is for "the economy", presumably representing new investments.

Czechoslovakia: Government revenue and expenditure.

Items	1946	1947	1948	1949	1950
	results		estimates		
	in milliards of korunas				
Revenue	42.5	58.1	56.9	89.3	119.4
Expenditure . . .	50.3	64.2	67.1	89.3	105.1
Balance . . .	— 7.8	— 6.1	— 10.2	—	+ 14.3

Data on the budget are among the statistics published in the eastern states, and, parallel with the assimilation of the economies of eastern European countries to the pattern of the U.S.S.R., a uniform adaptation is evident as regards the dominating part played by the state budget. In the U.S.S.R. the state budget embraces about three-fifths of all economic activity as recorded in the national-income figures of the output of material goods.

U.S.S.R.: Public revenue and expenditure.

Items	1946	1947	1948	1949
	results			estimates
	in milliards of roubles			
Revenue	325.4	385.2	408.4	445.2
Expenditure	307.5	361.2	368.8	415.4
Balance	+ 17.9	+ 24.0	+ 39.6	+ 29.8

The presentation of estimates for 1950 has been delayed, probably in connection with the revaluation of the rouble and the revision of the price system which were part of the monetary reform introduced in February 1950.

The revenue figures include the yield of state loans, amounting to Roubles 20.7 milliard in 1946, Roubles 25.7 milliard in 1947, Roubles 23.9 milliard in 1948 (all actual results) and an estimated amount of Roubles 22.9 milliard in 1949. Of great importance in the fiscal system of the U.S.S.R. is the yield of the turnover tax, which normally accounts for 60 to 65 per cent. of the revenue, with the profits of state enterprises providing another 5 to 10 per cent., while the amounts brought in by all personal taxes come to less than 10 per cent. of the revenue (comparable with the amounts obtained from state loans). 85 per cent. of the expenditure is accounted for by (i) outlay for economic purposes; (ii) allocations for social purposes and (iii) expenditure for defence.

Where a system is so regulated from the centre and, moreover, important data — such as price statistics — remain unpublished, it becomes very difficult to express an opinion from the outside as to effects and results. As far as the markets are concerned, there seems to have been a gradual abolition of particular wartime controls, with a return to a more unified price system. Early in May 1950, the Soviet Government again raised a loan, named the "Fifth State Loan for Economic Reconstruction and Further Development", in the form of a lottery loan. It has been announced that subscriptions have amounted to Roubles 27 milliard as compared with an original issue figure of Roubles 20 milliard.

The budget data for the other countries in eastern Europe also show increasing amounts of revenue and expenditure.

Certain eastern European countries: Government revenue and expenditure.

Countries	Unit of currency	1948	1949	1950
		in milliards of national currency units		
Albania				
Revenue	Lek	(1)	6.4	7.8
Expenditure		(1)	5.3	7.7
Balance		—	+ 1.1	+ 0.1
Bulgaria				
Revenue	Lev	96.0	152.6	211.4
Expenditure		112.0	152.6	202.4
Balance		—16.0	—	+ 9.0
Hungary				
Revenue	Forint	9.4(2)	13.1	17.5
Expenditure		9.1(2)	13.0	17.4
Balance		+ 0.3	+ 0.1	+ 0.1
Poland				
Revenue	Zloty	451.2	593.9	848.0
Expenditure		406.1	612.1	848.0(3)
Balance		+ 45.1	— 18.2	—
Roumania				
Revenue	Leu	108.7	272.0	353.0
Expenditure		108.7	236.0	350.0
Balance		— (4)	+36.0	+ 3.0
Yugoslavia				
Revenue	Dinar	124.8	169.5	165.7
Expenditure		124.8	155.5	173.7
Balance		(5)	+14.0	— 8.0

(1) Information not available.
(2) This budget covers a period of seventeen months. Originally the budget was arranged for a fiscal year ending 31st July 1948, but from the beginning of 1949 the fiscal year was changed to coincide with the calendar year and the original budget period was accordingly prolonged to cover another five months.
(3) Not including budgets of local authorities, social insurance etc.
(4) Actual results were equal to a surplus of 22.4 milliard lei.
(5) Actual results were equal to a surplus of 6.7 milliard dinars.

Sufficient information is not available to indicate whether in some instances proceeds of credit operations are included in the revenue. As to actual results, it is known, for instance, that in Bulgaria the budget total for 1949 was Leva 165.7 milliard, or Leva 13.1 milliard in excess of the estimates, it being officially stated that the realisation of that budget "suffered from many deficiencies". In Yugoslavia the actual results for 1947 and 1949 are reported to have yielded substantial surpluses.

As a rule, expenditure includes large appropriations "for the economy". For 1950 an amount of Lek 2.9 milliard is allocated for that purpose in Albania, including investments for the principal projects of the current two-year plan, namely a textile factory, a sugar factory and a power station. In Bulgaria the allocation for economic purposes is about 37 per cent. of the estimated expenditure, with much the same percentage for social purposes, while defence takes 7 per cent. In Hungary the outlay for the economy alone accounts for 64 per cent. of the total expenditure, against 6 per cent.

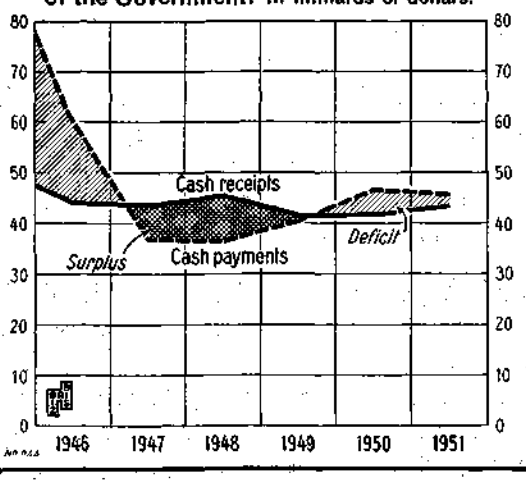
for defence and 6 per cent. for international obligations (payment of reparations, etc.), while on the revenue side the yield of the turnover tax and profits from state enterprises cover two-thirds of the total. In Poland, the total of the public expenditure for 1950 in the budgets of central and local authorities, social insurance, etc., amounts to Zl. 1,266 milliard, of which Zl. 550 milliard has been appropriated to the development of the national economy. In Roumania the outlay for the economy accounts for 38 per cent. of the expenditure, social allocations for 25 per cent. and defence for 15 per cent., while international obligations take 5 ½ per cent.

In Yugoslavia the outlay for the economy represents about one-third of the expenditure, while defence takes 16 per cent. and social allocations 12 per cent. In that country the turnover tax provides nearly half the budget revenue, while the profit from state enterprises is relatively insignificant (it being presumably possible to collect a larger proportion of revenue under one of these two headings and a correspondingly smaller proportion under the other, as desired).

It must always be remembered that in eastern Europe the national budgets cover a greater part of the countries' activities than in western Europe. Even in the west, however, the influence of the budget has increased. In the United States an overall budget surplus was realised from the beginning of 1947 to the middle of 1949.

United States: Federal government revenue and expenditure.

Items	1947–48	1948–49	1949–50 estimates	1950–51 estimates
	in milliards of dollars			
Budget net revenue	42.2	38.2	37.8	37.3
Budget net expenditure	33.8	40.1	43.3	42.4
Budget balance	+ 8.4	— 1.8	— 5.5	— 5.1
Cash receipts from the public	45.4	41.6	41.7	43.1
Cash payments to the public	36.5	40.6	46.5	45.8
Cash balance	+ 8.9	+ 1.1	— 4.8	— 2.7
Federal debt at the end of the fiscal year ending 30th June	252.3	252.8	255.7*	.



U.S.A.: Cash receipts and payments of the Government. In milliards of dollars.

* End of March 1950. Of the amount outstanding at that date about $218 milliard is estimated to be held by the public — which leaves nearly $40 milliard as the part held by Federal trust funds and agencies (among which the Federal Reserve Banks are included).

Note: It is explained on pages 132 and 133 in the *Federal Reserve Bulletin* for February 1950 (from which the above table has been reproduced) that "cash receipts include, in addition to tax collections and miscellaneous revenues, the contributions by employers and employees for social insurance, which are not in the net receipts for the regular or administrative budget. Cash payments include items which are not part of regular Budget expenditures, such as benefit payments made from trust account funds and the National Service Life Insurance dividend. Items such as accrued but unpaid interest on savings bonds, and transfers from the general fund to the Railroad Retirement Fund and the Civil Service Retirement Fund, which are included in Budget Expenditures but do not represent cash outlays to the public, are not in the cash payments figures."

It did not prevent a substantial rise in prices during the period in question or reduce the money supply inherited from the previous period, but it undoubtedly helped to furnish genuine savings as a counterpart to the use of proceeds of bond sales for investment purposes.

The cash deficit in the fiscal year 1949–50, emerging only after the recession had already spent its force in the summer of 1949, was clearly not the cause of the upturn, but it probably acted as an additional expansionary influence in a period when business was on the up grade for other reasons. The actual yield of taxation depends, of course, largely on the state of business; and from the Federal debt figures it would seem as if, from the end of 1949, cash receipts were again fully covering the cash expenditure.

In most countries relatively great stability has characterised the general price level in the years 1948–50, as compared with the movements in the preceding years, and this, coupled with the maintenance of active business, ensuring a high level of employment and sustained earnings, has meant that unpleasant surprises have been avoided in the field of public finance, the actual results achieved during recent budget years corresponding fairly closely to, or being even better than, the various estimates. Hardly anywhere has it still been necessary to resort to inflationary financing for the purpose of covering budget deficits. This, however, is not the only criterion by which the soundness of a country's public finances may be judged: as mentioned on page 50, it is, indeed, imperative that the budget in its widest sense (including all public charges) should be balanced at a level which does not put too heavy a burden on the economy and, in particular, does not

(i) dangerously diminish incentives or the propensity to take risks,

(ii) dangerously impair the flow of private savings.

In either of these eventualities, enterprise would suffer and, with it, the volume of production and the standard of living.

That heavy "marginal" taxation may keep people from making extra efforts is generally appreciated, and proposals are being worked out in many countries to reduce as far as possible the danger of such damaging effects and also to allow fiscal facilities in the case of special risks, e.g. in connection with exports and foreign investments. But little can be done to achieve any radical improvement as long as the overall burden is very heavy; for sufficient revenue must, of course, be collected for expenditure to be covered and, if expenditure is large, complete avoidance of all forms of taxation with definitely harmful effects is clearly impossible.

As regards the effect of the budget policy on savings, certain distinctions should be made. On the one hand, the aim may be to secure a temporary budget surplus as part of a compensatory fiscal policy, i.e. a policy adopted in times of great prosperity in order to mitigate the exaggerations of a boom; or there may be an attempt to form savings by means of a budget surplus in order to provide a part of the capital regularly required for normal investments in the economy. If, in the former case, taxation has the effect of retarding an expansion of business, this is just what is desired; and when the boom subsides the tax rates should be lowered.

In the second case, however, the more general question arises whether, bon an mal an, the running of a budget surplus can effectually add to the volume of savings in a country. Very likely this question cannot be answered in abstracto: much depends upon the level of total charges, since a given increase in the revenue collected may not reduce the rate of saving as much in a country with a low level of taxation as in a country where the tax burden is already very heavy. Unfortunately, since the second world war, taxation has been high almost everywhere, so the problems here involved usually present themselves under the worst possible conditions. The dilemma is that the attainment of a budget surplus generally necessitates such high rates of taxation that the public may reduce its own rate of saving and that, owing to the unfavourable effects of high taxation on incentive, the final result may be a net loss of free resources.*

The question of the permissible burden of taxation is being much discussed in the various countries and improved statistical data have been recently collected. One improvement consists in taking account of both central and local taxation and of social-security contributions as well, this being especially necessary in international comparisons, since the method of defraying the cost of social-security benefits varies considerably from country to country — in particular as regards the proportions respectively charged to the general budget and levied directly on employers and employed.

Fiscal and social charges in relation to national income (at factor cost) in 1949 (¹).

Countries	Percentage in relation to national income
Belgium	34½
Denmark	26½
France	33½
Germany (western zones)	36½
Italy	29
Netherlands	33½
Norway	41
Poland	26
Sweden	34
Switzerland	19
United Kingdom	42½
Yugoslavia	57
United States	28
Canada	27

(¹) The data in this table have been taken from the "Economic Survey of Europe in 1949" issued by the Research and Planning Division of the Economic Commission of Europe (except for Italy, the United States and Canada, for which other sources have been used). It should be added that the estimates of national income are not really wholly comparable and, for this and other reasons, the figures can only be taken as a general indication.

In judging the true burden of taxation, account must be taken not only of the bare

* That this may be the case is, of course, recognised by serious investigators no matter what "school" they belong to. In his book "The Dollar Crisis: Causes and Cure" (Basil Blackwell, Oxford 1949), T. Balogh expresses the opinion that, to ensure a desired rate of progress, "saving will have to be either collective i.e. through a budget surplus, or collectively enforced i.e. by maintenance of rationing. A budget surplus alone, however, would not guarantee that a degree of dissaving would not ensue, sufficient to reduce net savings below the rate desired." For that reason, controls (including various methods of rationing) have also to be applied; but Mr Balogh mentions that "it can be, and has been, argued that rationing by diverting excess purchasing power towards innocuous uses has the same disincentive effect as taxation". While Mr Balogh finds that with regard to these difficult questions no final proof has yet been furnished, it is important to bear in mind that, in his opinion, the realisation of a budget surplus is not in itself enough to secure a net increase in the flow of savings.

percentage relation to the national income but also of a number of other circumstances. Although difficult to measure, the ratio of taxation to the margin of average income above the subsistence level is clearly of importance, and in a country with a relatively low income per head the subsistence minimum will swallow up a very high proportion of the average income. It is also notoriously difficult to obtain tax payments from farmers — a fact which will make itself felt in Italy, for instance, where 48 per cent. of the population are engaged in agriculture and a relatively large proportion of them cultivate very small lots.

In this field there are still many questions awaiting solution — one European country after the other being occupied with problems of "fiscal reform" and of adjusting expenditure to levels at which it is safe to maintain it. In that connection it is not only a question of current revenue and expenditure but also of outlay for investment and how to cover such outlay — a question which has to be considered as part of the general problem of how to make the best of scarce resources in any economy.

II. In a number of countries the attainment of equilibrium between current savings (as augmented by resources from abroad) and the volume of investments, in order to avoid inflation, did not impress itself on the minds of the authorities as the primary objective, once the war was over, since it seemed to them of the greatest urgency to carry out such immediate tasks as putting transport and other essential services into working order and meeting the minimum capital requirements of industrial and commercial enterprises, even if that meant a somewhat inflationary credit expansion. Another question soon arose: whether, at so early a stage in the post-war reorganisation, an attempt should be made to fill the home market with consumer goods (which would mean, inter alia, using part of the country's foreign resources to import such goods) in order to restore the ordinary price-and-cost mechanism with the least possible delay, or whether the available resources should be mainly reserved for investments even if that would mean protracted shortages, the market being kept in check by a continuance of controls (the state of affairs which represents "suppressed inflation"). For Switzerland there was no difficulty in answering those questions since the existing resources were sufficient for both purposes (and a careful credit policy precluded excess in either direction) but it is interesting to observe that two countries — Belgium and France — which in many respects have come to follow similar policies (and therefore, on page 51, have been included in the same group) in this connection chose different lines: Belgium, even at the risk of holding up the repair of war damage and generally slowing down the rate of investment at the outset, favoured a return to ordinary market conditions in the hope that relative freedom to buy what was desired would act as a stimulus to further efforts and encourage private saving (since money that could be freely used would be worth saving) — expectations which have not, on the whole, been disappointed. In France, on the other hand, ambitious investment programmes were drawn up, and to a large extent carried out, by which much of the country's productive capacity was diverted to the provision of capital goods of a most modern type. This was, of course, a desirable development in itself but the price which had to be paid for it was a curtailment of the potential supply of current goods — with all that this meant in the way of continued inflationary pressure, reinforced by the difficulties of financing the many tasks which had been undertaken. In France, as in other countries pursuing a policy of large investments, it was really the resources contributed by Marshall aid which, financially and otherwise, made it possible, in the difficult year 1947 and afterwards, to go on with what had been started, for monetary and other reserves were then in many instances on the point of exhaustion.

It was, in a way, a sign of optimism and vigour that the European countries were so keen on making good the losses caused by the war and on laying the industrial foundation for increased output and consequently for a higher standard of living. But this eagerness to invest — even with the resources obtained through Marshall aid — could be carried too far. Thanks to more complete collection of basic data and to improved methods of computation, the estimates of the volume of investments and of the national product are generally becoming more and more reliable; but even so, and especially in periods of price fluctuation, they must be regarded as mainly indicative of an order of magnitude.

In the computations a distinction is naturally made between gross and net investments: the former but not the latter includes outlay for maintenance and repairs required to keep up the value of capital assets, such outlay being provided for by "depreciation allowances" which are reckoned as part of current costs to be deducted before the calculation of income. Thus, if the outlay for maintenance and repairs is deducted from the gross investment and the (statistically equally large) depreciation allowances are deducted from the gross national product, the remaining amounts represent respectively the volume of net investments (which is equal to the annual increase in capital assets) and the net national product (which is equal to the national income at market prices).

Since the provision of "depreciation allowances" is a matter of accounting, generally done automatically, greater interest attaches to the amount of "net savings" and of "net investments" — this being, moreover, in accordance with the usual way of looking at such matters, since any reference to, say, the investments of an industrial concern is generally taken to mean what is added to its capital after the meeting of ordinary expenses for upkeep and repairs. Not in all countries, however, are sufficient data published.

In so far as the resources required to meet foreign investments have not already been obtained from abroad, they have to be provided by current domestic savings. Estimates of savings have generally been rather uncertain, and more so in the past than nowadays; it may be mentioned that before the first world war savings in the richer countries in Europe were generally estimated at between 12 and 15 per cent. of the national income, while in the United States the corresponding percentage would seem to have been as high as 18 to 20 per cent. — fortunately, one might add, since the need of capital formation in that country was then still very great. In post-war Europe, the rate of net saving was for some years very low since most people were anxious to buy clothes, household gear and all the other articles which had been largely unavailable during the later stages of the war. It was after the special difficulties had been overcome in 1947 that saving really began to revive. This is clearly illustrated by the table on page 27, showing an increase in the rate of saving in the Netherlands during 1948 and 1949 from a position of no savings at all in 1947.

The rate of net investment in Norway had been planned to reach 20½ per cent. for 1949 but actually came to 24½ per cent., about one-half being covered by domestic savings and one-half by the use of foreign resources (of which seven-eighths were derived from Marshall aid).

For 1950 it has not been considered safe to count upon more than 9 per cent. as the rate of net domestic saving in relation to the national income. Since the prospective use of foreign resources has also been reduced, to 11 per cent., the estimated net investment equals 20 per cent. of the national income. This amounts to a reduction by 16 per cent. in the volume of net investments as compared with the previous year (20 per cent. less being reserved for building activity and 15 per cent. less for the mercantile marine).

In Denmark, net investments in 1949 would seem to have corresponded to about 12 per cent. of the national income. Net domestic savings covered six-sevenths of this investment total, the remaining seventh being met by resources from abroad obtained through the current deficit in the balance of payments, which is estimated to have been D.Kr. 266 million — equal to 1¾ per cent. of the national income.

In Sweden a high rate of investment in 1947 (with net investments corresponding to between 16 and 18 per cent. of the national income) could only be sustained with the aid of some S.Kr. 1,460 million of foreign resources, which appeared as the deficit in the current account of the balance of payments and corresponded to about 7 per cent. of the national income. It was then decided to make a cut, especially in building activity, the net investment for which was curtailed by 30 per cent. Furthermore, there was a general decline in the volume of private industrial investments between 1947 and 1949, while the volume of public investments continued to increase. At the same time there was an improvement in the flow of domestic savings, with the result that it was no longer necessary to use foreign resources and the current account of the balance of payments even showed a small surplus.

Sweden has been in no position to use its part of Marshall aid as a basis for investments, since the aid it received had its counterpart in the "drawing rights" it granted to other participant countries. As already pointed out, Belgium has been in very much the same position and so has the United Kingdom: in both countries the bulk of the investments in 1948 and 1949 were met by the flow of domestic savings.

For Belgium, unofficial estimates made by the Institute of Economic and Social Research at Louvain University showed, for 1949, a current surplus of B.fcs 6 milliard in the balance of payments, corresponding to about 2½ per cent. of the national income, while private domestic savings were estimated at B.fcs 23 milliard, or about 9 per cent. of the national income. Since Belgium has passed on to other countries, through the granting of drawing rights, all the Marshall aid which it has received, its investments have been wholly dependent on the flow of its domestic savings. Thus it is not surprising that they have been on a smaller scale than in most other countries — not attaining 10 per cent. of the national income.

In the United Kingdom, estimates of total available resources, their origin and the use to which they are put, are presented to Parliament, as a White Paper, each year at about the time of the budget speech (i.e. in the course of April).

United Kingdom: Gross national product and its uses.

Resources	1947	1948	1949	Cost of	1947	1948	1949
	in millions of £ sterling				in millions of £ sterling		
National income	9,071	9,928	10,226	*Personal consumption* . . .	7,513	8,108	8,402
Provision for depreciation and *maintenance*	750	775	975	Government consumption. .	2,092	1,769	2,037
Indirect taxes less subsidies	1,450	1,614	1,633	Gross capital formation at home, i.e. gross domestic investments	2,266	2,590	2,465
Gross national income at *market prices*.	11,271	12,317	12,834				
Add: Net grants and loans from abroad and sales of foreign assets*.	600	150	70				
Total available resources	11,871	12,467	12,904	Gross national expenditure	11,871	12,467	12,904

* Equal to the deficit on current account of the balance of payments.

The national income increased by £298 million in 1949, but in this connection it should be noted that, owing to a change in tax laws, a greater increase than usual was made in the allocation for depreciation, which thus absorbed a higher proportion of the increase in the gross national product. There was a substantial rise in government expenditure and also in personal consumption, while the volume of gross investments would seem to have declined somewhat. The second table gives details of gross and net investments and of the resources by which these investments have been met.

United Kingdom: Investments and their cover.

Investments	1947	1948	1949	Covered by	1947	1948	1949
	in millions of £ sterling				in millions of £ sterling		
Gross fixed investments (construction and *plant*) . . .	1,800	2,015	2,160	Private savings: (a) personal (1)	306	200	204
Other investments (stocks, etc.).	466	575	305	(b) corporate undistributed profits (1)	697	766	508
Gross domestic investments	2,266	2,590	2,465	*Total private savings* . . .	1,003	966	712
Deduct: Provision for depreciation and maintenance	750	775	975	Public savings: (a) current surplus of public authorities	— 405	495	492
				(b) transfers to private capital account (2). . .	318	204	216
				Total public savings . . .	— 87	699	708
				Total net savings	916	1,665	1,420
				Resources obtained from abroad	600	150	70
Net investments at home .	1,516	1,815	1,490	Resources available for net investment	1,516	1,815	1,490

(1) Including addition to tax reserves. (2) Refund of taxes, war-damage indemnification, etc.

In 1949 the net investments at home were covered to the extent of 5 per cent. by resources obtained from abroad, the remainder being met by public and private savings in about equal proportions. The greater part of the private savings consists of corporate profits ploughed back, while personal savings furnish only one-seventh of the total. It should be noted that the above tables only take account of investments at home and not of repayments of sterling liabilities or of capital transfers abroad, which add to the amounts of gold and dollars required, as shown in the table on page 28.

In France, the real national income has risen thanks to higher production, and greater efforts are being made to obtain reliable estimates of the national resources and their uses. The accompanying table covers the period up to the end of 1948.

France: National resources and their uses.

Items	1938	1946	1947	1948
	in milliards of 1938 French francs			
Available resources:				
(a) of domestic origin . .	397	330	358	400
(b) from abroad*	8	33	24	12
Total available resources . .	405	363	382	412
Uses:				
Total consumption . . .	337	284	297	321
Total gross investments .	68	79	85	91
Total uses	405	363	382	412

* As part of the deficit on the current account of the balance of payments.

A preliminary estimate puts the resources of domestic origin in 1949 at 435 milliard 1938 francs. This indicates a real income some 9 per cent. higher than in 1938, but in the meantime France's population has risen somewhat above the pre-war level.

In Italy, on the other hand, where the population has risen by 7½ per cent. since 1938, the national income in 1949 had not yet regained the pre-war level.

Italy: National resources and their uses at market prices.

Resources	1938	1948	1949	Uses	1938	1948	1949
	in milliards of 1949 lire				in milliards of 1949 lire		
Net national income . .	6,930	6,050	6,700	Net investments	800	710	880
Provision for depreciation and maintenance . . .	720	580	560	Depreciation and maintenance	720	580	560
Gross national product.	7,650	6,630	7,260	Gross investments . . .	1,520	1,290	1,440
Foreign resources . . .	30	240	250	Consumption (public and private) .	6,160	5,580	6,070
Total available resources.	7,680	6,870	7,510	**Total national expenditure . . . .**	7,680	6,870	7,510

The following table shows the manner in which gross investments have been covered.

In 1948 net domestic savings represented about twice the amount of resources obtained from abroad, while in 1949 the proportion had risen to two and a half times, net savings being well on the way to regaining their pre-war level. The greater part of Italian industry and commerce is concentrated in the northern part of the country and it was to be expected that, apart from public outlay for the repair of roads and railways, etc. which had been damaged or destroyed by the war, new investments (especially of a private character) would be made chiefly in the north. But a switch in the geographical distribution of new

Italy: Cover for gross investments.

Items	1938	1948	1949
	in milliards of 1949 lire		
Net savings	770	470	630
Provision for depreciation and maintenance	720	580	560
Gross savings	1,490	1,050	1,190
Foreign resources	30	240	250
Total available for gross investments.	1,520	1,290	1,440

investments, with the effect of increasing the share of southern Italy, has seemed a major necessity, not only for social and political reasons but also in order to utilise resources available in the south. In that part of the country investments are to take the form of land reclamation, irrigation, etc., and a special institution has been created for this purpose (as mentioned in greater detail in Chapter VIII).

In Germany the annual rate of investment has been even higher since the currency reform than in a normal pre-war year, when gross investments came to barely 20 per cent. of the gross national product. Thus in 1949 they were equal to 22 per cent., the gross national product and the national income for that year being estimated at DM 77 and DM 69 milliard respectively.

Western Germany: Rate of investment.

Items	1948	1949
	percentages	
Gross investments as percentage of the gross national product	20.5	22.0
Net investments as percentage of the national income	11.8	14.2

There have been considerable changes in the method of financing the investments, as may be seen from the table on the following page (the difference between the gross and the net investments being, of course, financed by the allowances for depreciation, corresponding to the cost of repairs and replacements).

In the first year after the currency reform nearly 70 per cent. of financing was derived from business profits ploughed back and short-term and personal credits, but these sources became less important in the course of 1949. For profits were cut by the decline in prices and banks were less able to extend fresh credits since a large part of the credits previously granted had become frozen, having been used for long-term purposes at a time when there was little or no possibility of unloading securities on capital markets. On the other hand, real savings became more plentiful, especially in the form of savings deposits with financial institutions. The contribution from government funds has been maintained, having served largely to finance the government's own investments. A new factor of importance in the first quarter of 1949 was the release of counterpart funds on a greater scale than previously; for the time being this constitutes a most useful source of financing, but it must be remembered that in western Germany (as elsewhere) the accumulation of these funds will dwindle during the next two years. The maintenance or expansion of the volume of investments will thus increasingly depend on the yield of internal sources of financing, and especially on the future flow of genuine savings.

It is the more important to realise this since the above table may convey a somewhat false impression of the real contribution obtained from foreign sources. As may be seen from Chapter V, the current deficit in western Germany's balance of payments amounted to $895 million in 1948 and $1,050 million

Western Germany: Financing of net investments.

Items	20th June 1948 to end of June 1949 (just over a full year)	1949 July–Sept.	1949 October–Dec.	1950 January–March	20th June 1948 to end of June 1949	1949 July–Sept.	1949 October–Dec.	1950 January–March
	in millions of DM				*percentages*			
Amount of net investments .	9,809	2,731	2,672	2,301	*100*	*100*	*100*	*100*
financed by funds from:								
(i) self-financing, short-term bank credits and private credits.	6,630	1,290	1,200	830	*67½*	*47*	*45*	*36*
(ii) the government resources	1,950	700	760	450	*20*	*26*	*28½*	*19½*
(iii) the capital market, i.e. long-term funds, including medium and long-term credits of financial institutions, amounts accumulated in respect of social and other insurance, etc.	1,030	630	607	455	*10½*	*23*	*22½*	*20*
(iv) releases of counterpart of Marshall aid	193	111	105	566	*2*	*4*	*4*	*24½*
Total amount of funds . .	9,809	2,731	2,672	2,301	*100*	*100*	*100*	*100*

in 1949 — amounts equivalent to between DM 3 and 4 milliard. Whether or not the counterpart funds were immediately released, the surplus imports added to the current supply of goods and services which served as a basis for the investments.

It is tempting to make a comparison between the rate of investment in the countries of western and of eastern Europe but many difficulties arise, some of a statistical nature, in that — as pointed out on page 61 — the Soviet concept of the national income is confined to the output of material goods, to the exclusion of services. On the basis of such a conception, an example was set by the U.S.S.R. with the elaboration of the first five-year plan, when one-fifth of the national income was applied to economic investments. Bulgaria has a five-year plan which began in January 1949 and is to finish in 1953. 19 per cent. of the national income is reported to have been invested for economic purposes in execution of an earlier plan.

After finishing a two-year plan for 1947–48, Czechoslovakia started a five-year plan for the period 1949–53, average investments being planned to absorb about 25 per cent. of the national income. Total investments for 1950 may be estimated at Kčs 60 milliard, the state budget including investment credits to the amount of Kčs 48 milliard or 80 per cent. of the planned total.

The first three-year plan in Hungary (shortened to two years and five months) came to an end in December 1949 and was succeeded by a five-year plan, it being officially stated that investments would correspond to 21.5 per cent. of the national income. Total investments for the five years are put at Frt 50.9 milliard, of which Frt 21.3 milliard is for industry — mostly heavy industry — and the budget for 1950 includes Frt 11.1 milliard (equal to 64 per cent. of the budget total) as expenditure for economic purposes.

By its first three-year plan, covering the period 1947–49, Poland sought to make good the worst of the damage suffered in the war. A new six-year plan for the period 1950–55 lays more stress on increased industrialisation, etc. The budgets of the state and of local authorities include for 1950 a total of Zl. 550 milliard to be invested for the development of the national economy.

Roumania has not adopted any plan covering a number of years but the budgets each year include planned expenditure, which for 1950 is put at Lei 145 milliard, excluding investments by the enterprises themselves and by local authorities. Of the investments, one-half is destined for industrial expansion, the bulk of it being for the development of extractive and heavy industries.

Yugoslavia adopted a five-year plan covering the period 1947–51. Total investments for 1950 are expected to reach Din. 89.3 milliard or 36 per cent. of the national income, the state budget providing Din. 55.5 milliard "for the economy".

The bulk of the investments in the eastern European countries would seem to be covered by allocations from the budgets of the state and local authorities, while a substantial part is as a rule borne by the enterprises out of their current income. Resort is had to private savings, especially in the U.S.S.R., through the issue of state loans. It would seem that the U.S.S.R. is being increasingly taken as a model in the application of a "credit control" — through a unified banking system — to the various economic enterprises and the various branches of the economy, the scope of the control including the execution of the investment plans.

It is not known to what extent measures of economic and financial inter-aid are in operation among certain of the countries in eastern Europe. Except as regards Yugoslavia, which is in a different position from the others, it would seem that trade is being steered increasingly in the direction of an exchange of goods and services between the countries in question, and the trade agreements are presumably supplemented by certain credit arrangements.

Countries in western Europe have in recent years had a volume of investment which as a rule has been running at a considerably higher rate than before 1939, and this has been made possible largely by additional resources obtained from abroad.

With Marshall aid tapering off, as foreseen from its inauguration, the individual countries will have to face a situation in which they must increasingly support any extension of their capital structure by their own domestic savings. It is in the realisation of this imperative necessity that several countries have taken steps to reduce their volume of investment, knowing, as they do by now, that an overdose of investment, financed simply by an expansion of credit, will tend to raise prices at home and draw goods away from the export market. Large as the need still is for investments for a variety of purposes — and especially for the construction of dwellings — *the obvious course is to look to increased domestic savings to meet the requirements of the situation.*

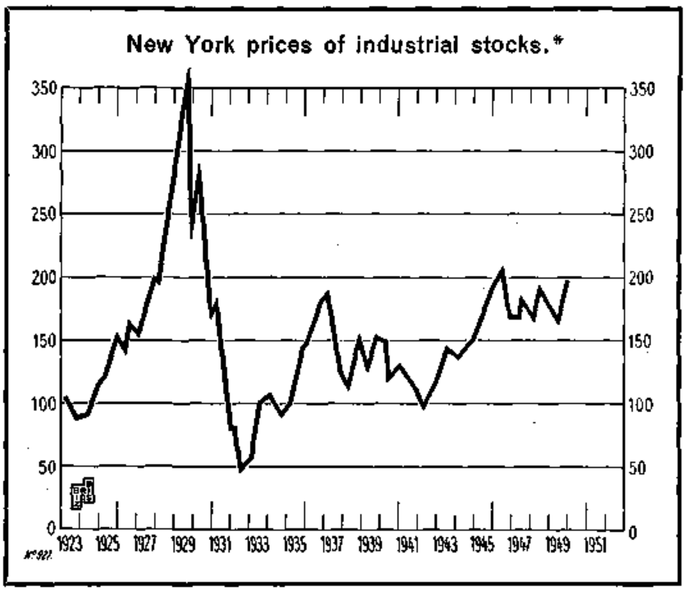
Now savings — in the sense of net savings, i.e. excluding depreciation allowances — are of the following general types:

(i) Public savings — constituted by a current surplus in the accounts of public authorities, plus transfers to capital accounts.

(ii) Private savings — consisting mainly of profits ploughed back by business enterprises and individual savings from personal income.

In post-war years, public savings have played a greater rôle than ever before, but as mentioned on page 65 it is always uncertain whether the result has been a net addition to the total of genuine savings. A feature common to almost all countries is the important item consisting of profits ploughed back by industrial and commercial firms (see, for instance, the figures for the United Kingdom in the table on page 69). In some countries laws have been passed prescribing certain maxima for the dividends which may be distributed; in other countries, a similar limitation has been ensured, as part of a general income-stabilisation policy, by means of agreements between the government and organisations such as Federations of Industries. But also in countries in which no such formal arrangements have been made, private companies have in most cases shown great moderation in their dividend policy, withholding a considerable part of the profits for investment purposes (a line of action which has generally been advantageous to the firms from a fiscal point of view).

While the ploughing-back of profits helps to strengthen the capital structure of the individual firms, it should not be wholly overlooked that the savings which are brought into existence in this way will not as a rule become available to the general money and capital markets (that would happen only when the savings are used for such purposes as repayment of debts or investment in, say, Treasury bills). As a rule these "business savings" are put into additional equipment and plant and, in general, serve to increase the activity of the particular firms in which they originate; unfortunately this practice may lead to a certain distortion in the use of a country's capital resources — which means that this kind of business saving is not ideal from every point of view but needs to be supplemented by other forms.



* Showing the highest and the lowest price in each year.

In one important respect "business savings" are apt to be vulnerable, in that they depend largely on the profitability of business. As an effect of the sellers' market, the post-war rate of net earnings has often been abnormally high. When, with the return of more ordinary market conditions, profit margins begin to shrink, the volume of savings in this form will shrink also — and that may happen at a time when, for other reasons, e.g. an increase in the population, the need of savings remains as great as ever.

In 1949 the total of individual savings (from personal income) in the United States exceeded that of business savings. These individual savings, whether they swell the resources of insurance companies or other institutions or are invested by the owners themselves, tend to strengthen the capital market — and it would seem as if, in the United States, the marked improvement in the quotations on the stock exchanges at a time when profits and dividends (while already high) have not on the whole been rising is, among other considerations, indicative of an increased interest in the holding of shares, not for speculative but for investment purposes.

In Europe, Switzerland is conspicuous for a flow of individual savings that can compete with the volume of business savings. In those countries on the continent of Europe which have passed through periods of pronounced inflation for the second time in one generation, the public has become inclined to place its savings in "real assets" (Sachwerte) instead of keeping them in money form. Since it is not to be expected that memories of heavy losses in the past will quickly fade, there is all the greater need for a policy which can convince careful and provident citizens of the continued integrity of the national currency. It will not be sufficient to bring inflation to a temporary stop merely for the period during which outside aid is being given; budgetary and monetary policies must be such as to hold out the hope of permanence in the improvement, including an adequate accumulation of reserves. There are signs in several countries — but unfortunately not in all — of a change for the better as regards the volume of personal savings and the form taken by them, as well as indications of a revival of the capital markets.

In the United Kingdom premium payments for life insurances and annuities still reach a high figure but the flow of personal savings in most of the other forms is at a low ebb, the net total of such savings for 1949 being estimated at £204 million, covering one-eighth of the net investments (cf. the table on page 69). Activity in the capital market has remained on a small scale, owing partly to restrictions imposed by the Capital Issues Committee at the request of the Treasury and partly to a sharp fall in quotations in the course of 1949 — indicating that, for the time being, there is a shortage of funds seeking investment. The London and Cambridge index of share prices fell from 144 in February to 124 in November 1949; in December it was back at 128 and still stood at that figure in April 1950. Net issues of capital for British companies did not exceed £95 million in 1949, with total issues amounting to £138 million, which is much less than before the war: in 1936–37, when prices stood at less than half the present level, total capital issues came to about £200 million.

In **France**, the flow of savings in money form dried up during the years of inflation and is just beginning to recover.

France: Increase in savings deposits, etc.

Source of savings	1948	1949
	in milliards of French francs	
Yearly increase in:		
deposits in savings banks	84	90
time deposits in banks.	6	20
Treasury bonds held by the public	10	30
funds invested via life insurance companies	15	20
Total	115	160

The capital market has shown little activity, apart from the Reconstruction Loan, which was issued in January 1949 and brought in Fr.fcs 108 milliard in new money. Including this loan, net issues to the public amounted to Fr.fcs 120 milliard in all. One of the main dangers of an inactive capital market is, of course, that industry is driven to rely on banks even for the financing of its long-term investments in plant and equipment.

In **Italy**, inflation ended in 1947 and in the two following years definite progress was made in channelling personal savings (which were increasing) into the capital market. As may be seen from the table in Chapter VIII the net amount of funds raised on the capital market increased from Lit. 123 milliard in 1947 to Lit. 276 milliard in 1949, when they provided 20 per cent. of the sums made available for investment. Issues of non-government bonds increased from Lit. 18 milliard in 1947 to Lit. 191 milliard in 1949, but the market for risk capital is still stagnant, net issues of shares amounting to only about Lit. 60 milliard in each of the years 1947–49. During the period of rising prices, share purchases to hedge against inflation had sent up the quotations to such a level that the average yield was only 0.2 per cent. in February 1947. With the monetary stabilisation, quotations and yields have become more normal again, as may be seen from the relevant table.

Italy:
Prices and yields of shares and government bonds.*

Period	Ordinary shares		Government securities	
	Price 1938 = 100	Yield per cent.	Price 1938 = 100	Yield per cent.
1947 May	3,023	0.30	85.8	6.21
„ average for year	2,236	0.64	84.8	6.43
1948 „ „ „	1,357	2.27	87.6	6.22
1949 „ „ „	1,588	3.92	96.0	5.68
1950 February. . . .	1,514	5.09	96.8	5.63

* Owing to various structural changes in the index, the figures for the different periods are not perfectly comparable.

The accompanying table shows the increase in the holdings on savings accounts in **western Germany** since June 1949.

Western Germany: Increase in savings accounts.

Month	Increase due to an excess of inpayments (+) over outpayments	Total increase (including accrued interest etc.)	Total amount on savings acounts at the end of each month*
	in millions of DM		
1949 June	61	103	2,469
July	87	115	2,584
August	82	100	2,685
September.	53	67	2,752
October	60	70	2,821
November	71	80	2,902
December	120	160	3,061
1950 January	158	179	3,240
February.	123	136	3,377
March	114	122	3,498

* Excluding western Berlin.

The total amount on savings accounts with western

German credit institutions increased by nearly DM 1,400 million between April 1949 and the end of March 1950. For purposes of comparison it may be mentioned that between April 1949 and the end of March 1950 an amount of DM 1,200 million of counterpart funds deriving from Marshall aid had been released, of which DM 1,042 million had been actually utilised (without counting DM 77 million released for western Berlin).

One of the most important aspects of the revival of saving in money form and the renewal of activity on capital markets is that firms which have obtained short-term credits from the banking system, as a matter of pre-financing for such long-term purposes as extension of plant, may be able to "unload" these commitments through capital issues on the market. In so far as short-term credits are repaid from the proceeds of long-term issues on the market, the banks will regain their liquidity and be able to extend fresh accommodation without the risk of adding to the inflationary pressure. The revival of activity in capital markets, being an essential part of the financial mechanism, is, of course, of importance everywhere, but special interest attaches to such questions in countries where, as in *Italy* and *Germany*, an expansion of the volume of credit is being proposed in order to provide increased opportunities of employment for people out of work. In both these countries the unemployment is of a special character and has little or nothing to do with unemployment appearing as the most regrettable feature of the downward phase in the business cycle. In Italy it is a result of the large increase in population, at the annual rate of about 450,000 to 500,000, which adds some 150,000 adults to the country's labour force every year even if emigration takes place, as in recent times, at the annual rate of 175,000; but it must also be remembered that the war has caused a ten years' interruption of emigration. Notwithstanding the constant expansion of the labour force, it has been possible to avoid any increase in the number of unemployed since the beginning of 1947, when, at the peak of the post-war inflation, unemployment stood at the high figure of 2,000,000. In western Germany it is, of course, essentially a question of "refugees" and "expellees" of whom nearly 9 million have come in since 1945; many of these refugees are elderly people, women or children, but they also include some 3½ to 4 million people who are "employable". Early in 1950 the unemployed in western Germany totalled 2 million (this figure in itself implies that by then the greater number of the able-bodied refugees had found work — apart from the fact that, as the total figure, it includes unemployed workers already domiciled in western Germany before the war).

But whatever the reasons and circumstances which may be quoted to explain why so large a number of workers are without occupation, it is obviously desirable that they should be able to find useful work; and the question has naturally arisen whether some form of credit expansion would be advisable for the purpose of providing additional employment. The memory of the terrible mass unemployment in the nineteen-thirties is still vivid, and it is also being asked whether measures of a largely monetary character could not be taken to relieve the situation. The war and post-war experience is certainly no recommendation for inflationary methods of financing; but it is suggested that the existence of "unused resources" in the form of unemployed labour might make it possible for credit to be expanded in some measure without causing inflation.

In the discussion of these questions reference is often made to the employment theories of Mr J. Maynard Keynes (later Lord Keynes) and it may therefore perhaps be useful to point out in the first place that the unemployment at present found in Italy and Germany differs radically from the situation which Keynes had in mind when, during the great depression, he evolved the ideas set forth in his famous book "The General Theory of Employment, Interest and Money", published in 1936. It must be remembered that, side by side with a deficiency of demand, Keynes himself recognised other causes of unemployment; but in his "General Theory" he concentrated all his attention on a situation in which an abundance of plant and equipment in all lines of production would so far curtail investment possibilities, and the corresponding call on funds for investment purposes, that not even a very decided reduction in the long-term rates of interest (to 3 per cent. or less) would prevent a serious contraction in the volume of monetary demand and an increase in unemployment ensuing from deficiency of such demand. He was afraid that current savings would not be fully invested and this, he thought, was the central problem for Great Britain and the United States — rich creditor countries in possession of unused resources of labour, material and capital but faced with a shrinkage of investments and overall demand. Obviously the situation prevailing after the second world war has been of a totally different kind: no country in Europe — with the possible exception of Switzerland — has found any difficulty in investing its own savings, at current rates of interest, within its own borders.

As may be seen from page 306 of his "General Theory", Keynes himself was fully aware that the question of a sufficiency or insufficiency of investment possibilities was a question of fact rather than of theory; and, after the outbreak of the second world war, he laid very great stress, in his pamphlet "How to pay for the war", on the need for savings to set free the resources required for the prosecution of the war, including the new investments necessary to convert British industry to wartime production.*

The case of Italy, for instance, which has attracted much attention for a number of reasons, clearly illustrates a state of affairs in which there is an urgent need to build up capital equipment but where a credit expansion for such a purpose would increase the purchasing power of the workers (the increase being passed on, through their spending, to the general public) without a corresponding output of consumer goods. Broadly speaking, the result would then be increased imports and reduced exports, i.e. a larger deficit in the balance of payments. It is possible that such a deficit might be met by resources from abroad — and Italy is one of the countries most in need of foreign capital. But, to the extent that the outlay is not covered by resources from abroad, investment activity must, in such a country as Italy, essentially be limited by the flow of domestic savings.

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* In the "General Theory" (page 307) Keynes himself had already indicated an exception to his general principle regarding a dearth of investment possibilities: he found that "for a period of almost one hundred and fifty years" around the nineteenth century a number of circumstances combined "to establish a schedule of the marginal efficiency of capital which showed a reasonably satisfactory level of employment to be compatible with a rate of interest high enough to be psychologically acceptable to wealth-owners".

Thus in Italy, as in other European countries, there is every reason to encourage a recovery in individual saving; and, in that connection, it is especially necessary to avoid all steps which might arouse doubts as to the continued stability of the currency, since the loss might then easily outweigh any gain.

It should, indeed, be remembered that Keynes's analysis in the "General Theory" is applied to a closed economy, with no real discussion of the complications arising via the balance of payments. Italy, being dependent on other countries for imports of raw materials and many other goods, is not, of course, in a position to reason on the basis of a closed economy but must always consider the possible repercussions on its foreign balance — and, perhaps in a somewhat less extreme degree, it is true of most other western European countries also that they must "import to live".

Lastly, it must be pointed out that, in his analysis, Keynes obviously had in mind a country in which all the factors of production — labour, capital and raw materials — would be, or could be made, fully available (as was the case in the United Kingdom and the United States during the great depression). If, however, some factors are available only in limited supply (and others cannot serve as a substitute), expansion of monetary demand can at best increase production only up to the point where the scarcest factor is fully employed. Beyond this point, an expansion in demand will (apart from the effect of certain limited possibilities of substitution) simply raise prices or create shortages without increasing total production, despite the fact that there may be considerable under-employment of the less scarce factors.

The chronic difficulty of Italy is, of course, a redundant supply of labour in relation to the available land and to the country's industrial equipment for peacetime production, and, in the labour force itself, a disproportion not yet overcome in the number of unskilled workers. Under existing conditions (i.e. if there is no further increase in capital goods) there might be a considerable fall in the marginal productivity of labour if suddenly all the unemployed were put to work. More capital equipment is thus required (but is obtainable only through a stronger flow of domestic savings supplemented by foreign aid) and, in addition, a ready supply of foreign raw materials — which presupposes an efficient currency system with an adequate margin of monetary reserves.

Obviously, the theoretical analysis given by Keynes in his "General Theory" postulates a case very different from that of Italy today; there can, for instance, be no doubt that an increase in savings would, in Italy, be a source of greater employment, and not the reverse. And what is said in this respect about Italy applies to almost all European countries under present conditions, struggling as they are with the task of equipping themselves with more productive capital and more houses and of building up sufficient reserves, now that the most urgent post-war reconstruction is behind them.

While it is inadmissible to apply Keynes's analyses and prescriptions to the present situation, this certainly does not mean that the authorities should assume a wholly negative attitude. Savings are assuredly necessary and it is not out of the question that the authorities may help to induce a flow of fresh funds of this type. They may achieve such a result not only through an appropriate interest policy but also through other technical measures. Since the unemployed already receive support, partly from public funds but in most cases also in the form of private aid (within families, etc.), it is possible that their employment may lead to a reduction in current expenditure and thus to an addition to the volume of savings (though possible, this is not certain, since the reduction in payments to the unemployed may give rise to other current spending, so that there is no additional saving). Repayments of private and other debts may, moreover, produce amounts available for reinvestment. While one should not overrate the resources which, as things stand, can be obtained through such "technicalities", it would clearly be wrong to neglect even minor measures likely to relieve existing unemployment.

Sight should not be lost, however, of the main task: the difficulties arising from the rapid increase in population in Italy and from the presence of millions of refugees and "expellees" in western Germany must be dealt with by means appropriate to the solution of such formidable problems. The situation calls for an increasing volume of domestic investments (requiring real resources, partly from abroad) and increased facilities for emigration. Such measures will bring real relief. But a credit expansion without real savings behind it runs the risk of upsetting monetary stability both internally (through price rises) and in the balance of payments (through increasing deficits). If a loss of monetary confidence leads to a decline in saving and to flight of capital, then before long there will have to be a reduction in investments, with all that this involves in shrinkage of employment — making confusion worse confounded.

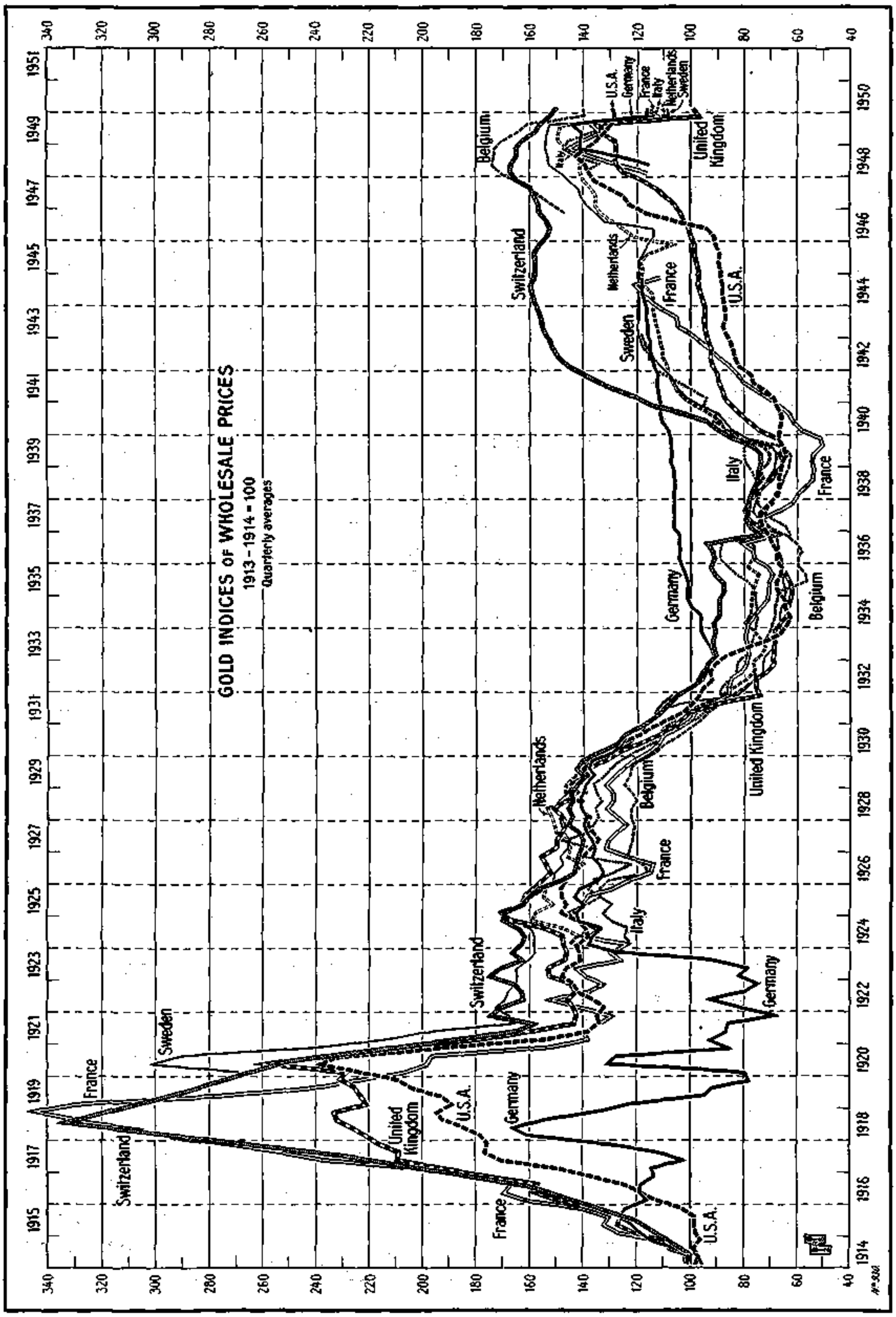
In countries where there is full employment, the flow of domestic savings and the extent to which foreign resources are obtained to pay for a surplus of goods and services from abroad together set the pace at which investment can be undertaken without the risk of renewed inflation. In its Economic Survey for 1950 (published in March 1950) the British Government lays great stress upon the necessity of current savings to finance the volume of investments and even finds "that savings from personal incomes will need to be somewhat greater than in 1949"; thus an amount of £805 million (against last year's total of £637 million) is specified not as a forecast but as "the sum which it is estimated will be required if a resurgence of inflationary pressure is to be avoided". Several European countries which in recent years have been able to maintain a high level of investments thanks to the receipt of foreign aid have before them a difficult — but inescapable — problem of downward adjustments in their investment activities now that the foreign aid is diminishing.

The truth is that resources available for capital formation are scarce. In many European countries more houses are badly needed, and steps are being taken to expand building activity. Since it cannot be hoped that a rich flow of new savings will suddenly be forthcoming, an expansion of investments in one direction will most probably necessitate a reduction in some other direction, e. g. in the amounts devoted by the governments to investments in nationalised or other industries. Moreover, a reconstitution of monetary reserves (in so far as it is not brought about by special loans from abroad) also represents a form of investment and thus competes with other kinds of investments. Since the resources are limited, it is well to consider and reconsider what is the best use to which, at any given time, they can be put — and to remember that a new phase in the reconstruction process may require a fresh apportionment of the means in hand.

III. It is now generally recognised that an excessive volume of investment which has to be financed by an inflationary expansion of credit necessarily exerts a distorting influence on the balance in the cost and price structure and hence on the working of the economy in general. It is almost self-evident that there must be a proper relation between costs and prices inside each economy and also vis-à-vis foreign countries. Balance does not mean a state of rigidity; on the contrary, movements of wages and prices are the means by which necessary changes in supply and production as well as in demand are brought about; and this is especially the case now that every vestige of the wartime direction of labour has disappeared from the western world. Questions relating to the freezing of wages and to price control will be examined in the next chapter; here only a few problems of a more general character will be touched upon.

As long as an abundant supply of money is still to be found in a country and its markets remain insulated from external influences by a continuance of trade and exchange controls, it is relatively easy for producers and merchants to obtain higher prices, and in such circumstances it cannot be expected that the business world will put up a strong resistance to demands for increases in wages. But the trouble is that sudden and substantial increases in money wages (of 25 or 30 per cent. at a time, as happened, for instance, in France and Austria) cannot be absorbed by existing profit margins and they, therefore, increase the cost of production only to be followed by still higher prices — to the ultimate advantage of nobody except, possibly, a set of speculators.

In 1948 and 1949 in France, as in most other countries in Europe, the nominal increases in money wages have been kept within narrower limits. It has been realised that more moderate increases, which do not necessitate a corresponding rise in prices, are the only ones producing an improvement in real wages, partly because they do not upset the monetary order. Early in 1950 it was, for instance, decided in France to return to a greater measure of free bargaining between employers and employed. This development has been made possible, on the one hand, by the restrictive credit policy and a closer approach to a balanced budget and, on the other hand, by increased imports, reflecting the stronger monetary position and representing one of the results of the trade-liberalisation policy, while at the same time introducing an element of competition which militates against any undue price increases and thus safeguards the consumer. The example of France accordingly shows how the restoration of a better balance internally goes hand in hand with the restoration of greater freedom in foreign-trade relations.


GOLD INDICES OF WHOLESALE PRICES
1913-1914 = 100
Quarterly averages
France
Switzerland
Sweden
United Kingdom
U.S.A.
Germany
Netherlands
Belgium
Italy

There must always be a need to establish compatibility between internal prices and those applicable in foreign trade, or (which comes to the same thing) between the price structures of different countries, and this is the basic idea of the "purchasing-power-parity theory" and, as such, is fundamentally correct. Statistically, it is easy to show that in the past there have been deviations from the "purchasing-power parities" over a period of years; but it is equally or even more interesting to note the fact, demonstrated by the graph on the previous page, that when the price levels have had time to "settle down" (as they had done by 1928–29 after the upsets of the first world war, and again by 1938 after the great depression) price relations, as calculated *via* the rates of exchange, show an unmistakable return to the old relationship. This presupposes, of course, that the basic year chosen was a year of equilibrium, which was clearly the case as regards 1913. 1938 is less suitable, since it was a year of depression, with an abnormally small volume of trade on the world markets together with unsettled conditions in several countries on the continent of Europe. It is often preferable to make comparisons with years further back as, for instance, with the years 1928 and 1929.

After the first world war, it took up to the end of the twenties, i.e. fully ten years, for price relations between different countries to become more or less "normal". By the summer of 1949 only four years had passed since the end of hostilities in the second world war; and even a cursory examination of the available price indexes (wholesale prices, cost of living, export and import prices, etc.) would show that in a great number of countries no inner coherence had as yet been established. That, in itself, obviously makes it difficult to institute the relevant international comparisons, it being an open question what particular index should be chosen. Since, however, the question of the moment has been, and to some extent still is, whether European countries in their exports could compete with the United States, it is of interest to show the percentage by which European export prices (according to the indexes of the various European countries and with allowance made for alterations in exchange rates) have risen more than the export prices registered by the index for the United States.

Percentage by which export prices in various European countries have risen above export prices in the United States.

Country	August 1948	August 1949	January–March 1950
	percentages		
Switzerland	+ 29	+ 44	+ 36
Belgium	+ 38	+ 53	+ 19
Netherlands	+ 39	+ 46	+ 16
Italy	+ 17	+ 27	+ 14
Denmark	+ 39	+ 51	+ 0
France	— 5	+ 22	— 5
Norway	+ 32	+ 32	— 5
Sweden	+ 18	+ 6	— 13
United Kingdom	+ 6	+ 20	— 14

Note: The index figure (1938 = 100) of the export prices for, say, August 1948 in, say, Denmark (readjusted for alteration of the dollar rate) has been divided by the corresponding index figure for export prices in the United States in order to determine the percentage by which Danish export prices have risen above American export prices; and the same has been done in the other cases.

It is rather surprising to find that, in the years 1948 and 1949 up to the devaluation, the United Kingdom showed a smaller increase in its export prices than most countries in Europe. This points to the fact that circumstances other than mere price relations were of material importance. Some countries may have improved their "terms of trade" while others have in this respect been unfortunate. To some extent delivery dates have played a rôle; in a sellers' market, prices are often a less important consideration than ready supply. It must further be remembered that American export prices of such commodities as wheat and cotton fell rather precipitously between the summer of 1948 and the summer of 1949, while the prices of manufactured articles, which make up the greater part of Europe's exports, did not fall at all steeply either in Europe or in America. For these reasons the data in the table should be treated with great circumspection.

The reduction in the prices of industrial raw materials and important foodstuffs from the very high levels reached in 1947 is, of course, to the advantage of the importing countries in Europe, but the immediate results involved a considerable amount of friction:

(i) If the downward movement of prices found a European country unable to follow suit immediately, its costs were bound to be unduly high for the time being (cf. the price movements for the United Kingdom, as shown on page 96).

(ii) Secondly, the business recession in the United States, which was closely connected with the downward adjustment of the prices of staple commodities, made manufacturers and traders in that country draw on their accumulated stocks and thus reduce their purchases from abroad of materials of all kinds. As a result, there was a decline in exports from the sterling-area countries, which at the same time were receiving lower prices for their own products.

As banker for the sterling area, London had to bridge the resulting gap between dollar receipts and payments — and that in a year in which the overseas countries of the sterling area were (as a result of domestic investments, etc.) needing more dollars than had been expected. The strain was concentrated on the United Kingdom, which itself accounts for about one-half of the sterling area's total foreign trade, while the scale of the sterling area's total transactions exceeds that of all the other O.E.E.C. countries put together.

With regard to the currency changes in 1949, it is important to remember the influence exerted by the overseas countries: the economies of western Europe must never be thought of as forming a self-contained area but as part of the whole western world and as having special links with certain overseas countries through particular monetary and other relations. It would obviously be taking too narrow a view to try to judge *the results of the devaluations* simply from what happened in the individual countries in Europe. It is of no little importance for Europe that nearly all countries in the sterling area, and a number of other countries overseas which have devalued more or less to the same extent as sterling, suddenly found it 44 per cent. more expensive to buy from the United States; in numerous instances this may have been the only practicable way of ensuring sufficient restraint in the amounts spent on dollar goods — and devaluation has the advantage in comparison with many other solutions that it involves no discrimination but allows market forces to work towards equilibrium.

The often rather considerable movements in commodity prices as well as the shifts in the currents of trade which led up to the wave of devaluations were clearly the result of influences in the market, exaggerated in some respects by psychological reactions but in any case outside the ken of "planned" developments. It is possible to approve or disapprove of such an outcome, but this does not alter the facts. It would seem that as long as there are sellers' markets it is possible, by means of control, to apportion, so to say, parts of an available supply among the various applicants; but the reappearance of a buyers' market means that the supply at the price quoted will be sufficient to satisfy the whole effective demand, and there is then no further point in any special arrangement for a "distribution" of the "goods" available. Inside Europe, this has recently been happening with regard to both steel and coal; indeed, few commodities are still in short supply. It has, of course, been the declared policy of almost all governments to lift controls as soon as the exceptional wartime shortages should disappear; and in many countries controls have already been dismantled over a wide field. It is an important by-product of the restoration of relatively free markets that manufacturers and traders will again be able to gauge from changing price quotations what is in demand and should be produced. As far as foreign trade is concerned, it is more on the import than on the export side that restrictions are still imposed; but they, too, can gradually be rescinded, given a continued improvement in the monetary and economic situation. The actual trend is clearly in the direction of a return to genuine markets in the domain of international as of domestic trade. In such markets greater attention must obviously be paid, by the producer, to the quality of the goods, which have to be offered at competitive prices and, by the authorities, to all the circumstances required for the establishment and maintenance of a balanced position on foreign account.

IV. To get rid of high uncompetitive prices is surely one of the main conditions for the attainment of adequate equilibrium in a country's balance of payments. At the same time, the experience of recent years has shown that in many cases countries with a relatively moderate rise in prices (as calculated via the prevailing exchange rates) have had larger deficits in their balance of payments than countries with a more pronounced price rise. There is, in general, no mystery as to the explanation: the amount of goods and services which a country can sell abroad depends on the relation between the value of its own output and its total spending for consumption and investment: if the rate of domestic spending is so high that relatively little will be left for export, low prices in themselves do not alter the situation (that is one of the main reasons why the countries which devalued in September 1949 have generally been taking steps to keep down spending through a restraint on increase in incomes, this being one of the means of setting more goods free for export). When a country spends more on consumption and investment than it produces, the excess does not come out of the blue but appears as a deficit on the current account of the balance of payments. An examination of the tables containing data about the national product and its uses, as given on previous pages for a number of countries, shows how, in actual figures, the deficit on the current account of the balance of payments corresponds to the difference between total expenditure and the total supply of goods and services (whether on a gross or a net accounting). Logic demands that it should be so; and the compilers of the statistics relating to the national product have, in fact, to divide the amount of total supplies received from domestic sources and from abroad between total consumption and total investment.

In making this division the statistician is, of course, dependent for his results upon the definitions which he applies in distinguishing between consumption and investment and, in some instances, also upon his definitions with regard to the scope of the current account of the balance of payments. The Netherlands provides an illustration of the great difference in actual figures which the adoption of one particular definition rather than another may lead to — as may be seen from the annual report of the Nederlandsche Bank for 1949 (published in April 1950).

If attention is concentrated on the current account, the rapid decrease in the deficit points to a considerable improvement in the situation but, as the Nederlandsche Bank expressly mentions, payments on capital account have also to be covered. The sum of the three items (i) deficit on current account, (ii) repayments on foreign credits taken up by the government and (iii) government credits granted to foreign countries "represents the total amount of external liabilities for which no cover could be found in normal current business and for which special cover had, therefore, to be sought". Such cover was found among the receipts on capital account, which were thus required not only for the current deficit on the balance of payments but for these additional capital charges.

This concept of a "gross balance-of-payments deficit" could usefully be employed by other countries: there is almost always a more or less continuous process of debt repayment and, for instance, investment in associated territories, needing regular cover. As to the practice of differentiating between current and capital items, it is of interest to recall that after 1923 the annuities payable in respect of the war debts due to the United States by the United Kingdom were included in the current account of the balance of payments, appropriations in the budget being made for the annuities year by year. It is necessary to stress the point that the problem of charges to be covered is not confined to the total of the deficits (as now calculated) on the current accounts of the balances of payments. It is typical of the situation in the United Kingdom, as shown in the table on page 28 above, that repayments of sterling liabilities and transfers of capital — largely to the sterling area — represent payments for which cover has to be found in addition to the deficit on the current account of the balance of payments. The additional charges falling on the United Kingdom and on a number of other countries cannot easily be brought to an end; the releases of sterling liabilities have, for instance, provided development capital for overseas

Netherlands: Balance of payments.

Items	1947	1948	1949
	In millions of florins		
Current account			
Visible trade balance	−1,823	−1,426	−1,182
Net income from investments	+ 124	+ 132	+ 223
Net income from other services	+ 133	+ 347	+ 720
Balance on current account	−1,566	− 947	− 239
Expenditure on capital account			
Deficit on current account	1,566	947	239
Repayments on foreign credits taken up by the government	640	171	213
Government credits granted to foreign countries	360	388	519
Gross balance-of-payments deficit	2,566	1,506	971
Increase in the gold reserves	—	—	110
Increase in the foreign exchange reserve of the Nederlandsche Bank	196	114	395
Total expenditure on the capital account	2,762	1,620	1,476
Covered by receipts on the capital account from			
net decrease in assets abroad	1,010	296	189
net increase in foreign liabilities	− 62	189	97
net amount of sundry capital movements	156	100	84
credits received by the government	1,211	519	65
Marshall aid	—	336	1,041
decline in the gold reserves	447	180	—
Total receipts on the capital account	2,762	1,620	1,476

countries, and holdings of sterling form part of the monetary reserves of members of the sterling area and several other countries as well. Here again the possible solutions involve considerations of a far-reaching character, which in any case are not limited to Europe.

From the standpoint of equilibrium in the individual countries which are subject to recurrent charges on the capital account of their balances of payments, it is important to remember that the payments in respect of such charges add to the expenditure which has to be covered either by appropriation of part of the domestic output (which then has to be reserved, through taxation or otherwise, for that particular purpose) or by means of foreign resources (the latter category including loans and grants from abroad as well as drafts on the country's own monetary reserves). Here, as always, the timing is of importance: the cover must be provided in good time, for only then is it possible to avoid disturbance and strain as regards the credit system and inroads into the monetary reserves of the paying country.

In a country which has an excessive volume of expenditure in relation to its own resources there will necessarily be a deficit in the balance of payments — may be a gross deficit, as defined above — which has to be covered by grants or credits from abroad or through net sales of foreign assets or, if this resource fails, by a draft on the monetary reserves. In this way the provision of cover is, in a manner of speaking, "automatic", at least until the spending goes so far that the reserves begin to be exhausted and something has to snap — most probably the foreign exchange rates. That is the way of the "deficit" countries; it is instructive, on the other hand, to look at the accounts of a "surplus" country, i.e. one with less expenditure for current charges than the value of its own output of goods and services, such a country being in possession of a surplus of domestic savings. The United States is more or less in such a position, and it is thus of particular importance to examine the use made of its national product for various domestic and foreign purposes.

The total figures give an impression of great stability and, if allowance is made for the fact that prices were lower in 1949, there would seem to have been little, if any, change in the physical volume of the national product. But yearly

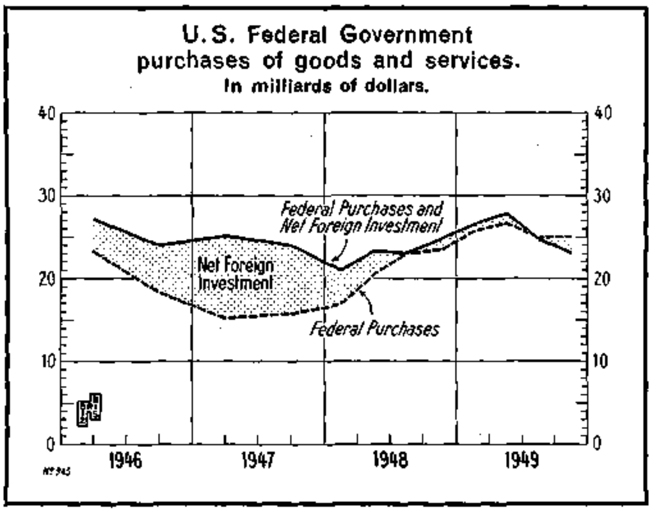
United States: National product and its uses.

Categories	1947	1948	1949	Uses	1947	1948	1949
	in milliards of dollars				in milliards of dollars		
National income at factor cost	202	226	222	Expenditure: Personal consumption	167	179	179
Add: (i) indirect taxes less subsidies, etc.	20	20	18	Government purchases of goods and services	29	37	43
(ii) capital depreciation allowances	14	16	17	Gross private domestic investments	31	45	35
				Net foreign investments	9	2	0.6
Gross national product	236	262	257	Gross national expenditure	236	262	257

figures to some extent exaggerate the degree of stability, while quarterly figures would reflect the ups and downs of the recession in the spring and the subsequent recovery in the course of the summer. Personal consumption probably increased slightly in 1949, but the most notable changes are the increase by $6 milliard in government expenditure and the decrease by $10 milliard in gross investments, of which $8.8 milliard is accounted for by a reversal of the previous upward trend in the volume of inventories. The figures for new construction and acquisitions of producers' durable equipment indicate a certain, but not a great, decrease in investments in 1949.

The net amount of foreign investments is entered as nil for 1949. To appreciate the significance of that entry it must first of all be remembered that government grants to foreign countries from public funds are included in the item "Government purchases of goods and services". It has now been decided to give the bulk of the foreign aid in the form of grants, it being considered undesirable to burden the receiving countries with long-term liabilities expressed in dollars. It was not so in earlier years. Of the total of nearly $9 milliard for net foreign investments in 1947, about $7½ milliard represented U.S. Government loans and investments under different headings. It is important to note in this connection the following observations of the U.S. Department of Commerce in the February issue of its "Survey of Current Business":

"Large-scale financing by the Federal Government of foreign purchases of American output deprives the conventional distinction between "Government purchases" and "net foreign investments" of some of its significance, and makes it desirable during the post-war years to consider these components of aggregate demand jointly. For example, a shift from loans to grants in financing foreign aid will cause an increase in Government purchases and an offsetting decline in net foreign investment, because foreign grants are included in the former category,



whereas loan-financed exports are reflected in net foreign investment. While such a shift would not be without significance, it would not necessarily reflect changes either in the flow of goods and services or in the basic sources of effective demand, and would be misleading if these are the focus of interest. Shifts of this type were not substantial from 1948 to 1949, but they were in earlier post-war years, and allowance should, therefore, be made for them."

The graph on the preceding page shows that by adding together the items "Federal Government purchases of goods and services" and "net foreign investments" a fairly even curve is obtained for the combined total over the years 1946–49.

The following table gives details of U.S. aid to foreign countries from July 1945 to the end of 1949.

United States government aid to foreign countries:

July 1945 to December 1949.

A. Unilateral transfers.(1)

Period	Straight lend-lease	UNRRA and post-UNRRA aid	Civilian supplies for occupied territories	Greek-Turkish aid	European Recovery Program	Other government transfers (2)	Total grants
	in millions of U.S. dollars						
1945 July–December	1,082	479	339	—	—	116	2,015
1946	131	1,458	637	—	—	62	2,289
1947	—	870	965	74	—	140	2,049
1948	—	68	1,300	349	1,397	965	4,078
1949	—	2	928	172	3,735	449	5,286
Total	1,213	2,877	4,170	594	5,132	1,731	15,718

B. Long-term loans and investments.(3)

Period	Lend-lease credits	Surplus property (4)	Subscriptions to the I.M.F. and the I.B.R.D.	Loan to the United Kingdom	Export-Import Bank	European Recovery Program	Others	Total of credits
	in millions of U.S. dollars							
1945 July–December	623	—	—	—	58	—	—	681
1946	593	878	317	600	1,036	—	139	3,562
1947	109	245	3,067	2,850	824	—	156	7,251
1948	18	212	—	300	429	476	9	1,444
1949	5	29	—	—	185	425	47	690
Total	1,347	1,363	3,385	3,750	2,532	902	351	13,629

(1) Not including net private payments, viz. for the whole of 1945: $473 million; 1946: $598 million; 1947: $568 million; 1948: $648 million; 1949: $538 million.

(2) Including Interim aid to France, Italy and Austria, the Chinese and Korean Aid program, war-damage payments, grants to the International Refugee Organisation and other transfers.

(3) Not including net private outflow, viz. for the whole of 1945: $454 million; 1946: $26 million; 1947: $744 million; 1948: $909 million; 1949: $656 million.

(4) Including ship sales.

Movements of long-term capital to and from the United States.

Items	1947	1948	1949
	in millions of U.S. dollars		
Movement of U.S.-owned capital:			
Government funds:			
Outflow	7,065	1,474	686
Inflow	174	332	204
Net outflow of government long-term capital	6,891	1,142	482
Private funds:			
Outflow	1,600	1,599	1,239
Inflow	856	690	583
Net outlow of private long-term capital	744	909	656
Movement of foreign capital invested in the United States:			
Outflow	164	275	173
Inflow	58	109	298
Net outflow of foreign capital invested in the United States	106	166	— 125
Total net outflow of capital	7,741	2,217	1,013

Note: As shown in the table, net foreign investments in the United States were reduced by $106 million in 1947 and $166 million in 1948. It is true that for most countries the existing control of foreign exchange prevents capital movements to the United States; but, even in relation to countries where movements are free (e.g. Switzerland), withdrawals exceeded new investments in the United States until 1949, when the trend seems to have turned again.

The figure for foreign investments in the table on page 88 takes account of both short and long-term funds, while the accompanying table shows the movements of long-term capital only. The decrease in U.S. government long-term loans from 1947 to 1949 is brought out in this table also. In the total of $686 million lent in 1949, the largest item—$425 million — represented E.R.P. loans and $163 million loans by the Export-Import Bank, while the repayments of Export-Import Bank loans came to $101 million. As regards private funds, $1,059 million of the outflow represented direct investments, very little being left for other long-term foreign financing. The outflow of private funds includes, however, $20 million representing bonds purchased from the International Bank for Reconstruction and Development. This Bank's own lending, on the other hand, is not included in the U.S. statistics. During 1949 the International Bank for Reconstruction and Development granted new loans to a total of $219 million to nine different countries. The exchange transactions of the International Monetary Fund amounted to a total of $102 million.

In the balance-of-payments statistics a distinction is made between ordinary expenditure abroad by the U.S. Government (e.g. for its diplomatic services) and the various forms of grants to other countries, which are shown separately as unilateral transfers.

United States: Balance of payments.

Items	1947	1948	1949
	in millions of dollars		
Goods and services:			
Net balance from visible trade	+ 9,985	+ 5,748	+ 5,267
Net income from investments	+ 847	+ 972	+ 1,032
Net balance from other services	+ 446	— 410	— 216
Balance of goods and services	+ 11,278	+ 6,310	+ 6,083
Unilateral transfers	— 2,380	— 4,409	— 5,623
Balance	+ 8,898	+ 1,901	+ 460
Movement of long-term capital	— 7,741	— 2,217	— 1,013
„ „ short-term capital	— 2,161	— 926	— 190
Errors and omissions	+ 1,004	+ 1,242	+ 743

Note: In all likelihood, a large part of the last item, "Errors and omissions", represents speculative movements of capital, not recorded in the statistics officially collected. The figures indicate a strong flow of funds to the United States in the third quarter of the year, followed by an exodus in the fourth quarter, the devaluations causing a reflux of at least part of the money, presumably to Europe.

The unilateral transfers being financed via the government budget and net capital transfers being nil, the current savings of the American people went, in 1949, to finance domestic investments.

United States: Investments and savings.

Investments	1947	1948	1949	Covered by	1947	1948	1949
	in milliards of dollars				in milliards of dollars		
Gross private domestic investment:				Savings:			
New construction	14	18	17	Personal savings	5	12	12
Producers' durable equipment	17	21	20	Business savings	12	13	9
Change in industrial inventories	0	6	— 2	Public savings	9	6	— 3
Total gross private domestic investment	31	45	35				
Deduct:							
Capital-consumption allowances	14	16	17				
Total net private domestic investments	17	29	18				
Net foreign investments	9	2	—				
Total net investments	26	31	18	Total net savings	26	31	18

The public savings (or dissavings when there is a minus sign) in the above table are equal to the overall surplus (or deficit) in the budgets of the public authorities. Contrary to the usual European statistical practice, no account is taken, however, of any capital outlay included in those budgets,* and this must be borne in mind when comparisons are made with European conditions. In 1949 the personal and business savings in the United States came to $21 milliard or nearly 10 per cent. of the national income, which is a high proportion for purely private savings.

Switzerland, even more conspicuously than the United States, has a surplus of savings available for foreign investment. In the boom years 1928–30 the ratio of net savings to the national income would seem to have been as high as 18 per cent. and even in the years of depression in the thirties it did not fall below 15 per cent.; moreover, since the second world war the 15 per cent. ratio seems again to have been exceeded. With a national income of about Sw.fcs 17 milliard in 1948, the amount of net savings (but including profits ploughed back by firms) was estimated at fully Sw.fcs 2.5 milliard (including about Sw.fcs 450 million obtained through the net increase in the assets held by the Old Age and Dependents' Insurance Fund instituted in 1947).

