BANK FOR INTERNATIONAL SETTLEMENTS

TWENTY-FIRST ANNUAL REPORT

1st APRIL 1950 — 31st MARCH 1951

BASLE

11th June 1951

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TWENTY-FIRST ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held at

Basle, 11th June 1951.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the twenty-first financial year, which began on 1st April 1950 and ended 31st March 1951. The results of the year's business operations are set out in detail in Chapter IX, together with a general review of the current activities of the Bank and an analysis of the balance sheet as at March 31st 1951.

The financial year closed with a surplus of 6,088,693.31 Swiss gold francs, of which 300,000 Swiss gold francs have been transferred to the account for exceptional costs of administration and 2,700,000 Swiss gold francs to the provision for contingencies. The net profit for the year thus amounts to 3,088,693.31 Swiss gold francs, to which is to be added the balance carried forward from the preceding year, making a total of 5,715,966.26 Swiss gold francs. After allocation of 5 per cent. to the legal reserve fund and with the inclusion of the undistributed balance from the financial year ended 31st March 1944, there is an amount of 5,431,822.44 Swiss gold francs available.

The Board of Directors recommends that out of this amount the present General Meeting should declare a dividend of 12.53 Swiss gold francs per share, payable in Swiss francs in the amount of 17.90 Swiss francs per share, and that the balance of 2,925,822.44 Swiss gold francs should be carried forward.

At the end of the previous financial year there had been a surplus of 6,027,272.95 Swiss gold francs, of which 400,000 Swiss gold francs had 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 had been carried forward.

The surplus for the financial year just ended has thus been of the same order of magnitude as that for the preceding financial year. On the other hand, the total of the balance sheet reflected a further expansion of the active resources of the Bank (that is to say the funds other than those connected with the Hague Agreements, which are shown in the lower section of the balance sheet).

The following table shows the movements of the Bank's active resources during the past four financial years.

B. I. S.: Active resources and their utilisation.

Date	Resources			Utilisation		
	Short-term and sight deposits	The Bank's own funds *	Total	Actual gold and investments in gold	Credits and investments in currencies	Total
	In millions of Swiss gold francs					
1948 31st March	75	184	259	143	116	259
1949 „ „	242	183	425	188	237	425
1950 „ „	497	189	686	285	401	686
1951 „ „	761	196	957	377	580	957

* Including reserve for minor liabilities.

The expansion is entirely due to the increase in the deposits, in gold and in currencies, which the European central banks have entrusted to the Bank for International Settlements. This development has made it possible for the Bank, as a centre of co-operation between these banks, to continue to extend the scope and range of the services it can render them.

The transactions of the Bank, whether they have been in connection with deposits and credits at short term, with foreign exchange operations, or with sales, purchases and exchanges of gold, have always been carried out in conformity with the monetary policy of the central banks concerned.

Through its various activities and thanks to the spirit of co-operation with which it has invariably met in its dealings with the central banks, the Bank for International Settlements has been able to consolidate the financial results already obtained in previous years, although no resumption of transfers on the assets connected with the Hague Agreements has as yet been possible. It should be added that in these respects the Bank has done everything in its power to protect the interests which it represents.

Since 1st July 1950 the Bank for International Settlements has been performing the functions of Agent for the Organisation for European Economic Co-operation in the working of the "Agreement for the Establishment of a European Payments Union", which has replaced the intra-European payments and compensations agreements in force previously. As was the case under the earlier agreements, the Bank is playing a purely technical rôle in relation to the European Payments Union, and it is anxious to add that in carrying out its task it has received all the assistance needed from the monetary authorities concerned.

The Bank has also continued to co-operate on a satisfactory basis with the other technical international organisations, in particular the International Bank for Reconstruction and Development and the International Monetary Fund.

As in previous years, the Monetary and Economic Department of the Bank has been actively engaged in the preparation of the Annual Report and other documents published, and in making special studies in response to requests by the central banks. In this sphere too, the increasing degree of co-operation between the European central banks has been most encouraging.

* * *

The outbreak of the conflict in Korea suddenly gave a new slant to the economic as well as the political outlook, thus dividing the year 1950 for many countries — and above all for the United States — into two contrasting halves, the change in trend being reflected most strikingly in the development of prices, production and the network of international trade and payments. Inevitably, the great changes in the United States had their repercussions on the economic and financial position of other countries. It is, however, important not to exaggerate the extent of this sudden twist but, rather, to examine the evolution of the various economies in relation to previous developments. As far as most European countries are concerned there was little increase in armament expenditure during 1950, and in many cases the more radical alterations in the cost of living and in wages did not take place before the early months of the following year. 1950 was essentially a year of continued consolidation of that astonishing progress which Europe had been making with only slight interruptions since the crisis of 1947 — a year which had been fraught with such difficulties that the rather easy-going post-war optimism vanished abruptly and new, determined efforts were made to get a grip on the situation through national exertions helped by substantial aid from the United States.

Looking back over the years which have passed since hostilities ceased, one is now better able to discern the difficulties which have had to be overcome and, particularly, the losses which have had to be made good after nearly six years of destruction and disorganisation.

1. In the first place, it is necessary to mention the loss of life and disablement not only among soldiers but also among civilians. It is true that overall figures show that the population of Europe was somewhat larger in 1925 than in 1913 and that between 1939 and 1950 the increase was as much as 10 per cent. In both cases, however, war losses had been heavy among young people — often the bravest and best, with their main achievements still in the future. For this reason the losses have their maximum effect after the lapse of fifteen to twenty-five years, when a new generation of mature men should be taking over from their elders (such belated after-effects of the first world war are still being felt in France and the United

Kingdom, for instance). Fortunately for some countries, the loss of life which they sustained in the second world war was on a smaller scale: estimates put the number of killed at 400,000 for the United Kingdom and 650,000 for France. But the U.S.S.R., as well as Poland, suffered more during the second war, and the German losses were also heavier, being estimated to have reached 3.5 million, including civilian casualties.* For western Germany the influx of refugees, although causing difficulties of many kinds, has undoubtedly met part of the great need for additional manpower.

In contrast to what happened during the first world war, there was a rather remarkable increase in the birth rate in a large number of countries already during the second world war, and since it came to an end the birth rate has, in general, remained above pre-war.

Birth rates in various countries.

Countries	1913	1918	1928	1938	1943	1945	1949
	Rates per 1,000 inhabitants						
Belgium	22.4	11.3	18.4	15.8	14.8	15.7	17.2
Czechoslovakia .	33.0 (1)	22.4	23.3	16.7	21.5	19.5	22.1
Denmark	25.6	24.1	19.6	18.1	21.4	23.5	18.9
France	18.8	12.1	18.2	14.6	16.0	16.5	21.0
Germany	27.5	14.3	18.6	19.6	16.0	15.9 (2)(3)	16.6 (3)
Italy	31.9	18.2	26.7	23.8	20.0	18.5	20.0
Netherlands . . .	28.3	24.8	23.3	20.5	23.0	22.6	23.7
Norway	25.1	24.6	17.9	15.4	18.9	20.0	19.5
Sweden	23.2	20.3	16.0	14.9	19.3	20.4	17.4
Switzerland . . .	23.2	18.7	17.3	15.2	19.2	20.1	18.4
United Kingdom .	24.2	18.1	17.2	15.5	16.6	16.2	17.0
United States . .	25.5	24.7	19.7	17.6	21.5	19.6	24.0

(1) Estimates for 1905–09. (2) 1946 average. (3) For western Germany.

Note: In a few countries the rise in the birth rate had already begun in the late thirties. Gradually it became a general European phenomenon, appearing both in Catholic and in Protestant countries. To some extent the increase is clearly connected with a rise in the marriage rate, which is at least partly the result of a high level of employment and also reflects a growing disposition to establish family ties without waiting until the breadwinner has a "safe job" and other conditions of the same kind are present.

At the same time, death rates have continued to decline — especially the rate of infant mortality — the consequence being an appreciable increase in the excess of births, which in most countries of western Europe had shown a downward trend until the very end of the inter-war period. In France the aggregate increase in population during the five years 1945–49 reached an annual average of about 500,000, this being the highest level for any five-year period since the regular compilation of population statistics was first undertaken in France in 1811.

* The United States lost 126,000 in the first world war and over 300,000 in the second. The total population increased by 21 million between 1939 and 1950, and the number of persons actively employed rose from 45 million in 1939 (when there were 9½ million unemployed) to about 60 million in the spring of 1951, when there were about 2½ million unemployed.

In many countries of the world the natural increase in population is already so large that the raising and even the maintenance of the standard of living are becoming difficult problems. But for several European countries with considerable possibilities of further economic development the danger, between the two wars, came decidedly from the opposite direction. At present the birth rate required to maintain a stable population is, as a rule, about 20 per mille in Europe, and the rise in birth rates from the low point reached in the 1930s is not likely to lead to over-population in this continent. It will obviously be some years before the higher birth rate affects conditions on the labour market — indeed many countries in Europe still have difficulty in finding sufficient manpower for all their economic and other needs. Whatever may be the particular difficulties of a few countries, there is no "structural" reason for uneasiness about surplus manpower in general in Europe — and that is even truer of the western world as a whole — provided more rational methods for utilising existing possibilities are arrived at and sufficient freedom of movement is ensured.

2. There was more direct damage to property in Europe in the second than in the first world war — and there was also much material damage in areas such as the Malay peninsula and Indonesia, which had been untouched by actual hostilities during the first world war. In addition, the enforced neglect of repairs and maintenance and the wear and tear of household articles, etc. represented, in general, a greater drain on resources in the second world war.

The recuperative power of modern economies is, however, considerable and, although repair of war damage will still be a charge in the budgets of several countries for some ten or fifteen years to come, the apparatus of production has, within the space of a few years, been re-established in such a way as to give a yield well above the pre-war level.

There has been another kind of damage less easily made good, viz. the loss of foreign investments. As a result of the two world wars, France almost lost its status as a creditor nation. In the first world war the United Kingdom used up some £850 million of overseas investments and in the second world war about £1,100 million (out of a total of approximately £3,700 million in 1939). On the second occasion it also incurred debts to other countries in order to obtain the resources needed for the prosecution of the war. Some £3,000 million was added in this way to the sterling balances, which amounted to about £800 million before the war, when they were held by various central banks or private firms and individuals as part of their monetary reserves or as a working balance. Now that prices of raw materials and most other commodities dealt in within the sterling area are, on an average, quite three times as high as before the war, a more tolerable relation is being re-established between the current liabilities of the

United Kingdom and its liquid resources — but at the same time the rise in prices has been reducing the real value of long-term bonds and has thus caused a further forfeiture of the fruits of investments made out of the past savings of the European countries.

3. The losses in foreign investments necessitate changes in the flow of goods and services entering into international trade and may be regarded as part of the disorganisation caused by war. When trade currents are diverted from their normal channels, price structures distorted and monetary systems upset, it may take a considerable time to overcome the disruptive effects; and such damage may well turn out to be a more serious consequence of the war than material destruction.

At the time when the second world war came to an end, the internal monetary and price mechanism had been disorganised to almost as great an extent as the system of international trade and payments — as a result, on the one hand, of the smallness of output for civilian requirements and, on the other, of the excessive volume of money created by war finance. In various countries a spectacular rise in prices ensued from this lack of balance between the volume of money and the supply of goods. In others prices and wages were kept more under control but, so long as the excess supply of money remained, production was hampered and distorted by the lack of adequate stocks, by "bottlenecks", and by the scarcity of labour in essential industries. In addition, lack of consumer goods seemed to discourage effort on the part of the worker even more effectively than high tax rates. In his Presidential address to the Royal Economic Society in 1947, Sir Hubert Henderson, discussing the "repressed inflation" in the United Kingdom, expressed the opinion that:

> "the excess of aggregate demand today is probably responsible for a greater waste of productive power than resulted from the deficiency of aggregate demand in the 1930s; it cannot be allowed to persist indefinitely without disaster."

To cure the disequilibrium between the volume of money and the supply of goods and services the most obvious remedy would seem to be to increase production. But in many countries the disequilibrium was too large to be removed by this method alone. Nor did it help matters when the increased output was allowed to give rise to a corresponding amount of fresh purchasing power (and still less when the expansion of production was financed by new central-bank money).

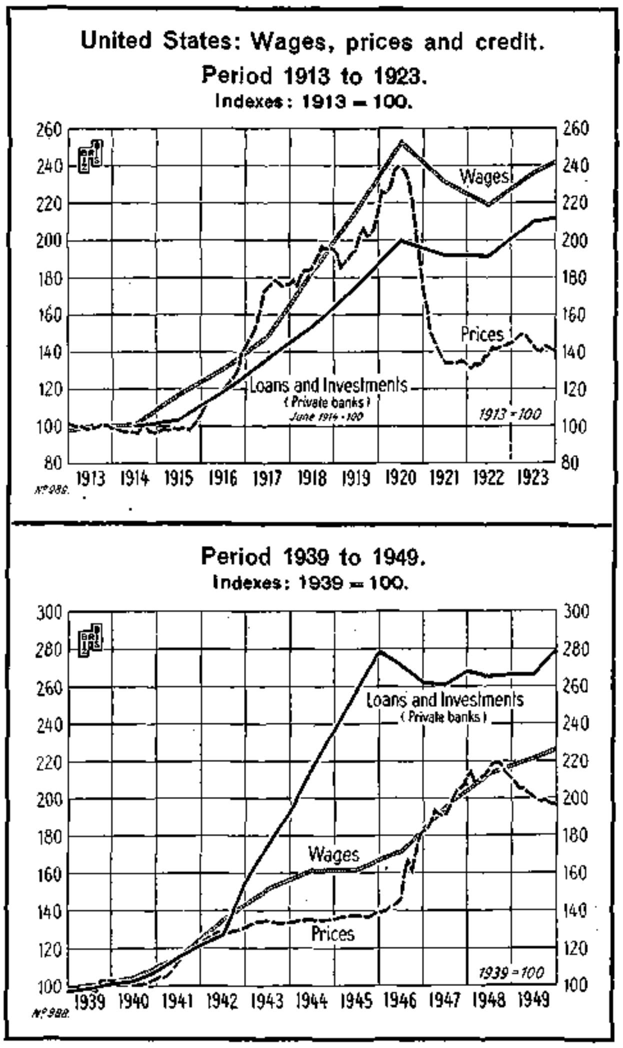
To reduce an existing volume of money is by no means simple, and only a few countries have tried it (see page 13); but steps to prevent fresh money from being issued can more easily be taken and such action will ensure that, with increasing output (and in most cases increasing prices), equilibrium will ultimately be reached between the volume of money and the supply of goods and services. Then — and only then — will the balancing mechanism operate, first on the home market (whose capacity to adapt itself to changing conditions will benefit by the renewed effectiveness of the price system) and afterwards, by natural sequence, in relation to other economies as well. Extraordinary as it may seem, balance-of-payments problems have been very widely regarded as something separate from the internal economy, although it could be shown for one country after the other that the aggregate demand for goods and services exceeded the supply — the consequence being that imports tended to rise and exports to fall and a "gap" to emerge which had to be filled by means of domestic reserves or foreign aid. On page 102 of this Bank's nineteenth Annual Report (published in June 1949) it was pointed out that:

> "There is a link between what is imported and what must be exported. Imports always absorb a part of the domestic purchasing power and, in a country where there is no inflation (i. e. no addition to the volume of purchasing power beyond what the current increase in production requires), this absorption sets free a corresponding part of the national production for export ... In fact, the home producers will be once more under compulsion to export. The important thing is, on the one hand, to arrest internal inflation and, on the other, to reinstate the stabilising mechanism which resides in the fact that, once this full monetary balance has been established internally, imports lead to exports — and that is the case not only because imports put purchasing power at the disposal of the seller countries but also because the importing country must needs export in its turn if goods are not to remain unsold."

4. It is no easy matter to reinstate "the stabilising mechanism" in the interplay of finance, production and commodity markets after it has been put out of gear by the war; and the task is not made easier by the fact that ideas have survived from an earlier period which are certainly not applicable to the task of post-war reconstruction. The great depression of the 1930s, with the terrific losses it occasioned and the persistence of a high unemployment figure in some of the leading industrial countries, made a very great impression on people's minds and affected their economic beliefs more profoundly than either of the two world wars. In the theoretical sphere there was Keynes's "General Theory of Employment, Interest and Money" (published in 1936) and in the practical sphere the "New Deal" in the United States and, in a different setting, Germany's policy of full employment, public works and rearmament, financed under conditions approximating to a closed economy. In all these cases "cheap money" and substantial additions to the volume of monetary demand played a decisive rôle — and there was clearly much to be said for an expanding supply of purchasing power at a time when goods were piling up, investment possibilities were less obvious, foreign trade was largely stagnating and a great deal of the available productive capacity (men, machines and materials) remained unutilised. That was, however, a most unusual situation, and it underwent a radical change when the second world war broke out. But strangely enough the policy of maintaining a low

level of interest rates could still be applied, since in wartime the volume of government borrowing would not be affected by higher rates and the volume of private investment could be adjusted through the operation of direct controls (in particular, allocation of materials). The system seemed to work well under the conditions prevailing, and authoritative voices forecast that it would continue to be applied after the war — this view receiving support from the wide-spread assumption that a depression would set in not long after hostilities had ceased and that conditions would thus be similar to those which had characterised the 1930s.

Contrary to these expectations, business remained good, with a pronounced sellers' market and a nearer approach to full employment than had ever been known in peacetime. Nevertheless, the idea of a coming depression was hard to kill and, quite apart from the inference to be drawn from the continued cheap-money policy of most financial authorities, the attitude of the business community bore witness to this fact. Among producers and traders all over the world a fear of over-large supplies, which would bring prices down to an unremunerative level, caused a tendency to restrict production of raw materials and other goods too. It was not sufficiently realised that in the United States (regarded as the prospective country of origin of the new depression) the relation which costs and prices bore to the volume of credit (as indicative of the monetary demand) was this time very different from what it had been after the first world war.



There is a marked similarity in the movements of the credit supply in the two post-war periods. But in the first world war the rise in costs and prices was greater than the expansion of credit, while in the second world war, thanks largely to the price and cost controls then imposed, the cost-and-price structure was kept well within the credit volume. Thus on this occasion there was no need for any downward adjustment of costs and prices once the war was over — on the contrary, a considerable rise in costs and prices was indicated, in order to restore equilibrium — and consequently there was no reason to expect a repetition of the short, though sharp, recession which had set in in 1920 immediately after the end of the first world war. Nor did the situation provide any grounds for fearing, in the near future, the emergence of a prolonged depression, since investment requirements (kept waiting during the war and expanding with the increase in population) were considerable.

One thing, then, is certain: the state of affairs which followed the second world war was just the opposite of the situation in the 1930s. Inflation has reigned instead of a slump in prices; there has been no abundance of savings but a scarcity of resources for financing investments. It has proved singularly difficult, however, to liberate men's minds from the hold which pre-war ideas and policies had obtained over them. Perhaps the greatest effect was produced by the rapid recovery of the United States from the minor recession of 1949 — a recovery which had already firmly asserted itself before the outbreak of the conflict in Korea in the middle of 1950. And with new rearmament expenditure coming on top of a pre-existent boom, it is obvious that the main monetary task now is to stop inflation from getting the upper hand.

It would, however, be giving a wrong impression to suggest that the struggle against an excess of money is wholly of recent origin. In some countries the redundancy inherited from the war was never in doubt — and for that reason three of them, Belgium, the Netherlands and Denmark, had no sooner regained their freedom than they took steps to curtail the supply of money, in the first place by blocking part of the circulation (notes and deposits) and, in the second place, by devoting the proceeds of special taxes to a deflation of the credit volume. Still more drastic steps were taken by certain countries which actually cancelled the major part (up to 90 per cent. or even more) of the purchasing power in the hands of the public and of financial institutions. To this group belong Austria (in 1945 and again in November 1947), the U.S.S.R. (in December 1947), Germany (in 1948 — the three western occupying powers for their zone in June and the U.S.S.R. for its zone a little later in the same month) and Poland (in November 1950 — see page 134). Naturally, questions of equalisation and compensation for losses have arisen, and they have been solved in different ways — a great part of the loss always being borne by the holders of notes and deposits, however. It is possible to argue that, had no cancellation been made, prices would have increased so sharply that great losses would, even so, have been caused to holders of money claims.* But, though this may be true, the loss actually suffered is what is remembered, and the memory of it naturally lingers; it will require a most careful monetary policy in the future to regain the confidence of those who can normally be counted on to save, and to revive their willingness to invest their savings on a substantial scale in long-term money claims.

But even in those countries in which there has been no curtailment of the supply of money, the redundancy being absorbed largely as the result of an increase in prices (and to a lesser extent through an increase in the supply of goods and services), the ordinary man has found the situation disturbing because the price rise has tended to be so considerable. Thus, in the United States, the country whose price movements are of predominant importance for the world trend, the post-war rise was more pronounced than the rise during the war.

United States: Movements of money supply and of prices and wages.

Items	June 1939 to June 1945	June 1945 to December 1948	December 1948 to December 1950
	percentage change		
Currency in circulation	+ 316	+ 4	— 4
Demand deposits(¹)	+ 152	+ 24	+ 9
Total money supply	+ 182	+ 19	+ 6
Wholesale prices	+ 40	+ 53	+ 8
Consumers' prices	+ 31	+ 33	+ 4
Wage rates(²)	+ 62	+ 33	+ 12

(1) Adjusted demand deposits of business and individuals with the banking system. (2) Hourly earnings.

For a number of European countries whose prices, compared with those of the United States, were definitely on the high side in 1945, the increase in American prices since the middle of that year made it easier to restore equilibrium on foreign account. Belgium and Switzerland were among these countries and their task was facilitated by the fact that they never succumbed to the idea that a plentiful supply of funds and rigidly cheap money were required by the post-war economy. Their attitude was rather exceptional however: in various countries, especially in 1946, the supply of money was subjected to a process of expansion, which operated directly in cases where budget deficits were covered by resort to the central bank, and indirectly in countries where the budgets were less seriously in disequilibrium but central-bank operations were undertaken for the purpose of keeping long-term rates of interest artificially low. After the failure of the attempt to re-establish convertibility of sterling in the summer of 1947, however, long-term interest rates in the United Kingdom were allowed to rise from the pegged rate of 2½ to about 3 per cent. as part of a general financial programme which included the realisation of an overall surplus in the budget, while in Sweden the pegging of the rates continued although an attempt was made to cut down investments and imports by direct control.

* After the complete annihilation of the value of the German mark in the years following the first world war, provision was made for a "revaluation" of different kinds of money claims, the compensating increase varying somewhat from province to province, since not only a national but also regional equalisation funds had been formed. For "savings deposits" for instance, the rates of revaluation would seem to have varied between 15 and 29 per cent.

In 1947 Italy, having experienced the obvious economic and social evil of rapidly rising prices (which went up to fifty-five times the pre-war level), also succeeded in attaining stability, mainly through a slowing-down in the expansion of credit. In the same year the Bank of France increased its rate of discount in several stages from $1^5/_8$ to $2^1/_2$–3 per cent., thus giving an indication of its intention that money should be less cheap and plentiful — a policy which, like Italy, France had decided to follow in order to overcome the inflation.

E.C.A. aid: Allotments to participating countries.

3rd April 1948 to 30th June 1951.

Countries	Direct grant	Loan	Conditional aid	Total (1)	Approximate percentage in relation to national income
	in millions of U.S. dollars				percentages
Austria	515.7	—	4.7	520.4	9½
Belgium-Luxemburg	17.7	52.6	460.8	531.1	4
Denmark	204.3	31.0	9.1	244.4	3
France	2,034.1	182.4	61.4	2,277.9	4
Germany (western) (2)	973.2	—	218.6	1,191.8	2½
Greece	453.6	—	—	453.6	13
Iceland	10.7	4.3	3.5	18.5	6
Ireland	18.0	128.2	—	146.2	5
Italy	1,068.8	73.0	85.8	1,227.6	5
Netherlands (3)	775.5	150.7	31.6	957.8	8
Norway	173.5	35.0	10.9	219.4	5
Portugal	5.5	34.7	8.3	48.6	.
Sweden	—	20.4	98.1	118.5	1
Trieste	34.3	—	—	34.3	.
Turkey	34.8	73.0	17.3	125.1	2
United Kingdom	1,836.9	336.9	532.1	2,705.9	3
European Payments Union	350.0	—	—	350.0	.
Prepaid Freight Account	56.0	—	—	56.0	.
Total	8,562.6	1,122.2	1,542.2	11,226.9	3½

(1) Excludes G.A.R.I.O.A. (i.e. Government Appropriations and Relief for Imports in Occupied Areas) and funds for special programmes such as technical assistance, strategic materials and relief shipments.

(2) Includes allotments previously assigned to the Bizone and the French Zone.

(3) Includes aid to Indonesia prior to 1st July 1950.

Note: Of the $11,226.9 million allotted up to the end of June 1951 a total of $9,187 million had been actually used to pay for the following goods and services:

	In millions of U.S. dollars
Food, fodder and fertilisers	2,830
Fuel	1,284
Raw materials and semi-finished products	2,791
Machinery and vehicles	1,163
Miscellaneous and unclassified	462
Total of commodities	8,530
Ocean freight	627
Technical services	23
Shipping disbursements	7
Total of services	657
Grand total of E.C.A. expenditure up to 28th February 1951	9,187

Some serious efforts characterised by a new sense of realism were then made in individual countries; but it is questionable at what rate results could have been obtained had it not been for the promise of aid from the United States in 1947 and its actual appearance in 1948. This aid was conceived, in the first place, as a means of helping to pay for imports, principally from the dollar area. But at the same time it had another aspect: it represented "additional free resources" equivalent to savings on the home market — indeed, more valuable than "domestic savings" since, as dollar purchasing power, it could be used to buy materials, machines and articles which would otherwise have been hard to obtain and the lack of which would have meant troublesome bottlenecks. For the countries of western Europe it is estimated that, in the years July 1948 to June 1950, the rate of their own net domestic saving worked out at 10–12 per cent. of the national income; on an average, Marshall aid was equal to about 3½ per cent. of the national income, and thus increased the available savings by about one-third — a very real contribution, without which the volume of investment would have had to be severely curtailed.

The amounts voted as Marshall aid and thus made available to the Economic Co-operation Administration ("E.C.A.") reach a total of $12.3 milliard for the whole period from April 1948 to June 1951. Up to 3rd April 1951 (the last date for which, at the time of writing, a report of the E.C.A. was available) allotments had been made as shown in the preceding table.

The circumstance that the largest item is foodstuffs, i. e. a typical form of consumption goods, is, of course, quite compatible with the fact that the recipient countries — thanks to these imports — have been able to expand their volume of investments beyond what would otherwise have been within their capacity; for the receipt of these goods increased the countries' real resources, and the amounts of local currency received in payment for such goods were normally treated as funds to be used for purposes other than public or private consumption. As early as 1948 the majority of the governments concerned were able to cover their current expenditure by current revenue and were also beginning to pay for a part of their investments out of tax receipts. This being the case, the additional resources obtained through Marshall aid were free for capital purposes.