Being rather poor in natural resources, Switzerland has no great opportunities for investment within its own borders, so that it has been almost forced to become an exporter of capital and is, in fact, one of the oldest capital-exporting countries

* In the new Federal budget for 1950–51, as submitted to Congress in January 1950, there is an experimental grouping of expenditure into investment outlays, operating expenses, and other expenditure. As noted in the Federal Reserve Bulletin for February 1950, "the chief purpose of this grouping is to distinguish those expenditures which represent the acquisition and improvement of assets by the Government or which will result in a flow of benefits to the economy over a period longer than one fiscal year. Many of the expenditures included in this group are expected to result in a source of receipts to the Government in future years, though financial recoverability was not a guiding consideration in setting up the classification."

in the world. In the years of optimism between 1924 and 1930 an amount of Sw.fcs 300–400 million used to be exported annually — all by way of issues in the market. Now, after the second world war, there has been some revival of short-term financing and, since 1948, of long-term lending also — loans to a total of some Sw.fcs 200 million having been issued for the benefit of the governments or of government-guaranteed borrowers in Belgium, France and the Netherlands. Early in 1950 middle-term credits totalling Sw.fcs 28.5 million were extended by certain banks in Switzerland to the International Bank for Reconstruction and Development. On the Swiss market the abundance of funds seeking investment has recently led to a sharp fall in interest rates: Federal Government long-term loans yield less than 2½ per cent. and in April 1950 a cantonal loan was issued at 2¾ per cent. — the lowest rate ever quoted for such borrowing. Rates as low as that create all kinds of difficulties for pension funds, insurance companies, etc. and may easily lead to reckless ventures. In his address to the annual general meeting of the Swiss National Bank on 4th March 1950, the President of the Direktorium of the Bank dealt with the problem of finding suitable investment possibilities for the funds regularly becoming available on the Swiss market and, in that connection, referred also to the openings for capital export:

> "The improvement in the economic and monetary position in a number of countries has again increased the possibilities of foreign investment, which might offer a natural means of reducing the congestion on the Swiss market. It rests with the investors themselves and with the intermediary credit institutions to choose among the foreign investments according to their safety. A transmission of capital abroad will be especially useful to our country when it directly or indirectly helps to promote Swiss exports. As a provider of credit Switzerland is again performing a function whose international importance should not be underrated."

It is, however, no easy matter, even when surplus funds are available, to re-establish the currents of private international lending in a world so disrupted by political anxiety and labouring so heavily under economic and monetary maladjustments, with additional hindrances often put in the way of private initiative by hampering controls. To some extent the lending markets must be prepared to contemplate new forms of financing, partly in closer contact with their governments, which will no doubt be found anxious to assist, although they must not be expected to guarantee the whole risk involved. The International Bank for Reconstruction and Development is likely to play a greater rôle as Marshall aid diminishes — and the initiative called for by President Truman's Point Four may, indeed, lead to new methods of investment in under-developed areas. It is to be hoped that, whatever methods be adopted for the provision of capital to old or new countries, the amounts will be made available without provisos as to their employment, for only then can there be any chance of multilateral trade's becoming a reality (and not only an aspiration in high-sounding speeches). As reconstruction proceeds, the United States and Switzerland should no longer be the only countries with surplus funds to lend. In the British budget speech of 18th April 1950, the Chancellor of the Exchequer said that the United Kingdom would need to have some surplus in the balance of payments "to assist in Commonwealth and colonial development" — and a surplus available for overseas investment presupposes, of course, that there is in the internal economy a surplus of savings over domestic investments.

But for a real revival of international investment there must be evidence of improved conditions in the countries which would receive the funds. Confidence has to be restored, and this calls for the fulfilment of certain conditions, namely, a minimum of political stability and positive action to strengthen the monetary position with a view to restoring convertibility. Obviously, these are conditions which the individual countries will strive to fulfil in their own interest. But it should also be remembered that in international lending — especially to governments — appeal cannot be made to any judiciary and executive authorities in case of default and, for that reason, the past record of each country is a matter of great importance. Unless a country deals fairly with foreign investments and, in particular, makes every effort to meet charges in respect of past obligations, it is not likely to restore its credit position in regard to future borrowing. Much patient and constructive work will be needed before international movements of capital can again make a natural contribution to economic progress.

* * *

In nearly every situation some problems loom larger than others — and as regards post-war Europe it has been the balance-of-payments problem which has seemed the most intractable. Fortunately, it has come to be increasingly realised that this problem cannot be separated from all the questions relating to the volume of expenditure for consumption and investment by the public and the government in each individual country. It is now widely recognised that, if internal balance has not been established, it is vain to seek equilibrium on foreign account — which does not alter the fact, however, that the difficulty of regaining equilibrium in the balances of payments can be increased or reduced by certain measures eminently international in scope, e. g. tariff changes.

1. In internal policy the most important task, in many cases, is still the adjustment of public charges, especially budget expenditure, to the true capacity of the economy. Merely to seek to eliminate inflationary pressure is to take too narrow a view: the real question is to determine the level of expenditure at which the country in question can be expected to make steady economic progress without having to rely on substantial aid from outside. There are also other internal problems, such as those of fitting the volume of investments to savings and of supplying the home market with a sufficiency of goods to serve as a proper basis for the export trade.

2. In external policy one of the most important tasks is that of expanding world markets, especially for manufactured articles, and there would seem to be little chance of doing this without further reductions in the U. S. tariffs, which would make it possible for other goods besides raw materials and foodstuffs to be exported to that country on a larger scale.

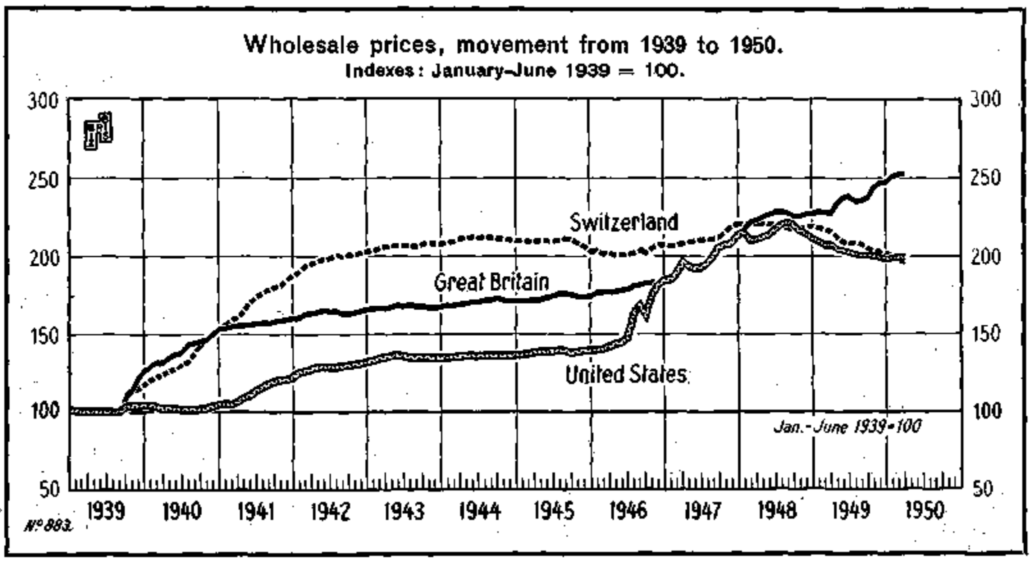
A reduction in the tariff of the United States naturally strikes the American community as largely a measure with internal repercussions, even though it may be carried out in conjunction with tariff reductions negotiated with other countries. There are, in fact, a large number of problems which have both an internal and an external aspect. A typical example is that of the sterling balances. It was specifically recognised in the tripartite communiqué issued in Washington on 12th September 1949 by representatives of the Governments of the United States, the United Kingdom and Canada that the problem presented by those balances, including the necessity of providing capital goods for development, concerned other countries as well and would require further study. But at the same time it is obvious that any solution found on an international plane must be accompanied by such specifically British measures as will render that solution effective.

It is often asked what will happen in and after 1952, when Marshall aid is scheduled to come to an end. Obviously the first answer to such a query is that very much depends on what measures are taken in the meantime. Now that production in Europe has made a fairly good recovery, it is more than ever necessary to put into operation the mechanism of monetary adjustment which is needed to ensure the maintenance of balance both within the individual economies and, through an early return to convertibility, in the economic and financial relations between different countries. Can it be confidently expected that each country will take steps to right its position, and will the path be sufficiently cleared of such obstacles as the unsettled sterling balances and unduly high tariffs? There is the still more general question of an adequate strengthening of monetary reserves, so that, having a proper safety margin, the different countries will not be in too vulnerable a position to face even a minor business recession. The solution of these various problems clearly demands constructive efforts and, in some respects, even drastic changes in the methods hitherto applied — the main problem being not always the same in the different countries. It is imperative that the "further study" which was recognised as necessary with regard to the problem of sterling balances should also be given to the other problems outstanding in the various countries and internationally, and that such action should be taken as promises to produce solutions in the years during which exceptional aid is still available to the western European countries.

IV. An approach to more normal price relations.

The most conspicuous event in the economic and monetary field during 1949 was the wave of devaluations, which was clearly connected with reductions in reserves and shifts in the currents of trade as a sequel to the business recession in the United States. But, the more closely one examines these various developments, the more one inclines to the conclusion that the "master key" to this whole series of events is to be found in certain important changes in the market prices of raw materials and foodstuffs, reflecting a return to more normal conditions of supply.

So far as prices are concerned, an inflationary rise is not the only consequence of a great war: there is, in addition, a disrupting effect on the general price structure. For some prices rise considerably more, others less, than the average, it being impossible, in the short run, to adjust supplies to sudden changes in demand or to have new lines of production ready to make up for the disappearance of old sources of supply. During the second world war, greater efforts were made than ever before — and with some success — to keep prices down by means of government control, notwithstanding exceptional shortages; it was in the nature of things that the various measures were more effective in regard to goods produced and consumed at home than in regard to commodities of importance in international trade; and it was consequently found that the price indexes rose more steeply for import and export commodities than for domestic commodities. And the fact that the important raw-material-producing areas in the south-eastern part of Asia were involved in the second world war meant that a number of commodities were in distinctly short supply, the shortage persisting for several years after the war was over. Consequently, when in the course of 1946

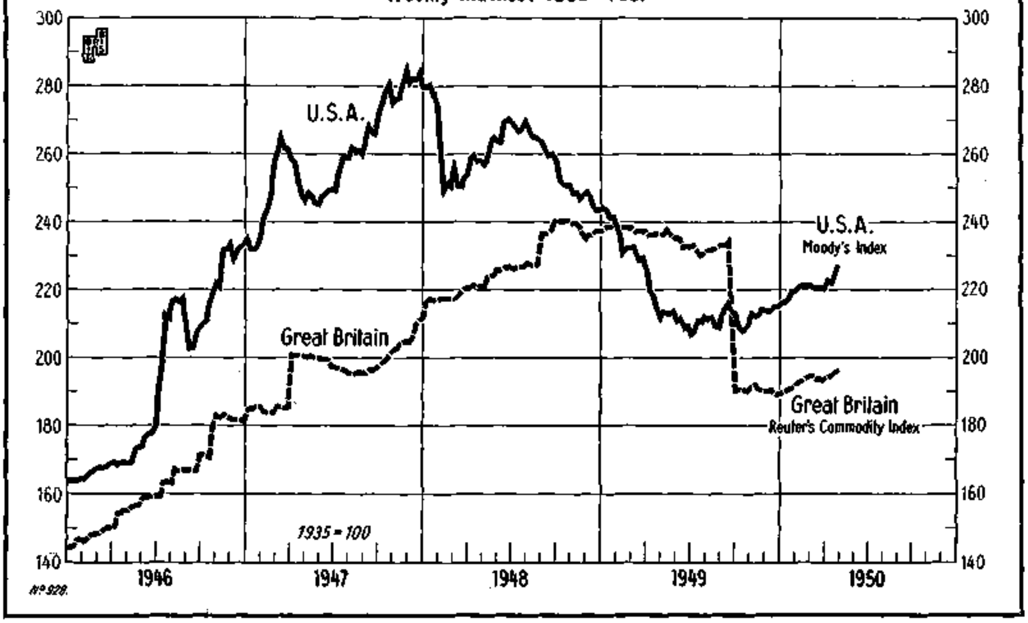


price control was lifted in the United States, the remaining scarcities were largely reflected in higher prices, affecting markets not only in the United States but in other countries also.

It is of particular interest to compare price movements in the United States and the United Kingdom, especially with regard to foodstuffs and industrial raw materials (together known as "primary products"). By itself the United States absorbs over 40 per cent. of the world's total output of industrial raw materials and, therefore, its demand is generally of decisive importance for the pricing of these products. The largest importer of raw materials is the United Kingdom, and London, moreover, finances about 36 per cent. of the foreign commerce of the world, of which the greater part consists of trade in foodstuffs and raw materials.

Daily indexes showing the trend of prices of primary products are calculated by Moody for the United States and Reuter for the United Kingdom, these indexes being published regularly in newspapers of the two countries in question and elsewhere also.

American and British Commodity Prices.
Weekly indexes: 1935 = 100.



Note: In the above graph the two indexes have been recalculated on the basis of the year 1935 with allowance for alterations in the exchange rate between the dollar and the pound (i.e. the 14 per cent. reduction in the exchange value of the pound in September 1939 as well as the 30½ per cent. devaluation in September 1949).

In their original form both indexes go back to the latter half of 1931 but with a difference in their respective points of departure: Moody's is based on 31st December 1931 = 100 while Reuter's takes 18th September 1931 = 100. In uneventful periods such a comparatively short interval between basic dates would not cause any appreciable discrepancy; but, as it happened, the first devaluation of the pound took place in the period in question. Moody's figure for the third Friday in September 1931, i.e. the 18th, actually works out at 107.0, compared with 100.0 for 31st December 1931. Thus, Moody's whole curve would be about 7 per cent. lower if the middle of September 1931 had been chosen instead of the last day of that year.

It has been possible to recalculate the two indexes with 1935 as the basic year, the choice of that year being supported by the fact that the "Economist" Sensitive Index is based on 1935 = 100. As far as the remainder of the inter-war period is concerned, it might be added that from 1935 to the first half of 1939 the prices of primary products declined by an average of about 12 per cent. in the United States and one per cent. in the United Kingdom.

It is a striking fact that up to the end of 1948 British commodity prices in terms of dollars stood below comparable American prices. This divergence was partly due to the continuance of price control in the United Kingdom but perhaps even more to the "bulk-buying" system under which British government departments themselves procured and resold all major, and some minor, food commodities and a number of industrial raw materials. As the results show, this system made it possible, in a period of sharply rising prices, to secure a slowing-down of the upward movement.

Top prices were reached in the United States at the turn of the year 1947–48, after drought and other vicissitudes (including signs of continued inflation in many countries) had created increasing tension on various commodity markets in the course of 1947. The following justification has been put forward — perhaps somewhat post facto — for the spectacular boom in prices (lifting, for instance, the price of wheat to four and a half times its 1938 level) which had been allowed to happen: owing, in particular, to the exceedingly poor harvest in 1947, there was a very real danger that the supplies in hand might be insufficient to satisfy minimum human needs; and there was also a decided scarcity of coal, which, if no extraordinary steps were taken, might make it impossible for European industry to maintain even the relatively low level of production it had reached at the time; in such a situation, high prices could be relied on not only to act as a stimulus to increased output but also to keep the limited supplies of wheat from being used to feed poultry and other animals.

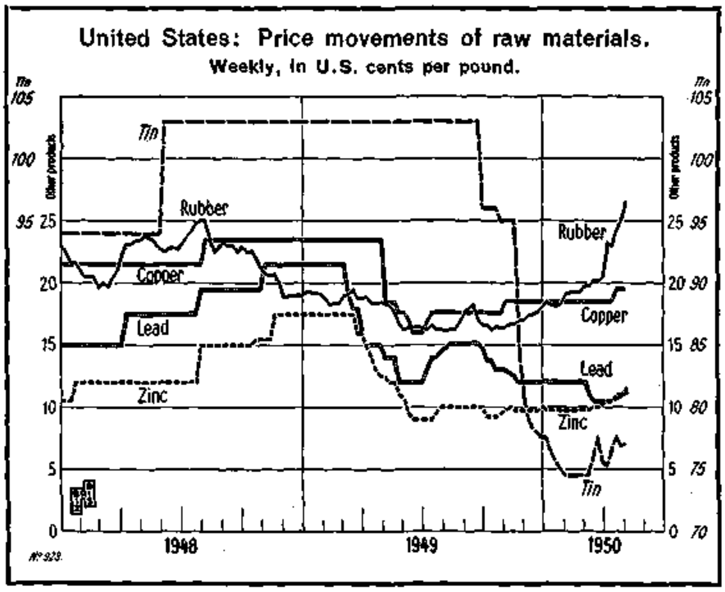
It is no doubt true to say that it was partly in response to the higher prices that fairly substantial supplies of foodstuffs and industrial raw materials became available in the course of 1948; but the weather also proved favourable, excellent crops being reaped both in 1948 and in 1949. The latter year opened under quite different auspices, with new influences coming to bear on the world markets for basic commodities. In the fifteen-month period from January 1949 to March 1950 price movements were, in particular, dominated by three fundamental developments:

(i) the disappearance of the exceptional wartime and post-war shortages in almost all cases;

(ii) the recession in the United States business activity up to the summer of 1949 and its subsequent recovery; and

(iii) the wave of currency devaluations in the autumn of 1949.

The improvement in the supply of agricultural commodities had begun to make itself felt in the early months of 1948, being reflected in a heavy fall in the prices for farm products (cf. the graph on page 24); and the continuance of the decline all through 1948 was indicative of the new situation in which commodity surpluses had reappeared and there was official intervention to arrest any further price fall. The prices of industrial raw materials began to be affected in the latter half of 1948 and then passed



through a crisis in the spring of 1949 which, for them, marked the end of the post-war supply difficulties. For a number of important metals, viz. lead, copper, pig-iron, tin and zinc, it so happened that the rise in prices reached a peak common to all of them on 3rd January 1949. As a rule, the steeper the preceding rise, the greater the fall. The following table shows the maximum rise in U. S. prices for a number of commodities (August 1939 = 100) and the extent to which the corresponding prices, at the end of April 1950, still remained above the basic level, as well as the percentage of decline from the peak.

United States: Commodity prices.

Commodity	Maximum post-war index	Index at the end of April 1950	*Percentage decline from maximum to end of April 1950*
	Index figures: August 1939 = 100		
Cocoa	1,217	615	*— 49*
Coffee	678	612	*— 10*
Lard	607	204	*— 66*
Maize	602	385	*— 36*
Wheat	454	387	*— 15*
Lead	440	225	*— 49*
Cotton	415	360	*— 13*
Zinc	371	233	*— 37*
Sugar	284	269	*— 5*
Pig-iron . . .	252	246	*— 2*
Copper	227	188	*— 17*
Tin	211	158	*— 25*
Rubber	155	150	*— 3*

There are some obvious exceptions to the rule that the greatest fall follows the steepest rise, viz. coffee (which in recent years has enjoyed an unprecedented boom), wheat and cotton (both benefiting by official support measures); but, even if these commodities are included, the index figures show a narrowing of the spread as compared with the price pattern of the previous years. This may also be seen from the following table.

In the latter half of 1948 the monetary authorities in the United States began (as explained on page 84 and chapter VIII) to apply a more restrictive credit policy and, considering the increased supplies arriving on the market, it was not surprising that the incipient decline in prices increased in scope and intensity. The winter of 1948–49 saw the progressive disappearance of the high premiums which throughout the post-war period had, in so many cases, been paid by consumers willing to secure prompt delivery at the cost of an addition

United States: Price movements.

Indexes of	1948 January	1948 December	1949 December	1950 March
	1935-39 = 100			
Cost of living	169	171	168	167
Wholesale prices	206	201	188	189
Farm products	262	232	204	210
Foods	227	215	197	197
Other commodities . . .	185	191	182	182
Raw materials	239	224	208	212
Manufactured products .	197	196	184	185

to the official quotations. And for a number of metals the past history of the market can show no precedent for so sharp a fall during such a short phase.

There was suddenly great anxiety in the United States and elsewhere lest the still relatively mild recession should degenerate into a severe depression, and a number of steps were taken to counteract the downward movement. In addition to the credit-relaxation measures, the first of which were decided upon in the spring of 1949 (see chapter VIII), recourse was had to direct intervention of one kind or another in the commodity markets. Thus, greater American exports of farm commodities were ensured under the Marshall Plan, off-shore financing for wheat being stopped (and not authorised again until the autumn). When the new crop was being handled, wheat stored on open ground was made eligible for crop-support loans up to 75 per cent. of parity and, once the harvesting was over, the availability of Marshall aid was extended to shipments of wheat from the United States under the International Wheat Agreement, although such shipments entailed additional government subsidies (cf. page 113).

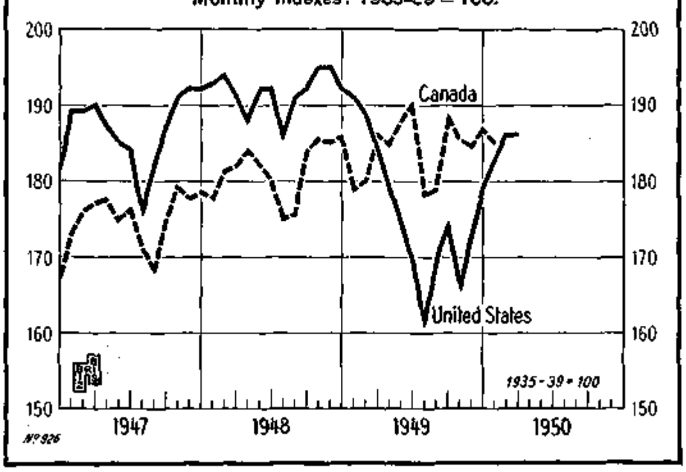
As regards other products, Congress, at the end of June 1949 (only a few days before the close of the fiscal year), passed a deficiency cash appropriation of $40 million for strategic stockpiling; for this sum to be utilised in time, immediate orders had to be placed, and by far the greater part was spent on the acquisition of various metals.

No doubt, these particular measures (together with voluntary reductions in output by many producers) helped to steady the market; but, even so, the reversal of the American business trend in the summer of 1949 was largely due to the fact that building activity and sales of automobiles had never really declined and the fundamental tendency had thus remained strong notwithstanding all the "surface changes" in the matter of price adjustments, etc. Already by mid-summer consumers of raw materials in the United States, who during the first half of the year had greatly reduced their stocks, were finding it wise to re-enter the market; and before the summer was over foreign suppliers began to feel the helpful effects of renewed sales activity and a slight improvement in prices, although the effects of the reductions suffered during the previous months remained serious. It was, however, unavoidable that considerable strain should still be felt, for instance, by sterling-area countries, which, apart from their current output of gold, with an annual total of about $500 million, are great sellers of such primary products as rubber, wool, jute, tin, cocoa, etc. Among these products rubber has been for many years the chief dollar-earning commodity of the sterling area; its price fell in June 1949 to below the pre-war level; it was only in August that there were signs of a revival of American buying, preparing the way for a recovery which gained momentum in the spring of 1950. Gold, on the other hand, fetches only the pre-war price, except for limited amounts sold on free markets.

From the graph on page 96 it will be seen that, in the early months of 1949, the decline which was taking place in the United States brought American prices below British prices at the current rates of exchange and that the discrepancy, which became wider in the course of the spring, was still quite substantial in the autumn. This discrepancy was one of the circumstances leading to the devaluation of the pound and consequently to the other devaluations which in September 1949 opened a new chapter in the post-war history of commodities.

A comparison with what had happened on the commodity markets after the upheaval of exchange values in September 1931 shows, however, that the effects of almost world-wide devaluations vary very considerably according to the general trend of business at the time — what is often called the "world conjuncture". In 1931 the devaluations occurred in the midst of a severe depression, and prices (as expressed in gold value) continued to fall sharply (cf. graph on page 82). In 1949, on the other hand, the devaluations coincided with a recovery in the United States and a continuance of favourable business conditions in the great majority of countries — which all helped to sustain the general level of prices. It may be noted in passing that a great number of countries had been relatively unaffected by the recession in the United States. A surprising case is that of Canada, a country in which the situation used to be greatly influenced by changing business conditions in the United States. Recently, Canada has shown a strong dynamic trend of its own, and in 1949 it went on its way, unperturbed by the setback in the United States.

United States and Canada: Industrial production.
Monthly indexes: 1935-39 = 100.



Note: If a comparison is made with the general graph of industrial production on page 32, it will be seen that the sharp contrast found in 1949 between the trends in Canada and the United States is a definite departure from the parallel course previously taken by the curves of the two countries.

Inevitably, the many devaluations tended at first to reduce the dollar prices for non-dollar commodities but, within one month, i.e. by the second half of October, this almost automatic movement had already spent its force. From then onwards the intrinsic position of individual commodities and the strength of the upward business trend entirely neutralised the depressive influences arising from the devaluations. First and foremost, the devaluation decision as such removed one of the considerations which had induced manufacturers and traders in hard-currency countries to refrain as far as possible from replenishing their stocks. Moreover, official stockpiling was continued while unrest in Malaya, Indonesia and some other areas in south-eastern Asia gave rise to fears that current supplies of key products such as rubber, tea, cocoa and oil-seeds would be adversely affected. Thus, prices tended to stiffen, the only exceptions being crude oil, the price of which remained unchanged, and tin, lead and lard, the prices of which have eased. The two last-mentioned are predominantly dollar commodities; even in terms of dollars, sterling commodities held their position better than the general run of dollar commodities (the opposite — it would seem — of what might have been expected) and it was largely thanks to this that the terms of trade for the raw-material-producing countries of the sterling area were as good as, or even more favourable than, those they had enjoyed before the devaluation.

The upheaval in the price structure as a result of the war affected various countries in very different ways according to the extent to which their export prices rose in comparison with their import prices or, in other words, according to the changes in their terms of trade. Most western European countries are predominantly importers of primary products and exporters of manufactured goods; and the terms of trade in the thirties, and especially in a year of rather acute depression such as 1938 — with relatively low raw-material prices owing mainly to weak American demand — were distinctly favourable to the industrialised countries in Europe (cf. the table on page 110 of the nineteenth Annual Report, giving the terms of trade for the United Kingdom back to 1913).

1947 and 1948 were abnormal years, in which prices of most raw materials and foodstuffs were extremely high and only a few European

Terms of trade of certain European countries.

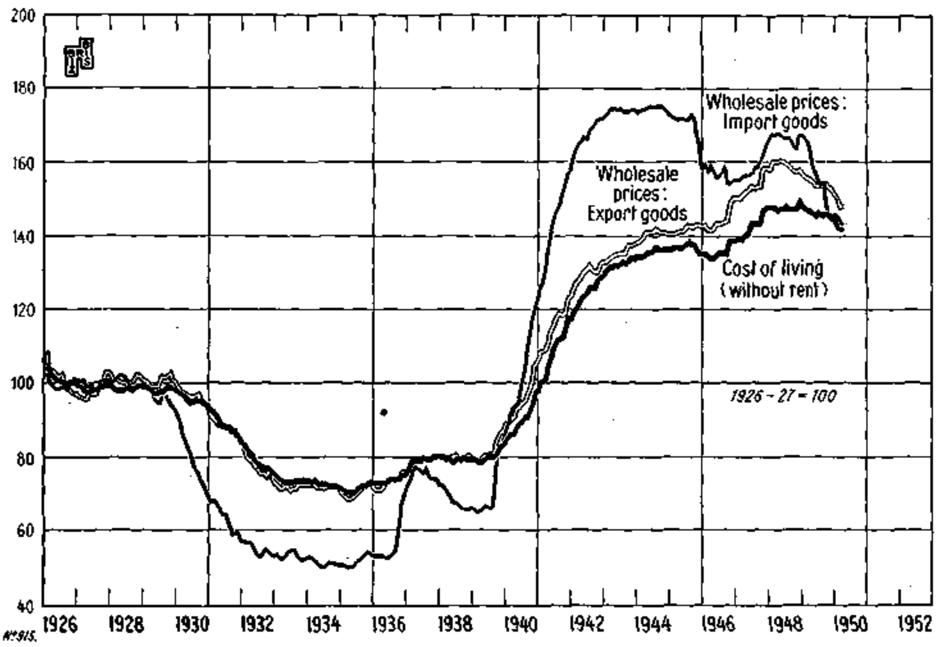
Period	Index of export prices divided by the index of import prices (1938 = 100)					
	Belgium	Denmark	Italy	Sweden	Switzerland	United Kingdom
1938	100	100	100	100	100	100
1947	125	96	.	89	107	86
1948	107	106	100	95	101	85
1949 March	110	106	114	89	106	89
June	119	107	105	86	109	93
September	111	109	102	82	112	95
December	108	102	107	77	115	87
1950 February	102*	93	108*	81	112	86

* January 1950.

countries (Switzerland being one of them) could charge correspondingly increased prices for their exports. The fall in the prices of primary products, which began in 1948 and gathered speed in the first half of 1949, was therefore very much to the advantage of the European countries (although the adjustment in itself caused certain difficulties, culminating in the situation which led to the changes in currency values).

The devaluations, as was to be expected, largely reversed the favourable development of the terms of trade for the importing countries in Europe, especially since, among primary products, even sterling commodities rose so sharply that in terms of dollars they became almost as dear as before. In the United Kingdom itself, at the time of writing (in the spring of 1950), it would take 10 per cent. more exports to buy the same amount of imports as in August 1949. Denmark has, for the time being, suffered an even greater reverse. Italy, having devalued by only 8 per cent., seems to have been almost unaffected as far as its terms of trade are concerned, while Switzerland (having retained the value of its franc) has benefited by somewhat more favourable import prices. As to the use of such words as "benefit" and "favourable", there is one proviso to be made: a number of foreign countries, upon receiving somewhat smaller amounts in Swiss francs for their products, were not able to buy Swiss goods on the same scale as before. In this connection, it is pertinent to remember that the low prices of primary products during the depression in the thirties proved to be no unmixed blessing for the industrialised countries in Europe, since such countries found their exports

Switzerland: Wholesale prices of import and export goods and the cost of living, Monthly Indexes: 1926-27 = 100.



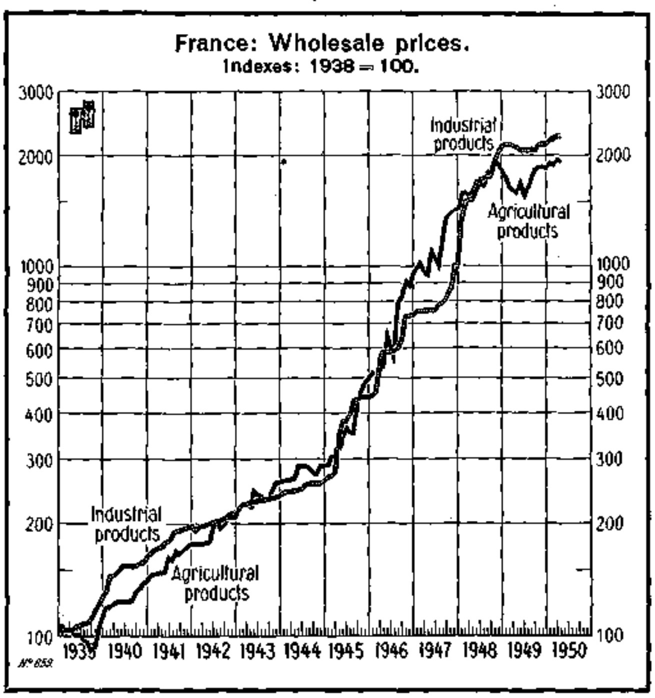
seriously reduced. On the other hand, in 1928, when the terms of trade were not precisely favourable to the United Kingdom, the balance of payments of that country showed a surplus on current account, and it was thus, in this respect, better off than in the years of depression in the thirties. To obtain terms which clearly put its partner in an uneconomic position does not seem to profit any country; since trade is a mutual affair, it naturally prospers best when the primary producers as well as the manufacturing nations are able to cover their costs, and this seems generally to be the case when no violent fluctuations are occurring in prices or business activity.

The year 1948 had already seen a general narrowing of the price changes in Europe, and 1949, on the whole, presented the same characteristic, as may be seen from the table on the following page.

Austria is the only country in which there has been a substantial price rise, but this was partly due to the fact that black-market prices, already high, became the officially recognised prices. Three different groups emerge from the table:

1. Countries in which most prices have been decontrolled and progress has been made towards the establishment of genuine economic markets in which prices are allowed to find their own level. This group includes Belgium, Italy, France, western Germany and Switzerland. Wage-fixing is being left to negotiation between employers and employed, but generally with more opportunities for official intervention than before the war.

In Italy wholesale prices fell during the year by 17 per cent., in Switzerland by 8 per cent. and in Belgium by 7 per cent.; in these three countries, of which Switzerland did not devalue at all and Italy and Belgium only in a limited measure, the influence of the decline in American prices made itself felt. To some extent, the downward movement seems to have been intensified in the three countries by the fact



Price movements in Europe.

Percentage price increase (+) or decrease (—).

Countries	During the calendar year 1945	1946	1947	1948	1949	Dec. 1949 Index: Pre-war = 100
Austria						
Wholesale prices	—	—	—	+ 20	+ 37	490
Cost of living	+ 0.5 (1)	+ 44 (2)	+ 148	+ 21	+ 24	455
Belgium						
Wholesale prices	—	—	+ 12	+ 5	— 7	358
Cost of living *	—	— 12	+ 9	+ 9	— 5	364
Denmark						
Wholesale prices	— 7	+ 9	+ 9	+ 9	+ 3	245
Cost of living	0	+ 1	+ 3	+ 3	+ 1	171
Finland						
Wholesale prices	+ 93	+ 19	+ 39	+ 9	+ 3	990
Cost of living	+ 99	+ 16	+ 54	+ 11	+ 3	832
France						
Wholesale prices	+ 70	+ 80	+ 45	+ 62	+ 1	1 944
Cost of living *	+ 62	+ 74	+ 57	+ 42	— 0.4	1 794
Germany (western zones)						
Wholesale prices	—	—	—	+ 24 (3)	+ 1	195 (4)
Cost of living	—	—	—	+ 11 (3)	— 7	156 (4)
Greece						
Cost of living	+1,781 (5)	+ 96	+ 49	+ 23	+ 7	28 883
Iceland						
Cost of living	+ 4	+ 7	+ 7	— 1	+ 4	340
Ireland						
Wholesale prices	0	+ 2	+ 11	+ 3	+ 3	236
Cost of living	+ 1	— 2	+ 5	+ 2	+ 1	185
Italy						
Wholesale prices	—	+ 38 (6)	+ 50	+ 3	— 17	4 747
Cost of living	—	+ 23 (6)	+ 44	— 0	— 3	4 753
Netherlands						
Wholesale prices	+ 31	+ 23	+ 5	+ 4	+ 5	292
Cost of living	+ 15 (7)	+ 11	+ 3	+ 6	+ 6	226
Norway						
Wholesale prices	— 6	+ 4	+ 3	+ 3	+ 3	192
Cost of living	+ 2	+ 3	— 2	— 0	+ 1	158
Portugal						
Wholesale prices	— 3	— 5	+ 4	+ 7	— 1	253
Cost of living	+ 10	+ 6	— 1	+ 3	+ 1	218
Spain						
Wholesale prices	+ 13	+ 24	+ 12	+ 4	+ 10	354
Cost of living	+ 18	+ 36	+ 10	+ 4	+ 8	338
Sweden						
Wholesale prices	— 3	+ 1	+ 7	+ 6	+ 1	201
Cost of living	0	+ 2	+ 7	0	0	157
Switzerland						
Wholesale prices	— 3	+ 2	+ 6	— 0.4	— 8	201
Cost of living	— 0.5	+ 2	+ 5	+ 0.6	— 2	161
Turkey						
Wholesale prices	+ 1	— 2	+ 3	+ 9	— 2	475
Cost of living	+ 3	— 3	— 1	+ 5	+ 6	375
United Kingdom						
Wholesale prices	+ 1	+ 6	+ 13	+ 9	+ 9	246
Cost of living	+ 1	+ 0.5	+ 3	+ 5	+ 4	150

* Retail prices.
(1) Compared with April 1944
(2) Compared with April 1945.
(3) Compared with June 1948 (index of basic products).
(4) Compared with December 1938.
(5) Compared with November 1944.
(6) Compared with January 1946.
(7) Compared with July 1944.

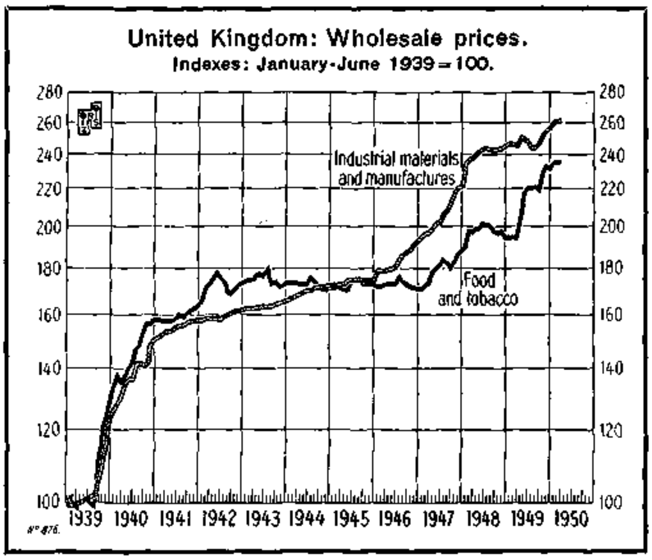
that their prices were on the high side compared with the level in the United States. The cost of living was also reduced but without any distinct decline in wage rates, and it may thus be inferred that since September 1949 real wages have somewhat improved. It may be mentioned that in Belgium wage rates, even when adjusted for the devaluations of the franc in 1944 and 1949, have increased by 40 per cent. since 1939 and that, adjustment having been made for exchange alterations, the rise in Belgian wages would seem to be among the most pronounced in the world. Belgium used to be a cheap-wage country but, owing to the changes which have occurred since 1939, that is no longer the case: when there has been such an increase in costs, there is double the need for a real improvement in industrial methods (what is often called rationalisation) to keep up the country's competitive strength in both industry and agriculture. There can be no doubt that the relatively high unemployment figure in Belgium may be largely explained by the comparatively sudden rise in wages, since these are the most important cost element in any economy. If a bigger percentage of devaluation had been fixed for the Belgian franc than the rate of 12.3 per cent. actually adopted in September 1949, it might perhaps have been possible to make up for the increased wage costs and thus exert a moderating influence on unemployment. But in most cases devaluation is equivalent to an indirect way of reducing real wages — and such a solution of the unemployment problem would have meant that the bulk of the Belgian workers would have been deprived of at least a part of the advantage of higher wages which they have obtained through their trade-union agreements and in other ways.

If "full employment" under any and all circumstances is not made the sole object but other considerations also are allowed to count as far as the workers are concerned, then, in framing an economic and financial policy likely to improve the standard of living of a people over a more protracted period, it clearly becomes a question of weighing the undoubted merits of different interests and points of view against one another.

II. Countries in which the authorities still retain and exercise the power to control prices. This group includes the United Kingdom, Denmark, Norway, Sweden and, with certain reservations, the Netherlands — all countries which have devalued by about 30 per cent. and which in the autumn of 1949 adopted an income-stabilisation policy, as a safeguard against sudden rises in costs and, in particular, in domestic prices. In Sweden and Norway, the application of such a policy involved increased payment of subsidies from government budget funds in order to keep the cost of living down, and agreements had to be made with trade unions and similar interested parties to ensure the acceptance of unchanged wage rates as long as the cost of living did not rise beyond a certain point. Nevertheless, upward adjustments even of prices affecting the cost of living could not wholly be avoided; in Norway, for instance, substantial price increases (by 23 per cent. for butter, 125 per cent. for margarine, over 40 per cent. for bread, etc.) were introduced in April 1950 in order to limit the total of cost-of-living subsidies to N. Kr. 600 million, which was the amount appropriated before the devaluation in September 1949. It has, of course, been obvious in Norway as in a number of other countries that, as more food becomes available and rations can be increased or rationing even abolished, the subsidies will cost the Treasury more if no change is made in the way they are allocated.

In the Netherlands, immediately after the devaluation, the government announced its intention to grant higher subsidies from public funds in order to make up for part of the increase which the prices of certain essential articles were expected to show as a result of the currency changes. But the idea was abandoned, since such a policy was thought likely to stand in the way of balancing the budget and thereby increase the danger of inflation and, moreover, it would have run counter to the developments needed for the realisation of economic union inside Benelux. After conferring with the central organisations of employers and workers, the government gave the employers a general authority to raise the wages and salaries of persons older than 23 by 5 per cent. as from 1st January 1950. At the same time, the policy of reducing subsidies was continued, the coal subsidy being abolished from the beginning of the year. Apart from the rise in wages and salaries which had now been authorised, the income-stabilisation policy was to be effectively pursued in agreement with the organisations of employers and employed.

In the United Kingdom £465 million had been fixed in the budget for 1949–50 as maximum for food subsidies, but in the autumn of 1949 certain decreases were made (elimination of the subsidy on animal feeding stuffs, removal of the fish subsidy, etc.); taking account of these reductions, the Chancellor of the Exchequer arrived at a ceiling of £410 million for 1950–51, of which total £246 million would be in respect of home-produced food and £164 million in respect of imported



food. The subsidy on home-produced food was estimated at 43.6 per cent. of the cost, and that on imported food at 16.5 per cent. He hoped that "no further increases of price in the basic foods will be necessary, anyway for some time to come" and as regards the wage policy he explained that the real difficulty was that there were still some cases of low earnings which were very difficult to correct without upsetting the relative wage levels that had been established within each industry for the different grades and classes of workpeople employed in it (see also the extracts from the Chancellor's statement given on page 55).

According to the statistics of the Ministry of Labour, wage rates (i.e. hourly wages) increased by an average of 92½ per cent. from August 1939 to March 1950, while average weekly earnings increased by 128 per cent. between October 1938 and October 1949. The greater rise in earnings than in wage rates is chiefly due to more regular employment, more overtime work (paid for at special rates) and, in particular, a relative increase in the number of workers in the higher wage groups. In the spring of 1950 the system of rationing has been greatly eased and the price control discontinued for a number of articles of importance for the British public.

III. Countries in eastern Europe show some considerable divergences in policy but almost all of them have in common a system of integral planning, of which a consistent price policy is an important part.

In the U.S.S.R. there is no longer any release of data on the price situation through the publication of wholesale and retail price indexes. This statistical black-out, only preceded by the discontinuance of the publication of figures on the volume of production, exports and stocks of gold, is in itself a proof of the importance which the Soviet authorities attach to prices as indicators of the economic situation. And in the years 1948 and 1949 the eastern European countries, which follow a similar price policy to that of the U.S.S.R., also discontinued the publication of price indexes. The last price index released in Bulgaria was for December 1947 (apart from the index of "terms of trade", i.e. the ratio between the export and import prices, which was issued for the first quarter of 1948). In Czechoslovakia the last figure published for the cost of living was the one for December 1948; wholesale prices continued to be published up to September 1949. In Hungary publication of both retail and wholesale prices was discontinued after June 1949. No official wholesale-price index has been published in Poland since the second world war but, on the basis of data released by the Polish Institute of Economic Planning, the following set of yearly averages of wholesale prices may be reconstructed:

1946	100
1947	185
1948	230
1949	250

These data relate to the state sector in the economy and, in particular, to investments.

Sometimes indications are given in speeches by Ministers and others; thus, the Hungarian Minister of Finance stated that at the end of October 1949 the wholesale-price index stood at 4.1 per cent. and the cost-of-living index at 5.7 below the 1948 level — which points to a downward movement of prices in the country in question.

As regards price movements in the U.S.S.R., various statements seem to indicate that by the autumn of 1946 free-market prices (in "commercial stores") had risen to about ten times the pre-war level. By a decree of 16th September 1946 a considerable reduction was ordered in the prices charged by commercial stores, together with a considerable increase in the prices of rationed products — the purpose obviously being to narrow the gap between the various price categories so as to restore a consistent structure at a new level.

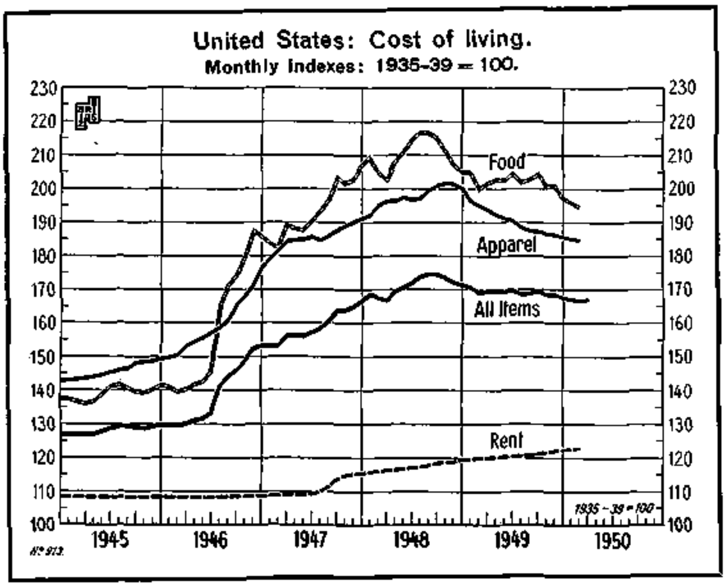
With the introduction in December 1947 of the monetary reform and the parallel derationing of such goods as had been controlled up to then, further steps were taken not only to unify prices but also to bring about an overall reduction which would amount to over one-half of the former free prices. After certain minor adjustments had been made in 1948, two more important decrees for further price reductions were issued in March 1949 and March 1950, the latter coinciding with the announcement of the revaluation of the rouble (cf. Chapter VI).

The price reductions provided for in the various decrees work out at an aggregate of 50 to 60 per cent. for the three years 1948, 1949 and 1950, and no reduction in rates of remuneration is imposed by the decrees. At this point, however, it should not be overlooked that there are differences between what may be termed the "consumer rouble", and the "state rouble" the latter being used, for instance, as the means of calculation for the state budget, for which a different price level appears to prevail. Owing to this complication and to the paucity of the information available, the changes in the price level of the U.S.S.R. cannot be adequately presented.

* * *

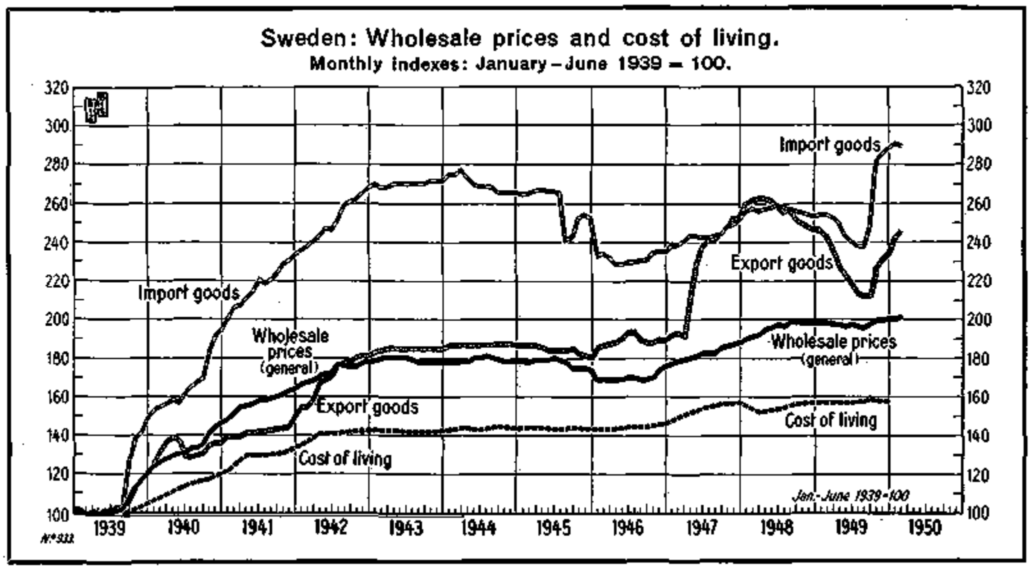
Sometimes it is difficult to assign a country to a particular group but, after the decontrol which has been taking place in western Germany since 1948, that country is most nearly akin to the first of the three groups differentiated above. In 1949 wholesale prices were practically stable (a rise by one per cent. being shown in the table on page 104); but this was the resultant of a decline by 6 per cent. in the prices of raw materials and a rise of 17 per cent. in the price level for foodstuffs (which, even so, had risen less since 1938 than the prices for industrial materials). The cost of living, on the other hand, fell by 7 per cent. in 1949 — and this decline was generally regarded as a justification for the decontrol of prices. Wage rates rose on an average by 5 per cent. during that year and gross weekly earnings by some 13 per cent.; the average earnings of a skilled male worker were returned as DM 68 per week in December 1949.

As far as the movements of wholesale prices are concerned, it has already been mentioned that the changes which occurred in 1948 and 1949 have considerably reduced the "spread"; in other words, there has been a certain inner consolidation of the price structure. A similar tendency, but much less pronounced, can be observed in several countries as regards the cost of living also.



In regard to the cost of living, government intervention and controls generally play a considerable rôle. In the matter of rents, for instance, they have almost everywhere slowed down the process of adjustment to the new value of the domestic currency.

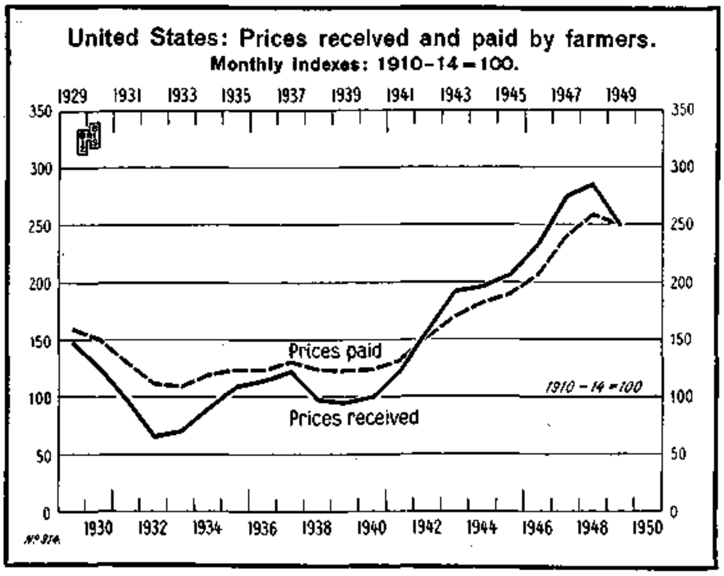
In the countries which, after the devaluations, applied an "income-stabilisation policy" and to that end sought to prevent a rise in the cost of living, recent increases in wholesale prices, in response to influences from abroad, have resulted in the emergence of greater divergencies between the various price indexes. In the late autumn of 1949, when part of the budget surplus in Sweden was used for increased government subsidies to keep the cost of living down and thus help to ensure restraint as regards wage increases, it was expressly stated that the various measures were being adopted precisely in order to gain time while waiting to see how prices would develop in the world as a whole during the coming year. Under the arrangements entered into by manufacturers and others, several price commitments will lapse in the autumn of 1950; and the extraordinary subsidies will cease as from 1st January 1951. Thus, when that time comes, the question is bound to arise of how to adjust Swedish prices to the conditions then prevailing. Elsewhere, too, similar problems will come to the fore, the particular time limits and undertakings varying from country to country.



* * *

At the end of April 1950 only the prices of mineral oil, pig-iron, coffee, sugar and crude rubber were still at or near their post-war "highs". For the chief agricultural staples the post-war peak had been reached as long ago as the beginning of 1948, while for the leading base metals a recession from the highest points set in during the first quarter of 1949. Despite the continued decline in prices, it remains questionable whether the quotations for the majority of primary products (raw materials as well as foodstuffs) have as yet reflected in full the improvement in the supply position which has occurred during the past two years. There is still in this field a considerable amount of government intervention, which will usually aim at stability of prices and therefore may seek to prevent reductions, as has been attempted with regard to the prices of agricultural products in the United States and in some other countries as well. The control may conceivably become less active now that the price level for primary products has been brought more into line with the average post-war price level. The price movements in the spring of 1950 were, however, again in an upward direction (as already shown by the March figures in the table on page 99), these increases being not really the result of measures of intervention with regard to particular commodities but rather attributable to general causes which reflect the emergence of a "mild inflation" — a circumstance which needs careful watching.

While government intervention in the production of and trade in foodstuffs and individual raw materials has been and remains the practice of many countries, special significance attaches to the policies pursued by the United States and the United Kingdom — two countries accounting for a decisive proportion of world production, world consumption and international



trade in the leading staple commodities. The American measures of importance in this connection are farm support, strategic stockpiling and particular shipments under Marshall aid, while the intervention by the British Government has made itself felt mainly through the closing of commodity exchanges and the adoption, in many lines, of bulk buying.

Under the farm-support schemes applied in the United States, the farmers are guaranteed, for each eligible product, a minimum price which corresponds roughly to 90 per cent. of the parity price (as calculated on the basis of the relation between the prices paid and the prices received by farmers in the years 1910–14). The method of giving effect to this guarantee is that the government, through the Commodity Credit Corporation, grants loans to farmers or makes direct purchases in order to keep the actual market prices from falling.

By 31st December 1949 the Commodity Credit Corporation had invested a total of $3,645 million in farm commodities, including $1,725 million accounted for by stocks which had come into the ownership of the Corporation through direct purchases or through defaults on commodity loans relating to crops harvested in 1948 and earlier years. The investment total is expected to rise to $3,900 million by the end of June 1950, and for the year 1950–51 the peak requirements for support operations are officially estimated at

Parity prices of U.S. agricultural products
for the four weeks ended 15th March 1950.

Commodity	Unit	Dollars per unit
Wheat	bushel	2.14
Maize	″	1.55
Rye	″	1.67
Oats	″	0.92
Linseed	″	4.28
Soya beans	″	2.50
Barley	″	1.43
Potatoes	″	1.68
Hogs	100 lbs	18.80
Beef cattle	″	17.00
Veal calves	″	19.00
Lambs	″	18.70
Milk, wholesale	″	4.32
Wool	lb	0.502
Butter-fat	″	0.692
Chickens, live	″	0.285
Eggs	dozen	0.494

Note: The term parity as applied to the price of an agricultural commodity is that price which will give the commodity a purchasing power equivalent to the average purchasing power of the commodity in the basic period 1910–14.

Support prices in 1950 are at 90 per cent. for the basic commodities, and at or up to 90 per cent. of the parity price for the other products. The support prices for wheat and maize, with a parity level of $2.14 and $1.55 per bushel respectively, thus work out at $1.93 for one bushel of wheat and at $1.40 for one bushel of maize.

between $4,900 and $5,900 million, the government having requested an increase in the Corporation's borrowing powers from $4,750 million to $6,750 million.

The operating loss of the Corporation in the fiscal year 1948–49 came to $600 million and a greater loss is expected for the current year owing to the possibility that stocked goods may be destroyed and to the fact that commodities which are more or less perishable have had to be offered to foreign buyers at nominal prices (e.g. one cent per bushel for potatoes which had cost the government an average of $1.83 per bushel). It appears that in some sectors the high support prices are restricting consumption and the consequent increase in surplus stocks is causing fear as to the future.*

The difficulties into which the U.S. farm-support programme has run would have been greatly intensified but for the fact that the European Recovery Program served to move substantial quantities of surplus U.S. farm commodities into export channels. The total E.R.P. authorisations for food and farm products during 1949 amounted to $1,823 million which, together with the ocean freights payable to American ships for the movement of these commodities, corresponded to not much less than one-half of the total Marshall aid appropriations during the same year. The scaling-down of Marshall aid, coupled with the recovery in the European output of farm products, will necessarily reduce the shipments of foodstuffs to western Europe, and it is not surprising that the U.S. Administration is concerned about coming problems, especially since the undoubted increase in production in different parts of the world is about to establish a better international balance — a development which is bound to result in growing competition for markets.

Stockpiling for strategic purposes has exercised a fluctuating influence upon the markets. In the spring of 1949, when base metals were for the first time offered in large quantities, it was known that the Munitions Board was without the necessary funds for immediate purchases, and this knowledge tended to depress the market. As mentioned on page 99, $40 million was voted by Congress for immediate spending and new funds were made available from October 1949. As the general rule is not to compete with private buyers and to limit to a minimum the influence of stockpiling on commodity prices, the effect of the stockpiling scheme is partly in the direction of stimulating the development of new productive capacity and of substitutes for scarce materials. At the end of 1949 the ultimate value of

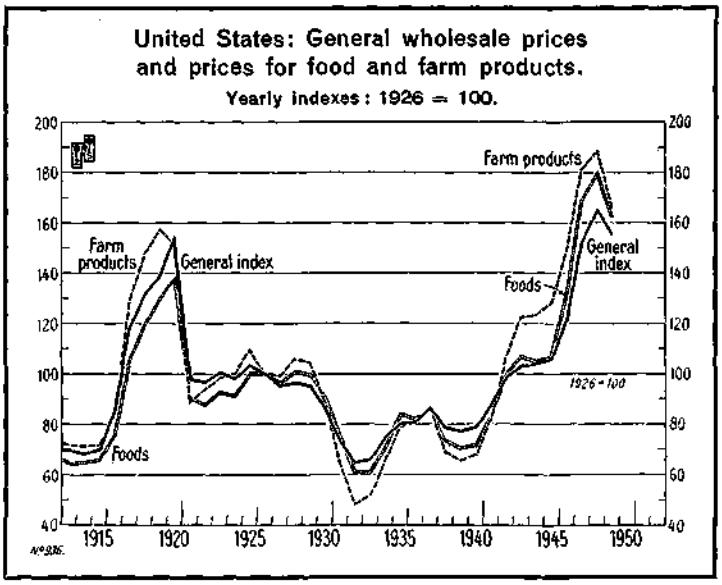
* To bring more flexibility into the farm-support programme, the Secretary of Agriculture, Mr Charles F. Brannan, submitted a scheme to a joint meeting of the Agricultural Committees of the two Houses of Congress on 7th April 1949, under which prices of perishable foodstuffs would be freed and permitted to find their own levels, the difference between the average market prices and the support standards being met by direct government payments to farmers. Instead of adopting this scheme, Congress passed an "Agricultural Act of 1949" (approved on 31st October 1949), which contained a new provision to the effect that food commodities acquired as a result of price-support operations can be disposed of on special terms if such commodities are found to be in danger of deteriorating or spoiling before they can be disposed of through normal domestic channels without detriment to the price-support programme. As a result, the Commodity Credit Corporation has begun to publish periodical lists of commodities for export — and the potatoes mentioned in the text are a case in point.

the materials to be accumulated was estimated officially at $3,773 million, and it is expected that by the end of June 1950 the amount actually stored or contracted for will be equal to about 54 per cent. of the ultimate objective; this means that much stockpiling is still to be done — but, with increasing supplies in the markets, the coming acquisitions should not present any particular difficulties, apart from the nearness of the end-of-June time limit.

In 1949 there were some modifications, but no fundamental change, in the commodity policy of the United Kingdom. With the improvement in supplies from non-dollar sources, a certain number of products (including wool) were released from direct government control, and in November 1949 the London tin market was opened again. With the London markets for many commodities closed, quotations in New York and other American markets tended to dominate the trend of world prices, notwithstanding the fact that the American markets are often more national than international in character.

Bulk buying continues to be the basis of the British Government's procurement policy as regards all major foodstuffs; early in 1950 some forty-five long-term contracts, concluded by the government with suppliers in many parts of the world, were in operation, some of them extending to 1955 and even beyond. When prices were falling, as in the first half of 1949, some difficulties were experienced in lowering the supply prices to British industries; but, as a result of the devaluation of the pound, the prices fixed in sterling under the various contracts seem to have become fully competitive with world market prices.

Brief mention should also be made of commodity schemes adopted in the international field, the most important being the International Wheat Agreement signed on 23rd March 1949 and later ratified by the number of governments necessary for it to enter into force. It arranged for the disposal of 456.3 million bushels and fixed a maximum price of $1.80 per bushel (which means, inter alia, that, at the moment, the selling governments have to make good, by a subsidy, a difference between the actual market price and the maximum price).



United States: General wholesale prices and prices for food and farm products.
Yearly indexes: 1926 = 100.

Note: The prices paid for wheat and some other cereals began to fall in 1927 (or even earlier) but the prices paid for animal products held up well until the general debacle in 1930–31.

There can be no doubt that, in this and various other commodity schemes, it will already be necessary, in the near future, to reckon with increasing supplies due to a general improvement in conditions of production. It is clearly in the general interest that the various forms of intervention should not establish highly artificial prices and give rise to other circumstances which will make an orderly adjustment of the international commodity markets more difficult and complex than it need be. The first thing to be done in order to stimulate consumption is unquestionably to allow prices to reach their economic level; and moves to counteract such a development may result in the emergence of an artificial scarcity in the midst of increasing plenty — an attempted solution which would be no solution, except possibly in the very short run, and which would probably add to the ultimate difficulties.

A return to relatively free market quotations is often feared by the producers who remember the ruinous prices paid to them during the depression in the thirties, and this makes them anxious above all to guard against a repetition of any similar calamity. It must be remembered, however, that in the course of the great depression there was an abrupt fall not only in the prices of primary products but in the general price level. It was, however, the primary producers who were most seriously hit by the fall in prices, while the manufacturing nations were touched on the raw through a rise in unemployment. The obvious conclusion seems to be that the essential task is to secure a relatively stable price level — and to do that by solving the main outstanding problems, both in the individual countries and in their relations with one another, so that the balances of payments will not be burdened by too heavy charges, as was the case for a number of countries after the first world war; once the wartime maladjustments have been largely overcome, the general credit and gold policy is likely to be much more effective. Should it be possible to secure a relatively stable general price level, a situation would be created in which fluctuating prices for individual commodities (i.e. relatively moderate divergencies from the stable average) would have a definite economic rôle to fill as a guide to producers and traders. It would, indeed, be a pity if fears with roots in the past — but a past which need not be repeated — should lead to the adoption of measures more likely to produce than to eliminate maladjustments. The fact is that the individual producer of primary commodities is likely to be less well served by particular support measures than by a courageous attack on the major economic and financial problems with which his earning capacity and, in that way, his real interests are indissolubly bound up.

V. A Year of Contrasts in the World's Foreign Trade.

If one looks at the global figures of world trade for 1949 or at the current surplus in the U. S. balance of payments for the same year, one has the impression of a barely maintained dosition, i.e. of hardly any progress in comparison with corresponding data for the previous year. But the global figures, if not carefully analysed, are apt to be misleading; for 1949 was a year of contrasts, and for that reason it is more than ever necessary to distinguish between the results for different areas and for different periods within the year.

World trade turnover in terms of value.

Countries or areas	Pre-war 1929	Pre-war 1937	Pre-war 1938	Post-war 1946	Post-war 1947	Post-war 1948	Post-war 1949
	in milliards of current U.S. dollars						
United Kingdom	9.0	7.3	6.5	9.2	12.1	15.0	15.3
United States	9.5	6.3	5.0	15.1	21.1	19.8	18.6
41 countries	24.8	19.7	17.2	28.3	42.5	47.9	48.4
Total for 43 countries	43.3	33.3	28.7	52.6	75.7	82.7	82.3
Estimates for the rest of the world	25.2	20.5	18.3	20.6	28.9	34.4	34.6
Total of world trade	68.5	53.8	47.0	73.2	104.6	117.1	116.9
Index of wholesale prices in current U.S. dollars (for purposes of comparison)	*100*	*91*	*83*	*127*	*159*	*173*	*163*

Note: Compiled from the League of Nations international trade statistics and from the "Foreign Commerce Weekly" published by the U. S. Department of Commerce.

From 1948 to 1949 the total of world trade shows a decline of about $200 million — which, being not even one-quarter per cent. of the totals involved, is so relatively small an amount that it almost falls within the margin of error. The only conclusion which can safely be drawn from the provisional figures is that, in 1949, world trade in terms of dollars was barely maintained at the 1948 level. It is important, in the context, that two particular circumstances should be taken into account:

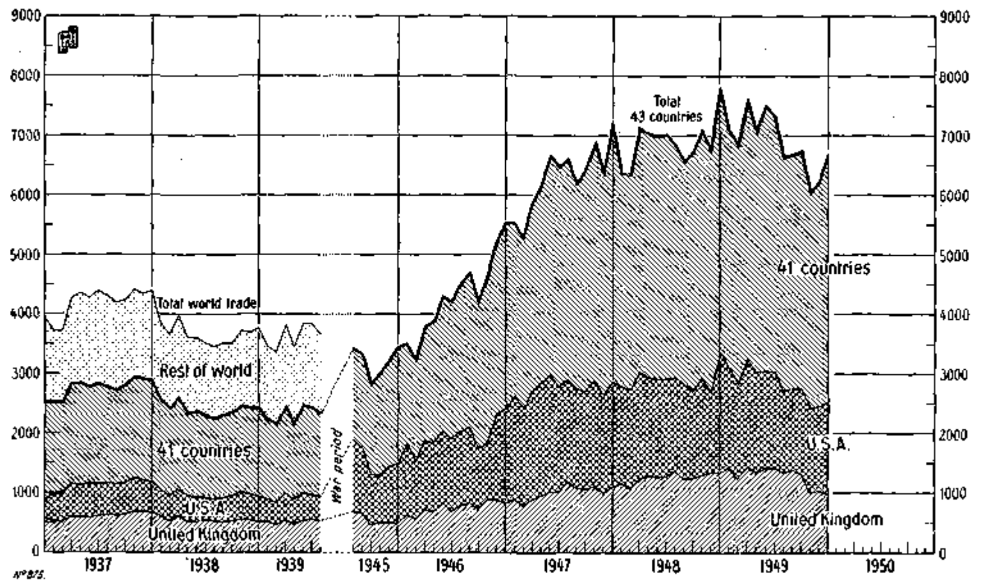
(i) Wholesale commodity prices as expressed in current U. S. dollars were some 6 per cent. lower in 1949 than in 1948. As shown on page 99, it was the prices of raw materials and foodstuffs that had fallen most sharply, and about 60 per cent. of world trade consists of these commodities. But there had also been a decline in the prices of some manufactured articles, e. g. certain textiles.

(ii) Two-thirds of world trade was affected by the currency changes in the autumn of 1949, which naturally reduced the trade in terms of dollars for the countries whose currencies were devalued at that time.

For these reasons, it is evident that the relatively constant value figures must correspond to an increase in the volume of the world's foreign trade. The United Nations Secretariat in Lake Success has calculated that the quantum of world exports was about 5 per cent. higher in 1949 than in 1948.

The decline in the foreign trade turnover for the last quarter of 1949, as shown by the above graph, is exclusively due to the devaluation of the pound, as a result of which the dollar value of the British import and export figures suddenly came to be calculated at the rate of \$2.80 = £1 instead of \$4.03 as previously. As a matter of fact, the volume of British exports in the fourth quarter of 1949 was as much as 8 per cent. above the average for the first three quarters of the year and the level of imports was maintained (the statistics showing an increase of one per cent. for the last quarter over the three previous quarters).

Turnover of world trade, monthly, in millions of dollars.



As may be seen from the following table, there is a distinct line of cleavage between trade developments in different areas: the decline in the value figures is due to a reduction in the foreign trade of the western hemisphere, affecting not only the trade of the United States and Canada but also the bulk of the exports and imports of the remaining western-hemisphere countries, while western Europe and the other areas included in the table all show increased exports together with increased or practically unchanged imports.

If attention is concentrated on the balance of trade, it will be found that western Europe reduced its import surplus by \$1.6 milliard or about 20 per cent. of the 1948 figure. The reduction in the import surplus of

Foreign trade of different areas, in terms of value.[1]

Areas	Imports (c.i.f.)			Exports (f.o.b.)			Balance		
	1947	1948	1949	1947	1948	1949	1947	1948	1949
	in milliards of current U.S. dollars								
United States	6.5	8.1	7.5	15.4	12.7	12.0	+ 8.9	+ 4.6	+ 4.5
Canada [2]	3.0	3.0	3.0	3.0	3.3	3.1	0.0	+ 0.3	+ 0.1
Rest of the western hemisphere	6.8	6.8	6.2	6.4	7.2	6.1	— 0.4	+ 0.4	— 0.1
Western and southern Europe [3]	23.1	25.8	25.4	14.4	18.2	19.4	— 8.7	— 7.6	— 6.0
Eastern Europe (excluding U.S.S.R.)	2.0	2.5	2.4	1.8	2.7	2.7	— 0.2	+ 0.2	+ 0.3
Middle and Far East	7.6	8.9	9.7	5.4	7.0	7.5	— 2.2	— 1.9	— 2.2
Africa and Oceania	4.9	6.3	6.3	3.7	4.6	5.5	— 1.2	— 1.7	— 0.8
Total	53.9	61.4	60.5	50.1	55.7	56.3	— 3.8	— 5.7	— 4.2

(1) The data have been taken from the "International Financial Statistics" issued by the International Monetary Fund. (2) Including the foreign trade figures for Newfoundland.
(3) Western Europe in the above table includes the O.E.E.C. countries plus Spain.

"Africa and Oceania" was proportionately even larger, while the "Middle and Far East" had a higher import surplus in 1949 than in 1948. The discrepancy, in each year, between the import total and the export total is, of course, mainly due to the fact that imports are valued c.i.f. and exports f.o.b. — which means that the cost of insurance and freight enter into the import values but not into the export figures. It is becoming increasingly the practice in compilations of balance-of-payments estimates to give both exports and imports f.o.b. When no particular indications are given, however, it can usually be assumed that imports are valued c.i.f. and exports f.o.b., in accordance with the principle almost universally adopted in the compilation of the ordinary trade statistics.

The total of world trade, expressed in current dollars, was about 70 per cent. higher in 1949 than in 1929, but prices had risen in the meantime by over 60 per cent. in the United States (and generally somewhat more elsewhere). Thus the volume of world trade was probably about the same in 1949 as in the best year after the first world war; and in that year, it should not be forgotten, the total volume of foreign trade was about 25 per cent. above the 1913 level. Some account should be taken — it would seem — of shifts in the composition of the trade: there are now, for instance, much larger shipments of oil — a bulky product requiring a high ratio of tonnage to value. When considerable structural changes of this kind have occurred, it is difficult to gauge the significance of variations in the quantum of trade with any exactitude; but it seems that there has been no real progress in world trade for twenty years. In 1929, with relatively low tariff barriers and even, in some cases, free trade (which was still the rule in the United Kingdom), there were, in western Europe, actually fewer hindrances to commerce than in 1913; and this circumstance, coupled with the relatively slight degree in which the areas producing raw materials and foodstuffs had as yet been industrialised, afforded an opportunity for a brisk exchange of goods and services, with enough elbow-room to make the balancing of foreign receipts and payments a not too difficult matter. There are obviously hindrances to trade now which existed neither before 1914 nor (apart from the United States, where the tariff had been raised after the first world war) in the years 1926–29. Many of the hindrances which now obstruct trade are clearly undesirable even from a "protectionist" point of view, being simply a legacy of the wartime concentration of resources on the military effort to the exclusion of all but the most essential civilian needs. There is now manifestly room for an expansion of trade, i.e. for further liberalisation both in and outside Europe, and it is fortunate that in itself this aim meets with such general approval, although there is always difficulty in translating aspirations into practical achievements.

* * *

The variations in world trade within the year 1949 were largely due to changes affecting the foreign trade of the United States. The following table shows some of the main figures of U. S. foreign trade as an average for 1936–38 and since 1947.

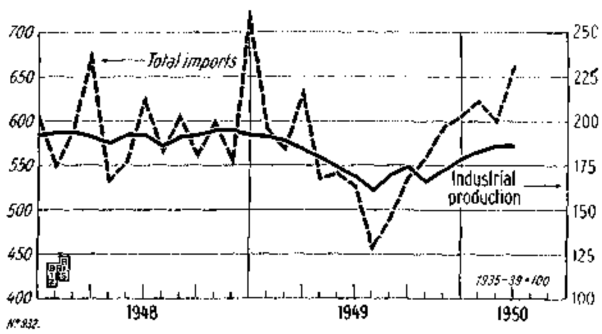
United States: Foreign trade.

Years	Total exports (1)	Total imports (2)	Balance	Trade in relation to O.E.E.C. countries: Exports	Imports	Balance
	in millions of dollars					
1936–38 yearly average	2,967	2,489	+ 478	1,129	606	+ 523
1947	15,340	5,733	+ 9,607	5,296	695	+ 4,601
1948	12,653	7,116	+ 5,537	4,182	977	+ 3,205
1949	11,911	6,624	+ 5,287	4,072	843	+ 3,229

(1) Including re-exports. (2) General imports.

The value figures suggest a definite decline in the trade turnover from 1948 to 1949 both in exports and in imports, but, if account is taken of the simultaneous fall in prices, the real change was slight indeed: according to the Department of Commerce, the volume of imports is estimated to have gone down by 3 per cent., while exports rose by 2 per cent. These percentages are so small that one would be inclined to write them off as falling within the margin of error, were it not for the fact that extraneous circumstances pointed to such a change in the volume: what probably happened is that the recession in the United States during the spring resulted in a reduction of imports, affecting the year as a whole, while the continuance of Marshall aid served to support the volume of exports, which was thus kept up notwithstanding the restrictions imposed by a number of governments intent on cutting down the imports of their countries from the dollar area.

United States: Industrial production
(monthly index: 1935-39 = 100)
and total imports,
monthly, in millions of dollars.



The figures given above are for 1949 as a whole but, especially as regards U. S. imports, there have been great variations within the year. It is a commonplace that the volume of imports into the United States depends very largely on the intensity of industrial activity within the country; but it is interesting to see from the graph how close the correlation is, being apparent even in the monthly figures.

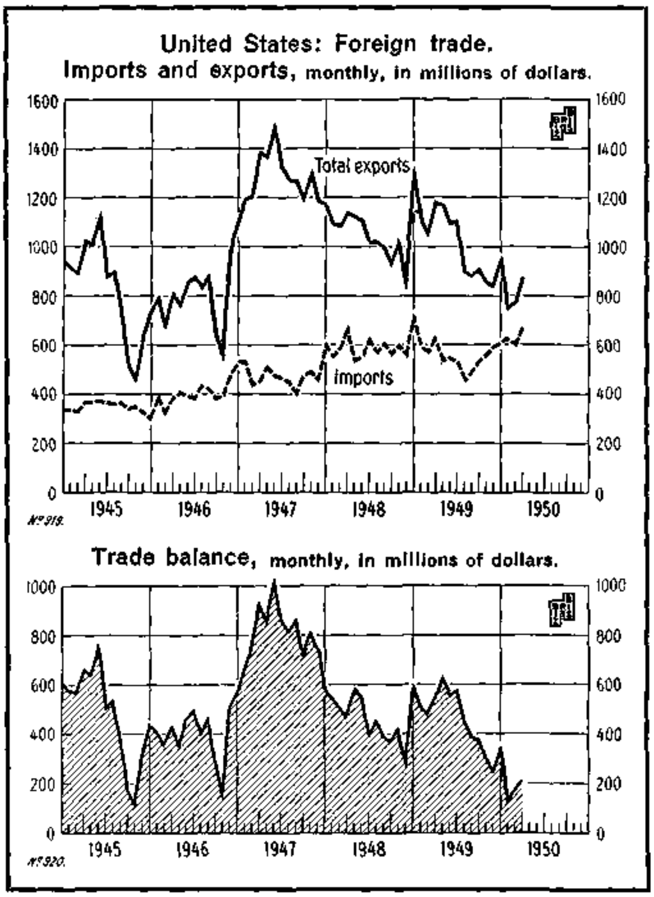
Exports, on the other hand, have experienced a more continuous decline from the peak in 1947. The following table shows U. S. exports classified according to the main commodity groups and the major trading areas.

The decline in exports from 1948 to 1949 was largest in the group of manufactured goods, especially manufactured foodstuffs (such as wheat flour), while exports of crude materials increased both absolutely and relatively (an

United States: Composition and direction of U. S. exports.

Commodity groups or trading areas	1929	1937	1948	1949	1929	1937	1948	1949
	In millions of dollars				percentages			
By commodity groups								
Exports of:								
Crude materials.	1,142	731	1,489	1,781	*22*	*22*	*12*	*15*
Crude foodstuffs	270	104	1,267	1,339	*5*	*3*	*10*	*11*
Manufactured foodstuffs .	484	178	1,315	878	*9*	*5*	*10*	*7*
Semi-manufactured goods	729	669	1,402	1,352	*14*	*20*	*11*	*12*
Manufactured articles . .	2,532	1,617	7,060	6,444	*48*	*48*	*56*	*54*
Re-exports	84	50	120	117	*2*	*2*	*1*	*1*
Total.	5,241	3,349	12,653	11,911	*100*	*100*	*100*	*100*
By major trading areas								
Exports to:								
Western Europe:								
United Kingdom	848	536	644	700	*16*	*16*	*5*	*6*
Other O.E.E.C. countries	1,262	709	3,540	3,310	*24*	*21*	*28*	*28*
Total for western Europe.	2,110	1,245	4,184	4,010	*40*	*37*	*33*	*34*
Sterling area (excluding the United Kingdom) . .	413	319	1,359	1,162	*8*	*10*	*11*	*10*
Canada	948	509	1,914	1,941	*18*	*15*	*15*	*16*
Latin America *.	943	616	3,310	2,832	*18*	*18*	*26*	*24*
Rest of the world.	827	660	1,886	1,966	*16*	*20*	*15*	*16*
Total.	5,241	3,349	12,653	11,911	*100*	*100*	*100*	*100*

* The figures for Latin America do not include the exports to certain countries (e. g. Jamaica) belonging to the sterling area.



increase in the exports of raw cotton, for instance, more than counter-balancing a decline in the exports of coal).

Changes in the geographical distribution of exports were slight but, as far as they went, they represented an approach to pre-war patterns of trade — Latin America and the sterling area taking somewhat smaller proportions of U. S. exports than in 1948 but still relying upon the United States as supplier of goods to a greater extent than before the war.

The following table shows the distribution of imports according to commodity groups and major trading areas.

There was a notable increase in the U. S. imports of crude foodstuffs, especially sugar and coffee, corresponding more particularly to an increased importance of Latin America as a source of supply — and that not only in relation to 1948 but also in comparison with pre-war currents of trade. The products obtained from the Latin American countries are, however, those traditionally furnished by them: oil from Venezuela, Curaçao and Mexico; coffee from Brazil, Colombia and Mexico; sugar from Cuba; copper from Chile and Mexico; wool from Uruguay and the Argentine.

As pointed out in an article on "The Balance of Payments Position of the United States", which appeared in the Federal Reserve Bulletin for April 1950, "the shifts in trade positions in 1949 suggest a strong movement towards a more balanced and permanent pattern of world trade, but they also indicate that great difficulties are still in the way of re-establishing a multilateral system of trade and currency convertibility". Thus, in the period 1934–38, the United States had an export surplus averaging $640 million a year in relation to western Europe, Canada and Japan and, at the same time, an import surplus of $215 million a year in relation to other parts of the world, including Latin America, the sterling-area members outside Europe and the overseas dependencies of European countries. This situation pro-

United States: Composition and distribution of U. S. imports.

By commodity groups or trading areas	1929	1937	1948	1949	1929	1937	1948	1949
	in millions of dollars				*Percentages*			
By commodity groups								
Imports of:								
Crude materials.	1,559	971	2,143	1,858	*35*	*31*	*30*	*28*
Crude foodstuffs	538	414	1,272	1,336	*12*	*14*	*18*	*20*
Manufactured foodstuffs .	424	440	731	741	*10*	*15*	*10*	*11*
Semi-manufactured goods	885	634	1,633	1,419	*20*	*21*	*23*	*22*
Manufactured articles . .	993	551	1,300	1,244	*23*	*18*	*18*	*19*
Imports for re-export. . .	•	74	37	26	*0*	*1*	*1*	*0*
Total	4,399	3,084	7,116	6,624	*100*	*100*	*100*	*100*
By major trading areas								
Imports from:								
Western Europe:								
United Kingdom	330	203	293	227	*7*	*7*	*4*	*3*
Other O.E.E.C. countries	878	513	688	617	*20*	*16*	*10*	*9*
Total for western Europe	1,208	716	981	844	*27*	*23*	*14*	*12*
Sterling area (excluding the United Kingdom) .	570	517	1,096	928	*13*	*17*	*15*	*14*
Canada	503	398	1,554	1,511	*11*	*13*	*22*	*23*
Latin America	1,081	695	2,488	2,429	*25*	*22*	*35*	*37*
Rest of the world	1,037	758	997	912	*24*	*25*	*14*	*14*
Total	4,399	3,084	7,116	6,624	*100*	*100*	*100*	*100*

vided an opportunity for "triangular trade" (the possibilities will be found to have been even greater if account is taken of the "invisibles" also). In 1949, on the other hand, the United States had an e x p o r t surplus of $1.4 milliard in relation to the "rest of the world" (other than western Europe, Canada and Japan) — which meant that, for instance, western Europe could not in that year earn any net amount of dollars by selling to these overseas areas. But, as has been pointed out, present lines of change are in the direction of a re-establishment of the old pattern.

The approach to more balanced conditions continued in the winter of 1949–50.

The total of imports into the United States in the first three months of 1950 was the highest ever recorded for any quarter (if account is taken of the fall in prices, the improvement in import figures in comparison with the best returns for the two previous years is more pronounced than the table suggests). The quarterly total of U. S. exports in the first three months of 1950 was the lowest since the last quarter of 1946, the decline reflecting not so much administrative cuts in purchases by the importing countries as an increased availability of other sources of supply — including the greater output of domestic production in many western European countries. The narrowing of the spread between U. S. exports and imports is impressive and may be taken as an encouraging sign, even if it would be premature to judge developments on the basis of returns referring to one or two quarters only.

United States: Foreign trade.

Period		Exports	Imports	Balance
		Quarterly, in millions of dollars		
1937	quarterly average	837	771	+ 66
1947	1st quarter. . . .	3,695	1,412	+ 2,283
	2nd „	4,181	1,449	+ 2,732
	3rd „	3,715	1,323	+ 2,392
	4th „	3,662	1,549	+ 2,113
1948	1st quarter. . . .	3,317	1,793	+ 1,524
	2nd „	3,237	1,707	+ 1,530
	3rd „	2,936	1,729	+ 1,207
	4th „	3,163	1,875	+ 1,288
1949	1st quarter. . . .	3,325	1,789	+ 1,536
	2nd „	3,362	1,601	+ 1,761
	3rd „	2,685	1,478	+ 1,207
	4th „	2,629	1,758	+ 871
1950	1st quarter. . . .	2,386	1,886	+ 500

The current account of the balance of payments (including invisible items) was reproduced on page 90. For 1949 the invisibles gave the United States a net income of $816 million in addition to the receipts from the export surplus. The net amount of tourist expenditure has been increasing in recent years but not quite as much as the amount of net investment income from abroad. The net surplus of all the items, visible and invisible, on the current account of the U. S. balance of payments came to $6.3 milliard in 1948 and $6.1 milliard in 1949, the deficits in the partner countries being covered in the latter year to the extent of nearly $6 milliard by grants and credits extended by the U.S. Government, as shown in the table on page 89.

* * *

For Europe, the deficit on current account (as shown in the table on page 39) was reduced from the equivalent of $5.2 milliard in 1948 to $2.9 milliard in 1949 — an improvement which, for the majority of countries, was more marked but less regular, being limited to the last quarter of the year. Since the foreign accounts of the eastern European countries in relation to the west are practically in balance (few credits being arranged), the improvement which has taken place has occurred in the balance of payments of the O.E.E.C. countries.

As far as western Europe is concerned, a most important development has been the improvement in relation to the non-dollar world including the overseas sterling area and most of the Latin American countries: in relation to the extra-European countries outside the dollar area (which, of course, includes a number of countries in addition to the United States) an import surplus of about $1 milliard in 1948 gave place to an export surplus of over $1 milliard in 1949. For reasons set out in some detail on page 46, the western European countries are not yet in a position to obtain payment in gold and dollars for the whole of their export surplus in relation to the countries in question. To quote the Federal Reserve Bulletin once more: "This situation indicates that the problem of meeting western Europe's dollar deficit has broad aspects which involve movements of goods and capital among all parts of the world". That is particularly true as far as the United Kingdom is concerned.

The following table shows the composition and the main sources of British imports.

How essential it is for the United Kingdom to obtain from abroad food to live on and materials with which to work is shown by the fact that three-quarters of its imports fall under the headings of "food, drink and

United Kingdom: Composition and distribution of British imports.

By groups of commodities or major trading areas	1929	1937	1947	1948	1949	1929	1937	1947	1948	1949
	in millions of £ sterling					*percentages*				
By groups of commodities										
Imports of:										
Food, drink and tobacco	535	431	803	883	970	*44*	*42*	*45*	*43*	*43*
Raw materials and articles mainly unmanufactured	340	315	567	684	774	*28*	*30*	*32*	*33*	*34*
Articles wholly or mainly manufactured	334	275	399	486	509	*27*	*27*	*22*	*23*	*22*
Other imports	12	7	26	25	20	*1*	*1*	*1*	*1*	*1*
Total	1,221	1,028	1,795	2,078	2,273	*100*	*100*	*100*	*100*	*100*
By major trading areas										
Imports from:										
Western hemisphere . .	382	307	780	631	626	*31*	*30*	*44*	*30*	*28*
Sterling area	312	316	558	752	852	*26*	*31*	*31*	*36*	*37*
O. E. E. C. countries and possessions	377	248	309	430	540	*31*	*24*	*17*	*21*	*24*
Rest of the world	150	157	148	265	255	*12*	*15*	*8*	*13*	*11*
Total	1,221	1,028	1,795	2,078	2,273	*100*	*100*	*100*	*100*	*100*

United Kingdom: Exports by groups and destination.

By groups of commodities or major trading areas	1929	1937	1947	1948	1949	1929	1937	1947	1948	1949
	in millions of £ sterling					*percentages*				
By groups of commodities										
Exports of:										
Food, drink and tobacco .	55	39	65	94	98	*7*	*7*	*5*	*6*	*5*
Raw materials and articles mainly unmanufactured .	79	65	34	68	82	*9*	*11*	*3*	*4*	*4*
Articles wholly or mainly manufactured	575	405	1,000	1,377	1,559	*69*	*68*	*84*	*83*	*85*
Other exports	20	12	39	43	46	*2*	*2*	*3*	*3*	*3*
Re-exports	110	75	61	65	58	*13*	*12*	*5*	*4*	*3*
Total	839	596	1,199	1,647	1,843	*100*	*100*	*100*	*100*	*100*
By major trading areas										
Exports (incl. re-exports) to:										
Western hemisphere . . .	175	115	191	269	281	*21*	*19*	*16*	*16*	*15*
Sterling area	310	235	562	793	935	*37*	*39*	*47*	*48*	*51*
O. E. E. C. countries and possessions	261	167	304	420	451	*31*	*28*	*25*	*25*	*24*
Rest of the world	93	79	142	165	176	*11*	*14*	*12*	*11*	*10*
Total	839	596	1,199	1,647	1,843	*100*	*100*	*100*	*100*	*100*

Visible and invisible trade of certain countries.

Countries	Years	Currencies	Exports	Imports	Surplus of exports (+) or imports (—)	Surplus (+) or deficit (—) of invisible items	Surplus (+) or deficit (—) on current account
			in millions of national currency units				
United States . . .	1938	Dollars	3,243	2,173	+ 1,070	+ 210	+ 1,280
	1947		16,056	6,071	+ 9,985	+ 1,293	+11,278
	1948		13,445	7,697	+ 5,748	+ 562	+ 6,310
	1949		12,401	7,134	+ 5,267	+ 816	+ 6,083
Canada	1938	Can. $	844	649	+ 195	— 95	+ 100
	1947 (1)		2,723	2,535	+ 188	— 141	+ 47
	1948 (1)		3,030	2,598	+ 432	+ 20	+ 452
	1949		2,989	2,696	+ 293	— 113	+ 180
Belgium	1937	B. fcs	25,341	24,740	+ 601	+ 469	+ 1,070
	1947		60,670	77,020	—16,350	+ 3,016	—13,334
	1948		75,453	80,700	— 5,247	— 1,796	— 7,043
	1949 *		79,800	81,700	— 1,900	+ 7,900	+ 6,000
Denmark	1938	D. Kr.	1,582	1,665	— 83	+ 194	+ 111
	1947		2,368	3,148	— 780	+ 362	— 418
	1948		2,783	3,475	— 692	+ 440	— 252
	1949		3,648	4,275	— 627	+ 361	— 266
Finland	1938	FM	8,425	8,590	— 165	+ 575	+ 410
	1947		45,115	46,615 (2)	— 1,500	+ 1,685	+ 185
	1948		56,390	66,050 (2)	— 9,660	+ 3,590	— 6,070
	1949		65,606	66,278 (2)	— 672	.	.
France (3)	1938	U. S. $	640	870	— 230	+ 207	— 23
	1947		1,040	2,492	— 1,452	— 61	— 1,513
	1948		1,082	2,510	— 1,428	— 102	— 1,530
	1949 *		1,565	2,035	— 470	— 70	— 540
Italy.	1938	U.S.$	448	567	— 119	+ 79	— 40
	1947		666	1,327	— 661	— 132	— 793
	1948		1,068	1,388	— 320	+ 20	— 300
	1949 *		1,103	1,377	— 274	+ 59	— 215
Netherlands. . . .	1938	Fl.	1,086	1,245	— 159	+ 176	+ 17
	1947		1,772	3,595	— 1,823	+ 257	— 1,566
	1948		2,738	4,164	— 1,426	+ 479	— 947
	1949		3,406	4,588	— 1,182	+ 943	— 239
Norway	1938	N. Kr.	824	1,197	— 373	+ 477	+ 104
	1947		1,898	3,905	— 2,007	+ 642	— 1,365
	1948		2,177	3,785	— 1,608	+ 791	— 817
	1949		2,180	4,250	— 2,070	+ 760	— 1,310
Sweden	1938	S. Kr.	1,855	2,098	— 243	+ 317	+ 74
	1947		3,240	5,220	— 1,980	+ 520	— 1,460
	1948		3,980	4,940	— 960	+ 490	— 470
	1949 *		4,250	4,330	— 80	+ 510	+ 430
United Kingdom .	1938	£ stg	533	835	— 302	+ 232	— 70
	1947		1,093	1,528	— 435	— 165	— 600
	1948		1,554	1,770	— 216	+ 111	— 105
	1949		1,790	1,970	— 180	+ 110	— 70

(1) Excluding official relief shipments, but including in 1947 receipts by War Supplies Ltd.
(2) Excluding exports for reparation payments but including commodities surrendered in compensation for German assets.
(3) Excluding overseas territories.
* Estimates.

tobacco" and of "raw materials" and barely one-quarter consists of manufactured goods. An important feature of recent shifts in trade has been a reduction from 44 per cent. in 1947 to only 28 per cent. in 1949 in the proportion of supplies coming from the western hemisphere and, at the same time, an increase in the proportion received from the sterling area and a still greater proportionate rise in imports from the O.E.E.C. countries and their possessions, reflecting the recovery of the production and export capacity of western Europe.

In British export trade, raw materials have not recovered their pre-war importance, mainly because of the decline in coal exports, which since the second world war have even fallen below exports of food, drink and tobacco (in 1949 whisky alone brought in more than one-third as much as coal). The accompanying table shows the changes in the volume of exports since 1947 (base 1938 = 100).

United Kingdom: Volume of exports.

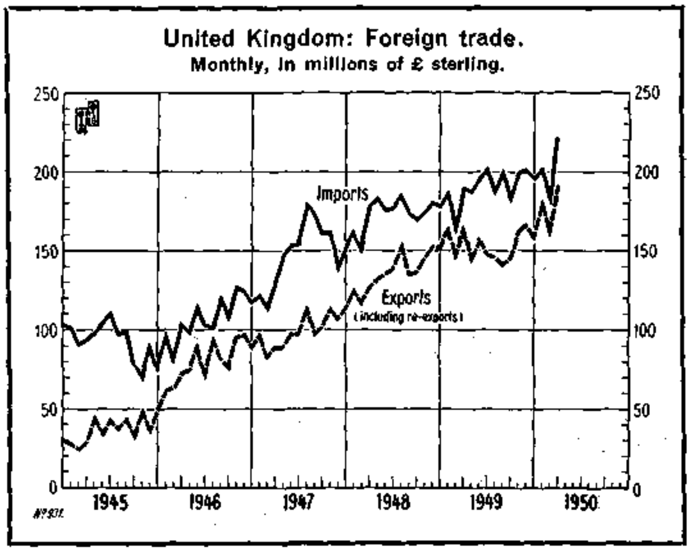
Commodities	1947	1948	1949
	1938 = 100		
Food, drink and tobacco	82	104	111
Raw materials:			
Coal	3	28	37
Others	63	66	63
Manufactures:			
Metals and engineering products	158	200	229
Textiles and clothing	73	93	99
Others	115	134	140
Total of manufactures	124	155	171
Total of U.K. exports	109	136	151

Exports are thus shown to have been 51 per cent. higher in 1949 than in 1938, but British exports that year were exceptionally low. By combining the index figures given in "Great Britain in the World Economy" by A. E. Kahn for the period 1913–1929 with those given in the "Monthly Digest of Statistics" for later years, it is possible to construct a volume index with different years as base, the most remote being 1913.

United Kingdom: Value and Volume of foreign trade.

Year	Value of		*Index of volume*							
	Imports*	Exports	1913 = 100		1929 = 100		1937 = 100		1938 = 100	
	In millions of £ sterling		Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1913	659	525	*100*	*100*	—	—	—	—	—	—
1929	1,111	729	*121*	*87*	*100*	*100*	—	—	—	—
1937	953	521	*133*	*72*	*110*	*83*	*100*	*100*	—	—
1938	858	471	*126*	*63*	*104*	*72*	*95*	*88*	*100*	*100*
1947	1,734	1,138	*99*	*69*	*82*	*79*	*74*	*96*	*78*	*109*
1948	2,014	1,582	*102*	*86*	*84*	*99*	*77*	*120*	*81*	*136*
1949	2,214	1,784	*109*	*95*	*90*	*109*	*82*	*132*	*87*	*151*

* Retained imports only.



Strict accuracy should not be demanded of the index figures, which should be regarded as giving at best an approximate indication. The volume of imports was probably larger in 1949 than in 1913 (the population of the area of the United Kingdom had increased in the meantime by 10 per cent.) but undoubtedly smaller than in 1929 as well as in 1937 and 1938. As regards the volume of exports, on the other hand, 1949 would seem to have fallen not far short of 1913, while coming well above 1937–38 and even surpassing 1929. In 1913 and even in the inter-war period the United Kingdom had, of course, a greater net income from foreign investments and no large sterling balances to repay. On the other hand, the terms of trade have consistently been favourable to the United Kingdom as compared with 1913, although not so favourable in recent years as in the thirties (when raw-material prices were exceptionally low).

United Kingdom: Terms of trade.

Year	1913 = 100		Terms of trade: Export prices divided by import prices			
	Import prices	Export prices	1913 = 100	1929 = 100	1937 = 100	1938 = 100
1913	*100*	*100*	*100*	—	—	—
1929	134	160	119	*100*	—	—
1937	110	144	132	110	*100*	—
1938	103	147	143	121	103	*100*
1947	266	326	122	102	92	87
1948	297	362	121	102	92	86
1949	307	368	121	101	91	85

Note: When export prices are divided by import prices the result shows how much more (if the index figure is above 100) or how much less (if the index figure is below 100) is received in the way of imports for the volume of exports at the prices prevailing in the basic year. With regard to the year 1949 it thus appears from the above table that, at the prices prevailing in 1913, 21 per cent. more imports would be received for the exports; but that, at the prices prevailing in 1938, 15 per cent. less imports would be received for the same volume of exports.

Through the compression of imports and encouragement of exports the import surplus has been reduced by three-fifths since 1947. In 1949 it was, in real terms, only about one-quarter of what it had been in 1938. At the same time the United Kingdom's invisible income showed an even greater contraction: in 1949 it was in real terms only between one-fifth and one-fourth of what it had been in 1938.

United Kingdom: Current account of balance of payments.

Items	1938	1946	1947	1948	1949
	in millions of £ sterling				
Visible trade					
Imports (f.o.b.)	835	1,105	1,528	1,770	1,970
Exports and re-exports (f.o.b.)	533	886	1,093	1,554	1,790
Balance of visible trade	— 302	— 219	— 435	— 216	— 180
Government expenditure overseas (net)	— 16	— 283	— 230	— 94	— 145
Other invisible items (net)					
Interest, profits and dividends	+ 175	+ 69	+ 73	+ 65	+ 56
Shipping	+ 20	+ 18	+ 29	+ 76	+ 88
Travel	— 12	— 30	— 55	— 33	— 35
Films	— 7	— 17	— 14	— 10	— 6
Other items	+ 72	+ 92	+ 32	+ 107	+ 152
Net total of invisible income	+ 232	— 151	— 165	+ 111	+ 110
Total balance on current account	— 70	— 370	— 600	— 105	— 70

There were no startling changes among the individual items except from 1948 to 1949 — an increase in the net amount of government spending overseas, which constitutes a heavy burden, especially in comparison with the pre-war figure.

It is the regional distribution of deficits which shows the most interesting changes in the balance of payments. There has been since 1947 a substantial increase in the export surplus to the sterling area together with a decline in the import surplus from the dollar area.

United Kingdom:
Regional distribution of current deficits and surpluses in the balance of payments.

Areas	1946	1947	1948	1949
	in millions of £ sterling			
Sterling area	— 55	+ 35	+ 190	+ 215
O.E.E.C. countries	+ 60	— 10	+ 100	— 20
Dollar area	— 315	— 555	— 280	— 275
Other countries	— 60	— 70	— 115	+ 10
Total	— 370	— 600	— 105	— 70

The outstanding feature of the balance of payments in 1949 is, indeed, that the current surplus in relation to the sterling area corresponds to three-quarters of the deficit in relation to the dollar area. In the inter-war period (and this was still more characteristic of the period before 1914), the sterling area, apart from the United Kingdom, used to have a net surplus in dollars in addition to its gold output and could thus pay by drafts on New York for what it owed to the London market; and this market, in its turn, was then able to pay in dollars for its surplus imports. The main reasons for the break-down of this triangular method of international settlement were relatively low production — an effect of the war — in several sterling-area countries, increased dollar expenditure by these countries, and the possibility of drawing upon sterling balances or obtaining fresh sterling capital so that no current dollar payments had to be made in relation to the London market. For the United Kingdom the result of the last-mentioned circumstance was that surplus exports to the sterling area no longer produced means of payment available for international use; and it was thanks to the Anglo-American loan of 1946, Marshall aid and other dollar receipts that payments to the western hemisphere could be kept up. Since 1945 the United Kingdom's current needs in gold and dollars have not been limited to the deficit on current account of its own balance of payments but have been affected by the current deficits of sterling-area countries, which have drawn on their sterling balances or have in various ways received capital from the British market, as was explained on page 28, where a table was given showing the connection between the main items of the balance of payments and the gold and dollar deficit for the year 1949. The following table gives some additional details of the capital account for the years 1946–49.

United Kingdom: Capital account of the balance of payments.

Items	1946	1947	1948	1949
	in millions of £ sterling			
Items corresponding to the gold and dollar deficit				
U. K. deficit on the current account of its balance of payments	370	600	105	70
Reduction in sterling liabilities	— 38	129	213	15
Increase in British assets abroad, etc.	—106	295	105	296
Total gold and dollar deficit	226	1,024	423	381
The total gold and dollar deficit was covered by:				
Decrease in U. K. gold and dollar holdings	— 52	152	54	3
Drawings on Anglo-American loan	149	707	74	—
„ „ Canadian loan	130	105	13	33
„ „ I.M.F. by sterling-area countries	—	60	32	15
South African gold loan	—	—	80	—
E. R. P. aid	—	—	169	330
Total cover	226	1,024	423	381

Reverting to the table of the distribution of British trade, it will be seen that a greater effect has been produced in the adjustment of imports than of exports. It is obviously easier to direct imports by quota measures and exchange control than to develop or open up new markets. Imports from the United States have been cut by 25 per cent. since 1947, their share in the total having fallen from 16.6 to less than 10 per cent. But, in spite of the export drive towards dollar countries, the percentage share of the United States in total exports fell from 5.1 to 3.4 per cent. between 1947 and 1949, while exports to the rest of the western hemisphere rose from 10.8 to 11.8 per cent. In 1949 the sterling-area countries took 51 per cent. of British exports as compared with 47 per cent. in 1947; and if comparison is made with the corresponding figure for 1929, viz. 37 per cent., it will be seen that the sterling area's present share of over one-half represents a substantial rise. This reflects the pull exerted by the drafts on sterling balances and the use of other funds in sterling which have enabled the various countries to proceed with their capital equipment — in itself a desirable development, although of a nature to distort the course of international settlements if too much of it impinges upon the United Kingdom.

* * *

From the table on page 127 it can be seen that, in the United Kingdom's balance of payments vis-à-vis the O.E.E.C. countries, a current surplus of £100 million in 1948 was turned into a deficit of £20 million in the following year. This is a considerable change within the space of one year. It would be interesting to know what was the "normal" relation between the United Kingdom and the continent of Europe before the war, but the available data are hardly sufficient for a definite answer. For a single year, 1938, the O.E.E.C., in its interim report of December 1948, gave a figure of $450 million (*the equivalent of £95 million*) *as the deficit of the "sterling area"* towards the O.E.E.C. countries, but later investigations have shown that the real deficit in that year was probably considerably less — say, between $200 and $300 million; nor can 1938 be regarded as a good year for comparison, since the United Kingdom had in that year a current deficit of £70 million ($340 million) in its balance of payments. If one goes further back, it seems as if in 1928, when the United Kingdom had a surplus in its balance of payments, the sterling area as a whole had a surplus in its current settlements with western Europe.

After the inflationary rise in prices in France had been arrested in the course of 1948, a very marked improvement in the country's balance of payments, with regard both to merchandise trade and to invisible items, was already noticeable in the following year.

France: Foreign trade.*

Period	Weight of trade		Value of trade			Percentage value of imports covered by exports
	Imports	Exports	Imports	Exports	Balance	
	in millions of tons		in milliards of Fr.fcs			
1938	47	27	46	31	— 15	67
1947	40	14	397	223	— 174	56
1948	42	19	673	434	— 239	64
1949	46	27	922	782	— 140	85
1948 monthly	3.5	1.6	56	36	— 20	65
1949 average .	3.8	2.2	77	65	— 12	85
1950 January .	3.6	2.3	87	74	— 13	85
February	3.5	2.3	97	86	— 11	89
March .	3.5	2.3	94	76	— 18	81
April . .	3.5	2.5	93	79	— 14	85

* With foreign countries and French overseas territories.

France: Volume index of foreign trade.*

Period	1928 = 100		1938 = 100	
	Imports	Exports	Imports	Exports
1928 January–December	100	100	—	—
1938 ,, ,,	93	61	100	100
1948 ,, ,,	94	59	101	97
1949 ,, ,,	97	81	104	133
1950 January-March	106	92	114	151

* With foreign countries and French overseas territories.

France: Current account of the balance of payments with different areas for the year 1949.*

Items	Dollar area	Sterling area	Other countries	Total
	in millions of dollars			
Merchandise trade				
Imports	710	495	830	2,035
Exports	115	420	1,030	1,565
Balance	— 595	— 75	+ 200	— 470
Net balance of invisible items	— 120	+ 90	— 40	— 70
Net balance of French overseas possessions	— 140	+ 5	— 35	— 170
Total balance on current account	— 855	+ 20	+ 125	— 710

* Estimates.

France: Current account of the balance of payments.

Items	1947	1948	1949 *
	in millions of dollars		
Merchandise trade:			
Imports	2,492	2,510	2,035
Exports	1,040	1,082	1,565
Balance	— 1,452	— 1,428	— 470
Invisible items:			
Freights	— 311	— 273	— 210
Tourist traffic	+ 9	+ 70	+ 120
Interest and dividends	+ 122	+ 132	+ 100
Other items	+ 119	— 31	— 80
Total of invisibles	— 61	— 102	— 70
Deficit of French overseas possessions	— 163	— 208	— 170
Balance on current account	— 1,676	— 1,738	— 710

* Estimates.

The table shows that, measured in tons, imports as well as exports have practically regained the pre-war level; if allowance is made for price changes, both imports and exports exceeded, in volume, the 1938 figures and compare not unfavourably with the year 1928, when France had a surplus in its balance of payments.

As regards the distribution of trade among different currency areas, French overseas territories in 1949 absorbed 42 per cent. of all exports and supplied only 26 per cent. of the imports, while the dollar area provided 29 per cent. of the imports but accounted for only 6 per cent. of the exports. In relation to the sterling area trade is more in balance.

For France, invisibles used to yield a substantial net surplus in the balance of payments but that has not been the case in post-war years. The second table on this page (with figures in U.S. dollars) shows for ~~the first half of~~ 1949 — the latest period for which the particular data in question are available — the French balance of payments in relation to different areas.

The deficit of 1949 was all in relation to the dollar area and was met as to nearly 90 per cent. by the proceeds of Marshall aid. In 1947 and 1948 substantial deficits were incurred in relation to the other areas also. Preliminary figures for the whole year 1949 indicate a halving of the current deficit in the balance of payments.

In Italy recent figures suggest a stabilisation somewhat above the pre-war level rather than a continued improvement in foreign trade.

Good crops reduced the imports of cereals and pulse. The share of "foodstuffs and live animals" in the total value of imports fell, in fact, from 48 per cent. in 1948 to 31 per cent. in 1949, but a part of the fall was due to lower world market prices for agricultural products.

Italy: Foreign trade.

Period	Index of wholesale prices	Weight		Value		
		Imports	Exports	Imports	Exports	Balance
		in millions of metric tons		in milliards of lire		
1938 yearly total	1	20.6	4.5	11	10	— 1
1947 „ „	52	18.5	1.9	931	339	— 592
1948 „ „	54	17.8	3.8	823	571	— 252
1949 „ „	52	19.3	4.6	855	633	— 222
1948 monthly average	54	1.5	0.3	69	47	— 22
1949 „ „	52	1.6	0.4	71	53	— 18
1950 January	47	1.8	0.3	75	53	— 22
February	48	1.7	0.3	73	49	— 24

Italy: Current account of the balance of payments.

Items	1947	1948	1949
	In millions of dollars		
Merchandise trade			
Imports	1,327	1,388	1,377
Exports	666	1,068	1,103
Balance	— 661	— 320	— 274
Services (net)			
Freight	— 161	— 107	— 102
Tourist traffic	+ 6	+ 24	+ 34
Emigrants' remittances	+ 34	+ 65	+ 93
Other items	— 11	+ 18	+ 34
Net income from services	— 132	+ 20	+ 59
Balance on current account	— 793	— 300	— 215

Some important changes have occurred in the geographical distribution of trade: in 1949 the share of Europe increased as regards both imports and exports, while trade with North and Central America lost ground. In 1948, 43 per cent. of Italy's imports and 12 per cent. of its exports were in relation to North and Central America, while in 1949 the corresponding percentages were 39 and 6 per cent. An interesting feature is an increase in trade with eastern Europe: in 1949 the six countries, Bulgaria, Czechoslovakia, Hungary, Poland, Roumania and the U.S.S.R., absorbed 5 per cent. of exports, as compared with 4 per cent. in 1948, and furnished 3 per cent. of imports in 1948 and 5 per cent. in 1949.

The estimates for the current account of the balance of payments are available in dollars.

The improvement in the balance of payments was not spectacular in 1949 but it made itself felt in the visible as well as in most items of the invisible trade, there being a reduction in freight payments, a larger income from tourist trafic and an increase in emigrants' remittances, especially in comparison with 1947.

For Switzerland, 1949 brought a marked improvement in the visible trade balance.

Switzerland: Foreign trade.

Period	Imports	Exports	Balance
	in millions of Swiss francs		
1938 yearly total	1,607	1,317	— 290
1947 „ „	4,820	3,268	— 1,552
1948 „ „	4,999	3,435	— 1,564
1949 „ „	3,791	3,457	— 334
1948 monthly average	416	286	— 130
1949 „ „	316	288	— 28
1950 January	279	246	— 33
February	273	256	— 17
March	323	297	— 26
April	275	264	— 11

With imports declining from 1948 to 1949 (the restocking after the war having been completed), the steadiness in exports has been remarkable — and not least in the early months of 1950; so far there have been relatively few direct signs of difficulties in this field arising from the devaluations in other countries. 40 per cent. of Swiss exports in 1949 consisted of machinery and watches; chemicals and textiles were other important export items, while the share of foodstuffs is less than before the war.

The export level having been kept up and imports reduced in value by the devaluations, the deficit in the balance of payments, which had been estimated at between Sw.fcs 300 and 425 million a year for 1947 and 1948, was turned into a surplus of probably over Sw. fcs 700 million in 1949. The net income from invisible items seems to have remained fairly constant at about Sw. fcs 1,100 million a year, of which the net income from tourist traffic would account for between Sw.fcs 400 and 500 million, covering about 10–12 per cent. of the imports as compared with a more than 20 per cent. covered in 1949 by the export of machinery alone.

In Belgium, visible imports fell in value in 1949 while exports increased.

Belgium: Foreign trade.

Period	Imports	Exports	Balance
	in millions of Belgian francs		
1938 yearly total	23,069	21,670	— 1,399
1947 „ „	85,559	61,655	— 23,904
1948 „ „	87,518	74,121	— 13,397
1949 „ „	81,719	79,930	— 1,789
1948 monthly average	7,293	6,177	— 1,116
1949 „ „	6,810	6,649	— 161
1950 January	6,959	6,661	— 298
February	6,712	5,937	— 775
March	8,163	7,588	— 575
April	6,961	6,437	— 524

If account is taken of the rise in prices, the trade deficit in 1949 was well below that of 1938. Imports were covered by exports up to 97.8 per cent. in 1949 against 85 per cent. the previous year (and 90 per cent. in 1938). It is a characteristic of the Belgian trade structure to run a surplus in relation to other European countries together with a deficit in relation to the dollar area, the latter amounting to about B. fcs 12 milliard ($275 million) in 1949.

Belgium: Current account of the balance of payments.

Items	1947	1948	1949*
	in millions of francs		
Merchandise trade			
Imports	77,020	80,700	81,700
Exports	60,670	75,453	79,800
Balance	—16,350	— 5,247	— 1,900
Services			
Freights	— 5,809	— 3,590	+ 5,000
Tourist traffic	+ 294	— 2,102	— 1,300
Interest and dividends	+ 143	+ 1,740	— 1,000
Wages	+ 1,698	+ 2,539	+ 2,200
Other items	+ 6,690	— 383	+ 3,000
Balance	+ 3,016	— 1,796	+ 7,900
Balance on current account	—13,334	— 7,043	+ 6,000

* Estimates by Professor Baudhuin.

The figures for merchandise trade in the above table do not tally exactly with those in the trade statistics, but as far as main trends are concerned all data point to a considerable improvement.

The foreign trade of the Netherlands showed two outstanding features in 1949:

(i) a considerable improvement in the current account of the balance of payments;

(ii) a reorientation of the trade currents, reflecting the growing importance of Germany as a market and as a source of supply.

Netherlands: Foreign trade.

Period	Imports	Exports	Balance	Percentage of imports covered by exports
	in millions of florins			
1938 yearly total . . .	1,459	1,074	— 385	74
1947 " " . . .	4,278	1,892	— 2,386	44
1948 " " . . .	4,964	2,717	— 2,247	55
1949 " " . . .	5,350	3,850	— 1,500	72
1948 monthly average	414	227	— 187	55
1949 " "	446	321	— 125	72
1950 January	581	396	— 185	68
February	521	313	— 208	60
March	614	400	— 214	65

Netherlands:
Current account of the balance of payments.

Items	1947	1948	1949
	in millions of florins		
Merchandise trade			
Imports	3,595	4,164	4,588
Exports	1,772	2,738	3,406
Balance	— 1,823	— 1,426	— 1,182
Services			
Interest and dividends	124	132	223
Income from other services .	133	347	720
Balance	+ 257	+ 479	+ 943
Balance on current account	— 1,566	— 947	— 239

There was a considerable increase in exports during the last quarter of 1949, due in the main to the abundant crops, which could be sold at well-maintained prices. For the year as a whole, 11 per cent. of Dutch exports went to Germany as compared with 15 per cent. in 1938. In the current deficit in the balance of payments (account being taken also of services), the improvements in relation to Indonesia and to the dollar area together came to Fl. 773 million, exceeding the improvement in the current account as a whole. Much of the improvement was due to the invisible items; the external expenditure by the Dutch Government showed, for instance, a decrease of Fl. 104 million.

The trade figures in the balance-of-payments statistics are those of the Foreign Exchange Office, which — owing to time-lags in payments and for other reasons — differ somewhat from the customs statistics.

Both shipping and income from foreign investments contributed to the improvement in the balance of invisible items. Account has to be taken of the fact that the Netherlands has also to meet certain recurrent charges of a capital nature; the significance of these charges has been discussed on page 87.

Sweden:
Volume and price indexes of foreign trade.

Period	Volume: Imports	Volume: Exports	Prices: Imports	Prices: Exports	Prices: Terms of trade
	Index: 1938 = 100				
1938	100	100	100	100	100
1947	118	82	238	212	89
1948	106	90	250	237	95
1949	88	103	250	211	84

Sweden also was able to improve its balance-of-payments position, turning a current deficit of S.Kr. 470 million in

Sweden:
Current account of the balance of payments.

Items	1938	1947	1948	1949
	in millions of Swedish kronor			
Merchandise trade				
Imports	2,098	5,220	4,940	4,330
Exports	1,855	3,240	3,980	4,250
Balance	— 243	— 1,980	— 960	— 80
Services (net)				
Income from shipping	220	510	510	490
other services	97	10	— 20	20
Balance	+ 317	+ 520	+ 490	+ 510
Balance on current account	+ 74	— 1,460	— 470	+ 430

Denmark: Balance of payments.

Items	1948	1949
	in millions of Danish kroner	
Merchandise trade		
Imports (c.i.f.)	3,475	4,275
Exports (f.o.b.)	2,783	3,648
Balance	— 692	— 627
Services		
Income from shipping	460	451
other services	— 20	— 90
Balance	+ 440	+ 361
Balance on current account	— 252	— 266
Capital account		
Net capital receipts*	+ 270	+ 563
which, together with the deficit on current account, led to the following change in the foreign exchange position	+ 18	+ 297

* Including Marshall aid to the amount of D.Kr. 126 million in 1948 and D.Kr. 540 million in 1949.

1948 into a surplus of S.Kr. 430 million in 1949.

The total net income from services has changed little in recent years, but the import surplus has been much reduced from its peak figure in 1947 owing to a curtailment of domestic investments (see page 68) coupled with a reimposition of more severe import restrictions. By 1949 exports had risen above pre-war, while imports had been brought down below the pre-war level.

Sweden's terms of trade are less favourable than in 1938 and the devaluation in September was followed by a further deterioration to an index figure of 83 for the last three months of 1949.

Denmark also has found that devaluation has worsened its terms of trade.

Import prices have thus risen since the devaluation, while export prices have fallen even in terms of Danish kroner. The table below shows the distribution of the country's foreign trade.

Denmark: Distribution of trade by currency areas.

Trade in relation to	1947			1948			1949		
	Imports	Exports	Balance	Imports	Exports	Balance	Imports	Exports	Balance
	in millions of Danish kroner								
Dollar area	842	142	— 700	725	226	— 499	836	171	— 665
Sterling area	702	678	— 24	935	895	— 40	1,404	1,630	+ 226
Other areas	1,546	1,493	— 53	1,764	1,610	— 154	1,965	1,759	— 206
Total	3,090	2,313	— 777	3,424	2,731	— 693	4,205	3,560	— 645

Norway: Current account of the balance of payments.

Items	1938	1947	1948	1949
	In millions of Norwegian kroner			
Merchandise trade*				
Imports	1,197	3,905	3,785	4,250
Exports	824	1,898	2,177	2,180
Balance . . .	— 373	—2,007	—1,608	—2,070
Services (net)				
Income from shipping .	426	692	804	810
„ „ other services	+ 51	— 50	— 13	— 50
Balance . . .	+ 477	+ 642	+ 791	+ 760
Balance on current account	+ 104	—1,365	— 817	—1,310

* Imports and exports include purchases and sales abroad of ships and whale oil. The value of ships imported (to make good the losses suffered during the war — see page 35) amounted to N.Kr. 608, 641 and 790 million respectively for the three years 1947, 1948 and 1949.

Norway: Volume of trade.

Year	Imports including ships	Imports excluding ships	Exports including ships	Exports excluding ships
	Index: 1938 = 100			
1938	100	100	100	100
1947	118	104	81	79
1948	100	94	81	84
1949	117	107	84	87

Denmark has normally had a surplus in relation to the sterling area and with this surplus and its net income from services (mainly shipping) it has paid for its excess imports from other areas.

Since the war the Danmarks Nationalbank has had a net foreign indebtedness, which amounted to D.Kr. 553 million at the end of 1948. At the end of 1949 it had been brought down to D.Kr. 400 million but subsequently showed a rising tendency once more, the figure for the end of March 1950 being D.Kr. 447 million.

For Norway, the year 1949 brought an increase in the deficit on the current account of its balance of payments. This was due to larger imports, the net income from services being only slightly reduced.

The income from shipping has not yet regained the same importance as before the war, when this income more than paid for the import surplus on merchandise account. Even excluding purchases abroad of ships, the volume of imports was larger in 1949 than pre-war, while exports had not reached the pre-war level.

The terms of trade are affected by the circumstance that freights have not risen to the same extent as the prices paid for Norwegian imports.

In examining the foreign trade statistics of Finland account must be taken of the reparation deliveries and also of the rise which has occurred in prices.

The value of machinery and ships in 1949 was equal to 80 per cent. of the reparation deliveries and practically all the deliveries from 1950 onwards will be of this type. At the beginning of May 1949 an amount of 38.2 million reparation dollars (i.e. dollars with 1938 purchasing power) was still to be delivered on the reparation account in relation to the U.S.S.R.

Finland: Foreign trade.

Year	Index of wholesale prices	Imports	Exports			Balance	
			Reparations	Others	Total	Excluding reparations	Total
	in milliards of Finnish markka						
1938	100	8.6	—	8.4	8.4	— 0.2	— 0.2
1946	602	24.3	8.8	23.1	31.9	— 1.2	+ 7.6
1947	724	47.0	10.4	45.2	55.6	— 1.8	+ 8.6
1948	956	66.4	11.5	56.5	68.0	— 9.9	+ 1.6
1949	963	66.3	12.2	65.6	77.8	— 0.7	+ 11.5

In 1949 exports of animal products had risen to FM 1.5 milliard but the proportion of forestry products was still as high as 88 per cent. of the export total (excluding reparation deliveries).

Finland: Volume and price indexes of foreign trade.

Year	Volume		Prices		Terms of trade
	Imports	Exports	Imports	Exports	
	Index: 1938 = 100				
1938	100	100	100	100	100
1946	37	46	660	672	102
1947	67	63	785	954	122
1948	88	66	897	1,074	120
1949	81	78	958	1,009	105

Finland: Current account of the balance of payments.

Items	1947	1948	1949
	in milliards of Finnish markka		
Merchandise trade			
Imports	46.6	66.1	66.3 (2)
Exports (1)	45.1	56.4	65.6 (2)
Balance	— 1.5	— 9.7	— 0.7 (2)
Services (net)			
Income from transport	2.7	4.5	.
" " other services	— 1.0	— 0.9	.
Balance	+ 1.7	+ 3.6	.
Balance on current account	+ 0.2	— 6.1	.

(1) Excluding exports for reparation payments, but including commodities surrendered in compensation for German assets.

(2) Figures from the customs statistics, while the trade figures for 1947 and 1948 were those of the Exchange Office.

The volume of Finland's foreign trade in 1949 was about four-fifths of pre-war, results being helped by a considerable improvement in the country's terms of trade. The United Kingdom is the chief trade partner and the U.S.S.R. comes next. Finland is one of the few countries in Europe having a balanced trade position in relation to the United States.

Since it may be assumed that the net income from services was kept up, Finland would seem to have had a current surplus in its balance of payments in 1949, in addition to the amount of the reparation deliveries.

A momentous development in 1949 has been the come-back of Germany as an increasingly important partner in the trade of Europe. The table on the following page shows the

Share of Germany in trade of European countries.

Countries	Imports [1] from Germany			Exports [1] to Germany		
	1947	1948	1949	1947	1948	1949
	in percentages					
Austria	18	10	16	4	6	8
Belgium [2]	3	6	6	2	4	10
Denmark	3	3	3	2	1	7
France	4	5	7	3	5	5
Greece	1	5	4	0	3	10
Italy	1	2	4	1 [3]	3 [3]	8 [3]
Netherlands	2	5	7	3	6	11
Norway	2	2	3	3	5	7
Sweden [2]	2	2	7	1	4	7
Switzerland [3]	3	6	9	1	2	9
United Kingdom	1	1	2	2	2	2

[1] For Germany as a whole if not otherwise indicated.
[2] For 1948 and 1949, western Germany only.
[3] For western Germany.

proportion of exports to and imports from western Germany in the trade returns of a number of European countries.

Before Germany applied the autarky policy of the thirties, it generally accounted for about 20 to 25 per cent. of the trade of other western European countries; such a proportion has not yet been reached, but the expansion, especially of Germany's imports, was so marked in the third and fourth quarters of 1949 that trade with Germany became an important factor for the maintenance of economic activity in other European countries.

The trade statistics of western Germany are not complete, especially since there has been a considerable amount of smuggling (e.g. coffee brought in from other countries and cigarettes sold in Germany). It is believed that the value of the goods smuggled into Germany in 1949 may have exceeded $100 million but the smuggling out of Germany even amounts to something like $200 million. Including the commodities thus procured as a kind of contraband, the pre-war volume of imports would seem to have been attained for western Germany, but the composition is different (one-half consisting

Western Germany:* Foreign trade.

Period	Imports: paid for commercially	Imports: financed by foreign aid	Imports: Total	Exports	Balance
	in millions of U.S. dollars				
1947 yearly total	243	600	843	315	— 528
1948 " "	562	1,026	1,588	642	— 946
1949 " "	1,281	956	2,237	1,123	— 1,114
1948 monthly average	47	85	131	54	— 78
1949 " "	107	79	186	93	— 93
1950 January	171	59	230	104	— 126
February	133	35	168	112	— 56
March	158	37	195	140	— 55
April	143	34	177	128	— 49

* Including western Berlin.

of foodstuffs now as against one-third in 1936) and much more is now obtained from overseas sources than from other countries in Europe. The statistics of foreign trade and the estimates of the balance of payments are available in dollars.

While in 1949 exports covered about one-half of the imports, in the spring of 1950 they came to cover 70 per cent. But the increased imports,

Western Germany: Balance of payments.

Items	1947	1948	1949 [1]
	in millions of U.S. dollars		
Merchandise trade [2]			
Imports	825	1,585	2,039
Exports	320	645	1,139
Balance	— 505	— 940	— 900
Services			
Income from tourist traffic and from members of occupying powers	[3]	[3]	16
Income from transport	[3]	[3]	— 134
„ „ other services	[3]	[3]	— 32
Balance	+ 10	+ 45	— 150
Balance on current account	— 495	— 895	— 1,050
The following resources have been available on **capital account**			
G.A.R.I.O.A. [4] and United Kingdom contribution	600	884	536
E.R.P. including net drawing rights	—	133	318
Other resources	11	42	13
Total capital resources available	+ 611	+ 1,059	+ 867
The difference between the total capital resources available and the deficit on the current account of the balance of payments takes the form of an increase (+) or a decrease (—) in the foreign exchange holdings	+ 116	+ 164	— 183

[1] The figures for 1949 include payments of western Berlin and are not quite comparable with those for the two previous years.
[2] The figures differ somewhat from the customs statistics of foreign trade. [3] Not indicated separately.
[4] G.A.R.I.O.A. stands for "Government Appropriations and Relief for Imports in Occupied Areas" (as granted by the U.S. Congress to prevent disease and unrest in these areas, viz. Germany, Austria, Japan, Korea and Trieste).

together with additional costs for freight, etc. which they have entailed, made the current deficit in the balance of payments somewhat higher in 1949 than in 1948.

In 1949 the deficit on the current account of the balance of payments was somewhat larger than the foreign resources simultaneously becoming available. The resulting charge on the country's foreign exchange balances took the form either of debit balances run up with certain countries or of an actual utilisation of part of the accumulated exchange holdings. The following table shows the deficit on the current account and the dollar equivalent of the capital resources received in dollars and sterling in relation to the United States, the United Kingdom and other countries.

Practically the whole deficit on the current account of the balance of payments in 1949 was a dollar deficit; this was covered by American aid, of which a little more than half was received on account of "Government Appropriations and Relief for Imports in Occupied Areas" and a little less than half as Marshall aid. The capital resources received from the sterling area represented a contribution from the United Kingdom equivalent to $26 million. In the spring of 1950 there has been a distinct reduction in the deficit in relation to the dollar area but at the same time an increased deficit in relation to the sterling area.

Western Germany:
Net balance-of-payments accounts.

Items	Dollar area	Sterling area	O.E.E.C. countries (except those in the sterling area)	Other countries	Total
	equivalent in millions of U.S. dollars				
Balance on current account of the balance of payments	— 956	— 62	+ 32	— 64	—1,050
Resources on capital accounts	+ 915	+ 26	— 82	+ 8	+ 867
Balance . . .	— 41	— 36	— 50	— 56	— 183

Among other countries in Europe, Spain and Portugal were both able to reduce their import surpluses in 1949.

For Spain the improvement was due to an increase in exports, both in quantity and in value; for Portugal it was due to declining import prices, for the volume of imports increased during the year.

Spain: Foreign trade.*

Year	Imports	Exports	Balance
	in millions of gold pesetas		
1946	773	574	— 199
1947	985	663	— 322
1948	1,187	810	— 377
1949	1,135	878	— 257

* As published by the customs authorities.

Portugal: Foreign trade.

Period	Imports	Exports	Balance
	in millions of escudos		
1938	2,280	1,135	— 1,145
1947	9,462	4,307	— 5,155
1948	10,348	4,305	— 6,043
1949	9,042	4,064	— 4,978

The unit price per ton of Portuguese imports fell from Esc. 3.41 in 1948 to Esc. 2.86 in 1949, this decline by 16 per cent. being due to (i) lower prices abroad, (ii) relatively larger imports of coal and cement and smaller imports of more expensive commodities such as mineral oils, iron and asphalt; and (iii) a shift from American to European sources of supply. Thus, the share of the United States in total imports fell from 23 per cent in 1948 to 18 per cent. in 1949, while imports from western Europe increased from 49 to 54 per cent.; at the same time, exports to western Europe rose from 41 to 52 per cent.

While Greece seemed to arrive at greater equilibrium internally in 1949, the trade and balance-of-payments deficits remained substantially unchanged.

In 1949 the value of exports covered just over one-quarter of the imports, as compared with 70 per cent. in 1938. Receipts from service items declined somewhat from 1948 to 1949, the balance-of-payments deficit coming to about $260 million in both years. In the period July 1948 to June 1949 direct Marshall aid came to $172 million and indirect aid in the form of drawing rights granted came to $80 million.

Greece: Foreign trade.

Year	Imports	Exports	Balance
	in millions of U.S. dollars		
1938	130	89	— 41
1947	230	77	— 153
1948	363	90	— 273
1949	408	114	— 294

In contrast to the tendencies in western Europe, the countries in eastern Europe intensified control over their economies, including their foreign trade relations.

The following comprehensive table is summarised from the "Economic Survey of Europe in 1949", issued by the Economic Commission for Europe, and covering the trade of Bulgaria, Czechoslovakia, Hungary, Poland, Roumania and Yugoslavia.

Eastern European countries: Distribution of their foreign trade.

Trade currents	Imports			Exports		
	1948	1949	Change from 1948 to 1949	1948	1949	Change from 1948 to 1949
	in millions of U. S. dollars at current f.o.b. prices					
Trade among themselves.	457	464	+ 7	457	464	+ 7
„ with: U. S. S. R.	349	587	+ 238	330	506	+ 176
Germany	57	159	+ 102	64	171	+ 107
Western Europe	544	710	+ 166	764	798	+ 34
Total for Europe (1) . . .	1,407	1,920	+ 513	1,615	1,939	+ 324
Trade with the United States (2) . . .	103	76	— 27	31	43	+ 12

(1) Including the U.S.S.R. (2) Imports at c.i.f. value according to "Foreign Commerce Weekly", 8th May 1950.

In relation to Yugoslavia the exchange of goods and services was reduced — which helps to explain the lack of change in the total for the trade of the eastern European countries among themselves. There was a distinct increase in the trade with the U.S.S.R. and a recovery in the trade with Germany from the very low level of 1948. There was, further, a tendency to direct balance in the trade with western Europe, while the trade with the United States remained negligible.

There is a tendency among the eastern European countries to balance their merchandise imports and exports exactly, as may be seen from the following figures.

Czechoslovakia: Foreign trade.

Year	Imports	Exports	Balance
	in milliards of korunas		
1946	10.3	14.3	+ 4.0
1947	28.9	28.6	— 0.3
1948	37.7	37.6	— 0.1
1949	39.4	40.3	+ 0.9

In the foreign trade of Czechoslovakia the share of other eastern European countries, together with that of the U.S.S.R., increased from 33 to 45 per cent. between 1948 and 1949.

* * *

Trade between areas applying different economic systems may be maintained to the advantage of the countries concerned if an attempt is made to find suitable forms for the exchange of goods and services. But difficulties between the east and the west of Europe have stood in the way of an expansion of trade; the liberalisation inaugurated in 1949 has, in practice, been limited to the western countries.

It should be recalled that Marshall aid for the first full year, 1st July 1948 to 30th June 1949, included some $800 million applied to the working of the intra-European payments scheme — which shows that maintenance and expansion of intra-European trade was a main objective of the Marshall Plan from the very beginning and that practical steps were taken at an early date to further that objective. But the monetary approach has had to be supplemented by direct attacks on the jungle of trade restrictions, and to that end the following liberalisation measures have been adopted:

1. The O.E.E.C. Council decided on 4th July 1949 that the participating countries should forthwith take the necessary steps for the progressive elimination of quantitative import restrictions in relation to one another in order to achieve as complete a liberalisation of intra-European trade as possible.

2. On 2nd November 1949 the participating countries agreed that by 15th December at the latest they would abolish quantitative restrictions on at least 50 per cent. of their imports on private account* from all other member countries. The percentage reduction was to apply separately to each of the following sectors: (i) food and feeding stuffs; (ii) raw materials; and (iii) manufactured goods.

* The limitation of the liberalisation to "imports on private account" excludes imports by monopolies under government control. According to the Second Report of the O.E.E.C., published in February 1950, such imports "consist mainly of food and feeding stuffs" and they are said to "represent a considerable percentage of the total imports of agricultural products in some countries. On the other hand, imports of manufactured goods by monopolies under government control are rare. In the case of raw materials, government-controlled monopolies import chiefly basic raw materials, such as coal and oil."

3. On 31st January 1950 the percentage of reduction applicable to quantitative restrictions was raised from 50 to 60 to be effective as soon as a satisfactory payments scheme comes into force. It was further agreed that "the Council shall decide as soon as possible after 30th June 1950 what further progress during 1950 participating countries should undertake with a view to attaining a liberalisation of 75 per cent. of their imports on private account from other participating countries taken as a group". Moreover, individual countries which felt they were being frustrated by certain measures taken or omitted by the other countries were expressly permitted to turn to the O.E.E.C. It was further agreed "that an examination will have to be made of the extent to which the existing tariff rates and the present tariff policy of participating countries are frustrating or likely to frustrate the effects of the liberalisation measures already taken".

4. In January 1950 it had also been decided to include in the liberalisation "invisible transactions as well as the financial transfers to which they give rise". In that connection a further decision was taken on 3rd May 1950 affecting payments on current account but not transfers of capital. The invisible transactions in question were divided into three categories:

   (i) As regards operations in the first category (including taxes, rents, interest, dividends, business profits, salaries, wages and pensions, and — under certain conditions — emigrants' remittances, etc.) member countries were to allow all demands for the authorisation of transfers resulting from transactions with another member country.

   (ii) The second category includes maritime freight, commission and brokerage, repair and assembly charges, etc. With regard to operations falling within this category, member countries were to allow all demands for authorisation in connection with the conclusion of transactions with another member country.

   (iii) As regards the third category, which included tourist traffic, representation expenses, general contracting and advertising, the undertaking to be given by the governments concerned did not have to go beyond an assurance that they would deal with them "in as liberal a manner as possible".

   Special recommendations have further been made with regard to insurance and also the granting of allocations to tourists (the equivalent of $150 per person per year being recommended as a minimum).

   There are certain "escape clauses", and some exceptions were announced from the start (e. g. by Germany, which has not been able to allow income from foreign capital to be freely transferred abroad); but it is the declared intention of the participant countries to push on with the liberalisation, and a progress report is to be made by 30th September 1950 on the application of the new measures of liberalisation.

In the field of liberalisation there are still some important limitations, as when the relaxation of trade and payment restrictions is not extended to hard-currency countries, viz. Belgium and Switzerland, for fear that this may lead to gold and dollar losses. There is, however, no doubt that considerable progress has, in general, been achieved as a result of the action taken by the O.E.E.C. It is to be expected that all-round benefits will soon be reaped from the liberalisation, but at first the difficulties and advantages are bound to be somewhat unequally distributed among the participants. It is, for instance, likely that countries where the markets have already been filled with different kinds of goods, and where it has been possible to do away with rationing and most other forms of control, will not have to face any considerable increase in their imports but will benefit by the increased opportunities for export trade, while other countries which have not overcome their shortages, especially of goods of foreign origin, may find that the liberalisation leads to a rush of imports and that the demand for all the new articles suddenly becoming available in the shops is being strengthened by the use of savings already accumulated. When that happens the liberalisation involves an expansion of the monetary demand which may in itself have a cumulative effect, especially as the importers themselves may have obtained increased credit accommodation from their banks.

In such a situation it would clearly not be safe to extend more credit on any large scale, e.g. for the financing of public works or private enterprise requiring long-term advances from banks; on the contrary, it would be appropriate to apply a fairly strict credit policy lest the good effects of freeing trade be jeopardised by overwhelming balance-of-payments difficulties. It is rarely possible to achieve all desirable ends at once, and if liberalisation is the immediate objective other tasks may have to wait. In this context it may be recalled that in the years after 1933, when domestic credit was extended in Germany, at first to finance a large programme of public works (and later of armaments) for the purpose, inter alia, of reducing unemployment, it proved necessary to subject the country's foreign trade to strict limitations coupled with a severe exchange control — the measures then taken being the reverse of the liberalisation which is now the order of the day.

Liberalisation inside Europe is no doubt desirable in itself, but a more satisfactory result would be obtained if at the same time similar measures could be extended to commercial relations with countries outside Europe. Western Europe is essentially an importer of raw materials and foodstuffs purchased all over the world; consequently, its interests are not served by mere freedom in its internal trade. Being mostly sellers of manufactured articles, the European countries cannot help feeling concerned at any disappearance of the markets in which they have been able to sell such goods, and they therefore note with apprehension the shrinkage in the east-west trade of Europe and the difficulties affecting their trade with the Far East. The resulting gaps must appear the more serious since the creditor countries of western Europe have lost the major part of their income from foreign investments built up by the supply, in years gone by, of valuable real capital to countries mostly under-developed.

It is true that fresh openings may be found: Latin America has, for instance, made great strides forward, its population having risen from a total of 78 million in 1913 to 151 million at present. And Canada also has progressed: its population has gone up from 7.5 million in 1911 to about 14 million in the present year and its estimated national income from $1.5 to 13 milliard in the same space of time. The Latin American countries as well as Canada have, of course, started manufactures of their own in most branches; but, even so, they provide valuable markets for European industries, though not without competition from U.S. exports. Development of domestic industries is likely to take place on an increasing scale in many Asiatic countries from the Mediterranean to the Pacific and, while industrialisation in itself does not rule out a large volume of trade (as could be seen from the commercial relations between Great Britain and Germany before 1914, when these countries were each other's best customers), it is essential that artificial hindrances in the form of high tariffs and other restrictions should not place insurmountable obstacles in the way of the exchange of goods and services.

This touches one of the real problems facing world trade: differences in natural advantages, acquired skill, geographical situation and many other factors provide the conditions under which trade will be to the great advantage of all countries and will also lay the foundation for a further commercial and industrial as well as cultural advance (a combination which has often occurred in times past). Brisk competition is a healthy and, indeed, indispensable stimulant; but it is in an expanding economy that it has been found to operate most effectively as a factor for progress. But will the western world provide expanding markets for manufactured goods? Is there not a danger that the loss of trade in eastern Europe and the Far East will not be compensated for by an expansion in other directions? Such an expansion will hardly come about without further progress in opening up the American market — which will mean increased foreign trade for the United States. The importance of American policy in this field is obvious and so, therefore, is the fact that since 1934 (after some bitter experience of the effects of tariff increases) the United States has *adopted the policy of reciprocal reductions of trade barriers.*

The Trade Agreements Act of 1934 gave power to the President to negotiate agreements which should embody the most-favoured-nation clause and in which existing duties could be increased or decreased by a maximum of 50 per cent. from those established in the Hawley-Smoot Act of 1930. In the 1945 renewal (so far the Act has been renewed six times) authority was given to change the rates by 50 per cent. from the rates in effect on 1st January 1945, the maximum possible change in any duty being 75 per cent. as from the inception of the programme in 1934.

Up to 1947 the United States had concluded reciprocal agreements with 29 countries. In 1947 it entered into simultaneous negotiations with 22 countries in a conference at Geneva. *The concessions granted under the resulting* General Agreement on Tariffs and Trade (G.A.T.T.) were put into provisional application at the beginning of 1948. A second conference, in which ten more countries participated, took place at Annecy in 1949. The concessions there negotiated could become effective on 1st January 1950 at the earliest. A third round of negotiations is due to take place in the autumn of 1950. Thus step by step the tariff has been reduced during the last fifteen years. According to the International Monetary Fund, the average rate of duty on dutiable imports was 13 per cent. in 1949 against 50 per cent. in the early thirties.* One-third of this decrease is attributable to a rise in the price of imported goods, two-thirds to cuts in the tariff.

In reality, the lowering of the tariff is not as impressive as the above figures might suggest. First of all there is a fallacy in calculating the rate of duty on actual imports, since those highly taxed will enter the general index only to a very small extent. Theoretically, in a country with prohibitive taxes on a large range of goods and no duty whatsoever on all other goods, the average rate on actual imports would be zero.

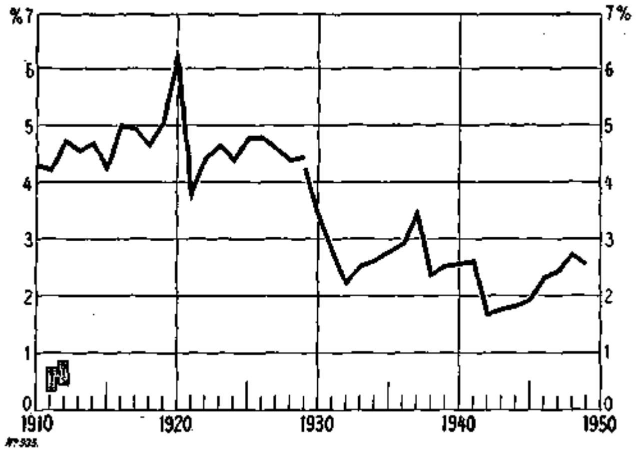
The rates for a certain number of items are far above the general average. According to a list drawn up for the E. C. A. Taylor Mission, some 260 manufactured articles imported mainly from Europe, and representing 10 per cent. of all dutiable imports of manufactured goods in 1948, had ad-valorem equivalent duties of more than 25 per cent., some amounting to over 100 per cent. (spirits, cigarettes and cigarette lighters). Sixty-four types of goods (mainly textiles, watches and jewellery) were subject to duties of over 50 per cent.

United States:
Average rate of import duties.

Period	Percentage of imports subject to duty	Average rate of duty (ad-valorem equivalent)	
		on current dutiable import values	on 1947 dutiable import values
1913-22	33.7	27.0	.
1922-30	36.2	38.7	.
1930-34	34.8	50.1	28.3
1939	38.6	37.3	.
1945	33.0	28.2	19.3
1947	39.2	19.3	.
1949*	38.9	13.2	15.0

* In the early months of the year.

United States:
Relation of U.S. imports to gross national product.



Note: The break in 1929 indicates a change in the base for estimating the gross national product.

It is perhaps not always realised how heavy a burden such a duty may place on non-American producers who want to export to the United States. The duty as imposed by the United States tariff is naturally applicable to

* I.M.F., United States Tariff concessions under the Trade Agreements Program, RD 930. Another calculation, published in the "London and Cambridge Economic Survey", February 1950, puts the rate on all dutiable imports in 1930 at 44.7 per cent. (at 1930 prices and weights) and at 15 per cent. in 1949 (at 1947 prices and weights and at duty rates as on 1st January 1949).

the value of the imported article; for a European producer of, for instance, cotton goods that value includes the price paid for cotton as raw material — most probably purchased from the United States itself — and the cost of transporting the cotton to Europe and retransporting the finished article back to the United States; the result is that in relation to the value actually added by the European manufacturer the duty payable may represent a very high percentage and often become prohibitive.

Other hindrances to imports into the United States besides the tariff proper have been found to be of considerable importance, and the Administration is particularly anxious to achieve a simplification of customs procedures, etc. In his annual report to Congress, submitted in January 1950, the President made the following statement: "We need to move vigorously toward a world-wide increase of international trade. This will result in larger imports into our country which will assist other countries to earn the dollars they need, and will at the same time increase our own standard of living."

The continued opening-up of the American market is clearly an essential part of the programme for the "world-wide increase of international trade". But there are also all the other lines along which progress must equally be made. One of those lines is the liberalisation of trade in Europe, which must increasingly concern itself with the question of tariffs after the initial attack on quantitative restrictions. As is well known, the hindrances to trade in Europe and elsewhere have largely been motivated by monetary difficulties; and it is obvious that progress in establishing freer commercial relations cannot proceed far without genuine improvement in the monetary and financial field. But there are now unmistakable signs of such improvement and, with that, a feeling of greater stability; so the opportunity must not be missed to push on resolutely with further action for the restoration of international trade, in order to pass at last beyond the level already reached some twenty years ago.

VI. A year of sweeping Changes in Foreign Exchange Rates.

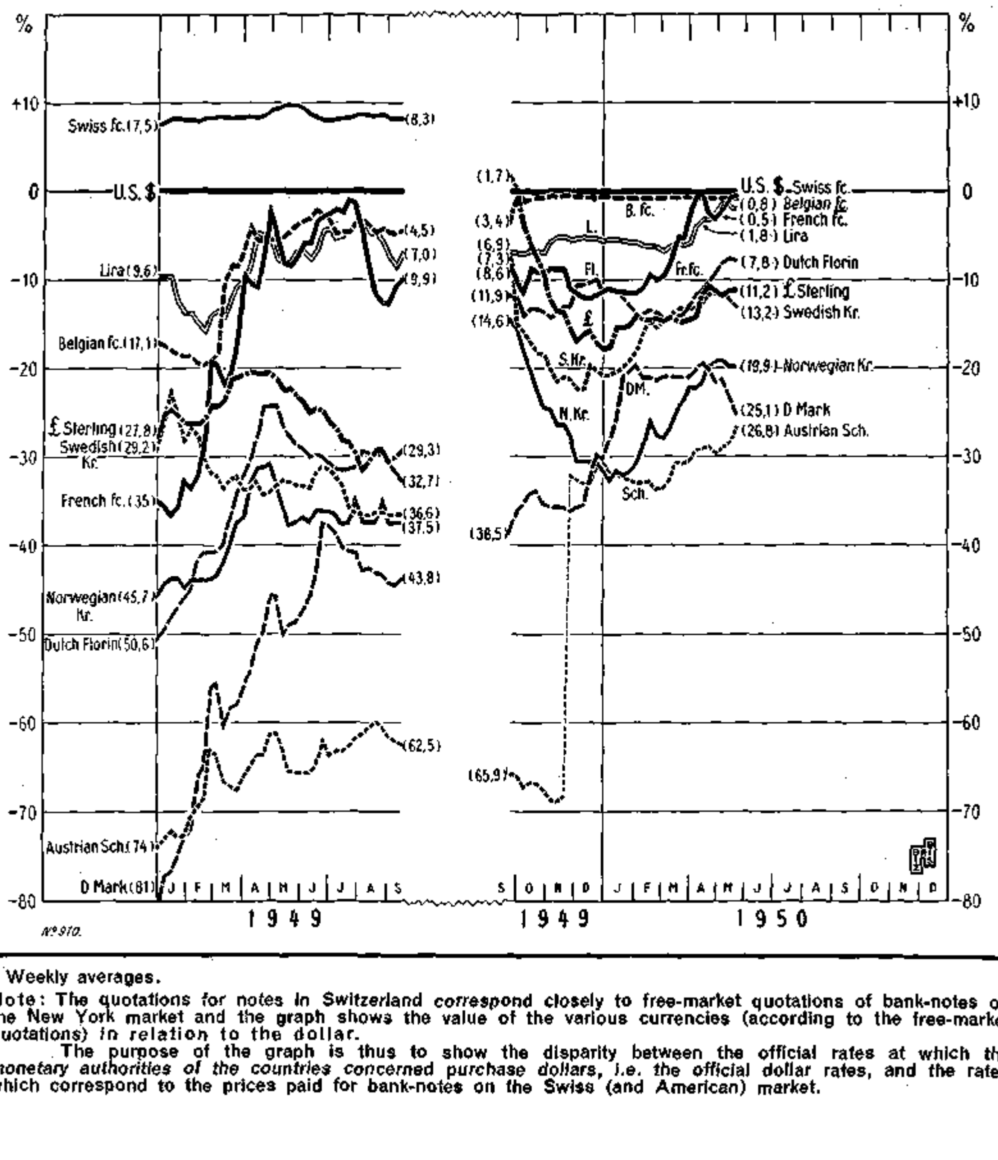
Since the gold standard, with its remarkable combination of unlimited freedom of transfers and stable exchange rates, was first established in the course of the nineteenth century, there have been only two years in which adjustments of foreign exchange rates have been so sweeping that the expression "wave of devaluations" has been justified. These years were 1931 and 1949. From a monetary point of view there were two outstanding characteristics common to both years:

(i) In the first place, they were not war years but fell within periods of post-war economic and financial reconstruction. It was generally believed in 1928–29 that the world had then succeeded in settling down again to a more or less calm period of progress in production and trade. This belief, however, proved to be an illusion: too many questions had been left unsolved for genuine balance to have been restored. About conditions in 1949 there was less illusion: the post-war adjustments had clearly not yet been completed; in itself, however, 1949 was not mainly a year of disturbances but one in which very real improvement was shown in a number of fields, and in that way it was a better year than 1931.

(ii) In the second place, the impulse to the wave of devaluations came, in both cases, from an alteration in the exchange value of sterling. Although a considerable number of depreciations and other modifications in foreign exchange rates had occurred in the inter-war period and again in the years after the second world war, it was not until sterling was affected that a stream of currency changes was released. About 36 per cent. of all international trade is still financed in sterling. In itself this sensitiveness to changes in the value of sterling may be taken as proof of the central position that the British currency has held in the building-up and working of the gold-standard system, which, despite all modifications in gold-market practices, etc., has not been really superseded as far as its main institutions and methods of financing are concerned. Gold is being accepted in exchange for national currencies, and, indeed, is much sought after by the many countries which have to replenish their monetary reserves.

There are of course, also points of difference between the circumstances which led up to the devaluations in 1931 and 1949 respectively. In the earlier case, prices of wheat and other cereals had already begun to fall in 1927 and other products followed suit during the latter half of 1929; thus the decline in prices had been going on for two years or more before the wholesale currency changes took place in the autumn of 1931. Nearly thirteen years had passed since the end of the war: there had been time for reserves to be reconstituted; international lending was still continuing at a surprisingly high rate in 1930; and it was only upon the combined appearance of a number of adverse factors (a seemingly unrestrainable fall in prices and an acute financial crisis leading to large-scale withdrawals of funds) that the devaluations became unavoidable. In 1949, on the other hand, the price fall (chiefly affecting primary products) was of relatively short duration, and the recession in the United States had been practically overcome when the devaluations set in. On the second occasion there was clearly less power of resistance; the second world war had meant a further weakening for the countries concerned and, in addition, there was perhaps a somewhat greater readiness to accept, without undue delay, a change which may have appeared inevitable in the long run and which, in many quarters, had already been expected for some time.

Free-market rates for bank-notes in Switzerland in relation to the official rates for the purchase of dollars.*



* Weekly averages.

Note: The quotations for notes in Switzerland correspond closely to free-market quotations of bank-notes on the New York market and the graph shows the value of the various currencies (according to the free-market quotations) *in relation to the dollar*.

The purpose of the graph is thus to show the disparity between the official rates at which the *monetary authorities of the countries concerned purchase dollars*, i.e. the official dollar rates, and the rates which correspond to the prices paid for bank-notes on the Swiss (and American) market.

It is interesting to note, in retrospect, that the opening months of 1949 were characterised by quite a remarkable mood of optimism. If one looks at the graph of quotations for bank-notes on the Swiss market one finds in the first four months of 1949 a general reduction in the disparity between these quotations and the official rates of exchange. In the "Economic Survey for 1949" (published in March 1949) the British Government itself had noted "the significant change which has taken place in the position of sterling in the world's financial centres". And in several countries on the continent of Europe (including, inter alia, France and Italy) the beneficial results of more orderly state finances and a more effective credit policy could be seen in the attainment of a stronger exchange position, as reflected in slowly mounting monetary reserves together with repayments of clearing balances and other exchange liabilities in relation to other countries. There were comparatively few currency changes in this period: Finland made a readjustment in its foreign exchange rates on 4th July 1949, the previous post-war alterations of the Finnish mark having been those of May, July and October 1945.

But there were signs that the monetary position was not so firmly established as it might seem. The recession in the United States, coinciding with the more general transition from a sellers' to a buyers' market, had several important consequences which were among the factors responsible for the devaluations. Most of these factors have been mentioned earlier in this Report; here they are only briefly indicated for a completion of the picture:

1. When the market turned in favour of the buyer and prices began to fall — most sharply in the case of primary products but not exclusively in that field — any weakness which a particular country had developed as a result of high prices, and which might have been passed off in the buoyancy of the boom, was then suddenly revealed. And the trouble might not be limited to ready-made articles: it might also happen that, for instance, higher prices charged for materials would tend to keep costs of production dangerously high in comparison with costs in competing countries. As to the respective price positions in the different countries, see page 104.
2. The reduction in purchases abroad by manufacturers in the United States, who were drawing on stocks already accumulated, hit more especially the suppliers of primary products and, since many of these products came from the sterling area, there were repercussions on the monetary reserves in London, which acted as banker for the various members of the sterling area.
3. As it became known that difficulties were arising in regard to sterling and rumours of a coming devaluation began to spread, foreign importers of sterling goods delayed their orders and payments, while sterling-area importers tried to speed up purchases and payments as much as they could.
4. As may be seen from the graph on page 165, the quotations for British bank-notes on the Swiss market declined in April and the following months. There was also a weakening of the rates quoted in various markets for "transferable sterling", which in the summer of 1949 varied between \$2.80 and \$3.20 (according to the country which held the sterling in question) and gave rise to arbitrage operations attracting much attention.

5. Account has further to be taken of the heavy expenditure for consumption and investment in many sterling-area countries other than the United Kingdom, the total expenditure clearly exceeding the available resources of domestic origin and, therefore, causing a current deficit in the balance of payments. In several sterling-area countries this high rate of expenditure was sustained by drawing on sterling balances and also by capital movements from the United Kingdom.

In one way or another, the strain to which the various sterling-area countries were subjected affected the central monetary reserves in London. In the course of the summer of 1949 a number of emergency measures were adopted. A temporary stop was put to United Kingdom purchases from the dollar area, except in certain special cases. A meeting of Commonwealth Finance Ministers was held in London in July, the United Kingdom announcing its intention to reduce imports from the dollar area to 75 per cent. of their 1948 level. The Finance Ministers of all Commonwealth members of the sterling area (except South Africa) agreed to recommend their governments to take action comparable in its effect to that decided upon by the United Kingdom.

Even before these measures could take effect, a certain improvement was noticeable as a consequence of the upturn of industrial activity in the United States in the summer. But the dollar drain was still considerable and on the eve of the devaluation the monetary reserves of the United Kingdom, which are at the same time the central reserves of the whole sterling area, were down to $1,340 million, being then only half as large as at the end of 1946, i.e. just before the effects of the 1947 crisis had begun to make themselves felt.

United Kingdom: Monetary Reserves

(gold and U.S. and Canadian dollars).

Date	Amount	Change in relation to the preceding figure
	in millions of dollars	
1945 31st December	2,476	—
1946 30th June	2,301	— 175
31st December	2,696	+ 395
1947 30th June	2,410	— 286
31st December	2,079	— 331
1948 30th June	1,920	— 159
31st December	1,856	— 64
1949 30th June	1,651	— 205
17th September	1,340	— 311
31st December	1,688	+ 348
1950 31st March	1,984	+ 296

Attention has been concentrated on the sterling position, largely because the connection between raw-material-producing countries in the sterling area and the central reserves in London was of fundamental importance for the turn taken by events. Other countries were, of course, also affected, but not always in the same way. Among the Scandinavian countries, Norway and Sweden experienced a decline in reserves, while up to the time of the devaluation the foreign exchange position of Denmark had rather tended to improve.

The Netherlands experienced certain difficulties in regard to its dollar payments but was otherwise able to improve its exchange position, while France and Italy also managed to add to their gold and dollar reserves, benefiting by increased financial stability at home and by lower prices as regards their imports of primary products. But these countries, too, felt the strain of a change in the world conjuncture; their own exporters had to contend with declining prices and keener competition on foreign markets.

The centre of discussions and negotiations moved to Washington, where the annual meetings of the International Monetary Fund and the International Bank for Reconstruction and Development began on 13th September 1949; but before that date delegations from Canada, the United Kingdom and the United States, headed by their respective Finance Ministers, were already discussing the financial and economic situation, and at the end of their deliberations they issued a communiqué dated 12th September 1949.

It was particularly emphasised in the communiqué that the sterling area would have to increase its dollar earnings so as to pay its way by 1952, and that "this would require in the sterling area the creation of appropriate incentives to exporters to the dollar area and a vigorous attack upon costs of production to enhance the competitive position of sterling-area products". On the other hand, "the creditor countries undertook to facilitate, to the greatest extent feasible, an expansion of dollar earnings by debtor countries, including the sterling area". With a view to the performance of these tasks special attention was to be paid to a ten-point programme involving the following main decisions:

1. The problem of overseas investments will be reviewed by the U. S. President's Committee for Financing Foreign Trade, in co-operation with corresponding groups of British and Canadian financial representatives, this team of experts addressing itself especially to the solution of the problem of incentive and of providing a suitable environment for a high level of private investment.
2. As regards commodity arrangements and stockpiling, the Canadian Government declared itself prepared to increase reserve stocks of tin and rubber; for the same purpose the United States will review its stockpiling programme and will meanwhile open the way for increased sales of natural rubber.
3. The United States recognised the practical difficulties arising out of the limitations on items which may be financed under present E.C.A. procedures and agreed that the United Kingdom must finance with its share of E.C.A. funds "a wider range of dollar expenditures than has hitherto been eligible, both within and outside of the United States".
4. The United States and Canada agreed to review customs procedures, recognising that administrative rules and practices may create obstacles both psychological and actual.
5. As to tariff policy, "it was noted that high tariffs were clearly inconsistent with the position of creditor countries". The United States will continue the policy of seeking "further negotiation of trade agreements through which additional reductions might be made, with in the framework of the Reciprocal Trade Agreements Act".

6. As regards liberalisation of intra-European trade and payments, it was the view of the U.S. and Canadian delegations that "the United Kingdom shortage of dollars should not in itself force the United Kingdom to reduce its purchases from areas with which it does not have a shortage of means of payment".
7. The whole problem of sterling balances "in its various aspects, including the necessity to provide capital goods for development, was discussed in a preliminary way on the basis of prior technical examination by the experts of the three governments. It was agreed that this was one of the subjects which concerned other countries and would require further study."
8. It was recognised by all parties that the question of petroleum, whether it concerned production or refining or geographical distribution, should be studied from the point of view of how it affected the dollar position of the United Kingdom.
9. It was also agreed that further study should be given to the question of shipping — another important element in the sterling-area balance-of-payments picture.
10. In conclusion, it was proposed that "the examination of questions on which it is hoped that useful understanding can be reached under the direction of the present Ministerial group" should be continued, in order "to keep under review the effectiveness of actions already agreed upon and to prepare, for governmental consideration, measures which could carry further those adjustments which are considered to be necessary" — but without in any way encroaching upon or detracting from "the area of competence of the O.E.E.C. and other existing organs of international economic collaboration".

The ten-point programme is not, of course, exhaustive as regards monetary matters; while adjustment of exchange rates, limitation of excessive expenditure and the pursuit of an adequate credit policy are prerequisites which determine the general lines of financial rehabilitation, the task of restoring monetary balance could be greatly facilitated by the adoption of particular measures (such as those specified in the communiqué) in a number of different fields, and it might be greatly hampered by their omission.

On 18th September 1949, the British Government made a communication to the International Monetary Fund regarding a proposed devaluation of sterling by 30.5 per cent. — the rate in relation to the U. S. currency to be \$2.80 = £1 instead of \$4.03 = £1. Approval of the devaluation was forthwith granted by the Fund. A new situation had there and then been created for a great number of other currencies: and in the following days decisions were taken in various capitals in Europe and elsewhere, and devaluations were carried out, the approval of the International Monetary Fund having, when necessary, been requested and obtained. Within a week the currencies of some twenty countries had been devalued, these countries accounting for two-thirds of the total of world trade. The following table shows the changes in 1949 as well as the net change since 1939.