When the E.C.A. disburses the dollar aid, "counterpart funds" have to be deposited in the local currency at rates agreed upon; there is then a time-lag between the depositing of the funds and the approval of amounts for particular purposes and often a further time-lag between the approval and the actual withdrawal of the amounts for the uses approved. As regards the utilisation of counterpart funds, information has been available up to the end of January 1951 and is summarised in the following table, it being understood that the "dollar equivalents" give only an approximate idea of the magnitudes involved.

It may, of course, happen that the financing of certain specific tasks by counterpart funds sets resources of domestic origin (e. g. current savings) free for other outlay, so that the beneficial effects may have been wide indeed. But in order to determine what more immediate use has been made of these additional resources, obtained from abroad, it is natural to consider, in the first place, the purposes for which counterpart funds have been released, and in that connection it is possible to distinguish between three different cases:

1. In so far as the resources received have been devoted to "promotion of production" the official allocation of the funds gives, on the whole, an adequate idea of the investments which have been financed by Marshall aid,

Counterpart funds available for withdrawal and amounts approved for withdrawal up to 31st January 1951.(1)

Countries	Amounts approved for withdrawal				Amounts not yet approved for withdrawal	Deposits available for withdrawal(3)
	Promotion of production	Financial stabilisation (2)	Other purposes	Total approved		
	equivalents in millions of U.S. dollars					
France	1,771	171	127	2,069	48	2,117
United Kingdom	1	1,529	2	1,532	7	1,539
Germany (western)	515	—	208	723	231(4)	954(4)
Italy	415	—	150	565	221	786
Netherlands(5)	174	—	90	264	377	641
Austria	270	85	32	387	121	508
Greece	106	—	170	276	224	500
Norway	—	201	—	201	68	269
Denmark	27	88	4	119	31	150
Turkey	19	—	—	19	49	68
Trieste	21	—	—	21	3	24
Portugal	7	—	—	7	10	17
Iceland	—	—	—	—	8	8
Ireland	—	—	—	—	3	3
Belgium-Luxemburg	2	—	—	2	0	2
Total	3,328	2,074	783	6,185(6)	1,400	7,585

(1) The figures in the above table include $568 million in respect of "Interim aid" granted to Austria, France and Italy in advance of and in addition to the E.R.P. allocations. (2) Actually debt retirement.
(3) The amounts available for withdrawal are somewhat less than the total deposited as counterpart funds owing to special allocations (5 per cent. reserved for the U.S. authorities).
(4) Including $159.5 million representing the undisbursed balance of G.A.R.I.O.A. counterpart funds out of a total of $298.3 million. (5) Including Indonesia.
(6) Including $15.4 million not yet withdrawn, nearly all figuring under the heading "Promotion of production".

and the same applies to releases for "other purposes", as shown in the above table (the most important of these other purposes being, for several countries, "housing", although in Greece "care of refugees" has been an even larger item).

France has devoted over 85 per cent. of its share of Marshall aid to "promotion of production", the funds being channelled to the "Fund for Modernisation and Equipment". A preliminary estimate by the "Commission on Investments" puts total investments in 1950 at about Fr.fcs 1,350 milliard, or some 4½ per cent. more than in the previous year. Of the total, Fr.fcs 1,130 milliard (equal to about $3.2 milliard) was invested in metropolitan France (the rest being employed in North Africa, the colonies and the Saar) and this amount was financed in the way indicated by the figures.

		In milliards of French francs
Public funds:	Budget resources and Treasury accounts	210
	Caisse autonome	262
	Fund for Modernisation and Equipment	300
		772
Private sources:	Bank loans and credits	75
	Market issues	33
	Self-financing	250
		358
	Grand total	1,130

In 1950 the releases of counterpart funds amounted to Fr.fcs 169 milliard and for 1951 the budget contains an estimate of Fr.fcs 115 milliard to be received from Marshall aid. The importance of these amounts may be judged from a comparison with the funds obtained from "private sources" as shown above.

In the case of Italy also the receipt of Marshall aid has played a considerable rôle, not only in providing resources for investments but also by ensuring that production would not be held up by the lack of some particular material or item of equipment, as had often happened in the past. The following two tables show the place of foreign aid in the Italian economy.

Italy: National resources and their uses (at market prices).*

Resources	1938	1948	1949	1950	Uses	1938	1948	1949	1950
	in milliards of 1950 lire (1)					in milliards of 1950 lire (1)			
National income . . .	6,600	6,000	6,525	7,250	Net investments (2) . .	1,150	1,100	1,050	1,375
Provision for depreciation and maintenance	675	575	550	550	Depreciation and maintenance . .	675	575	550	550
Gross national product	7,275	6,575	7,075	7,800	Gross investments . .	1,825	1,675	1,600	1,925
Foreign resources (3) .	25	225	150	225	Consumption	5,475	5,125	5,625	6,100
Total available resources .	7,300	6,800	7,225	8,025	Total national expenditure	7,300	6,800	7,225	8,025

* Round figures at 1950 prices.
(1) Recalculated on the basis of the average of the wholesale-price index and the cost-of-living index.
(2) Including investments in durable consumer goods.
(3) Including the following amounts of "foreign donations" (in addition to emigrants' remittances, these are mostly UNRRA, Interim aid and E.R.P. aid):

		In milliards of lire
1948	lire (at 1950 value)	170
1949	,, ,,	120
1950	,, ,,	165

Italy: Cover for gross investments.

Items	1938	1948	1949	1950
	in milliards of 1950 lire			
Net savings	1,125	875	900	1,150
Provision for depreciation and maintenance .	675	575	550	550
Gross savings . . .	1,800	1,450	1,450	1,700
Foreign resources	25	225	150	225
Total available for gross investments	1,825	1,675	1,600	1,925

2. "Financial stabilisation", i. e. debt retirement, has been the purpose for which counterpart funds have been utilised in the United Kingdom and Norway and has been the destination of the greater part of the funds released in Denmark. This does not mean that foreign aid was not used for productive purposes; on the contrary, Marshall aid goods were urgently needed to carry out the large investments which these countries were making. In these three countries there were, indeed, funds available in the form of cash holdings, bank balances or the capital market to enable investments to be undertaken on a large scale, and the use of counterpart funds for repayment of government debt then acted as a general offset to this current financing.

In the United Kingdom a special method of accounting has been applied to counterpart funds: these funds have been formed simply by the creation of special interest-free notes which the government has deposited with the Bank of England and which have been cancelled when "releases" have been made by the E.C.A. The real result has been that, since the goods and services financed by the dollar aid have been sold against sterling, the amounts received have gone to increase the surplus funds of the Treasury (the other source of these funds being the budget surpluses) and have thus been currently available for reduction of the short-term government debt. In that way the money paid to the government by the recipients of Marshall aid goods (or dollars) comes back again and increases the resources of the money market. The final "use" of the aid has thus depended upon the direction in which the market funds have flowed and here it should be borne in mind that funds of dollar origin (as the sterling funds corresponding to Marshall aid are) have to be related primarily to the foreign accounts. Revised estimates show that in 1949 the United Kingdom already had a surplus on the current account of the balance of payments, and this surplus as well as the receipts from Marshall aid and other grants thus helped to improve the position on the overall capital account.

United Kingdom: Balance of payments.

Items	1949	1950 (preliminary figures)
	in millions of £ sterling	
Current account: balance in relation to the		
sterling area	+ 284	+ 225
dollar area	— 303	— 111
other countries	+ 49	+ 115
Balance on current account	+ 30	+ 229
Net grants received(1)	+ 154	+ 139
Total current income and grants received	+ 184	+ 368
Corresponding to:		
Increase (+) in U.K. assets abroad(2)	+ 209	+ 16
Increase (+) or decrease (−) in U.K. gold and dollar holdings	− 3	+ 576
Increase (+) or decrease (−) in U.K. holdings of non-dollar currencies(3)	− 16	+ 108
Total gross increase (+) in U.K. foreign assets	+ 190	+ 700
Deduct: Increase (−) in sterling liabilities(2)	− 6	− 332
Net increase (+) in U.K. foreign assets	+ 184	+ 368

(1) After deduction of revaluation payments made by the United Kingdom to the extent of £60 million in 1949 and £4 million in 1950.
(2) Excluding, in 1949, changes due to the increase in the subscription to the International Monetary Fund and the International Bank for Reconstruction and Development.
(3) Including, in 1950, holdings of units of account in the European Payments Union.

The great change noticeable in 1950 is that in that year the surplus on current account and the grants from abroad went to swell the net gold and dollar holdings; but it should be observed that there is a connection between the upward trend of these holdings and the increase in sterling liabilities. In Chapter V a more detailed account is given of the growth of the U.K. monetary reserves, which increased by £684 million in 1950 (this figure including the credit balance in the European Payments Union and holdings of non-dollar currencies). Nearly one-half of the addition had its counterpart in an increase in sterling liabilities, i.e. was earned by other members of the sterling area, which became creditors of the United Kingdom to a corresponding extent. In view of the improvement which had occurred in the U.K. balance-of-payments position, however, it was agreed between the E.C.A. and the British Government that E.R.P. aid should be suspended from 1st January 1951 (there was, of course, no withdrawal of aid "in the pipe-line", i.e. allotted but not yet received).

In Norway the whole of the counterpart funds, and in Denmark a part of them, has been devoted to retirement of debt; but here it has been a case of repaying a debt due to the central bank (in both countries, it is the debt dating from the occupation that has thus been reduced). In this way the funds absorbed from the public have been sterilised in the central bank, but it should be remembered that a counterweight was badly needed to the strong expansionist propensity of the market itself (that this has recently been much less marked is, to a considerable extent, due to the contraction brought about by means of Marshall aid).

3. A similar sterilisation has been effected in the Netherlands, where, more than in any other country, counterpart funds have been left accumulating at the central bank. The danger in such a case is, of course, that, if the funds should be withdrawn for actual investment (e.g. promotion of production) instead of being used for financial stabilisation, the result would be an increase in the amount of central-bank credit outstanding, and this might run counter to the anti-inflationist policy.

As long as the actual flow of Marshall aid goods and services was on the increase, it was fairly easy to keep withdrawals from exceeding the current accumulations of counterpart funds; now that Marshall aid deliveries are gradually falling off, however, a rather difficult problem arises, since it is necessary to ensure that an out-payment of funds by the central bank will not add to the inflationary forces which will anyhow be a concomitant of the rearmament drive. This problem becomes part of the general question of how to prevent investments and consumption from being financed by means of newly-created money; for in dealing with this matter care must be taken that there is no undue "activation" of financial resources which have been accumulated in an earlier period.

This is a problem for the present and for the future; in reviewing developments during the last two to three years it becomes manifest that, in the fight against inflation, Marshall aid has been of great help through the goods which it has brought to the market and through the resources which have become available for investment or retirement of debt — these being different aspects of the same beneficial influence.

The aid was essentially help to self-help — for, spread over three years and divided among seventeen countries, even $11 milliard cannot fundamentally alter the trend of affairs without strenuous efforts on the part of the recipients themselves. But great efforts have been made — with results which, in important respects, have been extraordinarily favourable. In its third report the Organisation for European Economic Co-operation has given a number of data illustrating the developments that have taken place. They may be summarised as follows:

(i) The total output of goods and services in the O.E.E.C. countries taken together is estimated to have risen by about 25 per cent. between 1947 and 1950 and to be about 15 per cent. above the 1938 level, while the population has increased by 10 per cent.

(ii) The increase in industrial production is even sharper: in the second half of 1950 output was running some 30 to 35 per cent. above the 1938 level.

(iii) Agricultural production has also improved in all countries; the net output for the harvest year 1950–51 was about 10 per cent. above the pre-war average, i.e. it had increased at about the same rate as the population in the O.E.E.C. countries.

(iv) The deficit on current account of the balance of payments of the O.E.E.C. countries has been reduced from \$8 milliard in 1947 to about \$1 milliard in 1950. The volume of exports in the latter year is estimated to have been 35 per cent. above the 1938 level, whereas the volume of imports would seem to have increased by only 3 per cent. (this is not only a sign of Europe's greater reliance on its own resources but, unfortunately, also a consequence of continued import restrictions). On the account of invisible items in the balance of payments a deficit of \$1.5 milliard in 1947 had been turned into a surplus of about \$1 milliard in 1950 — but, in terms of real value, Europe's income from services had not regained its old level.

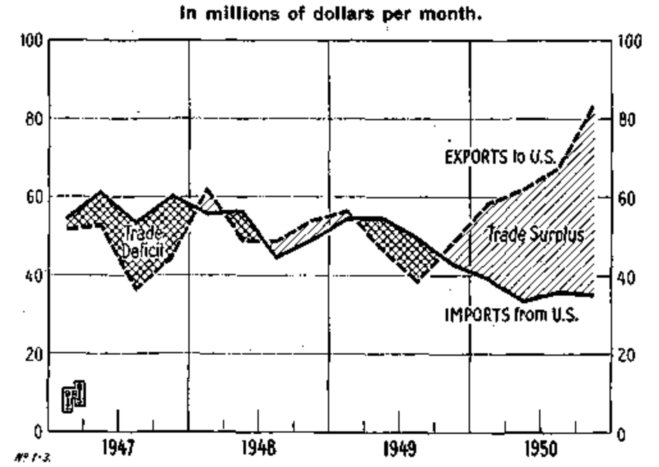
(v) Thanks to liberalisation and the facilitation of payments through "drawing rights" and, from 1st July 1950, the European Payments Union, higher production in Europe has led to increased intra-European trade, which for the O.E.E.C. countries in 1950 is estimated to have been 20 per cent. above pre-war.

(vi) Between 1947 and 1950 the "real gross income" of the O.E.E.C. countries is estimated to have risen by \$29 milliard (value at 1949 prices), the increase being used for the following purposes:

\$ 7 milliard for a reduction in the current deficit of the balance of payments;
\$ 5 milliard for an increase in the volume of gross internal investment;
\$ 1 milliard for an increase in government consumption;
\$16 milliard for an increase in personal consumption.

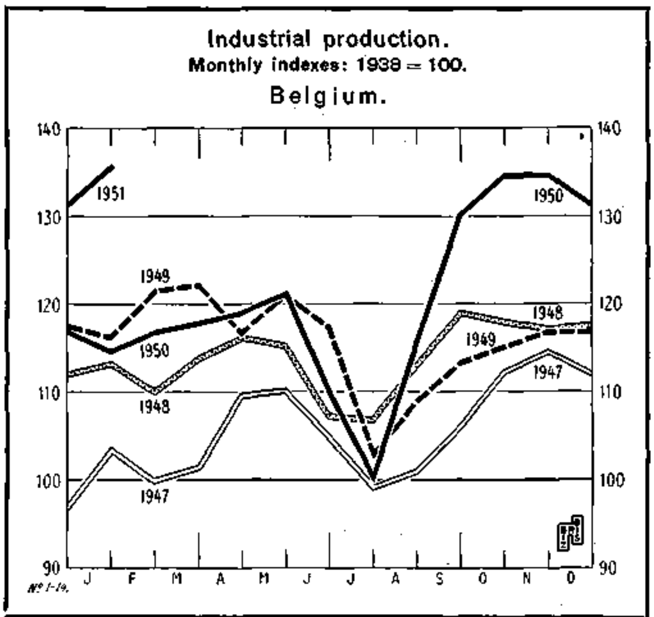
It appears that since 1947 consumption and investment have risen at very much the same rate, although in 1947 the volume of investment was already above the 1938 level. An investment urge has been a characteristic of post-war developments in Europe: before Marshall aid arrived in 1948, attempts to finance investments by "credit expansion" had led in more than one instance

European Recovery Program:
Trade of participating countries' overseas territories with the United States.
In millions of dollars per month.



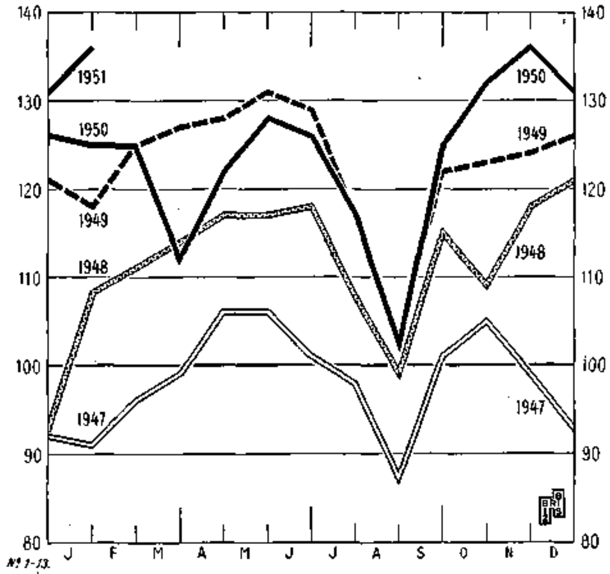
to inflation and exhaustion of monetary reserves. Naturally a change of policy was called for, and foreign aid is very much to be thanked for the fact that in most cases the change could be carried through without serious curtailment of the volume of investment.

Belgium, France and Italy were among the first countries which raised their official discount rates after the war and, in other ways also, relied on instruments of credit policy to ensure the necessary stability in their economies. This does not mean, however, that in the crucial period of the last few years they have resorted to any contraction of the money volume or that their production has been crippled by credit restrictions. In Belgium the total supply of money rose from B.fcs 142 milliard at the end of 1947 to B.fcs 156 milliard at the end of 1950, and in the latter year credits granted by the whole banking system to the economy rose from B.fcs 27 to 36 milliard (see Chapter VII). Corresponding increases in France and Italy have been more important both absolutely and relatively. When the post-war inflation in these countries was at its height the public reduced its holdings of notes and bank balances to something like one-half of what they would normally hold; but with the revival of confidence in the franc and the lira, the public increased its cash holdings again, and in both these countries there was then room for an extraordinarily large credit expansion of a non-inflationary character. Credits to the economy increased in France by 76, 39 and 22 per cent. in 1948, 1949 and 1950 respectively and in Italy by 44, 31 and 21 per cent. during these same years. The supply of money rose in Italy by three-quarters between the end of 1947 and the end of 1950 and in France by almost one-half between the end of 1948 and the end of 1950 (see Chapter VII). How long so rapid an expansion can be safely continued is a question that often presents itself: obviously the moment will soon come — if it has not already been reached — when the wholly exceptional circumstances which alone made such an expansion appropriate will have disappeared, and much more restraint will have to be observed.

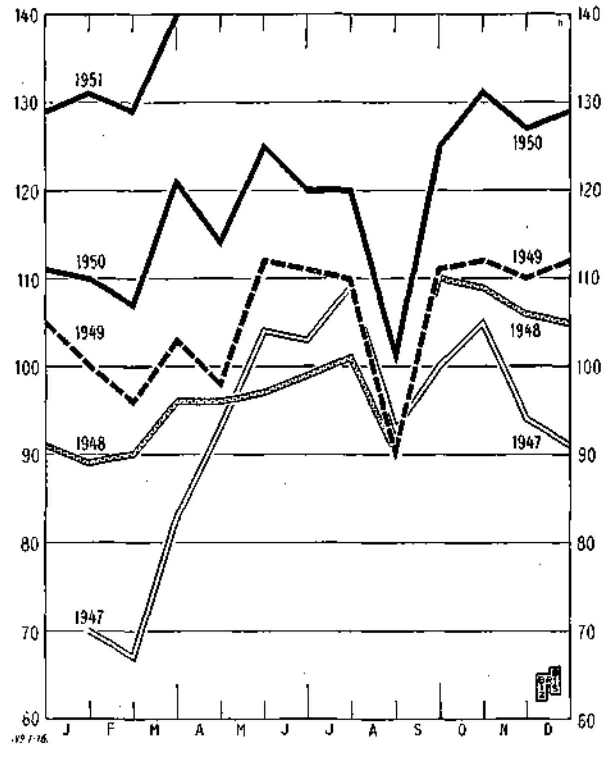


Under conditions which have secured a relatively high degree of stability of prices and freedom from inflation, the industrial production of the three

Industrial production.
Monthly Indexes: 1938 = 100.
France.



Industrial production.
Monthly Indexes: 1938 = 100.
Italy.

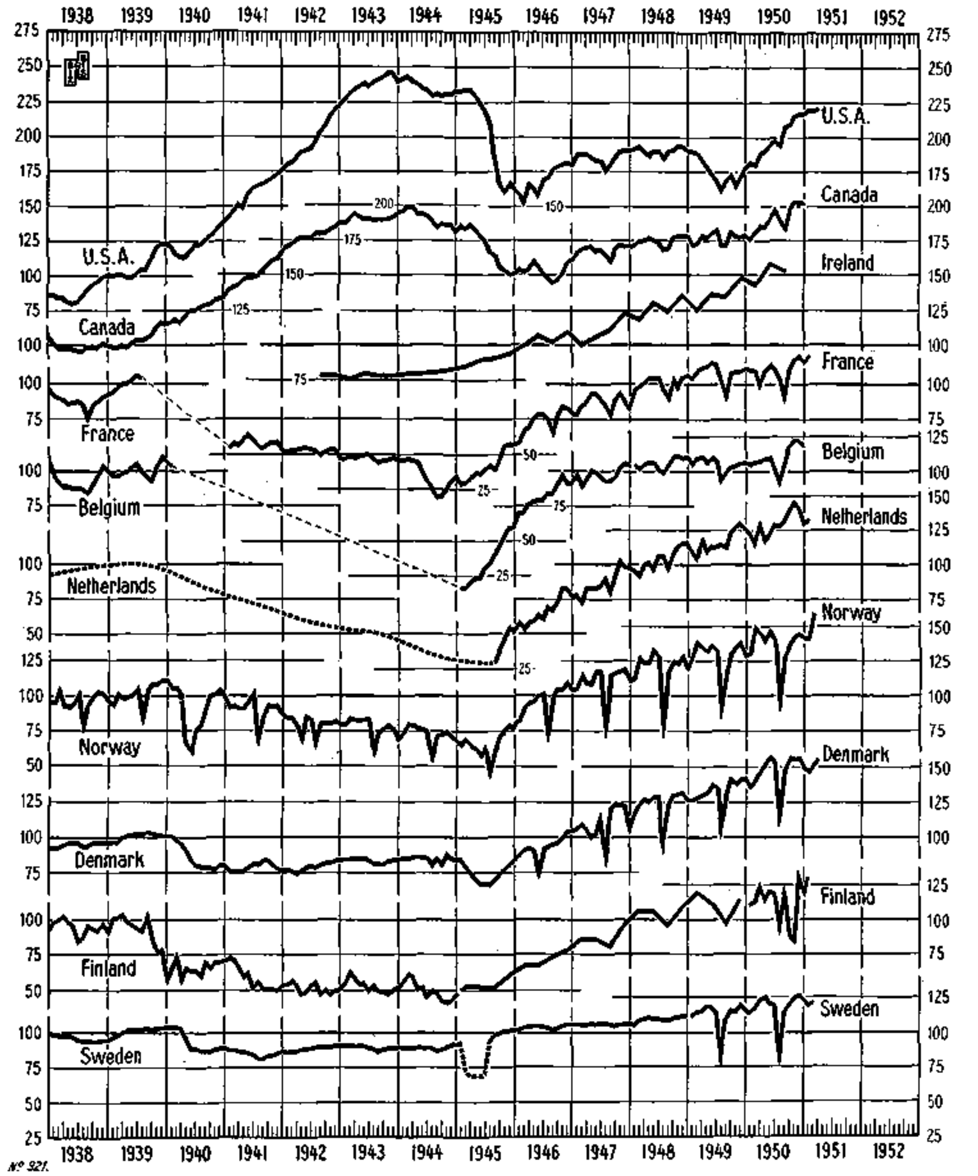


countries has increased at a good pace — and here it should be remembered that, in economies not subject to extensive control measures, the volume of repairs and improvements not covered by the ordinary indexes of production is likely to be larger than in countries with highly developed systems of control, so that in some of the countries on the continent of Europe the real state of affairs is often better than the statistics indicate. *

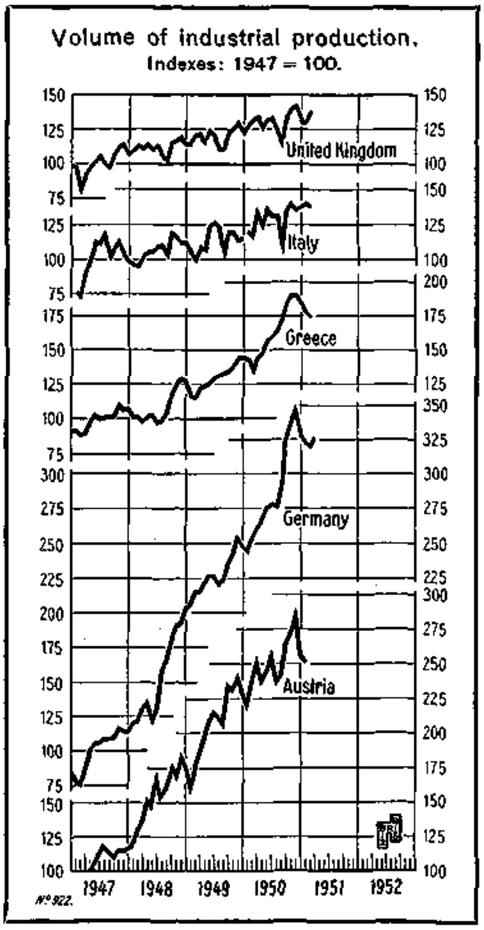
* France has had hardly any *unemployment since the war.* In Italy the unemployment has been clearly connected with the large addition (about 400,000 a year) which the high rate of natural increase brings to the working population — and that in a country with relatively small resources. There is plenty of "demand" for the goods Italy can produce; but, in order to establish new enterprises and to develop the economy in other ways, real resources are required, and they cannot be formed by simply increasing the supply of money. They will have to come from foreign sources and internal savings (and these will not be forthcoming unless there is confidence in the currency). Conditions have been more difficult in Belgium, but unemployment figures have recently gone down. It is beginning to be recognised that the administration of unemployment relief is more liberal in Belgium than in most other countries, while it is also a fact that in Belgium real wages have risen more since 1938 than elsewhere in Europe — and the adjustment of the Belgian economy to the higher wages will undoubtedly take time.

It may be counted a form of investment, additional to the extension of plant and equipment, that France has increased its effective monetary reserves by the equivalent of perhaps $1,000 million since 1948 and Italy by something like $400 to 500 million, while Belgium has been able to maintain its

Volume of industrial production.
Indexes: January–June 1939 = 100.