Each member of the British Commonwealth devalued its currency to the same extent as the United Kingdom, with the exception of Pakistan, whose government decided to maintain the old value of the rupee, and Canada, where a return was made to the rate of Can. \$1 = U. S. \$0.909 which had

Official alterations in exchange rates 1939-1950.

Countries	National currency units	U.S. dollar middle rate 24th August 1939	31st December 1945	15th September 1949	31st March 1950	Percentage change 15th Sept. 1949 to March 1950	24th August 1939 to March 1950
Austria	Sch. . .	5.34(1)	10.00	10.00	21.36(2)	— 53.2	— 75.0
Belgium	B.fcs . .	29.58	43.83	43.83	50.195	— 12.7	— 41.1
Bulgaria	Leva . .	83.90	287.36(3)	287.36(3)	287.36(3)	—	— 70.8
Czechoslovakia.	Kčs . . .	29.235	50.00	50.00	50.00	—	— 41.5
Denmark	D.Kr. . .	4.795*	4.80	4.80	6.90¾	— 30.5	— 30.6
Finland	FM . . .	48.40	135.70	160.00	230.00	— 30.4	— 79.0
France	Fr.fcs . .	37.755	119.10	272.49½(4)	349.60	— 22.1	— 89.2
Germany	RM/DM .	2.493	10.00	3.33(5)	4.20	— 20.7	— 40.6
Greece	Dr. . . .	117.60	500.00	10,010.00(6)	15,000.00(6)	— 33.3	— 99.2
Hungary	P/Frt . .	6.20	104,000.00	11.74	11.74	—	— 55.7
Iceland	I.Kr . . .	5.7683*	6.4889	6.4889	16.32(7)	— 60.2	— 64.7
Ireland	£stg . . .	0.2126	0.2481	0.2481	0.3571	— 30.5	— 40.5
Italy	Lit. . . .	19.00	100.00	575.00	624.79	— 8.0	— 97.0
Netherlands . .	Fl. . . .	1.86	2.65	2.653	3.80	— 30.2	— 51.1
Norway	N.Kr. . .	4.27	4.96½	4.96½	7.14¼	— 30.5	— 40.2
Poland	Zl.	5.325	—	400.00(8)	400.00(8)	—	— 98.7
Portugal	Esc. . . .	23.36	24.815	25.025	28.77½	— 13.0	— 18.8
Roumania . . .	Lei. . . .	143.59	3,635.00(9)	151.50(10)	151.50(10)	—	— 5.2
Spain	Pts . . .	9.05	11.085	11.085(11)	11.085(12)	—	— 18.4
Sweden	S.Kr. . .	4.15*	4.19	3.59½(13)	5.17½	— 30.5	— 19.8
Switzerland . .	Sw.fcs. .	4.435	4·30	4.30	4.29½	+ 0.1	+ 3.3
Turkey	Liras . .	1.267	1.305(14)	2.8126	2.8126	—	— 55.0
United Kingdom	£stg . . .	0.2126	0.2481	0.2481	0.3571	— 30.5	— 40.5
U.S.S.R.	Roubles .	5.30	5.30	5.30	4.00	+ 32.5	+ 32.5
Yugoslavia . . .	Dinars . .	44.05	50.00	50.00	50.00	—	— 11.9
Canada	Can.$ . .	1.0047	1.1025	1.0025(13)	1.1025	— 9.1	— 8.9
South Africa . .	£SA . . .	0.2279(15)	0.2488	0.2488	0.3581	— 36.4	— 30.5
Australia	£A . . .	0.2822(15)	0.3108	0.3109	0.4474	— 30.5	— 36.9
New Zealand . .	£NZ . . .	0.2814(15)	0.3125	0.2600	0.3599	— 30.5	— 21.8
Argentina(16) . .	Pesos . .	4.325	4.0675	4.8075	9.02	— 46.7	— 52.1
Brazil*	Cruz. . .	16.50	16.50	18.72	18.72	—	— 11.9
Japan	Yen . . .	3.67(15)	15.00(17)	360.00	360.00	—	— 99.0

* Official selling rate. (1) January 1938.
(2) Effective rate: 40 per cent at basic rate (14.40) and 60 per cent at premium rate (26.00).
(3) Official rate plus premium of 250 per cent. (4) Mean rate between basic and free official rate.
(5) Export-import rate. (6) With Exchange Certificates.
(7) The new rate after the second change in the par value of the krone on 20th March 1950.
(8) With premium surcharge of Zl. 300 in practically all financial transfers abroad.
(9) Including the supplementary premiums.
(10) The new leu was introduced on 15th August 1947 and was equal to 20,000 old lei.
(11) In addition a sliding scale of rates, ranging from Pts 12.59 to Pts 21.90 for specified export goods and from Pts 13.14 to Pts 27.375 for specified import goods, has been applied since 3rd December 1948.
(12) In addition a sliding scale of rates, ranging from Pts 13.14 to Pts 28.47 for specified export goods and from Pts 15.76 to Pts 39.401 for specified import goods, has been applied since October 1949.
(13) Revaluation in July 1946. (14) Official rate, excluding premium.
(15) Buying rate on New York. (16) Free-market selling rate.
(17) This military rate was first established at 15 yen per U.S. dollar in August 1945, raised to 50 yen on 12th March 1947 and to 270 yen on 5th July 1948, at which level it remained until the present official rate was established on 25th April 1949.

been in application before the revaluation of 5th July 1946, when an appreciation of 10 per cent. had restored the Canadian dollar to parity with the U. S. dollar.

In western Europe, Ireland, the Scandinavian countries, Finland, the Netherlands, Iceland and Greece devalued in September 1949 to about the same extent as the United Kingdom. Switzerland made certain technical changes while maintaining the same gold value for its currency as before, and Turkey abstained from any change. The remaining countries in western Europe decided on different degrees of devaluation, as shown in the following table.

Rates before and after the devaluation in the autumn of 1949.

Country	National currency units	Dollar rate before devaluation	Dollar rate after devaluation	*Percentage change in value*
		U.S. $1 equal to:		
Austria*	*Schillings* . . .	10.00	21.36	*— 53.2*
Belgium.	Francs.	43.83	50.00	*— 12.3*
Germany (western zones) . .	Deutsche Marks	3.33	4.20	*— 20.6*
Italy.	Lire	575.00	627.89	*— 8.4*
France	Francs.	mean 272.495 *free* 330.60	349.09	*— 21.9* *— 5.3*

* The rate of Sch. 10 = $1 was the official rate but, as explained on page 157, Austria, in practice, applied a number of different rates both before and after the devaluation in the autumn of 1949.

Of the countries listed in the above table, Italy had maintained a rate of Lit. 575 = $1 practically unchanged for nearly two years from November 1947 up to the autumn of 1949. Under the system in force, 50 per cent. of all foreign exchange proceeds in dollars or Swiss francs could be sold in a free market, where importers bought the foreign exchange they needed, while the remaining 50 per cent. had to be delivered to the Exchange Control at the average rate of the previous month as quoted on the free market. In the calculation of such an average, quotations for the dollar below Lit. 350 and above Lit. 650 were not considered. The devaluation of the pound and other currencies having cut deeper than had been expected, the Italian exchange market reacted speedily in September 1949 and the dollar quotation shot up to Lit. 636.50 on the twentieth of that month; but a decline soon set in, and since the last week in October the rate quoted has oscillated between Lit. 624 and Lit. 625 — a quotation corresponding to a devaluation of the lira by about 8 per cent. in relation to the dollar. One particular change was made in September 1949 with regard to foreign exchange proceeds: the 50 per cent. deliverable to the Foreign Exchange Office was henceforth to be bought by it at the average daily quotation on the free markets.

Belgium had fixed a rate of B.fcs 43.83 = $1 in the autumn of 1944 and, thanks to the improvement in its monetary position, including the gradual narrowing of the disparity between the free and official rates, the Belgian franc came to be numbered, with the dollar and the Swiss franc, among the few "hard currencies". Faced in September 1949 with devaluations in so many other countries, the Belgian Government decided to raise the rate for the dollar to B.fcs 50 = $1, this being equivalent to a devaluation by 12.3 per cent. in relation to that currency. The passage of time seems to have brought increasing approval of the decision taken, especially since it has not been found to entail any substantial fluctuations in retail prices or any serious adaptation crisis.

In January 1948, France adopted a system of multiple, and to some extent fluctuating, exchange rates. The practical result of this system, which was simplified in a number of ways in October of the same year, was the emergence of two sets of rates:

(a) the "mean rate", being the mean between the fixed official rate of Fr.fcs 214.39 = $1 and the free-market rate (see under "b" below). Payments for all exports and imports, as well as for freights, insurance and so on, were made at this primarily commercial rate (which in the weeks prior to the devaluation in September 1949 worked out at Fr.fcs 272.60 to the dollar). For the Swiss franc and for the escudo also a similar "mean rate", depending on the quotations in the exchange market, was fixed separately, while for other currencies the cross rates were equated to the mean rate of the dollar;

(b) the "free-market rate" (quoted for the dollar, the Swiss franc and the escudo), which was applied to tourist expenditure and financial remittances and which, in the period preceding the devaluation, was without difficulty kept stable by the official control at somewhat over Fr.fcs 330 = $1.

The devaluations in September 1949 provided an opportunity for reintroducing single exchange rates: the free-market rate for the dollar was raised to about Fr.fcs 350, this new rate being applicable to all transactions (commercial and financial operations, tourist expenditure and other payments). Free-market rates are likewise quoted for the Swiss franc, the escudo and the Djibouti franc, while the official rates for other currencies are calculated via the rates for the dollar.

The rates shown for the dollar, the pound and the Swiss franc in the following table are those which have been officially applicable in western Germany during successive periods since 1933 (and which were actually applied throughout Germany before the change in 1948).

After the devaluation of sterling and other currencies, the Bonn Government showed some hesitation; moreover, the fixing of foreign exchange rates had to be done in agreement with the High Commissioners of France, the United Kingdom and the United States. On 29th September the rate of DM 4.20 = $1 (together with corresponding rates for other currencies) was announced, this change involving a devaluation by 20.6 per cent. in relation to the dollar but an appreciation by 12 per cent. in relation to the new sterling rate.

Germany (western zones): Foreign exchange rates.

Dates		One U.S dollar	One pound sterling	100 Swiss francs
		equal to		
1933: before the U.S. dollar devaluation	RM	4.20	20.43	81.0
1939: before the outbreak of war.	RM	2.49	11.06	56.18
1945: rates fixed by Allied military authorities (1)	RM	10	40	.
1948: from 1st May . . .	RM	3.33	13.43	77.52
1948: from 21st June (2) .	DM	3.33	13.43	77.52
1949: from September . .	DM	4.20	11.76	96.05

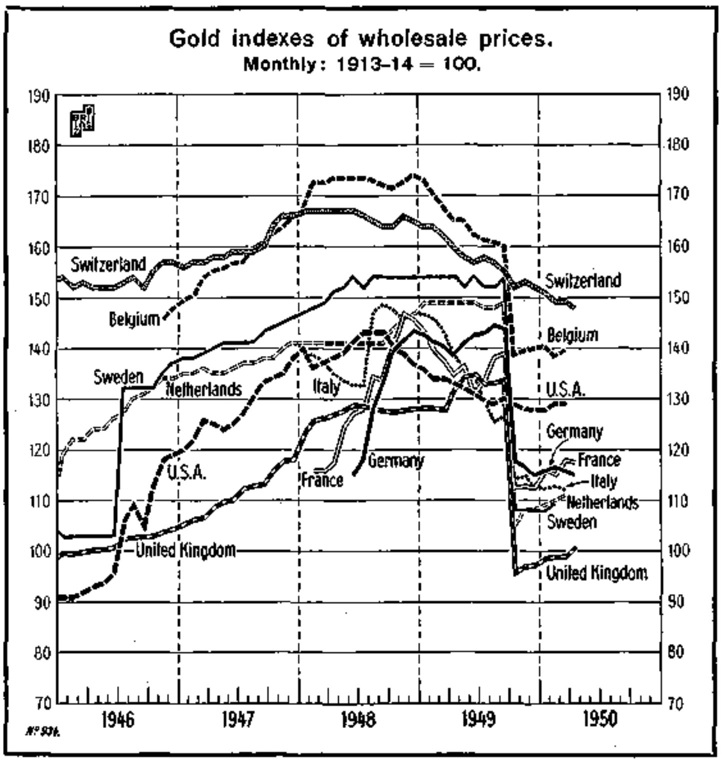
(1) The rates fixed by the Allied military authorities were employed for dealings with the occupation forces and were not applicable to foreign trade proper. Foreign trade was carried on by the Joint Export-Import Agency (J.E.I.A.), which bought imported goods at world prices and sold them in Germany at the controlled internal prices (i.e. at prices which, at the rate of RM 10 = $1, were definitely much lower and which, even at the rate of RM 2.49 = $1, would in some cases have been lower than world prices, since German prices had been kept down); the same Agency paid German exporters the officially fixed home-market prices for the goods it sold abroad at world-market prices.
(2) After the monetary reform there was a conversion of RM into DM at the rate of RM 10 = DM 1.

The procedure adopted in Germany had its analogue in Austria. Rates of Sch. 10 = \$1 and Sch. 40 = £1 were fixed by the Allied military authorities in 1945, but from October 1946 these rates became increasingly applicable to commercial operations also. In addition, traders were no longer required to surrender the whole of their export proceeds, but began to be allotted certain variable quotas which could be used either for direct imports of foreign goods or for sale to other importers. The quotas varied between 10 and 90 per cent. of the export proceeds, with the result that — speaking in broad averages — the country's foreign trade was carried on at rates of Sch. 13 to the dollar for imports and Sch. 18 for exports (with great deviations in individual cases).

It was not until November 1949 that the Austrian Government decided to devalue its currency, and it then took the opportunity to alter the country's exchange system — another alteration (also only temporary in character) following in January 1950. Individual allocations of quotas are again granted but, in principle, exporters of merchandise receive an effective rate of Sch. 21.36 = \$1, while for non-commercial transactions, and thus, inter alia, for tourist expenditure, the premium rate of Sch. 26 = \$1 is applied. The main import rates are as follows in relation to U. S. \$1:

Basic rate:	Sch. 14.40	applicable to	imports of essentials (mainly brought in by the government itself)
Effective rate:	Sch. 21.36	,, ,,	normal imports (40 per cent. payable at the basic rate and 60 per cent. at the premium rate)
Premium rate:	Sch. 26.00	,, ,,	luxury imports.

A step has been taken towards a simplification of the rate structure but the unifying process has not yet been completed.



The two currency changes in Finland, in July and September 1949, resulted in a total devaluation of 41 per cent.

Spain has maintained its official rate at Pesetas 10.95 = \$1 but it applies, in addition, a number of different official rates for exports and imports. Up to 7th October 1949 these rates ranged between Pesetas 12.59 and Pesetas 27.35 per dollar and, thereafter, between Pesetas 13.14 and Pesetas 39.401.

Among the other countries making currency changes, Iceland, after having changed its parity on 18th September 1949 from I.Kr. 6.489 = \$1 to I.Kr. 9,431 = \$1, carried out a further devaluation in March 1950, when the new rate was fixed at I.Kr. 16.286 = \$1, the net result of the two currency changes being a devaluation by 60.2 per cent.

Of the countries in eastern Europe, neither Bulgaria, Czechoslovakia, Hungary, Poland, Roumania nor Yugoslavia devalued. The U.S.S.R. kept its official exchange rates unchanged up to February 1950 and then announced a revaluation of its currency, with effect from 1st March 1950, the rate for one U. S. dollar being changed from Roubles 5.30 to Roubles 4. But the change in the value of the currency was this time made in terms of gold, the new price being close to Roubles 4.50 per gramme of fine metal,* to which the rate of Roubles 4 = \$1 corresponds. Simultaneously, it was decided that the diplomatic rate, which had been cut from Roubles 12 to Roubles 8 = \$1 in connection with the monetary purge in December 1947, should be reduced to Roubles 6 = \$1 for the time being and abolished as from 1st July 1950.

The pegging of the Russian currency to gold has been interpreted as a step towards increased use of the rouble as an accounting unit in a multilateral clearing thought to be in process of establishment among eastern European countries with perhaps the inclusion of China. The fact that in March 1950 Poland left the International Monetary Fund (as well as the International Bank for Reconstruction and Development) and that eastern European countries are, one by one, turning from dollar to rouble valuations in their trade with one another may seem to support such an interpretation, although in relation to outside countries the trade of the U.S.S.R. and of the eastern European countries in general continues to be handled on a dollar or — at times — on a sterling basis.

As regards countries outside Europe, it has already been mentioned that, apart from Pakistan, every member of the sterling area followed the United Kingdom in devaluing its currency and did so to the full extent of the sterling devaluation. In addition, British Honduras, which since 1934 has had a currency system linked to the dollar and which took no action in September 1949, devalued at the beginning of 1950. Though remaining inside the sterling area, Pakistan, feeling no pressure on its monetary reserves, decided against devaluation in order not to pay more for rice and sell jute for less. This meant that India, having devalued — as a "defensive measure", according to its Finance Minister — had to pay more, in terms of its own currency, for cotton, jute and certain foodstuffs which it regularly imported from Pakistan. But India has not recognised the new rate between the two rupees, and trading between the two countries has almost come to a standstill (apart from smuggling conducted on a barter basis).

* The exact gold value was fixed at Rouble 1 = 0.222168 gramme of fine gold.

In July 1947 Egypt had ceased to be a member of the sterling area; but for monetary reasons (fully one-half of its total trade turnover being with members of the sterling area) its currency has remained very closely linked to the pound sterling. It was not surprising, therefore, that in September 1949 Egypt left its sterling rate (£E 100 = £97½) unchanged, thus accepting the same degree of devaluation as the British currency. During the war, Egyptian wholesale prices had risen considerably, reaching an index number of 329 in 1945 (on the basis of 1937 = 100) and, although there had been a decline to 285 by the summer of 1949, the level of prices in Egypt was still on the high side. By December 1949 the index had gone up again to 309, but this was still four points below the index figure for January of the same year.

Other countries which devalued in the autumn of 1949 to about the same extent as sterling include Indonesia (which again devalued its guilder in March 1950), Israel (with price-level problems rather similar to those of Egypt) and the Argentine (as regards certain of the rates in its multiple-rate system); several other Latin American countries made this the occasion of various alterations in their (usually) rather complicated foreign exchange systems, the net effect being in many cases equivalent to devaluations of 30 per cent. or more. How far the complications can go in a single country may be seen from the following table.

In addition to introducing new rates, the Argentine has increased the spread between the lowest buying and the highest selling rate. Not being a member of the International Monetary Fund, the Argentine had not to ask for authorisation with regard to its new and (partly) floating rates. Bolivia and Chile, being members, asked for and received the required permission. Changes have also been introduced by Paraguay, which has abolished the free-market rate, and by Peru, which has taken the opposite course in that the official rate has been abandoned and the whole of the proceeds in foreign currency (acquired by means of exchange certificates) is henceforward to be sold on the free market (instead of 55 per cent. only, as was previously the case).

Argentina: Old and new rates of exchange.

Type of rate	Rates prior to 19th September 1949	Rates applicable from 3rd October 1949	*Percentage change*
	pesos per U.S. $		
Export rates (buying rates)			
Basic	3.358	3.358	—
Preferential A	3.980	4.832	*— 17.6*
„ B	4.010	5.729	*— 30.0*
Special	5.000	7.196	*— 30.5*
Free (1)	4.787	9.000	*— 46.8*
Import rates (selling rates)			
Basic	4.229	6.086	*— 30.5*
Preferential A	3.731	3.731	—
„ B	—	5.371	*— 30.5* (2)
Free (1)	4.807	9.020	*— 46.7*
Auction A	—	12.148 (3)	—
„ B	—	13.221 (3)	—

(1) The "free rate" applies to non-trading transactions; it is, as a matter of fact, fixed by the central bank.

(2) Calculated in relation to the "Preferential A" selling rate.

(3) Average of the rates offered at the auction on 10th March 1950.

Brazil, on the other hand, has not devalued, having found strong support for its currency in the sharp increase in the price of coffee, which more than doubled under the influence of reduced supplies — owing to a drought and large-scale damage by insect pests — and of increasing demand from the United States as well as from Europe.

* * *

On 27th September 1949, the President and Finance Minister of the Swiss Confederation made a statement in the National Council on the monetary policy of Switzerland and emphasised, inter alia, that the maintenance of the existing parities by the hard-currency countries represented a constructive contribution to the normalisation of the world economy.

Similarly, in relation to the United States, it may even be said that the devaluations established a more realistic balance between the devalued currencies and the dollar. In itself, the dollar forms the key currency of a monetary area comprising — apart from North America — Mexico and most of the other central American countries, as well as Bolivia, Colombia, Ecuador and Venezuela in South America, and the Philippine Islands on the other side of the Pacific. In some connections, it is more appropriate to refer not to the dollar area but to "the western hemisphere", which includes, for instance, Canada and Brazil, both important markets for European exports — indeed, in some respects, as valuable as the U. S. market itself.

The countries indicated above as having currencies attached to the dollar belong, for purposes of the British exchange regulations, to the "American Account Area". In a note of the British Government, dated 20th March 1950, with reference to a proposed European payments union, certain paragraphs (which appeared in the daily press and are reproduced below) were devoted to the nature and extent of the international use of sterling.

> "1. Within the sterling area, international payments are mostly made in sterling, and this area itself represents the largest multilateral trading area in the world. Payments in respect of individual transactions between traders within the sterling area, and traders in other currency areas, are also conducted largely in sterling, and settled by payment made in London. The payments arrangements made by the United Kingdom with foreign countries provide the mechanism for payments between those countries and the sterling area as a whole.
>
> Trade between the United Kingdom and non-sterling participating countries, although it has expanded considerably in both directions in recent years, accounts for only 22 per cent. of the total foreign trade of the United Kingdom, and the proportion is smaller for the sterling area as a whole.
>
> 2. Sterling held by residents of American Account countries can be freely transferred to other residents of any of these countries as well as to residents of any country in the Transferable Account Area. Moreover, sterling held on American Account can be converted into U. S. dollars at the Bank of England official rate of the day. The American Account Area comprises the following countries:

United States of America	Cuba	Mexico
United States Dependencies	Dominican Republic	Nicaragua
Philippine Islands	Ecuador	Panama
Bolivia	Guatemala	Salvador
Colombia	Haiti	Venezuela
Costa Rica	Honduras	

3. Under the Transferable Account System, residents of any particular Transferable Account country can make payments in sterling for direct current transactions to residents in other countries in the group. These countries are able to make wide use of sterling not merely for transactions with the sterling area, but also for transactions with a number of other important trading countries outside the dollar area. The countries at present included in the Transferable Account Area are as follows:

Participants in O.E.E.C.	*Non-Participants*	
Italy	Anglo-Egyptian Sudan	Chile
The Netherlands	Czechoslovakia	Egypt
Norway	Ethiopia	Finland
Sweden	Iran	Poland
	Siam	Spain
	U.S.S.R.	

4. Over and above automatic transferability through the American Account and the Transferable Account systems, the use of sterling is allowed administratively, so far as practicable, for transactions between countries outside the American and Transferable Account Areas, and between such countries and countries within the American Account and Transferable Account Area. Sterling trade involving third countries which do not enjoy automatic facilities is on a considerable scale, and permission for the use of sterling is given as freely as possible."

It is stated in the same note of the British Government that "in the world as a whole, the visible trade conducted in sterling amounted in 1948 to about £5,000 million out of a total world trade of £13,800 million — a proportion of about 36 per cent.". Stress is further laid on the extensive use of sterling as a reserve currency, held "in the form of working balances, monetary and currency reserves", the balances in question being subject to fairly wide fluctuations from time to time.

Inside the sterling area, an absence of restrictions is the rule in force — which means that, generally speaking, both current and capital payments are freely permitted, the only exceptions being certain obstacles opposed by Australia and South Africa to the flow of "hot money". Transfers from "American Accounts" are practically free, sterling held on these accounts being, moreover, convertible into U. S. dollars. On the other hand the crediting of direct sterling to American Accounts is limited in the main to the proceeds of current transactions, themselves strictly controlled; the deficits which have been and are still arising in relation to the dollar area have been covered largely by the proceeds of the Anglo-American Loan and the assistance obtained as Marshall aid.

Under the Transferable Account System, payments in sterling are limited to the proceeds of "direct current transactions with residents in other countries in the group". Thus, capital transfers are in principle excluded, although, "administratively" (i.e. as opposed to "automatically"), permits may be granted in particular instances (mobilising of special assets, important cases of investment, etc.).

Items	1948	1949
	In millions of £ sterling	
Transfers under:		
(i) automatic facilities . .	90	140
(ii) administrative facilities	150	125
	240	265

The actual use made of sterling for settlements between countries outside the sterling area and the American Account Area is shown by the figures in the accompanying table.

The increase from 1948 to 1949 is thus due to uses which require no special permit. It is estimated that, in 1948, countries which are participants in the O.E.E.C. but not members of the sterling area conducted trade on a sterling basis to the extent shown by the following figures:

With countries in the sterling area	£1,200 million
With countries outside the sterling area and non-participants in the O.E.E.C.	130 „
With countries outside the sterling area but participants in the O.E.E.C.	60 „
Total	£1,390 million

The figure of £1,390 million represents about 10 per cent. of the world's total foreign trade.

The difficulties experienced by the United Kingdom in returning to all-round convertibility of its currency are of various kinds; some relate to the domestic situation. Late in October 1949 the British Prime Minister announced that special measures (which he referred to as "consequential measures") had been decided upon for the purpose of reducing public expenditure and thus relieving the pressure on sterling. The cut in government expenditure, on a yearly basis, was estimated at £250 million, i.e. an amount representing between 6 and 7 per cent. of total expenditure and corresponding to 2½ per cent. of the national income. Some of the economies indicated have since been reversed — in particular, the cut in investments in building activity. But for the most part the decision has been maintained and may be taken as a recognition of the fact that devaluation is not enough, since a currency can preserve its full value only when over-spending is eliminated. Another important aspect which the Chancellor of the Exchequer, in his budget speech of 18th April 1950, said must not be neglected was "the possible over-supply of sterling". In that connection, the releases of sterling balances and the use of already freed balances enter into the picture (as already explained on page 28). Sterling which originated in the war may in various ways come to be used for current purposes and influence the quotations in free markets. Since the autumn of 1949, there has been a notable absorption of free sterling, thanks to the greatly improved trade balance of the United Kingdom, particularly in relation to the continent of Europe.

A more extensive use of sterling was arranged through the "Uniscan Agreement" of 30th January 1950 between the United Kingdom and the Scandinavian countries: Denmark, Norway and Sweden. In addition to a general increase in allocations to tourists, provision was made for transfers in connection with purchases and sales of various capital assets and for the liberation of funds whose outlet in certain directions had previously been blocked. While the importance of monetary agreements of such limited scope may be exaggerated, it should not be overlooked that every step towards a relaxation of existing restrictions must in itself be welcomed.

Elsewhere on the continent of Europe, discussions have also taken place for the conclusion of regional compacts of a monetary character but no formal agreement has been reached. Progress has rather been achieved along the lines of individual measures conducive to a return to more normal practices in the exchange markets. Belgium, which has taken the lead in these matters, gradually reintroduced freedom for the repatriation of Belgian bank-notes and authorised the use of such notes for a larger number of purposes — thereby causing, inter alia, an appreciation of the Belgian franc on foreign free markets. A further step was the reopening in November 1949 of the official foreign exchange market in Brussels — closed for nearly ten years — on which both the Swiss franc and the dollar (in that order of admission) have been dealt in. Measures were also taken with regard to the repatriation of Belgian balances abroad and of foreign funds in Belgium — which meant the reintroduction of freedom of capital transfers between the Belgian-franc area and other monetary areas. An illustration of the attitude dominating Belgian policy in this sector is found in the agreement of 28th October 1949 with Switzerland, by which

(i) trade quotas have been abolished for industrial products in general;

(ii) restrictions on commercial payments have also been abolished;

(iii) allocations for tourist traffic have been increased; and

(iv) Swiss capital invested in Belgium has been made freely transferable.

This was the first time since the war that a bilateral agreement was denounced, the Belgian debt falling within the scope of that agreement being reimbursed and a system of normal exchanges being re-established between two countries on the continent of Europe.

A further agreement of the same kind was concluded between Belgium and France at the beginning of June 1950. The Belgian franc and the French franc are to be quoted on the free markets of Paris and Brussels with maximum variations within the limits of one per cent. above or below the par rate resulting from the cross rates via the dollar (one Belgian franc being equal to Fr.fcs 7). Belgian and French commercial banks receive a general licence to buy and sell on the two markets, each central bank supporting its own currency on the market of the other country in case of need.

The agreement between Belgium and Switzerland has worked smoothly — a matter of importance since the Swiss franc plays a particular rôle in the Belgian exchange market. In observance of the Articles of Agreement of the International Monetary Fund, the quotations of foreign currencies in Brussels are not allowed to depart from the official parity by more than one per cent. in either direction. Inside these limits — corresponding more or less to the distances between the old gold points — variations are not only allowed but welcomed, it having been found that even slight shifts in the rates quoted may bring about most useful modifications in the supply of, and demand for, foreign exchange and thus help to equilibrate the market.

Control of capital movements is still legally in force (as in Europe in general) with a view to hindering an undesirable export of funds, but the provisions in question do not impede the maintenance of a free and balanced exchange market. Belgium's experience in this field may be useful in pointing the way towards a solution of the problem of how to prevent flight of capital while re-establishing completely free exchange markets — an aim which, for its attainment, would seem to require active co-operation between the monetary authorities and the commercial banks. A further step towards normalisation of the exchange market in Belgium was taken on 22nd May 1950, when it was decided to abolish quantitative restrictions as regards dealings in bank-notes and thus to establish a free market in foreign bank-notes; in practice, the commercial banks and other establishments normally engaged in foreign exchange business are again authorised to buy and sell foreign currencies and bank-notes. At the request of the governments concerned, the currencies and bank-notes of the Scandinavian countries, the Netherlands, Portugal and the United Kingdom are exempted from the above provisions and they continue to be dealt in by special agencies at official rates as fixed by the National Bank of Belgium.

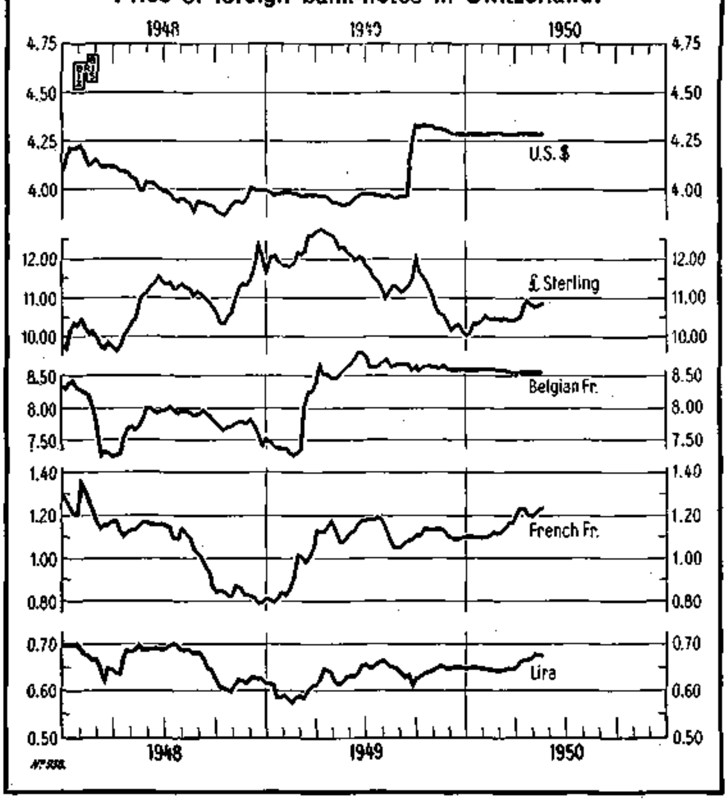
Belgium has thus taken the initiative of progressively re-establishing a normal exchange system, with operations in real exchange markets in which the central bank intervenes to keep the fluctuations of its own currency within the limits of the admitted margins. In this way the maintenance of the foreign exchange rates at their proper level on a given market has been once again separated from the extension of credits in a semi-automatic way between monetary authorities, each single country being primarily responsible for the quotations of its own currency.

France also has chosen the course of gradually relaxing restrictions on the export and import of its bank-notes. The amount of notes which may be reintroduced into French territory per person per month was first increased from Fr.fcs 40,000 to Fr.fcs 60,000 in August 1949 and then, at the beginning of April 1950, freed from all limitation, while the ceiling for the export of notes per traveller has been raised from Fr.fcs 4,000 to Fr.fcs 10,000 and finally to Fr.fcs 25,000 — an amount which, moreover, can now be freely disposed of. The response in the free foreign-exchange markets has been unmistakable: the disparity between the official rate and the rates quoted for bank-notes on the Swiss market has practically disappeared and at the beginning of June 1950 another step was taken to normalise the exchange situation through an arrangement with Belgium as described on page 163.

There is no doubt that the rates quoted daily for bank-notes in Switzerland attract considerable attention — being regularly reproduced in leading financial journals all over the world — and that they are taken into account as a factor in decisions by monetary authorities. As pointed out already on page 150, there was a distinct improvement in the valuation set on foreign currencies on the Swiss market during the first four months of 1949.

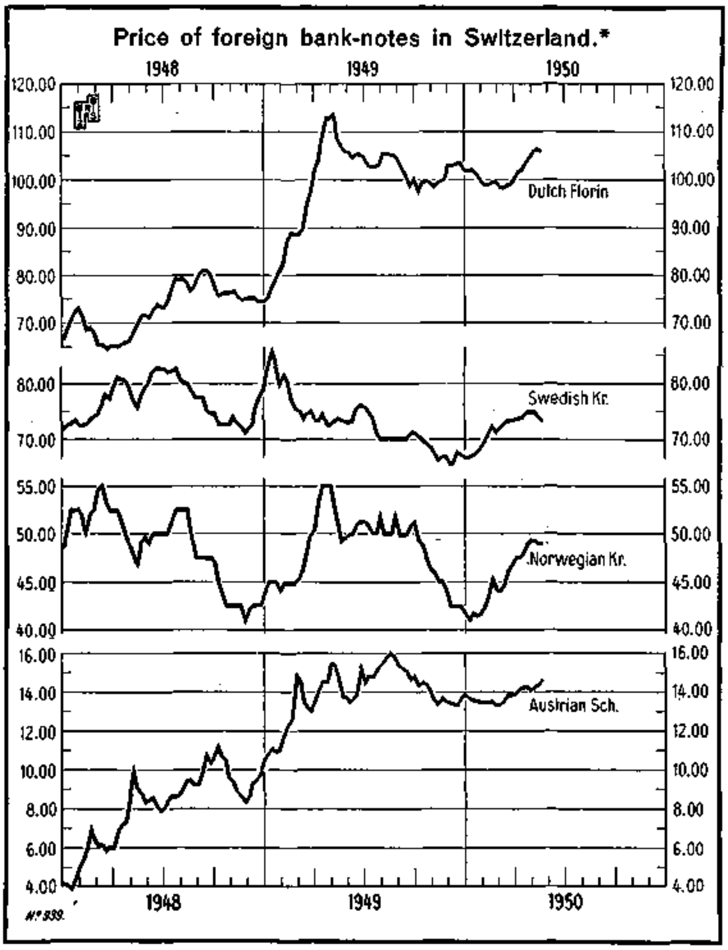
But in the following spring and summer the quotations took another turn, more nervousness being noticeable almost all round, with perhaps a little recovery in the last two weeks of August. Then in the latter half of September the devaluations suddenly changed the whole picture, involving as they did, for all the currencies in the graph (except the U. S. dollar), a new official rate in relation to the Swiss franc. As regards the dollar, there was no longer any divergence between the official rate (as applied to commerce) and the quotation for financial transactions, the normalisation of the situation ensuing automatically from the readiness of the Swiss National Bank to give Swiss francs in exchange for gold even in connection with movements of so-called "financial dollars".

Price of foreign bank-notes in Switzerland.*



* Weekly averages of the price of bank-notes. The free rates in Switzerland are actually about $1 = Sw.fcs 4.29½; £1 = Sw.fcs 12.24½ and B.fcs 100 = Sw.fcs 8.55½; the free rate of the Swiss franc in Paris was recently Fr.fcs 100 = Sw.fcs 1.228 and the free rate of the Swiss franc in Rome is Lit. 100 = Sw.fcs 0.6875.

A notable achievement is the disappearance of practically the whole disparity

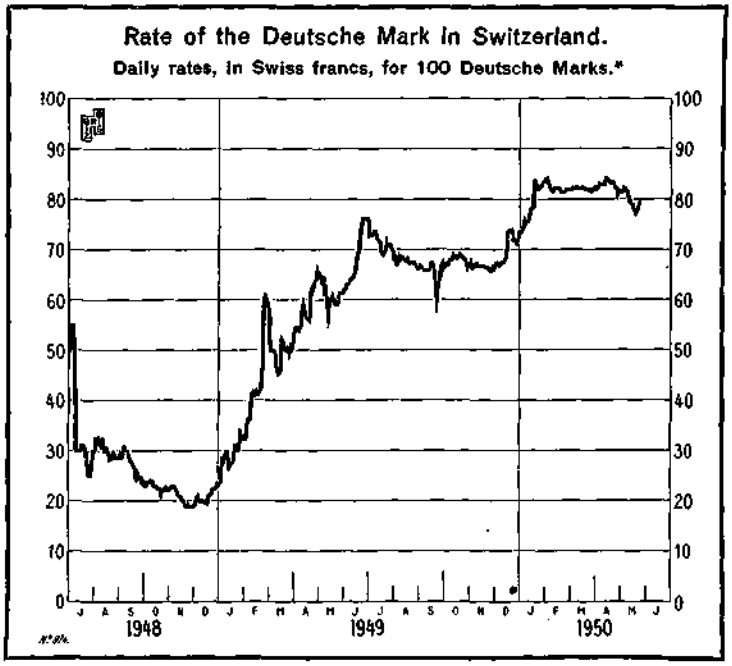


* Weekly averages of the price of bank-notes. The official rates are: Sw.fcs 114.08½ = Fl. 100, Sw.fcs 84.52½ = S.Kr. 100, Sw.fcs 61.22 = N.Kr. 100 and Sw.fcs 20.132 = Sch. 100.

between the official and free rates (as shown by the graph, page 149) in regard to the Belgian franc, the French franc and the lira. For the Dutch florin, the £ sterling and the Swedish crown the disparity has been reduced to about 10 per cent.; and for the Norwegian crown and the Deutsche Mark to about 20 per cent. and 25 per cent. respectively. The Austrian schilling has been quoted at very much the same "price" in Switzerland since the spring of 1949 but, by the devaluation in October 1949 and the subsequent slight improvement in the quotation, the disparity was brought within the range of 30 per cent.

The impression of real improvement in the exchange position of the western European countries as conveyed by the quotations for bank-notes in Switzerland is further confirmed by the strengthening of monetary reserves, as shown in the next chapter of this Report. A singular trait of the exchange markets for the past year has been an increasing insusceptibility to political upsets, people continuing their daily business life strangely unconcerned by rumours of wars in general and internal agitation in the individual countries. Thus, the Bank of France did not have to support the exchange markets during the period of wide-spread strikes in February and March 1950, and in Belgium the month of April, which was full of acute political controversies, turned out to be the best month since the previous autumn from the point of view of the strengthening of the monetary reserves.

The considerable improvement has not come about without drastic readjustments in some cases. While Switzerland, having been neutral in the war and having no sharp political divergences internally, has maintained



* The official rate is Sw.fcs 104.10 = DM 100.

the pre-war exchange value of its currency, Italy, which experienced twenty-two months of actual warfare within its borders and a civil war into the bargain, together with other political difficulties, has a dollar rate thirty-three times as high as before the war.

The changes shown in the following table represent far-reaching alterations which, in general, must be said to have constituted necessary readjustments to higher cost and price levels. As long as serious disparities were to be found between the internal and the external value of various currencies, there was clearly a need of greater flexibility in the fixing of the exchange rates. It is perhaps too early to tell whether the necessary currency adjustments have now come to an end, but there can be no doubt that, after the adaptations which took place in the autumn of 1949 (and which — it is interesting to note — have caused no serious crisis in individual countries or in their relations with one another), real progress has been made towards exchange stability. As to the continuance of more stable conditions, much will, of course, depend on the trend of prices on the world markets — as strongly influenced by business conditions in the United States — and on the possibility of replenishing monetary reserves in Europe; but it can hardly be denied that, if no untoward developments occur, the situation in many respects (prices, costs, budgets, foreign trade) is propitious for a further normalisation

Relation between pre-war and present official dollar rates in western Europe.

Country	The dollar rate in April 1950 as multiplier of the dollar rate in August 1939
Switzerland	1
Portugal, Sweden	1¼
Denmark	1½
Belgium, Norway, United Kingdom, western Germany	1¾
Netherlands	2
Austria	4
Finland	5
France	9
Italy	33

Note: In two of the countries included in the above table — western Germany and Austria — there have been monetary reforms involving not only the blocking but the cancellation of a considerable part of the notes in circulation and deposits; and, for the holders of the notes and deposits affected, the monetary reform, in effect, involved losses akin to those caused by an inflation, while for income-earners in general no reduction in their income ensued.

of exchange relations with a view to currency convertibility. In that event, daily exchange rates would again be quoted in real markets (this being once more the practice, in different degrees of comprehensiveness, in Belgium, France, Italy and Switzerland) but the possible fluctuations would be kept within narrow limits (within one per cent., in accordance with the Articles of Agreement of the International Monetary Fund) through the action of the monetary authorities — responsible each one for its own currency — which would thus seek to combine the two all-important elements: stability and flexibility. And in these cases the stability would be real and not merely artificial or administrative as only too often happens under the régime of the bilateral payments agreements.

At a time when increased attention has to be given to costs (and thus to rationalisation), business people need a stable standard of value on which to base their calculations in relation to other markets, account being taken of foreign competition. Greater freedom in foreign trade and payments is also a safeguard for the individual consumers, since more extensive contact with foreign countries will help to do away with undue profit margins. For income-earners in general there is the further consideration that — with relatively few exceptions — incomes will usually retain their full value over a period of time only if they are expressed in a stable currency linked to an international standard.

* * *

Devaluation is bound to produce a shock, and when, in addition, it was found that sterling and a number of other currencies, although devalued by 30.5 per cent., continued to be quoted at a sizable discount in the markets for notes and for sterling on transferable accounts, people not unnaturally began to fear that the devaluation had been a failure, that nothing had been really settled, and that years of depression might ensue, as had been the case after 1931. But by the beginning of 1950 a spirit of greater optimism had begun to make itself felt (as so clearly shown by the graph on page 149). There were some very good reasons for the improvement in the outlook:

(i) In the first place, the business trend in the United States, which had already begun to turn upwards before the devaluation, showed signs of establishing itself more and more firmly, and the idea gained ground that there was no need to reckon with a general setback and a price fall in that country — at least during 1950. This return of business confidence was of great importance not only from a psychological point of view but also in other ways.

It meant, for instance, that a number of countries in Europe had less cause to worry over the fact that, even after devaluation, their export prices, and perhaps other prices as well, were higher than the corresponding prices in the United States. The good business trend in that country might help to restore equilibrium and, anyway, selling would be an easier matter now that a stronger foreign demand for goods and services had reappeared.

The favourable business trend in the United States also meant an increase in its purchases of industrial raw materials from other countries, and particularly from the sterling area — which helped to strengthen monetary reserves.

(ii) For other reasons, too, monetary reserves increased. The market saw the return of many buyers who had postponed purchases because they expected a devaluation; and a number of countries on the continent of Europe which, before the devaluation, had already been improving their exchange position continued to do so (inter alia, as a result of an excellent tourist season). As these facts began to be known, they in their turn served to strengthen confidence.

(iii) A more fortuitous factor was the circumstance that the liberalisation of trade, sponsored by the O.E.E.C., led to sudden increases in imports by some countries in western Europe, and most of all by western Germany, which had generally been behindhand in filling its market with goods. There was a considerable German import surplus (cf. page 138) which, while not large enough to cause distrust in Germany's capacity to repay any resulting overdrafts by means of exports, gave many countries an additional outlet for goods at a critical moment, just after the wave of devaluations.

(iv) Finally, there have been a variety of signs pointing to greater stability: better figures for government revenue, a smaller U.S. export surplus, falling prices for gold in free markets — all of which have been noted and found helpful, and the causes of which could in most cases be traced back to the steady rehabilitation work in the field of production, state finances, etc. during the last few years.

It has been recalled that the upturn in the U. S. business trend had already begun in the summer of 1949, i.e. well before the devaluations in September. Thus, there is every reason to think that an increased American demand for raw materials would have set in during the autumn even if there had been no devaluation. Similarly, an upturn in intra-European trade would most certainly have resulted from the liberalisation policy, irrespective of the devaluations. A recognition of these connections does not, of course, imply that the rectification in price relations which the devaluations helped to bring about vis-à-vis the dollar area has been of no importance; and it also counts for something that a widely expected adjustment is now over and done with. But it would be palpably false reasoning to give the devaluations the sole — or even perhaps the main — credit for all the improvement which has taken place.

Moreover, in judging the state of affairs in western Europe, it must not be forgotten that Marshall aid is still being received and supplementing inadequate domestic savings. Progress is being made in restoring the monetary mechanism and establishing a better balance in economic life, but there are still many troublesome problems. One is how to obtain a sufficiency of domestic savings in the individual countries; and here, even if national resources have been increased by higher production, it is, as a rule, still necessary to reduce excessive expenditure — in particular on the part of the governments — weighing too heavily on the individual economies. Another is how to strengthen monetary reserves in order to provide a margin of safety against hazardous developments; in many respects, this question is bound up with the previous one, but it has its own peculiar aspects as well, as may be seen from an analysis of the supply and movements of gold — still the main component in monetary reserves.

VII. Production and Movements of Gold.

1949 will remain a memorable year in the history of gold. New tendencies made themselves felt: the distribution of newly-mined gold was more even than in the previous year and there was a striking fall in the prices paid for gold on free and black markets — reflecting in the main a growing confidence in national currencies.

1. The output of gold in countries which regularly published figures of production rose from the equivalent of $790 million in 1948 to $820 million in 1949 or by 3—4 per cent. No information has become available with regard to gold production in the U.S.S.R. or the gold reserves accumulated in that country.

   The known output of gold is still some 30 per cent. below what it was in the peak year 1940. No common trend can at present be discerned: in some countries government subsidies of various kinds and (recently) devaluations have given at least a temporary stimulus, while wartime and post-war increases in costs continue to depress gold production elsewhere.

2. There is a significant change in the distribution of gold: for the first time since 1945 the United States has not absorbed the whole current output. True, it added $164 million to its gold reserves — which was more than any other country; but this was only one-fifth of the reported output and other countries were able to add $250 million to their reported reserves. The only important net loser of gold in 1949 was the United Kingdom, and the whole loss was regained in the first quarter of 1950. A considerable number of countries added to their gold reserves in 1949, including Italy, Switzerland, Canada, Belgium, Venezuela, the Netherlands, Uruguay and Cuba. There were also some substantial additions to unreported gold reserves (without allowing for the wholly unknown changes in the U.S.S.R. holdings).

3. The increase in the reported reserves corresponded to just over one-half of the new gold output in 1949. This leaves nearly $400 million to be accounted for. Probably a part, say, one-third, went into unreported official reserves, and perhaps $100 million was taken by the arts. But there is still some $150 million or more which has "disappeared" — having very likely been sold on free or black markets. It is highly probable that additional gold from unreported production was sold on the same markets.

4. These sales of gold have been one of the factors which helped to bring about a sharp decline in the prices quoted for gold in the free and black markets.

As may be seen from the graph on page 181, the decline continued in the first four months of 1950, exerting an important psychological influence in many countries, since such a decline is taken to signify an intrinsic strengthening of the value of the domestic currency. The collapse of gold prices is attributable less to the impact of the devaluations (which under different circumstances might easily have had the opposite effect) than to the growing evidence of internal recovery in western Europe, including, in particular, the main gold-hoarding country, France. Influences from outside Europe worked in the same direction: namely, the check to hoarding caused by the communist victory in China and the increase in the sales on free markets by South Africa and some other producing areas.

The currency changes of September 1949 had cast their shadow before them; not only had transactions been held up until the expected devaluations took place but, in the spring and summer, funds had moved, clandestinely and otherwise, in search of safety. In a large measure, the last three months of 1949 saw the logical reversal of these tendencies. These are, however, essentially short-term effects. The permanent consequences of the devaluations cannot be predicted on the basis of the experience gained up to the present.

Output of gold.

In the following table a conjectural figure of 4 million ounces is included to represent the output of the U.S.S.R. As a result of this and some further additions (a rough allowance being made for production not officially reported), the value of the estimated world production is increased from $820 million, as given in the opening paragraph of this chapter, to $990 million, as in the table.

The country which chiefly contributed to the increase in gold production in 1948 and 1949 was Canada — alone responsible for more than half of the net world increase in both years, its output rising by 16½ per cent. in 1949. South Africa, on the other hand, increased its output only at the rate of one per cent. and, among other important gold-mining countries, the United States, Australia and British West Africa produced less in 1949 than in 1948. The Belgian Congo and the Philippines showed relatively large increases, but their share in world production is small.

If each country is examined separately, it will be found, as might be expected, that changes in production bear a close relation to changes in profits. After all, the official price of gold has remained unaltered at $35 an ounce while costs have risen: in the United States, for instance, wholesale prices doubled between 1940 and 1949 and hourly earnings rose by 112 per cent. In those countries in which little or nothing has been done by the government to help gold producers, production has fallen heavily. In 1949, production in the United States reached only one-third, and in Australia less

World gold production.

Gold-producing countries	1929	1940	1945	1946	1947	1948	1949
	Weight, in thousands of fine ounces						
Union of South Africa	10,412	14,038	12,214	11,918	11,198	11,575	11,708
Canada	1,928	5,311	2,697	2,833	3,070	3,530	4,113
United States (1)	2,208	5,920	997	1,625	2,321	2,099	1,997
Australia	426	1,644	657	824	937	889	893
British West Africa	208	939	548	590	560	668	660
Rhodesia	562	833	569	552	523	515	528
Colombia	137	632	507	437	383	335	359
Belgian Congo	173	555	347	331	301	316	368
Mexico	652	883	499	421	465	368	370*
Philippines	(2)	(2)	(2)	1	64	213	250*
Brazil	107	264	195	140	134	130	130*
Nicaragua (3)	12	155	200	182	212	223	216
Chile	26	343	179	231	169	164	170*
India	364	289	168	132	173	185	162
Peru	121	281	173	158	116	111	120*
New Zealand	120	186	128	119	112	94	100*
Other countries (4)	1,744	8,727	6,423	6,306	6,262	6,285	6,156
Estimated world production	19,200	41,000	26,500	26,800	27,000	27,700	28,300
	Value in millions of dollars (5)						
Value of estimated world production	672	1,435	930	940	945	970	990

* Provisional. (1) Including Philippine Islands production received in the United States through 1945.
(2) Included in the U.S. production through 1945. (3) Gold exports representing about 90 per cent. of gold production.
(4) Estimated. The total for "other countries" includes for the years since 1940 a conjectural figure of 4 million ounces for the U.S.S.R. (5) At the rate of $35 per ounce of fine gold all through.

than one-half, of the level of 1940. In Canada, on the other hand, production has risen by one-third since 1947, when a subsidy was introduced (amounting to 10 per cent., on an average, and to considerably more in the case of high-cost mines) and, after a heavy fall during the war, the Canadian output has risen again to within 77 per cent. of the level reached in 1940. The Belgian Congo and the Philippines increased production by 16 to 17 per cent. in 1949; in both countries producers were allowed to sell on premium markets.

Producers in South Africa benefited neither by a subsidy nor, to any large extent, by premium sales. They have gained, however, from a reduction in taxes and an increase in amortisation allowances and, since September 1949, by the devaluation (though this last step did not have an immediate effect on production: the output was slightly lower in the last quarter than during the middle of the year).

Up to the time of the devaluation, the gold-mining industry's working costs had risen since 1940 by more than 35 per cent.; the reduction in taxes meant that payments to the government fell from £SA 27 million in 1940–41 to £SA 6–7 million in each of the years 1947–48 and 1948–49. But these alleviations did little more than compensate for simultaneous increases in working costs, so that profits and dividends remained about one-third below

Operating Statistics of the Transvaal Chamber of Mines.

Period	Working revenue	Working costs	Working profits		Taxes	Dividends	
	s.d. per ton			Total £ '000	Total £ '000	s.d. per ton	Total £ '000
1940 yearly total	35s 5d	20s 8d	14s 9d	47,525	24,026	6s 6d	21,061
1946 „ „	34s 10d	25s 7d	9s 3d	26,329	10,603	4s 9d	13,406
1947 „ „	34s 7d	26s 7d	8s 0d	21,431	6,420	4s 5d	11,845
1948 „ „	34s 9d	26s 2d	8s 7d	23,790	7,454	4s 10d	13,419
1949 „ „	38s 11d	27s 0d	11s 11d	33,950	11,728	6s 1d	17,394
January–August 1949. .	34s 7d*	26s 5d	8s 3d	15,388	.	.	6,431
Sept.–Dec. 1949. .	46s 11d*	28s 0d	18s 11d	18,562	.	.	10,963

* The official price of gold was raised from 172s. 6d. to 248s. 3d. per fine ounce on 19th September 1949: most of the September output was sold at the higher price.

the 1940 level (and, if allowance is made for the higher cost of living, the real value of dividends per ounce of gold fell by two-thirds between 1940 and 1948). Devaluation, however, caused an immediate rise in profits and dividends, the average dividend for the year being increased by one-third.

Had the whole output for 1949 been sold at the post-devaluation prices, the receipts of the larger mines would have risen by £SA27 million and working profits would have been nearly doubled; but costs are rising, the wages of European workers having been raised by 15 per cent. and some increase also given to native workers — and, in addition, it is found that the cost of imports from both dollar and sterling countries is going up, thus raising the price of equipment and leading to claims for higher wages.

The direct benefits from the much-advertised sales of gold at premium prices appear to have been small. According to a statement made in March 1950 by the Finance Minister of the Union Government, the industry had sold 1,271,285 ounces at premium prices between February 1949 and February 1950 — an amount representing about one-tenth of South Africa's output in 1949. The sales had been made at an average premium of only about 10 per cent., providing an extra profit of £SA1,692,000. Early in 1950 the sales were suspended, the fall in the price of gold having made the profit obtainable too small.

In the United States, the gold output continued to fall during 1949 as a result of low profits and as an indirect effect of the fall in copper production, since no less than one-quarter of the U.S. gold output is obtained as a by-product of copper.

The differential subsidy granted to the gold producers in Canada corresponded, on an average, to Can.$3.27 per ounce in 1948 and was expected to come to Can.$4.23 in 1949, at a total cost of Can.$10 million. After devaluation of the Canadian dollar had increased the price of gold by 10 per cent., the subsidy was reduced: from the beginning of 1950, mines with a subsidy of less than Can.$3.50 per ounce were to receive nothing and reductions were to be made in subsidies to other mines, the saving thus amounting to Can.$4.5 million a year.

There was another decline — but this time only a slight one — in the gold output of Australia, the subsidies to a few high-cost mines being continued and it being announced in August 1949 that the subsidised companies would be allowed to increase their dividends from 4 to 6 per cent.

In Southern Rhodesia, the uniform subsidy of 27s. 6d. per ounce, which had met with the disapproval of the International Monetary Fund, was replaced in May 1949 by a more complicated differential subsidy, payment being dependent on the costs of the individual mines. After the devaluation of the pound the subsidy was reduced.

The devaluation of the pound, the dollar and a number of other currencies in the years 1931–33 had been followed by a considerable increase in the physical output of gold and still more in the currency value of that output.

It is interesting to note that gold production had already risen in the years 1929–31, i.e. before the devaluations could have had any effect. 1930 and 1931 were years of spreading depression, with prices and costs falling sharply all over the world in both industry and agriculture. Gold mining was in a unique position: the price of its product remained fixed in the early part of the depression; subsequently it was raised by 60–70 per cent. High profits thus attracted capital into the industry; with growing unemployment in all countries, there was no difficulty in securing the labour required to expand output. In 1949, on the other hand, the devaluations took place when the post-war boom had not yet spent its force. Especially in the sterling area (which accounts for 60 per cent. of the world's gold production outside the U.S.S.R.) prices are still rising, and both labour and machinery are scarce: it is, therefore, more diffi-

World gold production.

Year	In millions of		
	fine ounces	pounds sterling*	dollars*
1929	19.2	81.5	396.9
1930	20.9	88.8	432.0
1931	22.3	103.2	460.9
1932	24.3	143.5	502.3
1933	25.5	159.2	527.1
1934	27.2	187.2	919.5
1935	29.6	210.3	1,036.0
1936	33.0	231.5	1,155.0
1937	34.9	245.6	1,221.5
1938	37.0	263.7	1,295.0
1939	39.0	302.5	1,365.0
1940	41.0	344.4	1,435.0
1948	27.7	238.6	969.5
1949	28.3	275.0	990.5

* Converted at the yearly average price of gold in terms of the currency concerned.

cult now than in the thirties to attract additional resources into gold-mining. Moreover, the rate of devaluation has so far been smaller than in the thirties: at that time the price of gold was raised by 65–70 per cent. in terms of both sterling and dollars, in 1949 by 44 per cent. in terms of sterling only. It is well to remember, however, that the real test will come only when the upward phase of the business cycle no longer receives the almost automatic support which is given to it in the United States by the sale of automobiles and by basic investments in new houses and in Europe by all the backlog of investment requirements inherited from the war.

Movements of gold.

In 1949 the United States was still the main recipient of gold but no longer in the same one-sided way as in the two previous years, when it had absorbed the whole current output and even more — obtaining gold from other countries' monetary reserves. In 1949, gold continued to be added to the reserves during the first eight months (except in April). An outward movement then set in, which continued in the early months of 1950.

United States: Changes in gold holdings.

Period	Net gold imports (+) or exports (—)	Net increase of earmarked gold (—)	Domestic gold production	Increase (+) or decrease (—) in U.S. stock of gold *
	in millions of dollars			
1949 January–April	+ 121	— 59	+ 19	+ 63
May–August	+ 405	— 69	+ 23	+ 310
September–December	+ 160	— 367	+ 28	— 208
Total for the year	+ 686	— 495	+ 70	+ 165

* The figures do not add up exactly, partly because some gold was absorbed by industrial uses.

In the first four months of 1949 monetary confidence was on the increase in Europe and, at the time, the United States obtained about one-fourth of the current output of gold (in April there was even a loss of gold — the first loss in any month since September 1946). But in May nervousness set in and in the four months May to August the United States again absorbed the whole current output. Devaluation came — and by the end of 1949 more than half of the gold received in the previous months had passed into foreign hands.

In general, the "outflow" has not involved actual gold exports but an addition to the large stock of gold earmarked in the United States.

In considering the foreign position of the United States, account must also be taken of other countries' short-term dollar balances amounting to a total of nearly $5,900 million at the end of 1949. After rising by $74 million in the first quarter of 1949, the balances in question fell by $266 million in the six months from April to September, only to rise again by $271 million in the last quarter of the year. Over the year as a whole the dollar balances rose by $79 million and, if this rise (representing increased liabilities for the United States) is deducted from the increase in the U.S. gold reserves, there is only a very small remainder, i.e. only a very slight change in the foreign position of the United States. All these figures are well within the margin of $743 million which in the U.S. balance-of-payments estimates for 1949 is the residual resulting from "errors and omissions" (as shown in the table on page 90).

The Federal Reserve Bulletin for March 1950 gives an account of "estimated changes in foreign gold reserves and short-term dollar balances during 1949" from which the following figures have been taken (here reproduced in a somewhat different form).

Estimated changes in foreign gold reserves and short-term dollar balances during 1949.

Areas and countries	Holdings at the end of 1948			Holdings at the end of 1949			Change in totals of gold and dollar balances during 1949
	Gold reserves	Dollar balances	Total	Gold reserves	Dollar balances	Total	
	in millions of dollars						
O.E.E.C. countries other than the United Kingdom							
Belgium - Luxemburg (1)	647	174	821	723	160	883	+ 62
Denmark	32	45	77	32	38	70	— 7
France (1)	571	226	797	545	197	742	— 55
Germany (western zones)	—	179	179	—	149	149	— 30
Italy	98	326	424	258	300	558	+ 134
Netherlands (1)	214	147	361	236	196	432	+ 71
Norway	52	78	130	51	69	120	— 10
Sweden	81	49	130	70	90	160	+ 30
Switzerland	1,387	499	1,886	1,504	504	2,008	+ 122
Turkey	162	18	180	154	10	164	— 16
Other O.E.E.C. countries	418	97	515	389	138	527	+ 12
Total	3,662	1,838	5,500	3,962	1,851	5,813	+ 313
Rest of continental Europe	536	160	696	503	107	610	— 86
Sterling area							
United Kingdom	1,605	546	2,151	1,350	574	1,924	— 227
India	256	52	308	247	63	310	+ 2
South Africa	183	16	199	128	6	134	— 65
Rest of sterling area (2)	123	112	235	161	164	325	+ 90
Total	2,167	726	2,893	1,886	807	2,693	— 200
Canada	408	775	1,183	496	867	1,363	+ 180
Latin America	1,488	1,256	2,744	1,652	1,402	3,054	+ 310
Asia	720	994	1,714	731	773	1,504	— 210
All others	55	65	120	55	86	141	+ 21
Total	9,036	5,814	14,850	9,285	5,893	15,178	+ 328

(1) Including dependencies.
(2) Except Ireland and Iceland, included in the "O.E.E.C. countries other than the United Kingdom".
Note. The above table excludes gold reserves of the U.S.A. and gold and dollar balances of international institutions and also the (unknown) U.S.S.R. gold reserves but includes short-term dollar balances held by the U.S.S.R.

In the table account has been taken not only of dollar balances included in official reserves but also of balances held in private names, e.g. owned by commercial banks, business firms or individuals. It is important, however, not to judge the development of a country's foreign exchange position exclusively by the figures in the table; France, for instance, saw in 1949 a considerable improvement in its balances with other European countries (which does not, of course, appear from the data in the table). But, these reservations having been made, it is possible to draw the following conclusions:

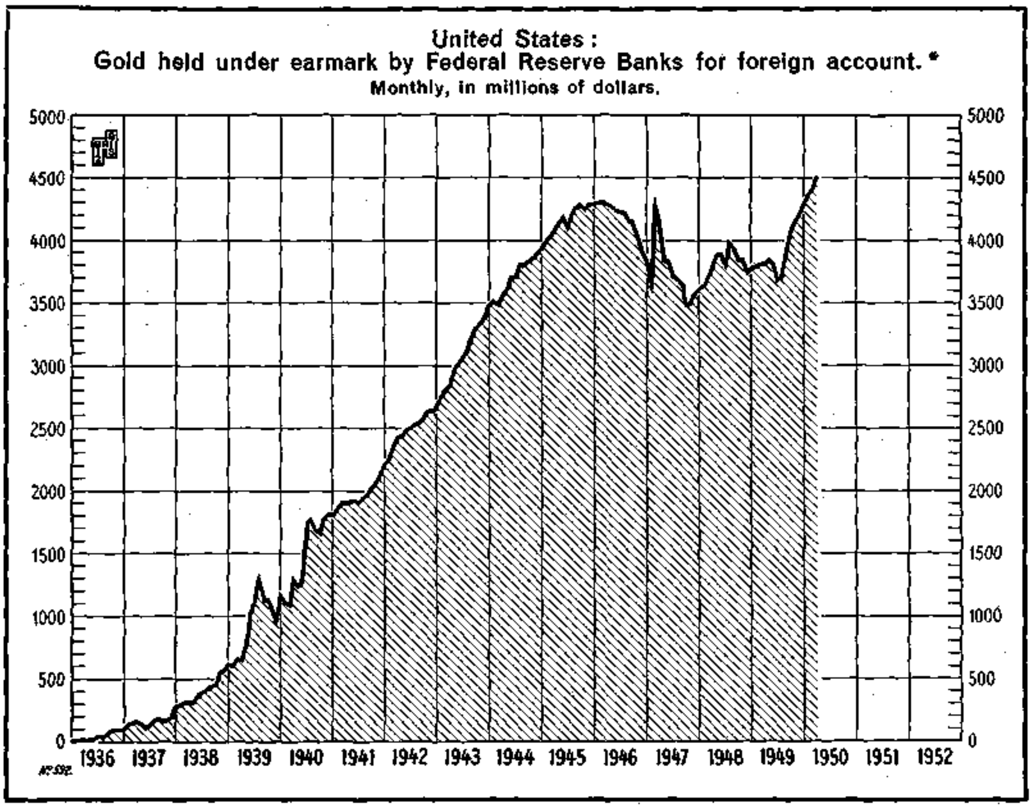
(i) Canada and the Latin American countries as a whole clearly improved their exchange positions in 1949.

(ii) In Asia the decline is due to a drain of dollars suffered by the Philippines, while Japan continued to increase its dollar balances throughout the year.

(iii) The sterling area had a net loss of $200 million (which, however, would seem to have been made good during the first four months of 1950).

(iv) The other countries in continental Europe (mostly eastern European countries) continued to draw down their gold and dollar balances.

(v) There was quite an impressive increase, of $313 million, in the amount of gold and dollar balances held by the O.E.E.C. countries (other than the United Kingdom). Apart from France, which lost $55 million of



* Including gold held for the account of international institutions.

Gold reserves of Central Banks and Governments (including international institutions).

Reporting Countries	End of 1938	1945	1946	1947	1948	1949	Loss (—) or gain (+) during 1949	1938–1949
	in millions of U.S. dollars							
United States, Treasury . .	14,512	20,065	20,529	22,754	24,244	24,427	+ 183	+ 9,915
Total (1) . . .	14,592	20,083	20,706	22,868	24,399	24,563	+ 164	+ 9,971
Italy	193	24	28	58	96	252	+ 156	+ 59
Switzerland (2)	701	1,342	1,430	1,356	1,387	1,504	+ 117	+ 803
Canada (3)	192	361	543	294	408	496	+ 88	+ 304
Belgium (4)	728	716	735	597	624	698	+ 74	— 30
Venezuela	54	202	215	215	323	373	+ 50	+ 319
Netherlands	998	270	265	231	166	195	+ 29	— 803
Uruguay	73	195	200	175	164	178	+ 14	+ 105
Cuba	•	191	226	279	289	299	+ 10	•
New Zealand	23	23	23	23	23	32	+ 9	+ 9
Peru	20	28	24	20	20	28	+ 8	+ 8
Hungary	37	24	24	34	35	41	+ 6	+ 4
Egypt	55	52	53	53	53	53	0	— 2
Denmark	53	38	38	32	32	32	0	— 21
Iran	26	131	127	127	124	124	0	+ 98
Brazil	32	354	354	354	317	317	0	— 285
Austria	88	0	0	5	5	5	0	— 83
Norway	84	80	91	72	52	51	— 1	— 33
Chile	30	82	65	45	43	40	— 3	+ 10
Turkey	29	241	237	170	162	154	— 8	+ 125
India	274	274	274	274	256	247	— 9	— 27
Sweden	321	482	381	105	81	70	— 11	— 251
France (5)	2,430	1,090	796	548	548	523	— 25	— 1,907
Spain (6)	525	110	111	111	111	85	— 26	— 440
South Africa	220	914	939	762	183	128	— 55	— 92
United Kingdom (7)	2,690(8)	1,995	2,415	2,030	1,589	1,400	— 210	— 1,290
International Monetary Fund	—	—	15	1,356	1,436	1,451	+ 15	+ 1,451
Bank for International Settlements	14	39	32	30	36	68	+ 32	+ 54
Total (9) . . .	•	37,000	37,420	37,900	38,300	38,850	+ 550	•

(1) Including gold held in the Exchange Stabilization Fund.
(2) Including gold owned by the Swiss Government.
(3) As reported by the Foreign Exchange Control Board and Minister of Finance.
(4) Not including gold held by the Treasury: $44 million end of 1938 and $17 million end of 1945.
(5) 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 $457 million end of 1945, $77 million end of 1946, $3 million end of 1947 and end of 1948 and $20 million end of 1949.
(6) End of April 1938.
(7) Partly estimated.
(8) Not including gold held by Exchange Equalisation Account: $759 million end of September 1938.
(9) Partly estimated, and including also other countries.

its reported gold and dollar reserves during 1949 but which has gained gold and dollars in the first four months of 1950, the only loser on a really substantial scale was Germany, which has had to draw on its foreign exchange holdings to pay for part of the heavy import surplus in the autumn but which can point to a steady rise in its exports.

The gain in gold by Switzerland in 1949 has been due to a surplus of perhaps Sw.fcs 700 million (equal to about \$165 million) in the current account of its balance of payments, while both the Netherlands and Italy still had current deficits in their balances of payments but were able to strengthen their reserves from certain receipts in foreign exchange which could be used for that purpose because various essential imports were already paid for through foreign aid. Italy also added over £40 million to its sterling holdings over the year. The returns of the Bank of Italy suggest that gold and foreign currency holdings rose by Lit. 160 milliard in 1948 and over Lit. 250 milliard in 1949.

The loss suffered by the sterling area fell on the United Kingdom and South Africa, since — apart from South Africa — members of that area conduct most of their foreign currency transactions through London and hold their reserves in sterling. The United Kingdom does not publish figures of its gold reserves but only the total of reserves of gold and U.S. and Canadian dollars. In the "Economic Survey for 1950" it is mentioned that "the gold and dollar reserves fell from \$1,912 million at the end of March 1949 to \$1,340 million (on 17th September)". There was thus a fall of \$572 million in less than six months; but in the following half-year (or more precisely between 18th September 1949 and 31st March 1950) an even larger amount, viz. \$644 million, was regained. The most important determinants of the general situation after the devaluation have been mentioned on page 168. As far as the United Kingdom is concerned, some very solid changes have helped to restore the reserve position (the greater competitive power of British exports since the devaluation, the upturn of business in the United States). But there can be little doubt that a considerable part of the influx of gold and dollars after 17th September 1949 has been due simply to temporary factors. The efficient system of exchange control may help to control trade and prevent capital exports to hard-currency countries (although in this respect it does not as a rule operate in relation to sterling-area countries) but the control could not prevent foreigners from postponing their purchases or (within limits) their payments for purchases of British goods. The resumption of purchases and the settlement of delayed payments certainly account for a large part of the recent increase in the British reserves.

Within the sterling area the rule is that each member sells its gold production to the United Kingdom, the latter then being responsible for settling the member's hard-currency deficit. At the beginning of 1948, South Africa made a gold loan of £80 million to the United Kingdom but arranged that it would not in future sell gold to the United Kingdom except in return for certain hard-currency payments. The volume of domestic expenditure —

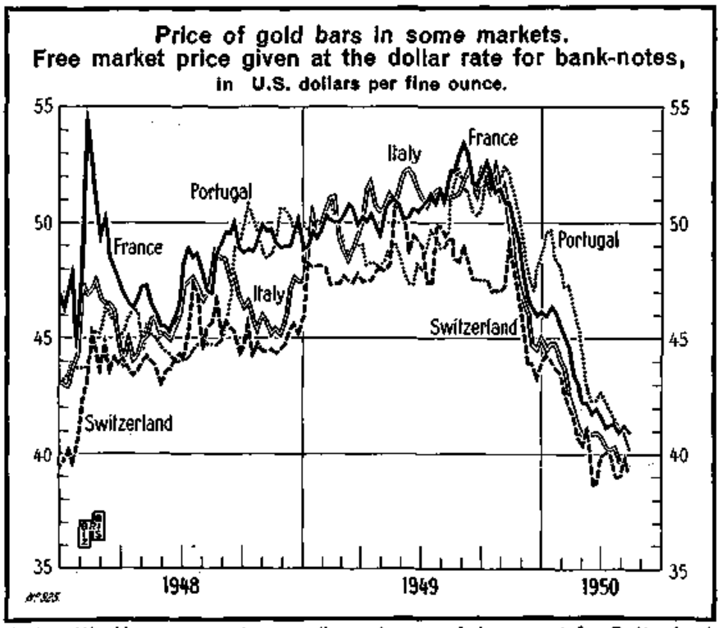
largely for new investments — having risen rapidly, with untoward results for the balance of payments, the South African Government adopted the policy of restricting hard-currency imports and admitting soft-currency imports, but as a result South Africa's deficit with the sterling area increased from £SA 85 million in 1948 to £SA 107 million in 1949; under the additional influence of fairly large movements of funds, South Africa's holdings of foreign bills fell by £26 million in the first eight months of 1949, although it obtained full repayment in sterling of the gold loan of the previous year. With the exhaustion of its sterling reserves, South Africa would have had to pay in gold for any further deficit with the sterling area had it not been for the fact that a return flow of capital set in on a large scale after the devaluation. In order to ensure that no restriction would be put on this return flow from London, the South African Government agreed in January 1950 to resume sales of gold to the United Kingdom. The arrangement is that South Africa will now sell to the Bank of England gold corresponding to the total of its essential imports from the sterling area and also, it appears, from other soft-currency countries; gold sales are not, however, to fall below one-quarter of the current gold production.

Before the formal inauguration of the present system of a gold and dollar pool for the sterling area, gold was currently sent to the London market by gold producers all over the world and by other countries which might have had to acquire it to settle a deficit in relation to the British market. This was done not only because London was *the* gold market of the world but also because most of the countries in question had regularly to make payments in sterling and had, therefore, to replenish their sterling balances as and when they were drawn down. In recent years — since the second world war — the ownership of abnormally large sterling balances accumulated during the war has enabled a number of countries to make payments without sending gold to London — and capital movements have also brought sterling to several members of the sterling area. It would seem, however, that in a number of cases a considerable part of the sterling balances has been rather quickly used up; in more than one case, the result has been that what remains is needed as a minimum monetary reserve — and when that happens gold will have to be sent to London for the same compelling reasons as in the past. It is, of course, true of sterling — as of any other currency — that it has to be sufficiently scarce (and therefore sought after) before the monetary mechanism can operate satisfactorily.

Gold outside monetary reserves.

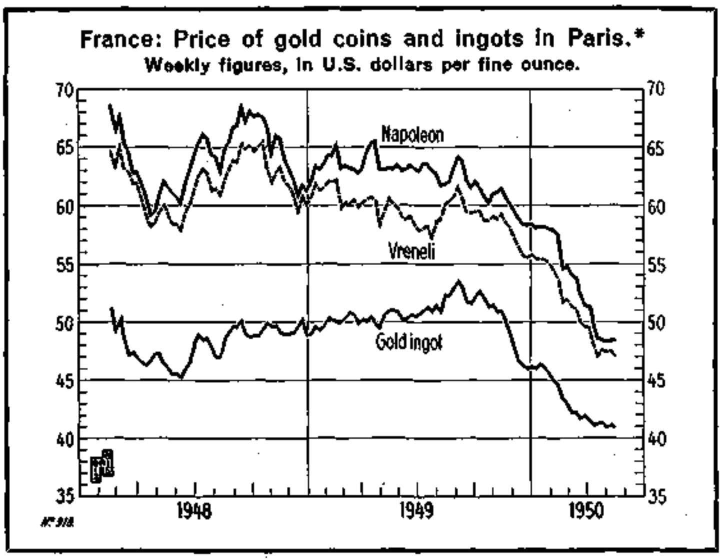
The fall in the prices paid for gold in free or black markets in France, Italy, Portugal and Switzerland will be seen from the graph.

It is typical of the present situation that the prices quoted in the different markets are coming closer together — indicating a considerable



Note: Weekly average prices on the various markets, except for Switzerland, where the price is given for gold in transit.

amount of arbitrage transactions. The price of bar gold was quoted in Europe around \$50 per ounce at the beginning of 1949 and at \$45 by the end of the year, falling again in the spring of 1950 to below \$40. In the Far East and also in the Middle East much higher prices have been quoted, allegedly reaching the equivalent of \$70 or even \$100. But it should be observed that the free or black-market price of gold in terms of dollars is obtained by dividing the price in local currency by the black-market rate for the dollar. In the Far East, where gold is the sole important currency hoarded and dollar transactions are relatively few, the black-market price for the dollar is less important and less easy to discover than is generally the case in European countries, and calculations of the "dollar price of gold" may therefore be misleading in the case of the Far Eastern countries. There is no doubt that gold prices have fallen heavily in the Far and Middle East; at the end of 1949 they varied between \$50 and \$70 per ounce; in the spring of 1950 they were still high in India but in Hong Kong the price was below \$40 per ounce.



* The Vreneli is a Swiss 20-franc gold coin.

In particular markets the price quoted for a special coin is often much higher than the price of an equal weight of bar gold, such specially high prices being, for instance, quoted for sovereigns in Arabia and for napoleons in France.

At the beginning of 1949 the napoleon was quoted at over Fr.fcs 6,000 in Paris; in April it had fallen to Fr.fcs 4,000; and in May 1950 to below Fr.fcs 3,000 (while the now effective official rate of Fr.fcs 349.50 for one dollar would give a "gold-content value" of Fr.fcs 2,283 to the napoleon). During 1948 the premium of the napoleon over the gold ingot was as high as 33 to 38 per cent. In May 1950 it had come down to 17 per cent.

There are several causes which have contributed to the spectacular fall in the free and black-market prices for gold:

(i) There has been a cessation of demand from the Far East — once a "sink" for gold and still an absorber of considerable quantities in 1947–48. With the communist victory in China it was feared that measures would be taken against the hoarding of gold, whereupon there would seem to have been even an outflow of the metal. None but the flimsiest evidence can be found of any appreciable sales of Russian origin — and if they have occurred the aim was in all probability simply the general aim of all sellers: to obtain the best price possible for the product to be disposed of.

(ii) There have been increasing sales of gold at premium prices by producers in different parts of the world. A number of countries have had the consent of the International Monetary Fund but "irregular" sales of gold would also seem to have taken place on rather a considerable scale in some directions.

In February 1949 South Africa began to sell gold and by February 1950 its sales had amounted to 1,271,285 ounces, the transactions taking three different forms:

(a) As an "experimental measure" an amount of 100,000 ounces was sold in February and March 1949 to a firm of London brokers for non-monetary purposes.

(b) After the conclusion of an agreement with the International Monetary Fund, sales were made to foreign manufacturers in conformity with certain rules intended to ensure that the gold would be really used for industrial and professional purposes and not remelted for sale to hoarders. Sales were made direct to the foreign manufacturer, who had to produce an import permit from his own country.

(c) In March 1949 a company was founded with a capital of £SA 500,000 under the name of "South African Goldware Proprietary Limited" for the manufacture within South Africa of gold articles for export.

Since the total profit derived from the premium sales came to only £SA1,692,000, i.e. to less than 27s. (or around $5) per ounce, the South African sales must have taken place in most cases at well below the free-market prices and in February 1950 the sales ceased.