Note: These indexes were recalculated from national indexes on the basis Jan.–June 1939 = 100: for example, for **Ireland**, the quarterly index 1939 = 100 was used, for **France**, a new index has been used since 1946, for **Belgium**, since 1948; for the **Netherlands** the index base 1939 = 100 was used; for **Finland** a quarterly index was used between 1945 and 1949 and a new monthly index since 1950 based on the same level; **Sweden** also has had a new index since 1949.



position with only minor decreases in its reserves, although it has received little net dollar aid (the conditional aid allotted to it having served to replace what had been passed on to other countries by way of "drawing rights", etc.). These are encouraging developments; for how can the foreign aid ever be safely terminated unless the various European countries accumulate sufficient reserves to meet and overcome the difficulties which are bound to arise from time to time for them in their balances of payments? It is also pertinent to remember that one of the reasons why many countries find themselves unable to abolish controls and pursue a more flexible policy (which would allow the "mechanism of adjustment" to function again) has been precisely a lack of adequate reserves.

Note: For these countries indexes exist only for recent years; they have been recalculated on the basis 1947 = 100. The index for Germany is for the western part only.

* * *

In the eastern parts of Europe also, great emphasis — perhaps even greater than in western Europe — has been laid on the need for devoting a large part of current resources to investments.

From such information as is available it appears that, among the eastern European countries, an average of approximately one-fifth of the national income is devoted to capital expenditure. But it has to be remembered that the concept of national income current in eastern Europe is rather a narrow one, relating mainly to material output and not taking full account of "services".

One of the difficulties in judging developments in the eastern European countries is that most of the data are made available in the form of percentages in relation to some year in the past. Officially it has been announced in the U.S.S.R. that in 1950 the same percentage of the national income as in 1940 remained "at the disposal of the State, of the collective farms and of the co-operative organisations for expanding socialist production and for other needs of the State and society", namely, 26 per cent. It was also reported officially that "as a result of the growth of the national income (which was 64 per cent. above that in 1940) and successful fulfilment of the State budget, the Five Year Plan for capital investment in the national economy was exceeded by 22 per cent." The engineering industry shows a particularly pronounced increase in production since 1940, the greatest effort being made in the development of the capital-goods industries, which are being shifted from the west of the country to the areas around the Urals and in Siberia.

In the other countries in eastern Europe increased efforts were made in 1950 to accelerate the speed and intensity of the industrial expansion. For these countries the switching-over from a preponderantly agricultural to a more industrialised economy is necessitating progressively increasing expenditure on capital investments. The table shows the percentage increases in industrial and agricultural production, the national income and the amounts devoted to investment in the U.S.S.R. and in the other eastern European countries (calculated in national currencies of stable purchasing power).

Percentage increase in production, investment and national income.

Countries	Percentage increase from 1949-50 in			
	industrial production	agricultural production	national income	investment
	percentages			
U.S.S.R.	23	.	21	23
Albania	34	.	.	.
Bulgaria	23	12	16	50
Czechoslovakia .	15	5½	.	71
Hungary	35	4 to 5	20	67
Poland	31	13	21	53
Roumania . . .	38	.	.	.

As regards eastern Germany it is reported that the volume of industrial production increased by 26 per cent. and the amount devoted to investment by 46 per cent. from 1949 to 1950.

While in the U.S.S.R. investments increased at about the same rate as the national income, the figures for the other countries indicate a larger increase in investments than in the national income, this being a sign of a rapid process of industrialisation.

In the countries with a collectivist form of economy, as in any other country, investments have, of course, to be financed by genuine savings, i.e. by the holding-back of consumption, since real resources cannot be obtained from the sky. These countries have monetary systems with such features as notes in circulation, banks, etc., but they have found it impossible to finance new developments simply by means of credit creation — indeed, they are perhaps even more inexorably limited in this respect than other countries, in that they manage to ensure full employment and, therefore, by definition, have no "slack" for the credit expansion to take up. As an indication of the methods used for financing the rapid industrial development in the U.S.S.R. the following figures from the 1949 budget may be quoted.*

Total investments were put at Roubles 105.5 milliard, of which Roubles 25.7 milliard was to be met by means of self-financing (i.e. from the profits

* Information taken from an article on "Epargne et investissement dans l'économie soviétique" by Professor Charles Bettelheim in No. 4 of the 1950 series of "Les Cahiers du Musée Social", Paris.

of the state enterprises concerned) and Roubles 79.8 milliard was to be financed via the budget. In the Soviet budget no direct allocations of special receipts are made to defray special kinds of expenditure. Notwithstanding this practice, it is of interest to compare the amount to be financed via the budget with the yield of certain particular sources of revenue.

Thus, after having covered the above-mentioned Roubles 25.7 milliard of investments out of their own profits, the state enterprises had to hand over their remaining profits, amounting to Roubles 43.9 milliard, as a contribution to the budget. If this amount is added to the Roubles 25.7 milliard met by self-financing, about 66 per cent. of the total volume of investment in 1949 will be found to have as its counterpart "profits" earned by state enterprises. By the method of self-financing, not quite 40 per cent. of these profits was reinvested on the principle that each enterprise ploughed back what it had earned, while a little more than 60 per cent. was given a freer allocation via the budget.

In addition, the budget for 1949 made provision for about Roubles 25 milliard to be obtained from loans in such ways that the amounts subscribed are clearly to be regarded as "private savings". The loans are redeemable within twenty years and are not interest-bearing, but each year lots are drawn for redemption and additional gains, the resulting lottery charge corresponding to an interest rate of 4 per cent. Total subscriptions were reported to have amounted to Roubles 23.9 milliard in 1948 and to Roubles 23.8 milliard in 1949.

Of the total investments there remained about Roubles 12 milliard to be met from other general budget resources, of which the most important item was the yield of the turnover tax. If, in accordance with the principle of non-allocation of receipts, the Roubles 43.9 milliard payable by the state enterprises to the budget were regarded as part of the general budget revenue (it being held that these enterprises should contribute their share to the upkeep of ordinary government services), the result would be that, of the outlay for investment, about Roubles 25 milliard was covered by self-financing and an equal amount by proceeds of loans, while Roubles 55 milliard constituted a charge on the fiscal receipts in the budget. It will be seen that the profits ploughed back into the enterprise in which they had been earned came to less than one-quarter of the total investments.

While budget figures are published regularly by the countries in eastern Europe, the statistical black-out as regards data on foreign trade has become well-nigh complete, the only indications given being in the form of percentages referring to trade relations within the eastern European sphere itself and with what is called the "capitalist world". In 1948 about 30 per cent. of Czechoslovakia's foreign trade (imports plus exports) was with other members of the eastern group, but the percentage rose to 45 per cent. in 1949 and to more than 50 per cent. in 1950 — and similar percentage changes apply to the trade of other eastern European countries. Commercial relations within the eastern European group thus appear to have been intensified, while the volume of trade with the rest of the world has shrunk.

Statistics have been compiled by O.E.E.C. of the foreign trade of member countries with eastern Europe, and these point to the same conclusion, viz. that the imports of the western countries from the east have fallen by over one-half between 1938 and 1950 and exports to the east by one-third in the same period. While in 1938 the trade with eastern Europe was equal to 10 per cent. of the total turnover (imports plus exports) of the countries now associated in O.E.E.C., the corresponding proportion in 1950 was 5 per cent. The 1950 figures show exports and imports almost balancing at $1 to 1.1 milliard in each direction — amounts which are not large compared with a total turnover (imports plus exports) of about $115 milliard inside the western world (see, further, Chapter IV).

In 1950 the United States and Canada imported for about $140 million from eastern Europe and exported for about $100 million to the same area. These amounts are small indeed, and it does not seem probable that "other countries" (e. g. Latin America, Africa or south-eastern Asia) account for such substantial trade figures as would appreciably affect the net results of the balance of payments for the whole of Europe. The estimates in the following table may thus be taken as essentially reflecting transactions with the O.E.E.C. group of countries.

Estimates from different sources often disagree as to the magnitude of the components of the balance of payments, owing to time-lags, different methods of valuation and the fact that imports are sometimes reckoned c.i.f. and sometimes f.o.b. (a circumstance which, moreover, affects the freight item in the invisible account and thus has an influence on the amount appearing as outlay for or income from services). But there is no disagreement as to the substantial improvement in the balance of payments of Europe

Europe's balance of payments on current account.(1)

Items	Balance in relation to											
	the United States				other countries				all countries (total)			
	1947	1948	1949	1950	1947	1948	1949	1950	1947	1948	1949	1950
	in milliards of U.S. dollars											
Europe's imports (f. o. b.)	6.1	4.6	4.4	3.6(2)	7.6	9.8	9.1	8.9	13.7	14.4	13.5	12.5(2)
Europe's exports (f. o. b.)	1.0	1.3	1.1	1.6	5.4	7.5	8.3	8.0	6.4	8.8	9.4	9.6
Balance on trade account	– 5.1	– 3.3	– 3.3	– 2.0	– 2.2	– 2.3	– 0.8	– 0.9	– 7.3	– 5.6	– 4.1	– 2.9
Net income from												
Investments	–	–	–	+ 0.1	+ 0.4	+ 0.4	+ 0.4	+ 0.4	+ 0.4	+ 0.4	+ 0.4	+ 0.5
Transport	– 0.7	– 0.3	– 0.2	–	+ 0.3	+ 0.4	+ 0.5	+ 0.5	– 0.4	+ 0.1	+ 0.3	+ 0.5
Other services	+ 0.2	+ 0.2	+ 0.3	+ 0.3	– 0.3	–	– 0.7	– 0.9	– 0.1	+ 0.2	– 0.4	– 0.6
Balance on service account	– 0.5	– 0.1	+ 0.1	+ 0.4	+ 0.4	+ 0.8	+ 0.2	–	– 0.1	+ 0.7	+ 0.3	+ 0.4
Balance on goods and services . .	– 5.6	– 3.4	– 3.2	– 1.6	– 1.8	– 1.5	– 0.6	– 0.9	– 7.4	– 4.9	– 3.8	– 2.5

(1) Table prepared by the Balance of Payments Division, International Monetary Fund, Washington, and the Research and Planning Division of the United Nations Economic Commission for Europe, Geneva. Europe includes the O.E.E.C. countries as well as countries in eastern Europe.
(2) Europe's imports from the United States in 1950 include $446 million of military shipments transferred under the Mutual Defense Assistance Program.

with the rest of the world over recent years. An interesting feature of this improvement is that from 1949 to 1950 it was most marked in relation to the United States (the deficit being reduced by one-half, from \$3.2 milliard in 1949 to \$1.6 milliard in 1950), while vis-à-vis "other countries" there was even a slight deterioration, from a deficit of about \$600 million in 1949 to one of \$900 million in 1950 — obviously the result of the higher prices which European countries have had to pay to a number of primary producers in different parts of the world since the second quarter of 1950 and more especially since the outbreak of the conflict in Korea (see Chapter III).

The improvement in relation to the United States was due to a fall of \$800 million in imports and a rise of \$500 million in exports, these figures corresponding to a decrease of 18 per cent. in imports and a rise of 45 per cent. in exports.

The reverse of the European development is to be seen in the balance of payments of the United States.

United States: Balance of payments.

Items	Balance in relation to											
	Europe				other areas				all countries (total)			
	1947	1948	1949	1950	1947	1948	1949	1950	1947	1948	1949	1950
	in milliards of dollars											
U.S. exports	6.2	5.0	4.4	3.6*	9.8	8.4	7.9	7.1	16.0	13.4	12.3	10.7*
U.S. imports	1.0	1.4	1.2	1.5	5.1	6.4	5.9	7.8	6.1	7.8	7.1	9.3
Balance of trade	+ 5.2	+ 3.6	+ 3.2	+ 2.1	+ 4.7	+ 2.0	+ 2.0	− 0.7	+ 9.9	+ 5.6	+ 5.2	+ 1.4
Balance on service account	+ 0.6	+ 0.1	− 0.1	− 0.4	+ 1.0	+ 1.0	+ 1.1	+ 1.2	+ 1.6	+ 1.1	+ 1.0	+ 0.8
Balance on current account	+ 5.8	+ 3.7	+ 3.1	+ 1.7	+ 5.7	+ 3.0	+ 3.1	+ 0.5	+11.5	+ 6.7	+ 6.2	+ 2.2

* Including some \$400 million of military aid under the Mutual Defense Assistance Program.

Note: As far as Europe is concerned, there was not only a clear reduction in the export surplus of the United States but also a change in favour of Europe in the balance of the invisible items, as may be seen from the following table.

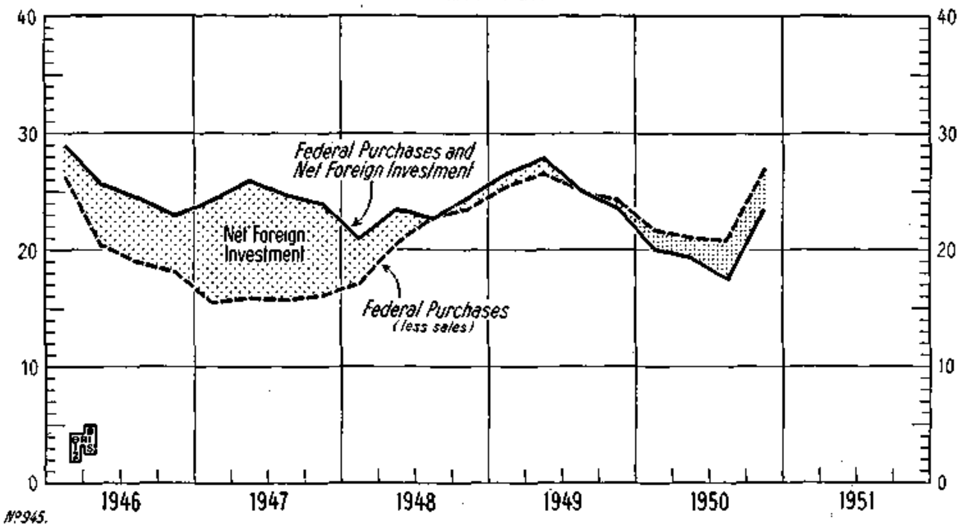
United States:
Service account in relation to Europe.

Items (net)	1947	1948	1949	1950
	in millions of dollars			
Transportation	+ 669	+ 316	+ 191	+ 17
Travel	− 45	− 71	− 130	− 183
Income from investments	− 20	+ 7	− 30	− 86
Other items	− 26	− 116	− 138	− 139
Total	+ 578	+ 136	− 107	− 391

Note: Europe had to pay less for transport by American ships, earned more from an increasing number of American tourists and had also a higher (net) income from its investments in the United States. As the table is drawn up from the United States' point of view, a minus sign represents a favourable and a plus sign an unfavourable balance for Europe.

In 1950 the United States still had a surplus of \$2.2 milliard on current account of its balance of payments but, as explained more fully in Chapter VI on "Gold and Movements of Monetary Reserves", other countries were nevertheless able to purchase gold from the United States to the extent of \$1.7 milliard and to add \$1.9 milliard to their dollar assets, thus acquiring gold

United States:
Federal Government purchases of goods and services and net foreign investments,
in milliards of dollars.



and dollar assets from the United States to the tune of $3.6 milliard. The amount required to finance these acquisitions and to pay for the U.S. current surplus of $2.2 milliard in the balance of payments came to $5.8 milliard. As shown in the following table, the principal item contributing to the amount required was the grant of $4.1 milliard by the United States to other countries.

The U.S. Government long-term capital exports consisted partly of loans granted by the Export-Import Bank and under E.R.P.; since there were also considerable repayments, the net outflow of U.S. Government long-term capital was only $125 million. Private direct long-term investments abroad came to $1,120 million and other long-term outflow to $691 million, but here, too, there was a counterbalancing inflow, which reached $861 million. Canada was the destination of most of the short-term capital exports, the net movements in other directions being of no very great importance.

United States: Transactions with other countries in 1950.

Items	In millions of dollars
Payments due by other countries to the United States for:	
U.S. surplus of goods and services . . .	2,209
Gold and dollar assets acquired from the United States (1)	3,628
Total	5,837
Financed in relation to the United States through:	
U.S. Government grants and other unilateral transfers — mainly E.R.P. aid (net)	4,133
Private donations (net) (2)	439
U.S. Government long and short-term loans (net)	159
U.S. private long and short-term capital (net)	1,089
Dollar disbursements (net) by:	
International Monetary Fund	— 20
International Bank for Reconstruction and Development	37
Total	5,837

(1) "Dollar assets" include short and certain long-term assets.
(2) These donations are largely made up of "emigrants' remittances", which in other countries are often regarded as part of the "service" or "invisible items on current account. If the same practice had been followed in compiling the U.S. balance-of-payments statistics, the current surplus for 1950 would have been $1,770 million instead of $2,209 million.

There is always a temptation, in economic as in other affairs, to give the greater part of the credit for a particular improvement to the influence of some spectacular event. Thus the improvement from 1949 to 1950 in the balance of payments of most countries in relation to the United States is attributed to the devaluations which took place in the autumn of 1949. It is, of course, certain that a substantial decline in the exchange value of the currencies of countries responsible for two-thirds of world trade will have its effect on commercial and financial relations; but it should not be forgotten that there have been other important factors, such as a larger industrial and agricultural output — not least in European countries — a better financial balance internally and increased possibilities of triangular trade.

At the time when the devaluations occurred, the most immediate reason for them was no doubt the large movements of funds which managed to take their course notwithstanding all the exchange regulations, and which were making the situation increasingly difficult for currencies whose exchange value was thought to be too high to be permanently tenable. As a result of the devaluations the flow of funds was reversed, and this helped to strengthen the monetary reserves of the countries which had devalued. There was a gradual gain in monetary confidence, as shown, for instance, by the quotations of bank-notes on free markets in New York and Switzerland and by the fact that as from the first half of 1950 the free-market prices for gold fell sharply — so sharply, indeed, that the major gold producers (for example, those in South Africa) began to find the premium insufficient to make free-market sales worth while. As a matter of fact, very little gold went into private hoards at that time (see Chapter V).

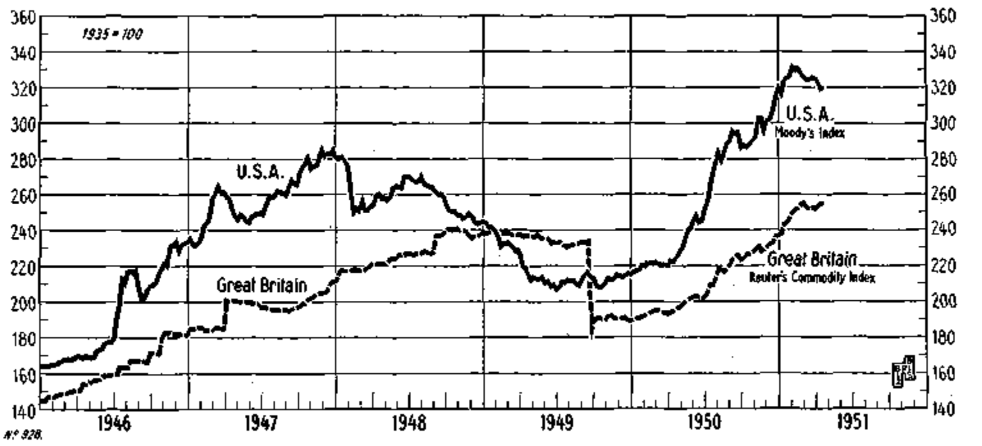
And not even the anxiety engendered by Korea brought the free quotations of gold up to anything like the level which had prevailed before the devaluations.

It was explained in London in September 1949 that once the policy of devaluing the currency had been adopted it was necessary to make a cut sufficiently deep to ensure that no second operation of the same kind would be necessary. The reflux of funds showed that, at any rate for the time being, this explanation was accepted, and it is true to say that, as commodity prices began to rise and, in doing so, prompted suggestions that certain currencies should be revalued, current opinion developed a "bias" based on the belief that, if any change were to occur, it would be in the direction of enabling the currencies which had devalued to regain part of what they had lost. It is certainly a consideration of some importance in judging the question of revaluation that, if such a step were to be taken, this might set up a new "bias" in the other direction, with all the difficulties which that would create for countries possessing far from adequate reserves.

One main reason for the devaluations was the decline in commodity prices on the world markets, especially prices of primary products affected by the slight business recession which made its appearance in the United States in the late autumn of 1948 and continued till the middle of 1949.

The following graph shows that, with the same year taken as base for the calculation of both indexes and allowance being made for alterations in exchange values, American prices of staple commodities fell below the corresponding British prices early in 1949.

American and British sensitive commodity prices on a comparable basis.
Weekly indexes: 1935 = 100.



Note: For the attainment of greater comparability 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).

A similar disparity, though over a wider field, is indicated by the unit value (price) statistics of goods entering into the world export trade, as regularly published in the United Nations Monthly Bulletin of Statistics.

Unit value* (price) of exports.

Period	In the export trade of	
	Europe	United States and Canada
	Index: 1937–38 = 100	
1937–38 . .	100	100
1946	191	154
1947	218	184
1948	227	198
1949	214	186
1950	173	179

* Index numbers of unit value (price) provide an approximate measure of the changes in the average price of commodities exported (or imported).

According to these calculations, the export prices of Europe before the devaluations were on the high side in comparison with the export prices of the United States and Canada. Devaluation had the effect of wiping out this discrepancy, thereby strengthening the general competitive power of the European exporter.

The devaluing countries — conscious of the fact that they had taken a once-only step more in the nature of an expedient than of a fundamental remedy — were unquestionably most anxious not to have the beneficial effects dissipated by inflationary price and cost increases in their domestic economies. Some export prices could no doubt be raised without much danger, so as to make them correspond more closely to the ruling dollar prices (and, over a certain field, there would be a reason for doing this in order to lessen the deterioration in the terms of trade). But these were exceptions; and for the general run of business the countries in question strongly felt that it was imperative to react against any upward movement of either costs or prices. An important element in the policy thus laid down was the "income stabilisation" which became one of the guiding principles in the United Kingdom, Norway, Denmark and Sweden, the Netherlands and western Germany and, with various modifications, in certain other countries whose currencies had been devalued.

To hold down the general level of wages and other incomes it was clearly necessary to avoid being faced with a large and immediate increase in the cost of living and, particularly, in the range of goods currently consumed, whose prices affect the cost-of-living index. To secure as high a degree of price stability as possible the governments of certain countries (including the Netherlands, Sweden and western Germany) arranged for an increase in food subsidies, at any rate for the time being, and in some instances special export duties were also imposed when the goods exported had risen considerably in price. Available domestic stocks were, as a rule, to be sold at current prices (i. e. with no increase) to the home consumer, and as regards the United Kingdom, for instance, the long-term contracts already entered into were intended to ensure the provision of consumer goods at almost unchanged prices for — in some cases — years to come. Even so, price increases could not entirely be avoided and their impact was bound to make itself felt on the real cost of living.* Under such circumstances, the income-stabilisation policy could obviously not have been carried out had the governments not been able to count upon the active co-operation of the employers and employed, especially the trade unions. Indeed, it must be regarded as one of the most remarkable of recent happenings that, for the last quarter of 1949 and most of 1950, wage and salary increases were, in so many countries, kept within very narrow limits.

The arrangements included an understanding that, as long as the income-stabilisation policy was applied, "dividends" should not be increased — such a line of conduct being accepted by, for instance, the federations of industry in the countries concerned. But in the export and certain other trades higher prices began to be quoted for an increasing number of goods, the result being an exceptional swelling of "profits" in the accounts of commercial and industrial firms — which could not fail to create psychological and other difficulties with regard to the pursuit of the stabilisation policy. One of the effects of the exceptional rise in profits was to increase the amount of "savings" available for current investment. A considerable part of the higher profits was, of course, taken as tax proceeds by the governments and thus provided resources for the budget, including the capital outlay defrayed out of public funds. Of the share left to individual enterprises no more than previously could be paid out as dividends; thus larger amounts remained in the form of "business savings". Of these a

* The Government of the United Kingdom recognised that some increase in the cost of living was inevitable; it considered, however, that this increase would not justify a rise in personal incomes.

considerable part would be reinvested in the same enterprise – and it is very likely that, from the point of view of the most rational use of the nation's capital resources, the amounts thus ploughed back have not always been employed in a truly appropriate way (that being one of the drawbacks of a situation in which most of the risk capital is furnished by business itself, private persons being no longer in a position to provide as much as in the past, so that less is invested through the medium of actively functioning capital markets). This has no doubt meant a certain distortion in the disposal of the available resources; but from a general point of view it must be recognised that the countries which effectively applied an income-stabilisation policy were restricting the volume of private consumption and thus making themselves increasingly able to meet their other expenditure (for investment and current outlay of the government) from their own resources, while becoming correspondingly less dependent on assistance from abroad. The policy in question thus contributed to the improvement in the budget position, in the relation between savings and investments and in the movement of foreign trade and balances of payments, as in the monetary reserves and the free-market quotations of gold and currencies, which became more and more evident in the first half of 1950. There were clear signs of an approach to a more balanced position in the different countries both internally and in their relations one with another. But, even so, it would be a mistake to claim that all was well; a probe behind the often very favourable statistics of overall output and use of resources reveals certain undeniable weaknesses still besetting the various economies at that time.

(i) There can be little doubt that the countries which in the autumn of 1949 sought to hold down prices by an increase in subsidies, etc. did so in the expectation that world-market prices, as expressed in non-devalued currencies (i. e. principally in dollars) would decline or that at all events there would be no rise (this having been the case after the devaluations in the autumn of 1931). But a rather pronounced business boom, with rising prices, got under way in the United States, this development being already apparent in the spring of 1950 (i. e. well before the outbreak of the conflict in Korea), so that price movements in the countries which had devalued were not only subjected to the effect of the devaluation itself but also received an additional impetus from the rise in American prices. The consequence was that, far from bringing the re-establishment of a natural equilibrium a step nearer, the attempt at income and price stabilisation in the countries which had devalued led to a growing disparity between the price and cost levels at home and abroad — a position which could not be maintained indefinitely.

(ii) The policy of "income stabilisation", useful though it may have been in preventing an immediate upsurge of costs and prices after the devaluations, must be regarded as an essentially artificial measure, creating a situation very different from that which obtains when wages are kept at a flexible equilibrium level by the market forces themselves — and the individual wage movements thus form part of the "mechanism of adjustment". If a general administrative rule has to be applied to incomes, this is in itself a sign of a lingering disequilibrium connected with a redundant supply of money.

(iii) Another such sign is the continued control over foreign trade. It is true that inside Europe trade is being liberalised by stages; but the liberalisation affects only trade on private account, and restrictions are being maintained more especially in relation to the dollar area. At a time when dollar imports were abnormally high, after the war, a curtailment was clearly called for and this has been effected; but a continuance of such artificial devices once a more natural exchange of goods and services is on the point of being realised can easily be most harmful. In its second annual report on exchange restrictions (1951), the International Monetary Fund emphasises that "restrictions tend to keep resources in uneconomic uses and to incorporate higher costs and inefficiency into production", and it adds that "the benefits of more economic use of resources are long-lived", while, thanks to a transfer of resources "from industries previously protected by restrictions to those which are more efficient and in a better competitive position", the higher costs may be no more than temporary. There is the further consideration that a curtailment of imports from the dollar area is likely to reduce the restricting countries' exports to that area and thus retard the expansion of trade within the western world.