In France and Belgium arrangements were made for the sale on the metropolitan markets of gold produced in the colonies of the respective countries, such sales being regarded as "internal" and, therefore, as not conflicting with the rules of the International Monetary Fund against "international transactions". In the Philippines the export of gold was prohibited in December 1949 (as part of the exchange control which was then reinforced) but in January 1950 the government authorised gold producers to sell three-quarters of their output on the internal free market.

The International Monetary Fund on 18th June 1947 stated that "it 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 nationals of other countries". In September 1949, the South African Government proposed to the International Monetary Fund that the official price of gold should be raised, and further that producers should be allowed to sell half their output on free markets. After some discussion the matter was referred to experts. In May 1950 the Executive Board of the Fund recommended the rejection of the two proposals, the representatives of the United States and the United Kingdom both being against their acceptance. The Board gave as its reasons for opposing sales at a premium on free markets:

(i) that they would impair monetary reserves;

(ii) that they would lead to exchange transactions at depreciated rates; and

(iii) that they would involve a loss of current exchange receipts and reserves for gold-absorbing countries.

The Fund has made it clear that it is concerned only with transactions in monetary gold; transactions in unrefined or manufactured gold are therefore allowed, provided that steps are taken to prevent the gold from being transformed into monetary gold (which, in any case, presents certain difficulties). The prohibition imposed on "international gold transactions" has certainly reduced the premium traffic in London, New York and Hong Kong, the traditional gold centres, but has at the same time diverted a good deal of business to such markets as Tangier, Beirut, Cairo and Macao.

It is not easy to obtain reliable estimates of the amount of gold which has been absorbed by hoarding in recent years. In a few countries some gold has come out of hoards when prices were falling; and, when monetary authorities have intervened on the market, they have not infrequently been able to acquire net amounts of gold which they can hold as a special reserve.

Special factors have been mentioned above as having contributed to the fall in the premium prices of gold — and these factors deserve mention — but the overriding consideration is, without a doubt, the progress achieved in restoring monetary balance in the various countries in western Europe (and elsewhere also). In itself, the fall in the premium price helps to strengthen the feeling of confidence — for it means, after all, that, in free markets, notes and deposits (which make up the national currency) are gaining in value in relation to gold. It is through further progress along the road of monetary rehabilitation — and not simply through prohibitions — that people will find it uneconomic and therefore unnecessary to pay premium prices for gold in free and black markets.

* * *

1949 was less characterised than any other post-war year by a one-sided and overwhelming flow of gold to a single recipient: the United States; and even the substantial efflux of gold — mostly from the sterling area — in the spring and summer was quickly reversed in the autumn and the losses fully made good in the opening months of the following year. It may seem somewhat strange that a year which in retrospect is conspicuous for a more even distribution of new gold should also have been a year of widespread currency changes; but those changes fortunately came at a moment when they caused little disturbance; in fact, they seem to have been one of the factors contributing to a greater balance in the monetary position of the world.

Changes in monetary gold stocks in the United States and other countries.

Year	Changes in monetary gold stocks in the United States	Changes in the reported gold reserves of other countries
	in millions of dollars	
1946	+ 620	— 380
1947	+ 2,160*	— 3,080
1948	+ 1,530	— 1,230
1949	+ 160	+ 250

* Excluding the transfer of $687.5 million in gold as subscription to the International Monetary Fund; but for this transfer, the increase in the U.S. gold stock would have been even more considerable in 1947. The International Monetary Fund has received gold from other countries also and at the end of 1949 it held about $1,450 million in actual gold. Because of the gold received by the Fund and also for other reasons (incomplete reporting of gold holdings), the changes in the world's total gold stocks cannot be ascertained simply by putting together the figures in the accompanying table. Probably the best available estimate for world changes in the more or less known monetary gold stocks (including the holdings of international institutions but excluding the U.S.S.R.) is that they rose by $350 million in 1946, $420 million in 1947, $380 million in 1948 and $460 million in 1949. These figures are low in relation to current gold production and suggest that considerable amounts of gold have gone into unreported reserves and hoards.

In 1945 the time had come for European trade to be resumed; but reserves were already scanty and it seemed a useful expedient to help trade along by the extension of credits between the various European countries (by means of the famous "swings" in the payments agreements). When the limits for these credits had been reached and came to be exceeded, payments had in several cases to be made in gold (i.e. in the means of payment internationally most acceptable) but reserves were running down and it was fortunate, indeed, that a part of the arrangements made under the Marshall Plan was the payments and compensation scheme to ensure a continuing and growing flow of intra-European trade without any too burdensome charge on the monetary reserves of the weaker countries. Thanks to the improvements which have taken place, a new stage has been reached in 1950; but, even so, it is proving no easy matter to determine, in the working-out of a new payments plan, to what extent credit facilities and gold payments can be fitted together in such a way as to enable definite progress to be made towards full convertibility of European currencies.

For **convertibility** to be resumed, with all that this entails in the form of possible gold payments, it is, of course, indispensable that — in addition to participating in further international measures — the individual countries should have established a sufficient balance in their internal economies and that, in so far as they require capital from abroad for their own development, the foreign resources in question should have been procured by loans or in other ways in good time, so that when an import surplus has to be paid for the foreign exchange is readily available. If arrangements are made for short-term credit facilities for seasonal and other temporary purposes, a useful element will have been added to the general credit structure; but such facilities should not be put on a par with the availability of adequate monetary reserves in the free possession of the countries themselves. For countries, as for individuals, monetary reserves serve to provide a margin of safety and, in particular, a means of gaining time, so that such readjustments may be made as the particular situation may require. It is sufficient to examine the table on page 176 to realise that a considerable number of countries have altogether inadequate reserves. In April 1950 the United Kingdom had gold reserves second only to those of the United States, and yet the Chancellor of the Exchequer, in his budget speech on the 18th of that month, expressed himself as follows:

> "It is the smallness of our reserves much more than the unavoidable degree of fluctuation in our earnings that is now our real trouble. That is why we must build up those reserves in every way we can, so as to have more in hand to meet the quite normal and inevitable fluctuations in the dollar income of the sterling area when Marshall aid ends in 1952."

Other countries may not have the same large actual and potential commitments as the United Kingdom but they, too, need an adequate backing in gold and foreign exchange. The problem of replenishing reserves cannot be dealt with as an isolated one, for it touches upon many aspects of the question of attaining a sufficient internal and external balance in each economy and, in the international field, of establishing propitious conditions for foreign trade and payments. Attention has obviously to be given to these questions in the utilisation of Marshall aid in the different countries. It seems quite clear that in the remaining part of the recovery programmes one of the main tasks should be to build up monetary reserves, especially now that the original production targets have been reached or surpassed. No real stability will be created in Europe before the reserve position of most of the continent's monetary authorities has been strengthened — and only then will the countries be able to dispense with foreign aid.

VIII. Money, Credit and Interest Rates.

A return to more normal monetary conditions has been part of the general improvement which has taken place during the last few years and which is characterised fundamentally by a better balance between the quantity of money and the quantity of goods, prices ceasing to move sharply upwards or downwards, exceptional shortages disappearing, and rationing, allocation and similar forms of control being gradually removed.

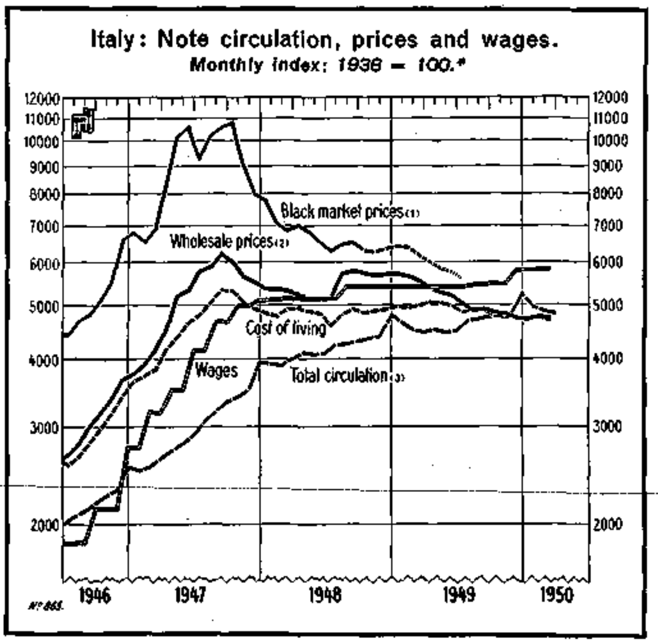
The same stage has not been reached, however, in all countries, and the movement necessary to restore equilibrium is not always in the same direction. As may be seen from the tables on page 192, the note circulation fell in some countries but remained relatively stable in others, while there were a number of cases in which the amount of notes outstanding continued to rise. The circulation fell in countries as different from one another as the United States, the Netherlands, Switzerland, India and Czechoslovakia; a small or negligible increase occurred in the United Kingdom, the Scandinavian countries and Belgium; and the same was the case in Austria and Japan, where an end was put to a long period of inflation; in France and the Argentine, expansion was at the rate of 30 per cent., and in Greece it even exceeded 50 per cent., with substantial increases also in Australia, Germany, Italy, Finland, Brazil and Egypt; while China still had to cope with an inflationary rise in its note circulation (that country being the most conspicuous exception to the rule of general improvement).

In judging the significance of these various movements, account must be taken not only of changes in the volume of money (note circulation or notes plus deposits) but also of the supply of goods and services on which the money can be spent and of the prices at which they are purchased. If adjustment is made for the rise in prices, the resulting picture is already more realistic, but account must also be taken of any increase in production (which may best be measured by the estimates of the national income). There is also the possibility that the public may want to hold larger quantities of money in the form of cash, as occurs, for instance, when confidence is restored in a currency which had previously been depreciating rapidly.

The weight of these considerations may be exemplified by the developments in a few countries.

It might be thought that the United States is suffering from a serious excess of money, since the note circulation at the end of 1949 was more than four times — and the note circulation plus bank deposits more than three times — as large as in 1938, while wholesale prices had barely doubled in the same space of time. But, as a joint result of the rise in prices and a great rise in production, the total of the national income is more than three times as large as before the war and this means that the apparent excess of money has been almost wholly absorbed. The note circulation in itself still corresponds to a rather higher proportion of the national income than before the war, but some slight increase may be taken as normal, since there are a number of people who, previously poor indeed, are now better paid and can therefore hold a larger amount of their income in notes, as cash, than they could formerly.

In Italy the note circulation increased between the end of 1947 and the end of 1949 from Lit. 795 to 1,057 milliard, i.e. by 33 per cent. During the same period prices fell somewhat, but the increase in the note circulation was absorbed to some extent by a rise in production and also by a slowing-down in the velocity of circulation (which is equivalent to the holding of more cash for current purposes).



* Logarithmic scale.
(1) Black market prices have practically disappeared.
(2) Official index. (3) Including State notes.

The relation between the money volume and the national income is clearly a more reliable touchstone than changes in the money volume considered by themselves. It is interesting to note that in the countries where the exceptional shortages have been most successfully overcome, where controls have been abolished and where prices are fairly steady, the money volume is again tending to represent about the same fraction of the national income as before the war. It would seem as if the economic changes resulting from the war and the fact of experiencing downright inflation had had less effect upon the public's habits in making payments and holding notes and deposits than might have been expected.

Pre-war experience also indicates that these habits are changed only slowly and that, while in periods of crisis the public may hold for a time an abnormally large or small amount of cash, it tends to restore its holdings to their previous level as soon as the emergency ends. The relation of the note circulation to the national income varied very little between 1920 and 1940 in Canada, Sweden and the United Kingdom. In the United States it rose abruptly during the depression and then settled down at a higher level. In the Netherlands and Switzerland movements were more erratic.

The group of countries in which the quantity of money is now in about the same relation to the national income as immediately before the war includes the United States, Belgium and Switzerland.

Money supply in relation to national income in the United States, Belgium and Switzerland.

End of	Currency circulation	Total money supply *	Currency circulation	Total money supply *
	in milliards of national currency units		*as percentage of national income*	
United States (dollars)				
1929	3.6	45.6	*4*	*52*
1938	5.8	46.6	*9*	*69*
1945	26.5	132.5	*15*	*73*
1948	26.1	147.4	*12*	*65*
1949	26.0	147.6	*11*	*67*
Belgium (francs)				
1938	23.6	41.2	*36*	*63*
1946	77.8	138.1	*41*	*72*
1948	88.5	150.1	*36*	*62*
1949	91.0	165.9	*37*	*63*
Switzerland (francs)				
1938	2.0	4.8	*23*	*55*
1945	4.1	8.8	*31*	*65*
1948	4.9	10.3	*23*	*58*
1949	4.9	11.0	*28*	*62*

* In this and the following tables the totals of currency circulation and money supply at the end of the year are compared with the national income for the year as a whole. "Currency circulation" refers, as far as possible, to the circulation of currency and coins less holdings of banks. "Total money supply" includes note circulation and sight deposits with the commercial and central banks (in some countries also postal-cheque deposits) and excludes interbank and government deposits. Time deposits are included in the case of the United Kingdom and the United States.

In all three countries the quantity of money was excessive at the end of the war. In the United States, wholesale prices rose by some 50 per cent. from 1945 to 1948, while money ceased to increase appreciably after 1946. In Switzerland prices had already risen during the war, but production rose year by year after the war and there was an even greater increase in the supplies of available goods (thanks to the recovery in foreign trade). In Switzerland, the relation of the money supply to the national income is still rather high, though there is no doubt that inflation has been ended and economic equilibrium restored; the surplus money probably represents hoards of Swiss francs in foreign hands. In Belgium, where the active money volume had been reduced by a currency reform in the autumn of 1944, it would seem that between 1946 and 1948 production rose by one-quarter and prices by some 35 per cent.

A second group of countries comprises those in which the excess of money accumulated during the war has not yet disappeared. These include the United Kingdom, the Netherlands, Denmark, Finland, Norway and Sweden.

In the United Kingdom there has been a marked improvement as compared with 1946 but it has only gone far enough to re-establish the position recorded at the end of the war, before the extreme cheap-money policy of the immediate post-war period had had its effect.* In Norway a

* If account were taken of the sterling balances held in the United Kingdom by non-residents (a large part of these balances being invested in short-term securities and thus not appearing as part of the money supply), it would be found that the present supply of sterling is even larger in relation to pre-war than is indicated by the figures in the table.

Money supply in relation to national income in the United Kingdom, the Netherlands, Denmark, Finland, Norway and Sweden.

End of year	Currency circulation	Total money supply	Currency circulation	Total money supply
	in milliards of national currency units		*as percentage of national income*	
United Kingdom (pounds)				
1929	0.36	2.71	*8*	*63*
1938	0.47	3.24	*10*	*70*
1945	1.34	7.07	*16*	*85*
1946	1.38	8.04	*17*	*97*
1948	1.25	8.55	*13*	*86*
1949	1.27	8.57	*12*	*84*
Netherlands (florins)				
1938	1.05	2.54	*21*	*52*
1946	2.80	6.19	*30*	*66*
1948	3.18	7.33	*25*	*58*
1949	3.13	7.55	*21*	*53*
Denmark (kroner)				
1938	0.48	1.07	*8*	*17*
1945	1.63	5.57	*14*	*46*
1948	1.69	4.14	*11*	*26*
1949	1.70	3.94	*10*	*23*
Norway (kroner)				
1938	0.45	0.62	*12*	*17*
1945	1.70	4.72	*38*	*106*
1948	2.10	4.95	*23*	*54*
1949	2.25	4.95	*23*	*51*
Finland (markka)				
1938	2.0	3.9	*7*	*13*
1945	10.5	22.1	*11*	*23*
1948	25.3	44.9	*8*	*14*
1949	25.9	49.2	*8*	*15*
Sweden (kronor)				
1938	1.04	2.18	*10*	*22*
1945	2.79	5.29	*17*	*33*
1948	3.17	6.27	*14*	*29*
1949	3.34	6.42	*15*	*29*

great rise in production and supplies (in comparison with the exhausted condition of the country at the end of the war) has done much to absorb the enormous excess money surplus which resulted from the occupation but, as the figures in the table show, Norway continues to suffer from an extraordinary degree of monetary disequilibrium, having at the same time one of the highest rates of net investment (equivalent in 1949 to 24$^1/_2$ per cent. of the national income) and one of the largest current deficits in the balance of payments (13$^1/_2$ per cent., also in relation to the national income).

It is possible that in Sweden a further improvement in the standard of real income has caused people to retain relatively more cash as private reserves but, even so, the increase in the proportion seems on the high side.

In many countries the wartime or post-war monetary reforms made a large reduction in the supply of freely disposable money, but this reduction generally proved to be temporary, money rapidly increasing once more as a result of the release of blocked balances or of budget deficits and other ways of credit expansion. In Denmark, however, the monetary reform made only a small reduction in the note circulation, but in subsequent years the money supply was greatly reduced, an ordinary budget surplus, a capital levy and special loans being used to reduce the government's debt to the National Bank. However, the excess of money was so large at the end of the war that it has not yet been eliminated.

Finland has followed quite different lines of policy from the other Scandinavian countries, a tenfold rise in prices removing most of the excess of money.

In the group under review the country which has gone farthest on the way back to equilibrium is the Netherlands, where three effective methods of absorbing an excessive volume of money have been adopted: a monetary reform (including a decisive cut in the amount of notes and free deposits), an increase in production, and an increase in prices. Moreover, most of the counterpart funds received in connection with Marshall aid have been sterilised on an account in the Nederlandsche Bank (cf. page 196 of the nineteenth Annual Report.) Wholesale prices in the Netherlands rose by about 70 per cent. between 1945 and 1950 and by more than 190 per cent. between 1937 and February 1950.

Three countries — Italy, France and Greece — may be taken as representative of the group in which the money volume has been below the normal proportion but rapid rises have taken place recently.

No adequate estimates of the national income are available for Greece but it is possible to compare the increase in money with the increase in prices.

It will be seen that in Italy the pre-war relation has been re-established — primarily as a result of an unusually rapid expansion of the volume of money — so that there is obviously no justification for any talk of a "credit deflation" in that country. In Greece the money supply is still small as compared with the pre-war ratio but, as the Greeks have been through several periods of extreme inflation within one generation, the credit institutions of that country can hardly count on more than a very slow return to the degree of confidence which prevailed in the years before the second world war.

In France, the total money supply is now relatively smaller than in 1938, but that was a year of monetary troubles, with disequilibrium in the balance of payments; an additional reason for caution is the fact that the volume of credit granted to business is now relatively greater than before the war.

Money supply in relation to national income in France and Italy.

End of year	Currency circulation	Total money supply	Currency circulation	Total money supply
	in milliards of national currency units		*as percentage of national income*	
France (francs)				
1938	112	192	*30*	*52*
1946	577	1,006	*44*	*77*
1948	993	2,168	*17*	*38*
1949	1,301	2,713	*19*	*39*
Italy (lire)				
1929	24	45	*19*	*35*
1938	25	44	*19*	*33*
1947	928	1,446	*17*	*27*
1948	1,123	1,889	*18*	*30*
1949	1,194	2,262	*18*	*34*

Money supply in relation to the cost of living in Greece.

End of year	Note circulation	Total money supply*	Cost of living	Note circulation	Total money supply*
	in milliards of current drachmae		1938 = 100	in milliards of drachmae at 1938 prices	
1938	7	19	100	7.0	19.0
1946	537	781	14,550	3.7	5.4
1948	1,202	1,966	26,561	4.5	7.4
1949	1,869	3,345	28,334	6.6	11.8

* Notes and sight deposits of commercial and savings banks plus "Other accounts" at the Bank of Greece.

As may be seen from the table, this is just the opposite of what has happened in most countries. In relation to the national income, credit shows the greatest decrease in Belgium — a country which, since the war, has applied a firm policy of credit control for the maintenance of equilibrium internally and in its balance of payments. In addition, it is very likely that in Belgium credit conditions are influenced by the same general factors as in the other countries, where the ratio under review is distinctly lower than before the war. One important general reason for this development is no doubt that many business firms were able to accumulate substantial reserves during the war and, in the post-war period, have been making good profits of which a considerable part has been ploughed back into the business, with the result that they can finance themselves to a greater extent than before the war. Moreover, in some countries, where commercial banks (and not only savings banks) used to extend credits for investment purposes (in the form of mortgages, etc.), a sudden rise in prices will have increased the nominal amount of the national income but not the amount of long-standing financing via the banks (a fact which should be taken into account although, in the above table, an effort — probably not wholly successful — has been made to exclude long-term advances from the business credits).

Business credits* as a percentage of the national income.

Country	1938	1949
	percentage relation	
France	14	18
Belgium	21	11
Denmark	33	25
Italy	31	23
Norway	45	32
Sweden	42	35
Switzerland	40	31
United Kingdom	21	15
United States	24	20

* It is not possible to ensure that, for all countries, the term "business credits" represents the same kind of short-term credits for the provision of working capital. Probably rather wide differences exist and for that reason the figures should not be taken as closely comparable. A similar reservation applies to the figures in the table on page 194, although perhaps not in the same high degree.

In France, where the credit ratio is abnormally high in comparison with pre-war, this increase seems to be due partly to the fact that sudden rises by as much as 40 to 60 per cent. a year in prices and wage costs ruled out any such growth in the volume of self-financing as occurred in other countries, and partly to the lack of activity in the capital market, which not only made private business firms rely to a greater extent on bank credit but also caused nationalised enterprises to finance their development largely by recourse to the banks. Credits to such enterprises are shown as a part of ordinary business credits, whereas in the statistics of the capital market a distinction is made between the two different classes of borrowers: in 1949 nationalised industries raised a total of Fr.fcs 14 milliard (not quite equal to $50 million) on the capital market, while business firms raised Fr.fcs 64 milliard (equal to about $200 million), of which a part merely represented the reinvestment of the proceeds of securities redeemed.

* * *

Notes in circulation.

Countries	End of June 1939	End of Dec. 1946	End of Dec. 1947	End of Dec 1948	End of Dec. 1949	Dec. 1949
	In millions of national currency units					Index June 1939 = 100
Austria	900 (1)	5,656	4,326 (2)	5,635	5,721	*636* (3)
Belgium	22,212	73,891	80,374	84,961	87,890	*396*
Czechoslovakia	10,740 (4)	43,589	58,539	71,997	66,626	*620*
Denmark	446	1,633	1,641	1,614	1,627	*364*
Finland	2,200	18,233	25,162	27,369	29,606	*1,346*
France	122,611	733,797	920,831	987,621	1,278,211	*1,042*
Germany	9,115	.	.	6,727 (5)	7,656 (5)	*84* (6)
Greece	8,002	537,463	973,609	1,202,166	1,858,613	*23,226*
Hungary	885 (7)	968 (8)	1,992 (8)	2,817 (8)	2,629 (8)	*297*
Iceland	12	167	107	175	184	*1,478*
Ireland	16	45	48	50	54	*332*
Italy	21,533 (9)	512,400 (9)	794,988 (9)	970,853 (9)	1,057,047 (9)	*4,909*
Netherlands	1,045	2,887	3,144	3,263	3,149	*300*
Norway	475	1,933	2,088	2,159	2,308	*486*
Portugal	2,096	8,793	8,752	8,696	8,456	*403*
Spain	13,536 (10)	22,777	26,014	26,472	27,645	*204* (11)
Sweden	1,059	2,877	2,895	3,113	3,287	*310*
Switzerland	1,729	4,091	4,383	4,594	4,566	*264*
Turkey	211	937	888	932	890	*423*
United Kingdom	499	1,422	1,350	1,293	1,322	*265*
Canada (12)	213	1,031	1,046	1,115	1,110	*521*
United States	6,489	27,591	27,464	26,760	26,116	*402*
Argentina	1,128	4,065	5,346	7,694	10,128	*898*
Bolivia	301	1,683	1,848	2,169	2,547	*790*
Brazil	4,803	20,494	20,399	21,696	24,045	*501*
Chile	866	3,565	4,067	4,720	5,744	*663*
Colombia	57	260	298	362	476	*830*
Costa Rica	28	72	87	112	109	*393*
Ecuador	64	362	338	341	393	*611*
Guatemala	8	29	30	34	36	*458*
Mexico	318	1,804	1,762	2,000	2,262	*711*
Paraguay (13)	12 (14)	32	43	65	89	*720* (15)
Peru	113	599	699	761	883	*780*
Salvador	15	60	54	57	65	*443*
Uruguay	91	214	240	271	290*	*301*
Venezuela	133 (14)	505	606	769	815	*611* (15)
Egypt	21	137	136	154	166	*802*
Israel	.	.	.	31	50	.
India	1,846	12,352	12,388	11,882 (16)	11,065	*599*
Iran	893	6,859	6,905	6,631	5,984	*670*
Iraq	4	40	35	35	37	*858*
South Africa	19	66	66	68	68	*357*
Australia	48	207	205	218	240	*504*
New Zealand	16	50	52	53	59	*375*
Japan	2,490	93,398	219,142	355,280	355,312	*14,269*

(1) 7th March 1938. (2) 7th December 1947. (3) Compared with 7th March 1938.
(4) Estimate of total circulation in Bohemia, Moravia, Silesia and Slovakia.
(5) For the Bank of German States, in DM.
(6) Compared with the circulation of Reichsbank and Rentenbank notes in June 1939. (7) In pengő.
(8) In forints, compared with the pengő circulation. (9) Including State and Allied Military currency.
(10) End of December 1941. (11) Compared with end of December 1941. (14) End of December 1939.
(12) Not including notes held by the chartered banks as reserves. (13) Notes and coin.
(15) Compared with end of December 1939. (16) India's notes in circulation in Pakistan are not included.
* Figure for end of January 1950.

In the countries in which the velocity of circulation is slowing down — which implies a form of saving, in that individuals and firms hold more cash — a quite exceptional opportunity has arisen for an expansion of the margin of credit. Use was made of similar opportunities in the reconstruction period after the first world war, for example, by the German Reichsbank in 1923–24, and now it has again been possible to profit by the same concatenation of circumstances. The experience gained in the twenties, however, was that these decidedly temporary possibilities of credit creation are soon exhausted and that at a certain moment a halt must be called. It is not at all certain that the circulation can be safely expanded until it reaches precisely the same relation to the national income as in a given year before the war. Much depends upon the way in which the expansion takes place; if the increase in the domestic means of payments corresponds to an accumulation of monetary reserves in, say, gold and dollars, there will be assets available to meet any strain which the larger circulation may provoke in the balance of payments.

* * *

In the overcoming of the strong inflationary trend which had been continued in France in the post-war period, the imposition of rather sweeping restrictions — especially of a quantitative character — in the autumn of 1948 played a considerable rôle (as explained on page 170 of the nineteenth Annual Report). The restrictions applied, of course, essentially to credits granted by banks, and they were reinforced by rates for commercial credits rising to 6, 7 or 8 per cent. Long-term rates were also affected: the yield of 3 per cent. rentes rose from 4.48 in December 1947 to 4.67 per cent. in September 1948 and to 5.18 per cent. in February 1950.

The stricter credit policy has compelled traders to release surplus stocks and exporters to sell to the exchange control the full amount of their receipts in foreign currency. It has thus helped in eliminating the shortage of goods at home, in stopping the rise in prices and in halving the deficit in the balance of payments (page 130). And these advantages have been accompanied by an increase in industrial production by 10 per cent. in 1949, while unemployment has remained at a low level (40,000 to 65,000 in the winter of 1949–50 as compared with a monthly average of 374,000 before the war, i.e. in 1938).

Complaints having been heard of an undue restriction of credit, some alleviations have gradually been allowed: thus in April 1950 the limit at which the authorisation of the Bank of France was required for certain bank advances was raised from Fr.fcs 50 to 100 million. And the rediscount "ceilings" limiting the amount of bills which each bank could rediscount with the Bank of France have also been raised. As a matter of fact, there has been a continuous expansion of the volume of credit: the restrictions have only served to keep it within reasonable limits.

The yearly increase in the volume of business credits was at the rate of 59 per cent. in 1947, 80 per cent. in 1948 and 39 per cent. in 1949. It

France: Volume of credit.

Categories	End of 1946	1947	1948	1949*
	In milliards of French francs			
Credits granted by:				
Bank of France				
official	69	114	110	141
business	58	92	205	352
Total	127	206	315	493
Other Banks				
official	235	179	244	278
business	250	398	665	863
Total	485	577	909	1,141
All Banks				
official	304	293	354	419
business	308	490	870	1,215
Total	612	783	1,224	1,634

* Figures for the end of 1949 are provisional.

Note: "Official credits" comprise only holdings of Treasury bills and the acceptances of the Crédit National. They exclude the direct advances of the Bank of France to the state.

is remarkable that under the existing regulations so large an increase could be obtained. The fact is that the rediscount ceiling allowed a margin for some expansion, besides which the banks could obtain, temporarily, certain additional funds from the Bank of France and they could also discount medium-term securities with the Crédit National. In addition, it was decided in March 1950 to allow special credit facilities for the accumulation of stocks of butter and for exports. Taken as a whole, the credit control cannot be said to have been too harshly applied; rather, it would seem that the expansion allowed has been the maximum that could safely be undertaken; and it is, therefore, of interest to note that in the first quarter of 1950 for the first time in many years no further expansion occurred in the credit volume.

In addition to business credits, the banks' holdings of public securities have also increased. The difference between total government expenditure and revenue still remains large, amounting to Fr.fcs 485 milliard in the estimates for 1950 (of which Fr.fcs 250 milliard is to be covered by the counterpart of Marshall aid). There was an increase of Fr.fcs 65 milliard in 1949 in the banks' holdings of government securities; on the other hand, the direct advances by the Bank of France to the government increased by only a negligible amount, the legal ceiling for current state borrowing from the Bank of France being lowered from Fr.fcs 200 to 175 milliard. The government borrowed considerable sums from the savings banks and postal-cheque system.

Both note circulation and bank deposits have continued to rise, the total money supply increasing by one-third in 1948 and one-quarter in 1949.

A new important source of credit expansion has been the advances by the Bank of France to the Exchange Stabilisation Fund of Fr.fcs 43 milliard, together with the rise in the Bank of France's holdings of foreign exchange, indicating a rise of about \$300 to \$350 million in France's foreign reserves. As long as the Exchange Stabilisation Fund was being called upon to sell foreign exchange, it took in corresponding amounts of francs and was, France: Total money supply.

Items	End of 1929	1947	1948	1949
	in milliards of French francs			
Note circulation . . .	69	921	993	1,301
Bank money*	73	740	1,175	1,412
Total	142	1,661	2,168	2,713

* Comprising private deposits with the Bank of France and other banks (excluding interbank deposits) plus postal-cheque accounts.

in fact, for years a source of supply for the Treasury, to which the amounts in francs were delivered. It was, however, soon faced with considerable losses in francs on forward operations as a result of the adjustments in exchange rates and also on account of the French multiple-rate exchange system. When the trend turned, the Fund had not enough resources in French francs to buy the inflowing foreign exchange. Since the Treasury was also short of funds, it was arranged that the Fund should obtain advances from the Bank of France — on condition, however, that, when it sold exchange, it should use the proceeds in French francs to repay these advances — the new arrangement representing an important step towards a normalisation of the French monetary system.

In Italy also, quantitative credit restrictions as well as higher interest rates have played a great rôle in the restoration of more effective financial stability after years of inflation. But that has not meant that no new credits have been granted: the volume of credit increased by about the same amount in 1948 and in 1949 as in 1947, in the autumn of which year the credit measures were taken.

Italy: Net new credits granted.

Granted by	1947	1948	1949
	in milliards of lire		
Bank of Italy:			
official.	119	76	— 2
business (including bills rediscounted)	114	9	50
Total	233	85	48
Postal saving system:			
official	48	137	251
business	18	24	— 6
Total	66	161	245
Commercial banks:			
official	55	197	75
business (excluding bills rediscounted)	310	328	323
Total	365	525	398
All credit institutions:			
official	222	410	324
business	442	361	367
Grand total	664	771	691

Note: In the above table the net yearly increase in credits is shown and not, as in the table on page 194 for France, the totals outstanding.

In the accompanying table Treasury bills acquired by the Bank of Italy on account of commercial banks for the purpose of covering their reserve requirements are included in the official credits of the commercial banks.

In addition to the credits granted by banks and other credit institutions, resources have become available both for private and official purposes via the capital market (issues of shares, bonds, Treasury bills, etc.) and through the

Italy: Funds made available and their destination.

Items	1947	1948	1949
	in milliards of lire		
Funds available:			
credit granted as shown in the preceding table	664	771	691
other credit operations . . .	—8	20	63
financing of purchases of foreign exchange	14	161	160
Total for credit institutions	670	952	914
funds raised on the capital market	123	245	281
use of counterpart of foreign grants and credits	121	104	82
Total funds available	914	1,301	1,277
Destination of funds:			
for official use	375	612	408
for business	539	689	869
Total of funds used .	914	1,301	1,277

use of funds representing the counterpart of foreign grants and loans. Additional funds have also been brought into the hands of firms connected with the export trade through the financing by the Bank of Italy of foreign exchange purchases. The table shows the aggregate amounts made available and their destination.

The total of funds becoming available was about the same in 1948 and in 1949, but the part absorbed for official use was reduced from about one-half to one-third. As compared with 1947 there was little increase in the net amount of new credits granted by banks but a considerable increase in the funds raised on the capital markets, as well as in those used to finance foreign exchange purchases — i.e. in the funds which are forthcoming only when an end has been put to inflation and confidence in the currency is reviving.

There has, in fact, been a considerable increase in savings deposits as well as in the volume of money.

Italy: Volume of money and savings deposits.

End of	Note and coin circulation	Other forms of currency (1)	Current Accounts: Credit institutions (2)	Current Accounts: Postal system	Total supply of money	Savings Deposits: Banks	Savings Deposits: Postal system	Savings Deposits: Total
	in milliards of lire							
	1	2	3	4	1 to 4			
1947	795	133	485	33	1,446	529	199	728
1948	971	152	715	51	1,889	805	342	1,147
1949	1,058	136	933	135	2,262	1,016	502	1,518

(1) Circular and bank cheques. (2) Not including the Bank of Italy.

While the volume of money has increased by 50 per cent. since the end of 1947 the volume of savings has more than doubled. If allowance is made for the rise in prices, the volume of money is rather larger than before the war but not the total of savings deposits — the latter having suffered very greatly through the inflation.

Italy: Money supply and savings deposits adjusted for rise in prices.

End of	Supply of money	Savings deposits	Wholesale prices	Supply of money	Savings deposits
	in milliards of current lire		indexes	in milliards of lire at 1938 prices	
1938	43	67	100	43	67
1947	1,446	728	5,526	26	13
1948	1,889	1,147	5,697	33	20
1949	2,262	1,518	4,747	48	32

A further sign of a return to normal and of increasing confidence in the lira has been the great activity in the capital market. Whereas in 1947 practically no companies had been able to issue bonds on the capital market and net issues of shares amounted to only Lit. 62 milliard, in 1949 a net amount in bonds of Lit. 191 milliard was issued in addition to net payments of Lit. 62 milliard for shares. In 1950, a conversion issue of 5 per cent. nine-year Treasury bonds had a considerable success. At the close of the operation over Lit. 300 milliard had been subscribed — nearly Lit. 200 milliard in excess of what was strictly required for the redemption of maturing bonds — thus enabling a large amount of floating debt to be funded.

The receipt of foreign aid and the growth of domestic savings have made it possible to finance both the budget deficit and private investments without inflation and without unfavourable effects on the balance of trade. Gross investments amounted in 1949 to about 20 per cent. of the national income (cf. page 70). In 1949, in conspicuous contrast to former years, the financing of the government's deficit did not involve recourse either to the Bank of Italy or to the commercial banks on any substantial scale, sufficient funds being supplied by foreign aid, the postal-savings system or the market.

Production and employment figures have risen but, owing to the rapid increase in the population (cf. page 77), difficulties have been experienced in finding work for all the new recruits to the labour force. Early in 1950 the Minister of the Treasury announced plans for spending 120 milliard lire annually over a period of ten years on the development of southern Italy, these schemes to be financed through a special new institution. A further move towards a freer credit policy was the reduction of the discount rate from 4½ to 4 per cent. on 6th April 1950 (the rate had been reduced from 5½ to 4½ per cent. on 9th April 1949).

Even more than Italy, Greece has been affected by war and internal conflicts, it being only in 1949 that fighting in that country came to an end. For these reasons, rehabilitation has been delayed, but in many respects impressive progress has been made during the last two years, the volume of industrial production reaching the pre-war level by the end of the year and agricultural production being then within 25 per cent. of that level. In the credit sphere, the great difficulty is, as mentioned on page 190, that after such monetary debacles as the Greeks have experienced it is not easy to restore confidence in the national currency.

The cessation of the civil war, more regular deliveries of foreign goods, the reconstruction of transport and the rise in agricultural and industrial production, together with high interest rates and the restrictive credit policy of the Bank of Greece, were the main factors in bringing the inflation to an end. The change was remarkably sudden: in the latter half of 1949 the note circulation and bank deposits rose by 50 per cent. while prices fell.

Greece: Note circulation and bank deposits.

End of	Note circulation	Demand deposits			Total supply of money	Savings bank deposits	Cost of living
		Other accounts, Bank of Greece *	Commercial banks	Total			
	in milliards of drachmae						
1938	7	2	10	12	19	10	1
1947	974	185	349	534	1,508	14	216
1948	1,202	276	488	764	1,966	24	266
1949 June	1,218	428	675	1,103	2,321	29	296
December	1,859	529	957	1,486	3,345	39	283

* Excluding accounts of the state and of banks.

Serious difficulties remain, most of them connected with the paucity of available savings, which causes business to turn to the Bank of Greece even for long-term financing; at the end of 1949, out of total business credits of Dr. 3,378 milliard not less than Dr. 2,277 milliard were supplied directly by the Bank of Greece; and the accumulation of counterpart funds in connection with Marshall aid was wholly offset by the granting of new credits to business or to the government.

At the end of the war, the note circulation in Austria was ten times as great as before the war and industrial production was at a very low ebb; but, by means of controls and official deliveries, it was possible to keep down the prices of rationed goods providing a bare subsistence minimum and in that way wages also were prevented from rising. One of the major tasks of reconstruction has, of course, been to remove this maladjustment between the supply of money, on the one hand, and the supply of goods and services at the prices prevailing, on the other.

The monetary reforms of 1945 and 1947 had the immediate result of reducing the note circulation by about 60 and 40 per cent. respectively, in addition to cancelling, blocking and reducing bank deposits; but after each of these reforms increases subsequently occurred, so that the lasting contraction was not so great. Wage agreements of August 1947 and September 1948 had the effect of raising wholesale prices by approximately 50 and 20 per cent. Industrial production advanced from barely 35 per cent. of the pre-war level in 1946 to 90 per cent. in 1948. But, even so, monetary equilibrium was not quite regained.

Austria: Note circulation and current accounts compared with wholesale prices.

Period	Note circulation	Current accounts *	Total money supply	*Wholesale price indexes December 1937 = 100*	Note circulation	Total money supply
	in milliards of current schillings				in milliards of schillings at 1938 prices	
1937 December	0.9	1.2	2.1	*100*	0.9	2.1
1947 October	6.2	4.5	10.7	*302*	2.1	3.5
1948 December	5.6	4.8	10.4	*365*	1.5	2.8
1949 December	5.7	6.0	11.7	*493*	1.2	2.4

* Current accounts with banks excluding the National Bank.

At the end of 1948 the real value of the note circulation was still manifestly higher than before the war; moreover, industrial production was then just approaching the pre-war level and agricultural production was well below it; but in 1949 three developments occurred which would seem to have gone a long way towards restoring equilibrium.

(i) The note circulation rose very little and an increase in rediscounts of commercial bills and advances to public authorities was offset by the accumulation of counterpart funds. The increase of nearly Sch. 300 million in "free current accounts" mostly represented an increase in government funds.

Austrian National Bank: Items from the balance sheet.

End of	Note circulation	Current accounts: Free	Current accounts: Temporarily blocked (1)	Bills discounted	Government securities (2)
	in millions of schillings				
1948	5,635	1,377	428	287	7,015
1949	5,721	1,675	1,187	935	7,430

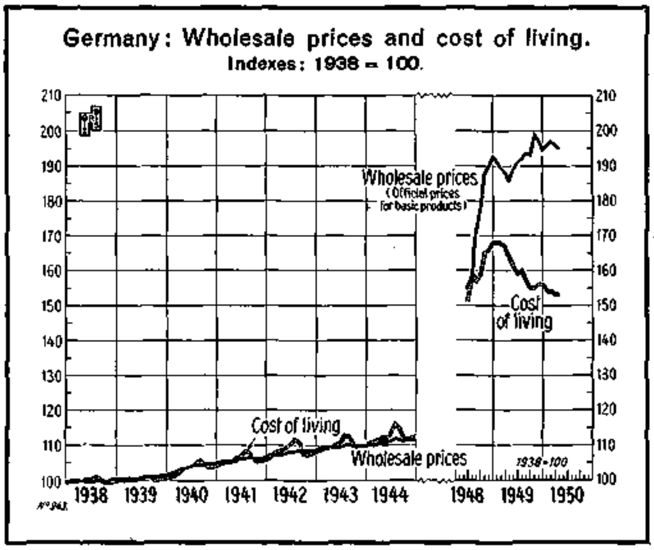
(1) Including counterpart funds. (2) Discounted Treasury bills and claims against the Treasury.

(ii) Industrial production rose by 40 per cent. during 1949, being fully 30 per cent. above the pre-war level by the end of the year; agricultural production also rose but the level reached was still a quarter below pre-war.

(iii) A third agreement in May 1949 brought about a further increase in wages and prices; under the influence also of the devaluation in the autumn, wholesale prices rose by about 37 per cent. during 1949.

The statistics indicate an approach to monetary equilibrium; but a danger seems to lurk in the rapid expansion of credit: the credits granted to business by the commercial banks rose from Sch. 4,206 to 7,007 million over the year 1949 — which works out at an annual rate of 67 per cent. It is true that in a year in which prices are rising there is need of increased working capital for enterprises of all kinds; conversely, a stabilisation of the price level must be accompanied by restraint in credit expansion.

In Germany, as in Austria, the monetary mechanism was for a number of years put almost out of action by an enormous redundancy of money in relation to the wages paid and the few goods available at the officially controlled rates and prices. But at one stroke a more far-reaching measure than was ever taken in Austria was applied in the three zones of western Germany when the monetary reform of June 1948 cut down the volume of means of payment by over 90 per cent. This produced a need for a larger circulation, and the degree of liquidity of the commercial banks allowed them to give much fresh accommodation, short-term business credits rising from DM 1,244 million in July to 3,550 million in October 1948. There being then certain signs of an incipient inflationary rise in prices, the Bank deutscher Länder raised reserve requirements, trying to persuade the various banks not to increase the total amount of their credits beyond the amount existing at the end of October 1948; at the same time the Bank deutscher Länder stiffened the qualitative regulations for rediscounts.



In November 1948 wholesale prices ceased to rise appreciably, and early in 1949 they even fell somewhat.

This change in the trend permitted the Bank deutscher Länder to take the following steps to ease credit conditions:

(i) the official rate of discount was reduced first from 5 to 4½ per cent. and then to 4 per cent.;

(ii) the minimum reserve requirements were reduced (also in two stages): the reserve ratio for time deposits was lowered from 5 to 4 per cent. and for sight deposits from 15 to 10 per cent. or from 10 to 8 per cent., according to the category of the bank concerned;

(iii) the qualitative requirements for rediscounts were relaxed and the "stop order" for bank credits — which does not seem to have been very effective — was cancelled.

Refugees continued to enter western Germany; and, in order to help in procuring employment for them, some further expansionary measures were taken, first in August 1949 and again early in 1950:

(i) In August 1949 the Bank deutscher Länder decided to encourage the granting of medium-term credits for long-term export orders or for investment purposes by purchasing from the banks a limited number of their equalisation claims (that is, the so-called "Ausgleichsforderungen", which were given to the banks, as part of the monetary reform in 1948, in lieu of cancelled assets to enable them to balance their positions).

(ii) Early in 1950, the Bank deutscher Länder agreed to various expansionary measures, while stipulating that the central-bank credits should as far as possible be transitional, i.e. consist of temporary advances, in anticipation of future proceeds from long-term loans and grants, and not represent permanent financing. The Bank deutscher Länder declared itself ready to help, if necessary, in pre-financing nearly DM 900 million of a new housing programme (the total of which would amount to DM 2,500 million) and also DM 900 million of a special programme amounting in all to DM 950 million.

(iii) It was, moreover, agreed that counterpart funds would be released as quickly as possible.

(iv) The ceiling (fixed by law) on advances from the Bank deutscher Länder to the Federal Government was raised, after agreement by the Allied High Commission, from DM 560 to 1,000 million in December 1949 and it was at the same time provided that the ceiling might be further raised to DM 1,500 million if the Board of Directors of the Bank deutscher Länder approved such a step by a majority of three-quarters (such approval was given in May 1950).

But, even before these recent measures, credit was expanding at an extremely rapid rate.

Thus during 1949 the short-term credits extended by the commercial banks more than doubled, while medium and long-term credits expanded even more rapidly although a part of this increase was related to old RM credits converted into Deutsche Marks. Partly as a result of this granting of fresh credits, the banks' liquidity gradually decreased. While in 1948 the banks held large excess reserves with the various "Landeszentralbanken", these excess reserves were very slight at the beginning of 1950, in spite of the fact that during 1949 the minimum reserve requirements had twice been lowered.

The actual amount of the commercial banks' reserves was reduced by

Germany (western zones): Credits granted by commercial banks.[1]

End of	Nature of credits: short-term	Nature of credits: medium and long-term	Total credits	Granted to: private economy	Granted to: public authorities [2]
	in millions of DM				
1948 July	1,339	—	1,339	1,244	95
December .	4,684	473	5,157	4,801	356
1949 December .	9,848	2,229	12,077	11,072	1,005

(1) Excluding interbank credits. (2) Including the Federal Railway System.

Germany (western zones): Reserves of commercial banks with the central banking system.

Monthly average	Total reserves held	Minimum reserves required	Excess reserves	*Excess reserves as percentage of minimum reserves*
	in millions of DM			
1948 September .	1,468	921	547	*59*
December. .	1,527	1,151	377	*33*
1949 March. . . .	1,473	1,200	272	*23*
June.	1,370	1,088	281	*26*
September .	1,111	941	170	*18*
December. .	1,104	949	155	*16*
1950 February . .	1,031	957	74	*8*

the withdrawal of notes by the public (the note circulation increasing by DM 1,100 million in 1949*) and also, from the middle of 1949, by the large import surplus and new regulations for the financing of foreign trade, which resulted in heavy in-payments to the central banking system, while, owing to delay in the release of counterpart funds, out-payments were relatively small: the relevant accounts of the system (creditor and debtor foreign accounts as well as the credit balances with foreign banks and the liabilities of the Joint Export-Import Agency) showed a net credit balance of DM 591 million at the end of June 1949 and a net debit balance of DM 1,387 million at the end of 1949.

Bank deutscher Länder: Selected items from the balance sheet.

End of	Assets				Liabilities		
	Accounts covering foreign trans-actions (net balances)	Bills and cheques	Advances against security	Claims on public authorities (1)	Note circulation (2)	Deposits	Accounts covering foreign trans-actions (net balances)
	in millions of DM						
1948 September	—	3	17	3,659	4,898	2,415	98
December	168	1,107	862	4,568	6,319	1,248	—
1949 December	—	2,821	1,464	5,876	7,738	860	1,387
1950 March	—	3,159 (3)	1,458	5,696	7,828	956	1,308

(1) Equalisation claims and certain government obligations.
(2) Including a small amount of coins.
(3) Including DM 19 million of Treasury bills of the Federal Administration.

In the early months of 1950 there have been various signs of greater moderation in the expansion of credit, which had been exceedingly rapid during 1949. At the same time, the trend of savings by the general public is again upwards, after a setback in the autumn of 1949: for the early months of 1950 the in-payments into savings accounts work out at an average rate of DM 132 million a month. In addition, receipts by insurance companies and payments into savings accounts of various associations (for building purposes, etc.) have continued to increase almost uninterruptedly since the monetary reform.

As already mentioned, an excessive money supply was also characteristic of Denmark and Norway as a result of the financing of the military occupation. Of the other northern countries, Sweden, having been neutral during the war, had no particular difficulties in this respect, while the inflationary trend was strongest in Finland, which had been through two wars.

The most effective action for lessening the money supply was taken in Denmark, where in the years 1946, 1947 and 1948 the volume of notes

* Not including currency issued for Berlin.

in circulation and of demand deposits with the National Bank was reduced, in all, by D.Kr. 2,400 million through various measures of monetary reform, including special allocation of the proceeds of certain taxes. The contraction is most clearly seen in the combined returns of the commercial banks.

Denmark: Commercial banks.

End of	Cash plus balance with the National Bank	Investments (bonds and shares)	Loans and discounts	Total deposits
	in millions of Danish kroner			
1945	3,843	1,795	1,843*	5,906
1946	3,310	1,282	2,652	5,785
1947	1,987	1,333	3,286	5,436
1948	1,252	1,199	3,916	5,377
1949	1,334	1,057	4,259	5,504

* November 1945.

There is a significant reduction in the amount of cash plus balances with the National Bank held by the commercial banks. In the balance sheet of the National Bank the reduction is shown in the "regulation account", which had originated in the financing of the occupation and which declined by D.Kr. 330 million in 1949.

The process of cutting down the money supply was not continued during 1949: the total of notes outstanding and of the demand deposits held by the economy at the National Bank increased by D.Kr. 45 million and, as can be seen from the table, deposits with the commercial banks also increased for the first time since the end of the war. The government budget surplus and its net sales of foreign exchange again withdrew money from the economy, no appreciable releases being made from counterpart funds; but the government offset their deflationary effect by making debt repayments in cash, in order to prevent a further stiffening of interest rates. The yield of government securities had risen from 3.55 per cent. in 1946 to 4.40 per cent. at the end of 1948; it did not rise further in 1949.

The annual report of the National Bank for 1949 mentions that at the end of that year the amount of counterpart funds and proceeds of

Danmarks Nationalbank: Selected items from the balance sheet.

End of	Assets			Liabilities				
	Gold	Commercial bills and advances	Regulation account	Notes in circulation	Sight deposits	Government deposits: Ordinary account	Government deposits: Special accounts (1)	Foreign exchange (2) (net)
	in millions of Danish kroner							
1945	82.8	2.8	7,611	1,561	3,516	292	2,445	(—202) (credit)
1946	82.7	3.7	6,627	1,633	2,885	286	1,427	483 (debit)
1947	70.6	3.7	5,609	1,641	1,618	140	1,602	667 ,,
1948	70.4	5.9	5,092	1,614	1,063	218	1,640	553 ,,
1949	69.5	15.4	4,761	1,627	1,119	(—73) (3)	1,853	400 ,,

(1) Including counterpart funds.
(2) Since 1946 there has been a net liability towards other countries, mostly in relation to the United Kingdom.
(3) From November 1949 the government's current account showed a debit balance.

other credits held at the National Bank came to D.Kr. 1,109 million and that the Bank took the view that this amount should be written off on the regulation account and not be put into circulation again. The development of the exchange position must, of course, be watched with the greatest attention; and the Bank holds that "the economic policy of the country, while taking account of employment, should be framed in such a way as to fulfil the requirements of balance in payments relations with foreign countries".

The very high degree of liquidity (probably still the highest in the world) which characterises the credit system in Norway may perhaps best be illustrated by a comparison with pre-war conditions.

Norway: Cash assets and deposits of Norwegian banks.(1)

End of	Commercial banks		Savings banks		Total	
	Cash assets (2)	Deposits	Cash assets (2)	Deposits	Cash assets (2)	Deposits
	in millions of Norwegian kroner					
1938	62	975	31	1,588	93	2,563
1948	1,636	3,886	774	3,275	2,410	7,161
1949	1,384	3,892	444	3,402	1,828	7,294

(1) The figures in the table cover 98 per cent. of the total of the balance sheet of the commercial banks and 78 per cent. of the corresponding total for the savings banks. Thus they differ from estimates of totals covering the whole banking system.

(2) "Cash assets" consist of cash deposits with the Bank of Norway and Treasury bills.

In 1938 cash assets held by the commercial and savings banks represented less than 4 per cent. of the deposits, while in 1949 the corresponding ratio was 25 per cent.

The Norwegian budget had during the calendar year 1948 an overall surplus of N.Kr. 287 million, which in the following calendar year was reduced to 34 million. The overall budget still being balanced, Marshall aid counterpart funds were not needed to cover any kind of government expenditure. Payments into counterpart funds amounted in 1949 to N.Kr. 659 million (apart from N.Kr. 32 million shown on an "accumulation account"), N.Kr. 365 million being used to reduce the occupation account of the Bank of Norway, N.Kr. 174 million being transferred to a blocked account (the so-called "regulation account", which can only be used after special authorisation by Parliament) and the remaining N.Kr. 120 million accumulating on special E.R.P. accounts. The effect that these payments to the Bank of Norway would otherwise have had in reducing the supply of money was to a considerable extent offset by operations for supporting the bond market. When in the summer of 1949 this market showed signs of weakness, the Minister of Finance decided not to renew all maturing Treasury bills but to proceed to cash redemptions; in this way the commercial and savings banks' holdings of Treasury bills were reduced from N.Kr. 1,475 to 380 million, while the savings banks purchased securities to the extent of

N.Kr. 247 million. As a result, the market in government securities was strengthened and by the end of the year the 2½ per cent. bonds stood above par.

In order to finance its redemption of Treasury bills (and also, to some extent, to reduce the occupation account) the government reduced its deposits with the Bank of Norway from N.Kr. 3,282 to 1,935 million, this large fall occurring in spite of the accumulation of counterpart funds. The deposits with the Bank of Norway owned by the commercial and savings banks rose from N.Kr. 818 million to 1,324 million, as they used part of their receipts from the repayment of Treasury bills to strengthen their cash reserves.

Bank of Norway: Selected items of the balance sheet.

End of	Assets		Liabilities			
	Gold, foreign exchange, foreign bonds	Occupation account (net)	Notes in circulation	Government deposits		Total deposits
				E.R.P. accounts	Others	
	in millions of Norwegian kroner					
1946	1,157	8,108	1,933	—	4,432	6,217
1947	821	8,094	2,088	—	3,079	5,465
1948	657	7,924	2,159	197	3,085	5,222
1949	593	7,114	2,306	317	1,618*	4,422

* Including N.Kr. 174 million of E.R.P. funds transferred to a blocked account ("regulation account").

At the end of 1949 the occupation account comprised 89 per cent. of the assets of the Bank of Norway.

By a stricter application of licensing and other direct controls, especially in connection with building activity, the total volume of investment in Sweden was reduced by about one-fifth between 1947 and 1949 (cf. page 56). Thus resources supplied by domestic production, which was rising steadily, were set free for, inter alia, increased exports, the large current deficit of S.Kr. 1,460 million in the balance of payments for 1947 being changed to a surplus of S.Kr. 430 million in 1949. The gold and foreign exchange reserves of the Riksbank increased by a net amount of S.Kr. 460 million in 1949 (not counting a devaluation profit of S.Kr. 125 million and allowing for a foreign-debt increase of S.Kr. 30 million).

The expansionary effects of the Riksbank's purchases of foreign exchange were partly offset by two factors:

(i) Joint stock companies had to pay S.Kr. 110 million into blocked accounts at the Riksbank as part of a scheme for the sterilisation of purchasing power.

(ii) Whereas in previous years the Riksbank had been buying government securities on a large scale to support the market, it proved possible in 1949 to sell securities to an amount of S.Kr. 133 million without affecting the yield.

In these two ways, S.Kr. 243 million was withdrawn from the market, the increase in the note circulation being thereby limited to S.Kr. 174 million.

Sveriges Riksbank: Selected items of the balance sheet.

End of	Gold and foreign exchange	Govern-ment securities	Domestic bills	Note circu-lation	Sight deposits		
					State	Commer-cial banks	Others
	in millions of Swedish kronor						
1945	2,680	434	7	2,782	831	80	41
1948	701	3,317	65	3,113	679	358	102
1949	1,316	3,184	26	3,287	467	361	79
Change during:							
1945 to 1948	—2,179	+2,883	+58	+331	—152	+278	+61
1949	+ 615	— 133	—39	+174	—212	+ 3	—23

In Sweden, as elsewhere, the cash of the commercial banks includes, of course, the amount of notes and coins, in addition to the sight deposits with the Riksbank — the total cash corresponding in 1948 and 1949 to about 8 per cent. of deposits.

The situation of the commercial banks became more liquid in 1949, their deposits increasing by S.Kr. 768 million, while their advances and holdings of commercial paper went up by only S.Kr. 95 million, the surplus funds being used to increase the banks' holdings of state securities, which rose by S.Kr. 554 million.

The banking system as a whole thus increased its holdings of state securities by S.Kr. 421 million or by almost the total amount of the increase in the national debt during 1949. The yield of long-term state bonds remained steady at 3 per cent., but short-term rates were reduced, the yield of one-year bonds being brought down from $2^1/_2$ to 2 per cent. and the rate for day-to-day money from 2 to $1^1/_2$ per cent. This was part of a policy as a result of which the floating debt of the state

Sweden:
Assets and deposits of commercial banks.

End of	Cash	Treasury bills and bonds	Advances and commercial paper	Deposits
	in millions of Swedish kronor			
1945	347	2,152	5,763	6,669
1948	652	717	7,830	7,490
1949	686	1,271	7,925	8,258

Sweden:
Banks' holdings of government securities.

End of	National debt	Holdings of state securities		
		by the Riksbank	by commercial banks	Total
	in millions of Swedish kronor			
1947	11,287	2,747	533	3,280
1948	11,598	3,317	717	4,034
1949	12,055	3,184	1,271	4,455
Change during 1949	+ 457	— 133	+ 554	+ 421

rose by S.Kr. 687 million, while the funded debt was reduced by S.Kr. 230 million. In its turn, the Riksbank sold S.Kr. 615 million of long-dated securities and took over S.Kr. 482 million of the newly issued bills. In the early months of 1950 there were further considerable purchases of state bills and bonds by the Swedish commercial banks — the total held at the end of February 1950 being S.Kr. 633 million more than a year earlier.

In its monetary policy Finland forms a striking contrast to Norway. At the end of 1948 the volume of money (note circulation plus deposits) had increased since 1938 by twelve times in Finland, by eight and a half times in Norway. But, whereas in Norway prices had been allowed to rise only 80 per cent. above 1938, so that a large surplus remained, in Finland the greater part of the increase in the supply of money was absorbed by a tenfold rise in prices. While Norway maintained cheap money, the Bank of Finland raised its discount rate during 1948 to $7^1/_4$ per cent.

In the first half of 1949 there was a certain decline in wholesale prices and the Bank of Finland took the opportunity to lower its discount rate from $7^1/_4$ to $6^3/_4$ per cent. in February and then again in July to $5\frac{3}{4}$ per cent., the commercial banks reducing their charges correspondingly (for first-class mortgage loans the interest rate came down from 9 to $7\frac{1}{2}$ per cent.). But, in the summer and again in the autumn, wholesale prices started to rise — in each case, after a devaluation of the currency; thus the index (with 1935 as 100) rose from 1,058 in June to 1,138 in December, and at the same time there was a renewed demand for credit. The Bank of Finland increased its domestic loans by 15 per cent. in 1949 and the commercial banks their advances by 29 per cent. — which meant that the volume of credit expanded even faster than in 1948.

Finland: Credits to domestic borrowers.

End of	Bank of Finland	Commercial banks	Total
	In milliards of Finnish markka		
1947	34.9	37.7	72.6
1948	35.0	46.5	81.5
1949	40.3	59.8	100.1

Among the eastern countries in Europe thoroughgoing changes in the financial structure, including the methods of granting credits for short and long-term purposes, have made alterations in the volume of money difficult to examine on the lines previously followed. The table given shows that in Czechoslovakia the note circulation and current accounts have moved in opposite directions.

National Bank of Czechoslovakia: Money and credit.

End of	Gold and foreign exchange held by National Bank	Credits for productive investments	Note circulation	Current accounts	Savings deposits
	In milliards of korunas				
1947	4.8	.	58.5	54.3	27.5
1948	4.2	50.8	72.0	54.3	33.6
1949	3.0	84.9	66.6	126.8	36.1

On 1st April 1950 the banking system was reorganised: a State Bank is to be created which is to take over all the rights and obligations of the Zivnostenská Bank, the Slovak Tatra Bank, the Post Office Savings Bank, etc. The State Bank is to supervise the people's banking institutions; it will carry out foreign exchange operations and grant credits. The manager is to be directly responsible to the Minister of Finance.

As a result of an increase in the real national income and a slight fall in the note circulation, the excess of money in the Netherlands, which resulted from the war and had only been partly removed by the monetary reform in 1945, has now been very nearly eliminated (see p. 27 for the improvement in Netherland's position). The total of blocked money, which was as high as Fl. 6,800 million in 1945, has been brought down to about Fl. 1,100 million.

The Netherlands: Supply of money.

End of	Currency circulation	Free bank deposits	Total supply of money
	in millions of florins		
1947	3,062	3,892	6,954
1948	3,184	4,149	7,333
1949	3,126	4,426	7,552

The increase in the supply of money fell from Fl. 379 million in 1948 to Fl. 220 million in 1949, the latter increase being the net result of a number of different factors, of which the following are the most important:

	Millions of florins
Increase in credit on account of public authorities	+ 100
Increase in credit for the private economy.	+ 150
Release of blocked funds	+ 70
Increase in the gold and foreign exchange held by the Nederlandsche Bank and commercial banks	+ 440
Other increases (transfers to commercial banks, etc)	+ 110
Total increase . . .	+ 870
Decrease through accumulation of counterpart funds	— 650
Net increase . . .	+ 220

That it has been possible to approach monetary equilibrium in the Netherlands during the two years 1948 and 1949 is mainly due to the accumulation (and sterilisation) of nearly Fl. 1,000 million in local-currency funds (i.e. Marshall aid counterpart funds), by which credit creation to the extent of about Fl. 1,500 million has been partly neutralised.

The net increase in private lending by the forty-two commercial banks in 1949 did not reach Fl. 80 million, as compared with nearly Fl. 125 million lent to public authorities; the aggregate amount which the latter have obtained in credits from the banks is still four times as much as went to the private economy.

The Netherlands:
Credit granted by 42 commercial banks.

End of	Public credit	Private credit
	in millions of florins	
1947	3,904	766
1948	3,699	850
1949	3,823	929

The capital market showed reduced activity, total new issues of bonds and shares amounting to Fl. 116 million as compared with Fl. 977 million in 1948 and Fl. 259 million in 1947. The Nederlandsche Bank mentioned in its annual report for 1949 that "one of the causes of the reduction in the issuing activity has perhaps been the paucity of risk capital available", this representing a development "of a structural and international character".

The official discount rate remained at 2½ per cent. but rates for call money fluctuated during 1949 between ¾ and 1½ per cent. Long-term rates remained on the whole unchanged, the yield of the irredeemable bonds being slightly above 3 per cent.

In Belgium an increase of B.fcs 2.3 milliard in the gold and foreign exchange reserves of the National Bank was the main single cause of the increase in the supply of money during 1949.

There was an increase of over 5 per cent. during 1948 and about 3 per cent. during 1949 in the note circulation as well as in the total money supply — which indicates that there has been no credit deflation but rather an expansion keeping pace with the increase in real income.

Private business borrowed less in 1949 than in 1948. On the capital market, new issues for private borrowers fell short of B.fcs 3 milliard in 1949 as compared with 4.8 milliard in 1948 and 5.3 milliard in 1947. In 1949 there was a reduction of about B.fcs 200 million in business loans granted by the banks. On the other hand, there was an increase in borrowing by the government and other public authorities: the overall deficit (including investment expenditure) went up from B.fcs 7.8 milliard in 1948 to 17.6 milliard in 1949 while medium and long-term loans of public authorities increased from B.fcs 7.8 to 14.6 milliard, and credits were also obtained from the banking system.

Belgium:
Credits granted by the banking system.

End of	To public authorities		To others	Total
	by the National Bank	by other banks		
	in milliards of Belgian francs			
1948	8.4	33.6	27.3	69.3
1949	9.4	34.2	27.1	70.7
Change	+ 1.0	+ 0.6	— 0.2	+ 1.4

The following table shows the main items in the balance sheet of the National Bank.

National Bank of Belgium:
Selected items from the balance sheet.

End of	Reserves of gold and foreign exchange (net) (1)	Commercial bills and advances	Claim on the state and Bank of Issue (2)	Government and guaranteed securities in portfolio (2)	Note circulation	Other sight liabilities	Total of balance sheet
	in milliards of Belgian francs						
1946	36.4	3.1	113.6	2.2	72.2	6.3	159.4
1947	35.2	4.0	115.4	2.7	78.3	5.9	166.4
1948	37.4	5.9	35.0	8.4	84.9	9.2	97.9
1949	39.7	4.4	35.0	9.4	87.9	6.5	97.9

(1) Including net balances under payments agreements.
(2) In 1948 the Bank's claims on and liabilities towards the state and Bank of Issue were partly offset against each other; as a result the debt of the state towards the Bank was reduced to B.fcs 37.45 milliard, of which 35 milliard was consolidated and the rest held in Treasury certificates in the portfolio.

In pursuance of a rather easier credit policy, the National Bank reduced its discount rate from 3½ to 3¼ per cent. in October 1949.

More than in any other country, conditions on the money and capital markets in Switzerland have been characterised by a high degree of liquidity — so high, indeed, as to be distinctly embarrassing. The situation is the result of:

(i) a continued high rate of saving in Switzerland at a time when, with a slight business recession prevailing, there was a decline in the demand for fresh accommodation;

(ii) the emergence in 1949 of a current surplus of probably more than Sw.fcs 700 million in the balance of payments after deficits of Sw.fcs 300 to 425 million in the two previous years.

It is very difficult to tell whether in 1949 there was, on balance, a net influx of capital in addition to the surplus on current account. In any case, the increase in the monetary reserves of the National Bank was reflected in an increase in the Bank's demand liabilities (i.e. deposits with the Bank), while the note circulation tended to decline.

Swiss National Bank:
Selected items from the returns.

End of	Assets		Liabilities	
	Gold and foreign exchange	Advances to the economy	Note circulation	Other liabilities
	in millions of Swiss francs			
1947	5,358	402	4,383	1,172
1948	6,058	204	4,594	1,243
1949	6,500	115	4,566	1,730

The other demand liabilities with the National Bank mostly represent cash held by the commercial banks.

Switzerland: Some assets of 43 banks.

End of	Cash	Advances	Mortgages	Securities	Bills
	in millions of Swiss francs				
1947	664	4,300	6,946	2,424	1,289
1948	939	4,417	7,331	2,162	1,736
1949	1,311	4,007	7,763	2,083	2,321

The high level of building activity has enabled the banks to increase still further their lending against mortgages (in practice, long-term loans), and there is a noticeable shift from advances to bills (the latter item including Treasury bills).

The discount rate of the National Bank has remained unchanged at 1½ per cent., but the average yield of medium and long-term loans, which had already fallen during 1948 from a maximum of 3.55 per cent. to 3.29 per cent., continued its downward course and reached the level of 2.52 in July 1949. Following a short-lived increase just after the devaluations in other countries in September 1949, there was a further fall in the yield to the low figure of 2.3 per cent. in February 1950. So small a yield caused alarm in many circles (including those connected, as managers or participants, with pension funds, etc.) but there seemed no immediate prospect of relief, since on the capital market repayments exceeded the amount of new issues.

Switzerland: Capital issues and repayments.

Year	New issues				Repayments	Net new borrowing
	Bonds		Shares	Total		
	for Swiss borrowers	for foreign borrowers				
	in millions of Swiss francs					
1947	276	54	106	436	734	— 298
1948	472	49	87	608	599	+ 9
1949	342	53	65	460	932	— 472

Account must be taken of the operations of the Old Age and Dependents' Insurance Fund (the "A.H.V.") which, instituted in 1947, has been accumulating funds on a much greater scale than was anticipated. Its investments increased by Sw.fcs 452 million in 1949 and, since they were practically confined to securities placed by public authorities or semi-official institutions, they took a disproportionate share of the "safer" investments.

In order to reduce the redundancy of funds in the market, the Federal Government has decided not to let its credit balance with the National Bank fall below Sw.fcs 200 million and to resume its policy of sterilising gold, the Treasury taking over gold from the National Bank. The sterilisation is to be applied to all gold held by the National Bank in excess of its stock as of mid-March 1950. The government has also decided to convert long-term bonds and to repay only short-term rescriptions and Treasury certificates.

Switzerland is in a unique position in that it is the only country in Europe with a surplus of domestic savings available for foreign lending, this surplus being all the more effective since the Swiss authorities have no need to strengthen the country's monetary reserves. Most of the other countries are still finding it difficult to restore smoothly-working markets for domestic borrowing, there being almost everywhere a scarcity of savings — especially for investments at long term and involving a risk. Financing of current foreign trade has presented less difficulty: the banking machinery for short-term accommodation has mostly remained intact and in a position to meet demands. In the field of financing of international trade, the main market has continued to be the London market, functioning under conditions in which the hampering effect of the exchange regulations is not too greatly felt.

While, as regards its foreign exchanges, the United Kingdom passed through a year of disturbances in 1949, there were practically no repercussions upon the internal credit situation, which on the contrary showed signs of increased stability. Net deposits (i.e. the total of deposits excluding cheques in course of collection) increased by only £50 million in 1949, as compared with a rise of £232 million in 1948 and £244 million in 1947.

London clearing banks.

Date	Liabilities	Assets					
	Net deposits	Coin, notes and balances with the Bank of England	Money at call and short notice	Bills	Treasury deposit receipts	Investments	Advances to customers and other accounts
	In millions of £ sterling						
1938 31st December . .	2,188	243	159	250	—	635	966
1947 „ . .	5,682	502	480	793	1,288	1,483	1,206
1948 „ . .	5,914	501	485	741	1,397	1,478	1,378
1949 „ . .	5,964	532	571	1,109	793	1,512	1,523
1949 16th March	5,621	474	482	870	956	1,496	1,420
1950 15th March	5,588	485	534	1,106	444	1,503	1,594

"Cash" and the money at call and short notice have remained at much the same level as a year ago. There has been little change in investments but advances to customers, etc., have risen by 12 per cent. — an increase which reflects the rise in prices and is probably also indicative of the greater extent to which the banks are called upon for financing when the capital market is no longer functioning actively. In April 1949 the Chancellor of the Exchequer asked the banks, via the Bank of England, not to grant credits freely, in view of the need to restrict new investment. Priority was to be given to projects conducive to the elimination of shortages of basic materials, increases in hard-currency exports, large and immediate reductions in costs, or the exploitation of new techniques. Similar instructions were given to the Capital Issues Committee. These rules only added precision to earlier directives to restrict speculative credits and to give priority to "essential" projects.

Since complaints have been heard about difficulty in obtaining credits, it seems likely that the banks are applying a really restrictive policy.

The increase in advances has been more than offset by a reduction in "bills" and "T.D.R." (i.e. "Treasury deposit receipts") taken together — these two items representing short-term credits to the government, since the bills are predominantly Treasury bills. How great the change-over has been may be seen from the following figures: in March 1949 "bills" and "T.D.R." together totalled £1,826 million — an amount considerably larger than the £1,420 million shown for "advances, etc."; a year later the combined amount of "bills" and "T.D.R." had been reduced to £1,550 million and was now exceeded by "advances, etc." at £1,594 million.

In the short-term indebtedness of the government to the banks, there have been during the year two important modifications: a reduction in the total and a shift in the form of the indebtedness. Treasury bills have been substituted for the less flexible T.D.R., the latter having been reduced by about one-half, as may be seen from the table.

From March 1949 to March 1950, the government's short-term indebtedness to the clearing banks (comprising bills and T.D.R. but not including the holdings of long-term government securities, which form the bulk of the banks' investments) was reduced by £275 million (in round figures). In that period there was no longer any substantial overall budget surplus available for debt redemption (cf. page 54) but Marshall aid counterpart funds were used for repayments of short-term debt. The reasons why such repayments did not cause a more conspicuous reduction in the volume of the banks' assets and liabilities may be stated as follows:

(i) The British banks operate with a cash ratio of 8 per cent. (leaving out of account minor variations); the amount of cash held by them depends essentially on the day-to-day operations of the Bank of England. Except for seasonal variations, there has been practically no change in their cash for two years and thus the banks have been able to maintain an almost unchanged total of assets. Among those assets, there has been an increase in advances, which must be said to have been well-nigh unavoidable in a period of rising prices and which has been compensated for by the repayment of government debt (reduction in T.D.R.).

(ii) The receipt of Marshall aid and other foreign funds, even if the counterpart in sterling is used for debt repayment, does not, of course, in itself lead to a contraction in the volume of money; it is necessary to examine what "real" uses are made of the resources obtained — and for that purpose it may be well to refer to the table on page 28, showing the receipts in gold and dollars and their uses.

In 1949 gold and dollar receipts amounted to £380 million but the deficit on the current account of the balance of payments was only £70 million. The remaining £310 million represents "unrequited" exports to other countries or payments in gold and dollars on their behalf, such transactions resulting in a reduction of sterling liabilities and an increase in the United Kingdom's foreign assets. In so far as foreign aid was passed on to other countries in these ways, it is evident that it could not be expected to reduce the domestic supply of money; but the money supply was not reduced even by the £70 million of aid retained in the United Kingdom. This aid served to finance the excess of investment over savings which, had it not been for the resources made available from foreign aid, would have had further inflationary effects and increased the pressure on the banking system. In effect, foreign aid served to finance an equivalent volume of expenditure on either home or foreign investment. In neither case were there any proceeds of foreign aid devoted to a contraction of the volume of money.

United Kingdom: Note circulation and deposits.

Date	Note circulation	Net deposits of London clearing banks
	in millions of £ sterling	
1938 31st Dec.	473	2,188
1946 „	1,380	5,438
1947 „	1,325	5,682
1948 „	1,254	5,914
1949 „	1,268	5,964
1949 16th March	1,235	5,621
1950 15th March	1,240	5,588

The decline shown in deposits from March 1949 to March 1950 is the first decline in a twelve-month period for a decade. While the note circulation increased in absolute amount during 1949, the end-of-year figure represented a smaller proportion of the national income than had been the case at the end of 1948 — this being an unmistakable sign of at least a halt in the money expansion of the war and post-war period.

In the short-term market, the cheap-money policy has been continued — the rates payable on Treasury bills and other short-term obligations being applicable to a considerable part of the liabilities accumulated during the war. But the long-term market has been regaining its flexibility, with quotations fluctuating in response to supply and demand without any artificial support by newly created central-bank funds.

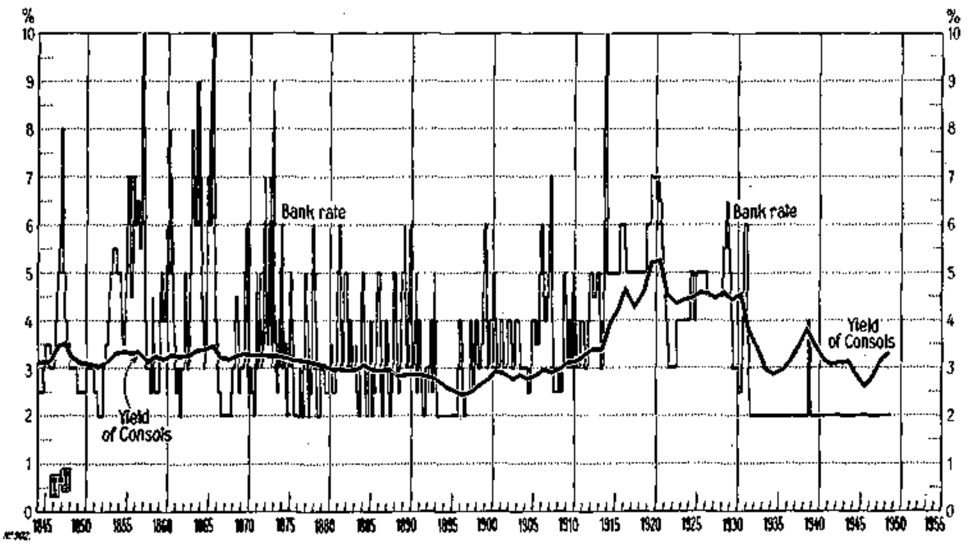
Yield of government securities and ordinary shares.

Average for month of	Yield of 2½ % Consols	Yield of 3½ % War Loan	Yield of Ordinary shares
	in percentages		
1948 October . . .	3.18	2.72	4.79
1949 May	3.08	2.60	5.34
July	3.36	3.51	5.63
November . .	3.62	3.84	5.77
1950 February. . .	3.56	3.83	5.65
March	3.62	3.88	5.69

At certain moments in the summer and autumn of 1949 the decline in security prices may have reflected the reaction of the market to losses in monetary reserves or a fall in free-market rates for sterling abroad; but, even after the announcement of substantial increases in the monetary reserves, quotations have remained fairly steady at about the level attained in November 1949 — in contrast to the violent changes recorded in the previous six months.

An official sign of the acceptance of a higher level of long-term interest rates came in November 1949, when the Agricultural Mortgage Corporation

United Kingdom: Bank rate and yield of consols 1845 to 1949.



raised its charges for mortgage loans from 3½ to 4 per cent. In May 1950, for the first time since before the war, a gilt-edged loan was issued at 3½ per cent.: the British Electricity Authority borrowed £150 million at an issue price of 99 per cent. with a government guarantee.

Since short-term rates have been kept at the low level of ½ per cent. for Treasury bills (and 5/8 per cent. for T.D.R.), the difference between short and long-term rates has progressively widened. As may be seen from the graph, the short-term rates used to move much more freely than the long-term rates, providing, so to say, a cushion against sudden changes in the cost of long-term financing and in that way helping to maintain equilibrium in the credit system without any precipitous or untimely repercussion on the long-term rates, which are more important as regards the provision of capital for industry.

In the United States — in direct contrast to the credit policy of the British authorities — long-term rates have been strictly pegged throughout the post-war period (at a yield of around 2½ per cent.), while short-term rates have been raised several times — from about 7/8 per cent. for one-year certificates in 1945 to 1¼ per cent. in 1948. It proved possible for the Federal Reserve System to offset its purchases of bonds by sales of bills, certificates and notes without any but purely temporary increases in the System's total holdings of government securities.

In the course of 1948 boom tendencies became more pronounced in the American economy and, to exert a counteracting influence, a number of measures were taken. Thus, the Board of Governors of the Federal Reserve System raised reserve requirements three times during the year — the last increase being on the basis of authorisations granted during the special August session of Congress, which also gave powers to the Board to reimpose the controls on consumer credit, which had lapsed in November 1947. In January 1949 the President asked for these powers to be continued and for reserve requirements to be made obligatory, not only for the banks which are members of the Federal Reserve System but for all insured banks. At that time it was by no means clear whether business activity was expanding or contracting, although prices of many raw materials had already started falling from the extraordinarily high levels reached while shortages occasioned by the war still prevailed. But, by March 1949, industrial production was down 6 per cent. from the maximum reached in the previous November and unemployment rose to over 4 million in May 1949.