(iv) The survival of these various artificial "props", indicating a lack of balance in the economy, lends support to the suspicion that a fair degree of inflationary pressure survives in the individual countries. Certainly, there has been improvement in comparison with the days of the "inflationary gaps" immediately after the war, as is shown in the chapter VII on "Money, Credit and Interest Rates", but complete equilibrium between the money volume and the supply of goods and services had not yet been re-established in all countries by the middle of 1950. Inflationary forces were still making themselves felt in labour relations, on the commodity markets, and in the field of foreign trade. Production had risen well and the rise was continuing but, in spite of some recent improvements, the reserve position was still weak in most European countries; nor was the insufficiency confined to the reserves of monetary authorities — it was rather a general feature; as a rule, stocks of materials were on the low side in relation to the rise in production; full employment meant that there were no reserves of manpower and in vital lines of production there was often a lack of industrial capacity.

It was in such a situation, already characterised by great strain on resources in most of the national economies, that the conflict in Korea supervened in the middle of 1950.

II. A new Set of Problems from the middle of 1950.

From a European point of view it was something of a novelty that what turned out to be a major struggle, with important political and economic repercussions, had begun so far from Europe's own borders. It was against a background which, despite such reservations as had to be made, bore witness to solid progress and was full of promise of further achievements that, on 25th June, the news of the outbreak of the conflict in Korea ushered in a new chapter in the world's history.

But even before that date a warning had more than once been sounded: in May and again at the end of June 1950 the Swiss Government, in messages to its own people, had recommended the reconstitution of private stocks of materials and of various durable consumer goods (especially food), certain credit facilities being extended to those who needed help to finance the accumulation of such goods. This initiative on the part of Switzerland was much discussed and it certainly influenced public opinion and the arrangements made by business men and private persons in several other European countries, including Belgium, the Netherlands and western Germany. Thus the actual outbreak of hostilities in Korea was regarded as a clear confirmation of the fears which the Swiss Government had entertained, and the ground had thus been prepared for a determined import drive, especially in regard to raw materials — a counterpart to the private and public stockpiling in the United States. The European purchases had been by no means inconsiderable, but they were soon dwarfed by the mighty flow of materials to the United States, which in the new situation became more clearly than ever the centre of economic influence on the world markets.

There had already been — it should be remembered — a quickening of the pace in the American economy in the second quarter of 1950, i. e. in advance of the outbreak of the conflict in Korea. This acceleration was continued in the third and even intensified in the fourth quarter, as the following figures for the gross national product and its composition indicate.

The most striking impression conveyed by the figures in the following table is the simultaneous increase in the amount of consumption (whether in the form of personal or of government purchases of goods and services) and in the amount of private domestic investment, the latter rising from a quarterly average of $8.3 milliard in 1949 to $15.0 milliard in the fourth quarter of 1950. Of the increase in production for defence purposes, a substantial portion has not been immediately reflected in the government share of the national product and is, therefore, not yet included in the amount of "government purchases of goods and services", since work in progress on government contracts first appears as private investment — i.e. as part of the increase in business inventories — and government purchases are affected only with a considerable time-lag, as deliveries come to be made.

United States: Gross national product (unadjusted).

Items	1949 quarterly average	1950 1st quarter	1950 2nd quarter	1950 3rd quarter	1950 4th quarter	1950 total for year
	in milliards of dollars					
Personal consumption expenditure						
Non-durable goods	24.6	22.7	24.6	25.5	28.9	101.7
Services	14.1	14.7	15.0	15.0	15.3	59.9
Durable goods	6.0	5.9	6.5	8.6	8.3	29.2
Total personal consumption expenditure	44.7	43.2	46.0	49.1	52.5	190.8
Government purchases of goods and services	10.8	9.9	10.2	10.2	11.9	42.1
Gross private domestic investment						
New construction	4.3	4.1	5.4	6.5	5.9	21.8
Producers' durable equipment	4.9	4.8	5.6	6.4	6.6	23.4
Change in business inventories	— 0.9	1.8	— 0.7	0.5	2.6	4.2
Total gross private domestic investment	8.3	10.8	10.3	13.3	15.0	49.4
Net foreign investment*	0.1	— 0.4	— 0.4	— 0.9	— 0.7	— 2.4
Total gross national product	63.9	63.4	66.0	71.6	78.7	279.8

* The net foreign investment shown in the above table does not comprise any grants of Marshall aid or other forms of non-repayable assistance to other countries, such grants being included in the item "government purchases of goods and services". Leaving out of account the exports paid for by these grants, the United States is estimated to have had a deficit of $2.4 milliard on the current ("commercial") account of its balance of payments, and this is what constitutes the negative item entered as "net foreign investment" for 1950.

The change-over is particularly marked with regard to the flow of goods into and out of inventories: a fresh accumulation of over $4 milliard in 1950 contrasted sharply with the liquidation of $3½ milliard in the previous year. During the autumn of 1950 there was a big wave of public buying of durable goods from shops, but total stocks nevertheless increased. The inventory accumulation accounting for the high figure in the fourth quarter of the year was concentrated in holdings of purchased materials and goods in process of manufacture — both categories reflecting the tempo of industrial production, which had been accelerated largely in response to the influx of military orders.

The general public financed its increased purchases of consumer goods partly by increased drawing on its own accumulated savings and partly by availing itself of instalment credit, which was obtainable on relatively easy terms until, in the autumn, the conditions for the granting of such credits were considerably stiffened under regulations issued on 8th September and 13th October by the Board of governors of the Federal Reserve System.

Not only for the second half of 1950 but for the whole fiscal year up to the end of June 1951 the U.S. Government has enough current revenue to finance its actual cash expenditure without resort to borrowing — thanks to the higher yield of current taxation (partly as a result of an increase in tax rates).

As regards the financing of the private domestic investment, it should be remembered that the figure shown in the table represents gross investment, which, as such, is met in the first place by the regular depreciation charges, or "capital consumption allowances" as they are called in U.S. statistics. While these allowances are estimated to have provided for over one-half of the gross investments in 1949, they sufficed to cover only a little more than one-third in the second half of 1950. Net investment was nearly twice as large in 1950 as in 1949, so that, in spite of a larger total for business savings, individual firms had to turn increasingly to banks for fresh credits.

United States: Financing of gross investment (unadjusted).

Items	1949 quarterly average	1950 1st quarter	1950 2nd quarter	1950 3rd quarter	1950 4th quarter	1950 total for year
	in milliards of dollars					
Total gross private domestic investment	8.3	10.8	10.3	13.3	15.0	49.4
Deduct: capital consumption allowances	4.7	4.9	5.1	5.3	5.4	20.8
Remains: total net private domestic investment	3.6	5.9	5.2	8.0	9.6	28.7
Amounts of finance available from:						
personal savings	2.2	3.2	3.9	2.2	2.7	11.9
business savings	2.3	2.1	3.3	4.2	3.6	13.2
Total of personal and business savings	4.5	5.3	7.2	6.4	6.3	25.1

Note: The business savings represent the difference between "corporate profits after tax" and "dividends". In 1949 corporate profits after tax amounted to \$17 milliard and dividends to \$ 7.8 milliard (equal to 46 per cent. of the profits after tax) while in 1950 the corporate profits after tax were \$22.6 milliard and the dividends only \$9.4 milliard.

In spite of the heavy purchases by consumers, personal savings kept up fairly well (except in the third quarter when the buying rush was at its height). Thus the aggregate of personal savings in 1950 was higher than in 1949 — thanks, no doubt, to the improvement in the current income of the public. Business savings have also been rising, profits showing a decided advance, which was much sharper than in the case of dividends.

It was primarily in order to finance their holdings of larger stocks that business firms obtained increased accommodation from banks.

The increased reliance on the banking system is shown by the 17.3 per cent. expansion in the loans of all banks during the second half of 1950, an expansion which was partly financed through sales of government bonds by the banks (hence the reduction by 3.4 per cent. in their investments). Some of the bonds were bought by the Federal Reserve System in order to support the quotations of government securities; in this way the commercial banks were able to augment their own cash reserves — and thus fulfil the stiffer

United States: Loans, investments, inventories, money supply, production and prices.

Items	End of December 1948	December 1949	June 1950	December 1950	Percentage change from June to December 1950
	in milliards of dollars				in %
All commercial and savings banks					
Loans	48.2	49.5	52.0	61.0	+ 17.3
Investments	85.5	91.1	91.0	87.9	— 3.4
Total of loans and investments	133.7	140.6	143.0	148.9	+ 4.1
Inventories (1)					
Manufacturing	32.3	28.9	30.0	34.0	+ 13.3
Wholesale	9.5	9.0	9.5	10.8	+ 13.7
Retail	15.0	13.7	14.7	16.8	+ 14.3
Total of inventories	56.8	51.6	54.2	61.6	+ 13.7
Money supply					
Notes and coin in circulation	26.1	25.4	25.2	25.0	— 0.8
Demand deposits (adjusted)	85.5	85.8	85.0	93.2	+ 9.6
Total money supply	111.6	111.2	110.2	118.2	+ 7.3
Velocity of demand deposits (2) (in percentages)	21	20	20	23	+ 15.0
	Indexes: 1937=100				
Industrial production	170	158	176	192	+ 9.1
Wholesale prices	188	175	182	203	+ 11.5
Retail prices	167	163	166	174	+ 4.8

(1) Seasonally adjusted. (2) Estimated annual rate for demand deposits held outside New York City.

minimum-reserve requirements. (Particulars of this and other developments in the credit situation are given in Chapter VII on "Money, Credit and Interest Rates".)

The expansion of monetary demand found its counterpart in the gross national product, of which about two-thirds represented an increase measured in real terms, less than one-third being due to higher prices. It may seem surprising that, notwithstanding the rapid rise in prices in the course of 1950, such a small proportion of the increase in the gross national product is attributable to that factor; but it should be recalled that the price level had declined in 1949 before resuming a more decided upward course in 1950.

United States: Gross national product in money and real terms.

Gross national product	1949	1950	Percentage change
	in milliards of dollars		
In current dollars	255.6	279.8	+ 9.5
In 1939 dollars. .	142.3	153.0	+ 7.5

The expansion of credit in the United States had also its repercussions on the balance of payments. In its issue for February 1951, the Survey of Current Business, published by the U.S. Department of Commerce, makes the following comment on the change in the net foreign investments.

"By far the greatest part of this change was attributable to a rise in our merchandise imports. These had been pronouncedly affected by the slackening of business buying during the 1949 down-turn, but responded promptly to its resumption, and rose strongly with the expansion of domestic business activity in 1950. While most of the increased value of imports stemmed from a larger quantitative flow of goods, rising prices played an increasingly significant part as the year progressed. United States exports, other than those financed directly or indirectly by Government grants, were slightly lower last year than in 1949."

As a result of the increased purchases of foreign products by the United States there was, in the first place, a marked improvement in the earning capacity and the monetary reserves of the raw-material-producing countries. In 1950, Latin American countries thus increased their gold and other holdings by fully $400 million, the whole of the improvement falling in the second half of the year. Indonesia and the Philippines showed an increase of over $200 million, almost all in the second half of 1950. Very considerable amounts of dollars were earned by the raw-material-producing countries of the sterling area; in place of the collective deficit of almost $400 million which they had had in relation to the United States in 1949, the countries of the sterling area (with the exception of the United Kingdom and the other European members) had in 1950 a surplus of nearly the same amount. As explained in Chapter V, the resulting net gain in the monetary reserves of these countries appears (with only minor exceptions) as part of the declared gold and dollar reserves of the United Kingdom.

The raw-material-producing countries, so greatly favoured by these market developments, are beginning to turn increasingly to their former suppliers in western Europe for the purchase of consumer goods and machinery. Although there is a time-lag before the new demand makes itself felt and trade gets going (the delay being partly due to a not unnatural desire on the part of the dollar-earners to add to their own monetary reserves), the increased purchasing power will, no doubt, gradually lead to greater imports. Not only the United States but also a number of European countries have been buying raw materials. This development was by no means uniform; while some countries started to increase their imports immediately after the outbreak of the conflict in Korea, others showed no perceptible reaction until early in 1951.

This fact is brought out by the simple but rather revealing device of comparing the trade balance of each particular country in the second half of 1950 and in the first quarter of 1951 (taken separately) with the trade balance in the corresponding periods a year earlier.

There are some striking differences to be noted in the behaviour of the different countries: there is, for instance, in the second half of 1950 a sharp increase in the import surplus of Belgium, Switzerland, the Netherlands and

Various European countries: Balance of trade.

Countries	Currencies	Balance of trade: Second half of 1949	1950	First quarter of 1950	1951
		in millions of national currency units			
Austria*	Sch.	— 846	+ 267	— 511	— 522
Belgium-Luxemburg	B. fcs	— 3,493	— 9,522	— 1,569	— 2,236
Denmark	D. Kr.	— 100	— 571	— 457	— 297
Finland	FM	+ 3,492	+ 286	— 6,297	+ 109
France	Fr. fcs	— 36,908	+ 67,470	— 41,450	+ 13,423
Germany (western)	U.S.$	— 610	— 381	— 237	— 175
Greece	Dr.	— 906,200	— 764,000	— 405,300	.
Italy	Lit.	— 71,948	— 33,084	— 69,693	— 61,099
Netherlands	Fl.	— 540	— 1,040	— 603	— 780
Norway	N. Kr.	— 1,120	— 773	— 662	— 445
Portugal	Esc.	— 1,609	— 629	— 853	— 396
Spain	Pts	— 135	+ 22	+ 34	.
Sweden	S.Kr.	+ 105	— 190	— 82	— 527
Switzerland	Sw.fcs	— 6	— 483	— 76	— 472
Turkey	T£	— 72	— 1	+ 15	.
United Kingdom	£	— 247	— 136	— 71	— 235

* Excluding E.R.P. imports.

Denmark, contrasting with a reduction in the case of the United Kingdom, France and Italy. The disparity is not simply due to differences as regards devaluation: Switzerland did not devalue its currency in the autumn of 1949 and Belgium devalued only by 12.7 per cent.; both these countries had an increased import surplus in the latter half of 1950, but so had the Netherlands and Denmark, which had devalued their currencies by 30½ per cent., i. e. at the same rate as the United Kingdom. Nor does the divergence bear any marked relation to changes in the terms of trade. A particularly striking example is afforded by the United Kingdom, Belgium and the Netherlands, where the terms of trade during 1950 deteriorated by about 10 per cent. Italy and Switzerland (with their growing trade deficits) even experienced an improvement in their terms of trade from 1949 to 1950.

The increases in the import surpluses, as shown in the table, have invariably been due to larger imports. When it comes to considering why there was a marked increase in imports in some countries and not in others, the explanation would seem to be that a rather curious mixture of business and political reasons determined people's actions in this respect. Thus the general run of business, including the export trade, improved appreciably in a number of continental countries (including Belgium, Switzerland and Germany) which in the first half of 1950 had felt a certain touch of stagnation; on the home market it was noticeable that the public began to buy more and more durable goods, this being the case also in the Netherlands. In a few countries (including Sweden and Switzerland and also Germany) it was evidently feared that non-membership in the North Atlantic Treaty

Organisation might involve certain difficulties in obtaining scarce raw materials; so they hurried to buy. France and the United Kingdom, of course, were not troubled by any such semi-political fears and had therefore no reason to speed up their purchases on this account. But it should be added that in France the volume of domestic investments showed only a small increase in 1950 and that in the United Kingdom both domestic investment and the current expenditure of the government were slightly lower in 1950 than in 1949, while there was a considerable increase in production, so that with the help of a substantial budget surplus investments could be covered by current domestic savings more easily than in previous years. In both these countries in 1950 the internal conditions were ripe for the attainment of equilibrium in relation to other countries. But the impending increase in armament expenditure meant that more foreign goods would be needed in 1951, and the volume of British imports began to expand considerably in the first quarter of this year.

Imports require both internal and external finance — internal finance being generally provided by the domestic banking system while, to the extent that a deficit in the balance of payments emerges, it is necessary to obtain foreign credits (or grants) or to draw on monetary reserves.

As regards the foreign resources necessary, Switzerland had ample and Belgium fairly substantial reserves of gold and dollars; but some of the other countries with rising import surpluses soon began to feel definitely uneasy about the growing volume of their foreign payments in relation to the allocations of foreign aid still forthcoming and the size of their monetary reserves. It was for several of them a fortunate thing that, at the very time when the amount of Marshall aid was decreasing, their foreign payments were facilitated by the European Payments Union (the "E.P.U.") as from 1st July 1950 — a date very nearly coinciding with the outbreak of the Korean conflict. As more fully explained in Chapter VIII, each of the participating countries has obtained its individual "quota" in the Union and is able to use this quota for meeting accumulating deficits; the first tranche of 20 per cent. constitutes a credit, while for the following tranches, each amounting to 20 per cent., an increasing percentage is payable in gold (or dollars) — a total of 40 per cent. having to be paid in gold by a country whose quota has been completely exhausted. Some countries in a particularly difficult position received additional aid in the form of "initial balances", of which they could avail themselves before having to make use of their respective quotas.

It is a matter of particular importance that the scope of the E.P.U. settlements is not restricted to the metropolitan countries in Europe which are members of O.E.E.C. but extends to the monetary areas attached to some of the members, viz. the sterling area (including, besides the British Commonwealth — with the exception of Canada — two members of O.E.E.C., namely Ireland and Iceland), the French franc area (of which

Algeria, Morocco and other African territories have much to offer as trading countries), the Belgian franc area (including the Belgian Congo) and the guilder area (of which Indonesia has remained a member). The consequence has been that purchases from a number of very important raw-material-producing countries could be financed by settlements via the Union. From the table in Chapter VIII it may be seen that, in particular, Germany has increased its debt to the Union while the United Kingdom and France have become the biggest creditors.

Through the operation of the quotas and the initial balances, the European Payments Union provided foreign means of payment to a total of $794 million in the nine months from July 1950 to March 1951 (the figure representing the amount actually utilised). Without this aid, a number of countries would probably not have been able to procure the raw materials so important for the maintenance of a high level of business activity and employment, and it is even possible that without the European Payments Union there would have been a relapse into bilateralism as the best available means in the circumstances of overcoming the difficulties with which one country after the other would have been faced.

From the point of view of the individual importer, the payments question is primarily a question of finding the counterpart in his own currency with which to pay for the foreign exchange that he acquires from the monetary authorities. He will also have to finance the holding of the goods for a certain time, in case he does not sell them all at once. Some industrialists and traders may have been able to finance the increased imports (and the resulting rise in inventories) by the use of their own resources — especially if in recent years they had retained a considerable part of their earnings to replenish their liquid resources; but the common practice is for business enterprises to turn to banks for increased accommodation in order to obtain the marginal funds they need in case of sudden additional requirements. The commercial banks in a given country may be sufficiently liquid to meet the increased demands from their own accumulated cash balances (as the Swiss banks have been able to do); but commercial banks suddenly called upon to expand their credits will generally have resort to the central bank — and the question of the credit expansion becomes essentially a matter of central-bank policy.

In the situation which then arose the monetary authorities in one country after the other began to feel that through their own action they could appreciably influence the granting of credit and in that way exert a general influence on the trend of economic affairs. The redundant supply of money which had prevailed in the first years after the war had gradually given place to a more normal relation between liquid funds and current needs — and this made it easier to apply an effective credit policy.

The monetary authorities thus showed themselves ready to take action on a scale that brought a new note into the world's credit policy after nearly two decades of predominantly cheap or at least plentiful money.

Increases in official discount rates.

Central bank of	Discount rates at the end of			Change from December 1949 to April 1951
	1938	1949	April 1951	
Belgium	2½	3¼	3¾	+ ½
Canada	2½	1½	2	+ ½
Denmark	4	3½	5	+ 1½
Finland	4	5¾	7¾	+ 2
Germany (western) . .	4	4	6	+ 2
Netherlands	2	2½	4	+ 1½
Sweden	2½	2½	3	+ ½
United States	1	1½	1¾	+ ¼

As is shown in the table, the central banks in Belgium, Canada, Denmark, Finland, Germany, the Netherlands, Sweden and the United States have raised their discount rates since the end of 1949. It should be remembered that in the years 1947–48 France and Italy had already had resort to increases in the discount rate as part of their programmes of reconstruction. Thus in recent years the majority of the western European countries have made use of this most obvious weapon of central-bank policy.

In Switzerland, where the official discount rate has been unchanged since 1936, the commercial banks had still sufficient liquidity in the autumn of 1950 to meet the increased demands out of their own accumulated cash balances, but a certain tension in the credit situation nevertheless began to make itself felt. In its annual report, published in February 1951, the Swiss National Bank stated that, in its opinion, "the banks should take care to maintain a sufficient liquidity of their own; they could not, under the prevailing circumstances, simply rely on the central bank".

The United Kingdom is another country which has not increased its official discount rate since the war; but the fact is that long-term rates were allowed to rise in response to market forces as long ago as 1947, and since that time the central bank has refrained from intervention against the main trend of the market, the yield of long-term government securities rising to 4 per cent. in the spring of 1951.

As regards the best methods of averting an increase in the amount of central-bank credit outstanding, disagreement may still exist on certain points; but there is almost general agreement that in the present circumstances it is dangerous to support the quotations of government bonds by means of newly-created credit. Not only will the addition of such credit increase pro tanto the amount of funds available in the market but, because these funds are derived from the central bank, it will add to the aggregate cash reserves of the credit institutions and thus most powerfully reinforce their liquidity and their lending capacity. Given the great demand for long-term as well as short-term credit, it is not surprising to find that, in response to the changed market conditions, long-term interest rates have risen in practically all countries.

Yield of long-term government bonds.

Countries	1938 average	1946 average	1950 June	1950 December	1951 March
	percentage yield				
Belgium.	4.39	4.19	4.35	4.49	4.62
Denmark	4.27	3.55	4.42	4.84	4.95
France	4.04	3.17	4.97	5.28	5.56
Italy.	4.91	3.81	4.85	4.82	5.06
Norway	4.33	2.96	2.54	2.68	2.65
Sweden	2.34	3.01	3.02	3.32	3.21
Switzerland	3.24	3.10	2.61	2.90	2.93
United Kingdom . .	3.38	2.60	3.55	3.52	3.67
United States. . . .	2.56	2.19	2.33	2.39	2.47

It is also being realised that in addition to the raising of interest rates there are other weapons that may be used; thus, quantitative restrictions may be introduced, and these have shown themselves almost indispensable when the banks were already in possession of large liquid resources. In the United States, the reserve ratios of the commercial banks have been raised and drastic restrictions have been imposed on consumer and building credit; in the latter case, the aim was to cut down private construction by as much as 40 per cent. In the Netherlands, a new system of regulations has been imposed to restrict commercial-bank credit, and in several countries agreements have been reached between the monetary authorities and the commercial banks as to the principles which should guide them in granting new credits.

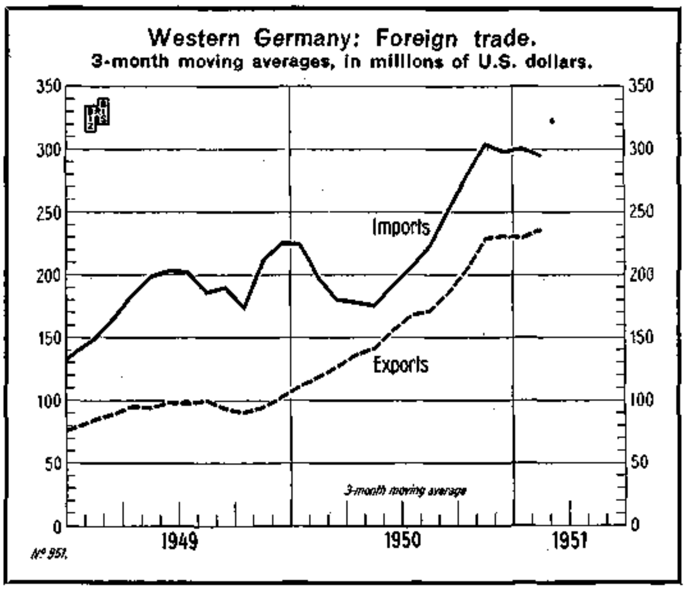
There are also a number of ways in which the discount policy can be strengthened (the National Bank of Belgium, in particular, has given them a trial), two examples being shortening of the terms of bills eligible for rediscounting and refusal to grant the rediscounting privilege to other than genuine trade bills.

Monetary authorities have thus reacted rapidly to the credit problems raised by the conflict in Korea, realising that an excessive internal credit expansion encourages rises in prices and leads to deficits in the balance of payments and flight of capital — notwithstanding the most elaborate systems of control.

The most spectacular case of balance-of-payments difficulties arising in the autumn of 1950 — as a result of rapidly increasing imports — was that of Germany.* Since the currency reform in June 1948 there has been a very considerable improvement in the economic situation of that country, the index of industrial production having risen from a level of 51 at the time of the currency reform (1936 = 100) to 135 in November 1950. There was a steady advance in the volume of industrial output and in the amount of exports, the trend of which contrasts in a rather curious way with the sharp variations in retail buying on the domestic market and

* Western part.

the ups and downs in the amount of goods imported from abroad (this uneven flow being reflected in rather abrupt fluctuations in the total of imports).



Imports into Germany were distinctly on the low side in the second quarter of 1950, the belief being current in that country, as elsewhere, that prices in world markets were likely to go down. German business men, caught with rather slender stocks when the Korean crisis came, then began to buy abroad, with the result that imports rose more sharply than exports. At the same time, there was a significant shift in the currents of German trade towards increased imports from the countries which were members of the European Payments Union. To a certain extent this reflected the imposition of cuts in relation to other countries; but more important factors were the recovery in output of the metropolitan and overseas territories of the E.P.U. countries, the price changes following the devaluations in the autumn of 1949, and the gradual freeing of trade — thanks largely to the liberalisation measures and, not least, to the payments facilities provided by the Union. The following table shows Germany's trade balance with different areas, with special reference to the E.P.U. countries.

Germany: Trade balance in relation to various areas.

Period	Trade balance in relation to: metropolitan E.P.U. countries in Europe	overseas monetary areas	total E.P.U. area	other areas	all areas	Amount financed by foreign aid	Amount remaining as "Commercial balance"
	in millions of U.S. dollars						
1948							
2nd half-year	.	.	.	.	— 466	539	+ 73
1949							
1st half-year	+ 116	— 94	+ 22	— 526	— 504	502	— 2
2nd half-year	+ 9	— 95	— 86	— 524	— 610	454	— 156
1950							
1st half-year	+ 22	— 162	— 140	— 202	— 342	233	— 109
2nd half-year	— 28	— 205	— 233	— 148	— 381	247	— 134
1951							
1st quarter	+ 24	— 120	— 96	— 81	— 177	123	— 54

The increase in the deficit with the E.P.U. countries during the third quarter of 1950 was due not only to the adverse balance of visible and invisible trade but also to some noteworthy changes in the terms of payment, finding their expression more particularly in the lengthening or shortening of ordinary trade credits. While in the first half of 1950 Germany received terms of payment more favourable than before, a reversal of the credit trend was responsible, in the third quarter, for an amount almost as large as the trade deficit itself. Parallels to this result may be found in a number of other countries, it being a common experience that shifts in the granting of trade credits and in the timing of payments in general have a most considerable effect (cf., for instance, the big movements in relation to sterling before and after the devaluation in 1949). Against such movements even the most comprehensive exchange control has shown itself ineffectual, precisely because the bulk of these movements fall within the limits which the control itself is bound to authorise.

The mounting balance-of-payments deficits in the autumn of 1950 naturally gave rise, in the first place, to the question of foreign means of payment, the following being the resources which could be used for the settlement of the part of the deficit not covered out of Marshall aid:

(i) Germany's E.P.U. quota, amounting to $320 million. If fully used up, this would provide $192 million (= 60 per cent.) as credit and require gold (or dollar) payments of $128 million to the Union.

(ii) To meet the dollar payments Germany could count on a monthly surplus of some $15 to 20 million from its trade with dollar-area countries.

(iii) The Bank deutscher Länder had gradually accumulated certain dollar reserves, which amounted to $217 million by the end of September 1950.

(iv) The Bank deutscher Länder had also certain reserves in foreign exchange other than dollars and E.P.U. currencies; these were equivalent to $35–45 million and were employed, as a rule, for settlements with individual countries exclusively under bilateral agreements.

When Germany's deficit in relation to the European Payments Union rose to $104 million in the month of September and to $116 million in October 1950, it was obvious that the available foreign resources would soon be insufficient. But it is necessary to relate the emergence of the foreign-payment crisis to the credit

Germany's balance of payments in relation to E.P.U. countries.

Items	1950 1st half	1950 3rd quarter	1950 4th quarter	1951 1st quarter
	In millions of U.S. dollars			
Merchandise trade				
Imports (c.i.f.)	774	486	674	637
Exports (f.o.b.)	610	391	501	522
Balance	— 164	— 95	— 173	— 115
Services (net)	+ 11	+ 12	+ 5	+ 5 (1)
Balance of goods and services	— 153	— 83	— 168	— 110
Special amortisation(2)	+ 20	+ 10	— 10	— 13
Residual item: changes in terms of payment	+ 44	— 34	— 31	+ 13
Quarterly deficit towards E.P.U. area	— 89	— 107	— 209	— 110
of this amount the accounting position in relation to E.P.U. represents	—	— 173	— 183	— 89

(1) Provisional.
(2) U.K. contribution, use of drawing rights, settlement of old claims and debts and use of existing resources.
Note: The difference in the trade deficit as shown in this and in the previous table is due to the fact that the import figures in this table refer to the countries selling the goods, while in the previous table the figures refer to the countries of origin. — Imports and exports of gas, water and electricity power are included for 1950 but excluded for 1951.

developments on the internal market in Germany and especially to examine where the funds came from which led to larger imports and made it possible for importers to finance their increased payments for foreign goods.

(i) Through the machinery of public finance an amount of about DM 400 million was returned to the German public in the summer of 1950 after certain taxes had been retroactively reduced in the spring. It is only fair to point out that, at the time the reduction was decided upon, somewhat deflationary tendencies had been prevailing in the German economy; but the misfortune was that the actual cash became available to the public in a very different atmosphere, i. e. after the outbreak of the Korean conflict, when retrenchment was required.

(ii) Past savings were further drawn upon by the public, the monthly increases in savings deposits falling from DM 123 million in June to only DM 14 million in August 1950.

(iii) Of the increased spending by the public, more funds flowed into the hands of traders and industrialists, who used part of them for financing larger imports; but their main requirements were met from another source, viz. the extension of short-term credits by the commercial banks, which themselves were aided by the central-banking system.

The following table shows the large monthly increases in the volume of credit outstanding, from the late summer of 1950 onwards.

Germany: Short-term lendings of commercial banks and their recourse to the central-banking system.

Month	Short-term lendings of commercial banks to non-bank customers (1)	Recourse by the commercial banks to the central-banking system (2)
	monthly changes in millions of DM	
1950 July	+ 176	— 105
August	+ 189	— 166
September	+ 685	+ 673
October	+ 604	+ 648
November	+ 292	+ 67
December	+ 254	+ 271
1951 January	+ 203	— 511
February	+ 384	+ 618
March	— 600	— 341
Totals outstanding at end of:	in millions of DM	
June 1950	11,417	3,056
October 1950	12,981	4,106
January 1951	13,730 (3)	3,933
March 1951	13,514	4,209

(1) I.e. to business and other private customers and to public authorities.
(2) Including "inland bills of exchange rediscounted" and "advances against security" but excluding "equalisation claims purchased", which, for the most part, served for the refinancing of long-term lending.
(3) Of the amount outstanding at the end of January 1951, loans to business and other private customers accounted for DM 13,122 million, this being the amount to which the credit reduction adopted by the Bank deutscher Länder at the end of February 1951 is applicable.

After the currency reform in the summer of 1948, which had much reduced the available cash resources of firms and individuals, the German public began to replenish its cash holdings, and the steep increase in production provided it with a further reason for doing so; as long as this process went on, it was possible to have an abnormal rate of credit expansion without inflationary effects. The very sharp increase in the volume of fresh credits in the autumn of 1950 came, however, at a moment when the public was tending to reduce its cash holdings (in order to buy more goods), and in such circumstances this additional credit was likely to swell the volume of purchasing power unduly and at the same time to cause a disequilibrium in the balance of payments. In September alone, the commercial banks increased their short-term credits to non-bank customers by DM 685 million, being able to do so because an equally large amount was refinanced by the central-banking system —

a development which naturally caused concern among those responsible for German currency and credit.

In the situation which had thus arisen certain internal measures were taken and, in addition, contact was sought with the Managing Board of the European Payments Union in Paris, it being evident that the German quota in the Union — equal to $320 million — would be exhausted before long. Among the measures adopted internally the following were the most important:

In the credit field:

1. The legal minimum-reserve requirements for commercial banks were increased by 50 per cent. for sight deposits and doubled for time deposits as from 1st October 1950, from which date the reserve percentages attained 15 per cent. for sight deposits of commercial banks situated in places where a Landeszentralbank had its head office or a branch and 12 per cent. for sight deposits in other places; for time deposits the new requirement was 8 per cent., while for savings deposits it was not increased but remained at 4 per cent.

   Through the new provisions the legal minimum for deposits by the commercial banks with the central-banking system rose from an average of DM 1,141 million in September to an average of DM 1,716 million in October, i. e. by DM 575 million. But the credits granted by the central-banking system to the commercial banks increased by DM 648 million in the course of the month of October, and it is fair to conclude that this increase was mainly an effect of the severer reserve requirements. This does not mean that the stiffening of the reserve requirements has been of no avail — for the banks, in having to increase their rediscounts by some DM 500–600 million, used up some of their liquid assets; and, since they have to keep up minimum reserves, the banks cannot relend quite the full amount that they receive as deposits.

2. On 13th October a ceiling was placed on the so-called bankers' acceptance credits (these representing not mere endorsements but the actual opening of credit by banks) at the level of 12th October (with some exceptions for export credits and harvest financing), rediscounting facilities to be withheld if the limits were exceeded.

   It was not until the end of 1950 that a substantial reduction was achieved. Although the decrease in the volume of acceptance credit was more than counterbalanced by increases in other forms of short-term lending by the banks, the fact that acceptances have been reduced has undoubtedly helped to improve the quality of the bank credit outstanding.

3. On 13th October 1950 a new regulation was adopted to the effect that all importers applying for new or prolonged import licences should make a cash deposit with a Landeszentralbank equal to 50 per cent. of the DM equivalent of the amount required in foreign exchange, and that the amounts thus deposited should be transferred to a blocked account in the Landeszentralbanken (i. e. to the central-banking system) until the goods to be imported crossed the frontier or the licence expired. From 23rd December 1950 the cash deposit was reduced, for most import licences, to 25 per cent.

   The obligation to provide a cash deposit may impose a certain restraint on the individual firms which have to find the amount required; but more important is the transfer of the amounts involved to the Landeszentralbanken, since this transfer reduces the liquidity of the commercial banks and at the same time tends to "sterilise" corresponding amounts of bank credit outstanding. From the end of September 1950 to the end of January 1951 the amount of short-term credits of commercial banks to business and other private customers increased by DM 1,509 million, but of this increase about DM 560 million may be regarded as having been "sterilised" through the operation of the cash-deposit proviso.

4. On 26th October 1950, the official discount rate was raised from 4 to 6 per cent. and the lombard rate correspondingly from 5 to 7 per cent. (the charges made by the commercial banks being generally 1 to 2 per cent. above the official rates). Long-term rates have not been much affected by these changes, but in the open market short-term rates as high as 12 to 14 per cent. have been quoted.

5. On 2nd November 1950, the Board of Directors of the Bank deutscher Länder adopted a resolution to the effect that, by the end of January, the rediscount credits ("Wechselkredite") of the Landeszentralbanken to credit institutions (mainly commercial banks) should, with certain exceptions, be reduced to 10 per cent. below the level recorded at the end of October 1950. Credits granted to public authorities were not affected by this measure.

   Between the end of October 1950 and the end of January 1951 the percentage decrease in the amount of bills rediscounted worked out at 5.4 instead of 10 per cent. and there was an increase again in February. This seems to indicate that the expedient of relating a reduction to a particular date is of rather doubtful merit.

   In the field of imports and exports a number of measures were also taken, including a reduction in the granting of authorisations for non-liberalised imports, the cancelling of certain licences not covered by existing contractual commitments, and stricter control of collection of export receipts by the central-banking system.

The keynote of the above measures was essentially an attempt to redress the balance-of-payments deficit by having recourse to monetary action of a general character (different forms of credit restriction) rather than to quantitative restrictions on imports. In so far as the methods adopted proved successful, the foreign trade of Germany and, at the same time, the foreign trade of its commercial partners would be established at a higher level than would otherwise be possible; but an obvious condition for success was the compression of demand inside Germany so that enough goods were set free to increase German exports, it being possible to count on a strong demand abroad for goods produced in Germany.

At the same time it was obvious that the system of foreign trade and payments instituted by the O.E.E.C. agreements and the fulfilment of other obligations incurred by Germany could not be maintained without some further aid.

At the request of the German Federal Government a special enquiry was carried out on German soil by two independent experts, the Managing Board of the European Payments Union laid proposals before the O.E.E.C. Council and the Council decided on 14th November 1950, "in principle", to approve the extension of a special credit of $120 million to Germany,* provided that the German Government presented an acceptable programme of internal measures designed to restore equilibrium in the balance of payments. At the beginning of December the German Government presented its programme, which was examined by the

* The credit could be drawn upon to cover two-thirds of the deficit in any month up to April 1951, the remaining one-third to be settled by payment in dollars. From May 1951 onwards the credit would have to be repaid at the rate of $20 million a month.

Managing Board, and on 13th December the special credit was approved by the O.E.E.C. Council. In the new programme the principle of a restriction in the volume of internal demand was maintained as the chief equilibrating force. The credit measures were to be reinforced by increases in taxation, including an increase in the turnover tax, which would help to hold back internal consumption, and certain modifications in the income and corporation taxes, which would not only bring in more revenue but, by a curtailment of the volume of self-financing, at the same time exert a moderating influence on the tempo of internal investment.

An attempt had been made to estimate the deficits which seemed likely to arise pending the restoration of equilibrium — expected in the spring of 1951. For November and December the deficits in relation to the Union were rather smaller than had been expected; but in January and February conditions became less favourable, largely owing to an uprush in the volume of consumer spending and in the volume of stockpiling, which, as in some other countries, reflected fear of inflation and greater political unrest not unconnected with the trend of events in Korea. The general public financed its purchases partly by drawing on its cash resources, the amount of bank-notes in circulation being reduced by over DM 400 million (over 6 per cent.). As a result, funds were transferred from the cash holdings of the public to business firms, whose liquid resources thus received a reinforcement not easily counteracted by any restrictive action on the part of the monetary authorities. One important objective in such a situation must be to ensure that the notes coming from the purses of the public do not remain in circulation but are effectively retrieved by the central bank — and this objective, at any rate, seems to have been attained in Germany.

Current statistics failed, however, to show the projected reduction in the overall volume of commercial bank credit, and at the end of January the Board of Directors of the Bank deutscher Länder issued certain new "guiding principles" to the commercial banks, according to which these banks had to adjust their balances in order to comply with the following provisions:

(i) their short-term credits granted to business and other private customers should not be more than twenty times greater than their own resources (defined as the so-called "liable funds", i. e. roughly corresponding to their capital and reserves);

(ii) current credits and "acceptance credits" combined should not exceed 70 per cent. of deposits and the banks' own resources;

(iii) "acceptance credits" should not exceed the following ratios to the banks' own resources: in the case of foreign trade and harvest financing seven times, in other cases three times; and

(iv) the ratio of liquid assets to deposits should be not less than one to five, this last provision aiming at an improvement in the liquidity of the commercial banks.

While the limits thus fixed were, on the whole, somewhat generous, they added a number of useful safeguards, which would no doubt prove valuable should there be any recurrence of the tendency to rapid credit expansion which had manifested itself in the autumn of 1950. But these precautions were not sufficient to reverse the market trend in the conditions obtaining in the early months of 1951.

Towards the middle of February there was for a time a very great run on the new licences being issued in the liberalised sector and, in view of the low ebb of available monetary resources, the German Government decided to suspend liberalisation for the time being and consequently to issue no further licences, while at once reporting this action to O.E.E.C. in Paris.

Germany's deficit in relation to the European Payments Union.

Month		Monthly surplus (+) or deficit (—)	E.P.U. quota			Special credit arrangement			Deficit covered by	
			Use of credit	Dollar payments	Total	Use of credit	Dollar payments	Total	Use of credit	Dollar payments
		in millions of U.S. dollars								
1950	July.	— 29	—	—	—	—	—	—	—	—
	August . . .	— 53	—	—	—	—	—	—	—	—
	September .	— 104	142	31	173	—	—	—	142	31
	October. . .	— 116	43	73	116	—	—	—	43	73
	November. .	— 33	6	24	31	—	4	4	6	28
	December. .	— 34	—	—	—	24	8	33	24	8
1951	January. . .	— 42	—	—	—	28	14	42	28	14
	February . .	— 58	—	—	—	39	19	58	39	19
	March. . . .	+ 11	—	—	—	— 11	—	— 11	— 11	—
	April	+ 45	—	—	—	— 30	— 15	— 45	— 30	— 15
	Total . . .	— 413	192	128	320	50	31	81	242	159

Note: The difference between the monthly surplus or deficit and the total use of credit and dollar payments results from the net use of existing resources by Germany for $12 million. If the German surpluses with Switzerland for the period July to October 1950, when Switzerland was not yet a member of the Union, had been included in the monthly figures, the total deficit would be reduced to 401.

The Managing Board of the European Payments Union found that the German Government had had sufficient reason for the step it had taken, and the Board's point of view was approved by the Council; under these circumstances other countries were not entitled to suspend liberalisation in relation to German exports. It was further agreed that the German Government should prepare and communicate to O.E.E.C. by 10th March 1951 an import programme appropriate to the new situation. In its report the Managing Board had, at the same time, urged the German authorities to carry out, in particular, the measures of increased taxation which had already been envisaged in November 1950 and also to make the credit restrictions more effective — a recommendation which now seemed to find a more ready response on the part of Germany.

Thus, at the end of February 1951, it was decided by the Board of Directors of the Bank deutscher Länder that the outstanding volume of credits which had been granted by the commercial banks to business and other private customers should be reduced within two or three months by at least DM 1,000 million below the level recorded on 31st January 1951. For the reductions due in March and April quotas were fixed for the area of each Landeszentralbank, which was to apportion the reduction among the commercial banks involved. (At a time when prices are rising rapidly, an increase in the discount rate is, for obvious reasons, less effective and, in such circumstances, it is often only by severe quantitative restrictions that the credit situation can be mastered.)

Moreover, on 7th March 1951, the Federal Parliament gave the first reading to a series of German Government bills concerning income, corporation, turnover and transportation taxes and referred them to the competent committees.

Early in March it was also decided to scrutinise more closely the actual maturity of foreign payments submitted for authorisation and to hold up all payments found to be in advance of the due date.

In addition to the salutary effects of the credit restrictions it should be remembered that German shipments to other countries consist largely of machinery and other types of goods which are generally sold months in advance of the actual export date. Thus a part of the exports dispatched in the winter of 1950–51 must have been sold in the previous summer when prices were still low, while the exports effected in the spring of 1951 would already reflect higher prices. It was, therefore, not surprising to find that, month by month, German exports have been rising: by 6½ per cent. in February, 12½ per cent. in March and 5½ per cent. in April 1951. Mainly thanks to the rise in exports and a quicker collection of outstanding foreign exchange claims but also as a result of the temporary cessation of the issue of import licences (subsequently resumed only by degrees), Germany was able to achieve monthly surpluses sufficiently high for the special E.P.U. credit to be fully repaid by the end of May 1951.

Early in April, the O.E.E.C. Council, of which, of course, Germany is a member, had arranged for certain amounts of import licences to be issued in April and May, while from 1st June Germany was to re-establish a "float" of licences to the extent of $350 million corresponding to two and a half months imports. At the same time, a "mediation group" of three members was set up to watch over the issue of import licences by Germany and to deal with any difficulties arising with regard to German trade.

If the improvement in Germany's exports continues along the lines of the programme agreed upon in the autumn of 1950, it may be possible for normal imports to be resumed before long without the risk of another balance-of-payments crisis for Germany. The advantage of the special assistance granted and of the credit restrictions and other measures taken in Germany would then be that the country's foreign trade would have been established on a higher level than would otherwise have been possible.

* * *

The German measures have been dealt with in greater detail since they were adopted within the framework of an international arrangement, the important principle being applied that the granting of fresh credits should be combined with acceptance of a comprehensive programme designed to restore equilibrium in the country's economy and consequently in its balance of payments. The developments in other countries have also been considered by O.E.E.C. and other bodies in their international aspect. So far they have not given rise to any special credit arrangements but certain internal measures have been taken in the various countries concerned in order to correct maladjustments — including remedial action in some cases where a rather excessive creditor position had developed. It was not only in Germany that acute strain was felt as a result of rather panicky buying by the public and increased stock-piling by commercial and industrial firms. In other countries, too, the general public as well as the business world made more active use of their existing cash resources — one of the manifestations of this tendency being an increase in the velocity of circulation. Thus in the United States, according to the calculations of the Federal Reserve Board, the estimated annual rate for the turnover of bank deposits outside New York City rose from 20 per cent. in December 1949 to 23 per cent. in December 1950, or by 15 per cent.

Reference to changes in the velocity of circulation are also found in European reports. Thus, the annual report of the National Bank of Belgium draws attention to the fact that by the end of 1950 the supply of money in Belgium was only very slightly larger than it had been a year earlier and concludes that "the velocity of circulation of the monetary instruments would seem to have been accelerated in the course of the year to an extent capable of satisfying the growing need for means of payment". Belgium is not the only country in which the rate of increase in the amount of notes in circulation has been moderate since 1949, while on the other hand account has to be taken of the fact that, for instance, in France there were special reasons for the increase in circulation (see page 22).

Various European countries: Notes in circulation.

Countries	End of March 1949	1950	1951
	In millions of national currency units		
Austria	5,833	5,611	6,089
Belgium	83,580	86,659	85,010
Denmark	1,496	1,550	1,610
France	1,045,053	1,321,855	1,576,231
Germany*	6,648	7,742	7,781
Italy	900,044	982,302	1,101,354
Netherlands	3,090	3,063	2,829
Norway	2,017	2,202	2,294
Portugal	8,269	7,788	8,160
Sweden	2,953	3,161	3,355
Switzerland	4,326	4,299	4,420
United Kingdom	1,251	1,267	1,320

* Bank-notes and certain small monetary tokens in western Germany (including Berlin).

It is true that the public has been using part of its cash reserves in notes for additional purchases — which is in itself an undesirable development; but the fact that it has been possible for the notes thus used to be so largely withdrawn from circulation — and thus prevented from reappearing again and again as purchasing power — must be chiefly the result of the more restrictive credit policy which has been applied in an increasing number of countries and especially in countries which have had a deficit on current account of their balances of payments. When under such circumstances importers (either directly or through some commercial banking connection) acquire foreign exchange from the central bank, it is important that the amounts thus paid in should not be made available again to the market through an extensive rediscounting of bills or other operations of the central bank. It is part of the "mechanism of adjustment" that a dangerously large loss of reserves should be allowed to contract the internal money supply, and that will happen unless its effects are offset by fresh credits or through transfers to the Treasury (for government spending), this having often been the practice with regard to amounts received by stabilisation funds. In almost every country a sounder course of action is now to be noted in this respect.*

The reforms which have been introduced, for instance, in the running of exchange funds must not be looked upon as an isolated modification of administrative practices but are a sign of a more profound change of heart

* In the case of surplus imports paid for by Marshall aid, complete sterilisation of the "counterpart funds" is the practice only in a few countries; as a rule these resources are used to pay for investments in the recipient countries (cf. page 16), as in the case of funds raised abroad by loans for investment purposes.

in matters of credit policy. It is being realised that an extreme policy of cheap money for the purpose of counteracting a tendency to depression is the last thing that is needed — especially now that a rearmament boom has added its impetus to the post-war reconstruction boom. The tone of the discussion of these matters has become much more serious — as well it might, considering the increased strain placed upon the national economies by the rearmament effort.

Now, with increased rearmament expenditure, the danger is not only that in a number of countries the additional outlay for armaments may reduce the volume of goods and services available for the satisfaction of civilian needs but also that the process of diverting productive power into military output will tend to weaken the economy and, in particular, to jeopardise the advance which has already been made towards the adoption of practical methods of a more normal and effective character in the monetary and commercial fields. While there is no denying the truth in Adam Smith's often quoted words that "defence is of more importance than opulence", account has to be taken of the fact that some economies are not yet fully restored after the ravages of war and, therefore, remain less vigorous than others; so that there is no simple formula which can be applied indiscriminately for determining the burden to be borne by individual countries. Clearly, the lines of policy should be such as will, so far as possible, leave the fundamental strength of the various economies unimpaired, it being remembered to what an extent strength in fact depends on the continued expansion of foreign trade and on confidence in the monetary systems. These are the considerations that have prompted the troublesome question whether the task of rearmament will leave peacetime reconstruction free to make further progress towards multilateralism in the commercial and monetary fields or whether it will be necessary to turn back to something more like wartime methods.

In these circumstances it must be stated, "sans équivoque", that the purely political aspects of the matter are of the greatest importance for economic developments also — as is, indeed, daily being testified by the movements on commodity and other markets all over the world. Even with more data becoming available as to the amount of government expenditure involved in the rearmament effort, it is no easy matter to judge the weight of the additional burden that has to be shouldered or the shift in productive power that is likely to take place.

When the dispute in Korea turned into a military venture and rearmament suddenly became the order of the day, there was naturally a strong temptation to repeat the methods which had been tried in the second world war and which had then proved effective in so many ways. The characteristic feature of this latest experiment in war economy had been the increased reliance placed on direct controls, not only over prices and the distribution of consumer goods but also over raw materials, investments, foreign trade and even the actual use of manpower. Heavier taxation had been imposed to reduce the deficits in the budgets but there was no general raising of interest rates. Clearly the present juncture was again one which called for more budget revenue, and there seemed also to be a strong case for the application of certain measures of direct control. Thus, when it came to a really exceptional shortage of materials vital for the rearmament effort, decisive reasons could be advanced for the acceptance of allocation schemes. Now that it had become necessary to shift production — almost overnight — from peacetime to rearmament purposes, might not the simplest and most effective way be not to rely upon the somewhat slow working of the price and cost system but to earmark parts of factories for the production of war materials? More difficult to answer are questions about the possible introduction of a general control over prices and wages. It is quite possible that the same answer should not be given for every country; and, in any case, before an answer is attempted, attention must be drawn to the marked differences between, on the one hand, a full-scale war economy and, on the other hand, an essentially peacetime rearmament effort, as launched in the autumn of 1950.

1. In the first place, there is the difference in the burden imposed on each country by the military budget. Experience shows that a full-scale war cannot be financed without some resort to inflation: when more than one-third of the nation's resources has had to be devoted to the prosecution of the war, the best any country actually involved in the war has been able to do has been to cover some 40 to 50 per cent. of its total public expenditure by current revenue — the remainder being met by borrowing. Part of this borrowing was clearly of an inflationary character, since it caused a redundant supply of money at a time when the amount of goods and services becoming available for civilian purposes was smaller than before. It was natural then to try, by wage and price controls, to keep the damage caused by the inflationary expansion of money and credit as small as possible, even though, for the time being, a state of affairs ensued which afterwards came to be called "repressed inflation".*

Rearmament, on the other hand, can be financed without resort to inflation. In the United States the first nine months of the fiscal year 1950–51 (i. e. up to the end of March 1951) showed a surplus in the Federal budget amounting to $5 milliard — and it has been estimated by the Secretary to the Treasury that by the end of the fiscal year there will be a surplus of as much as $3 milliard. It may be mentioned that one of the reasons for this is a considerable

* The relief brought by the control measures did not last, however; the full impact of the inflation had as a rule to be accepted later on, prices in most countries rising after the war until they had, so to say, taken up all the room in the over-large monetary cloak which the increase in production had not sufficed to fill. What has just been said is not meant to imply that the wartime controls were unjustified. One of their effects has been noted on page 13. It should be added that by rationing and price control the ordinary man felt he was protected against exorbitant price increases and the risk of not receiving his share of a reduced supply of essential commodities — hardships to which he had been exposed during the first world war. The controls were clearly to his advantage when prices might otherwise have been skyrocketing, but the situation changes when peacetime supplies begin to reappear; competition then becomes once again the most effective price control.

expansion in revenue, which reflects not only somewhat higher rates of taxation but also the increase in production and employment as well as higher prices (the price-increase factor also sending up expenditure). For the fiscal year 1951–52 the U.S. defence expenditure is put at \$52 milliard, or about 18 per cent. of the estimated national income, while the total public expenditure (Federal, State and local authorities) is expected to absorb \$92 milliard, or about 30 per cent. — which is a smaller proportion in relation to the national income than several European countries have in recent years collected as revenue to meet their public expenditure. Even so, the necessary increase in taxes raises some knotty problems in the United States as elsewhere, especially since the new taxation must be of a nature to discourage spending and produce revenue without delay. Moreover, the bulwark against inflation would obviously be more effective if a substantial cut could be made in the appropriations in other lines of government outlay.