In those circumstances, there was no need to pursue a restrictive policy; on the contrary, various measures of credit expansion were taken:

(i) In March 1949 the Board of Governors relaxed some of its consumer-credit regulations and, as regards loans for purchases of securities, lowered the cash-margin requirements from 75 to 50 per cent.

(ii) At the end of June 1949 the temporary legislation of the previous autumn expired; consequently, consumer credit was released from control and the reserve requirements imposed on commercial banks were reduced.

(iii) In addition to this automatic reduction in June (which was due to the lapse of authorisations), the Board of Governors made reductions in the reserve requirements in May and September 1949. The combined result of these various reductions was to release a total of $3.8 milliard of member banks' reserves.

As has already been stressed in this Report, neither building activity nor the sale of automobiles was affected by the setback in business, which was rather in the nature of an inventory adjustment and more or less confined to that field. Some business firms had soon to replenish their stocks and in the course of the summer the trend turned upwards once more. Stock-market prices rose, on an average, by over 20 per cent. between June 1949 and February 1950. With the increase in government expenditure and the change from a cash surplus of nearly $9 milliard in 1947–48 to a deficit of around $4½ milliard in 1949–50, there seemed to be a serious risk of too great an expansion. That being the outlook, interest rates were allowed to rise slightly — the yield of seven to nine-year U.S. Government securities, for instance, going up from 1.68 per cent. in December 1949 to 1.78 per cent. in March 1950. The President proposed a reimposition of consumer-credit control, stating in his Economic Report to Congress (of January 1950) that an excessive relaxation of instalment terms offered to consumers had demonstrated the need for a restoration of the authority of the Board of Governors of the Federal Reserve System in this connection.

In the last six months of 1949 the instalment credit outstanding increased by $1.8 milliard, as compared with $1.1 milliard in the corresponding period of 1948 (and only $0.5 milliard in the first six months of 1949).

United States:
Volume of consumer credit.

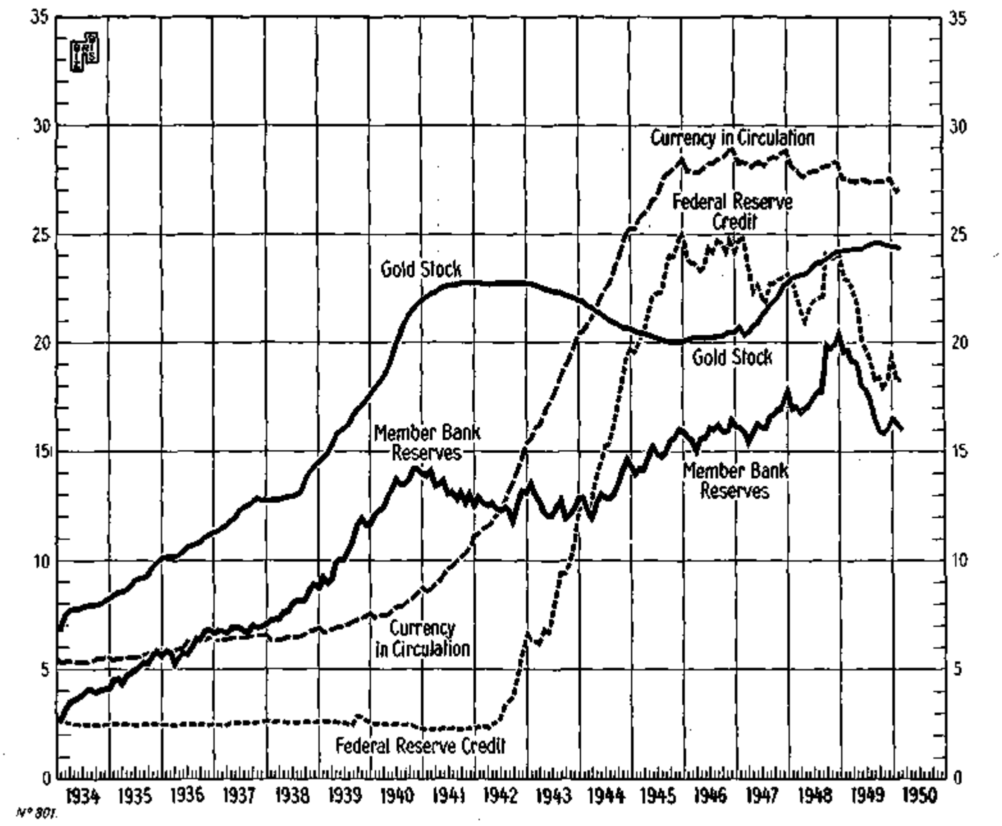
End of	Instalment credit	Other consumer credit	Total of consumer credit
	in milliards of dollars		
1939	4.4	3.5	8.0
1945	2.4	4.3	6.6
1948	8.6	7.7	16.3
1949 June	9.1	7.0	16.1
December . .	10.9	7.9	18.8

Credit policy has thus been varied three times between 1948 and 1950 — twice to strengthen the resistance to inflationary tendencies and once as an antidote to the recession. The measures taken have certainly not been without effect but on each occasion there were other factors operating in the same direction (e.g. the more abundant supplies, especially of raw materials, in the winter of 1948–49, and the strong basic support of building activity and automobile sales during the whole of 1949 — as already mentioned above). There was a reduction in commercial bank advances from \$42.5 milliard in December 1948 to \$41.0 milliard in June 1949 but the volume of advances would seem to have been limited more by a lack of demand from credit-worthy borrowers than by any inability of banks to expand credits — the decline thus being rather the effect than the cause of the recession. The commercial banks had ample funds available and used them to purchase government securities: having sold \$28 milliard of such securities in the three years from the end of 1945 to the end of 1948 (to obtain inter alia the funds necessary to expand business loans by \$16 milliard and to buy various non-governmental securities to an amount of \$2 milliard), the banks bought about \$5 milliard of government securities in 1949.

A principal aim of the monetary authorities in the United States has been to "preserve orderly conditions in the market for government securities". In general, this has meant that the Federal Reserve Banks purchased long-term bonds to prevent the price from falling, while selling bills in order to narrow the margin between short and long-term interest rates. In 1949, for the first time in the post-war period, the market prices for securities tended to rise above the support prices and the authorities then sold both bonds and bills to maintain a fairly fixed pattern of rates. In June, however, the Federal Reserve System somewhat changed its policy: yields were falling in the market and a maintenance of the established pattern would have required further sales of securities by the Federal Reserve Banks. The Federal Reserve Open Market Committee, after consultation with the Treasury, then announced that "under present conditions the maintenance of a relatively fixed pattern of rates has the undesirable effect of absorbing reserves from the market at a time when availability of credit should be increased".

Net purchases and sales of securities by the Federal Reserve System tend, of course, to increase or reduce the reserves of the commercial banks, which in their turn determine the loan and investment policy of these banks. As a broad average, the banks tend to maintain a ratio of 6—7 to 1 between deposits and reserves, and changes in reserves are, therefore, liable to lead

United States: Member-bank reserves, reserve-bank credit, and related items.
Monthly, in milliards of dollars.



to proportionately greater changes in their deposits. The Federal Reserve System has, in a measure, prevented this multiplying effect by altering the banks' reserve requirements. In 1948, when it bought $770 million of government securities, it raised reserve requirements by $2,570 million. In 1949, when it sold $4,450 million, it lowered reserve requirements by $3,800 million.

As a result of these open-market policies and of adjustments in reserve requirements, together with the considerable surplus realised in the Federal budget during the years 1947–48, the volume of money has been prevented from increasing appreciably since 1946, in spite of a fairly large expansion of the amount of credits to business (the main factor probably being that securities sold by the banks found a counterpart in the repayment of debt out of

United States: Volume of money and credits to business.

End of	Currency circulation	Commercial banks: Demand deposits	Commercial banks: Loans and advances
	in milliards of dollars		
1946	29.0	83.3	31.1
1949	27.6	86.7	43.3
February 1949	27.5	81.4	42.4
„ 1950	27.0	84.9	43.3

the budget surplus and in a demand for securities from genuine savings — for instance, via insurance companies).

In the United States the advisability of introducing a more flexible credit policy has been examined by a Joint Congressional Committee and in his reply to questions put by this Committee the Chairman of the Board of Governors of the Federal Reserve System made the following observations:

> "In retrospect, I am certain that our action in support of the Government securities market was the right one. That program was a gigantic operation. In the two years 1947 and 1948, the System's total transactions in Government securities amounted to almost 80 billion dollars. Despite this huge volume of activity, the net change in our total portfolio was relatively small. I am convinced that we could not have abandoned our support position during this period without damaging repercussions on our entire financial mechanism as well as serious adverse effects on the economy generally."

As regards future policy, the Chairman added, however:

> "It needs to be recognised, in the long run, however, that interest rates perform an economic function and should reflect the relation between the supply of savings and the needs for capital formation. To keep down the rate of interest by making credit freely available at a time when capital demands exceed current savings has an inflationary result."

It is also important to note that a monetary sub-committee to the Joint Congressional Committee reported in January 1950 in favour of "interest rates as low as they can be without inducing inflationary pressure" but, at the same time, recommended that "flexibility of interest rates, without which a flexible monetary policy is impossible, should be restored".

There seems little doubt that readiness to adopt a more flexible policy even for long-term interest rates is making headway in the United States, and the same can be said of Europe. A most important step in that direction has been the acceptance of flexible market rates for long-term government securities on the London market in the summer and autumn of 1949. Soon the market reached a new level (with yields of 3.6 to 3.8 per cent.), at which operations have taken place without any artificial support by the monetary authorities.

The danger involved in a policy of supporting the market is not only — and perhaps not even primarily — that too low rates of interest may be enforced but that the newly created funds brought into the market by the central bank cause an artificial abundance of money liable to distort the scale and direction of expenditure both for consumption and for investment, and also to promote undesirable movements of capital abroad and at home. Often the addition to the volume of monetary purchasing power comes at the wrong moment from a credit point of view.

While these dangers may be fully conceded, it is often thought that a fall in the quotations of government bonds, which is tantamount to a rise in long-term interest rates, may have many undesirable consequences.

Discount rates of central banks.

Central Bank of	Discount rates at the end of							Change from Dec. 1948 to May 1950
	1929	1938	1946	1947	1948	1949	May 1950	
United States (1)	4½	1	1	1	1½	1½	1½	.
Canada	.	2½	1½	1½	1½	1½	1½	.
Switzerland	3½	1½	1½	1½	1½	1½	1½	.
England	5	2	2	2	2	2	2	.
Czechoslovakia	5	3	2½	2½	2½	2½	2½	.
Ireland	6	3	2½	2½	2½	2½	2½	.
Netherlands	4½	2	2½	2½	2½	2½	2½	.
Norway	5	3½	2½	2½	2½	2½	2½	.
Portugal	8	4½	2½	2½	2½	2½	2½	.
Sweden	5	2½	2½	2½	2½	2½	2½	.
France	3½	2½	1⅝	2½	3	3	3 (*)	.
Yugoslavia	6	5	2½–5	1–4	1–3	1–3	1–3 (2)	.
Belgium	4½	2½	3	3½	3½	3¼	3¼	— ¼
Austria	7½	4	3½	3½	3½	3½	3½	.
Denmark	5	4	3½	3½	3½	3½	3½	.
Bulgaria	10	6	4½	4½	3½	3½	3½	.
Turkey	.	4	4	4	4	4	4	.
Spain	5½	4	4	4½	4½	4	4	— ½
Italy	7	4½	4	5½	5½	4½	4 (3)	— 1½
Germany	7	4	3½	3½	5	4 (4)	4	— 1
Hungary	7½	4	7	5	5	5	5	.
Roumania	9	3½	4	7	5	5	5	.
Albania	9	6	5½	5½	5½	5½	5½	.
Finland	7	4	4	5¼	7¼	5¾	5¾	— 1½
Poland	8½	4½	4½	6	6	6	6	.
Greece	9	6	10	10	12	12	12	.

(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. For other secured advances: 2 per cent.
(2) Since the amalgamation of institutions of the public sector with the National Bank, differential rates have been introduced according to the type of debtor.
(3) In effect since 6th April 1950.
(4) In effect since 14th July 1949. On 27th May 1949 the discount rate had been lowered to 4½ per cent. Since 28th June 1948 the discount rate for Landeszentralbanken has been one per cent. The Berliner Zentralbank also lowered its discount rate to 4½ per cent. on 1st June 1949 and to 4 per cent. on 28th July 1949. — Since 22nd July 1948 the discount rate of the Deutsche Notenbank in the Soviet Zone has been 5 per cent.
(*) Lowered to 2½ per cent. on 8th June 1950.

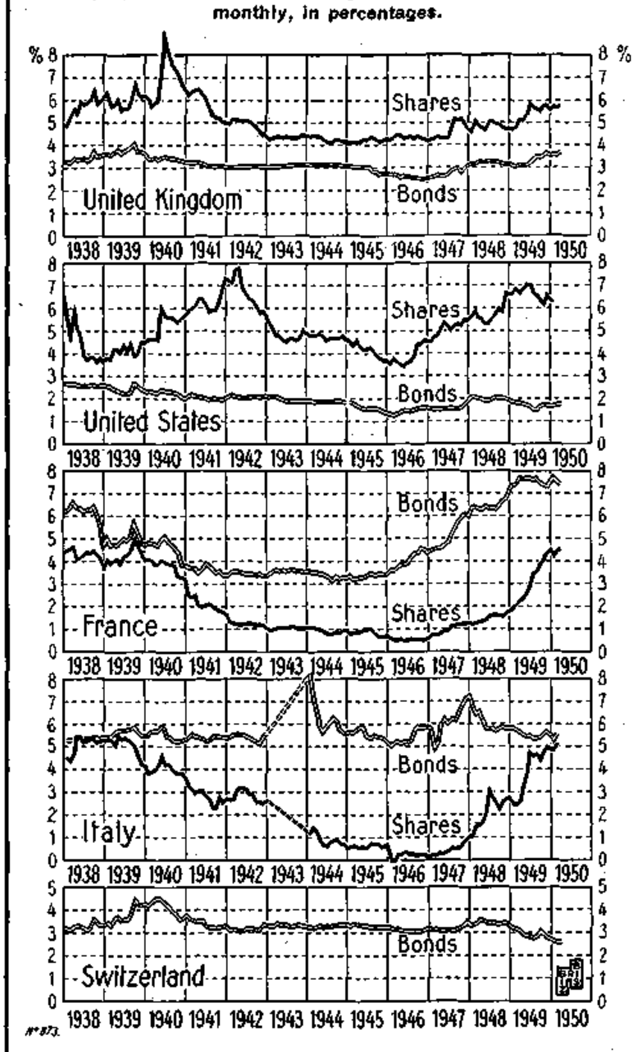
Thus, it is argued that a rise in the level of interest rates may lead to unemployment. But rates have been raised in France without any such result; as far as Italy and western Germany are concerned, unemployment there has clearly not been caused by contraction of credit but is of a structural nature, while in Belgium it is rather a question of adjusting the economy to an increase in costs and particularly in wages in comparison with pre-war levels. In all the other countries where no special difficulties have been present, a high rate of employment has been found in conjunction with very different types of monetary policy.

Reference may also be made to the increase in the debt service if interest rates go up sharply. But even here the additional cost may easily be over-estimated: the higher rates do not affect the cost of debt already funded (which is generally two-thirds or more of the total); secondly, it may not be necessary to raise the short-term interest rates very much or for very long; thirdly, a part of the increased debt service returns to the state in the form of tax payments; and, fourthly, it often happens that a high proportion of the short-term debt is held by government departments, agencies and trust funds, in which case the meeting of the debt service merely involves payments inside the government machinery.

It has also been feared that, with public debts as large as they often are in these days, a fall in security prices, especially if it came after a period of artificially cheap money, would lead to speculative excesses and cause capital losses to financial institutions. But here the experience of the London market — where the 2½ per cent. consols fell from a price of 98. 4 in January 1947 to 69.1 in November 1949 without any untoward consequences — would seem to show that the dangers may loom larger than they really are.

In countries which have adopted an income-stabilisation policy, as has been done in Scandinavia, there is the further fear that an increase in the cost of financing building activity and a consequent increase in the amount charged as rents would lead to a breach of stability and thus imperil adherence to the general lines of policy followed. Much will, of course, depend upon whether in the countries in question the general trend of prices allows stabilisation to prevail. Should the stabilisation policy have to be abandoned or greatly modified, the change would presumably involve a diminution of direct control and, therefore, more reliance on indirect controls of which a flexible interest policy may be an indispensable element.

Yields of shares and government bonds,
monthly, in percentages.



The opinion would seem to be gaining ground that the application of flexible interest rates has an important rôle to play as part of a smoothly-working monetary system and that urgent consideration should be given to the requirements of a rational interest policy — a subject on which only a few observations can be made here with reference to particular problems and countries.

In the recovery of France and Italy an increase in interest rates, together with quantitative credit restrictions, has proved of great use in the struggle to arrest inflation and restore monetary confidence. In both these countries the really effective interest rates have been very high — reaching 7 to 8 per cent. or more (especially in Italy) for advances and a level above 6 per cent. for long-term borrowing. As long as inflation is still rampant, high rates can easily be paid, but once prices have become stabilised it is a more difficult matter. When it comes to lowering the rates, the trouble is, in the first place, that, in cases where prices have risen 20 times (as in France) or 50 times (as in Italy) since 1938, it takes strong medicine to overcome general mistrust in the currency and, in the second place, that as long as the budget shows substantial deficits and thus absorbs a large part of the current domestic savings, the high rates are needed to restrain the outlay for investment on private account. In order to bring down the rates to more usual levels, it is obviously not sufficient simply to prescribe that banks and other credit institutions shall charge less when funds are lent; for the quotations of securities and thus the actual yield are largely determined by supply and demand in free markets. It is necessary to attack the causes of the high rates and, in that connection, to improve the budget position — a matter which in any case becomes more and more urgent as Marshall aid diminishes. In Italy the particular problem of relatively high costs for the distribution of credit is more acute than in most other countries. This is connected with the fact that, in 1949, bank deposits, when adjusted for the rise in commodity prices, were still only two-thirds of what they had been in 1938, while for a number of reasons the staff of the banks had increased. Thus the amount of deposits per employee was only about one-half of the corresponding pre-war amount — necessitating an unduly large spread between the interest rates paid for deposits and the rates charged for credits. Here there is an obvious need for measures which will help the Italian banks and other financial institutions to bring down their costs. The avoidance of excessive interest rates is in such cases a matter of constructive reform — more particularly, but not exclusively, in connection with the budget.

The experience with regard to interest rates has been very different in those countries in which the rise in prices has not gone much beyond the general increase in world market prices as quoted, say, in dollars and where there has consequently been no real loss of confidence in the national currency. In Switzerland, for instance, relatively moderate changes in long-term interest rates proved sufficient to maintain equilibrium; the experience of the British market for government securities, which was along the same lines, has just been referred to; and Belgium has also found that relatively moderate changes are singularly effective. It must not be forgotten that an increase by one-half per cent. in the rate level (say, from 3 to 3½ per cent.) will bring down the quotation for a 3 per cent. bond from par (i.e. 100) to a price of 86. If the holders of the bonds think that before long (e.g. when sellers' markets and the boom are over) the interest level will return to 3 per cent., they are likely to stop selling, since they will need to be sure of very good returns elsewhere before they will take capital losses of 12 to 14 per cent. on their securities.

In official interest policy it used to be a rule that the discount rate of a central bank should be increased by one per cent. at a time (in order to make an impression on the markets) but lowered only one-half per cent. at a time (in order not to give people too strong an inducement to withdraw funds to foreign centres). But now that, in many markets, official interest rates have been left unchanged for years — sometimes even for over a decade — it is probable that a very considerable psychological effect would be exerted by an increase of only one-half per cent. Such an increase would create a stir in all interested circles and give the impression that the ordinary means of credit policy will again be used to uphold the integrity of the currency — a move which would undoubtedly help to strengthen monetary confidence at a time when direct control measures are gradually disappearing.

IX. Intra-European Payments and Compensations.

Before discussing the progress of the current payments plan, it is desirable to bring up to date the story of intra-European payments as described in the eighteenth and nineteenth Annual Reports of this Bank.

In the eighteenth Annual Report (pages 142 to 153) the First Agreement for Multilateral Monetary Compensation of 18th November 1947 was reviewed and the technique of first and second-category "compensations" was explained. This Agreement, dealing only with compensations (there were no drawing rights at that time), initiated the monthly reporting of European central banks to the Bank for International Settlements, which has continued without interruption from December 1947 until the present time. The results obtained from this Agreement were somewhat limited; the total turnover during its ten months of operation was the equivalent of $51 million, $5 million being first and $46 million second category. But, as foreseen in the eighteenth Annual Report, "the mechanism already functioning is capable of adaptation and growth to meet new developments".

The new developments began with the Agreement for Intra-European Payments and Compensations for 1948–49, which was signed on 16th October 1948 and is described in detail in the nineteenth Annual Report (pages 200 to 213); statistics of drawing rights are brought up to June 1949, the end of the functioning of the Agreement, in the tables on the next page.

The definitive total of drawing rights established for 1948–49 was $805.5 million but only $677.0 million were utilised in the nine months, leaving "unused drawing rights" of $128.5 million: of this total, $2.5 million were to be utilised under Supplementary Protocol No. 2 of 31st March 1949[1] to repurchase "off-shore" dollars of the July–September quarter of 1948; $78.4 million were carried forward to be utilised under the Agreement for 1949–50; and $45.7 million were cancelled (leaving $1.8 million still outstanding at the end of March 1950). Full details are given in the table on page 298.

The turnover of compensations and drawing rights for the nine months of the Agreement for 1948–49 is shown in the small table.[2] It will be seen that the compensations (both first and second-category) were subject to considerable fluctuations (depending largely upon the constellation of balances at the month-ends) varying from nil to $32 million and with a total for the nine months slightly exceeding $100 million. The drawing rights made available, although varying between $55 and 121 million a month, were more stable and attained nearly $680 million in the nine months.

(1) The text of Supplementary Protocol No. 2 of 31st March 1949 was reproduced in the nineteenth Annual Report, page 252. (2) See page 226.

Agreement for Intra-European Payments and Compensations for 1948–49.

A. Drawing rights finally established for the year 1948–1949.

Amounts finally established for 1948–49	Countries granting drawing rights											
	Austria	Belgium	Denmark	France	Germany	Italy	Netherlands	Norway	Sweden	Turkey	United Kingdom	Totals
Recipient countries	in millions of dollars											
Austria	—	4.5	0.1	2.0	29.6	—	1.0	1.5	—	—	25.0	63.7
Belgium	—	—	—	—	—	11.0	—	—	—	—	—	11.0
Denmark	—	6.5	—	2.7	1.2	—	—	—	—	1.5	—	11.9
France	—	40.0	—	—	53.7	11.0	—	5.0	—	—	200.0	309.7
Germany	—	21.0	—	—	—	12.7	2.0	8.0	5.0	13.5	52.0	114.2
Greece	0.4	13.0	2.0	5.0	4.4	7.0	5.0	2.0	5.0	12.3	24.0	80.1
Italy	2.0	—	—	—	—	—	—	—	—	—	25.0	27.0
Netherlands . .	—	72.5	—	—	8.5	—	—	—	2.0	—	—	83.0
Norway	—	23.0	—	—	—	0.5	2.5	—	21.8	0.5	—	48.3
Sweden	0.7	6.0	3.0	—	—	0.1	—	—	—	—	—	9.8
Turkey	—	2.0	—	—	—	5.0	0.8	—	1.0	—	8.0	16.8
United Kingdom	—	30.0	—	—	—	—	—	—	—	—	—	30.0
Totals . . .	3.1	218.5	5.1	9.7	97.4	47.3	11.3	16.5	34.8	27.8	334.0	805.5

Note: Several changes were made in the amounts of drawing rights in the course of the working of the Agreement for 1948–49. The original table in Annex C of the Agreement (given on page 244 of the nineteenth Annual Report) had a total of \$810.4 million. Two additions were made: United Kingdom to Turkey for \$8.0 million and United Kingdom to Greece for \$14.0 million. Three reductions were made — all due to adjustments on account of the quarter July–September 1948, before the drawing-right system came into force: Germany (Bizone)–France reduced by \$23.3 million, Germany (Bizone)–Austria by \$2.9 million and Turkey–Greece by \$0.7 million. As a result of these various changes, the definitive total of drawing rights established for 1948–49 was \$805.5 million, as shown above.

B. Drawing rights utilised up to June 1949.

Amounts actually utilised	Countries granting drawing rights											
	Austria	Belgium	Denmark	France	Germany	Italy	Netherlands	Norway	Sweden	Turkey	United Kingdom	Totals
Recipient countries	in millions of dollars											
Austria	—	4.5	0.1	1.8	29.6	—	1.0	1.5	—	—	25.0	63.5
Belgium	—	—	—	—	—	8.9	—	—	—	—	—	8.9
Denmark	—	6.5	—	2.7	1.2	—	—	—	—	0.7	—	11.1
France	—	37.6	—	—	52.7	11.0	—	0.5	—	—	187.3	289.1
Germany	—	21.0	—	—	—	12.7	2.0	nil	nil	6.8	3.7	46.2
Greece	0.4	13.0	2.0	5.0	4.4	3.1	5.0	2.0	5.0	12.3	24.0	76.2
Italy	nil	—	—	—	—	—	—	—	—	—	nil	nil
Netherlands . .	—	72.5	—	—	8.5	—	—	—	2.0	—	—	83.0
Norway	—	23.0	—	—	—	nil	2.5	—	21.8	0.1	—	47.4
Sweden	0.5	6.0	1.0	—	—	0.1	—	—	—	—	—	7.7
Turkey	—	2.0	—	—	—	2.5	0.6	—	1.0	—	8.0	14.1
United Kingdom	—	30.0	—	—	—	—	—	—	—	—	—	30.0
Totals . . .	0.9	216.1	3.1	9.5	96.4	38.3	11.1	4.0	29.8	19.9	248.0	677.0

Note: "Germany" in these tables, and in this chapter generally, means the western zones; where necessary the figures for the "Bizone" and the "French Zone" have been amalgamated.

In these tables and others where the figures have been "rounded off", there may be slight differences between the totals and the figures arrived at by addition of the items.

Compensations and drawing rights: turnover 1948–49.

Month	Compen-sations	Drawing rights	Totals
	in millions of dollars		
1948 October	14.9	67.1	82.1
November . .	10.0	56.8	66.7
December . .	6.0	74.5	80.5
1949 January	32.4	68.1	100.5
February . . .	31.1	81.8	112.9
March.	4.2	76.2	80.4
April	—	76.9	76.9
May	2.0	55.0	57.0
June	3.2	120.7	123.8
Totals . . .	103.7	677.0	780.8

The Agreement for 1948–49 expired at the end of June 1949 and there was an interregnum until the signing of the new Agreement early in September 1949. By a decision of the Council of O.E.E.C. (see text on page 262) the provisions of the Agreement of 1948–49 were extended for July 1949 as regards compensations only and compensations were carried out by the Agent on this basis; no drawing rights were available but the participating countries agreed to grant temporary credit, where necessary, to cover the period.

The Agreement for Intra-European Payments and Compensations for 1949–50, the text of which is given on page 263, was signed on 7th September 1949, after several months of arduous negotiations, and remains in force until the completion of the operations for June 1950. Its general lines closely followed those of the earlier Agreement, with two important exceptions:

(a) twenty-five per cent. of the drawing rights were made multilateral (the other seventy-five per cent. being bilateral as before); and

(b) special arrangements were made to cover the estimated European surplus of Belgium.

The idea behind the establishment of multilateral drawing rights was that the country in whose favour they were established should be able to use the purchasing power thus provided where conditions (of price and quality, etc.) were most favourable. As in the previous year, the countries concerned made detailed estimates of the balance of payments in each bilateral relationship amongst the participating countries. Bilateral drawing rights similar to those under the previous agreement were established to cover three-quarters of the estimated deficits, after taking into account any "agreed existing resources" held by the debtor; a corresponding amount of "conditional aid" in E.C.A. dollars was to be allocated to the creditor when the drawing rights were utilised.

For each debtor country multilateral drawing rights were then established, equal to one-third of the total bilateral drawing rights established in its favour according to Annex C of the Agreement; the "conditional aid" was to follow the multilateral drawing rights and be firmly allotted to the country on which the drawing rights were exercised. (The proportion of bilateral to multilateral drawing rights was subsequently changed in a number

Agreed existing resources
1949-50. [1]

Country owning resources	Partner country	Equivalent of the amount in national currencies in millions of dollars
Denmark	Netherlands . .	5.0
	Norway	2.6
Germany	Denmark	7.1
	Sweden	10.0 [2]
Norway	United Kingdom	30.0
Portugal.	Netherlands . .	2.4 [2]
	United Kingdom	28.0
Sweden	United Kingdom	64.0
Turkey	France	2.0 [2]
United Kingdom	Denmark	30.5
Total		181.6

[1] Although drawing rights, when established, were denominated in dollars in Annex C of the Agreement, existing resources were in the national currencies concerned — a point which became important owing to the devaluations.

[2] Positions where bilateral drawing rights were established (see page 228).

of cases as new bilateral drawing rights were established or old "unused" bilateral rights from 1948–49 were brought forward; it was also modified on account of the special arrangements for Belgium.)

The Agent was authorised to utilise multilateral drawing rights automatically to cover current deficits up to an amount equal to one-third of the bilateral drawing right originally established in that relationship. Further, multilateral drawing rights might be used by the Agent at the request of the debtor to cover a current monthly deficit:

(a) in relation to a country which had established a bilateral drawing right in its favour (when this drawing right plus one-third had been fully utilised), and

(b) in relation to a country which had not established a bilateral drawing right in favour of the particular debtor (so long as agreed existing resources had first been used up).

The Belgian case was a special one. Of the countries participating in the drawing-right system, Belgium alone was in overall surplus, i.e. it was the only one whose intra-European surplus (estimated to be at least $400 million for the year 1949–50) exceeded its foreseen western-hemisphere deficit (of $200 million). It was evident that, even if the whole of Belgium's direct dollar aid of $200 million were made "conditional", this would not be sufficient to cover drawing rights equivalent to the estimated European surplus. The following arrangement was made to meet this situation:

(i) The first $200 million of the Belgian surplus in Europe was to be covered by the establishment of drawing rights similar to those of other countries.

(ii) The second $200 million was to be covered as to $112.5 million by further special multilateral drawing rights (against which a special allocation of E.R.P. aid was set aside from the total amount available before its distribution according to countries) and $87.5 million was to be covered by credits (on the same terms as E.R.P. loans) granted by Belgium to France, to the Netherlands and to the United Kingdom (countries with the greatest estimated deficits on Belgium). This further $200 million was divided into two tranches, the first, of $125 million, being in the proportion 1:1 for drawing rights and credit, while in the second, of $75 million, the proportion was changed to 2:1. The arrangement is summarised in the table on page 229.

Agreement for Intra-European Payments and Compensations for 1949–1950.

A. Bilateral drawing rights established (position as at end of March 1950).

Amounts established for year 1st July 1949 to 30th June 1950	Countries granting bilateral drawing rights												
	Austria	Belgium	Denmark	France	Germany	Italy	Netherlands	Norway	Portugal	Sweden	Turkey	United Kingdom	Total bilateral drawing rights
Recipient countries	in millions of dollars												
Austria	—	6.8	—	4.1	37.5	—	0.2	0.8	—	—	—	15.0	64.4
Denmark	—	11.0	—	6.0	—	—	—	—	—	—	—	—	17.0
France	—	22.0	—	—	45.0	8.3	—	—	—	—	—	93.0	168.2
Germany	—	—	—	—	—	—	—	2.4	—	2.9	6.7	48.3	60.3
Greece	0.8	14.6	2.1	7.5	10.4	7.9	5.3	1.5	0.8	7.0	6.0	20.3	83.9
Netherlands . .	—	39.0	—	—	13.1	—	—	—	—	—	—	—	52.1
Norway	—	13.2	—	5.1	9.5	0.9	3.8	—	—	25.7	—	—	58.1
Portugal	0.5	9.5	0.8	3.1	—	1.5	2.3	1.1	—	1.7	—	—	20.4
Turkey	0.8	5.1	2.9	3.5	7.5	6.2	4.7	0.4	—	1.7	—	12.0	44.7
United Kingdom	—	29.0	—	—	—	—	—	—	—	—	—	—	29.0
Totals . . .	2.0	150.0	5.8	29.3	122.9	24.8	16.2	6.2	0.8	38.9	12.7	188.5	598.0

B. Total bilateral and multilateral drawing rights established.

Amounts established for year 1st July 1949 to 30th June 1950	Bilateral (from previous table)			Multilateral			Total drawing rights
	Originally established	Extra amounts	Total	One-third of original bilateral	Special on Belgium	Total	
Recipient countries	in millions of dollars						
Austria	64.4	—	64.4	21.5	—	21.5	85.8
Denmark	17.0	—	17.0	5.7	—	5.7	22.6
France	156.3	12.0	168.2	52.3	28.0	80.3	248.5
Germany	—	60.3	60.3	—	—	—	60.3
Greece	80.5	3.4	83.9	26.8	—	26.8	110.7
Netherlands	52.1	—	52.1	17.4	49.0	66.4	118.5
Norway	57.6	0.5	58.1	19.2	—	19.2	77.3
Portugal	20.4	—	20.4	6.8	—	6.8	27.2
Turkey	40.0	4.7	44.7	13.3	—	13.3	58.0
United Kingdom	29.0	—	29.0	9.5	35.5	45.0	74.0
Totals . . .	517.1	80.9	598.0	172.4	112.5	284.9	882.9

Note: Five of the signatory countries are missing from these tables. Switzerland did not receive E.R.P. aid and did not take part in the European system of drawing rights; Luxemburg is included with Belgium, and Iceland and Ireland, being members of the sterling area, are covered by the figures for the United Kingdom; Trieste is included in the Italian monetary area.

The total of bilateral drawing rights established according to Annex C of the Agreement for 1949-50 was $517.1 million (see table on page 278). Subsequently, new bilateral drawing rights were established by France in favour of Turkey for $2 million and by Italy in favour of Norway for $500,000; also a total of bilateral drawing rights, the equivalent of $78.4 million, was brought forward from the Agreement for 1948–49; these additions bring the total up to $598.0 million, as shown in the tables.

The amount of multilateral drawing rights remained unchanged, i.e. at $172.4 million (one-third of the total bilateral drawing rights originally established in Annex C of the Agreement) plus the special drawing rights of $112.5 million on Belgium, in spite of subsequent changes in the amounts of bilateral drawing rights. (Owing to the rounding-off of the special drawing rights on Belgium, there is a slight modification of the amounts in the first column of multilateral drawing rights for France and the United Kingdom.)

N.B. This table shows the position at the end of March 1950. Subsequently, a number of revisions took place, e.g. by Council decision, C(50)112, of 21st April 1950, the bilateral drawing rights of France on the United Kingdom, amounting to $92,969,000 (including $11,969,000 brought forward from 1948–49), were cancelled.

Drawing rights on Belgium and Belgian loans established for 1949–50.(1)

Amounts established	Recipient countries				Totals
	France	Nether-lands	United Kingdom	Other countries (2)	
	In millions of dollars				
First $200 million drawing rights . . .	29.5	52	38.5	80	200
Second $200 million					
First tranche:					
loans	15	27	20.5	—	62.5
drawing rights . . .	15	27	20.5	—	62.5
Second tranche:					
loans	6.5	11	7.5	—	25
drawing rights . . .	13	22	15	—	50
sub-totals	49.5	87	63.5	—	200
Totals . . .	79	139	102	80	400

(1) This illustration of the Belgian position includes $312.5 million drawing rights already given in the previous table ($150 million plus one-third, $50 million, plus the special $112.5 million).

(2) Under this heading are included the other countries with drawing rights on Belgium, viz.: Austria, Denmark, Greece, Norway, Portugal and Turkey.

In order to give effect to these provisions, separate loan agreements were signed, on 7th September 1949, between Belgium and the three borrowing countries: France, the Netherlands and the United Kingdom. These agreements had similar texts; that between Belgium and the United Kingdom is given as an example on page 287. The Bank for International Settlements agreed to act as Agent of the contracting parties under the agreements.

The "maximum resources" available to facilitate intra-European payments under the Agreement for 1949–50 (as amended up to the end of March 1950) thus came to $882.9 million in drawing rights plus the maximum for the Belgian loans of $87.5 million, giving an aggregate of $970.4 million (see table on page 233).

Apart from these two important innovations the mechanism created for the previous payments plan remained essentially unchanged. There was some reclassification and clarification of the text of the Agreement but the reporting of the central banks to the Agent, the determination of the monthly deficits (to be covered by drawing rights), the calculation of first and second-category compensations and the instructions to the central banks were on the old, now familiar, lines.

Two modifications in terminology should be noticed:

(a) The word "compensations", which in the Agreement for 1948–49 covered both the actual compensations and the use of drawing rights, was, for greater clarity, replaced in the Agreement for 1949–50 by the word "operations" (to cover both types of operation).

(b) The words "debtor" and "creditor" in the Agreement for 1949–50 are used exclusively to mean debtor and creditor on current account in an indicated bilateral relationship, i.e. the debtor is the one who receives, and the creditor the one who grants, drawing rights; each country may thus be debtor or creditor according to the relationship considered. (It follows, therefore, that the words "debtor" and "creditor" in the Agreement for 1949–50 do not indicate the direction of debts or credits accumulated prior to the coming into force of the Agreement.)

Characteristic points of the Agreement for 1949–50 which show some difference from the earlier scheme may be summarised as follows:

(a) Portugal took part in the drawing-right system for 1949–50 so that, amongst the O.E.E.C. countries, only Switzerland did not join in this part of the Agreement.

(b) The Agreement was made retroactive from 1st July 1949 (so that the July and August drawing rights were given together during the first operations).

(c) Provisions regarding the utilisation of bilateral drawing rights "additional" to those necessary to cover the monthly deficit were tightened up as compared with the earlier scheme, so that amounts could be obtained only for specific purposes, viz. to avoid a settlement in gold or dollars or to repurchase gold or dollars paid* and, in exceptional cases and for limited amounts during the early months of the scheme, to establish an adequate working balance. The tightening of the provisions was intended to prevent an unduly rapid utilisation of bilateral drawing rights with the object of obtaining multilateral drawing rights before they would otherwise have come into play.

(d) Closely connected with (c) above was the insistence on the importance of the "ceiling" for the balances and debts outstanding on 30th June 1949. Drawing rights could be granted only to cover the cumulative deficits incurred and should not, therefore, have the effect of increasing a balance or decreasing a debt beyond the amount in existence when the payments plan came into force.

(e) At least two comprehensive reviews of the working of the system were provided for during the period of the Agreement, and

(f) elaborate provision was made for the revision of bilateral drawing rights, circumstances justifying revision being set out in detail in Annex D of the Agreement.*

(g) Unused bilateral drawing rights were to be put into a "pool" at the disposition of O.E.E.C. on the termination of the Agreement while unused multilateral drawing rights were to be cancelled (the Organisation making recommendations to E.C.A. as to the disposal of the corresponding conditional aid).*

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* Supplementary Protocol No. 2, amending the Agreement for 1949–50 and signed on 22nd April 1950 (see text, page 284), modified these provisions so that multilateral drawing rights became subject to revision at the request of a debtor and could be utilised to repurchase gold and dollars paid to another participating country.

The "Directive to the Agent" for 1948–49 was renamed "Directives for the application" of the Agreement for 1949–50, the change in title being made in order to emphasise its binding nature on all participant countries, as well as on the Agent, although the Directive remained largely unchanged in substance. The technical details regarding the reporting of central banks to the Agent and the calculation of the monthly deficits and surpluses remained as before but further instructions were introduced to take account of such innovations as the use of multilateral drawing rights (requests from the debtor country to be received by the fourth working day) and drawings on the Belgian loans by France, the Netherlands and the United Kingdom. The timetable as given on pages 206 to 208 of the nineteenth Annual Report was retained with slight modifications: for instance, the Agent advised E.C.A. on the sixth working day of the drawing rights due, and the value date for all operations was fixed for the fourteenth working day. As before, the final paragraph of the Directives gave considerable latitude to the Agent to modify the procedure in the light of experience of its working.

Details of the practical working of the payments plan for 1949–50 are contained each month in the Agent's confidential report to O.E.E.C. Sufficient information has been published from Paris to give a clear indication of the main lines of developments. The tables on the next page show the utilisation of drawing rights and of the Belgian loans during the nine months to March 1950.

Two new factors of great importance had their influence on the working of the Agreement for 1949–50 almost as soon as it was signed: the liberalisation of intra-European trade under the auspices of O.E.E.C. and the currency devaluations which took place in September 1949.* Profound changes ensued in the volume and direction of intra-European surpluses and deficits of trade and vitiated the estimates made only a few weeks previously.

It is generally not possible to disentangle the effects of these two important factors, but in a few instances the causal connection seems fairly evident: (a) the heavy deficits before the devaluation of sterling and the subsequent recovery of the United Kingdom and (b) the large imports made by western Germany at the same time as the measures of trade liberalisation came into force. In general, the effects of liberalisation of imports in most countries were felt only gradually (a number of restrictions being maintained), while the devaluations appeared, in subsequent months, to induce a less unbalanced position in current payments.

It may be mentioned in passing that, technically, the Agreement of 1949–50 proved to be far more complicated than the previous payments plan. The provisions for the use of multilateral drawing rights and drawings on the Belgian loans were new and the insistence on the "ceiling" of 30th June 1949 for all balances led to troublesome calculations. Further, the delay in signing

* See Chapter V as regards liberalisation of trade and Chapter VI on the devaluations.

Agreement for Intra-European Payments and Compensations for 1949–1950.

A. Drawing rights* utilised in nine months, July 1949 to March 1950.

Amounts utilised in nine months	Countries granting drawing rights												
	Austria	Belgium	Denmark	France	Germany	Italy	Netherlands	Norway	Portugal	Sweden	Turkey	United Kingdom	Totals
Recipient countries	in millions of dollars												
Austria	—	7.1	—	4.5	46.3	—	0.3	0.6	—	—	—	16.5	75.2
Denmark. . . .	—	8.0	—	8.0	—	—	—	—	—	—	—	—	16.0
France	—	nil	—	—	23.7	18.4	—	—	—	—	—	nil	42.1
Germany . . .	—	—	—	—	—	—	—	2.2	—	2.9	6.7	48.3	60.1
Greece	0.9	14.2	2.5	10.8	7.6	7.5	2.1	0.0	0.4	8.1	5.3	24.6	84.0
Netherlands . .	—	70.4*	—	—	nil	—	—	—	—	—	—	—	70.4
Norway	—	14.0	—	6.8	9.5	1.0	6.4	—	—	33.5	—	—	71.2
Portugal	0.0	0.7	nil	3.0	—	nil	nil	1.1	—	nil	—	—	4.7
Turkey	nil	1.4	0.0	1.4	nil	1.3	0.1	0.0	—	2.2	—	17.4	23.9
United Kingdom	—	45.1*	—	—	—	—	—	—	—	—	—	—	45.1
Totals . . .	0.9	160.8	2.5	34.5	87.2	28.3	8.9	3.9	0.4	46.6	12.0	106.7	492.7

B. Drawing rights* on Belgium and Belgian loans utilised in nine months, July 1949 to March 1950.

Amounts utilised in nine months	Recipient countries				Totals
	France	Nether-lands	United Kingdom	Others	
	in millions of dollars				
First $200 million drawing rights . . .	—	52.0	38.5	45.3	135.8
Second $200 million					
First tranche:					
loans	—	18.4	6.6	—	25.0
drawing rights . . .	—	18.4	6.6	—	25.0
Second tranche:					
loans	—	—	—	—	—
drawing rights . . .	—	—	—	—	—
sub-totals	—	36.9	13.1	—	50.0
Totals . . .	—	88.9	51.6	45.3	185.8

* The first table shows drawing rights only and so omits the drawings on the Belgian loans amounting to $18.4 million by the Netherlands and $6.6 million by the United Kingdom.

The second table, besides showing the Belgian loans, amounting in all to $25.0 million, gives the $160.8 million utilisation of drawing rights *on Belgium (already included in the first table)*, in order to indicate the complete Belgian position in a manner comparable to the table on page 229.

"0.0" means less than $50,000.

the Agreement meant that the first operations had to cover two months, July and August 1949, and the devaluations of September produced problems of calculation which had not been clearly provided for in the Agreement and Directives. On this latter question it was necessary to have a special decision of the Council of O.E.E.C. (see text, page 295), which required renewed calculations for September (treating the month as two separate periods for drawing rights) and subsequent adjustments to the operations for that month (carried through with the operations for December).

The tables on the next page show that of $970 million "maximum resources" established for the year 1949–50 only $518 million, 53 per cent., were effectively utilised in the nine months July 1949 to March 1950; this is some $210 million less than three-quarters (which would be $728 million).

Agreement for Intra-European Payments and Compensations for 1949-50.

"Maximum resources" established for the year 1949-50 and actual utilisation during the nine months July 1949 to March 1950.

Classification	Totals established for year 1949-50	Utilised in nine months to March 1950	Percentage utilised
	in millions of dollars		*percentage*
Bilateral drawing rights	598.0	393.7	*65.8*
Multilateral drawing rights	172.4	74.0	*42.9*
Special drawing rights on Belgium	112.5	25.0	*22.2*
Belgian loans	87.6	25.0	*28.5*
Totals	970.4	517.7	*53.3*

Recipient countries	Year 1949-50	Nine months to March 1950		
	Established	Utilised	Not utilised	Percentage utilised
	in millions of dollars			*percentage*
Austria	85.8	75.2	10.6	*87.6*
Denmark	22.6	16.0	6.6	*70.8*
France	270.0	42.1	227.8	*15.6*
Germany	60.3	60.1	0.2	*99.7*
Greece	110.7	84.0	26.7	*75.9*
Netherlands	156.5	88.9	67.6	*56.8*
Norway	77.3	71.2	6.1	*92.1*
Portugal	27.2	4.7	22.5	*17.3*
Turkey	58.0	23.9	34.1	*41.2*
United Kingdom	102.0	51.6	50.4	*50.6*
Totals	970.4	517.7	452.7	*53.3*

Note: The amounts established as at 31st March 1950 are based on the tables on pages 228 and 229 and thus include bilateral drawing rights brought forward from 1948-49.

The devaluations of September 1949 reduced the need for drawing rights (as denominated in dollars) in two ways. In the first place, the estimates of the bilateral positions made before the Agreement was signed were generally in national currencies, although the dollar equivalent figured in the table in Annex C of the Agreement as the amount of drawing rights established. Drawing rights are denominated in dollars* until they are made available, when the equivalent in the national currency of the creditor country is actually drawn and credited to the debtor country. It follows that, as the remaining drawing rights, being denominated in dollars, underwent no change, the unused amounts, when expressed in the national currencies, were automatically increased. Secondly, the amount of drawing rights necessary was reduced by the effect which the devaluations had upon the flow of trade and payments in Europe, there being, as already mentioned, signs of a better balance in European trade from October 1949 onwards.

The first table on this page shows that in the nine months under review 66 per cent. of the bilateral drawing rights were utilised, but only 43 per cent. of the multilateral drawing rights; as multilateral drawing rights can generally be utilised only after existing resources and bilateral drawing rights, it is not surprising that they should have been used proportionately less than bilateral drawing rights in the early months of the scheme; multilateral

* Drawing rights differed in this respect from the "agreed existing resources" (given in the table on page 227) which were definitely denominated in national currencies (the dollar equivalent being used in Annex C in this case merely as a common unit of account).

drawing rights are likely to be utilised more frequently in the final phase of the current payments plan.

The second table on page 233 shows in what proportion the "maximum resources" had been utilised by the various participating countries. Belgium, Germany, Italy and Sweden received no drawing rights for the year 1949–50 (those shown for Germany being brought forward from 1948–49). The other countries utilised amounts which varied from 16 per cent. in the case of France to 92 per cent. for Norway. A few countries such as Austria, Greece and Norway used fully three-quarters or more of the amounts established in their favour, but the average was barely more than one-half. The most striking difference between the amounts established and those utilised was certainly presented by France, which accounted for $160 million of the $210 million difference between the amounts actually utilised in nine months and 75 per cent. of the amount established; the improvement of the French position was such that in the first nine months of the current payments plan France had not utilised any part of the amounts established in its favour by Belgium or by the United Kingdom.

In view of the great changes brought about by the devaluations and the liberalisation of trade, as well as the effects of internal financial policy in the countries concerned, it is not surprising that estimates made before the signature of the Agreement should prove to have been inaccurate in a number of cases.

The statistics given in this chapter take the story to the end of March 1950, but it should be added that the revision of drawing rights was taken in hand in subsequent months. By a decision of the Council of O.E.E.C., C(50)112 of 21st April 1950, the bilateral drawing right of France on the United Kingdom for $92,969,000 (being the $81 million originally established for 1949–50 plus $11,969,000 unutilised drawing right carried forward from 1948–49) was cancelled, thus reducing the "maximum resources" (see page 233) to $877,437,000. Further, in May, France indicated its readiness to surrender $21,750,000 of multilateral drawing rights and the United Kingdom to give up $36,500,000 of its facilities on Belgium, viz. $22,000,000 in multilateral drawing rights and $14,500,000 of credits; and numerous requests were received for new or increased drawing rights on Belgium and on other countries.

It is interesting to compare the actual utilisation of drawing rights under the two payments plans. The following table shows for each country the equivalent in millions of dollars of the drawing rights utilised (granted and received) in 1948–49 and in 1949–50.

As each of the periods is of nine months, they may appear reasonably comparable but it should not be overlooked that the devaluations of September 1949 introduced a somewhat arbitrary element into the dollar valuations during the second period.

Drawing rights* actually utilised 1948-49 and 1949-50.

Country	1948-49 (nine months to June 1949)			1949-50 (nine months to March 1950)		
	granted (—)	received (+)	net balance	granted (—)	received (+)	net balance
	In millions of dollars					
Austria	1	64	+ 63	1	75	+ 74
Belgium	216	9	— 207	186	nil	— 186
Denmark	3	11	+ 8	3	16	+ 14
France	9	289	+ 280	34	42	+ 8
Germany	96	46	— 50	87	60	— 27
Greece	nil	76	+ 76	nil	84	+ 84
Italy	38	nil	— 38	28	nil	— 28
Netherlands	11	83	+ 72	9	89	+ 80
Norway	4	47	+ 43	4	71	+ 67
Portugal	nil	nil	nil	0	5	+ 4
Sweden	30	8	— 22	47	nil	— 47
Turkey	20	14	— 6	12	24	+ 12
United Kingdom	248	30	— 218	107	52	— 55
Totals	— 677	+ 677	± 542	— 518	+ 518	± 343

* Including Belgian loans in 1949-50.

Note: It is convenient to indicate the net amounts of drawing rights granted with a minus sign (—) and the net amounts received with a plus sign (+) as this presentation permits direct comparison with balance-of-payments statistics (see table on page 239).

The payments plans were on a "gross" basis (see page 238), and it is appropriate to note the decline in the gross amount of drawing rights from $677 million (granted and received) in the nine months to June 1949 to $518 million (granted and received) in the nine months to March 1950. But of special significance is the decline in the net amount of drawing rights by a round $200 million: whereas certain countries such as Austria, Greece and the Netherlands showed no very great change, France was practically all square on 1949-50 after having been a net recipient of $280 million in 1948-49; most of the corresponding decline in net drawing rights granted appears in the figures for the United Kingdom and Belgium.

I. E. P. S. - Drawing rights (net) granted and received
1948-49 and 1949-50 (eighteen months).

Drawing rights granted (net)	In millions of dollars	Drawing rights received (net)	In millions of dollars
Belgium	393	France	287
United Kingdom	273	Greece	160
Germany	77	Netherlands	152
Sweden	69	Austria	137
Italy	67	Norway	111
		Denmark	21
		Turkey	6
		Portugal	4
Total	879	Total	879

Taking the eighteen months as a whole it still remains true that France was (as a country but not per head of the population) by far the greatest net recipient of drawing rights, followed by Greece, the Netherlands, Austria and Norway. And, on the other side of the account, Belgium and the United Kingdom granted by far the largest net amounts.

Agreements for Intra-European Payments and Compensations 1948-49 and 1949-50.

Net deficits and surpluses of participating countries amongst themselves before the utilisation of drawing rights.

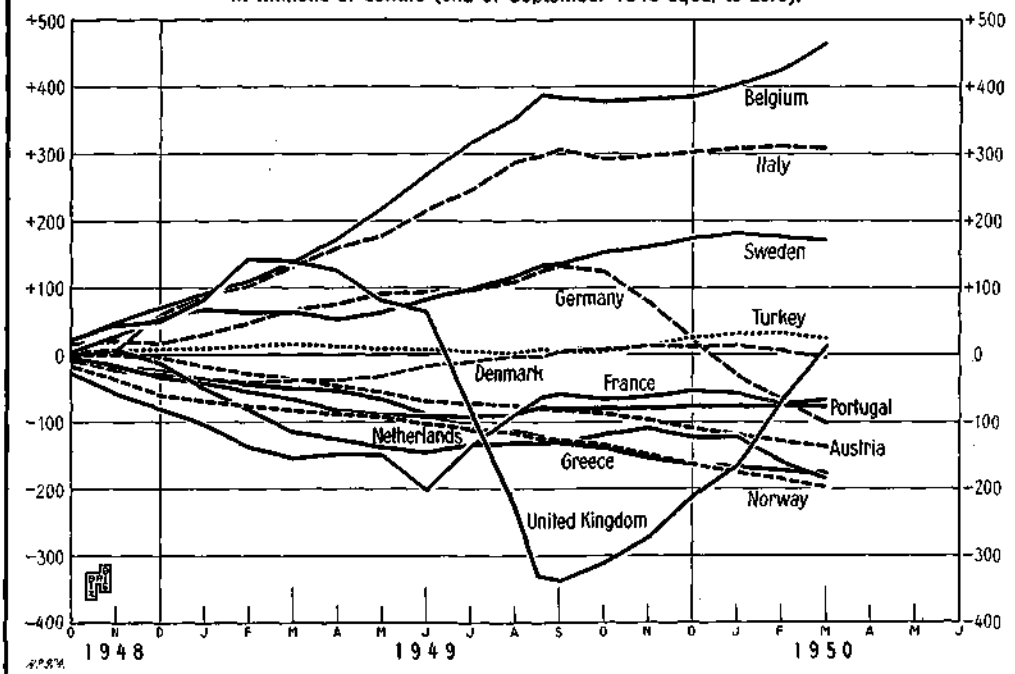
A. Quarterly statistics* of net deficits (—) or net surpluses (+) before drawing rights.

Countries	1948	1949				1950	Total
	October to December	January to March	April to June	July to 18th Sept.	19th Sept. to December	January to March	Oct. 1948 to March 1950
	in millions of dollars						
Austria	— 4	— 34	— 33	— 11	— 29	— 30	— 141
Belgium	+ 70	+ 68	+ 129	+ 122	— 3	+ 78	+ 464
Denmark	— 31	— 7	+ 19	+ 16	+ 12	— 15	— 6
France	— 82	— 71	— 48	+ 137	+ 5	— 11	— 70
Germany	+ 16	+ 49	+ 26	+ 30	— 102	— 127	— 108
Greece	— 26	— 24	— 40	— 33	— 38	— 16	— 178
Italy	+ 60	+ 73	+ 82	+ 83	+ 4	+ 5	+ 309
Netherlands	— 13	— 103	— 31	+ 13	+ 8	— 61	— 187
Norway	— 61	— 22	— 20	— 24	— 38	— 35	— 199
Portugal	— 34	— 34	— 25	+ 12	+ 1	— 1	— 81
Sweden	+ 56	+ 6	+ 20	+ 52	+ 40	— 2	+ 171
Turkey	+ 4	+ 9	— 7	— 2	+ 20	— 5	+ 19
United Kingdom	+ 46	+ 90	— 74	— 394	+ 120	+ 219	+ 7
Total net deficits or surpluses	± 252	± 295	± 277	± 464	± 210	± 302	± 970

* Owing to the devaluations of September 1949, it has been thought more interesting to split the second half of 1949 at 18th September rather than at the end of that month. This date is appropriate for all countries since in those which devalued in the following days the central bank suspended exchange quotations and operations until reopening at the new rates.

B. Net deficits and net surpluses in intra-European payments on a monthly cumulative basis

in millions of dollars (end of September 1948 equal to zero).



One of the by-products of the calculation of drawing rights by the Agent is the establishment of monthly figures for the flow of payments in each bilateral relationship amongst the participating countries. These statistics, which apply only to the O.E.E.C. countries amongst themselves, are determined on the basis of the movements of the bilateral accounts (adjusted for gold and dollar payments, etc.) as reported by the central banks; they include some capital as well as current transactions. A summary on a quarterly basis, as published in Paris,* is given in the table on the preceding page and in the graph. These statistics show the net deficits and surpluses before the effect of the utilisation of drawing rights is taken into account (more detailed figures, showing, inter alia, the net effect of drawing rights, are given in the tables on page 301).

This table and graph are of particular interest since they cover the periods before and after the devaluations of September 1949 and reflect very closely the effects of devaluation on the balances of payments of the O.E.E.C. countries with one another (omitting Switzerland, which did not participate in the drawing-right system).

The quarterly total of the net deficits and surpluses of the O.E.E.C. countries amongst themselves, as shown in the table, was between \$250 and 300 million up to the middle of 1949. In the two and a half months before the devaluations it jumped to \$460 million, of which nearly \$400 million was accounted for by the net deficit of the United Kingdom; in the following three and a half months to the end of December 1949, the total for all countries was a little over \$200 million and for the first three months of 1950 around \$300 million, the United Kingdom becoming more strongly creditor.

The graph gives monthly figures on a cumulative basis with the end of September 1948 as starting-point (equal to zero). The flattening of some of the curves after the devaluations of September 1949 is striking, as is also the strong recovery of the United Kingdom; Germany's series of deficits from October 1949 to March 1950 was arrested and followed by a surplus in April 1950 (not shown in the graph).

Taking the eighteen months as a whole, it will be seen that the three principal net creditors in intra-European trade, amongst the countries participating in the drawing-right system (i.e. omitting Switzerland), on the period considered — Belgium, Italy and Sweden — accounted for 97 per cent. of the aggregate net surpluses; the United Kingdom was practically all square; the principal net debtors in intra-European trade were Norway, the Netherlands, Greece, Austria and Germany.

The next table shows the division of the eighteen months into two phases, the first, before the devaluations, being nearly two-thirds of the total period; the second phase is shorter and the figures have been converted into dollars at the new rates so that it would take a larger deficit (or surplus) in national currency to give the same valuation in dollars.

* See the Second Report of O.E.E.C. on the European Recovery Program, published in February 1950.

I.E.P.S. – Net deficits (—) and surpluses (+)
before the utilisation of drawing rights.

Countries	Before devaluations: 1st Oct. 1948 to 18th Sept. 1949 11½ months	After devaluations: 19th Sept. 1949 to 31st March 1950 6½ months	Total: Oct. 1948 to March 1950 18 months
	in millions of dollars		
Austria	— 82	— 59	— 141
Belgium	+ 389	+ 75	+ 464
Denmark	— 4	— 2	— 6
France	— 64	— 6	— 70
Germany	+ 121	— 229	— 108
Greece	— 123	— 54	— 178
Italy	+ 299	+ 10	+ 308
Netherlands	— 134	— 53	— 187
Norway	— 127	— 72	— 199
Portugal	— 81	— 0	— 81
Sweden	+ 134	+ 37	+ 171
Turkey	+ 4	+ 15	+ 19
United Kingdom	— 332	+ 338	+ 7
Totals	± 947	± 474	± 970

Several notable movements may be observed: the combined net surpluses of Belgium, Italy and Sweden, which were running at an average of over \$70 million a month, fell to under \$20 million a month after the middle of September 1949; Germany turned from a net creditor into the largest net debtor in the second phase; the debtor position of the United Kingdom gave place to a creditor position with roughly the same dollar equivalent (a striking change when the relatively shorter period and the lower valuation of sterling are taken into account).

Drawing rights have been given and received on a "gross" basis under both Agreements, i.e., in principle, each country both gave and received drawing rights according to estimates made before the signature of the Agreement of the probable balance of payments in each bilateral relationship; where drawing rights were not established this meant either that the position was estimated to be in equilibrium or that the existing resources were considered to be sufficient to cover the estimated movement.

In a very few cases — three in 1948–49 (see table on page 227) and two in 1949–50 — agreed existing resources were considered insufficient to cover the estimated deficit and a correspondingly limited amount of drawing rights was established. But, by and large, drawing rights which the Agent might use automatically (bilateral plus one-third) would have been sufficient to cover the estimated bilateral deficits by one hundred per cent.

In the light of actual experience it is known that drawing rights on this gross basis covered 32 per cent. of the gross deficits (and gross surpluses) in the eighteen months October 1948 to March 1950 (37 per cent. in the nine months of 1948–49 and 28 per cent. in the nine months of 1949–50).

A further analysis of the drawing-right system may be made by comparison of the net position of each country with the net effect of drawing rights (given and received). This is done in the following table.

The amounts given in the table on page 239 (as also those on page 236) as surpluses and deficits are "net" amounts, that is they represent the "Spitzen"

I.E.P.S. – Net surpluses (+) or deficits (—) and the effect of drawing rights.

Countries*	Agreement for 1948–1949 (nine months)			Agreement for 1949–1950 (nine months)			Total eighteen months October 1948 to March 1950		
	Deficit (—) or surplus (+) before drawing rights	Net effect of drawing rights	Deficit (—) or surplus (+) after drawing rights	Deficit (—) or surplus (+) before drawing rights	Net effect of drawing rights	Deficit (—) or surplus (+) after drawing rights	Deficit (—) or surplus (+) before drawing rights	Net effect of drawing rights	Deficit (—) or surplus (+) after drawing rights
	In millions of dollars								
Austria	— 71	+ 63	— 9	— 70	+ 74	+ 4	— 141	+ 137	— 4
Belgium	+ 268	— 207	+ 61	+ 197	— 186	+ 11	+ 464	— 393	+ 71
Denmark	— 19	+ 8	— 11	+ 13	+ 14	+ 27	— 6	+ 21	+ 16
France	— 201	+ 280	+ 78	+ 132	+ 8	+ 139	— 70	+ 287	+ 217
Germany	+ 91	— 50	+ 41	— 199	— 27	— 226	— 108	— 77	— 185
Greece	— 90	+ 76	— 14	— 87	+ 84	— 3	— 178	+ 160	— 17
Italy	+ 215	— 38	+ 177	+ 93	— 28	+ 65	+ 308	— 67	+ 242
Netherlands	— 147	+ 72	— 75	— 41	+ 80	+ 39	— 187	+ 152	— 35
Norway	— 103	+ 43	— 60	— 96	+ 67	— 29	— 199	+ 111	— 88
Portugal	— 93	nil	— 93	+ 12	+ 4	+ 16	— 81	+ 4	— 77
Sweden	+ 82	— 22	+ 60	+ 90	— 47	+ 43	+ 171	— 69	+ 103
Turkey	+ 6	— 6	+ 0	+ 13	+ 12	+ 25	+ 19	+ 6	+ 25
United Kingdom	+ 62	— 218	— 156	— 56	— 55	— 111	+ 7	— 273	— 266
Totals	± 724	± 542	± 416	± 549	± 343	± 369	± 970	± 879	± 674

* Not including Switzerland.

Note: This table takes account only of net amounts of drawing rights and Belgian loans actually utilised (and not of the totals established, part of which were not used). All utilised drawing rights (including additional amounts not necessarily closely related to the monthly deficits) have been applied to the months on account of which they were drawn (and not to the value date, fourteen working days later). Belgian loans utilised under the Agreement for 1949–50: in the nine months the equivalent of $18.4 million was drawn by the Netherlands and $6.6 million by the United Kingdom.

of payments for each country, vis-à-vis all other countries participating in the drawing-rights system, during the period indicated.

Over the total eighteen months, five net debtors: Austria, Greece, the Netherlands, Norway and Portugal, reduced their net deficits by the net receipt of drawing rights. Three net creditors: Belgium, Italy and Sweden, reduced their net surpluses by net drawing rights given. There remain five special cases: Germany's net deficit was further increased by the net effect of drawing rights given; Turkey's net surplus was slightly increased by net drawing rights received; and France and Denmark had net deficits turned into net surpluses by the net receipt of drawing rights. Perhaps most striking, however, is the fact that the United Kingdom, which was practically in balance (with a very small surplus) before the utilisation of drawing rights, appears as by far the biggest net debtor after drawing rights have been taken into account.

The British Treasury has published its gold and dollar payments and receipts with the O.E.E.C. countries monthly from October 1948. These figures show that from October 1948 to March 1950 a net amount equivalent to $176.8 million was paid to three countries: $94.6 million to Belgium, $65.6 million to Switzerland and $16.7 million to Germany. As it can generally be taken that the payments are on account of deficits incurred in the previous months (and as $24.8 million was paid in October 1948, while no such payments were made in April 1950) it appears that a net amount of over $150 million was paid by the United Kingdom to O.E.E.C. countries (including Switzerland) on account of deficits incurred during the currency of the two payments plans up to March 1950 (nearly all of this amount being paid on account of the nine months of the first plan to June 1949).

There was much discussion in Paris, and elsewhere, as to the advantages and the disadvantages of the European payments schemes. The advantages are fairly well known. Within the limits of E.R.P. aid, and with no extra cost in dollars, it was possible to deal with the western-hemisphere and intra-European payments deficits in one combined E.R.P. operation and thus to cover a very substantial part of each individual country's "overall" deficit. And, even though the drawing rights were bilateral, the plan permitted the O.E.E.C. countries to come out with a debit or a credit balance in their current payments amongst themselves, rather than being forced into direct bilateral balance in each individual relationship. Further, the "first-category" compensations brought about the automatic offsetting of certain debts and credits inside Europe while the "second-category" permitted some administrative transferability of currencies amongst the participants.

The disadvantages of the payments plans have often been described and only brief mention need be made here:

(a) They were too bilateral (and this applies also to the 1949–50 scheme in spite of some attempt at flexibility); this criticism must, indeed, hold for all such plans on a gross basis.

(b) They were based on estimates of payments deficits and surpluses (made before each plan came into operation) which were bound to be subject to considerable error.

(c) They gave no possibility of strengthening the reserve positions of the central banks, in many cases depleted to a dangerous extent in relation to the trade to be financed.

(d) As a country had no incentive to economise drawing rights to increase its resources, the incentives were in the wrong direction. A country receiving a drawing right stood to lose if it were not used up and, thus, the incentive was to run a deficit. Similarly, the country granting the drawing right stood to lose the conditional dollar aid if the drawing right were not fully utilised (even though, circumstances having changed or the estimates having proved inaccurate, the drawing right was no longer necessary).

Although it is easy to exaggerate the importance of the wrong incentives in the payments plans (for other incentives, outside the plans, were far more important), yet there is no doubt that the payments schemes were too bilateral in nature, and experience has proved that estimates of the balances of payments in individual relationships, made a year ahead, are often misleading. Nevertheless, in spite of imperfections, the drawing-right system was of real assistance at the time of most need and not only helped to prevent a break-down but ensured a continuing and growing flow of intra-European trade. The scheme for 1948–49 was in the nature of an emergency measure, while that for 1949–50 was negotiated under the shadow of the coming devaluations and bore all the marks of difficult compromise.

After the devaluations of September 1949 had cleared the air and it was found that a better balance appeared to have been attained in European trade (through some reduction of the extreme debtor and creditor positions), it became possible to consider a new plan which would be without the vices of the earlier ones. Discussions took place in the O.E.E.C. in Paris and the E.C.A. in Paris and Washington; these ideas were reflected in Mr Hoffman's Paris speech of 31st October 1949, when he said, inter alia:

> "Even when effective means are found to coordinate financial policies and to promote needed exchange rate changes, there are still bound to be temporary disturbances in the flow of trade and payments between countries. Their whole impact should not be allowed to fall upon the gold and dollar reserves of the individual countries. I believe, therefore, that an . . . essential of any plan you devise must be a means to cushion the effect of these inevitable temporary disturbances . . .
>
> By a program, I mean a realistic plan to meet the fundamental requirements I have described. Perhaps you will accomplish this through adaptation of existing institutions. Perhaps you will find that new central institutions are needed."

This speech was followed by a resolution of the Council of O.E.E.C. on 2nd November 1949 regarding further measures of co-operation. In the preamble the Council

> "recognises that it may be desirable to provide for a closer monetary and economic association on a regional basis..."

and, in the text of the resolution, the Council decided, as regards intra-Europeans payments,

> "to widen the area of transferability of currencies among the member countries by suitable measures in the next intra-European payments scheme and by such additional arrangements and central institutions as may be appropriate to this end".

The current payments plan for 1949–50 will terminate after the operations in respect of the month of June 1950 and a further scheme must be provided to carry on from that date.

Progress on the elaboration of a European Payments Union has been fully reported in the world press and it is unnecessary here to follow the vicissitudes of the negotiations over the past six months; the committees of O.E.E.C., with the close co-operation of E.C.A., have examined in detail the various suggestions put forward and, by the end of May, their views had arrived at a point of crystallisation when progress could be reported by the Payments Committee to the Council of Ministers and by O.E.E.C. to the public.

Subject to final and detailed agreement on the whole scheme and to the approval of E.C.A., the participating countries were agreed on the following points:

(a) A European Payments Union would be formed by the participating countries to succeed the current payments scheme, which would come to an end after June 1950.

(b) The United Kingdom would be a full and ordinary member and technical provisions would be made to reconcile the existing sterling payments arrangements with the working of E.P.U.

(c) The E.P.U. would have at its disposal credit facilities in European currencies to be made available by those countries which, in the event, turned out to be net creditors in their current intra-European trade.

(d) The use of E.P.U. credit by a net debtor country would be associated with gold payments, although a first tranche would be without any obligation to make payment in gold. Similarly, credit granted by a net creditor country to E.P.U. would be accompanied by gold payments to that country.

(e) The E.P.U. would have at its disposal a working fund of free dollars provided by E.C.A. out of E.R.P. funds.

(f) The E.P.U. would operate largely by automatic rules drawn up in advance.

(g) Special supplementary assistance would be given at discretion to countries in particular difficulties.

Agreement had still, however, to be reached on a number of questions, of which the most important appeared to be the size of the borrowing and lending quotas, the overall relationship between credit and gold payments (and the rate of gold payments), the possible consolidation (and scale of repayment) of existing debts and the provisions for liquidation. In addition, important questions of commercial policy, concerning the rate of liberalisation and any right to discriminate, were raised, which needed settlement before a satisfactory scheme could be completed.

Whatever may be the final shape of E.P.U. it appears necessary for it to be built upon the existing mechanism in Europe and, at the request of O.E.E.C., the Bank for International Settlements has signified that it is agreeable in principle to perform the banking functions. The experience which the Bank has gained in this field derives from its having acted as Agent under six agreements (including the three separate Belgian loan agreements). In the twenty-eight months to the end of March 1950 a turnover equivalent

Turnover of operations
December 1947 to March 1950.

Form of agreement	Period	All operations
	months	millions of dollars
First Agreement for Multilateral Monetary Compensation for 1947–48	10	51
Agreement for Intra-European Payments and Compensations for 1948–49	9	781
Agreement for Intra-European Payments and Compensations for 1949–50*	9	600
Total . . .	28	1,432

* Up to March 1950 (including operations under Supplementary Protocol No. 2 of 31st March 1949 and the Belgian loan agreements).

to $1,432 million had passed through the Basle mechanism (in the form of compensations, drawing rights and loans), while a total of $1,172 million of conditional aid had been firmly allotted by the U.S. Economic Co-operation Administration to the participating countries at the request of the Agent.

In conclusion, it seems appropriate to stress the fact that regional agreements such as the suggested European Payments Union can only be useful if they constitute definite steps towards convertibility of currencies on a world-wide basis; steps such as the loosening of exchange and other restrictions, the liberalisation and multilateralisation of payments, with the gradual giving-up of bilateral arrangements and the strengthening of central-bank reserves, all tend in this direction.

It may be recalled that bilateral payments agreements and the bilateral pattern of trade which followed were in the nature of emergency measures to get trade moving at the conclusion of the war, while avoiding defaults and breakdowns due to the inadequate monetary reserves in the central banks. To get away from this bilateral pattern, it is essential to delve to the root of the problem which, now that the abnormal disequilibria in intra-European payments appear to have been removed, means the inadequate reserve position of many European countries and the need to strengthen these reserves, particularly in gold and dollars, so that temporary deficits may be met without strain. There are some who consider that this problem would be solved more quickly if American aid could be allocated specifically in "free dollars" (i.e. U.S. dollars not tied to any particular purchases of commodities) to increase central-bank reserves; but, as this has not been possible directly, it is important not to miss the opportunity afforded by E.R.P. to take this step indirectly, through the mechanism of the European Payments Union or otherwise.

Further, it should not be forgotten that, for western Europe (largely dependent as it is upon international trade) to attain a reasonable degree of viability in 1952, it must fit into an enduring world-wide pattern and its problems cannot be considered in isolation: the excessive sterling balances held by some extra-European countries, the migration of labour, U.S. tariff and customs procedure, the need for a substantial flow of funds for international investment, the export capacity of south-east Asia and continuing inflation in many parts of the world are amongst the relevant and closely interrelated problems which cannot be neglected.

X. Current Activities of the Bank.

1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1950, examined and certified by the auditors, is reproduced in Annex 1 to the present Report. As already explained on page 6, the balance sheet has been drawn up in a modified form, the assets and liabilities connected with the execution of the Hague Agreements having been segregated from the other items and put in a second section of the balance sheet.

The nature of the assets and liabilities arising from the execution of those Agreements was fully described on pp. 159–161 of the Bank's seventeenth Annual Report.

Briefly, it may be said that, in 1930–31, the Bank for International Settlements, acting in conformity with the New Plan and with the Trust Agreement which forms part of the Hague Agreements, intervened, to the full extent of the means furnished to it for the purpose, in order to prevent an interruption in German transfers. The Bank, in particular, utilised for investment in Germany the part of the annuities left at its disposal by the governments in accordance with the Trust Agreement (Minimum Deposits in the Annuity Trust Account), together with a fraction of its own funds.

The suspension of the payment of the annuities under the Young Plan, decided upon by the governments in July 1931 upon the proposal of President Hoover, together with subsequent events, has crystallised a situation in which the Bank is a creditor of Germany and the governments are creditors of the Bank within the terms of application of the Hague Agreements.

As the complete suspension of the Plan had naturally not been foreseen when the Hague Agreements were drawn up, there was the possibility that the new state of affairs might have given rise to differences of opinion regarding the extent and nature of the obligations falling upon the Bank.

In order to remove any uncertainty in these respects, the Bank, during the past financial year, approached the central banks and the governments of the countries concerned in order to find out whether an agreed interpretation of the obligations of the Bank could be obtained, by which the governments would recognise that they cannot, whatever settlement may ultimately be reached as regards the questions connected with the Hague Agreements, demand from the Bank, in respect of their claims on the Annuity Trust Account, the transfer of amounts greater than those of which the Bank can itself obtain reimbursement and transfer by Germany in currencies approved by the Bank.

The Bank has so far received confirmation of the approval of such a clarification from the Governments of France, Great Britain, Italy and

Belgium, which together hold 93 per cent. in value of the claims on the Annuity Trust Account, the agreement having accordingly entered into force as far as these governments are concerned.

That being the case, all the assets and liabilities arising from the execution of the Hague Agreements, which had already been grouped together in the statements for the three preceding years, now form a second section of the balance sheet, the total at 297,200,597.72 Swiss gold francs remaining unchanged.

The first section of the balance sheet comprises, on the assets side, in the first place, all the Bank's assets other than the investments made in Germany; and, secondly, a part of these latter investments which corresponds to the Bank's own funds invested in 1930–31 in execution of its obligations (namely 68,291,222.72 Swiss gold francs) — and, on the liabilities side, all the items other than the long-term deposits of the various governments. This side includes the provision for contingencies, which now amounts to 104,448,567.70 Swiss gold francs.

By this arrangement the position of the Bank both as regards the extent of its obligations and as regards its liquidity is clearly and adequately shown.

* * *

The method of conversion of the various currencies included in the balance sheet into Swiss gold francs is the same as that adopted in the preceding years; the conversion is based on the exchange rates quoted for the various currencies against dollars and the U.S. Treasury's official selling price for gold on the date of the closing of the Bank's accounts.

The total of the first section of the balance sheet amounts to 754,808,842.63 Swiss gold francs but, if last year's manner of presentation had been adopted, the balance-sheet total as on 31st March 1950 would have come to 983.7 million Swiss gold francs, against 722.5 million on 31st March 1949, there being an increase of 261.2 million Swiss gold francs during the financial year.

Although, in terms of Swiss gold francs, the book-value of certain assets and liabilities was reduced by the devaluations in the autumn of 1949, the reduction this time (in contrast to the adjustments brought about by the currency changes in 1931, 1933 and 1936) was a very slight one, amounting to only 8 million.

Furthermore, the deposits received by the Bank at short term and sight in currencies and in gold continued to increase, their total more than doubling in the course of the financial year.

The volume of operations effected by the Bank was increased to an even greater extent; it was about three times as large at the end of the financial year as at the beginning, and for the whole year the volume exceeded the figure for the financial year 1938–39 by more than a third.

The Bank has thus continued to play its part as an instrument for co-operation between central banks, the additional resources provided by the deposits of these banks enabling it, in its turn, to render them greater services. Apart from some exceptional cases involving only limited amounts, its operations are on a short-term basis; the Bank is therefore in a position to reconstitute its means of action, and to provide the counterpart, without delay and formalities, when operations are requested of it.

* * *

The total of the "earmarked" gold not included in the Bank's balance sheet had amounted to 169.5 million Swiss gold francs on 31st March 1949. In the months which followed, it registered a steady increase, reaching 310.4 million on 30th September. After various fluctuations, it decreased again to 255.2 million on 28th February 1950, and a large-scale repatriation reduced the figure still further, so that at the end of the financial year it stood at 193.1 million Swiss gold francs. As in the preceding financial year, a number of the Bank's correspondents let the proceeds of their currency conversions accumulate in the form of gold held under earmark, with a view to making larger shipments at some later date.

The general development of the Bank's monthly statement of account during the financial year under review can be outlined as follows.