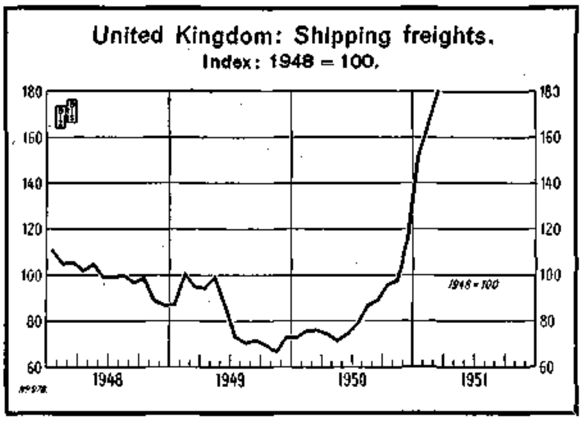
In western Europe the proportion of defence expenditure to the national income is not for 1951–52 expected to exceed 10 per cent., except in the United Kingdom; but several European countries will have a hard task to meet the increased outlay from current revenue, considering that they are already collecting some 30 to 40 per cent. of the national income before the new rearmament effort has begun. Countries in such a position will have little margin for increased taxation and, that being so, it is most important for them to curtail items of expenditure which, in a time of emergency, must be regarded as less essential.

If resort is had to borrowing to fill a gap in the budget, the government must try to attract genuine savings and not simply turn to the commercial banks or the central bank or seek the latter's support for market quotations, since this is often merely a roundabout way of financing by the printing-press.

2. The supply of available manpower in a country is reduced by rearmament but not to the same extent as by a wartime mobilisation — and the rapid consumption of munitions and other material assets in a war has no real counterpart in a rearmament period. The difference is particularly striking with regard to shipping losses. The toll taken in the years 1939–45 reduced the British, Norwegian and Dutch merchant marines by about one-half and the cost of rebuilding carried out during the war was enormous. It must be considered a marvel of reconstruction that early in 1951 the tonnage of sea-going vessels was already some 20 per cent. above the world tonnage in the summer of 1939.

3. Actual hostilities very greatly reduce the flow of world trade — and they subject what can still be maintained to strict control. Rearmament under peacetime conditions leaves foreign trade practically unhampered, the blocking of particular shipments to certain countries representing

only a small proportion — perhaps 1 or 2 per cent. at most — of the world's total exchange of goods and services. The present intensive utilisation of the world's tonnage (well above the pre-war level) is reflected in the rise in freight rates since the summer of 1950. It is true that particular factors (long voyages — inter alia, across the Pacific — together with difficulties of securing prompt handling of cargoes in ports) are, for the time being, making the available tonnage less effective; but the building of new ships is proceeding at record rates, so that the physical means of transport will not be lacking. From a monetary point of view it should be added that the increased earnings of many countries and the replenishment of their gold and dollar reserves, which has been going on in several instances since the autumn of 1949, is likely to be followed by a more widespread commercial demand based on effective purchasing power than has so far been the case since the war.



If the flow of world trade can thus be sustained, rearmament will not have to be carried out under conditions of autarky but will be buttressed by an expanding interchange of goods. To the extent that this proves possible, some considerable advantages will ensue. In the first place, the maintenance and development of foreign trade will increase the effectiveness of all economic effort. It must never be forgotten that the real value of the volume of production is very much enhanced if an exchange can be made with other countries according to the principle of comparative costs — which, from another point of view, means that the distortion of the various economies will be kept within the narrowest limits possible. A second advantage is that keen competition from abroad, resulting in increased imports, will help to keep prices down. There being anyhow a strong demand for goods and services as long as rearmament goes on, rising imports are not likely to embarrass the domestic industries of individual countries to any appreciable extent; and in so far as price increases are checked it will be easier to keep down money wages and costs generally, instead of running into an inflationary spiral. Considering the advantages of increased international trade and the fact that, in such circumstances, additional imports can be absorbed without detriment to domestic interests, the rearmament period may even turn out to be a suitable occasion for an appreciable lowering of tariff barriers and, in general, the right time for scaling down other obstacles to trade between the nations.

On the other hand, a number of countries financed themselves during the war by running down their capital assets through methods which they cannot afford to employ except at times of the very greatest emergency. It is not always realised how large a part of the war effort was financed by certain countries in such a way. For the United Kingdom, the official White Papers state that £4,750 million was obtained in the years 1939–45 by "borrowing from abroad and sale of assets to foreigners". In addition, net domestic investment fell short of full maintenance by around £1,080 million during these years: in other words, capital equipment was run down by this amount. Had net domestic investment taken place during these years at the same rate as in 1947–48 (15 per cent. of the net national income), it would have meant an additional amount of £7,600 million. Summarising these figures, it may be said that no less than £13,400 million was obtained by stopping new investment (except that required for direct military purposes), neglecting replacements, borrowing from abroad and selling assets to foreigners: the sums thus obtained covered more than half the cost of government expenditure on the war, which came to a total of £24,400 million, during the years 1939–45. The war expenditure covered by current efforts thus amounted to £11,000 million in seven years; viewed in this light, the present defence programme, costing £4,500 million over three years, is by no means small, although allowance has, of course, to be made for the fact that prices are now about twice as high as they were, on an average, during the war, and also that current private efforts yield more results in time of peace.

Further, it must not be forgotten that some countries still have to close a gap in the balance of payments in addition to covering the increased defence expenditure. These are charges that have, in any case, to be met, and (in so far as foreign aid does not provide for part of them) they will have to be met from resources that would otherwise be devoted to consumption and investment. With regard to investments, there will be some new outlay as an almost automatic consequence of the rearmament effort:

(i) Some new factories, barracks, airfields, etc. will be needed.

(ii) New plant and equipment will have to be installed, apart from the remodelling which will be necessary in many cases because old methods quickly become out of date.

(iii) There will be official and private stockpiling of goods specially required for the emergency, including some vital goods for civilian as well as military consumption.

(iv) If care is not taken, there will very likely be a tendency to increase investments for civilian purposes. It may be noted that, in the last six months of 1950, the increase in civilian investments in the United States was the largest ever witnessed. Moreover, in many European countries there is a propensity (laudable in itself) to introduce more effective methods of production (by drawing, for instance, on American experience) — a form of rationalisation which generally requires the investment of additional capital. And from a more general point of view it may be said that in every country there is a natural desire to keep up the rate of investment in order to ensure continued economic progress.

But all this means more demand for capital built up from current savings, and the question is to what extent the growing demand can be satisfied without an inflationary expansion of credit, which — let it be noted — can soon defeat its own ends, since people in fear of inflation may promptly reduce their rate of saving.

It is certainly not an easy task to keep up the level of investment in a period of heavy rearmament. The only really comparable precedent to the present rearmament effort is to be found in the period of competitive armaments before 1914, when the increase in military and naval establishments was not carried out under conditions of autarky but in the favourable atmosphere of a foreign-trade expansion still in progress. The actual expenditure involved in this pre-1914 armament may not seem large according to our present notions but, even so, the burden borne by the nations was in no way negligible, France and Germany having extended the period of obligatory military service to two years or more, while the United Kingdom had concentrated its effort rather on the navy. At the time, the average advance in production of the whole western world was at the rate of around 3 per cent. (as it had been pretty regularly since about 1860); but it should be noted that in the period from 1900 to 1914 the European countries most seriously involved in the competitive armament were not able to keep up the previous pace, while other countries seemed to be able to do so.

Obviously a continued increase in production will facilitate the armament effort (as it did so remarkably in the United States in the years 1941–45 and seems to be doing again); but it must not be forgotten that those who produce more earn more, so that, apart from the fiscal task of collecting sufficient revenue for the government, there is still the more general task of adjusting the proportions between consumption and investment — by fiscal and credit policy and in other ways. It is, of course, being realised that a continued high level of investment necessitates a corresponding abstinence in the matter of consumption. Even when allowance has been made for the foreign assistance which may be available and the fruits of increased domestic production, most countries will have to face the task of setting free the real resources required for rearmament — and perhaps for a gap in the balance of payments — by two methods: causing a reduction in investments and causing a cut in consumption. In this connection attention has to be concentrated not so much on gross investments (since resources must still be made available to maintain the effectiveness of existing assets) as on net investments. In western European countries net investment seems in recent years to have reached a rate of 15 per cent. of the national income — which means that consumption expenditure (including government spending for current purposes) has been at the rate of 85 per cent. of the national income. Suppose now that an extra amount equal to 5 per cent. has to be found to meet the cost of rearmament and close the gap in the balance-of-payments deficit. If the whole of that amount were to be raised by a reduction in the volume of investments, that reduction would have to be equal to one-third of the net investments, while the same amount would correspond to *one-seventeenth of the current consumption*. It is difficult, however, to bring about a sudden reduction in the volume of consumption; consequently encroachment upon the volume of investment is, as a rule, unavoidable; but it still remains desirable to limit the reduction in investments to as small a proportion as possible.

Even when a reduction in private investments is clearly required it is not always an easy matter to bring it about; for in several countries at the moment the economy is still dangerously liquid. That is, for instance, the case in the United States, where the volume of investments has continued to grow since the middle of 1950. In order to obtain sufficient funds, the proceeds of current savings have been eked out by selling government securities, some of which have been bought by the central-banking system, and the new monetary purchasing power thus issued has increased, in particular, the lending power of banks. With no real scarcity of funds to act as a check on *increases in costs and prices there was then an immediate* danger of a pernicious race between price and wage increases. That was the situation in which the United States decided to impose a price and wage "freeze". Such "freezing" measures may be necessary as a means of "gaining time" while productive power is being diverted from civilian to rearmament production by direct transfer, and financial restraint is being ensured by a modification of credit policy. Wages form so large a part of the total purchasing power (and the part most immediately spent) that a certain quiescence in this field is undoubtedly of importance and may turn the scale, provided that the time gained is profitably used in taking the various appropriate measures required.

In European countries problems of rising costs and prices also present themselves, although in a different setting from that found in the United States. By the autumn of 1950 the countries which had adopted an "income-stabilisation" policy (as several did after the devaluations in 1949) began to doubt whether world prices would come down in the near future, and that gave them a particular reason for revising their policies of subsidising food and other items in the cost of living. In Denmark, the Netherlands, Norway and Sweden — to mention some of the countries in question — food subsidies were thus cut down. It is often difficult to find out to what extent compensation was given by an increase in wages and salaries. In Sweden, where freedom was restored to employers and employed to make more flexible arrangements than had previously been the case, wages seem to have risen in the winter of 1950–51 by an average of fully 15 per cent., this being apparently the extent to which the cost of living had gone up in the meantime.

In the Netherlands, a body of experts examined the increasing burden of armament and the need to fill the gap in the balance of payments, and it was recommended that the volume of investment should be reduced by 20 per cent. and consumption by 5 per cent. This recommendation was accepted by the government and various organisations including the trade unions, and policies were adopted accordingly; a reduction by over one-half was made in subsidies, while the increase in the cost of living due to this and other causes was only partly compensated by a rise in wages and salaries, with the result that consumption was to be cut by 5 per cent. As regards the 20 per cent. reduction in investment, the government was in a position to reduce its own investment and also to influence the volume of construction, since building requires a licence. For the reduction in most other fields of investment more general measures have been employed, including an increase in short and long-term interest rates.

In the Netherlands changes in wages have remained subject to centralised control, while several other countries have allowed a return to more flexible systems, freedom being restored to employers and employed to make their own arrangements. For any reversion to a system of general restraint, it would be necessary to have the whole-hearted support of the workers and their unions. The keeping-down of wages would require the keeping-down of prices, i. e. the reimposition of general controls — a policy which it would not be easy to apply at a time of fairly plentiful supplies, there being then no clear case for the introduction of rationing. (And without rationing, which curtails demand, price control does not work effectively). In a rearmament period such scarcities as there are will not, in the main, be physical shortages: they will reflect an over-large supply of money — the typical characteristic of "repressed inflation". During the emergency created by a war it is possible to direct controls so as to ensure satisfaction of the most essential needs — and the others then matter little; it is a more difficult question when the private economy retains its great importance both internally and for an expansion of the export trade. Controls will then, in practice, result in distortions and artificialities, a weakening of incentives, dependence on official allocations and the emergence of more rigidities as competition tends to be eliminated. All these are serious disadvantages, whose prevention would add greatly to the efficiency of the economy in general, including the rearmament effort. But this series of difficulties can be avoided only by a very determined attempt to eliminate the root cause of the expansion of money — and, as always, the way to do that is to apply the two standard remedies of fiscal and monetary policy: public retrenchment and credit restraint. Fortunately, these remedies are coming into fashion again — as they very well might in a period of pronounced boom. Cheap money having reigned for well-nigh twenty years it is important to realise how different the present situation is from the great depression, on the one hand, and the war period, on the other.

(i) In the depression from 1930 onwards demand for capital was naturally at a low ebb, and it was then reasonable and in accordance with time-honoured principles that interest rates should be low (the trouble being rather that in some countries they had been reduced too slowly).

(ii) After the war had begun, in 1939, a great demand for capital set in; but the demand emanating from the government was not of a character to be influenced by changes in interest rates and the volume of private demand could be kept in check by the application of direct controls — especially allocation in the case of steel, cement and other materials. Under such circumstances higher rates of interest would merely have increased the cost of financing the war. They were therefore avoided. For the first few years after hostilities ceased, the continuance of direct control made it still possible, in a few countries, to limit the volume of investments; but as a rule this state of affairs did not last long — and then the question of finding other forms of curtailment arose.

It is becoming more and more clear that the authorities will not try to overcome the difficulties of the present emergency by relying one-sidedly either on direct controls or on financial restraint but will seek to establish a judicious combination of the two methods. They are aware that the more they can avoid an undue monetary expansion the less will be the need for such sweeping control measures as general wage and price freezes — with their undesirable consequences, to which the countries of Europe (less wealthy than the United States) could ill afford to be exposed. It has already been stressed that the rate of interest is not the only weapon of credit policy; but it may as well be pointed out that there are some special reasons for including it now among the measures to be taken:

(i) Through an increase in interest rates (and this argument applies also to some other forms of financial restraint) it will be possible to curtail lines of investment which may well escape direct controls of the kind likely to be adopted under present circumstances. For it would be a complete illusion to suppose that it might be possible to introduce in peacetime as comprehensive a system of controls as that applied in a full-scale war, when in many countries a complete ban was placed on all forms of investment which did not directly contribute to the war effort. The control of investment required in connection with the rearmament effort will be considerably simplified if a large volume of private investment is not encouraged by low interest rates and easy money.

(ii) If long-term rates of interest are allowed to find their natural level, central banks will not have to issue any newly-created purchasing power for the purpose of lending artificial support to quotations of government bonds. Indeed, it seems to be increasingly agreed that central banks should refrain from any measures actively expanding the volume of credit. It would in any case be a wasteful policy to seek, on the one hand, to secure a budget surplus and then, on the other, to fritter away the effect by open-market operations of the central bank.

(iii) Credit measures have a great advantage in flexibility, i.e. they can be stiffened and relaxed according to changing circumstances far more easily than physical controls. A perhaps minor but not quite insignificant consideration is that changes in interest rates involve little or no administrative and other costs, while measures of direct control are expensive in both money and men to the administration and to the industries etc. which have to comply with official requirements. In many circumstances, credit measures produce their psychological and technical effect more quickly even than budgetary measures. While many countries have stiffened their monetary policy since the outbreak of the conflict in Korea, few have yet been able to make drastic changes in taxation or government expenditure.

(iv) The effect of increased interest rates on the volume of employment has tended to be greatly exaggerated. Certainly, in the present boom, there is no danger of any increase in unemployment as a result of higher interest rates. Financial restraint is needed to prevent too great a monetary demand at home, there being every indication that foreign demand will become stronger as the raw-material-producing countries whose earning power has recently been growing begin to place increased orders in Europe and elsewhere (the demand which may be expected from these countries being rather of a civilian character than connected with a rearmament effort).

(v) Finally, it must be stressed that after years of rising prices and low interest rates there are strong reasons in favour of giving a fairly conspicuous outward sign that the time has come for savings to be encouraged again.

With regard to the last of these five points it is often argued that, in practice, an increase in interest rates is not likely to induce people to save more. That may or may not be true, but here it is a question of something more than merely granting higher remuneration to those who save. It is a question of giving an assurance that inflationary tendencies will be withstood, i. e. of allaying the anxieties of a number of people who are beginning to feel that their interests have been systematically neglected and that they have therefore a justified grievance in the continuously rising prices to which they have been exposed.

One reason for this feeling is that after the second world war there has been no sustained decline in the prices of consumer goods. The situation on the threshold of the present emergency was very different, in this respect, from the situation at the beginning of the second world war. In quite a number of countries there was a remarkable volume of personal savings during the years 1939–45, and one of the reasons for this helpful development was the fact that those who saved did not think that they had been exploited: there had been a decline in prices after the first world war and then again in the general depression. It is true that currencies had become devalued in terms of gold during the 1930s; but in those countries which had steered clear of extreme inflation the general level of wholesale prices was, from 1923 to 1929, only some 40 to 50 per cent. above the 1914 level. Once the depression had begun to make itself felt, the percentage was even smaller and during the whole period up to 1939 the price level was not nearly as high as it had been in 1919. Holders of government bonds, owners of insurance policies, etc. did not feel that they had had an unfair deal.

After the second world war there has nowhere been any appreciable fall in prices and, though it may be thought that the almost uninterrupted upward trend of prices has facilitated the utilisation of productive power, it must also be remembered that the continuance of inflationary forces is apt to retard a return to full effectiveness in production and a healthy functioning of commodity and other markets. A most dangerous point is reached when the ordinary man begins to believe that the value of money will go on deteriorating, and to base his daily arrangements on such a supposition. People who save by putting money in deposits or buying government bonds or taking out insurances may feel in many cases that whatever progress is achieved is made at their expense. A sentiment of that kind is already noticeable in some countries — and it is not unconnected with the reduction in money savings which has made itself felt in more than one market since the middle of 1950. It is of great importance that this unfortunate psychological trend should be reversed — and in this connection an increase in interest rates will surely have a certain effect, since it is an easily understood gesture.

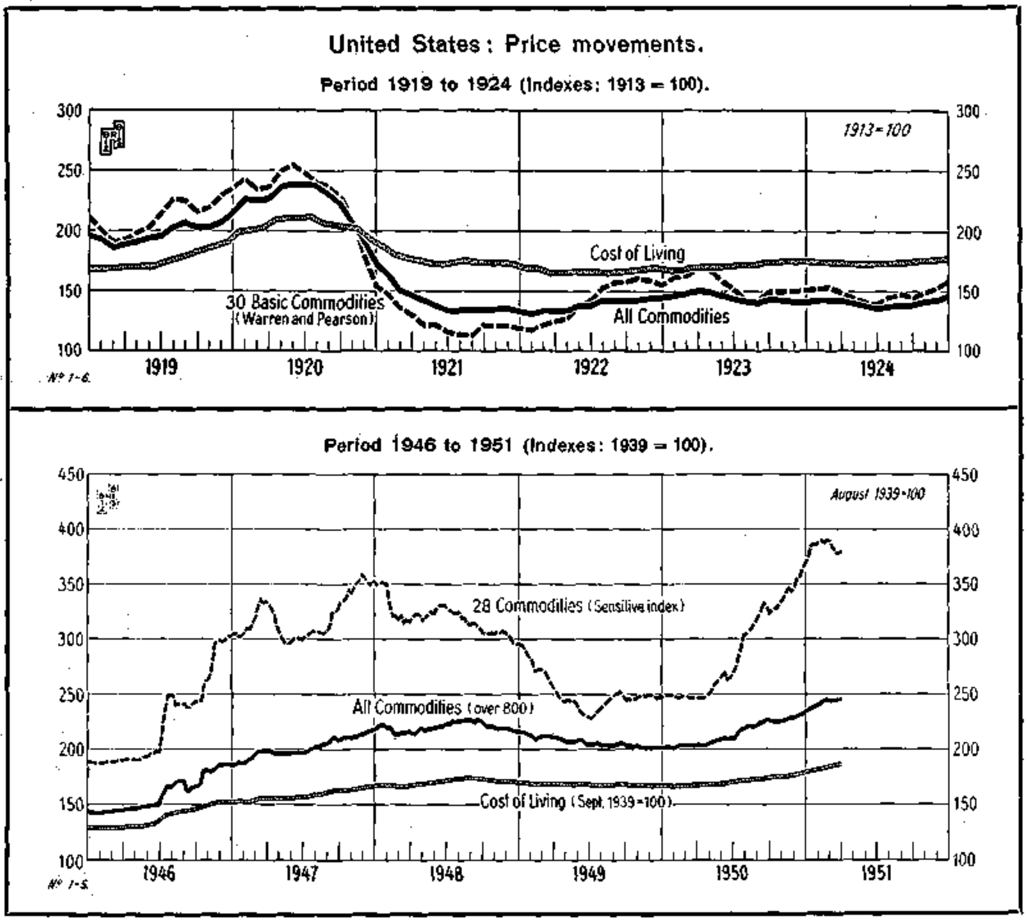
The great advantage of credit measures, that they can be fairly easily modified as soon as the basic circumstances change, becomes particularly important in a situation so largely determined by political factors as the present one, in which the turn of events can be very rapid and the behaviour of the markets can, therefore, alter almost overnight (several examples of this could be cited from the months December 1950 to March 1951). As more capital assets are produced and more goods are turned out there should, before long, be a tendency towards fairly moderate interest rates if current savings are to be maintained under conditions of continued peace. But a sine qua non for success is that in the meantime no irreparable damage is done to the value of money and thus, from a psychological point of view, to the habits of the saving community.

Fortunately, there seems to be general agreement as to the importance of safeguarding the purchasing power of currencies. In the U.S.S.R. the lowering of prices again decreed early in 1951 must be taken as a sign of the efforts being made in that country to uphold monetary confidence. In the west, the rather resolute change in the general trend of credit policy which was inaugurated in the latter half of 1950 is equally a sign that more definite attention is being given to creating conditions propitious for the maintenance of monetary confidence. Naturally each economy has to use the means of action appropriate to its type, it being borne in mind that failure to take the proper steps in a period of great upheaval will inevitably be most prejudicial to the strength of the countries or groups of countries concerned.

III. Boom in World Prices.

After the second world war there has been no period of real price stability such as was attained for nearly ten years, from 1921 to 1930, after the first world war.

The following graphs show price movements in the United States for the two post-war periods 1919–24 and 1946–51.



United States: Price movements.

Period 1919 to 1924 (Indexes: 1913 = 100).

Period 1946 to 1951 (Indexes: 1939 = 100).

It is in relation to the behaviour of the prices of primary products (as represented by thirty basic commodities in the index for the earlier period and twenty-eight commodities in the sensitive index of the Bureau of Labor Statistics for the second period) that the difference in the two sets of movements is most striking. After the first world war, primary products soon became comparatively cheap, to the obvious advantage of the importing countries; since the second world war they have been most expensive, prices having shot up sharply every time industrial production has got well under way, as in 1946–47 and again in 1950–51. This difference in price behaviour is undoubtedly attributable in part to the fact that during the first world war the principal raw-material-producing areas were almost all untouched by actual hostilities,[1] while in the second world war the productive capacity of some of these areas (in particular south-eastern Asia) was very greatly impaired. Other factors are the great progress made, in recent years, in the industrialisation of the world, the corresponding expansion of the demand for raw materials, and the growth of the world population, which, with a rise of at least 10 per cent. between 1939 and 1951, has outstripped the increase in the output of foodstuffs. Lastly, it should be pointed out that after the first world war there was a spirit of expansion in almost every field — once the first brief depression of 1920–21 had been overcome; but in these six years since the summer of 1945 far too many producers have been haunted by a fear of "overproduction" and declining prices, and governments, both in their national policies and in their international actions, have generally shown signs of similar preoccupations. The consequence of this recent misjudgement of trends and requirements has been a relative inflexibility in the output of primary products — which has meant that no margin has been available when fresh needs have suddenly made themselves felt. It is not being contended that no increase has been made in production; but the push has not been as forceful as it could have been and as it ought to have been in view of the underlying strength of demand.

In the industrial countries which, after the first world war, were able to return to gold at the old parity, the increase in the cost of living became more or less stabilised at about 60–70 per cent. above the pre-war level, although wholesale prices stood only 40 per cent. higher than before the war. It was not the prices of raw materials that had been the major element in the rising costs of finished goods but rather the increase in wages, which in almost all countries had gone up more than prices in comparison with pre-war conditions.[2]

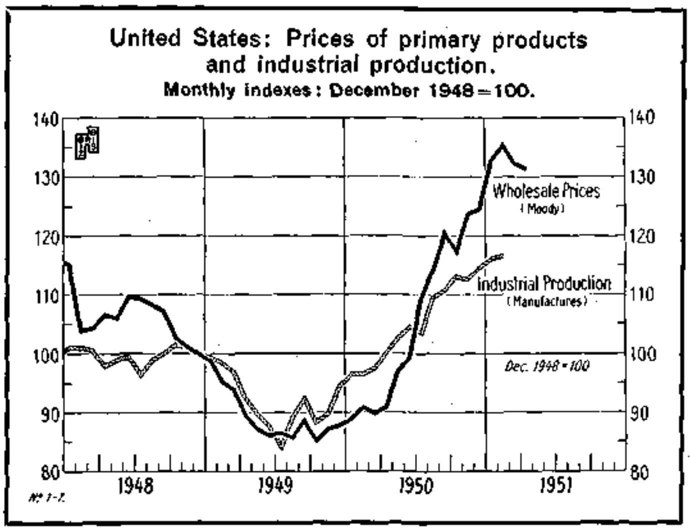
After the second world war the cost of living in the United States seemed in 1948–49 to be finding its level at an index figure of about 170 (pre-war = 100), which corresponds closely to the increase after the first world war; but by the spring of 1951 the index had shot up to between 180 and 190.

(1) One rather special influence roughly coinciding in time with the first world war was the introduction of the motor-car and the lorry, which led to a rapid reduction in the "horse population" and consequently to a sharp decline in demand for oats and other feeding stuffs, thus setting land free for increased production of human food. The number of horses on farms in the United States alone fell from an all-time high of about 22 million in 1915 to 13 million in 1930 and to not much more than 5 million in 1950, while the fall in the number of horses in the towns was very likely even steeper (but no precise figures are available).

(2) Really what had happened was that in the sharp business setback in the year 1920–21 prices had fallen more than wages, the result being an improvement in the standard of living. In the United States, for instance, money-wage rates (per hour) were more than twice as high in 1925 as in 1913, while the cost of living had risen between 75 and 80 per cent. For the United Kingdom the corresponding figures were a rise of 95 per cent. in weekly wages and of 75 per cent. in the cost of living, all consumer goods being freely available in the market, with no rationing and no import curtailments.

And this time very high prices of raw materials exerted an upward pressure which made itself felt in increasing costs of production and was, therefore, difficult to resist.

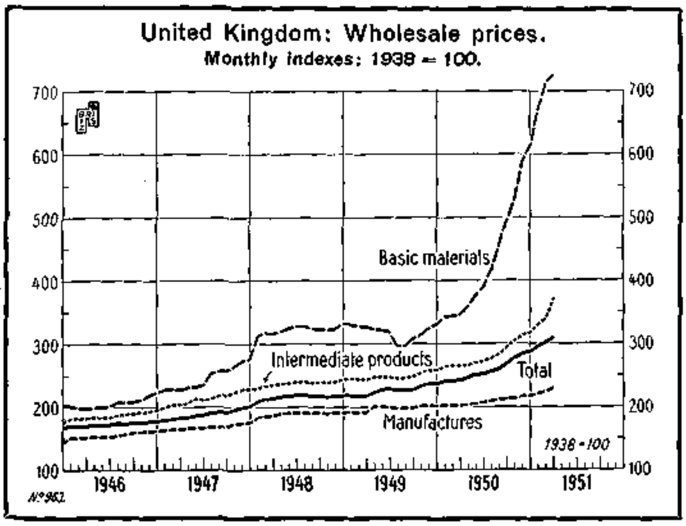
In the whole of the post-war period there has so far been only one short span — the autumn of 1949 and the first quarter of 1950 — in which there was at least the semblance of stability. The exceptional war and post-war shortages of primary products had begun to disappear, and the prices of these products had consequently been brought down from the "peak" reached at the turn of the year 1947–48. The downward movement had been intensified by the short-lived business recession in the United States between the end of 1948 and the middle of 1949, but the upturn which followed was strong enough not to be derailed by the wave of devaluations in the autumn of 1949. Thus the impulses to greater activity which, especially in the sterling area, had their origin in the devaluations were, so to say, superimposed upon an economic trend already moving upwards — its starting-point having been in the United States, which again was of predominant importance for the changes in world prices.



United States: Prices of primary products and industrial production.
Monthly indexes: December 1948 = 100.

The lowest point in the U.S. curve of production was reached in July 1949. From then onwards the volume of industrial output increased steadily (with only minor exceptions), and by June 1950, a month not yet affected by the outbreak of the conflict in Korea, it surpassed the pre-recession level of 1948. Prices lagged slightly behind but they were definitely on the move upwards for some months before the crucial date of the outbreak of the Korean conflict — which had the effect of strengthening the existing tendency and sending prices, especially of industrial raw materials, sky-rocketing in a way never before experienced either in peace or in war. The table on the next page gives a comparison of two indexes for prices of primary products — one for the United States and the other for the United Kingdom.

British prices of primary products shot up sharply (by 16 per cent.) immediately after the devaluations of September 1949 but then remained relatively stable up to the spring of 1950 — under the influence of what proved to be a short-lived lull on the world markets and of a policy of income limitation in the domestic economy. This was, however, a temporary phase; the sharp increase



United Kingdom: Wholesale prices.
Monthly indexes: 1938 = 100.

in the prices of basic raw materials was bound to exert an influence on other prices, even if every effort was made to keep the rise in prices of manufactured products as small as possible (see also page 82). The result was an increasing spread in the price structure, in marked contrast with the movements during the period before the devaluation in the autumn of 1949.

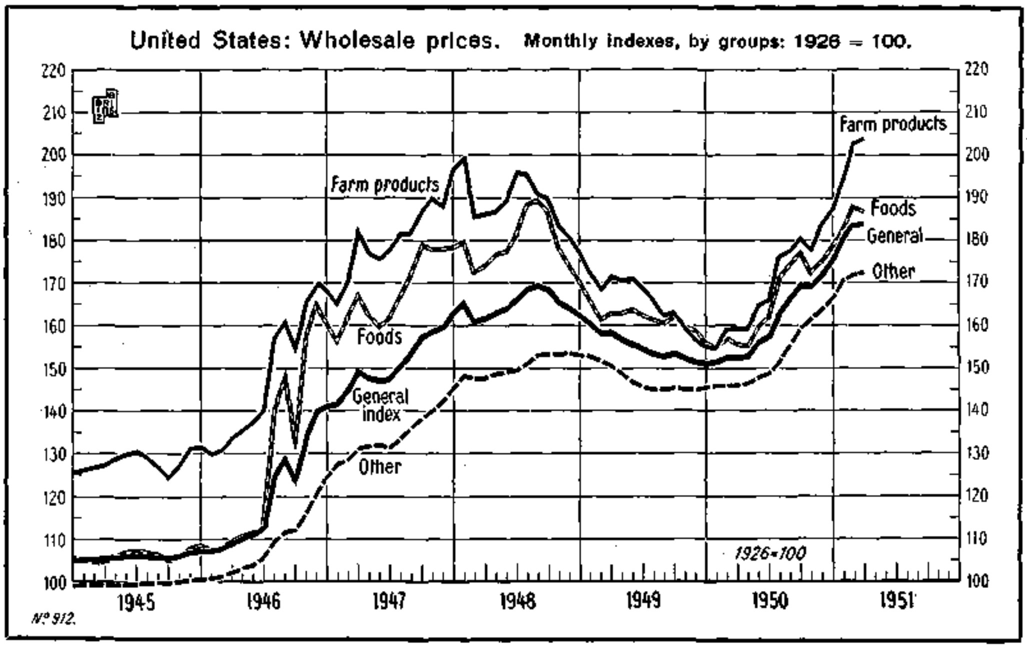
On the American market, prices of raw materials — both industrial materials and foodstuffs — remained at an almost unchanged level during the half-year following September 1949, the month of devaluations. Yet the predominant feeling was one of uncertainty and doubt. While fears of an industrial setback had died down, there was as yet no definite confidence that the high rate of activity characteristic of 1948 would be re-established and sustained. True, a gradual but decided increase in commodity production outside the United States was expected to ensue from the wave of currency adjustments and, with the consequent return of freer competition among producers, more normal relations between production costs and prices were also anticipated. But a distinct note of caution found its echo in various quarters. Thus, several countries — including the United Kingdom, usually the world's largest importer of primary products — withdrew sizable quantities

Moody's and Reuter's indexes of prices of primary products.*

Date	United States Moody's Index 31st Dec. 1931 = 100		United Kingdom Reuter's Index 18th Sept. 1931 = 100	
	Index figures	Percentage change over previous period	Index figures	Percentage increase over previous period
1949: 17th September	350	.	399	.
End of December	348	— 1	464	+ 16
1950: End of March	356	+ 2	473	+ 2
„ „ June	405	+ 14	495	+ 5
„ „ September	461	+ 14	546	+ 10
„ „ December	516	+ 12	579	+ 6
1951: End of March	525	+ 2	616	+ 6

* These are the unadjusted indexes as published daily. Because of the difference in the respective points of departure, the indexes are not strictly comparable, it being estimated that Moody's index figures would be about 7 per cent. lower if the middle of September 1931 (as for Reuter's index) had been chosen instead of the last day of the year.

Nor has any adjustment been made for devaluations, the index figures being those calculated in the respective currencies.



of raw materials and foodstuffs from existing stocks instead of maintaining the previous flow of imports. In the United States, the President reaffirmed the government's intention to support the farmers, who feared that prices of agricultural products would fall as a result of increasing supplies; and he lent weight to his assurances by obtaining from Congress an increase from $4.75 to 6.75 milliard in the borrowing powers of the Commodity Credit Corporation, which carries out the purchases required to maintain "parity prices" for agricultural products. Moreover, fears of foreign competition led Congress to discontinue the tax-free import of copper into the United States, while the effective U.S. import duty on oil was doubled by the cancellation of the commercial agreement with Mexico. In the international field the fears of approaching surpluses resulted, in the first six months of the year, in such a spate of discussions and negotiations on international commodity regulation schemes as had not been seen since the most critical stages of the world depression in 1932.

While the commodity markets and government agencies were apprehensive of a decline, prices in fact turned stronger and stronger under the influence of certain factors which it is now possible to discern in retrospect.

Firstly, the revival in industrial activity in the United States led to an urgent need for replenishing rather inadequate stocks of raw materials.

Secondly, the United States took further measures to keep farming prosperous. At the same time there were prospects of somewhat reduced stocks (especially of wheat and cotton) in the autumn.

Thirdly, there was an intensification of stockpiling in the United States, due largely to the accumulation of funds in the hands of the Munition Board. After Congress had held up the use of appropriations in the autumn, the Board had, on 1st January 1950, an amount of $436 million at its disposal and found itself (to quote its own words) "hard pressed" to spend it all before the end of the fiscal year on 30th June 1950.

Fourthly, the prevalence of strikes and local political unrest in raw-material-producing countries held up the increase which production had been expected to achieve under the stimulus of devaluation. This fact, together with the delays to which their activities were exposed pending local financial adjustments (as in the case of Indonesian rubber), gave producers much to worry about.

Fifthly, the reintegration of Germany and Japan into the world economy made more rapid progress than at any previous time since the war.

To these more particular reasons may be added the facts that there was still much inflationary juice in the various national economies (cf. page 35) and that the prevalence of full employment made for a ready flow of consumer goods (requiring raw materials in their manufacture) into the hands of the general public. On the other hand, there do not seem to have been any expectations of political complications or of a coming rearmament period — witness, inter alia, the relatively low prices quoted in June 1950 for iron and steel and several other metals on the world markets. Switzerland is an importer of metals, and the following index figures reflect price changes which actually occurred in the years 1949–51.

Switzerland: Index of certain metal prices.

Items	1949 June	1950 March	1950 June	1950 December	1951 March
	Index: August 1939 = 100				
Iron	311	215	199	251	330
Tin	207	156	158	303	315
Lead	363	285	294	594	634

Iron and steel prices were so low in the early summer of 1950 that some European producers found great difficulty in getting their bare cost of production covered.

It was some time before the marked upturn of prices in the United States during the second quarter of 1950 made itself felt on the European side of the Atlantic. But there can be no doubt that, as far as industrial raw materials were concerned, the world was still faced with a fundamental shortage liable to produce a rise in prices at the slightest provocation in the form of an intensification of demand.

That was the situation when the world's commodity markets received the impact of the conflict in Korea in the second half of 1950. The reaction of these markets was prompt, and commodity history offers no parallel in intensity to the ensuing scramble for supplies. The following would seem to have been the most important influences:

Firstly, almost overnight, producers, dealers and consumers alike became aware of the political threats besetting the world and no longer saw any justification for postponing purchases in anticipation of a downward adjustment of prices.

Secondly, there was the possibility that the conflict in Korea might spread further afield and interfere with production and shipments from the rich producing areas in south-eastern Asia — the source of nine-tenths of the world's natural rubber supply, two-thirds of its tin, two-fifths of its wolfram, and smaller proportions of a wide variety of materials, ranging from oilseeds and tea to hard fibres and antimony.

Thirdly, it became obvious that, with the initiation of major defence programmes, competition would arise between military and civilian needs. Although it would take time to step up production, both official and private enterprise made purchases in anticipation of future demand.

Lastly, it seemed probable that, with the available resources in the way of manpower, industrial capacity and raw materials being utilised to the full, the new defence tasks would set in motion inflationary forces which financial and physical controls might limit but would not be able wholly to check.

Although the almost universal upswing of prices was practically uninterrupted up to the end of the first quarter of 1951, it is possible to distinguish three or four separate phases. From the beginning of July to the middle of September 1950, the demand came first and foremost from private trade and industry anxious to replenish inadequate working stocks and accumulate some reserves in advance of official action. It was essentially a question of genuine requirements, only a very small part of the increase in prices being due to speculative influences.

But soon traders and industrialists encountered growing difficulties in financing enlarged stocks at prices which were beginning to make them hesitant. Accordingly from the middle of September 1950 onwards (i.e. for some weeks) private demand attained more normal proportions; but increased demand from government agencies more than took up the slack. Emergency reserves were accumulated and, in this process, price-consciousness and selection, of which there had still been traces when private demand predominated, almost ceased to play a rôle, the attempt to secure supplies determining the course of the market. With the Chinese intervention in the Korean conflict at the end of November 1950, strong private demand reappeared and the buying attained almost panic proportions.

In the period between the end of January and March 1951 a certain moderation began to set in, encouraged by the change in the outlook in Korea and also by a slight easing on the markets for a number of agricultural products — the most important being wheat and sugar — in reaction to better crop prospects. Another influence was the introduction of national controls. Using his powers under the Defense Production Act of 1950, the President of the United States, on 26th January 1951, imposed a general freeze of national prices and wages. In view of the great influence of that country as the largest consumer of industrial materials (cf. the table on page 78) and a supplier of several key products, this move naturally affected world markets, one of the results being a certain diversion of supplies from the United States — a result which in its turn helped to moderate the general rise in prices. Such artificial diversions, combined with growing fears that only inadequate supplies would be available in some of the countries taking part in the defence effort, led to more widespread requests for an international coordination of commodity policies. The O.E.E.C. Council had already resolved, on 2nd December 1950, that "it is the responsibility of the Organisation to initiate measures of international co-operation in this field". Later in the same month it was agreed between the British Prime Minister and the President of the United States that co-operation must not be confined to the main powers but must comprise all free nations, and that a healthy civilian economy represented a necessity for adequate defence. One of the results was the creation early in 1951 of the International Materials Conference, with a Central Group and several committees — one for each particular commodity or group of commodities — on which as a rule 80 per cent. or more of the world's producers and consumers, as organised in the International Materials Conference, are represented.

As regards the taking of practical measures, however, progress has been slow and has consisted, for the most part, in certain modifications of national

International Materials Conference:
International Commodity Committees and Member Countries (▲).

Member countries	International Commodity Committees						
	Copper Zinc Lead	Sulphur	Cotton	Tungsten Molybdenum	Manganese Nickel Cobalt	Wool	Pulp Paper
France	▲	▲	▲	▲	▲	▲	▲
United Kingdom	▲	▲	▲	▲	▲	▲	▲
United States	▲	▲	▲	▲	▲	▲	▲
Australia	▲	▲	.	▲	.	▲	▲
Austria	.	.	.	.	.	.	▲
Belgium-Luxemburg	▲	▲	▲	.	▲	▲	▲
Bolivia	.	.	.	▲	.	.	.
Brazil	.	▲	▲	▲	▲	.	▲
Canada	▲	▲	▲	.	▲	.	▲
Chile	▲	.	.	▲	.	.	.
Cuba	.	.	.	.	▲	.	.
Germany (western)	▲	.	▲	▲	▲	▲	▲
India	.	.	▲	.	▲	.	.
Italy	▲	▲	▲	.	.	▲	▲
Mexico	▲	.	▲	.	.	.	.
Netherlands	▲	▲	▲	.	▲	▲	▲
New Zealand	.	▲	.	.	.	▲	.
Norway	▲	.	.	.	▲	.	▲
Peru	▲	.	▲	.	.	.	.
Portugal	.	.	.	▲	.	.	.
South Africa	.	▲	.	.	▲	▲	.
Spain	.	.	.	▲	.	.	.
Sweden	.	.	.	▲	.	.	▲
Switzerland	.	▲	.	.	.	.	.
Uruguay	.	.	.	.	.	▲	.

policy by individual governments which have arrived at a better understanding of their own interests and have also taken account of the interests of other countries. Thus, the U.S. Government, in January 1951, called a halt to stockpiling purchases of zinc during the first half of 1951 and, in February, allowed copper producers a twelve-month extension of the period fixed for their deliveries to the stockpile on old contracts.

A fourth stage began early in March 1951, when for the first time since the middle of 1950 certain prices showed a distinct tendency to decline. In the specialised market of wolfram-ore, prices fell by nearly one-fifth in March, and there were reductions in the prices of tin (by one-sixth), rubber (by one-twelfth) and a variety of products such as maize, coffee and oilseeds, as well as lower quotations for cotton produced outside the United States and for new-crop futures of American cotton. In April most of these commodities registered further declines (cotton was an exception, but the price of raw wool temporarily fell by as much as 25 to 30 per cent.). In the same month the quotations for cereals and sugar became somewhat firmer, and the prices of other major commodities remained more or less stable.

Generally speaking, a temporary "plateau" has been reached by commodity prices, this development being due to a continuance of the following six factors: (i) the expectation of a better political atmosphere, together with a growing insensitiveness to "bad news"; (ii) a greater resistance on the part of the final consumer; (iii) hopes of an improvement in supplies; (iv) belief in the likelihood of a scaling-down of U.S. stockpiling; (v) general recourse to firmer measures for the balancing of budgets and to the imposition of an appropriate restraint upon credit through higher interest rates and otherwise; and (vi) the expectation of tangible results from the International Materials Conference.

It is still too early to tell to what extent these factors are firmly rooted or, in other words, whether they are strong enough to counterbalance the effect of the progressive growth of a defence production additional to civilian requirements. Due weight should, however, be given to the possibility that, thanks in part to the return to a more far-seeing and price-conscious policy, enough time may now have been gained for the taking of more effective measures in the official field.

As far as international arrangements are concerned, it appears that no particular action is intended in the case of rubber and tin; and it may be that sufficient supplies will be forthcoming at prices well below the top quotations registered early in 1951. But for some other commodities — certain non-ferrous metals, sulphur, wolfram, molybdenum, manganese, cobalt and nickel — there seems likely to be some form of international control together with a system of allocations, and exploratory work is also being carried out with regard to cotton (and cotton linters), wool, pulp and paper. The administration of an allocation is, of course, a matter of greater technical difficulty now than in wartime, when practically all international allocation could be handled as part of the shipping control. At the same time, it is true to say that, by sensational resignations and in other ways, the urgency of the need for arriving at acceptable solutions in this field has been brought home to the authorities in no uncertain fashion in quite a number of countries.

Part of the task of the international committees will be to seek to bring about an increase in production. The variations in price within the individual groups provide a guide to the relative acuteness of the shortages. The following table shows recent changes in wholesale prices as quoted on international commodity markets.

In the period up to the spring of 1951 the advance in the majority of food prices from their position on the eve of the invasion of South Korea was kept within more or less reasonable bounds. Thus, the price of wheat increased by little more than one-sixth, the prices of maize and cocoa by one-fifth, the price of coffee by under one-quarter and that of sugar by one-third.

For industrial raw materials — metals as well as textiles — the price increases during this period were far larger. The price of tin doubled, the price of wool more than doubled, and rubber rose by two and a half times. On the "grey" market, prices for copper and zinc went up by 100 per cent., while the official quotations showed only a moderate advance (by 10 and 15 per cent. respectively), since producers fixed the price with an eye to the reaction of governments and of public opinion, as was also the case with regard to aluminium and nickel.

It was, of course, to be expected that metals and other commodities (e.g. wool) directly required for the rearmament effort, as well as commodities such as rubber and tin derived mainly from south-eastern Asia, would rise more in price than wheat and most other staple foodstuffs, the consumption of which did not increase noticeably as a result of the political unrest. But influences relating merely to the last nine months do not fully explain the wide differences in the price movements. To obtain a representative picture, it is not sufficient to look at the period since the outbreak of the conflict in Korea in isolation: a longer view must be

Index of international raw-material prices.*

Sale groups in the index	From 15th March 1950 to 15th April 1951	From 15th Oct. 1949 to 15th April 1951
	Percentage change	
Fats	+ 6	+ 4
Cereals	+ 9	+ 12
Various foodstuffs (coffee, tea, etc.)	+ 12	+ 27
Meat	+ 20	+ 17
Iron and steel	+ 41	+ 40
Oilseeds	+ 45	+ 56
Hides, etc.	+ 43	+ 38
Textiles	+ 65	+ 95
Non-ferrous metals	+ 67	+ 46
Average change	+ 52	+ 64

* A privately-computed index published at fortnightly intervals by the "Volkswirt", Frankfurt-am-Main, taking account of quotations in important world markets (mainly in the United States and the United Kingdom but including also thirteen other countries).

U.S. Commodity Prices.

Commodities	Unit	15th August 1939	End of April 1949	1950	1951
Wheat	Cents per bushel	68	253.125	262.875	275.25
Maize	,, ,, ,,	45	160.5	173.25	209.375
Cocoa	,, ,, pound	4.19	20	25.75	38.375
Lard	,, ,, ,,	5.6	12.5	11.40	17.82
Sugar	,, ,, ,,	2.86	8.10	7.7	8.2
Coffee	,, ,, ,,	7.6	26.5	46.5	54.5
Cotton	,, ,, ,,	9.29	33.70	33.40	46.06
Iron	Dollars ,, ton	20.50	50.65	50.42	57.77
Steel scrap	,, ,, ,,	13.88	23.75	33.75	44.00
Lead	Cents ,, pound	4.89	15	11	17
Copper	,, ,, ,,	10.37	23.625	19.5	24.5
Tin	,, ,, ,,	48.76	103	76.875	142
Zinc	,, ,, ,,	4.72	12.5	11	17.5
Mercury	Dollars ,, flask*	86.15	85	70	216
Silver	Cents ,, ounce	36.0	71.5	71.75	90.16
Rubber	,, ,, pound	16.66	18.5	25	66
Hides	,, ,, ,,	11.6	18.75	18	30
Crude oil	,, ,, barrel	82	340	354	425

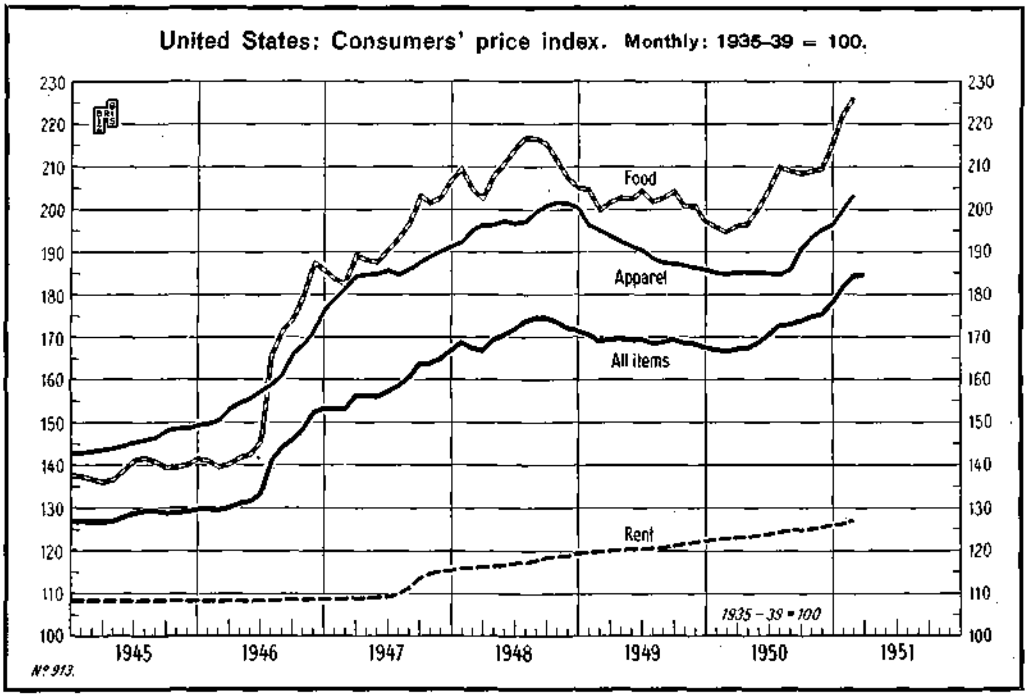
* Flask of 76 lbs equal to 34.5 kilogrammes.

taken. In comparison with the quotations in August 1939, the price of copper, as fixed by the producers, had doubled (and quadrupled in the "grey" markets) by the spring of 1951, the prices of lard, zinc, tin and lead had been trebled, and those of wheat, maize and rubber quadrupled. American cotton and crude-oil prices had increased fivefold, prices of Brazilian coffee sevenfold and cocoa prices ninefold, while at the end of March 1951 both cross-bred wools and merino wools were fourteen times as dear as before the second world war.*

One special influence has been at work in connection with the U.S. farm-price support, by which prices had been pegged at artificially high levels in response to purchases resulting in the accumulation of large stocks. Not only has it been possible, since Korea, to discontinue almost all

* From the end of April to the middle of May 1951 wool prices fell suddenly by about one-third but were still nine to ten times as high as the pre-war quotation. It is interesting to recall that at the end of the war the wool stocks in the hands of British producers were exceptionally large, reaching 10.4 million bales on 31st July 1945, and that, at the beginning of September of that year, a conference of the "United Kingdom — Dominion Wool Disposals Limited" explained that "even if there is a 12 per cent. increase in the consumption of apparel wool over the pre-war intake . . . it would take thirteen years to dispose of the existing surplus". As a matter of fact the demand was so great that the so-called "abundance of wool" was disposed of within less than four years, the "Joint Organisation stocks" being reduced to 1.7 million bales by the middle of 1949 and practically exhausted by the end of 1950. The reasons why an obvious abundance gave place so rapidly to a genuine shortage were the appearance of a strong pent-up demand after the war, higher living standards (the desire to be better-dressed), an increase in population by 10 per cent., and in 1950 the actual needs connected with rearmament plus stockpiling — with United States demand in the forefront under almost every heading. Wool is one of the raw materials for which it is almost impossible to find a substitute when it comes to making uniforms. The 1950–51 production of wool is estimated to be about 10 per cent. above the pre-war average, but estimated consumption (including non-civilian) for the same twelve-month period is expected to be 15 per cent. above pre-war — which means that existing stocks (except possibly those put away as reserves) are being used up.

purchases in support of prices, but the Commodity Credit Corporation has been able to liquidate substantial proportions of its holdings under favourable conditions — indeed, early in 1951, it even found it necessary to limit its releases in order to maintain adequate reserves for a possible emergency.



But there are wider influences than those of farm-price support and special stockpiling activities, and it is these influences which are first and foremost reflected in the remarkably steep rise in prices to levels in no way justified by a corresponding increase in production costs. The relation between costs and prices has, indeed, been so much distorted that the present prices must clearly be regarded as scarcity prices. The Korean boom has obviously influenced the position, but the roots of the present supply problems lie much deeper: world requirements of both basic foodstuffs and industrial raw materials have expanded greatly since the end of the second world war without being matched by a corresponding increase in production.

The reasons for the expansion of requirements are to be found in:

(i) a more than 10 per cent. increase in population in the last decade;

(ii) an increase in the earnings of raw-material-producing regions, many of which had been very poor. Not only have large supplies of foodstuffs been shipped to unusual destinations, but increasing quantities of staples such as sugar, tea, oilseeds, coffee and cocoa are being consumed in the producing countries;

(iii) the formation of industries in semi-developed countries — a tendency correlated with (ii);

(iv) an increase in the direct and indirect demand for foodstuffs and materials in the older industrial countries, owing to the improvement in living standards through better wages and salaries and more highly developed social services; and

(v) the extreme case provided by the change-over in the United States — a country which used to be a surplus region for many major minerals but has become, since 1945, one of the large importing countries for copper, lead and zinc, while its surplus of sulphur has been greatly reduced and its surplus of minerals is virtually a thing of the past. All along the line, the United States is taking a larger share of world supplies at present, as is shown by the table.