The total, which had stood at 722.5 million Swiss gold francs on 31st March 1949, declined to 681.8 million on 30th April, but subsequently rose to 760.7 million on 31st August. A drop in September and October reduced it again to 724.7 million on 31st October, that is to say to approximately the level at which it had begun the financial year. From then onwards it increased steadily until the end of the financial year, when it would have reached 983.7 million if no alteration had been made in the manner of presentation of the balance sheet. The increase during the last five months therefore amounted to 259 million. During this same period the total of the deposits at short term and at sight — the items whose movements largely govern those of the total of the statement of account — rose from 239.9 million to 496.6 million, thus showing an increase of 256.7 million Swiss gold francs.

On 31st March 1949 an item "Bills rediscounted with the Bank's endorsement and guarantees given" was still shown at the bottom of the Bank's statement of account; it amounted to 4.4 million Swiss gold francs. This item was found at the reduced figure of 2.8 million at the end of April and the end of May 1949, after which it no longer appeared as the operations concerned had expired.

A. Assets.

The item "Gold in bars and coins" amounted to 150.8 million Swiss gold francs in the statement of account at 31st March 1949. After rising more or less steadily until it reached 182.8 million on 31st July, the total fell to its lowest level for the financial year, 142.6 million, on 31st October. From then onwards, it rose steadily, passing the 200 million mark during December and finishing the financial year at 267.6 million Swiss gold francs — the highest figure for the financial year and the absolute maximum since the establishment of the Bank. To a large extent the increase reflects the corresponding increase in deposits expressed in a weight of gold, the total for these deposits having risen from 21.7 million Swiss gold francs at the beginning of the financial year to an end-of-year figure of 96.8 million, that being likewise a maximum for accounts of this nature.

The figure shown in the statement of account does not include forward operations; if account is taken of them, it is found that the Bank's net stock of gold is actually larger than appears from the difference between assets and liabilities in gold shown in the statement of account. For purposes of comparison, the Bank's gold position on certain representative dates is shown in the following table, from which can also be seen the scale on which gold is employed for productive operations.

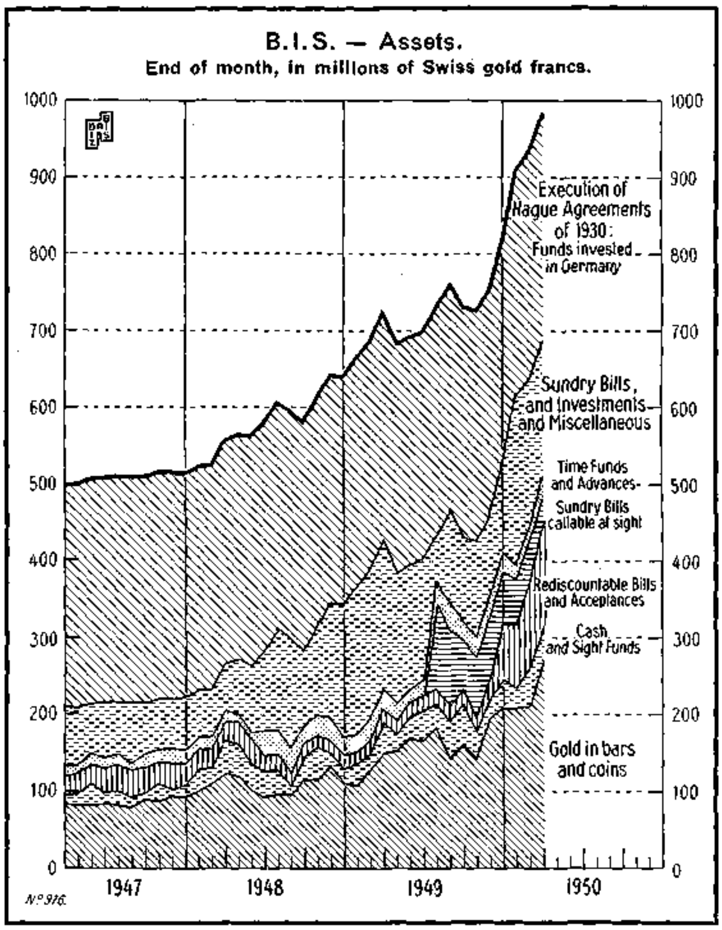
B.I.S.: Gold position.

Date	Gold in bars and coins	Gold deposits	Net stock of gold taking account of deposits only	Net stock of gold taking account of deposits and forward operations
	(figures from the statement of account)			
	in millions of Swiss gold francs			
1949 31st March . .	150.8	21.7	129.1	166.2
30th April . . .	153.0	17.3	135.7	153.0 (min.)
31st July . . .	182.8	13.4	169.4	183.8
31st August . .	142.7	12.8 (min.)	129.9	180.4
31st October. .	142.6 (min.)	13.9	128.7 (min.)	181.4
30th November	195.0	24.5	170.5	196.5 (max.)
1950 31st March . .	267.6 (max.)	96.8 (max.)	170.8 (max.)	188.4

The magnitude of the funds thus held in the form of gold distributed on various important markets enables the Bank to keep its exchange positions down to a minimum and also makes it easier for it to carry out the operations entrusted to it. But, apart from cases in which some of the gold is employed for productive operations, the large scale on which it is held keeps down the interest yield which otherwise could be earned on investments in currencies.

In the preceding Report it was pointed out that the Bank was experiencing difficulties in obtaining suitable short-term investments; this problem has become even more acute on account of the great abundance of funds available on the markets of such countries as the United States and Switzerland. For a number of reasons, the Bank is obliged to maintain a large working-fund in cash.

Cash on hand and on current account with banks, having amounted to 38.7 million Swiss gold francs on 31st March 1949, rose



to 49.8 million on 30th September. The total for this item never fell below 18.2 million Swiss gold francs, the end-of-November figure, and by 31st March 1950 it was back at 42.6 million. The average balance shown under this heading in the monthly statements of account for the period from 31st March 1949 to 31st March 1950 comes to about 33 million Swiss gold francs.

The Annual Report for the preceding financial year mentioned that cash held in Swiss francs accounted for less than 3 per cent. of total cash holdings on 31st March 1949, pratically the whole of the cash then on hand being held in dollars. On 31st March 1950 the proportion of cash holdings in Swiss francs had risen to 13 per cent. against 86 per cent. in dollars.

At the end of the financial year under review, gold and cash holdings, taken together, represented 41.1 per cent. of the total of the upper section of the statement of account, as against 38.4 per cent. on 31st March 1949 (the necessary adjustment being made in the balance sheet for purposes of comparison). Thus the proportion at the end of March 1950 was slightly larger than a year earlier.

Fluctuations in sight funds at interest were on a larger scale during the past financial year, a figure of 0.5 million Swiss gold francs on 31st March 1949 comparing with a maximum of 7.4 million registered on 31st May. On 31st March 1950 this item totalled 1.7 million Swiss gold francs, after having remained at a higher level during practically the whole of the intervening period.

There has been a considerable expansion of the rediscountable portfolio. On 31st March 1949, when this item totalled 17.7 million Swiss gold francs, the funds in question were distributed more or less equally between commercial bills and bankers' acceptances, on the one hand, and Treasury bills, on the other. After a slight rise, the total was still only 19.1 million on 30th September, the proportion of acceptances having become somewhat larger. An uninterrupted rise from then onwards brought the amount up to 73.4 million Swiss gold francs on 31st December and to 135.2 million on 31st March 1950. On the latter date, acceptances accounted for 32.2 million and Treasury bills for 103 million, both these amounts being maxima for the financial year.

The item "Sundry bills cashable on demand" has appeared in the Bank's statement of account since 31st July 1949, this heading having been introduced to cover assets which had previously been included among "Sundry bills and investments" but which, by reason of agreements concluded with some of the Bank's correspondents, have become investments immediately realisable if so desired by the Bank.

This new item, which amounted to 109.7 million Swiss gold francs on 31st July, subsequently fluctuated in both directions; but as from 30th November, when it stood at 82.1 million, there was a decline to the minimum of 31.3 million on 31st March 1950.

On the same date, the total of the Bank's liquid resources in gold and currencies amounted to 478.3 million Swiss gold francs, that is, to almost two-thirds of the total of the upper section of the balance sheet. The corresponding figure for 31st March 1949 had been 207.7 million. If the difference of 270 million between these two end-of-year totals is compared with the increase of 261 million in the total of the Bank's balance sheet, it is found that the fresh funds received by the Bank have all been placed in investments at call.

Fluctuations in time funds and advances were on a fairly small scale; rising from 26.6 million Swiss gold francs on 31st March 1949 to 32.2 million on 31st August — their maximum for the financial year — this item touched its lowest level, at 18.2 million, on 28th February 1950; at the end of the financial year it totalled 31.2 million.

The figure for sundry bills and investments, which on 31st March 1949 had amounted to 189.4 million Swiss gold francs, reached its minimum of 55.3 million on 31st July, after the segregation of the item "Sundry bills cashable on demand". The amount held in sundry bills and investments afterwards varied quite considerably, generally as a result of changes in the assets maturing within three months. For example, out of 215.6 million (the highest amount, reached on 31st January 1950), 193.6 million represented

B. I. S.: Time funds and sundry bills and investments

Period	31st March 1949	31st March 1950	Difference
	in millions of Swiss gold francs		
At less than 3 months	193.1	174.4	— 18.7
At 3 to 6 months	9.1	21.2	+ 12.1
At 9 to 12 months	1.1	—	— 1.1
At more than a year	12.7	11.0	— 1.7
	216.0	206.6	— 9.4

investments at less than three months. At the end of the financial year the total amounted to 175.5 million Swiss gold francs.

The movements of time funds and advances and of sundry bills and investments may be seen from the table, in which a comparison is made of their distribution at the beginning and at the end of the financial year.

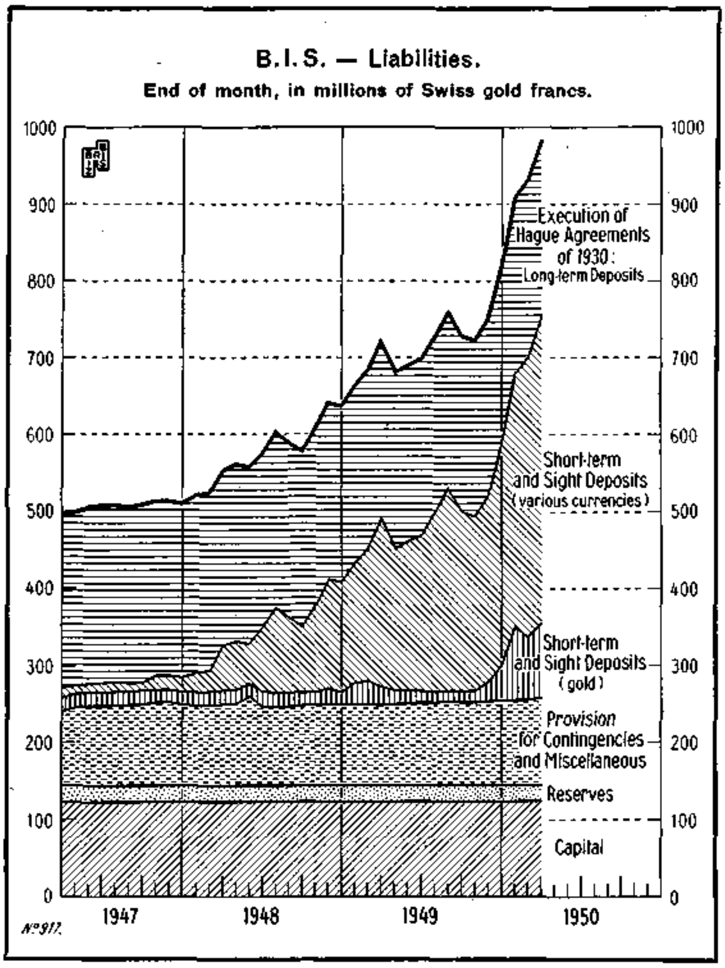
B. Liabilities.

There has been no change in the Bank's capital and reserves. The decisions of the Board (see below, under "Financial Results") have led to the appearance of a new item "Profit and Loss Account balance carried forward" amounting to 2.6 million Swiss gold francs and an increase of 3 million in the existing item "Provision for Contingencies", the total of the latter being 104.4 million Swiss gold francs on 31st March 1950. The item "Miscellaneous" amounted to 6.2 million on 31st March 1950, compared with 5.4 million on 31st March 1949.

As mentioned above, the short-term and sight deposits entrusted to the Bank, both in gold and in currencies, have increased considerably over recent years, as may be seen from the following table.

B. I. S.: Short-term and sight deposits.

Items	31st March 1946		31st March 1947		31st March 1948		31st March 1949		31st March 1950	
	in millions of Swiss gold francs									
Gold		17.0		18.1		17.7		21.6		96.8
Currencies:										
Central banks for their own account	3.7		8.1		48.4		218.9		373.5	
Central banks for the account of others	0.6		0.9		8.5		0.7		2.4	
Other depositors	0.4		0.6		0.5		0.6		23.9	
Total in currencies		4.7		9.6		57.4		220.2		399.8
Total in gold and currencies		21.7		27.7		75.1		241.8		496.6
Including:										
sight funds		21.4		23.8		50.5		93.1		132.2
short-term funds		0.3		3.9		24.6		148.7		364.4
Total		21.7		27.7		75.1		241.8		496.6



On 31st March 1949 the amount of deposits expressed in a weight of fine gold came to 21.6 million Swiss gold francs. It remained below this level in the following months, reaching a minimum of 12.8 million on 31st August; on 31st October it stood at 13.9 million and from then onwards it rose steadily — apart from a decline in February — to 96.8 million Swiss gold francs at the end of the financial year, this being the highest figure ever registered since this particular kind of account was introduced in June 1933. With the exception of a small amount, these accounts are all at sight.

The expansion which has occurred in these accounts is connected with the increased volume of gold operations effected by the Bank, certain amounts in the accounts in question being in the nature of temporary entries. As the Bank's correspondents have had occasion to appreciate the specific advantages of the machinery provided by these accounts, they have begun to make a more consistent use of them.

The short-term and sight deposits in various currencies, which totalled 220.2 million on 31st March 1949, had declined to their minimum for the financial year, namely 183.2 million, on 30th April. From October onwards they increased steadily up to their maximum of 399.8 million on 31st March 1950. Such a level had not been reached since 31st March 1933, that is to say, before the adjustment in the exchange value of the dollar.

The preference for time deposits, which had already been noticeable during the preceding financial year, became still more marked during the financial year which has just closed, as may be seen from a comparison between deposits in currencies on 31st March 1949 and 31st March 1950.

B.I.S.: Deposits in currencies.

Nature of deposits	31st March 1949	31st March 1950
	In millions of Swiss gold francs	
Sight	71.7	35.6
Short-term	148.5	364.2
Total	220.2	399.8

Whereas at the beginning of the financial year about one-third of all deposits received consisted of funds at sight, the proportion had fallen to less than one-tenth by 31st March 1950, when the total of deposits at sight was barely one-half of the initial figure. With the present deposit structure, the Bank is obviously able to make a better distribution of its means of action, more especially as regards the granting of temporary cash facilities and other credits to central banks.

Admittedly, fluctuations in deposits tend to become greater as the deposits themselves increase; some of the deposits are, moreover, the result of short-term operations, normally disappearing from the Bank's balance sheet once the operations giving rise to them have been terminated.

Gold operations continued to expand appreciably during the financial year, an increasing number of central banks having used the Bank as their intermediary in this line of operations. The volume of purchases, sales and exchanges was more than twice as large as the corresponding figure for the preceding financial year. Transactions in the form of swaps, with a combination of spot and forward operations, accounted for approximately a third of the purchases and sales — an indication of the importance of this type of transaction. The various transactions have been arranged on the basis of the official prices fixed by the central banks concerned.

The maintenance of a large stock of gold for its own account has had the effect of reducing the Bank's current earnings (as explained on page 227 above), but it has enabled the Bank to intervene more promptly and effectively whenever a request was made to it. Moreover, such alterations as have been made in the distribution of the gold stock have, to a large extent, been effected by means of exchange operations with central banks.

In conclusion, it may be noted that the Bank has continued to lend technical assistance to other international institutions. It has, in particular, co-operated with the International Bank for Reconstruction and Development in raising funds on the Swiss market and in other ways. It is becoming increasingly evident that there is really a quite clear division of functions as to the types of operations handled and other tasks assumed by the different international institutions in the financial field.

2. Intra-European Payments Scheme.

The Agreement for Intra-European Payments and Compensations for 1948–49 was superseded by the new Agreement for 1949–50, signed on 7th September 1949 by representatives of the Governments of Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey and the United Kingdom, the Commanders-in-Chief of the French, United Kingdom and United States Zones of Occupation of Germany and the Commander of the British/United States Zone of the Free Territory of Trieste. (The texts of the Agreement and of other relevant documents are annexed to this Report and a full description of the working of the Agreement is given in Chapter IX).

The Council of the Organisation for European Economic Co-operation had already requested the Bank for International Settlements to act as Agent for the purposes of the Agreement for 1948–49 and the Bank continued to act as Agent under the new Agreement. In accepting the invitation to become Agent, the Bank made it a condition that its duties under the Agreement should be of a purely technical nature and without political implications of any kind. As a contribution to European co-operation the Bank offered to render its services without any profit or commission on the transactions it carries through; the Bank only has its out-of-pocket expenses reimbursed by the Organisation. The Bank also agreed to act on similar conditions as Agent under the Belgian loan agreements (with France, the Netherlands and the United Kingdom), these loan agreements running parallel with the Agreement for Intra-European Payments and Compensations for 1949–50.

The expenses of the Bank as Agent for O.E.E.C. amounted to Sw.fcs 240,300 in the nine months of the Agreement for 1948–49 to June 1949 and Sw.fcs 317,600 in the nine months of the Agreement for 1949–50 to March 1950 (together equivalent to, say, $130,000), and these amounts have been duly reimbursed by the Organisation. As the turnover of operations under the agreements amounted to the equivalent of $1,380 million up to the end of March 1950, the expenses of the Agent have remained at less than one-tenth of one per mille (0.01 per cent.) of the turnover of operations carried out.

The authorisations accorded to the Bank by the contracting parties in order to give effect to the Agreement for 1948–49 have been extended to the provisions of the new Agreement for 1949–50.

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.

The Bank, as Trustee for the German Government International 5½ per cent. Loan 1930 and the Austrian Government International Loan 1930, has taken, since the end of the war, all practicable steps within its competence to draw the attention of the parties concerned to the rights of the bondholders of these loans, with a view to safeguarding those rights. During the financial year which has just come to a close, further similar steps have been taken with respect to the German Government loan mentioned above.

Under an agreement dated 1st March 1950, between the International Bank for Reconstruction and Development and the Bank for International Settlements, the latter acts as Paying Agent for the payment of the principal of and interest on the 2½ per cent. Swiss Franc Serial Bonds of 1948 and 1950 of the International Bank for Reconstruction and Development. Provision is made in the agreement itself for its subsequent extension to cover other issues of bonds.

4. Financial Results.

The accounts for the twentieth financial year ended 31st March 1950 show a surplus, including net exchange gains, of 6,027,272.95 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 ... gramme of fine gold. This compares with a surplus of 5,101,855.91 Swiss gold francs for the nineteenth financial year. It should, however, be emphasised, as in previous Annual Reports, that wider fluctuations are to be expected in the financial results achieved from year to year than was formerly the case, owing to the fact that the income of the Bank is now derived to a much smaller extent from interest on investments and in a much larger measure from receipts arising from various banking operations.

For the purpose of the Balance Sheet as at 31st March 1950, 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.

With regard to the surplus of 6,027,272.95 Swiss gold francs for the financial year ended 31st March 1950, the Board of Directors has decided that it is necessary to transfer 400,000 Swiss gold francs to the account for exceptional costs of administration and 3,000,000 Swiss gold francs to the provision for contingencies and that the balance of 2,627,272.95 Swiss gold francs should be carried forward. The surplus for the previous financial year ended 31st March 1949 was transferred, as to 300,000 Swiss gold francs, to the account for exceptional costs of administration, and as to the remainder, of 4,801,855.91, to the provision for contingencies.

After the transfer of 3,000,000 Swiss gold francs from the surplus for the financial year just closed, the provision for contingencies amounts to 104,448,567.70 Swiss gold francs.

The accounts of the Bank and its twentieth 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.

During the past year, the following changes have taken place in the composition of the Board of Directors.

At its meeting held on 13th June 1949, the Board decided to re-elect, under Article 39 of the Statutes, Monsieur Maurice Frère as Chairman of the Board and President of the Bank, for a period of three years with effect from 1st July 1949.

It was decided at the same meeting to re-elect, under Article 39 of the Statutes, Sir Otto Niemeyer, Vice-Chairman of the Board of Directors, for a period of three years with effect from 9th December 1949.

The term of office, as a Director, of Prof. Dr. Paul Keller, President of the Direktorium of the Swiss National Bank, having expired on 31st March 1950, the Board, at its meeting held on 3rd April 1950, decided to re-elect Prof. Keller, under Article 28 (3) of the Statutes, for a period of three years, ending 31st March 1953.

The ex-officio Directors, acting in application of the terms of Article 28, clause 2, § 3 of the Statutes, decided to invite Dr Wilhelm Vocke, President of the Direktorium of the Bank deutscher Länder, to become a member of the Board. Dr Vocke joined the Board on 1st April 1950.

* * *

The Board learned with the greatest regret of the death, on 4th February 1950, of Lord Norman, who had been Governor of the Bank of England from 1920 to 1944 and an ex-officio Director of the Bank for International Settlements from its foundation until his retirement from the Bank of England. Lord Norman had always attached great importance to close relations between central banks. He gave untiring support to the Bank for International Settlements.

* * *

At its meeting held on 13th June 1949, the Board decided to re-appoint Monsieur Roger Auboin, General Manager of the Bank, as Alternate of the President, his term of office as Alternate to correspond to that of Monsieur Maurice Frère as President.

* * *

Monsieur Georges Royot, previously Secretary of the Banking Department, has been appointed to be a Sub-Manager in that Department.

Conclusion.

The year 1949 presents a curiously woven web of fears, troubles and solid achievements. The fears have not been groundless: apart from the political anxiety, whose influence on business could easily be overrated, there have been at least three very difficult adjustments which have had to be faced: a 30 per cent. fall in the prices of primary products on world markets, a business recession in the United States which brought the index for industrial production down by 17 per cent. between November 1948 and July 1949, and devaluations of currencies in countries responsible for two-thirds of world trade. Each of these adjustments might have caused a host of troubles; but by the end of the year any nervousness had been overcome and had given place to a feeling that one more stage had been passed in the task of reconstruction. It seems, indeed, a very real achievement that these three hurdles were taken with so little disturbance to the more fundamental line of improvement. Unruffled by these and other upsets, production in Europe continued to advance at the high rate of over 6 per cent. per annum and agricultural output regained its pre-war level; budget deficits had no longer to be met by inflationary financing and the deficits in the balances of payments were compressed; with the exception of two or three countries in special circumstances, employment remained at high levels.

With all this went a steady liberation from the shackles of wartime controls, which found its expression in courageous decisions by the O.E.E.C. Council in Paris to liberalise trade as part of the European Recovery Program. The same spirit was at work in each particular country, irrespective of the political régime in power, rationing being lifted, more and more prices being freed from control, foreign travel being facilitated and greater possibilities granted for the transfer of money, a number of currencies becoming practically convertible under conditions which permitted a certain increase of monetary reserves — in short, restrictions were eased in almost every field. Increased supplies from domestic production and imports of foreign goods have provided the basis for these measures of liberation, with a psychological background in a revolt by the peoples themselves against controls and rationing. It seems certain that, barring any grave calamity, there will be no turning back to the system of controls, now disappearing from land to land.

This attitude of the people, which springs from ten years' experience of government supervision, has some important consequences. In the first place, it is no longer possible to contemplate solutions to current problems which would involve an intensification of the system of physical controls. While the war lasted, no country could avoid doses of inflation to mobilise the resources required in a national emergency, and it was then not only natural but essential that physical controls should be imposed in order to make the redundant supply of money as innocuous as possible. But it is characteristic of a wartime economy that it eats into the accumulated assets of the past and thus represents the reverse of economic progress. It would be an illusion to think that similar methods could usefully be employed in peacetime; attempts to replace an insufficient flow of genuine savings by some process of artificial credit expansion, or eternally to keep down rates of interest by a systematic open-market policy, will only produce a state of excessive liquidity in which the artificial addition to domestic demand will tend to increase imports and impair the flow of exports. The result will be a persistent deficit in the balance of payments, which has to be met by real resources — through assistance from abroad or as a charge on the country's own reserves. The great drawback involved by such practices is that no natural balance will be reached, so that one critical situation after another will arise. It may be possible by a succession of expedients to put off the attack on the real problems for a time; but these problems will remain, and one day a halt will have to be called to the continuance of excessive investments, the creation of artificial income and reliance on foreign aid. In these respects, progress has been achieved but there are still economies with difficult adjustments to make. And, when it comes to determining the possible volume of investments, it must not be taken for granted that a budget surplus achieved by heavy taxation will always produce an addition to the flow of savings; for there is clearly the risk of a reduction in private savings — and then the ultimate effect may be a deadening of initiative and enterprise.

Were it possible to impose a full measure of control, including administrative direction of labour, a system might be constructed which would be self-consistent and could thus be made to work without internal contradictions. But the kind of piecemeal intervention which has been in vogue in so many countries since the war has failed to afford any general guidance and it seems a sorry misnomer to refer to it as "planning".

The disappearance of physical controls in no way implies that the authorities should remain passive in the face of all the problems which wait for solution. There are still important means of action available to them: it has become increasingly clear that a proper distribution of resources between home and foreign markets can be carried out through the working of the monetary mechanism and that a free and trusted currency will lead to an increase of genuine savings, furnishing the funds for further investments. Once money has been made sufficiently scarce in relation to available supplies, a multitude of troubles and problems vanish almost of their own accord; the more freely money can be used, the more readily will it be kept. There is in our generation a great and understandable striving for security; let it be remembered that monetary security is a most valuable kind of security, benefiting all members of society and very highly appreciated by those who have once lost it. It would be a great misfortune if after all the difficulties overcome in recent years — often at the cost of considerable sacrifices — there should be a failure to take the further steps necessary to consolidate the progress already made and to prepare the way for new advances. In this respect, the year 1950, the mid-term of Marshall aid, is of outstanding importance, the wartime shortages having been overcome and exchange rates having been more generally adjusted to what may become their permanent levels.

Fortunately, there is now a much greater understanding of the inescapable connection between internal financial policies and the outcome of balances of payments, and also of the fact that exchange and trade restrictions may well curtail imports and yet fail to improve the foreign position (since the purchasing power which they confine to the home market absorbs goods otherwise available for export) and that in any case they tend to repel any voluntary influx of funds. There is certainly a growing lack of belief that physical controls can master the problems either of domestic trade or of the balance of payments, while it is the peculiar quality of freely functioning markets that they naturally tend to produce equilibrium and may be found to do so at less cost to the individual consumer and to society — provided, of course, that the more basic problems of economic balance have not been left in abeyance.

When it is asked what will happen at the end of the Marshall Plan the immediate answer is clearly that much depends on what is done in the remaining period of Marshall aid. Here it is only possible to point to a few of the main tasks:

(i) It was heavy government expenditure that provoked the war and post-war inflations and, though much has been done towards discarding inflationary methods of financing, the present level of public expenditure in many countries is still very high in relation to the national income, thus placing a most heavy burden on economic enterprise and drying up the flow of personal savings. There are deficits to be covered in railway administrations, heavy charges in various branches of the central and local governments, and investment programmes essentially dependent on foreign aid. To overhaul the whole apparatus of public expenditure and revenue is a task that may have to be approached in different ways in different countries but can be neglected in none.

(ii) Few are the centres in which the money and capital markets are as yet in regular working order. There is a general move towards flexibility of interest rates; it has been encouraging to find how often relatively small changes in interest rates have been sufficient to exert a considerable influence in the market, proving themselves very helpful towards a return to equilibrium. But a capital market must be able to count on a steady supply of fresh savings. In this field, too, it is necessary to examine what are the main objectives in view and to establish an order of priority; among the most essential immediate tasks is that of putting the monetary machinery itself into working order, which also requires a reconstitution of monetary reserves.

(iii) In the industrial sphere attention must not be focused exclusively on the volume of investments, forgetting the fact that efficiency is very largely the result of employing appropriate methods at the different stages of the production process, it being possible for relatively small firms to fill a useful place side by side with the large concerns. With the disappearance of sellers' markets, each manufacturer must be more than ever concerned to produce what the buyer, now free to choose, actually wants — and this involves problems which can hardly be solved without constant attention to the shifting trends of free markets. Moreover, it is obvious that the best protection for the consumer against too heavy charges is greater freedom for imports, it being therefore necessary to synchronise the abolition of price control with liberation of foreign trade.

(iv) Much valuable experience has been gained as to the methods of affording greater latitude for foreign payments: it has proved possible and useful to proceed step by step, beginning with a greater freedom of movement for bank-notes and progressing until free exchange markets have been re-established.

(v) In the economic field there are several problems of a more international character which go beyond the possibilities of action by individual countries. Some of these are being considered by the O.E.E.C. organisation in Paris and the United Nations Economic Commission in Geneva; others are of even wider scope for a Europe vitally dependent on obtaining foodstuffs and raw materials in trade with overseas countries and an additional supply of dollars through indirect trade. In order that competitive sellers from European as well as other countries may give of their best, an expanding world market is required, and it is difficult to see how such a result can be attained without an increased outlet in the United States for more manufactured goods.

(vi) Another problem in the international field concerns the settlement of liabilities affecting the balances of payments. After the first world war, many illusions were entertained as to the amounts that could be transferred between different countries and continents, the neglect of economic realities being one of the factors contributing to the severity of the ensuing depression. It is officially recognised that certain similar questions now before us need further study and it can only be hoped that this time they will be arranged in a way that does not unsettle the world economy.

Europe has made considerable progress towards equilibrium in its balance of payments, the overall deficit on current account being reduced from \$7.4 milliard in 1947 to \$2.9 milliard in 1949. It is true that there is still a considerable deficit in the direct balance with the United States, recent progress being rather in relation to Latin America and south-eastern Asia. But Europe has a vital interest in regaining its old markets and resuming the traditional pattern of trade which, built up in the course of a hundred years, may be taken to reflect the deep-seated needs of many economies. Such a return to tradition, however, requires the proviso that sales should be made increasingly in free markets, with settlements in internationally recognised means of payment.

* * *

To have to adapt the currents of commerce to compartments coinciding with particular currency areas or established by bilateral arrangements, or to grant credits and loans with the proceeds tied to purchases in specified countries, can only lead to a distortion of foreign trade and payments; and, in order to get away from such pernicious influences, progress must be made along the road to multilateralism and convertibility. It was generally recognised at the end of the second world war that the restoration of convertibility should be regarded as one of the more immediate aims of post-war policy. It may be that, in influential circles, there was too great a tendency to force the pace in the first few years, and that the setbacks which were suffered produced a rather hesitant state of mind. But, in view of the importance of unhampered and all-round trade for the nations of Europe, convertibility must be regarded not as a distant goal to be reached within a decade or two but as a primary objective to be attained within the few remaining years of Marshall aid, under conditions which, though different from those of twenty years ago, may hold out the hope of enduring settlements in an atmosphere of unquestioned monetary stability.

Respectfully submitted,

ROGER AUBOIN

General Manager.

AGREEMENTS
for INTRA-EUROPEAN PAYMENTS and COMPENSATIONS

DECISION of the COUNCIL of O.E.E.C. on the Drawing Right established by the UNITED KINGDOM in favour of GREECE under the Agreement for Intra-European Payments and Compensations of 16th October 1948

(taken by the Council at its 65th Meeting, on **4th July 1949**).

The Council,

Considering the Agreement for Intra-European Payments and Compensations dated 16th October 1948,

APPROVES: The agreement reached on the 29th June 1949 between the Government of the United Kingdom and the Government of Greece which provides that the United Kingdom shall grant Greece an additional drawing right equivalent to U.S. $ 14 million under the Agreement for Intra-European Payments and Compensations of 16th October 1948;

DECIDES: That this additional amount of drawing right shall be made available and used in accordance with the provisions of the payments agreement on the same terms as if this amount was added to the sum equivalent to U.S. $ 10 million being the drawing right established by the United Kingdom in favour of Greece in Annex C, Table III, of the above-mentioned Agreement;

RECOMMENDS: That the U.S. Economic Co-operation Administration make such arrangements as may be necessary for the allocation of the conditional aid entailed by the utilisation of this additional drawing right.

Paris, 4th July 1949.

DECISION of the COUNCIL of O.E.E.C. dated 29th July 1949 concerning the application of the intra-European payments scheme to operations for July 1949.

The Council,

Having regard to the Council Decision of 2nd July 1949 concerning the Intra-European Payments Scheme for the year 1949–50 (reference C(49)94);

Considering that the provisions of the Agreement for Intra-European Payments and Compensations of 16th October 1948 ceased to apply upon the completion of the operations for the month of June 1949; and

Considering that a new agreement cannot be concluded before 31st July 1949;

DECIDES: 1. Currency compensations for the month of July 1949 shall be carried out in accordance with the provisions of the said Agreement of 16th October 1948 and the Directives adopted by the Council at the same date, subject, however, to the provisions of paragraph 2 below.

2. The compensations provided for in paragraph 1 which require the use of the balance of an account kept by, or in the name of, the Central Bank of Portugal shall be applied without the prior consent of Members.

3. This Decision does not in any way authorise or require that amounts of currency in respect of drawing rights be made available or used.

Paris, 29th July 1949.

AGREEMENT
for INTRA-EUROPEAN PAYMENTS and COMPENSATIONS
for 1949-50.

Paris, 7th September 1949.

The Governments of Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey and the United Kingdom; the Commanders-in-Chief of the French, United Kingdom and United States Zones of Occupation of Germany; and the Commander of the British/United States Zone of the Free Territory of Trieste;

CONSIDERING that a payments and compensations scheme was established for 1948–49 by the Agreement for Intra-European Payments and Compensations signed in Paris on 16th October 1948;

CONSIDERING that Article 25 of the said Agreement provided that the Contracting Parties would consider whether it should be continued;

DESIRING to continue the payments and compensations scheme with such modifications as appear necessary, particularly with a view to moving forward towards the liberalisation of intra-European trade and payments as envisaged in Article 4 of the Convention for European Economic Co-operation signed in Paris on 16th April, 1948;

HAVING REGARD to the adoption on 2nd September 1949 of a Resolution of the Council of the Organisation for European Economic Co-operation (hereinafter referred to as the "Council") approving the text of the present Agreement; recommending it to the Members of the Organisation for European Economic Co-operation (hereinafter referred to as the "Organisation") for signature, and providing that the Organisation should assume the functions envisaged under the present Agreement as from the date from which it will apply; and

HAVING REGARD to the adoption on 31st August 1949 of a Recommendation by the Council relating to the Distribution of American Aid for 1949–50:

HAVE AGREED as follows:

PART I

General Provisions

Article 1 — (a) The Contracting Parties shall carry out, in accordance with the provisions of the present Agreement, operations which shall consist of currency compensations and the use of drawing rights (hereinafter referred to as "operations").

(b) Operations are intended to facilitate transactions which the Contracting Parties may at any time allow in accordance with their respective transfer policies and with the terms of their payments agreements.

Article 2 — The Bank for International Settlements, acting in accordance with the agreement made between the Organisation and the Bank in pursuance of the Decision adopted by the Council on 10th September 1948, shall be the Agent for the operations.

Article 3 — (a) Operations shall take place each month and in accordance with the directives issued by the Organisation for the application of the present Agreement (hereinafter referred to as the "Directives").

(b) The Agent shall submit, in accordance with the Directives, monthly reports to the Organisation.

Article 4 — (a) Whenever a gold or foreign currency settlement falls due in the course of any month under a payments agreement between any two Contracting Parties, the settlement shall be postponed until after the operations in respect of that month.

(b) Any settlement in gold or foreign currency which shall remain due after the operations in respect of that month shall then be effected immediately. Any such settlement shall be reported to the Agent and the Organisation by the Contracting Party which makes the settlement.

(c) Nothing in the provisions of this Article shall preclude a Contracting Party in favour of which a settlement is to be made from making different provisions by agreement with another Contracting Party, if, owing to the operation of this Article, a credit margin granted by the former to the latter is being continuously exceeded.

Article 5 — (a) The balances available for operations shall be the balances of accounts kept by a central bank in the name of other central banks.

(b) For the purposes of the present Agreement, central banks shall be the central banks or other monetary authorities designated by the Contracting Parties.

(c) Each Contracting Party undertakes not to cause abnormal balances in the currencies of other Contracting Parties to be held by banks other than central banks or otherwise to place such balances so that they will not be available for the purpose of operations.

Article 6 — (a) The balances to be used in compensations in respect of any month shall be calculated in accordance with the Directives.

(b) When calculating the balances to be used in compensations, the Agent may exclude certain amounts in accordance with the provisions of Annex A.

(c) No amount excluded under paragraph (b) of this Article from the compensations in respect of any month shall be included, by the Contracting Party requesting the exclusion, in the calculation for the purpose of any settlement in gold or foreign currency which would be due to that Contracting Party under a payments agreement and which might follow immediately after the operations in respect of that month. However, this provision shall not apply in the case of amounts earmarked by a creditor under Section I (e) of Annex A for the repurchase of gold or foreign currency transferred to a debtor.

Article 7 — The monthly deficit of each Contracting Party with any other Contracting Party shall be calculated in accordance with the Directives.

Article 8 — (a) Each Contracting Party shall communicate to the Agent:

(i) All information necessary to enable the Agent to have a clear understanding of the nature and operation of its payments agreements with other Contracting Parties;

(ii) A monthly statement of the balances available for operations and the amounts excluded from the compensations;

(iii) A monthly report giving a single rate of exchange agreed with each other Contracting Party at which the Contracting Party reporting is prepared for operations to take place;

(iv) A monthly statement of settlements in gold or foreign currency made during the month by that Contracting Party to other Contracting Parties;

(v) Such information as will enable the Agent to ascertain the amounts of currency in respect of drawing rights which may be used; and

(vi) Such further information as may be required by the Agent for the performance of his task.

(b) In the case of Contracting Parties without a unified cross-rate structure, the balances and rates of exchange reported under sub-paragraphs (ii) and (iii) of paragraph (a) of this Article shall be determined in accordance with the provisions of Annex B.

Article 9 — If a Contracting Party, in placing information at the disposal of the Agent for the purposes of the present Agreement, intimates that it desires the information to be treated as confidential, because the information has not been published by it, the Agent shall have due regard to the intimation in making use of the information.

PART II

Compensations

Article 10 — (a) Compensations shall be first and second-category compensations.

(b) A first-category compensation means a compensation which results for any Contracting Party in a decrease in one or more debit balances against an equivalent decrease in one or more credit balances.

(c) A second-category compensation means a compensation which results in the increase of a balance or the formation of a new balance in comparison with the position before the compensation.

Article 11 — (a) First-category compensations shall be applied without the prior consent of the Contracting Parties.

(b) Second-category compensations shall require the prior consent of the Contracting Parties directly concerned in each second-category compensation.

(c) In arranging second-category compensations the Agent shall endeavour to facilitate those compensations which will ease the most difficult relationships, bearing particularly in mind the desirability of avoiding so far as possible settlements between Contracting Parties in gold or foreign currencies and interruptions in trade or payments.

(d) The Contracting Parties, while not binding themselves to accept second-category compensations, intend to co-operate fully in facilitating any reasonable propositions made to them by the Agent, having regard to all the circumstances concerning such compensations.

Article 12 — Notwithstanding the provisions of Article 11,

(a) the Organisation may decide that certain classes of second-category compensations shall be applied without the prior consent of the Contracting Parties; and

(b) any Contracting Party may inform the Agent that it is prepared to accept, without its prior consent, certain classes of second-category compensations not covered by paragraph (a) of this Article, which may be arranged by the Agent.

Article 13 — The Organisation may decide that the monthly deficits shall be used in compensations on such conditions as it may determine.

Article 14 — (a) Any compensation which requires the use of the balance of any account kept by, or in the name of, the Central Bank of Switzerland shall be subject to the prior consent of Switzerland and the other Contracting Parties in question.

(b) Subject to approval by the Organisation, the Government of Switzerland may, at any time, decide to accept without its prior consent all or any classes of compensations which are applied under the present Agreement without the prior consent of the Contracting Parties. Upon such approval, the provisions of paragraph (a) of this Article shall cease to apply to Switzerland and to the other Contracting Parties in question.

PART III

Drawing Rights

Article 15 — (a) Drawing rights, within the meaning of the present Agreement, shall be bilateral and multilateral drawing rights.

(b) Each Contracting Party shown as a creditor in Table II of Annex C (referred to as a "creditor" in the present Agreement) shall establish bilateral drawing rights in favour of each Contracting Party shown in Table II of the said Annex as a debtor with regard to it (referred to as a "debtor" in the present Agreement). The amount of bilateral drawing rights established by each creditor in favour of each of its debtors is shown in Table II of Annex C.

(c) Multilateral drawing rights shall be established in favour of each debtor. The amount of multilateral drawing rights established in favour of each debtor is shown in Table II of Annex C.

Article 16 — Drawing rights established in favour of a debtor shall be made available and used in accordance with the provisions of the present Agreement in order to offset,

(i) in the case of bilateral drawing rights, the whole or part of its monthly deficits with the creditor by which the drawing rights have been established; and

(ii) in the case of multilateral drawing rights, the whole or part of its monthly deficits with any Contracting Party.

Article 17 — (a) Subject to the provisions of paragraph (b) of this Article, amounts of currency in respect of drawing rights (hereinafter referred to as "amounts of currency") shall be made available in the currency of the Contracting Party making them available, or, if another currency is normally used for payments between that Contracting Party and another Contracting Party, in that currency. Each Contracting Party shall, not later than 10th September 1949, report to the Agent the currencies in which it will make drawing rights available in accordance with this paragraph.

(b) Any two Contracting Parties may agree that amounts of currency shall be made available in a currency different from the currency in which they would otherwise be made available under paragraph (a) of this Article. A report on any such agreement shall be given by the two Contracting Parties to the Agent not later than 10th September 1949.

(c) An agreement between two Contracting Parties under paragraph (b) of this Article shall not prevent them from subsequently making an agreement that amounts of currency shall be made available either in the currency of one of them or in a currency which, at the time of the subsequent agreement, is normally used for payments between them. Immediately after any such subsequent agreement, the two Contracting Parties shall make a report thereon to the Agent.

Article 18 — (a) Amounts of currency shall be made available to the Agent immediately upon request by him, provided that a Contracting Party shall not be required to make amounts of currency available to the Agent earlier than the time at which equivalent amounts of conditional aid are firmly allotted to it.

(b) Conditional aid within the meaning of the Agreement signifies:

(i) the United States dollar value of goods and services to be provided by the United States Economic Co-operation Administration for the purposes of the present Agreement to those Contracting Parties which make equivalent amounts of currency available; or

(ii) in accordance with special arrangements, the aid to be allotted in any other manner by the United States Economic Co-operation Administration for the purposes of the present Agreement.

(c) No debtor shall be obliged to repay to a Contracting Party any amount of currency made available by that Contracting Party, if that Contracting Party has received an equivalent amount of conditional aid to which no obligation to repay is attached.

Article 19 — Requests under Article 18 in respect of the drawing rights established in favour of a debtor shall not be made to a Contracting Party before:

(i) the agreed existing resources of the debtor in relation to that Contracting Party, as set out in Annex C, have been exhausted; and

(ii) where an agreement between any two Contracting Parties on the disposal of unused drawing rights established by one of these Contracting Parties in favour of the other Contracting Party under the Agreement for Intra-European Payments and Compensations signed on 16th October 1948 has been made, the remaining amount of such drawing rights shall have been used, provided that the agreement between the two Contracting Parties provides for such use and has been approved by the Organisation in accordance with Article 39; and

(iii) in the case of multilateral drawing rights, the total amount of bilateral drawing rights, if any, established by that Contracting Party in favour of that debtor shall have been used.

Article 20 — (a) Requests under Article 18 shall be made to Belgium only up to a total amount equivalent to 352.5 million United States dollars.

(b) Requests under Article 18 in respect of multilateral drawing rights established in favour of France, Netherlands and the United Kingdom, when made to Belgium, shall be made in accordance with the provisions of Agreements concluded by these four countries in accordance with the Decision of the Council of 2nd July 1949 concerning the intra-European payments scheme.

Article 21 — (a) Subject to the provisions of paragraph (b) of this Article, amounts of currency shall be used by the Agent without the prior consent of the Contracting Parties.

(b) In the following cases amounts of currency in respect of multilateral drawing rights established in favour of a debtor shall be used only at the request of that debtor:

(i) to offset the whole or part of its monthly deficit with any Contracting Party which has not established bilateral drawing rights in its favour; or

(ii) subject to the special provisions contained in the Agreements referred to in Article 20 (b), to offset the whole or part of its monthly deficit with a creditor to the extent to which the total of the amounts so used exceeds a third of the amount of bilateral drawing rights established by the latter in favour of the debtor at the signature of the present Agreement.

Article 22 — The Agent shall use in operations amounts of currencies, made available under this Part of the present Agreement, in accordance with the following provisions:

(a) The Agent shall be entitled to use in any month an amount in respect of drawing rights established in favour of a debtor up to the total of each monthly deficit between that debtor and any other Contracting Party;

(b) If in any month an amount is not made available as a result of the operation of paragraph (a) of Article 18, the whole or part of that amount, when it becomes available, may be used by the Agent in any subsequent month in addition to the amount which he may use under paragraph (a) of this Article;

(c) The amounts of currency in respect of bilateral drawing rights which the Agent is entitled to use under this Article, to the extent to which as a result of compensations they are not required to offset monthly deficits in accordance with Article 16, shall be considered for the purposes of the present Agreement as credit balances to be used in compensations.

Article 23 — (a) The Agent may, at the request of a debtor, use amounts of currency in respect of bilateral drawing rights established in its favour which are additional to those which might be used under Article 22:

(i) if such use results in avoiding a settlement in gold or foreign currency by the debtor in favour of the creditor by which the drawing rights are established; or

(ii) in accordance with the provisions of paragraph (b) of this Article, in exceptional cases in which the resources of the debtor would be otherwise inadequate to permit normal trade between the debtor and the creditor, and up to 15% of the amount of bilateral drawing rights established by the creditor in favour of the debtor.

(b) The Agent may use additional amounts under sub-paragraph (ii) of paragraph (a) of this Article only with the prior consent of the creditor and only in operations in respect of the first two calendar months following the signature of the present Agreement. However, if the creditor does not give its consent, the debtor may refer to the Organisation and, if the Organisation approves the request made, the Agent may use the additional amounts in operations relating to the month in the course of which the approval of the Organisation is granted.

(c) In any case in which the Agent uses additional amounts under sub-paragraph (ii) of paragraph (a) of this Article, the Organisation may decide that the amounts which the Agent may use under Article 22 in the operations for the subsequent months should be reduced by those additional amounts.

Article 24 — (a) If in any month the aggregate amount of any one currency which the Agent is entitled to use under Article 22 exceeds the amount of such currency available under paragraph (a) of Article 18 and under Article 20, the Agent shall, in principle, use such currency as between the Contracting Parties in deficit on the month in that currency in proportion to such deficits, but may make moderate adjustments in this proportionate distribution, having regard to the desirability of creating a minimum of interruption in trade and payments and of assisting in the avoidance of gold and foreign currency settlements.

(b) If in any month the amount in respect of multilateral drawing rights established in favour of a debtor which the Agent is entitled to use under Article 22 exceeds the amount of these drawing rights which has not been used, the Agent shall use that amount to offset the deficits of the debtor during that month, in accordance with the following provisions:

(i) if the unused amount is less than the total of the deficits which the Agent may offset without the prior consent of the Contracting Parties under paragraph (a) of Article 21, he shall use that amount in proportion to such deficits; and

(ii) if the amount exceeds the deficits which he may offset without the prior consent of the Contracting Parties, he shall first cover these deficits, and then use, if necessary, the remaining amount in proportion to the deficits which he is entitled to cover in accordance with paragraph (b) of Article 21.

Article 25 — The Agent shall not use amounts in respect of drawing rights established in favour of a debtor to the extent to which such use would result in maintaining the debit balance of any Contracting Party in excess of the credit margin as provided under the payments agreements, or entailing for that Contracting Party the obligation to make a payment to the debtor in gold or foreign currency. This provision shall not apply if the debtor informs the Agent that a settlement in gold or foreign currency has been demanded from that Contracting Party, but has not taken place.

Article 26 — Subject to the operation of Articles 10 and 23 and in accordance with the Directives, the use of amounts of currency under Article 16 for the purpose of offsetting the monthly deficits of a debtor may not result in an increase of the means of payment of a debtor or in a reduction of its debt in relation to any Contracting Party which makes amounts of currency available for that purpose.

Article 27 — (a) If a debtor, either under a payments agreement or because it has no available credit balance in relation to a creditor, has made a payment in gold or foreign currency falling due on or after 1st July 1949 to the latter, because at the time of payment bilateral drawing rights established in its favour by that creditor could not be used by the Agent as a result of the operation of the provisions of paragraph (a) of Article 18, the Agent, at the request of the debtor, shall take the necessary steps to enable such drawing rights to be applied for the repurchase of the whole or part of any amounts of gold or foreign currency so paid, provided that the use of the drawing rights is no longer prevented as a result of the operation of the provisions of paragraph (a) of Article 18.

(b) The request and arrangements under paragraph (a) of this Article shall be made and put into effect during the course of the operations in respect of the month when the provisions of paragraph (a) of Article 18 cease to prevent the use of the drawing rights.

(c) The amount which the Agent may use under this Article in respect of any month shall be in addition to the amounts which the Agent may use in respect of that month under Article 22.

Article 28 — Any new amount of bilateral drawing rights established by a creditor in favour of a debtor as the result of a revision under Article 34 may be applied, in whole or in part, for the repurchase of gold or foreign currency paid by the debtor to the creditor in the circumstances envisaged in Article 27 because at the time of payment the creditor had not yet established drawing rights in favour of the debtor or because the established drawing rights had been entirely used.

Article 29 — (a) If a creditor makes to a debtor, in favour of which it has established drawing rights, a payment in gold or foreign currency falling due on or after 1st July 1949, either under a payments agreement or because the creditor has no credit balance in relation to that debtor, the creditor may repurchase the whole or part of the amounts of gold or foreign currency transferred in these conditions if, subsequently, the debtor has a deficit with regard to the creditor.

(b) At the request of the creditor, the Agent shall abstain from using amounts in respect of drawing rights established in favour of the debtor, in the operations for the month or months in the course of which the repurchase is carried out, up to the amount of gold or foreign currency that is repurchased.

Article 30 — Part III of the present Agreement shall not apply to Switzerland.

PART IV

Miscellaneous Provisions

Article 31 — (a) The supervision of the operation of the present Agreement shall be undertaken by the Organisation.

(b) Should any question arise concerning the interpretation or the application of the present Agreement, it may be referred by any Contracting Party to the Organisation, which may take decisions on the question.

Article 32 — (a) Not less than twice in the course of the year ending 30th June 1950, the Organisation shall carry out comprehensive reviews of the operation of the present Agreement.

(b) The Organisation shall decide the dates on which these reviews shall take place.

Article 33 — (a) Any creditor may refer to the Organisation if it considers itself prejudiced as a consequence of the abnormal use of the multilateral drawing rights established in favour of any of its debtors.

(b) Any debtor may refer to the Organisation if it considers itself prejudiced by measures taken by any Contracting Party

(i) imposing abnormal conditions on the sale of its commodities or the provision of its services by that Contracting Party, or

(ii) restricting the visible or invisible imports by that Contracting Party,

which have the effect of either artificially increasing or artificially maintaining its deficit in relation to that Contracting Party, as originally estimated, or of creating a deficit where no such deficit had been originally foreseen.

(c) Any debtor may also refer to the Organisation if it considers itself prejudiced by measures taken by one of its creditors which have the effect of hindering the use of the whole or part of bilateral drawing rights established by that creditor in its favour.

(d) The Organisation shall decide what measures, if any, are required to redress the consequences of the facts alleged in a reference made under paragraphs (a), (b), or (c) of this Article.

Article 34 — (a) Revision of the amounts of bilateral drawing rights shall be made only in accordance with the provisions of Annex D.

(b) The Organisation shall decide what revision of the amounts of bilateral drawing rights shall take place and what recommendations for that purpose shall be made to the United States Economic Co-operation Administration.

(c) With the exception of measures which may be taken under Article 33, multilateral drawing rights shall not be subject to revision by the Organisation.

Article 35 — The Organisation shall provide for appropriate procedure and bodies to deal with cases arising under Articles 33 and 34.

Article 36 — The Organisation may decide what measures of adjustment, if any, are necessary in the cases in which, in spite of the provisions of Article 26, and owing to the use of drawing rights established in favour of a debtor, the means of payment, or the debt of that debtor in relation to a Contracting Party, shall have been respectively increased or reduced as compared with its position when the present Agreement came into force.

Article 37 — (a) Subject to any revision under Article 34, amounts of currency in respect of bilateral drawing rights not used in operations shall be held at the disposal of the Organisation upon the termination of the operations relating to June 1950, provided that a Contracting Party need not hold amounts of currency at the disposal of the Organisation earlier than the time at which equivalent amounts of conditional aid are firmly allotted to that Contracting Party.

(b) The Organisation shall, before 31st May 1950, decide on the rules relating to the administration and appropriation of these amounts of currency.

(c) The Organisation shall cease to have the whole or part of amounts of currency held at its disposal under paragraph (a) of this Article, if the creditor which made them available makes a request to the Organisation before 31st August 1950, and establishes that its request falls within any of the cases provided for in Annex D.

(d) The Organisation shall place at the disposal of a debtor amounts of currency referred to in paragraph (a) of this Article at the request of that debtor, made before 31st August 1950, if that debtor establishes one of the cases provided for in paragraphs (b) and (c) of Article 33.

(e) The Organisation may, on such conditions as it may determine, put at the disposal of a debtor the amounts of currency referred to in paragraph (a) of this Article, if the debtor makes a request to this effect before 31st August 1950, and if it establishes that those amounts are required to cover a commitment undertaken by it before 1st July 1950.

Article 38 — (a) Subject to a decision of the Organisation to the contrary, multilateral drawing rights which are not used in operations shall be cancelled.

(b) The Organisation shall, before 31st May 1950, make recommendations to the United States Economic Co-operation Administration in respect of the disposal of conditional aid equivalent to the total amount of unused multilateral drawing rights.

Article 39 — The Organisation may, at the request of the Contracting Parties concerned, determine the method whereby unused drawing rights established under the Agreement for Intra-European Payments and Compensations signed on 16th October 1948 may be used for the purposes of the present Agreement, and the conditions attaching to such use.

PART V

Final Provisions

Article 40 — (a) In negotiating a bilateral agreement with any of its creditors to be in force in the course of the operation of the present Agreement, any debtor shall take account of the total amount of currency in respect of drawing rights established in its favour which the Agent is entitled to use without prior consent to offset, under Article 21, its monthly deficits in relation to that creditor.

(b) For the period of the operation of the present Agreement, any debtor may decide to reduce the amount of licences to be issued for imports originating with any of its creditors and, generally, of its foreign exchange licences to be issued for payments in favour of that creditor below the amounts provided for in the bilateral agreements which are in force, provided that:

(i) the total amount of the reductions decided by it does not exceed a third of the amount of bilateral drawing rights established by that creditor in favour of the debtor at the signature of the present Agreement, subject, however, to the special provisions contained in the Agreements referred to in paragraph (b) of Article 20; and

(ii) the reductions be decided on for considerations of a commercial character,

(c) Any decision taken by a debtor under paragraph (b) of this Article shall be notified by that debtor to the Organisation and the creditor concerned within seven days. The creditor may refer to the Organisation within fourteen days from the date it received such a notification, if it considers that the restrictions decided on are based on considerations other than those of a commercial character.

Article 41 — Annexes A, B, C and D to the present Agreement shall form an integral part thereof.

Article 42 — (a) The present Agreement shall be ratified.

(b) The instruments of ratification shall be deposited with the Secretary General of the Organisation who will notify each deposit to all the Signatories.

(c) The present Agreement shall come into force upon the deposit of instruments of ratification by all the Signatories.

Article 43 — (a) Except so far as may be necessary to give effect to Articles 37 and 38, the present Agreement shall remain in force until the completion of the operations in respect of the month of June 1950, and the present Agreement may be continued in force thereafter on such terms as the Contracting Parties may agree. Articles 37 and 38 shall remain in force until the measures provided for in these two Articles are completed.

(b) If it becomes apparent that the present Agreement is not likely to be continued in force, the Organisation shall, at the request of any Contracting Party, entrust a Committee or Committees with the preparation of recommendations as to the provisions which may be required to avoid:

(i) interruptions in trade or payments;

(ii) payments in gold or foreign currency;

(iii) the prevention of repurchase of gold or foreign currency which would otherwise have been possible under the provisions of the present Agreement; or

(iv) other similar possible consequences which may arise, within a reasonable time from the termination of the present Agreement, as a result of changes in balances caused by operations made under the present Agreement.

ANNEX A

Amounts Excluded from Compensations

I. When calculating in accordance with Article 6 of the present Agreement the balances held by a Contracting Party, the Agent shall, at the request of that Contracting Party, exclude the following amounts:

(a) Working balances, which will normally fall under one or more of the following heads:

(i) normal central banking balances (fonds de roulement), that is to say, sufficient funds to cover outstanding payment orders and to maintain normal banking relationships;

(ii) amounts held as cover for oversold forward exchange positions; or

(iii) amounts held as cover for banking credits due to mature within a short period.

(b) Amounts representing the proceeds of capital transactions expressly undertaken for the financing of specific capital expenditure.

(c) Amounts not arising under a payments agreement or from current trade transactions and which are freely convertible into gold or United States dollars.

(d) Amounts which, owing to special provisions in payments agreements in force at the signature of the present Agreement, represent the proceeds of certain exports earmarked for debt services or other contractual obligations.

(e) Amounts earmarked by a creditor for the repurchase of gold or foreign currency transferred to a debtor in a case where this repurchase is carried out under Article 29 of the present Agreement.

(f) In the case of Greece and Turkey, in view of the essentially agricultural structure of their economies, a reasonable proportion of their balances in the currencies of other Contracting Parties, it being understood that these amounts would be used during the year following the date of their first exclusion to pay for imports from the countries in which the balances are held.

II. In cases in which the balance available for operations is, in the relationship between two Contracting Parties, the balance of an account kept by the central bank of one only of the Contracting Parties (hereinafter referred to as a "single account"), any balance in favour of that Contracting Party shall be considered, for the purposes of this Annex, as a balance held by that Contracting Party.

III. (a) Each Contracting Party requesting the exclusion of an amount, under any of the preceding provisions of this Annex, shall state to the Agent the provisions of this Annex under which each exclusion is requested and furnish information as to the facts in reasonable detail.

(b) The Agent may seek further information

(i) if he is unable to satisfy himself with regard to the requested exclusion from the information given him, or

(ii) where the exclusion is requested by a debtor for the calculation of its balance in relation to a creditor, if it appears that the bilateral drawing rights established by the creditor in favour of that debtor will probably not be entirely used under the present Agreement.

(c) If the Agent remains unsatisfied, he shall make a report to the Organisation on the exclusion effected and shall furnish a copy of such report to the Contracting Party making the request.

IV. If the exclusion requested by a Contracting Party under Section I of this Annex would result in reversing the net position of that Contracting Party with regard to any other Contracting Party, the balance to be used in compensations shall be deemed to be equal to nil.

V. If a payments agreement between two Contracting Parties involves a single account with no credit margin, the Agent shall be authorised, in case of emergency, to exclude on his own initiative an amount up to the total balance of the single account which has been notified to him, when the use of this balance in the compensations would have the effect of placing either of the two Contracting Parties in a critical position in relation to the other.

ANNEX B

Rates of Exchange

I. The following procedure shall be used in determining the balances and rates of exchange for the purpose of reports under Article 8 by Contracting Parties without a unified cross-rate structure:

(a) Debit and credit balances in the currency of any Contracting Party without a unified cross-rate structure in relation to Contracting Parties having a unified cross-rate structure shall be reported to the Agent in the currency of the latter Contracting Parties, after having been calculated at a rate of exchange to be fixed by agreement between the two Contracting Parties concerned. The rate of exchange so agreed should be that effectively in use for current transactions between them. If there are variable rates, or more than one rate, the rate agreed should be based on the weighted average of these rates.

(b) The debit and credit balances between each pair of Contracting Parties not having a unified cross-rate structure, unless expressed in the currency of a Contracting Party having a unified cross-rate structure, shall be reported to the Agent in the money of account used for operations by him, after having been calculated at a rate of exchange agreed between the two Contracting Parties.

(c) The Contracting Party shall also report to the Agent the method of calculation of the reported balances, including the data necessary to show how the rates of exchange have been determined for the purpose of their calculation.

II. The following procedure shall be used for the purpose of calculating monthly deficits in accordance with Article 7 of the present Agreement:

(a) The Agent shall establish the net position in each bilateral relationship existing between Contracting Parties and shall convert such net balances into the money of account on the basis of the rates already reported to him. The Agent will then be able to ascertain, in the money of account, the monthly deficits and surpluses.

(b) In the event of the rate of exchange of the currency of any Contracting Party changing, the Contracting Parties concerned shall advise the Agent of the balances held between them as at the close of business on the day preceding the change and give details of any adjusting payments which may have been made in accordance with the terms of exchange guarantees. The Contracting Parties concerned shall also forward to the Agent, in accordance with the terms of Article 8 (a) (iii) of the present Agreement, a report giving the new agreed rate of exchange.

This information will enable the Agent to make allowance for the change in the rate of exchange when calculating the monthly deficits and surpluses.

III. In order to give effect to the operations in respect of any month, the figures notified by the Agent to the Contracting Parties in the currency of Contracting Parties having a unified cross-rate structure, or in the money of account, shall be converted by the Contracting Parties, if necessary, in the currencies of Contracting Parties without a unified cross-rate structure, on the basis of the rates agreed in accordance with Section I of this Annex.

ANNEX C

Agreed Existing Resources and Drawing Rights

TABLE I

Agreed Existing Resources

The following table sets out the amounts of the agreed existing resources referred to in Article 19 of the present Agreement:

Contracting Parties	Contracting Parties in relation to which the agreed existing resources are held	United States dollar equivalents of agreed existing resources
		(Figures in millions)
Denmark	Netherlands.	5.0
Denmark	Norway	2.6
Norway	United Kingdom	30.0
Portugal	Netherlands.	2.4
Portugal	United Kingdom	28.0
Sweden	United Kingdom	64.0
Turkey	France	2.0
United Kingdom	Denmark	30.5
Trizone	Sweden	10.0
Trizone	Denmark	7.1
Grand total		181.6

TABLE II

Drawing Rights

I. The following table sets out:

(a) The pairs of Contracting Parties which are, for the purposes of the present Agreement, creditors and debtors in relation to one another, as indicated by the figures in the columns under their names in the lines opposite their names;

(b) The amount of bilateral drawing rights established by each creditor in favour of each of its debtors;

(c) The total amount of bilateral drawing rights established by each creditor;

(d) The total corresponding amount of bilateral drawing rights established in favour of each debtor;

(e) The amount of multilateral drawing rights established in favour of each debtor; and

(f) The total amount of drawing rights established in favour of each debtor.

All figures in millions of United States dollars.

Contracting Parties in favour of which the amounts of drawing rights are established (Debtors)	Contracting Parties by which amounts of Bilateral drawing rights shown are established (Creditors)													Total amount of Bilateral drawing rights established in favour of the debtor	Amount of Multilateral drawing rights established in favour of the debtor	Total amount of drawing rights established in favour of the debtor
	Austria	B.L.E.U.	Denmark	France	Greece	Italy	Netherlands	Norway	Portugal	Sweden	Turkey	United Kingdom	Trizone			
Austria	—	6.750	—	4.125	—	—	0.225	0.750	—	—	—	15.000	37.500	64.350	21.450	85.800
B.L.E.U.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Denmark	—	10.950	—	6.000	—	—	—	—	—	—	—	—	—	16.950	5.650	22.600
France	—	22.000	—	—	—	8.250	—	—	—	—	—	81.000	45.000	156.250	80.250	236.500
Greece	0.750	14.550	2.100	7.500	—	4.500	5.250	1.500	0.750	6.975	6.000	20.250	10.350	80.475	26.825	107.300
Italy	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Netherlands	—	39.000	—	—	—	—	—	—	—	—	—	—	13.125	52.125	66.375	118.500
Norway	—	13.200	—	5.100	—	0.375	3.750	—	—	25.725	—	—	9.450	57.600	19.200	76.800
Portugal	0.525	9.450	0.825	3.075	—	1.500	2.250	1.125	—	1.650	—	—	—	20.400	6.800	27.200
Sweden	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Turkey	0.750	5.100	2.850	1.500	—	3.750	4.500	0.375	—	1.650	—	12.000	7.500	39.975	13.325	53.300
United Kingdom . . .	—	29.000	—	—	—	—	—	—	—	—	—	—	—	29.000	45.000	74.000
Trizone	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total amount of Bilateral drawing rights established by the Contracting Parties	2.025	150.000	5.775	27.300	—	18.375	15.975	3.750	0.750	36.000	6.000	128.250	122.925	517.125		802.000
Total amount of Multilateral drawing rights established by the Contracting Parties	. . . .														284.875	

NOTE: The figures inserted for the United Kingdom cover also the countries (including Iceland and Ireland) which comprise the sterling area, that is to say, the "Scheduled Territories" as defined for exchange-control purposes in United Kingdom legislation.

(a) The amounts specified in this table are subject to adjustment as follows:

(i) from the amount of the bilateral drawing rights established in favour of a debtor by a creditor, there shall be deducted the amount of allotments for off-shore purchases authorised in respect of the period of the operation of the present Agreement by the United States Economic Co-operation Administration under the Economic Co-operation Act of 1948, as amended, and used for the payment for commodities sold by that creditor to that debtor, other than allotments expressly excluded from such deduction;

(ii) if, at the time when the adjustments provided for in sub-paragraph (i) of paragraph (a) of this Section have to be made, the amount of bilateral drawing rights has been completely used, or if the amount of the unused bilateral drawing rights is less than the amount of such adjustments, there shall be deducted from the amount of the multilateral drawing rights established in favour of that debtor, to the extent that amounts of currency have not previously been made available in respect of such multilateral drawing rights, the amount of such allotment, or the amount by which such allotment exceeds the remaining amount of bilateral drawing rights, for off-shore purchases authorised in respect of the period of operation of the present Agreement by the United States Economic Co-operation Administration and used for the payment for commodities sold by that creditor to that debtor, other than allotments specifically excluded from such deduction. The amount of such deduction shall, for the purpose of Article 21, be considered as amounts of currency made available by the creditor;

(iii) if no bilateral drawing rights have been established by a Contracting Party in favour of a debtor, there shall be deducted from the amount of the multilateral drawing rights established in favour of that debtor, to the extent that amounts of currency have not previously been made available in respect of such multilateral drawing rights, the amount of such allotment for off-shore purchases authorised in respect of the period of operation of the present Agreement by the United States Economic Co-operation Administration and used for the payment for commodities sold by that Contracting Party to that debtor, other than allotments expressly excluded from such deduction.

(b) The Secretary-General of the Organisation will ask the United States Economic Co-operation Administration to inform him of the amounts of allotments mentioned in sub-paragraphs (i), (ii) and (iii) of the preceding paragraph. The Secretary-General will submit to the Council for approval the amounts adjusted in accordance with sub-paragraphs (i), (ii) and (iii) of the preceding paragraph. Upon approval by the Council these amounts shall be substituted for the corresponding amounts shown in this table.

ANNEX D

Revision of Bilateral Drawing Rights

The following provisions shall apply to the revision of the amount of bilateral drawing rights under Article 34 of the present Agreement, which revision may take place only in the cases mentioned below:

I. The amount of bilateral drawing rights may be revised if such revision is necessary to correct any gross error of calculation in the original estimate of the balance of payments of one Contracting Party in relation to another Contracting Party for the year ending 30th June 1950,

(i) upwards or downwards, upon request made to the Organisation during the first four months of the operation of the present Agreement; or

(ii) downwards, upon request made to the Organisation on or after 30th June 1950; or

(iii) upwards, upon request made to the Organisation at any time, if the whole amount of the bilateral drawing rights established by a creditor in favour of a debtor and of the multilateral drawing rights established in favour of the debtor have been used.

II. (a) The amount of bilateral drawing rights may be revised upwards or downwards if such revision is justified by the effects of specific measures taken by the creditor or the debtor pursuant to the Decision relating to Liberalisation of Intra-European Trade adopted by the Council on 4th July 1949, or any such other decision which may be made thereafter.

(b) Nothing contained in paragraph (a) of this Section shall prevent the Contracting Parties from seeking the prior agreement of the Organisation on the estimated amounts of contemplated revisions.

(c) The amount of bilateral drawing rights may be revised upwards or downwards if the creditor and the debtor agree that such revision is necessary to promote a healthy expansion of trade which would not otherwise be possible.

III. The amount of bilateral drawing rights may be revised upwards or downwards by virtue of a decision of the Organisation under Article 33.

IV. The amounts of bilateral drawing rights may be revised at request of a Contracting Party if such revision is justified by

(i) force majeure, or

(ii) catastrophe, or

(iii) any other exceptional circumstances which might seriously harm the interests of that Contracting Party.

V. Taking into account the provisions of paragraph (c) of Section II:

(a) The revision of the amount of bilateral drawing rights can in no case be requested, justified, or obtained solely because trade and payments between the Contracting Parties concerned are not proceeding as originally expected;

(b) Such revision cannot be made if it is likely to result in vitiating the application of the principle of free competition between the Contracting Parties.

VI. Revision of the amounts of bilateral drawing rights may include the establishment of new bilateral drawing rights or the cancellation of existing drawing rights.

IN WITNESS WHEREOF, the undersigned Plenipotentiaries, duly empowered, have appended their signatures to the present Agreement.

DONE in Paris this seventh day of September of Nineteen Hundred and Forty Nine, in the English and French languages, both texts being equally authentic, in a single copy which shall remain deposited with the Secretary-General of the Organisation for European Economic Co-operation, by which certified copies shall be communicated to all the Signatories.

For Austria: Herbert Prack.

For Belgium: Comte Hadelin de Meeus d'Argenteuil.

For Denmark: Erling Kristiansen.

For France: Alexandre Parodi.

For Greece: Alexandre Verdelis.

For Iceland: Kristjan Albertson.

As Ireland has no payments agreements with other countries and is a member of the sterling area the provisions of the present Agreement require no specific action by her and signature of the present Agreement on her behalf is subject to the understanding that its operation will not modify the existing arrangements governing payments between her and the other Contracting Parties.

For Ireland: Timothy J. O'Driscoll.

For Italy: Raimondo Giustiniani.

For Luxemburg: Nicolas Hommel.

For the Netherlands: Baron J. van Tuyll van Serooskerken.

For Norway: Arne Skaug.

For Portugal: Ruy Teixeira Guerra.

For Sweden: Erik de Sidow.

For Switzerland: Gérard Bauer.

For Turkey: Burhan Zihni Sanus.

For the United Kingdom: John E. Coulson.

For the French Zone of Occupation of Germany: Edmond Dobler.

For the United Kingdom and United States Zones of Occupation of Germany: Robin C. L. Brayne.

For the British/United States Zone of the Free Territory of Trieste: Henry S. Barlerin.

PROTOCOL of PROVISIONAL APPLICATION

of the Agreement for Intra-European Payments and Compensations

for 1949–50.

Paris, 7th September 1949.

The Signatories of the Agreement for Intra-European Payments and Compensations for 1949–1950 (hereinafter referred to as the "Agreement") signed this day;

CONSIDERING the Decision of the Council of the Organisation for European Economic Co-operation of 29th July 1949 concerning the application of the European Payments Scheme to operations for July 1949, and the Decision of the said Council of 13th August 1949 with regard to the measures to be taken concerning intra-European payments pending the establishment of drawing rights for 1949–1950;

DESIROUS of avoiding an interruption in the operation of the payments and compensations scheme as between the operation of the Agreement for Intra-European Payments and Compensations signed on 16th October 1948 and that of the Agreement signed today;

HAVE AGREED as follows:

1. Subject to the provisions of paragraphs 2, 3, 4 and 5 below, the Parties to the present Protocol shall apply the provisions of the Agreement provisionally as if the Agreement had been effective as from 1st July 1949.

2. The currency compensations envisaged in the Agreement shall not be carried out in respect of July 1949.

3. For operations in respect of August 1949, the monthly deficits within the meaning of Article 7 of the Agreement shall be the deficits for each Contracting Party in relation to each other Contracting Party for the period from 1st July to 31st August 1949.

4. The bilateral drawing rights established by a creditor in favour of a debtor may be applied for the repurchase under Article 27 of the Agreement of the whole or part of any amounts of gold or foreign currency paid by a debtor to a creditor in the circumstances envisaged in that Article, by reason of the fact that at the time of payment the Agreement had not yet been signed.

5. The provisional allotments allocated by the United States Economic Co-operation Administration for the purposes of the above-mentioned Decision of 13th August 1949 shall be considered as amounts of conditional aid within the meaning of Article 18 of the Agreement.

6. The present Protocol shall come into force on this day's date and shall continue in force until the Agreement comes into force and, subject to the provisions of Article 43 of the Agreement, until the date envisaged by that Article at the latest.

7. (a) Any Party to the present Protocol may withdraw from the Protocol by giving not less than three months' notice of withdrawal in writing to the Secretary-General of the Organisation for European Economic Co-operation (hereinafter referred to as the "Secretary-General").

(b) Three months after the date on which such notice is given, or at such later time as may be specified in the notice, the Party giving it shall cease to be a Party to the present Protocol.

(c) The Secretary-General will immediately inform all Parties to the present Protocol and the Agent of any notice given under this paragraph.

8. *If notice of withdrawal is given under paragraph 7, the Parties to the* present Protocol, acting through the Organisation, shall, at the request of any Party, entrust a Committee or Committees with the preparation of recommendations as to the provisions which may be required to avoid

(i) interruptions in trade or payments;

(ii) payments of gold or foreign currency;

(iii) the prevention of repurchase of gold or foreign currency which would otherwise have been possible under the provisions of the Agreement; or

(iv) other similar possible consequences

which may arise, within a reasonable time from the date when the notice of withdrawal takes effect, as a result of changes in balances caused by compensations made under the Agreement. The Committee or Committees shall also consider the position of drawing rights which may remain unused at the date on which the notice of withdrawal takes effect.

IN WITNESS WHEREOF, the undersigned Plenipotentiaries, duly empowered, have appended their signatures to the present Protocol.

Done in Paris this seventh day of September, Nineteen Hundred and Forty Nine, in the English and French languages, both texts being equally authentic, in a single copy which shall remain deposited with the Secretary-General of the Organisation for European Economic Co-operation, by which certified copies shall be communicated to all Signatories to the present Protocol.

For Austria:	Herbert Prack.
For Belgium:	Comte Hadelin de Meeus d'Argenteuil.
For Denmark:	Erling Kristiansen.
For France:	Alexandre Parodi.
For Greece:	Alexandre Verdelis.
For Iceland:	Kristjan Albertson.
For Ireland:	Timothy J. O'Driscoll.
For Italy:	Raimondo Giustiniani.
For Luxemburg:	Nicolas Hommel.
For the Netherlands:	Baron J. van Tuyll van Serooskerken.
For Norway:	Arne Skaug.
For Portugal:	Ruy Teixeira Guerra.
For Sweden:	Erik de Sidow.
For Switzerland:	Gérard Bauer.
For Turkey:	Burhan Zihni Sanus.
For the United Kingdom:	John E. Coulson.
For the French Zone of Occupation of Germany:	Edmond Dobler.
For the United Kingdom and United States Zones of Occupation of Germany:	Robin C. L. Brayne.
For the British/United States Zone of the Free Territory of Trieste:	Henry S. Barlerin.

SUPPLEMENTARY PROTOCOL No. 2

amending the Agreement for Intra-European Payments and Compensations for 1949–1950 of 7th September 1949.

Paris, 22nd April 1950.

THE GOVERNMENTS of Austria, Belgium, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey and the United Kingdom; and the Commander of the British/United States Zone of the Free Territory of Trieste;

BEING THE SIGNATORIES OR ASSURING THE REPRESENTATION OF SIGNATORIES of the Agreement for Intra-European Payments and Compensations for 1949–1950 (hereinafter referred to as the "Agreement"), signed on 7th September 1949, and of the Protocol of Provisional Application of the Agreement, signed on the same date, in accordance with paragraph 1 of which Protocol the provisions of the Agreement are being provisionally applied as if it had been effective as from 1st July 1949;

HAVING AGREED to sign a Supplementary Protocol providing for certain amendments to Articles 20, 27, 28 and 34 of the Agreement;

BEING DESIROUS of giving immediate effect to certain provisions of the present Supplementary Protocol; and

HAVING REGARD to the adoption on 21st April 1950 by the Council of the Organisation for European Economic Co-operation of a Recommendation approving the text of the present Supplementary Protocol and recommending it to the Members of the Organisation for European Economic Co-operation for signature;

HAVE AGREED as follows:

Article 1 — Paragraph (*b*) of Article 20 of the Agreement shall be amended to read as follows:

"(*b*) Requests under Article 18 in respect of multilateral drawing rights established in favour of France, Netherlands, the United Kingdom or any other debtor designated by the Organisation as coming within the provisions of this Article, when made to Belgium, shall be made in accordance with the provisions of Agreements concluded by Belgium with such debtor countries either:

(i) in accordance with the Decision of the Council of 2nd July 1949 concerning the Intra-European Payments Scheme; or

(ii) in accordance with, or referred to by, a Decision of the Council by which the multilateral drawing rights of such a debtor country are revised."

Article 2 — Paragraph (*a*) of Article 27 of the Agreement shall be amended to read as follows:

"(*a*) If a debtor, either under a payments agreement or because it has no available credit balance in relation to a creditor, has made a payment in gold or foreign currency falling due on or after 1st July 1949 to the latter, because at the time of payment drawing rights established in its favour could not be used by the Agent as a result of the operation of the provisions of paragraph (*a*) of Article 18, the Agent, at the request of the debtor, shall take the necessary steps to enable such drawing rights to be applied for the repurchase of the whole or part of any amounts of gold or foreign currency so paid, provided that the use of the drawing rights is no longer prevented as a result of the operation of the provisions of paragraph (*a*) of Article 18."

Article 3 — Article 28 of the Agreement shall be amended to read as follows:

"Any new amount of drawing rights established in favour of a debtor as the result of a revision under Article 34 may be applied, in whole or in part, for the repurchase of gold or foreign currency paid by the debtor to another Contracting Party in the circumstances envisaged in Article 27 because at the time of payment the deficit incurred by the debtor towards the said Contracting Party could not be offset by reason of the fact that drawing rights had not yet been established in favour of the debtor or because the established drawing rights had been entirely used."

Article 4 — Article 34 of the Agreement shall be amended to read as follows:

"(*a*) The Organisation may decide what revision of the amounts of drawing rights shall take place and what recommendations for that purpose shall be made to the United States Economic Co-operation Administration.

(*b*) Revision of the amounts of bilateral drawing rights shall be made only in accordance with the provisions of Annex D.

(*c*) Revision of the amounts of multilateral drawing rights shall be made by the Organisation not later than the 31st May 1950 and only at the request of the debtor in favour of which they have been, or may be, established. The amount of multilateral drawing rights may be revised upwards or downwards. The revision of the amounts of multilateral drawing rights may include the establishment of new multilateral drawing rights or the cancellation of existing multilateral drawing rights."

Article 5 — (1) Articles 1 to 4 of the present Supplementary Protocol shall form an integral part of the Agreement.

(2) Subject to the provisions of Article 6 below, the present Supplementary Protocol shall come into force as soon as the Agreement comes into force.

(3) The present Supplementary Protocol shall remain in force until the completion of the operations in respect of the month of June 1950.

Article 6 — Notwithstanding the provisions of Article 5 above, the Parties to the present Supplementary Protocol shall apply the provisions of Articles 1 to 4 of the said Protocol with immediate effect.

IN WITNESS WHEREOF the undersigned Plenipotentiaries, duly empowered, have signed this Supplementary Protocol.

DONE in Paris, this 22nd April 1950, in the English and French languages, both texts being equally authentic, in a single copy which shall remain deposited with the Secretary-General of the Organisation for European Economic Co-operation, by which certified copies will be communicated to all the Signatories of this Supplementary Protocol.

For Austria:	Herbert Prack.
For Belgium:	Comte Hadelin de Meeus d'Argenteuil.
For Denmark:	Eyvind Bartels.
For France:	Hervé Alphand.
For Germany:	Werner Dankwort.
For Greece:	Alexandre Verdelis.
For Iceland:	Kristjan Albertson.
For Ireland:	C. C. Cremin.
For Italy:	Attilio Cattani.
For Luxemburg:	Nicolas Hommel.
For the Netherlands:	Baron S. J. van Tuyll van Serooskerken.
For Norway:	Arne Skaug.
For Portugal:	Ruy T. Guerra.
For Sweden:	Sten Lindh.
For Switzerland:	Gérard Bauer.
For Turkey:	Mehmet Ali Tiney.
For the United Kingdom:	John E. Coulson.
For the British/United States Zone of the Free Territory of Trieste:	Henry S. Barlerin.

LOAN AGREEMENT

between the

KINGDOM of BELGIUM and the UNITED KINGDOM of GREAT BRITAIN and NORTHERN IRELAND.*

Paris, 7th September 1949.

The Government of the Kingdom of Belgium and the Government of the United Kingdom of Great Britain and Northern Ireland:

Having regard to the adoption on the 2nd July 1949 by the Council of the Organisation for European Economic Co-operation of a decision C(49)94 concerning the system of Intra-European Payments for the year 1949-50 and in particular to paragraph II of that decision:

Having regard to the adoption by the Council of the Organisation for European Economic Co-operation on the 2nd September 1949 of a decision C(49)120 adopting the Agreement for Intra-European Payments and Compensations for 1949-50, as well as the decision C(49)138 by the same Council, adopting a Protocol of provisional application of the said Agreement for Payments and Compensations:

HAVE AGREED AS FOLLOWS:

Article 1 — The Belgian Government shall open in favour of the Government of the United Kingdom a credit in Belgian francs equivalent to twenty-eight million U. S. dollars for the purpose of financing the deficit of the Sterling Area with the Belgian Monetary Area, the said deficit to be determined by application of the Agreement for Intra-European Payments and Compensations, signed in Paris on the 7th September 1949.

Article 2 — The credit referred to in Article 1 above shall not be drawn upon by the Government of the United Kingdom until deficits with the Belgian Monetary Area of the equivalent of thirty-eight million five hundred thousand U. S. dollars have been covered by means of the drawing rights established in favour of the United Kingdom under the said Agreement for Payments and Compensations.

Article 3 — I. — The Government of the United Kingdom shall draw upon the credit referred to in Article 1 above concurrently with the use, for the purpose of covering the deficit of the Sterling Area with the Belgian Monetary Area, of that portion — namely, the equivalent of thirty-five million five hundred thousand U. S. dollars — of the drawing rights established in favour of the United Kingdom for the purpose of covering that part of the surplus of the Belgian Monetary Area with the monetary areas of the parties to the Intra-European Payments Agreement for 1949-50 which shall exceed the equivalent of two hundred million U. S. dollars.

II. — This concurrent utilisation shall be effected in the following manner:

(a) In equal proportions until a first tranche equivalent to twenty million five hundred thousand U. S. dollars of drawing rights has been exhausted, that is to say that for each U. S. dollar of drawing rights used there shall be drawn under the credit an amount in Belgian francs equivalent

* Text from British White Paper Cmd. 7811. Agreements with a similar text were made between Belgium and France and between Belgium and the Netherlands.

to one U. S. dollar calculated at the rate of exchange adopted for the calculation of drawing rights and of the corresponding conditional aid in accordance with the provisions of Annex B to the Intra-European Payments Agreement for 1949-50.

(b) In the proportion of one to two for the balance, that is to say that for every two U. S. dollars of drawing rights there shall be drawn under the credit an amount in Belgian francs equivalent to one U. S. dollar calculated at the rate of exchange adopted for the calculation of drawing rights and of the corresponding conditional aid under the provisions of Annex B to the Intra-European Payments Agreement for 1949-50.

III. — In the event of the payment to Belgium of U. S. dollars supplied by the Economic Co-operation Administration of the United States of America for the purpose of financing purchases effected in the Belgian Monetary Area by persons resident in the Sterling Area, in circumstances to be defined by agreement between the Belgian Government and the Economic Co-operation Administration of the United States of America, and if need be with the Government of the United Kingdom, such payment shall be considered for the purposes of the present agreement as a utilisation of drawing rights.

Article 4 — The Belgian Government undertakes to place at the disposal of the Government of the United Kingdom within the limits and according to the conditions set out above and at the request of the Bank for International Settlements, acting in accordance with the instructions annexed to the present agreement (Annex II), which shall be given to it to this effect by the contracting parties, Belgian francs in such amounts and on such dates as may be necessary for the execution of the present agreement and of the Intra-European Payments Agreement for 1949-50.

Article 5 — For each amount of Belgian francs which shall be placed at its disposal in accordance with the provisions of Article 4 above, the Government of the United Kingdom shall sign in favour of the Belgian Government and shall deliver to the latter a promissory note for the same amount of Belgian francs, bearing the date on which the said amount shall have been placed at the disposal of the Government of the United Kingdom. This promissory note shall be drawn up in the form specified in Annex I to the present Agreement.

Article 6 — The Belgian Government undertakes not to assign, pledge or mortgage any promissory note given by the Government of the United Kingdom in accordance with the provisions of the present agreement except in favour of one or more Belgian Government Agencies or Institutions. In the event of such assignment, pledge or mortgage the Belgian Government shall notify the Government of the United Kingdom within thirty days.

Article 7 — If part of the American aid for the year 1949-50 is accorded to the United Kingdom in the form of loans bearing a rate of interest other than that provided for in the form of promissory note referred to in Article 5 above, the latter rate shall at the request of either of the parties to the present Agreement be changed to the rate of interest fixed for such loans.

Article 8 — If after the signature of the present Agreement the Belgian Monetary Area should incur a deficit with the Sterling Area which cannot be settled by media of payment acceptable to the Government of the United Kingdom other than gold or U. S. dollars or foreign exchange convertible into gold or U. S. dollars, the Belgian Government may settle the said deficit by deducting it as an extraordinary redemption instalment by the Government of the United Kingdom.

Article 9 — If at any time the contracting parties mutually agree that it would be in their interest, on account of adverse economic conditions or for any other reason whatsoever, to postpone or to provide for the postponement of one or more half-yearly redemption payments, or in general to alter or to provide for the alteration of any provision whatsoever in the promissory notes referred to in Article 5 above, they may by mutual agreement in writing provide for any postponement, alteration or other modification of the said provisions.

If the Belgian Government should assign, pledge or mortgage the promissory notes in question to one or more Belgian Government Agencies or Institutions, the Belgian Government shall take all necessary measures to ensure that such assignment, pledge or mortgage shall not prevent the application of the first paragraph of the present article.

Article 10 — To the extent of any amount which the Government of the United Kingdom may owe under the present Agreement the assets in Belgian francs which are or may be held by them or by the Bank of England shall not benefit from any exchange guarantee.

The payments agreement or other arrangements at present in operation between the contracting parties shall be amended to conform with the provisions of the foregoing paragraph.

Article 11 —(a) The present Agreement shall be ratified.

(b) The instruments of ratification shall be exchanged in Brussels as soon as possible.

(c) The present Agreement shall come into force upon the exchange of instruments of ratification.

Before signing the present Loan Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Kingdom of Belgium, the Signatories for the Contracting Parties have exchanged their full powers which have been found correct and in good order.

Done in Paris this 7th September, 1949, at the Belgian Mission to the Organisation for European Economic Co-operation, in duplicate, the English and French texts being equally authentic.

For the Government
of the United Kingdom:
(Sd) J. E. Coulson

For the Government
of the Kingdom of Belgium:
(Sd) de Meeus

ANNEX I

PROMISSORY NOTE No. ...

Belgian francs ...

The Government of the United Kingdom hereby undertakes to repay to the Belgian Government the capital sum of .... Belgian francs (B. Frs. ....) which it acknowledges having received this day in execution of the Loan Agreement between the said Governments signed at Paris on the 7th September 1949 (hereinafter referred to as the Loan Agreement).

The Government of the United Kingdom undertakes:

1. To repay the capital sum covered by the present promissory note in fifty equal half-yearly instalments, of which the first falls due on the 1st July 1956, and the last on the 1st January 1981.

2. To pay on the unredeemed portion of the said sum interest at the rate of two and one half per centum (2½%) per annum with effect from the date of the present promissory note, the said interest being payable half-yearly on the 1st January and 1st July in each year and for the first time on the 1st January or the 1st July immediately following the date of issue of the present promissory note.

The capital and interest shall be paid in lawful money of the Kingdom of Belgium to the National Bank of Belgium in Brussels, acting in its capacity of banker to the Belgian State, unless the Contracting Parties shall otherwise agree.

It is understood that the Government of the United Kingdom may, subject to giving one month's notice, at each due date repay in advance the whole or part of the amount still owing. Any partial repayment shall be spread over the whole of the promissory notes issued in execution of the Loan Agreement and shall be set against the half-yearly redemption instalments in the inverse order of their maturity.

Similarly, any extraordinary redemption effected on the basis of Article 8 of the Loan Agreement shall be spread over the whole of the promissory notes issued in execution of the said Agreement and set against the half-yearly redemption instalments in the inverse order of their maturity. Any such extraordinary redemption shall give rise to a reduction in the amount of interest due on the first contractual due date immediately following the date on which the said extraordinary redemption shall have been effected.

The payments to be made by the Government of the United Kingdom as regards both capital and interest shall for the whole period of the loan be effected free of all tolls and taxes whatsoever, present or future, which might be levied on such payments by the Government of the United Kingdom or any subordinate agency thereof.

Further, the Government of the United Kingdom undertakes to ensure the transfer of such payments to Belgium or other agreed place of payment at all times and without any restriction and whatever may be the circumstances, without requiring the drawing up of any affidavit whatsoever or the accomplishment of any formality.

The present promissory note and any similar promissory notes issued in execution of the Loan Agreement may at the request of the Belgian Government be exchanged for fifty (50) promissory notes for amounts and maturities corresponding to the half-yearly redemption instalments provided for above.

The form of these promissory notes shall be determined by mutual agreement between the Belgian Government and the Government of the United Kingdom.

In the event of default on the prompt payment in full of any instalment of principal or interest due under the present promissory note the whole of the capital sum outstanding shall become immediately payable at the option and at the request of the Belgian Government and the interest payable on the said balance shall continue to run until the date of the effective repayment of the balance. If in any particular case of default the Belgian Government does not exercise its rights, this shall not constitute any renunciation of its rights either in that particular case or in any other case of default.

The present promissory note is issued in execution of the Loan Agreement and is governed by all the terms and conditions of the said Agreement and may not be assigned, pledged or mortgaged except to one or more Belgian Government Agencies or Institutions.

On behalf of the Government of the United Kingdom of Great Britain and Northern Ireland.

London, ... 19... (signed) ......

The present form of promissory note forms an integral part of the Agreement of to-day's date to which it is annexed.

Done this 7th day of September 1949, at Paris.

On behalf
of the Government
of the United Kingdom:
(Sd) J. E. Coulson

On behalf
of the Government
of the Kingdom of Belgium:
(Sd) de Meeus

ANNEX II

Letter to be addressed to the Bank for International Settlements* by the Government of the Kingdom of Belgium and by the Government of the United Kingdom concerning the application of the Loan Agreement between the said Governments.

Sir,

We have the honour to refer to the conversations which have taken place in Paris during the month of August 1949 between representatives of the Governments of Belgium and the United Kingdom on the one hand, and representatives of the Bank for International Settlements on the other hand, in the course of which it was agreed that the Bank for International Settlements would be entrusted with the carrying out of the operations provided for in the Loan Agreement between the Belgian and the United Kingdom Governments (hereinafter referred to as the loan agreement) in application of the decision C(49)94 taken by the Council of the Organisation for Economic Co-operation at its meeting on the 2nd July 1949 regarding the system of Intra-European Payments for the year 1949-50.

The loan agreement has now been signed under the date of 7th September 1949 and we enclose herewith a certified true copy and request you to be good enough to undertake to carry out the operations provided for in the said Agreement.

All dealings between the Belgian and United Kingdom Governments, on the one hand, and the Bank for International Settlements, on the other hand, in connection with the carrying out of the operations referred to in the present letter, will normally take place between the Bank for International Settlements, the National Bank of Belgium and the Bank of England.

In agreement with our respective central banks we accordingly authorise you:

a) To invite the National Bank of Belgium, in its capacity as Banker of the Belgian State, to place at the disposal of the United Kingdom Government the amount of currency corresponding to the loan which you will be entitled to use for a given month;

b) To advise the Bank of England of the amount of money corresponding to the loan which, for a given month, will be placed at the disposal of the British Government by the Belgian Government.

We should be grateful if you would acknowledge receipt of this letter to the Minister of Foreign Affairs of Belgium, 8, Rue de la Loi, Brussels, and to the Secretary of State for Foreign Affairs, Downing Street, London.

We are, Sir,

Your obedient servants,

For the Government
of the United Kingdom:
(Sd) J. E. Coulson

For the Government
of the Kingdom of Belgium:
(Sd) de Meeus

* The Bank for International Settlements replied to this letter (and to similar letters in connection with the Belgian loans to France and to the Netherlands) on 29th September 1949, confirming its readiness to carry out the functions mentioned above.

PROTOCOL of PROVISIONAL APPLICATION of the LOAN AGREEMENT between the KINGDOM of BELGIUM and the UNITED KINGDOM of GREAT BRITAIN and NORTHERN IRELAND.

Paris, 7th September 1949.

The Signatories to the Loan Agreement signed this day between the Government of the Kingdom of Belgium and the Government of the United Kingdom of Great Britain and Northern Ireland,

DESIRING to give immediate and provisional effect to the Agreement,

HAVE AGREED AS FOLLOWS:

Pending ratification of the Loan Agreement, the Parties to the present Protocol shall apply the provisions of the Agreement provisionally as from the date of its signature.

The present Protocol shall come into force on this day's date and shall continue in force until the Agreement comes into force.

Done in Paris, this 7th September 1949, at the Belgian Mission to the Organisation for European Economic Co-operation, in duplicate, English and French texts being equally authentic.

For the Government
of the United Kingdom:
(Sd) J. E. Coulson

For the Government
of the Kingdom of Belgium:
(Sd) de Meeus

DECISION of the COUNCIL of O.E.E.C.

on the Drawing Right established

by FRANCE in favour of TURKEY

under the Agreement for Intra-European Payments and Compensations for 1949–50

(taken by the Council at its 78th Meeting, on 2nd December 1949).

The Council,

Considering Article 13 (a) of the Convention for European Economic Co-operation of 16th April, 1948;

Considering Article 34 and Section I of Annex D to the Agreement for Intra-European Payments and Compensations for 1949–50 of 7th September 1949;

Considering the Decision of the Council of 2nd September 1949 approving the Report of the Working Party of the Joint Trade and Intra-European Payments Committee on drawing rights for 1949–50 (Doc. C(49)142, paragraphs 43 to 46);

Considering the Agreement signed on 31st October 1949 by the Government of the Turkish Republic and the Government of the French Republic which provides that France shall grant Turkey additional bilateral drawing rights equivalent to U.S. $ 2 million under the Agreement for Intra-European Payments and Compensations for 1949–50 of 7th September 1949.

On the proposal of the Joint Trade and Payments Committee:

DECIDES: An additional amount of bilateral drawing rights equivalent to U.S. $ 2 million shall be made available by France and used in accordance with the provisions of the Payments Agreement on the same terms as if this amount were added to the sum equivalent to U.S. $ 1.5 million, being the bilateral drawing rights established by France in favour of Turkey in accordance with Annex C, Table II, of the above-mentioned Agreement.

RECOMMENDS: to the United States Economic Co-operation Administration to make such arrangements as may be necessary for the allocation of the conditional aid entailed by the utilisation of the additional amount of these drawing rights.

Paris, 2nd December 1949.

COUNCIL RESOLUTION

concerning the Operations in respect of the month of September 1949

(adopted by the Council at its 82nd Meeting, on 30th December 1949).

The Council,

Having regard to Article 13 (a) of the Convention for European Economic Co-operation of 16th April 1948;

Having regard to the Agreement for Intra-European Payments and Compensations for 1949–50 signed on 7th September 1949 (hereinafter referred to as the "Agreement");

Having regard to the Council Decision of 13th August 1949 concerning the Directives for the application of the Agreement;

On the proposal of the Joint Trade and Intra-European Payments Committee,

DECIDES: 1. For the operations in respect of the month of September 1949, the monthly deficits and the amount of currency in respect of drawing rights shall be calculated for the period from 1st to 17th and for the period from 18th to 30th September, for each period separately, applying the rates of exchange in force during each of these two periods respectively.

2. In the case where a debtor has incurred vis-à-vis one of its creditors a deficit during the first period and a surplus during the second, the said deficit shall be considered as the monthly deficit of the debtor vis-à-vis the creditor for the operations in respect of the month of September 1949.

3. The adjustment of any difference between the operations with regard to drawing rights prescribed by the Agent in the operations in respect of September and those eligible to be used under the provisions of paragraphs 1 and 2 above shall be made in the course of the operations in respect of December. For book-keeping purposes, the value date for operations in respect of September shall be considered to be 20th October 1949.

4. In order to give effect to the provisions of Articles 26 and 36 of the Agreement in cases provided for in paragraph 3 above, it is recognised that the United States Economic Co-operation Administration may, in the course of the operations in respect of June 1950, make an appropriate reduction of the allotments of conditional aid made to a creditor in accordance with paragraph 3 above. Such reduction should be made in accordance with the following principles:

(a) If the cumulative surplus of a creditor with a debtor from 1st September to 31st December or in respect of any subsequent month at any time up to 30th June 1950 equals or surpasses the surplus for the period 1st to 17th September, together with the amount of surplus for the months of October and November in respect of which drawing rights were made available by the Agent, no adjustment shall be required.

(b) If the cumulative surplus of a creditor with a debtor does not reach the amount defined in (a) above, the amount by which the allotment of conditional aid may be reduced shall be the difference between the highest cumulative surplus attained at the end of any month and the surplus for the period 1st to 17th September together with the amount of surplus for the months of October and November in respect of which drawing rights were made available by the Agent. Due consideration will be given to cases where the implementation of this resolution would lead to payments in gold or dollars by a debtor to a creditor.

Any such reductions in conditional aid shall not exceed the amount of the adjustments made under paragraph 3 above and shall be accompanied by the restitution of an appropriate amount of drawing rights by the debtor to the creditor. Due regard should be given in the adjustments to Article 20 (b) of the Agreement.

5. The principles laid down in this Resolution are applicable in the case of an alteration in the exchange rate of a Party to the Agreement, occurring after September 1949.

Paris, 30th December 1949.

DECISION of the COUNCIL of O.E.E.C.
on the Drawing Right established
by ITALY in favour of NORWAY
under the Agreement for Intra-European Payments and Compensations for 1949–50

(taken by the Council at its 85th Meeting, on **28th January 1950**).

The Council,

Considering Article 13 (a) of the Convention for European Economic Co-operation of 16th April 1948;

Considering Article 34 and paragraph (c) of Section II of Annex D to the Agreement for Intra-European Payments and Compensations for 1949–50 of 7th September 1949 (hereinafter referred to as the "Agreement");

Considering the Joint Declaration signed on 15th December 1949 by the Government of Italy and by the Government of Norway which provides that Italy shall grant Norway additional bilateral drawing rights equivalent to five hundred thousand U.S. dollars under the Agreement for Intra-European Payments and Compensations for 1949–50 of 7th September 1949; and

On the proposal of the Joint Trade and Intra-European Payments Committee;

DECIDES: That an additional amount of bilateral drawing rights equivalent to five hundred thousand U.S. dollars shall be made available by Italy and used in accordance with the provisions of the Agreement on the same terms as if this amount were added to the sum equivalent to three hundred and seventy-five thousand U.S. dollars, being the bilateral drawing rights established by Italy in favour of Norway in accordance with Annex C and Table II of the Agreement; and

RECOMMENDS: That the United States Economic Co-operation Administration make such arrangements as may be necessary for the allocation of the conditional aid entailed by the utilisation of these additional drawing rights.

Paris, 28th January 1950.

Agreement for Intra-European Payments and Compensations for 1948–49.

Disposal of "unused" drawing rights

from 1948–49.

(remaining after the termination of the Agreement)

Country granting drawing rights	Recipient country	Total not utilised	Method of disposal		
			Supplementary Protocol No. 2	Carried forward to 1949–50	Cancelled
		in thousands of dollars			
Austria	Italy	2,000	1,000	—	1,000
	Sweden	174	—	—	174
Belgium	France	2,357	260	—	2,097
Denmark	Sweden	1,961	—	—	1,961
France	Austria	226	226	—	—
Germany	France	1,046 *	—	—	—
Italy	Belgium	2,097	—	—	2,097
	Greece	3,946	511	3,435	—
	Norway	500	500	—	—
	Turkey	2,485	—	2,485	—
Netherlands	Turkey	214	—	214	—
Norway	France	4,469	—	—	4,469
	Germany	8,000	—	2,400	5,600
Sweden	Germany	5,000	—	2,865	2,135
Turkey	Denmark	800	—	—	800
	Norway	416	—	—	416
	Germany	6,722	—	6,722	—
United Kingdom	France	12,732 *	—	11,969	—
	Italy	25,000	—	—	25,000
	Germany	48,316	—	48,316	—
	Totals	128,461	2,497	78,406	45,749

Note: In some instances conditions were attached to the cancellation of the unused drawing rights for 1948–49, e. g. in the cases of the drawing rights from Austria and the United Kingdom to Italy it was foreseen that the drawing rights might be revived if, contrary to expectations, the balance of payments turned in the year 1949–50.

* $1,046,000 and $763,000 respectively earmarked for use under Supplementary Protocol No. 2 of 31st March 1949 for repurchase of "off-shore" dollars but not yet utilised.

Agreements for Intra-European Payments and Compensations for 1948–1949 and 1949–1950.

Utilisation of drawing rights.

A. Drawing rights granted.

Countries granting drawing rights	Recipient Countries	Agreement for 1948–1949 — 1948 Oct.	Nov.	Dec.	1949 Jan.	Feb.	March	April	May	June	Nine months	Agreement for 1949–1950 — 1949 July–August	Sept.	Oct.	Nov.	Dec.(1)	1950 Jan.	Feb.	March	Nine months	Totals October 1948 to March 1950
		in thousands of dollars																			
Austria	Greece	—	—	—	—	—	—	—	44	356	400	56	21	42	—	6	196	39	566	926	1,326
	Portugal	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1	—	1	1
	Sweden	177	146	—	—	22	17	—	164	—	526	—	—	—	—	—	—	—	—	—	526
Belgium	Austria	51	80	581	517	994	430	—	1,628	219	4,500	—	322	737	1,222	1,283	1,300	1,253	962	7,079	11,579
	Denmark	2,755	2,120	—	—	—	—	1,625	—	—	6,500	3,562	3,313	—	—	1,164	—	—	—	8,039	14,539
	France	3,803	9,901	6,951	—	—	(2) 9,345	2,644	—	4,999	37,643	—	—	—	—	—	—	—	—	—	37,643
	Germany	—	170	—	2,829	—	2,800	—	9,178	6,023	21,000	—	—	—	—	—	—	—	—	—	21,000
	Greece	—	—	—	1,140	2,081	3,373	3,785	—	2,621	13,000	2,837	480	2,523	3,034	1,921	666	1,158	1,569	14,188	27,188
	Netherlands	2,622	2,243	6,715	6,367	20,315	(2) 15,913	13,468	4,657	—	72,500	25,867	—	—	3,160	10,614	11,244	(3) 17,341	(3) 20,658	88,884	161,384
	Norway	2,171	143	2,469	5,164	2,360	2,953	4,392	3,348	—	23,000	9,355	1,195	1,151	267	787	1,230	—	—	13,985	36,985
	Portugal	—	—	—	—	—	—	—	—	—	—	653	—	—	—	—	—	—	—	653	653
	Sweden	—	—	—	208	4,292	—	1,500	—	—	6,000	—	—	—	—	—	—	—	—	—	6,000
	Turkey	—	—	—	—	912	—	625	463	—	2,000	614	—	—	—	—	—	—	759	1,373	3,373
	United Kingdom	13,263	9,237	—	—	—	—	7,500	—	—	30,000	36,643	(3) 6,099	—	—	(3) 8,884	—	—	—	51,626	81,626
Denmark	Austria	3	—	—	—	—	—	—	—	97	100	—	—	—	—	—	—	—	—	—	100
	Greece	—	—	—	—	—	153	162	192	1,493	2,000	73	199	429	151	831	592	214	—	2,489	4,489
	Sweden	—	—	79	657	303	—	—	—	—	1,039	—	—	—	—	—	—	—	—	—	1,039
	Turkey	—	—	—	—	—	—	—	—	—	—	21	—	—	—	—	—	—	—	21	21
France	Austria	—	—	—	731	—	—	—	1,043	—	1,774	1,267	1,011	173	1,050	966	—	—	—	4,467	6,241
	Denmark	—	—	—	—	—	—	383	2,317	—	2,700	6,981	—	—	—	1,019	—	—	—	8,000	10,700
	Greece	45	1,150	1,499	977	—	—	355	974	—	5,000	4,667	2,225	—	3,108	—	—	830	—	10,830	15,830
	Norway	—	—	—	—	—	—	—	—	—	—	—	—	—	10	671	109	1,828	4,182	6,800	6,800
	Portugal	—	—	—	—	—	—	—	—	—	—	2,915	—	50	—	—	—	—	—	2,965	2,965
	Turkey	—	—	—	—	—	—	—	—	—	—	26	690	709	—	—	—	—	—	1,425	1,425
Germany	Austria	776	74	550	9,093	3,161	5,653	7,389	2,904	—	29,600	8,957	4,916	2,811	4,021	10,812	5,176	4,224	5,381	46,298	75,898
	Denmark	814	—	51	—	—	35	300	—	—	1,200	—	—	—	—	—	—	—	—	—	1,200
	France	—	—	9,162	4,451	4,468	9,133	6,295	6,325	12,820	52,654	11,726	6,673	5,311	—	—	—	—	—	23,710	76,364
	Greece	545	821	200	1,627	87	20	1,100	—	—	4,400	304	1,604	2,097	2,586	1,044	—	—	—	7,635	12,035
	Netherlands	3,839	—	—	2,536	—	—	2,125	—	—	8,500	—	—	—	—	—	—	—	—	—	8,500
	Norway	—	—	—	—	—	—	—	—	—	—	2,825	1,574	—	—	669	2,779	109	1,588	9,544	9,544
Italy	Belgium	2,762	2,211	1,334	1,658	285	—	653	—	—	8,903	—	—	—	—	—	—	—	—	—	8,903
	France	—	362	—	—	4,097	3,791	250	—	2,500	11,000	—	—	—	585	6,497	2,581	4,787	3,960	18,410	29,410
	Germany	447	1,002	6,126	—	—	—	5,125	—	—	12,700	—	—	—	—	—	—	—	—	—	12,700
	Greece	—	—	—	—	—	—	—	908	2,146	3,054	613	5,349	22	9	75	1,107	6	325	7,506	10,560
	Norway	—	—	—	—	—	—	—	—	—	—	—	—	—	133	350	335	182	—	1,000	1,000
	Sweden	75	—	—	—	—	—	25	—	—	100	—	—	—	—	—	—	—	—	—	100
	Turkey	—	—	—	—	409	791	632	88	595	2,515	840	142	1	—	82	2	274	8	1,349	3,864
Netherlands	Austria	96	—	—	—	—	654	—	—	250	1,000	—	—	144	140	—	—	16	—	300	1,300
	Germany	—	190	—	203	439	28	360	585	195	2,000	—	—	—	—	—	—	—	—	—	2,000
	Greece	—	—	—	—	317	445	425	903	2,910	5,000	346	816	54	—	—	310	185	361	2,072	7,072
	Norway	702	1,173	—	—	—	—	625	—	—	2,500	2,473	816	—	802	858	51	1,350	—	6,350	8,850
	Turkey	—	—	—	—	—	—	—	—	586	586	133	12	—	—	—	—	—	—	145	731
Norway	Austria	—	—	—	—	1,047	78	265	62	48	1,500	5	—	—	2	6	—	539	—	552	2,052
	France	—	—	—	531	—	—	—	—	—	531	—	—	—	—	—	—	—	—	—	531
	Germany	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,157	2,157	2,157
	Greece	—	—	—	—	—	1	—	67	1,932	2,000	—	—	—	—	—	—	—	50	50	2,050
	Portugal	—	—	—	—	—	—	—	—	—	—	675	—	—	417	—	—	—	—	1,092	1,092
	Turkey	—	—	—	—	—	—	—	—	—	—	1	—	—	—	—	—	—	—	1	1
Portugal	Greece	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	30	362	392	392
Sweden	Germany	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,865	—	2,865	2,865
	Greece	—	609	380	394	—	142	209	1,181	2,085	5,000	2,876	413	1,141	934	601	532	1,131	423	8,051	13,051
	Netherlands	—	911	38	551	—	—	—	—	500	2,000	—	—	—	—	—	—	—	—	—	2,000
	Norway	3,787	4,337	7,132	1,094	—	—	4,736	714	—	21,800	4,040	4,350	4,368	3,470	7,143	3,481	2,619	4,016	33,487	55,287
	Turkey	—	—	—	—	81	550	162	207	—	1,000	1,380	545	275	—	—	—	—	—	2,200	3,200
Turkey	Denmark	—	—	—	—	—	602	98	—	—	700	—	—	—	—	—	—	—	—	—	700
	Germany	—	—	—	—	3,363	2,865	—	—	550	6,778	—	—	—	—	—	—	—	6,722	6,722	13,500
	Greece	—	—	—	—	—	—	911	1,934	9,455	12,300	814	1,706	571	1,098	252	125	211	548	5,325	17,625
	Norway	—	—	—	—	—	—	5	79	—	84	—	—	—	—	—	—	—	—	—	84
United Kingdom	Austria	—	—	1,410	5,121	5,847	1,571	3,002	2,559	5,490	25,000	426	254	2,161	1,185	1,153	3,545	4,281	3,470	16,475	41,475
	France	28,210	17,051	25,135	20,214	24,933	8,814	2,044	12,086	48,781	187,268	—	—	—	—	—	—	—	—	—	187,268
	Germany	—	—	—	2,025	2,027	—	—	(— 368)	—	3,684	—	—	—	—	7,595	19,640	14,040	7,041	48,316	52,000
	Greece	—	2,857	4,643	—	—	—	2,500	—	14,000	24,000	9,278	2,283	2,271	2,190	1,750	2,255	2,291	2,238	24,556	48,556
	Turkey	—	—	—	—	—	6,000	1,208	792	—	8,000	3,474	860	2,442	1,107	1,250	3,036	720	4,502	17,391	25,391
Totals		87,143	56,788	74,455	68,088	81,840	76,157	76,883	55,034	120,651	677,039	146,723	47,868	29,483	30,681	68,283	60,292	62,524	71,848	517,702	1,194,741

(1) Including adjustments for September and November 1949 in accordance with Council decision C(49)229.
(2) Figures for March 1949 include two amounts taken into account for the first time which were in fact drawn in earlier months, viz. Belgium-France \$6,300,000 and Belgium-Netherlands \$7,000,000.
(3) Including drawings on Belgian loans.

Agreements for Intra-European Payments and Compensations for 1948–1949 and 1949–1950.

Utilisation of drawing rights.

B. Drawing rights received.

Recipient Countries	Countries granting drawing rights	Agreement for 1948–1949										Agreement for 1949–1950									Totals October 1948 to March 1950
		1948			1949						Nine months	1949					1950			Nine months	
		Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June		July–August	Sept.	Oct.	Nov.	Dec.(1)	Jan.	Feb.	March		
		In thousands of dollars																			
Austria	Belgium	51	80	581	517	994	430	—	1,628	219	4,500	—	322	737	1,222	1,283	1,300	1,253	962	7,079	11,579
	Denmark	3	—	—	—	—	—	—	—	97	100	—	—	—	—	—	—	—	—	—	100
	France	—	—	—	731	—	—	—	1,043	—	1,774	1,267	1,011	173	1,050	966	—	—	—	4,467	6,241
	Germany	776	74	550	9,093	3,161	5,653	7,389	2,904	—	29,600	8,957	4,916	2,811	4,021	10,812	5,176	4,224	5,381	46,298	75,898
	Netherlands	96	—	—	—	—	654	—	—	250	1,000	—	—	144	140	—	—	16	—	300	1,300
	Norway	—	—	—	—	1,047	78	265	62	48	1,500	5	—	—	2	6	—	539	—	552	2,052
	United Kingdom	—	—	1,410	5,121	5,847	1,571	3,002	2,559	5,490	25,000	426	254	2,161	1,185	1,153	3,545	4,281	3,470	16,475	41,475
Belgium	Italy	2,762	2,211	1,334	1,658	285	—	653	—	—	8,903	—	—	—	—	—	—	—	—	—	8,903
Denmark	Belgium	2,755	2,120	—	—	—	—	1,625	—	—	6,500	3,562	3,313	—	—	1,164	—	—	—	8,039	14,539
	France	—	—	—	—	—	—	383	2,317	—	2,700	6,981	—	—	—	1,019	—	—	—	8,000	10,700
	Germany	814	—	51	—	—	35	300	—	—	1,200	—	—	—	—	—	—	—	—	—	1,200
	Turkey	—	—	—	—	—	602	98	—	—	700	—	—	—	—	—	—	—	—	—	700
France	Belgium	3,803	9,901	6,951	—	—	(2) 9,345	2,644	—	4,999	37,643	—	—	—	—	—	—	—	—	—	37,643
	Germany	—	—	9,162	4,451	4,468	9,133	6,295	6,325	12,820	52,654	11,726	6,673	5,311	—	—	—	—	—	23,710	76,364
	Italy	—	362	—	—	4,097	3,791	250	—	2,500	11,000	—	—	—	585	6,497	2,581	4,787	3,960	18,410	29,410
	Norway	—	—	—	531	—	—	—	—	—	531	—	—	—	—	—	—	—	—	—	531
	United Kingdom	28,210	17,051	25,135	20,214	24,933	8,814	2,044	12,086	48,781	187,268	—	—	—	—	—	—	—	—	—	187,268
Germany	Belgium	—	170	—	2,829	—	2,800	—	9,178	6,023	21,000	—	—	—	—	—	—	—	—	—	21,000
	Italy	447	1,002	6,126	—	—	—	5,125	—	—	12,700	—	—	—	—	—	—	—	—	—	12,700
	Netherlands	—	190	—	203	439	28	360	585	195	2,000	—	—	—	—	—	—	—	—	—	2,000
	Norway	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,157	2,157	2,157
	Sweden	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,865	—	2,865	2,865
	Turkey	—	—	—	—	3,363	2,865	—	—	550	6,778	—	—	—	—	—	—	—	6,722	6,722	13,500
	United Kingdom	—	—	—	2,025	2,027	—	—	(— 368)	—	3,684	—	—	—	—	7,595	19,640	14,040	7,041	48,316	52,000
Greece	Austria	—	—	—	—	—	—	—	44	356	400	56	21	42	—	6	196	39	566	926	1,326
	Belgium	—	—	—	1,140	2,081	3,373	3,785	—	2,621	13,000	2,837	480	2,523	3,034	1,921	666	1,158	1,569	14,188	27,188
	Denmark	—	—	—	—	—	153	162	192	1,493	2,000	73	199	429	151	831	592	214	—	2,489	4,489
	France	45	1,150	1,499	977	—	—	355	974	—	5,000	4,667	2,225	—	3,108	—	—	830	—	10,830	15,830
	Germany	545	821	200	1,627	87	20	1,100	—	—	4,400	304	1,604	2,097	2,586	1,044	—	—	—	7,635	12,035
	Italy	—	—	—	—	—	—	—	908	2,146	3,054	613	5,349	22	9	75	1,107	6	325	7,506	10,560
	Netherlands	—	—	—	—	317	445	425	903	2,910	5,000	346	816	54	—	—	310	*185	361	2,072	7,072
	Norway	—	—	—	—	—	1	—	67	1,932	2,000	—	—	—	—	—	—	—	50	50	2,050
	Portugal	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	30	362	392	392
	Sweden	—	609	380	394	—	142	209	1,181	2,085	5,000	2,876	413	1,141	934	601	532	1,131	423	8,051	13,051
	Turkey	—	—	—	—	—	—	911	1,934	9,455	12,300	814	1,706	571	1,098	252	125	211	548	5,325	17,625
	United Kingdom	—	2,857	4,643	—	—	—	2,500	—	14,000	24,000	9,278	2,283	2,271	2,190	1,750	2,255	2,291	2,238	24,556	48,556
Netherlands	Belgium	2,822	2,243	6,715	6,367	20,315	(2)15,913	13,468	4,657	—	72,500	25,867	—	—	3,160	10,614	11,244	(3)17,341	(3)20,658	88,884	161,384
	Germany	3,839	—	—	2,536	—	—	2,125	—	—	8,500	—	—	—	—	—	—	—	—	—	8,500
	Sweden	—	911	38	551	—	—	—	—	500	2,000	—	—	—	—	—	—	—	—	—	2,000
Norway	Belgium	2,171	143	2,469	5,164	2,360	2,953	4,392	3,348	—	23,000	9,355	1,195	1,151	267	787	1,230	—	—	13,985	36,985
	France	—	—	—	—	—	—	—	—	—	—	—	—	—	10	671	109	1,828	4,182	6,800	6,800
	Germany	—	—	—	—	—	—	—	—	—	—	2,825	1,574	—	—	669	2,779	109	1,588	9,544	9,544
	Italy	—	—	—	—	—	—	—	—	—	—	—	—	—	133	350	335	182	—	1,000	1,000
	Netherlands	702	1,173	—	—	—	—	625	—	—	2,500	2,473	816	—	802	858	51	1,350	—	6,350	8,850
	Sweden	3,787	4,337	7,132	1,094	—	—	4,736	714	—	21,800	4,040	4,350	4,368	3,470	7,143	3,481	2,619	4,016	33,487	55,287
	Turkey	—	—	—	—	—	—	5	79	—	84	—	—	—	—	—	—	—	—	—	84
Portugal	Austria	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1	—	1	1
	Belgium	—	—	—	—	—	—	—	—	—	—	653	—	—	—	—	—	—	—	653	653
	France	—	—	—	—	—	—	—	—	—	—	2,915	—	50	—	—	—	—	—	2,965	2,965
	Norway	—	—	—	—	—	—	—	—	—	—	675	—	—	417	—	—	—	—	1,092	1,092
Sweden	Austria	177	146	—	—	22	17	—	164	—	526	—	—	—	—	—	—	—	—	—	526
	Belgium	—	—	—	208	4,292	—	1,500	—	—	6,000	—	—	—	—	—	—	—	—	—	6,000
	Denmark	—	—	79	657	303	—	—	—	—	1,039	—	—	—	—	—	—	—	—	—	1,039
	Italy	75	—	—	—	—	—	25	—	—	100	—	—	—	—	—	—	—	—	—	100
Turkey	Belgium	—	—	—	—	912	—	625	463	—	2,000	614	—	—	—	—	—	—	759	1,373	3,373
	Denmark	—	—	—	—	—	—	—	—	—	—	21	—	—	—	—	—	—	—	21	21
	France	—	—	—	—	—	—	—	—	—	—	26	690	709	—	—	—	—	—	1,425	1,425
	Italy	—	—	—	—	409	791	632	88	595	2,515	840	142	1	—	82	2	274	8	1,349	3,864
	Netherlands	—	—	—	—	—	—	—	—	586	586	133	12	—	—	—	—	—	—	145	731
	Norway	—	—	—	—	—	—	—	—	—	—	1	—	—	—	—	—	—	—	1	1
	Sweden	—	—	—	—	81	550	162	207	—	1,000	1,380	545	275	—	—	—	—	—	2,200	3,200
	United Kingdom	—	—	—	—	—	6,000	1,208	792	—	8,000	3,474	860	2,442	1,107	1,250	3,036	720	4,502	17,391	25,391
United Kingdom	Belgium	13,263	9,237	—	—	—	—	7,500	—	—	30,000	36,643	(3) 6,099	—	—	(3) 8,884	—	—	—	51,626	81,626
Totals		67,143	56,788	74,455	68,088	81,840	76,157	76,883	55,034	120,651	677,039	146,723	47,868	29,463	30,681	68,283	60,292	62,524	71,848	517,702	1,194,741

(1) Including adjustments for September and November 1949 in accordance with Council decision C(49)229.
(2) Figures for March 1949 include two amounts taken into account for the first time which were in fact drawn in earlier months, viz. Belgium-France \$6,300,000 and Belgium-Netherlands \$7,000,000.
(3) Including drawings on Belgian loans.

Agreements for Intra-European Payments and Compensations for 1948-49 and 1949-50.

A. Net deficits (—) or surpluses (+) before drawing rights.

Countries	1948	1949				1950	Total
	October–December	January–March	April–June	July–18th Sept.	19th Sept.–December	January–March	Oct. 1948–March 1950
	in millions of dollars						
Austria	— 3.8	— 34.4	— 32.9	— 11.3	— 29.3	— 29.6	— 141.2
Belgium	+ 70.1	+ 68.3	+ 129.3	+ 121.5	— 2.8	+ 78.0	+ 464.5
Denmark	— 31.4	— 6.5	+ 18.8	+ 15.5	+ 12.3	— 14.7	— 5.9
France	— 82.5	— 71.2	— 47.8	+ 137.1	+ 5.4	— 10.9	— 69.9
Germany	+ 15.3	+ 49.5	+ 26.1	+ 30.2	— 102.1	— 127.0	— 108.1
Greece	— 26.3	— 24.2	— 39.6	— 33.3	— 37.9	— 16.2	— 177.5
Italy	+ 60.2	+ 72.7	+ 82.5	+ 83.3	+ 4.3	+ 5.2	+ 308.3
Netherlands	— 12.9	— 103.3	— 30.5	+ 12.5	+ 8.0	— 61.0	— 187.3
Norway	— 60.8	— 22.1	— 20.1	— 23.6	— 37.8	— 34.6	— 199.0
Portugal	— 34.2	— 33.5	— 24.9	+ 11.9	+ 1.0	— 1.3	— 81.1
Sweden	+ 55.8	+ 6.0	+ 20.0	+ 52.1	+ 39.5	— 2.0	+ 171.4
Turkey	+ 4.4	+ 8.8	— 7.4	— 2.0	+ 19.9	— 4.5	+ 19.2
United Kingdom	+ 46.1	+ 89.9	— 73.5	— 394.0	+ 119.5	+ 218.6	+ 6.6
Total net deficits or surpluses	± 251.9	± 295.1	± 276.7	± 464.1	± 210.0	± 301.8	± 970.0

B. Net effect of drawing rights, including Belgian loans,* given (—) or received (+).

Austria	+ 3.3	+ 34.9	+ 24.4	+ 15.7	+ 29.2	+ 29.3	+ 136.8
Belgium	— 59.2	— 80.1	— 68.0	— 109.2	— 18.5	— 58.1	— 393.1
Denmark	+ 5.7	— 0.5	+ 2.8	+ 15.0	— 0.7	— 0.8	+ 21.5
France	+ 97.9	+ 88.1	+ 93.7	— 1.5	+ 4.8	+ 4.4	+ 287.3
Germany	— 8.9	— 23.7	— 17.6	— 36.1	— 24.2	+ 33.2	— 77.3
Greece	+ 12.7	+ 10.8	+ 52.6	+ 29.0	+ 36.7	+ 18.3	+ 160.2
Italy	— 14.3	— 11.0	— 12.9	— 5.4	— 9.3	— 13.6	— 66.5
Netherlands	+ 14.4	+ 43.6	+ 13.9	+ 30.6	+ 2.4	+ 47.0	+ 151.9
Norway	+ 21.9	+ 9.9	+ 11.5	+ 27.6	+ 18.6	+ 21.1	+ 110.7
Portugal	—	—	—	+ 4.3	+ 0.4	— 0.4	+ 4.3
Sweden	— 16.7	+ 2.7	— 8.1	— 14.1	— 17.5	— 15.1	— 68.7
Turkey	—	+ 1.9	— 7.7	+ 5.9	+ 4.2	+ 1.7	+ 6.1
United Kingdom	— 56.8	— 76.6	— 84.6	+ 38.2	— 26.2	— 67.1	— 273.1
Net total	± 155.9	± 191.8	± 198.9	± 166.3	± 96.4	± 155.0	± 878.7

C. Net deficits (—) or surpluses (+) after drawing rights.

Austria	— 0.5	+ 0.5	— 8.5	+ 4.4	— 0.1	— 0.2	— 4.4
Belgium	+ 11.0	— 11.8	+ 61.3	+ 12.3	— 21.3	+ 19.9	+ 71.4
Denmark	— 25.7	— 7.0	+ 21.6	+ 30.5	+ 11.7	— 15.5	+ 15.6
France	+ 15.4	+ 16.9	+ 45.9	+ 135.5	+ 10.2	— 6.5	+ 217.4
Germany	+ 6.4	+ 25.8	+ 8.5	— 6.0	— 126.3	— 93.8	— 185.5
Greece	+ 13.6	— 13.4	+ 13.1	— 4.3	— 1.2	+ 2.2	— 17.3
Italy	+ 45.9	+ 61.7	+ 69.6	+ 78.0	— 5.0	— 8.3	+ 241.7
Netherlands	+ 1.5	— 59.7	— 16.6	+ 43.1	+ 10.4	— 14.1	— 35.4
Norway	— 38.9	— 12.2	— 8.5	+ 4.0	— 19.2	— 13.5	— 88.3
Portugal	— 34.2	— 33.5	— 24.9	+ 16.2	+ 1.4	— 1.7	— 76.8
Sweden	+ 39.1	+ 8.7	+ 11.9	+ 38.0	+ 22.1	— 17.1	+ 102.7
Turkey	+ 4.4	+ 10.7	— 15.0	+ 4.0	+ 24.2	— 2.8	+ 25.3
United Kingdom	— 10.7	+ 13.3	— 158.1	— 355.8	+ 93.3	+ 161.5	— 266.5
Total net deficits or surpluses	± 123.7	± 137.6	± 231.8	± 366.0	± 173.2	± 173.6	± 674.1

* These figures include Belgian loans totalling $ 18.4 million to the Netherlands and $ 6.6 million to the United Kingdom.

SCHEDULE of PAR VALUES

as announced by the International Monetary Fund

and completed up to the end of March 1950.

Foreword.

The following is a schedule of the par values which have been established under the Articles of Agreement of the International Monetary Fund.

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 U.S. dollar of the weight and fineness in effect on July 1, 1944". For convenience, all par values in the schedule are expressed both in terms of gold and of U.S. dollars in a uniform manner and with six significant figures. Because of this method of expression, discrepancies in the last rounded decimal figures may occur in a few cases.

All computations relating to the currencies of Fund members for the purpose of applying the provisions of the Fund Agreement are based on the par values agreed with the Fund. Moreover, Fund members have certain fundamental obligations which are based on the par values. One of these is that, for exchange transactions taking place within its territories, each member (whose monetary authorities do not in fact freely buy and sell gold for the settlement of international transactions within the margins above and below par value prescribed by the Fund) must maintain the rates of exchange between its currency and the currencies of other members within one per cent. of parity in the case of spot exchange transactions, and, in the case of other exchange transactions, within margins which do not exceed the margins for spot exchange transactions by more than the Fund considers reasonable.

A member desiring to change the par value of its currency is required to give the Fund as much notice as the circumstances allow and to submit a full and reasoned statement why the proposed change is necessary. Changes in par values may be made in general only with the concurrence of the Fund and if all of the following conditions are satisfied: the member has proposed the change, the change is necessary to correct a fundamental disequilibrium, and there has been consultation with the Fund. The changes which have been made in the par values of the currencies of Fund members are summarized in the Explanatory Notes appended to this schedule.

The schedule is confined to par values established under the Fund Agreement. It does not make reference to the multiple rate systems maintained by some members.

I. Currencies of Metropolitan Areas

Member	Currency	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
Australia	Pound	1.990 62	15.625 0	.446 429	224.000
Austria	Schilling	— Par Value not yet established —			
Belgium	Franc	.017 773 4	1,750.00	50.000 0	2.000 00
Bolivia	Boliviano	.021 158 8	1,470.00	42.000 0	2.380 95
Brazil	Cruzeiro	.048 036 3	647.500	18.500 0	5.405 41
Canada	Dollar	.807 883	38.500 0	1.100 00	90.909 1
Chile	Peso	.028 666 8	1,085.00	31.000 0	3.225 81
China	Yuan	— Par Value not yet established —			
Colombia	Peso	.455 733	68.249 3	1.949 98	51.282 5
Costa Rica	Colón	.158 267	196.525	5.615 00	17.809 4
Cuba	Peso	.888 671	35.000 0	1.000 00	100.000
Czechoslovakia	Koruna	.017 773 4	1,750.00	50.000 0	2.000 0
Denmark	Krone	.128 660	241.750	6.907 14	14.477 8
Dominican Republic	Peso	.888 671	35.000 0	1.000 00	100.000
Ecuador	Sucre	.065 827 5	472.500	13.500 0	7.407 41
Egypt	Pound	2.551 87	12.188 5	.348 242	287.156
El Salvador	Colón	.355 468	87.500 0	2.500 00	40.000 0
Ethiopia	Dollar	.357 690	86.956 5	2.484 47	40.250 0
Finland	Markka	— Par Value not yet established —			
France	Franc	— No Par Value agreed with the Fund —			
Greece	Drachma	— Par Value not yet established —			
Guatemala	Quetzal	.888 671	35.000 0	1.000 00	100.000
Honduras	Lempira	.444 335	70.000 0	2.000 00	50.000 0
Iceland	Krona	.054 567 6	570.000	16.285 7	6.140 36
India	Rupee	.186 621	166.667	4.761 90	21.000 0
Iran	Rial	.027 555 7	1,128.75	32.250 0	3.100 78
Iraq	Dinar	2.488 28	12.500 0	.357 143	280.000
Italy	Lira	— Par Value not yet established —			
Lebanon	Pound	.405 512	76.701 8	2.191 48	45.631 3
Luxemburg	Franc	.017 773 4	1,750.00	50.000 0	2.000 00
Mexico	Peso	.102 737	302.750	8.650 00	11.560 7
Netherlands	Guilder	.233 861	133.000	3.800 00	26.315 8
Nicaragua	Córdoba	.177 734	175.000	5.000 00	20.000 0
Norway	Krone	.124 414	250.000	7.142 86	14.000 0
Panama	Balboa	.888 671	35.000 0	1.000 00	100.000
Paraguay	Guarani	.287 595	108.150	3.090 00	32.362 5
Peru*	Sol	....	....	....	....
Philippine Republic	Peso	.444 335	70.000 0	2.000 00	50.000 0
Syria	Pound	.405 512	76.701 8	2.191 48	45.631 3
Thailand	Baht	— Par Value not yet established —			
Turkey	Lira	.317 382	98.000 0	2.800 00	35.714 3
Union of South Africa	Pound	2.488 28	12.500 0	.357 143	280.000
United Kingdom	Pound	2.488 28	12.500 0	.357 143	280.000
United States	Dollar	.888 671	35.000 0	1.000 00	100.000
Uruguay	Peso	— Par Value not yet established —			
Venezuela	Bolivar	.265 275	117.250	3.350 00	29.850 7
Yugoslavia	Dinar	.017 773 4	1,750.00	50.000 0	2.000 00

* In November 1949, Peru introduced a new exchange system, but no agreement on a new par value has been reached.

II. Separate Currencies in Non-Metropolitan Areas of Members

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 (1)	.017 773 4	1,750.00	50.000 0	2.000 00
France					
French possessions in India	Rupee	.186 621	166.667	4.761 90	21.000 0
French Somaliland	Djibouti Franc	.004 145 07	7,503.73	214.392	.466 435
Netherlands					
Surinam	Guilder (2)	.471 230	66.004 9	1.885 85	53.026 4
Netherlands Antilles	Guilder (2)	.471 230	66.004 9	1.885 85	53.026 4
Netherlands Neu Guinea	Guilder	— Par Value not yet established —			
United Kingdom					
Gambia	West African Pound (3)				
Gold Coast	West African Pound (3)				
Nigeria	West African Pound (3)				
Sierra Leone	West African Pound (3)				
Southern Rhodesia	Southern Rhodesian Pound (3)				
Northern Rhodesia	Southern Rhodesian Pound (3)				
Nyasaland	Southern Rhodesian Pound (3)				
Cyprus	Cyprus Pound (3)	2.488 28	12.500 0	.357 143	280.000
Gibraltar	Gibraltar Pound (3)				
Malta	Maltese Pound (3)				
Bahamas	Bahamas Pound (3)				
Bermuda	Bermuda Pound (3)				
Jamaica	Jamaican Pound (3)				
Falkland Islands	Falkland Islands Pound (3)				
Kenya	East African Shilling (4)				
Uganda	East African Shilling (4)	.124 414	250.000	7.142 86	14.000 0
Tanganyika	East African Shilling (4)				
Zanzibar	East African Shilling (4)				
Barbados	British West Indian Dollar (5)				
Trinidad	British West Indian Dollar (5)	.518 391	60.000 0	1.714 29	58.333 3
British Guiana	British West Indian Dollar (5)				
British Honduras	British Honduras Dollar (6)	.622 070	50.000 0	1.428 57	70.000 0
Mauritius	Mauritius Rupee (7)	.186 621	166.667	4.761 90	21.000 0
Seychelles	Seychelles Rupee (7)				
Fiji	Fijian Pound (8)	2.241 69	13.875 0	.396 429	252.252
Tonga	Tongan Pound (9)	1.986 65	15.656 3	.447 321	223.553
Hong Kong	Hong Kong Dollar (10)	.155 517	200.000	5.714 29	17.500 0
Malaya	Malayan Dollar (11)				
Sarawak British North Borneo	The Sarawak and British North Borneo Dollars, which circulate alongside the Malayan Dollar (which is also legal tender), have the same value.	.290 299	107.143	3.061 22	32.666 7

(1) Parity with Belgian franc.
(2) = 2,015 Netherlands guilders.
(3) Parity with sterling.
(4) 20 per pound sterling.
(5) 4.80 per pound sterling.
(6) 4 per pound sterling.
(7) 13 1/3 per pound sterling.
(8) 1.11 per pound sterling.
(9) 1.2525 per pound sterling.
(10) 16 per pound sterling.
(11) 8.571 428 57 per pound sterling, or 2 shillings 4 pence per Malayan Dollar.

EXPLANATORY NOTES

I. Currencies of Metropolitan Areas

Australia (Pound) — The initial par value of the Australian pound, established on November 17, 1947, was 2.86507 grams of fine gold per pound or 322.400 U.S. cents per pound. On the proposal of the Australian Government, in which the Fund concurred, the par value of the Australian pound was changed on September 18, 1949, to 1.99062 grams of fine gold per pound or 224.000 U.S. cents per pound.

Austria (Schilling) — Par value not yet established.

Belgium (Franc) — The initial par value of the Belgian franc, established on December 18, 1946, was 0.0202765 grams of fine gold per franc or 2.28167 U.S. cents per franc. On the proposal of the Belgian Government, in which the Fund concurred, the par value of the Belgian franc was changed on September 22, 1949 to 0.0177734 grams of fine gold per franc or 2.00000 U.S. cents per franc.

Bolivia (Boliviano) — The initial par value for the boliviano, which appears in the foregoing Schedule, was established on December 18, 1946.

Brazil (Cruzeiro) — The initial par value for the cruzeiro, which appears in the foregoing Schedule, was established on July 14, 1948.

Canada (Dollar) — The initial par value of the Canadian dollar, established on December 18, 1946 was 0.888671 grams of fine gold per Canadian dollar or 100.000 U.S. cents per Canadian dollar. On September 19, 1949, following consultation with the Fund, the par value of the Canadian dollar was changed to 0.807883 grams of fine gold per Canadian dollar or 90.9091 U.S. cents per Canadian dollar.

Chile (Peso) — The initial par value for the Chilean peso, which appears in the foregoing Schedule, was established on December 18, 1946.

China (Yuan) — Par value not yet established.

Colombia (Peso) — The initial par value of the Colombian peso, established on December 18, 1946, was 0.507816 grams of fine gold per Colombian peso or 57.1433 U.S. cents per peso. On the proposal of the Colombian Government, in which the Fund concurred on December 17, 1948, the par value of the Colombian peso was changed to 0.455733 grams of fine gold per Colombian peso or 51.2825 U.S. cents per peso.

Costa Rica (Colón) — The initial par value for the Costa Rican colón, which appears in the foregoing Schedule, was established on December 18, 1946.

Cuba (Peso) — The initial par value for the Cuban peso, which appears in the foregoing Schedule, was established on December 18, 1946.

Czechoslovakia (Koruna) — The initial par value for the koruna, which appears in the foregoing Schedule, was established on December 18, 1946.

Denmark (Krone) — The initial par value of the Danish krone, established on December 18, 1946, was 0.185178 grams of fine gold per krone or 20.8376 U.S. cents per krone. On the proposal of the Danish Government, in which the Fund concurred, the par value of the krone was changed on September 18, 1949, to 0.128660 grams of fine gold per krone or 14.4778 U.S. cents per krone.

Dominican Republic (Peso) — The initial par value for the Dominican Republic peso, which appears in the foregoing Schedule, was established on April 23, 1948.

Ecuador (Sucre) — The initial par value for the sucre, which appears in the foregoing Schedule, was established on December 18, 1946.

Egypt (Pound)

The initial par value of the Egyptian pound, established on December 18, 1946, was 3.67288 grams of fine gold per pound or 413.300 U.S. cents per pound. On the proposal of the Egyptian Government, in which the Fund concurred, the par value of the Egyptian pound was changed on September 18, 1949, to 2.55187 grams of fine gold per pound or 287.156 U.S. cents per pound.

El Salvador (Colón)

The initial par value for the Salvadoran colón, which appears in the foregoing Schedule, was established on December 18, 1946.

Ethiopia (Dollar)

The initial par value for the Ethiopian dollar, which appears in the foregoing Schedule, was established on December 18, 1946.

Finland (Markka)

Par value not yet established.

France (Franc)

The initial par value of the French franc, established on December 18, 1946, was 0.00746113 grams of fine gold per franc or 0.839583 U.S. cents per franc. Since January 26, 1948, there has been no agreed par value with the Fund for the French franc.

Greece (Drachma)

Par value not yet established.

Guatemala (Quetzal)

The initial par value for the quetzal, which appears in the foregoing Schedule, was established on December 18, 1946.

Honduras (Lempira)

The initial par value for the lempira, which appears in the foregoing Schedule, was established on December 18, 1946.

Iceland (Krona)

The initial par value of the Icelandic krona, established on December 18, 1946, was 0.136954 grams of fine gold per krona or 15.4111 U.S. cents per krona. On the proposal of the Government of Iceland, in which the Fund concurred, the par value of the krona was changed on September 21, 1949, to 0.0951359 grams of fine gold per krona or 10.7054 U.S. cents per krona.

On the proposal of the Government of Iceland, in which the Fund concurred, the par value of the krona was changed on March 20, 1950, to 0.0545676 grams of fine gold per krona or 6.14036 U.S. cents per krona.

India (Rupee)

The initial par value of the Indian rupee, established on December 18, 1946, was 0.268601 grams of fine gold per rupee or 30.2250 U.S. cents per rupee. On the proposal of the Indian Government, in which the Fund concurred, the par value of the Indian rupee was changed on September 22, 1949, to 0.186621 grams of fine gold or 21.0000 U.S. cents per rupee.

Iran (Rial)

The initial par value for the rial, which appears in the foregoing Schedule, was established on December 18, 1946.

Iraq (Dinar)

The initial par value of the Iraqi dinar, established on December 18, 1946, was 3.58134 grams of fine gold per dinar or 403.000 U.S. cents per dinar. On the proposal of the Iraqi Government, in which the Fund concurred, the par value of the Iraqi dinar was changed on September 20, 1949, to 2.48828 grams of fine gold or 280.000 U.S. cents per dinar.

Italy (Lira)

Par value not yet established.

Lebanon (Pound)

The initial par value for the Lebanese pound, which appears in the foregoing Schedule, was established on July 29, 1947.

Luxemburg (Franc)

The initial par value of the Luxemburg franc, established on December 18, 1946, was 0.0202765 grams of fine gold per franc or 2.28167 U.S. cents per franc. On the proposal of the Government of Luxemburg, in which the Fund concurred, the par value of the Luxemburg franc was changed on September 22, 1949, to 0.0177734 grams of fine gold per franc or 2.00000 U.S. cents per franc.

Mexico (Peso)

The initial par value of the Mexican peso, established on December 18, 1946, was 0.183042 grams of fine gold per peso or 20.5973 U.S. cents per peso. On the proposal of the Mexican Government, in which the Fund concurred on June 17, 1949, the par value of the Mexican peso was changed to 0.102737 grams of fine gold per peso or 11.5607 U.S. cents per peso.

Netherlands (Guilder)
The initial par value of the Netherlands guilder, established on December 18, 1946, was 0.334987 grams of fine gold per guilder or 37.6953 U.S. cents per guilder. On the proposal of the Netherlands Government, in which the Fund concurred, the par value of the Netherlands guilder was changed on September 21, 1949, to 0.233861 grams of fine gold per guilder or 26.3158 U.S. cents per guilder.

Nicaragua (Córdoba)
The initial par value for the córdoba, which appears in the foregoing Schedule, was established on December 18, 1946.

Norway (Krone)
The initial par value of the Norwegian krone, established on December 18, 1946, was 0.179067 grams of fine gold per krone or 20.1500 U.S. cents per krone. On the proposal of the Norwegian Government, in which the Fund concurred, the par value of the Norwegian krone was changed on September 18, 1949, to 0.124414 grams of fine gold per krone or 14.0000 U.S. cents per krone.

Panama (Balboa)
The initial par value for the balboa, which appears in the foregoing Schedule, was established on December 18, 1946.

Paraguay (Guaraní)
The initial par value for the guaraní, which appears in the foregoing Schedule, was established on December 18, 1946.

Peru (Sol)
The initial par value of the sol, established on December 18, 1946, was 0.136719 grams of fine gold per sol or 15.3846 U.S. cents per sol. In November 1949 Peru introduced a new exchange system, but no agreement on a new par value has been reached.

Philippine Republic (Peso)
The initial par value for the Philippine peso, which appears in the foregoing Schedule, was established on December 18, 1946.

Syria (Pound)
The initial par value for the Syrian pound, which appears in the foregoing Schedule, was established on July 29, 1947.

Thailand (Baht)
Par value not yet established.

Turkey (Lira)
The initial par value for the Turkish lira, which appears in the foregoing Schedule, was established on June 19, 1947.

Union of South Africa (Pound)
The initial par value of the South African pound, established on December 18, 1946, was 3.58134 grams of fine gold per pound or 403.000 U.S. cents per pound. On the proposal of the South African Government, in which the Fund concurred, the par value of the South African pound was changed on September 18, 1949, to 2.48828 grams of fine gold per pound or 280.000 U.S. cents per pound.

United Kingdom (Pound)
The initial par value of the United Kingdom pound sterling, established on December 18, 1946, was 3.58134 grams of fine gold per pound sterling or 403.000 U.S. cents per pound sterling. On the proposal of the United Kingdom Government, in which the Fund concurred, the par value of the United Kingdom pound sterling was changed on September 18, 1949, to 2.48828 grams of fine gold per pound sterling or 280.000 U.S. cents per pound sterling.

United States (Dollar)
The initial par value for the United States dollar, which appears in the foregoing Schedule, was established on December 18, 1946.

Uruguay (Peso)
Par value not yet established.

Venezuela (Bolivar)
The initial par value for the bolivar, which appears in the foregoing Schedule, was established on April 18, 1947.

Yugoslavia (Dinar)
The initial par value for the Yugoslav dinar, which appears in the foregoing Schedule, was established on May 24, 1949.

II. Separate Currencies in Non-Metropolitan Areas of Members

Belgium
Belgian Congo

The initial par value of the Belgian Congo franc (which is at parity with the Belgian franc), established on December 18, 1946, was 0.0202765 grams of fine gold per Belgian Congo franc or 2.28167 U.S. cents per franc. On the proposal of the Belgian Government, in which the Fund concurred, the par value of the Belgian Congo franc was changed on September 22, 1949, to 0.0177734 grams of fine gold per franc or 2.00000 U.S. cents per franc.

France

The initial par values established on December 18, 1946, for the separate currencies in the French non-metropolitan areas (with the exception of French Indo-China) were as follows:

	Currency and relation to Metropolitan unit	Grams of fine gold per currency unit	U. S. cents per currency unit
Algeria Morocco Tunisia French Antilles French Guiana	Franc (Parity with French franc)	0.007 461 13	0.839 583
French West Africa French Equatorial Africa Togoland Cameroons French Somaliland Madagascar and dependencies Réunion St. Pierre and Miquelon	CFA Franc (= 1.70 French francs)	0.012 683 9	1.427 29
New Caledonia New Hebrides French Possessions of Oceania	CFP Franc (= 2.40 French francs)	0.017 906 7	2.015 00
French Possessions in India	Rupee (= 36 French francs)	0.268 601	30.225 0

Since January 26, 1948, there has been no agreed par value with the Fund for the franc of Algeria, Morocco, Tunisia, French Antilles and French Guiana and for the CFA franc. Since September 20, 1949, there has been no agreed par value for the CFP franc. There was no change in the par value of the rupee of the French Possessions in India as initially established on December 18, 1946, until September 20, 1949, when, on the proposal of the French Government, in which the Fund concurred, the par value of the rupee was changed to 0.186621 grams of fine gold per rupee or 21.0000 U.S. cents per rupee.

On the proposal of the French Government, in which the Fund concurred on March 22, 1949, the par value of the currency of French Somaliland was changed to 0.00414507 grams of fine gold per Djibouti franc or 0.466435 U.S. cents per Djibouti franc.

Netherlands

The initial par values for the Surinam guilder and the Netherlands Antilles guilder, set forth in the foregoing Schedule, were established on December 18, 1946. A par value for the New Guinea guilder has not yet been established.

United Kingdom

The initial par values for the separate currencies in non-metropolitan areas in the *United Kingdom were established on December 18, 1946, as set forth in columns* 1 and 2 below. On the proposal of the United Kingdom Government, in which the Fund concurred, the par values of the separate currencies of all these areas, except British Honduras, were changed on September 18, 1949, to the par values set forth in columns 3 and 4 below.

On the proposal of the United Kingdom Government, in which the Fund concurred, the par value of the British Honduras dollar was changed on December 31, 1949, to the par value set forth in columns 3 and 4 below.

	Currency and Relation to Metropolitan unit	1 Grams of fine gold per currency unit	2 U. S. cents per currency unit	3 Grams of fine gold per currency unit	4 U. S. cents per currency unit
Gambia . . . . Gold Coast . . . . . Nigeria . . . . *Sierra Leone*	West African Pound (Parity with Sterling)	3.581 34	403.000	2.488 28	280.000
Southern Rhodesia . Northern Rhodesia . Nyasaland	Southern Rhodesian Pound (Parity with Sterling)				
Palestine (1)	Palestinian Pound (Parity with Sterling)	3.581 34	403.000		
Cyprus	Cyprus Pound (Parity with Sterling)				
Gibraltar	Gibraltar Pound (Parity with Sterling)				
Malta	Maltese Pound (Parity with Sterling)				
Bahamas	Bahamas Pound (Parity with Sterling)	3.581 34	403.000	2.488 28	280.000
Bermuda	Bermuda Pound (Parity with Sterling)				
Jamaica	Jamaican Pound (Parity with Sterling)				
Falkland Islands . .	Falkland Islands Pound (Parity with Sterling)				
Kenya . . . . Uganda . . . . . . Tanganyika . . . . . Zanzibar	East African Shilling (20 per pound sterling)	0.179 067	20.150 0	0.124 414	14.000 0
Barbados . . . . . . Trinidad . . . . . . British Guiana . . .	British West Indian Dollar (4.80 per pound sterling)	0.746 113	83.958 3	0.518 391	58.333 3
British Honduras . .	British Honduras Dollar (4.00 per pound sterling (2)	0.888 671	100.000	0.622 070	70.000

(1) A par value for the currency of Palestine is no longer listed by the Fund because the responsibility of the United Kingdom for Palestine under the Fund Agreement terminated on May 15, 1948.

(2) Prior to September 18, 1949, the relation of the British Honduras Dollar to sterling was 4.03 per pound sterling. From September 18, 1949, through December 30, 1949, the relation of the British Honduras dollar was 2.80 per pound sterling.

United Kingdom (Continued)	Currency and Relation to Metropolitan unit	1 Grams of fine gold per currency unit	2 U.S. cents per currency unit	3 Grams of fine gold per currency unit	4 U.S. cents per currency unit
Ceylon (1)	Cingalese Rupee (13⅓ per pound sterling)	0.268 601	30.225 0		
Mauritius	MauritiusRupee (13⅓ per pound sterling)	0.268 601	30.225 0	0.186 621	21.000 0
Seychelles	Seychelles Rupee (13⅓ per pound sterling)				
Fiji	Fijian Pound (1.11 per pound sterling)	3.226 44	363.063	2.241 69	252.252
Tonga	Tongan Pound (1.2525 per pound sterling)	2.859 36	321.756	1.986 65	223.553
Burma (2)	Burmese Rupee (at par with Indian rupee, i.e. = 1 shilling 6 pence)	0.268 601	30.225 0		
Hong Kong	Hong Kong Dollar (16 per pound sterling)	0.223 834	25.187 5	0.155 517	17.500 0
Malaya . . . . (Singapore and Malayan Union)	Malayan Dollar (8.571 428 57 per pound sterling, or 2 shillings 4 pence per Malayan dollar)				
Sarawak . . . . . . British North Borneo	The Sarawak and British North Borneo Dollars, which circulate alongside the Malayan dollar (which is also legal tender), have the same value	0.417 823	47.016 7	0.290 299	32.666 7

(1) A par value for the currency of Ceylon is no longer listed by the Fund because the responsibility of the United Kingdom for this area under the Fund Agreement terminated on February 4, 1948.

(2) A par value for the currency of Burma is no longer listed by the Fund because the responsibility of the United Kingdom for this area under the Fund Agreement terminated on January 4, 1948.

ANNEXES

BALANCE SHEET

IN SWISS GOLD FRANCS (UNITS OF 0.29032258...

ASSETS			%
I—GOLD IN BARS AND COINS		267,550,388.65	35.4
II—CASH On hand and on current account with banks		42,649,694.79	5.7
III—SIGHT FUNDS at interest		1,680,909.76	0.2
IV—REDISCOUNTABLE BILLS AND ACCEPTANCES			
1. Commercial bills and bankers' acceptances	32,181,286.27		4.3
2. Treasury bills	102,999,531.—		13.6
		135,180,817.27	
V—SUNDRY BILLS CASHABLE ON DEMAND		31,262,501.07	4.1
VI—TIME FUNDS AND ADVANCES			
1. Not exceeding 3 months	26,868,737.85		3.6
2. Between 3 and 6 months.	3,566,483.31		0.5
3. Over 1 year	715,821.11		0.1
		31,151,042.27	
VII—SUNDRY BILLS AND INVESTMENTS			
1. Treasury bills			
(a) Not exceeding 3 months	66,846,974.79		8.9
(b) Between 3 and 6 months	17,644,259.41		2.3
2. Other bills and sundry investments			
(a) Not exceeding 3 months	80,714,996.14		10.7
(b) Over 1 year	10,281,455.06		1.4
		175,487,685.40	
VIII—MISCELLANEOUS ASSETS		1,554,580.70	0.2
IX—OWN FUNDS EMPLOYED in execution of the Hague Agreements of 1930 for investment in Germany (see below)		68,291,222.72	9.0
		754,808,842.63	100.0

EXECUTION OF HAGUE

FUNDS INVESTED IN GERMANY		
1. Claims on Reichsbank and Golddiskontbank; bills of Golddiskontbank and Railway Administration and bonds of Postal Administration (matured)	221,019,557.72	
2. German Treasury bills and bonds (matured)	76,181,040.—	
	297,200,597.72	

NOTE I — 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 — Of the total of the Annuity Trust Account Deposits of the Creditor Governments equivalent to Swiss gold francs 152,606,250.—, the Bank has so far received confirmation from Governments whose deposits

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 obtained all the information and explanations we have required. Subject to the value of the with the Notes thereon, is properly drawn up so as to exhibit a true and correct view of the to us and as shown by the books of the Bank, as expressed in the above-described Swiss

ZURICH, May 8, 1950.

AS AT MARCH 31, 1950

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.—	16.6
II—RESERVES			
1. Legal Reserve Fund	6,527,630.30		
2. General Reserve Fund	13,342,650.13		
		19,870,280.43	2.6
III—SHORT-TERM AND SIGHT DEPOSITS (gold)			
1. Not exceeding 3 months	244,319.37		0.0
2. Sight	96,523,116.71		12.8
		96,767,436.08	
IV—SHORT-TERM AND SIGHT DEPOSITS (various currencies)			
1. Central Banks for their own account:			
(a) Between 3 and 6 months	3,816,250.—		0.5
(b) Not exceeding 3 months	336,652,267.98		44.6
(c) Sight	33,065,117.36		4.4
2. Central Banks for the account of others:			
(a) Not exceeding 3 months	1,985,442.22		0.3
(b) Sight	388,109.42		0.1
3. Other depositors:			
(a) Not exceeding 3 months	21,717,561.51		2.9
(b) Sight	2,224,222.24		0.3
		399,848,970.73	
V—MISCELLANEOUS		6,246,314.74	0.8
VI—PROFIT AND LOSS ACCOUNT balance carried forward		2,627,272.95	0.3
VII—PROVISION FOR CONTINGENCIES		104,448,567.70	13.8
		754,808,842.63	100.0

AGREEMENTS OF 1930

LONG-TERM DEPOSITS		
1. Annuity Trust Account Deposits of Creditor Governments (see Note II)	152,606,250.—	
2. German Government Deposit	76,303,125.—	
	228,909,375.—	
OWN FUNDS EMPLOYED in execution of the Agreements (see Item IX above)	68,291,222.72	
	297,200,597.72	

amount to the equivalent of Swiss gold francs 141,649,121.25 that they cannot demand from the Bank, in respect of their claims on the Annuity Trust Account, the transfer of amounts greater than those of which the Bank can itself obtain reimbursement and transfer by Germany in currencies approved by the Bank.

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 208.— per share or in total Swiss gold francs 41,600,000.

accounts of the Bank for the financial year ending March 31, 1950, and we report that we have funds invested in Germany, we report that in our opinion the above Balance Sheet, together state of the Bank's affairs according to the best of our information and the explanations given gold franc equivalents of the currencies concerned.

PRICE WATERHOUSE & Co.

PROFIT AND LOSS ACCOUNT

for the financial year ended March 31, 1950

		Swiss gold francs
Net Income from the use of the Bank's capital and the deposits entrusted to it (including net exchange gains)		8,874,596.29
Transfer fees		455.23
		8,875,051.52
Costs of Administration:—		
Board of Directors — fees and travelling expenses	163,206.97	
Executives and staff — salaries, pension contributions and travelling expenses	2,225,393.81	
Rent, insurance, heating, light and water	98,371.36	
Renewals and repairs of building and equipment	169,213.71	
Consumable office supplies, books, publications, printing	196,941.97	
Telephone, telegraph and postage	141,965.62	
Experts' fees (auditors, interpreters, etc.)	22,248.52	
Cantonal taxation	35,676.63	
Miscellaneous	79,177.83	
	3,132,196.42	
Less: Expenses incurred as Agent under the Agreements for Intra-European Payments and Compensations	284,417.85	2,847,778.57
		6,027,272.95
The Board of Directors has decided that it is necessary to transfer		
to the account for exceptional costs of administration	400,000.—	
to the provision for contingencies	3,000,000.—	3,400,000.—
Balance carried forward		2,627,272.95

BOARD OF DIRECTORS*

Maurice Frère, Brussels	Chairman of the Board of Directors President of the Bank
Sir Otto Niemeyer, London	Vice-Chairman

Wilfrid Baumgartner, Paris
Klas Böök, Stockholm
Baron Brincard, Paris
Cameron F. Cobbold, London
Henri Deroy, Paris
Dr M. W. Holtrop, Amsterdam
Albert E. Janssen, Brussels
Prof. Dr. Paul Keller, Zurich
Dr Donato Menichella, Rome
Prof. P. Stoppani, Rome
Dr Wilhelm Vocke, Frankfurt a/M.

Alternates

Hubert Ansiaux, Brussels
Jean Bolgert, Paris
Sir George L. F. Bolton, London, or
John S. Lithiby, London
Dr Paride Formentini, Rome

EXECUTIVE OFFICERS

Roger Auboin	General Manager, Alternate of the President
Dr Raffaele Pilotti	Secretary General
Marcel van Zeeland	First Manager, Head of Banking Department
Per Jacobsson	Economic Adviser, Head of Monetary and Economic Department
Oluf Berntsen	Manager
Frederick G. Conolly	Manager

Fabian A. Colenutt	Deputy Secretary

* With regard to the Japanese membership of the Board, the legal consequences arising from the situation at the date of this Report remain to be determined.

1st April 1950.