In so far as the world production of raw materials has not kept pace with the increase in industrial production, it is obvious that the larger proportion taken by the United States involves a curtailment of supplies for other countries.

U.S. consumption of materials as percentage of total world consumption.

Product	1938	1949
	percentages	
Wool	15 *	23
Cotton	21	32
Sisal	20	32
Tin	32	42
Zinc	25	48
Copper	24	52
Rubber	46	52

* Average for 1935–38.

Compared with the growth of demand, the increase in supplies has been seriously inadequate. In all fairness, the improvement in some lines should be admitted: apart from the increase in the output of electric current — a matter of the greatest importance — there has been a marked development in petroleum production and also in the light-metal industries, plus an expansion of the capacity for turning out a variety of man-made materials of progressively improving quality — synthetic rubber, detergents, artificial textile fibres and plastics. But against this has to be put the havoc wrought by the war in the commodity-producing regions of south-eastern Asia and the exhaustion of agricultural soil in a number of countries. The world crop of rice is no larger than before the war, the production of wheat has advanced by only 6 per cent., while that of rye is slightly smaller than before the war. And to mention two other examples: the actual crop of coffee and the exportable surpluses of cocoa and tea are not yet up to pre-war size. Among metals, there has been a small increase in the production of copper and only a moderate increase in zinc compared with the best pre-war years, while the world output of lead remains smaller than before the war.

There have been physical difficulties in overcoming wartime dislocation; but even more important has been the failure to push on with expansion schemes on an adequate scale, owing to a mistaken preconception of the trend of requirements by producers and government agencies, apprehensive of a decline in prices because of over-production, as in the difficult days of the 1930s. Even in the first half of 1950 the Food and Agricultural Organisation of the United Nations was considering a whole series of regulation schemes for agricultural products, and a number of governments were strengthening their agreements with regard to wheat and tea and

Estimates of world production of basic commodities.

Commodities	Unit	1937	1946	1950	Percentage increase (+) decrease (—) (1950 over 1937)
Aluminium	1000 tons	490	790	1,350	+ 175
Electricity	milliard kwh	400	590	840	+ 111
Crude oil	million tons	260	360	520	+ 104
Rayon	million lbs	1,830	1,690	3,500	+ 91
Cement	million tons	75	70	120	+ 58
Rubber, natural.	1000 tons	1,210	840	1,880	+ 56
Steel	million tons	120	100	180	+ 55
Brown coal	" "	270	250	370	+ 39
Pig iron	" "	90	70	110	+ 26
Nickel	1000 tons	120	140	150*	+ 22
Sugar (1).	million tons	29	26	35	+ 19
Coal	" "	1,216	1,185	1,400	+ 15
Zinc (2).	1000 tons	1,640	1,410	1,860	+ 14
Copper (2)	" "	2,260	1,880	2,450	+ 9
Maize (1).	million bushels	4,980	5,265	5,285	+ 6
Wheat (1)	" "	5,980	5,700	6,310	+ 6
Wool (greasy)	million lbs	3,850	3,765	4,010	+ 4
Lead (2)	1000 tons	1,690	1,040	1,600	— 6
Mercury	1000 flasks (3)	135	145	120	— 10
Tin (2)	1000 tons	200	100	175	— 12
Tungsten	" "	40	20	35*	— 14
Manganese ore	" "	6,040	3,670	4,530*	— 25
Cotton (1)	million bales	37	22	27	— 26
Coffee (1)	million bags	39	27	29*	— 27

* = 1949. (1) Crop years. (2) Smelter production. (3) Flask of 76 lbs equal to 34.5 kilogrammes.

discussing new ones for sugar, wool, tin and other products. As late as in the autumn of 1949 the U.S. Government enforced major cuts in the area under cotton and some other farm products, while American producers of non-ferrous metals resorted to systematic restriction of their output.

To contribute to an increase in supplies, e.g. by convincing producers and governments that their commodity policies throughout the post-war period have been largely based on wrong assumptions, is one of the longer-term purposes of the international action inaugurated in the winter of 1950–51. But the yield of the land depends largely on seasons and climatic conditions, while the output of most metals takes a considerable time to increase, especially now that the existing capacity is fully employed and cannot readily be expanded. Still, something is being done: marginal mines in several areas (and notably the United States) are gradually being brought back into production and some producers are initiating definite expansion programmes. The International Nickel Company of Canada has adopted an emergency scheme to increase output by 5 per cent. by the end of 1951. Arrangements have been made between the governments of the United States and Chile which should lead to higher copper output in the latter country. As regards cotton, efforts have been made to increase the area sown in the United States and it seems that more cotton will become available from other sources also. It should not be left out of account that the present high prices are themselves a powerful incentive to increased production.

Nevertheless, as far as raw materials are concerned, the supplies available in the western world cannot be substantially increased in the short run and it is therefore becoming largely a question of apportioning the shares between the various countries, on the one hand, and between defence and civilian requirements, on the other. The increase in prices will have a certain effect in holding back purchases for civilian needs as consumer resistance becomes stronger — as it is bound to do if there is no inflation; but beside the market forces there is room for an agreed scheme of distribution of certain scarce products.

* * *

The authorities in the United States have, of course, been conscious of the need of reacting against violent fluctuations in prices, having to reckon with the resistance of public opinion to any immoderate rise in the cost of living. A variety of measures have been taken relating to the budget and credit policy (see page 38 and Chapter VII), or concerned with the freezing of prices and wages (see page 72), the slowing-down of stockpile purchases (see page 74), rationing of materials available for civilian production and participation in international co-operation to control prices. The U.S. Director of Defense Mobilization explained on 1st May 1951, in Paris, that:

> "We are determined that there shall be an equitable distribution of raw materials. We intend to take steps such as adequate export quotas along with priorities and/or directives to producers whenever necessary to see that this object is achieved. We realise that we must devote some of our resources to sustaining the strength of our allies."

He also expressed the opinion that the European economy could not be subjected to such strains as the American production machine could bear.

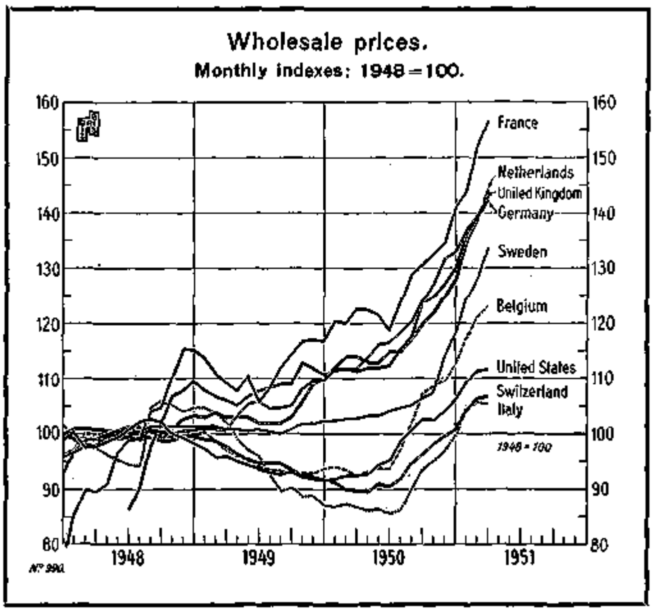
It is true that most European countries have made remarkable progress; but they are now under the necessity of increasing their outlay for defence at a time when they have to pay more for imported raw materials without, as a rule, obtaining the same increase in price for the goods they sell.

Terms of trade of certain European countries.

Period	Index of export prices divided by index of import prices (unit value)								
	Belgium	Denmark	Finland	France	Italy	Netherlands	Sweden	Switzerland	United Kingdom
1937	100	100	100	100	100	100 *	100 *	100 *	100
1947	133	110	118	108	.	103	101	107	94
1948	114	121	127	102	116	97	107	101	92
1949	120	122	115	99	111	96	99	109	94
1950	106	100	102	93	126	87	93	116	84
1951 January	103	87	108	.	118	87	103 **	108	75

* 1938 = 100. ** First quarter 1951.

Note: Terms of trade as calculated on the basis of the ordinary indexes of import and export prices do not always correspond to the calculation in more detailed studies of foreign trade movements. Compare, for example, the results in the above table for Sweden. The difference is often due to the lack of uniformity in the number of prices on which the indexes are based.



The rise in prices in a number of European countries has been due not only to the boom on world markets but also to devaluations in 1949. Thus the degree of devaluation adopted by individual countries in the autumn of 1949 has been of decisive importance for the subsequent price movements.

Over the two years 1949 and 1950 prices went up relatively little in Switzerland, which had not altered the exchange value of its currency, in Italy, where the lira had been devalued by 8 per cent., and in Belgium and Portugal, where the devaluation had amounted to about 13 per cent. On the other hand, the countries which had devalued their currencies by 30 per cent. or more were keenly susceptible to the trend of world prices, particularly in the winter of 1950–51. The Swedish Finance Minister stated in January 1951 that his country would have to submit to "a non-recurrent inflation" for the purpose of letting its prices become adjusted to the level ruling abroad. The acceptance of such a price increase constituted a manifest break with the policy adopted immediately after the devaluations in September 1949. At that time all the countries in question had, without exception, been anxious to avoid a rise in the cost level, in order not to lose the export stimulus that might be gained from the alteration in the exchange rate — there being also some who expected that the trend of world prices would turn downwards, as it had done after the devaluations in the autumn of 1931. To hold costs down, wages had to be prevented from rising; and to attain such a result the cost-of-living index had to be kept fairly stable; but in order to make this possible quite a number of countries (and among them Norway and Sweden) increased the amount of their subsidies, especially for food, this being part of a general "income-stabilisation policy". One difficulty was, of course, the fact that imports would — at least at first — be somewhat more expensive. In a survey of the effects of devaluation of the pound sterling, the Chancellor of the Exchequer made the following statement at a press conference in London on 12th October 1949:

> "It is difficult to calculate exactly, over industry as a whole, the extent to which imported materials enter into the prices of finished goods, but on the basis of an analysis of U.K. exports of 1938 it may be roughly estimated that prices of imported materials represent only about one-seventh or one-eighth of the f.o.b. prices of total U.K. exports . . . . . . In considering how far the rise in import prices need affect their new selling prices, I hope

Price movements in Europe.

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

Countries	During the calendar year 1946	1947	1948	1949	1950	Dec. 1950 to March 1951	March 1951 Index: Pre-war = 100
Austria							
Wholesale prices	—	—	+ 20	+ 35	+ 22	+ 10	672
Cost of living	+ 44 (1)	+ 148	+ 21	+ 24	+ 7	+ 6	539
Belgium							
Wholesale prices	—	+ 12	+ 5	— 7	+ 20	+ 9	470
Retail prices	— 12	+ 9	+ 9	— 5	+ 2	+ 7	398
Denmark							
Wholesale prices	+ 9	+ 9	+ 9	+ 3	+ 21	+ 10	328
Cost of living	+ 1	+ 3	+ 3	+ 1	+ 10	+ 3	194
Finland							
Wholesale prices	+ 19	+ 39	+ 9	+ 3	+ 23	+ 18	1,472
Cost of living	+ 16	+ 54	+ 11	+ 3	+ 21	+ 4	1,046
France							
Wholesale prices	+ 80	+ 44	+ 62	+ 1	+ 20	+ 11	2,602
Retail prices	+ 74	+ 57	+ 42	— 0.4	+ 8	+ 5	2,036
Germany (western)							
Wholesale prices *	—	—	+ 27 (2)	+ 1	+ 17	+ 10	251
Cost of living	—	—	+ 11 (2)	— 7	— 3	+ 7	161
Greece							
Cost of living	+ 96	+ 49	+ 23	+ 7	+ 14	+ 8	35,744
Iceland							
Cost of living	+ 7	+ 7	— 1	+ 4	+ 71	+ 4	606
Ireland							
Wholesale prices	+ 2	+ 11	+ 3	+ 3	+ 10	+ 5	274
Cost of living	— 2	+ 5	+ 2	+ 1	+ 2	+ 1	191
Italy							
Wholesale prices	+ 38 (3)	+ 50	+ 3	— 17	+ 14	+ 6	5,739
Cost of living	+ 23 (3)	+ 44	— 0	— 3	+ 5	+ 4	5,199
Netherlands							
Wholesale prices	+ 23	+ 5	+ 4	+ 5	+ 15	+ 12	378
Cost of living	+ 11	+ 3	+ 6	+ 6	+ 10	+ 4	258
Norway							
Wholesale prices	+ 4	+ 3	+ 3	+ 2	+ 23	+ 6	251
Cost of living	+ 3	— 2	— 0	+ 1	+ 11	+ 3	181
Portugal							
Wholesale prices	— 5	+ 4	+ 7	— 1	— 2	+ 10	272
Cost of living	+ 6	— 1	+ 3	+ 1	— 2	+ 2	217
Spain							
Wholesale prices	+ 24	+ 12	+ 4	+ 9	+ 31	+ 7 (4)	497 (4)
Cost of living	+ 36	+ 10	+ 4	+ 8	+ 12	+ 3 (4)	392 (4)
Sweden							
Wholesale prices	+ 1	+ 7	+ 6	+ 1	+ 16	+ 13	262
Cost of living	+ 2	+ 8	0	+ 0	+ 4	+ 10	180
Switzerland							
Wholesale prices	+ 2	+ 6	— 0.3	— 8	+ 10	+ 6	233
Cost of living	+ 2	+ 5	+ 0.6	— 2	+ 0	+ 1	163
Turkey							
Wholesale prices	— 2	+ 3	+ 9	— 2	— 2	+ 9 (4)	508 (4)
Cost of living	— 3	— 1	+ 5	+ 6	— 7	+ 2 (4)	353 (4)
United Kingdom							
Wholesale prices	+ 6	+ 13	+ 9	+ 9	+ 21	+ 7	320
Retail prices	+ 0.5	+ 3	+ 5	+ 4	+ 3	+ 3	155

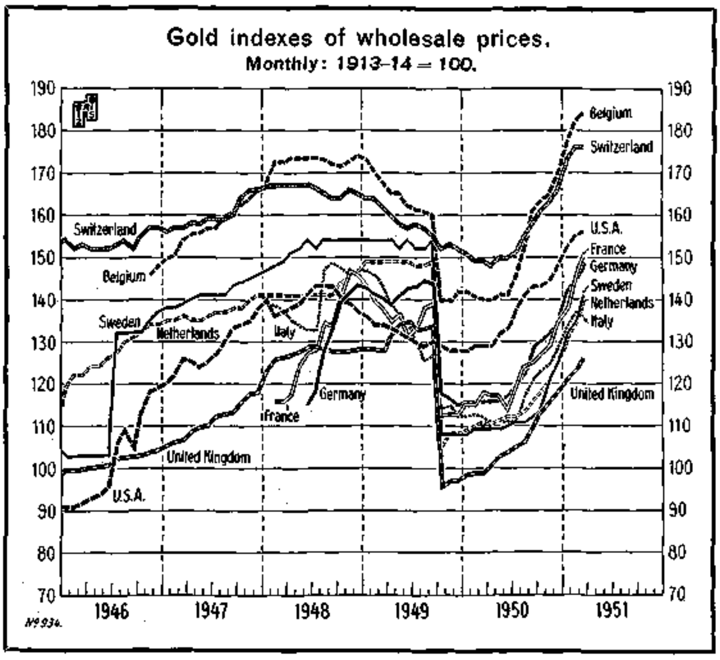
* Index of basic products.
(1) April 1945 to December 1946.
(2) Mid-June 1948 to December 1948.
(3) January 1946 to December 1946.
(4) February 1951.

that, wherever possible, manufacturers will postpone increasing their prices until they have used up materials which were already in their hands or paid for before the devaluation."

The authorities in the United Kingdom, as in other countries which had devalued, were torn between two considerations: on the one hand, they wanted to take advantage of their new competitive position by selling at relatively low prices; on the other hand, they knew that their own prices would have to be increased for their terms of trade to be improved in the current exchange of goods and services with other countries.

Gradually it was found, however, that world prices instead of declining were persistently mounting. That being the case, the question was asked in some of the countries whose currencies had been devalued if one of the means of effectively arresting the rise in domestic prices might not lie in recourse to revaluation — and in more than one place there were voices raised for the adoption of such a policy. Only Canada may be said to have actually moved along such lines — and that mainly for other reasons; for the result of the freeing of its exchange rate in October 1950 was a de-facto revaluation limited to between 4 and 6 per cent. (see Chapter V). The considerations which deterred other countries are fairly obvious: frequent alterations in the exchange value of a currency are, of course, disturbing from many points of view and are, therefore, to be avoided unless there is a most pressing reason; and, in addition, one country after the other found that its monetary reserves were too slender to allow it to undertake such a risky step as a sudden decision to raise the exchange value of its currency, especially since in that case funds might again begin to leave for abroad.

With no revaluation in prospect, it became evident in the autumn of 1950 that the cost of living would increase and that a rise in wages would ensue. In these circumstances, the whole question of the relation between wages and prices came up for review, and the line of policy followed was not everywhere the same. In a number of countries, where it was considered that a rise in wages was unavoidable, the opportunity was taken to make some other adjustments, e.g. a reduction in the amount



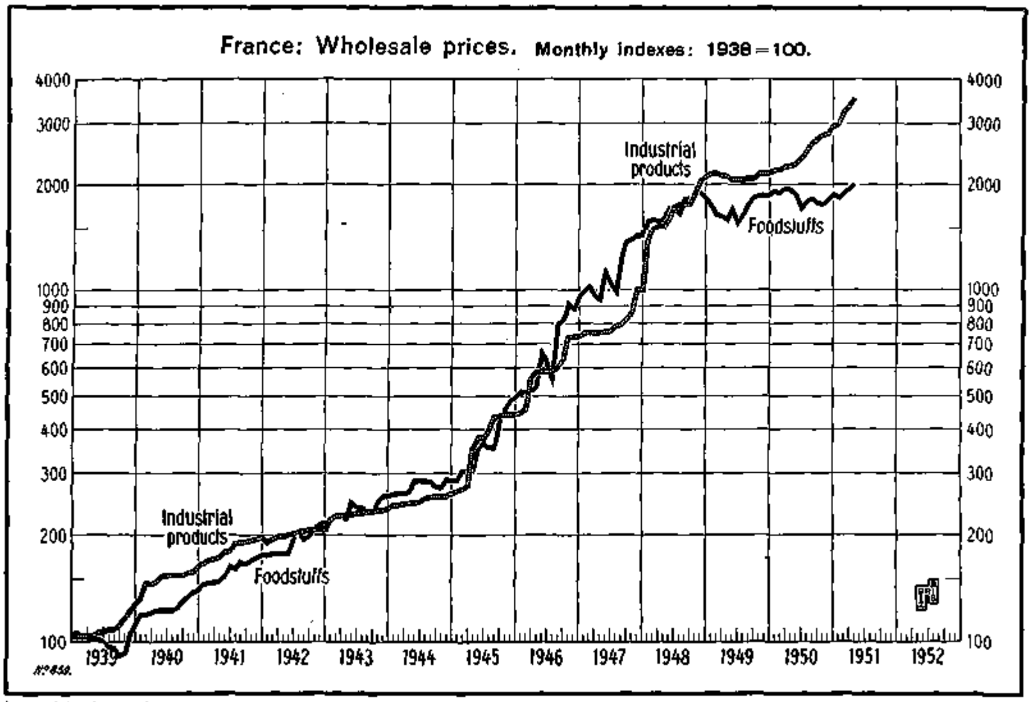
Gold indexes of wholesale prices.
Monthly: 1913–14 = 100.

of food subsidies. Thus, in Norway, subsidies were reduced by one-quarter, compensation being given by a rise in wages. The Norwegian development has some features of considerable interest. Up to the end of 1949 wholesale prices rose by only 87 per cent. as compared with the 1938 level; and between December 1945 and December 1949 the cost-of-living index went up by only 2 per cent. and the wholesale price index by 13 per cent. Compared with 1938 the note circulation had increased fivefold and the supply of money (notes and demand deposits) had gone up eightfold (see Chapter VII), so there was evidently a great deal of excess purchasing power in the economy, and this led to surplus imports, financed mainly by foreign aid. The subsidies by which prices of food and various imports had been kept down represented a heavy burden on the budget ($15^1/_2$ per cent.) and in 1950, when they were cut, prices advanced sharply for this and other reasons, the increase in that year alone amounting to 23 per cent. for wholesale prices and 11 per cent. for the cost of living.

In Sweden, it had already been decided, early in 1950, that in the next negotiations between employers and employed, which were due to take place in the winter of 1950–51, the labour market should be allowed to regain its freedom and that at the same time almost all the subsidies granted to reduce prices should be discontinued (apart from a few in aid of certain branches of agricultural production). The rise in Swedish wages is estimated to have been between 15 and 20 per cent., on an average. In the Netherlands, subsidies were cut by over one-half and, moreover, limited for the future to an annual amount of Fl. 175 million, it being agreed, also by the persons employed, that full compensation should not be allowed for the resulting increase in the cost of living (see page 61). In the United Kingdom, the food subsidies, which in the fiscal year 1949–50 had actually amounted to £425 million, were given a ceiling of £410 million in the 1950–51 budget, and this was maintained in the 1951–52 budget; consequently, any increase in cost which the Ministry of Food had to pay to farmers in the United Kingdom or for imports would have to be passed on to the consumers.

In Belgium, where wage rates are tied to the retail-price index, wages and salaries had to be increased by about 5 per cent. when in March 1951 the index number passed 410 (with 1936–38 = 100). In no other country in Europe have real wages increased more markedly since 1939 than in Belgium. This seems to be so even when account is taken of "social additions to wages", which in recent years have come to play an increasingly important rôle, often corresponding to 30 per cent. and more of the basic income of industrial workers.

After a period of great stability in 1949, prices in France rose sharply in 1950 — wholesale prices by 20 per cent. and retail prices by 8 per cent. — and the advance was continued at an even quicker rate in the first quarter of 1951. This led to an upward adjustment of wages; subsidies to hold down the price rise were allowed only in exceptional cases when the rise could be regarded as clearly transitory, e.g. in the case of coal imported from the United States.



Logarithmic scale.

In 1950 wholesale prices rose in Italy by almost as much as they had fallen in the previous year, and after a 6 per cent. rise at the turn of 1950–51 a period of relative stability would seem to have been reached — more or less as in the United States. A particular feature of the Italian economy is a comparatively small lag between the trends of wholesale and retail prices — which seems to indicate a fairly normal operation of the price mechanism.

In Germany, the cost of living, after a certain rise following immediately upon the currency reform in June 1948, resumed its decline until the autumn of 1950, increasing again after the turn of the

Ratio between wholesale prices and the cost-of-living indexes for the month of December 1950.

Countries	Cost of Living = 100
Italy	108
Belgium	115
Portugal	116
Austria	120
France	121
Spain	122
Finland	124
United States	128
Turkey	133
Netherlands	135
Norway	135
Switzerland	137
Ireland	138
Sweden	141
Germany (western)	152
Denmark	157
United Kingdom	197

Note: It may be seen from the table that in every case the wholesale-price index has risen more than the cost-of-living index. In periods of sharply rising prices the rise in consumer prices will as a rule lag behind the rise in wholesale prices and that happens even when prices are allowed to move freely. Naturally, the lag is bound to become accentuated if state intervention (through controls, subsidies, etc.) is directed towards holding down the rise in the prices entering into the cost-of-living index. Thus, the disparity in the increase between wholesale prices and the cost of living may be regarded as a rough indicator of the degree of intervention in the price mechanism — due allowance being made for the margin of error inherent in all such international comparisons.

The indexes have been calculated on a pre-war basis (i.e. established on the same basis as the table on page 82) but, even so, they are not strictly comparable; for one country the cost-of-living index may give a fairly adequate picture of the actual rise which has occurred in the overall living costs, while for another country it may only reflect *changes in certain retail prices.*

year. By the spring of 1951 the cost of living was estimated to be about 60 per cent. above the pre-war level, while the index for the gross earnings per week of an industrial worker showed an increase of nearly 70 per cent. Statistically, there has thus been a slight improvement in real wages compared with pre-war; but it is probable that items not covered by the cost-of-living index have risen more than the articles and services on which the index is based.

Austria, on the other hand, has not succeeded in restoring stability to its price level. After a rise by one-third in 1949, wholesale prices advanced by nearly one-quarter in 1950 and since the end of that year the increase has been even more marked. New measures are being taken to cope with the problem (see Chapter VII).

In Greece a fair degree of price stability had prevailed from the beginning of 1949 to the middle of 1950; but prices then began to increase and the advance continued in the early months of 1951, mainly as a result of influences from abroad.

Turkey, also, enjoyed a comparatively high degree of price stability in 1950; but early in 1951 an upward movement was initiated by certain sharp increases in the prices of Turkey's export products (in particular cotton, the price of which rose from T£ 230–250 per 100 kilogrammes at the end of 1950 to T£ 725 early in March 1951).

In Finland, rising prices for export products had likewise a repercussion on internal prices (especially since the Finnish mark had been devalued by 41 per cent. during 1949). On the home market the income-stabilisation policy could not be maintained; increases were made in wages and salaries by 7½ per cent. early in 1950 and by 15 per cent. in May, when wages were linked to the cost-of-living index. Further wage increases took place after prolonged strikes in the autumn and again at the beginning of 1951, but an attempt was then made to arrive at a more durable arrangement. For 1951 the amount of food subsidies has been fixed at FM 12 milliard, to which about FM 6 milliard worth of subsidies to agriculture should be added, the total corresponding to about 3 per cent. of the national income and 10 per cent. of the state budget.

* * *

Little information is available about price movements in eastern Europe. The only index published in recent times is an index of retail prices in Poland; but for that country and others in the same part of the world inferences as to the trend of prices may sometimes be drawn from various statements of an official character. As a general impression, it may be said that the methods adopted in the U.S.S.R. serve as a model for the other members of the group. During the war and in the years immediately after the cessation of hostilities, the Soviet economy suffered from a pronounced inflation, which made itself felt in the retail-trade sector in general and in the turnover of so-called "free-market goods" in particular. At the end of 1947, in connection with the monetary reform, a uniform level of prices was re-established; and at the same time, the first among a series of spectacular price reductions was introduced. No price-index figures have been published, but an indication of the extent to which prices have been reduced has been given by the publication of figures showing the amount of "savings" or "gains" by the population in one year thanks to the lower prices. It was officially indicated that the cheapening of consumer goods decreed at the end of 1947 led to the gain of "at least Roubles 57 milliard" in the state retail trade, while price reductions for products derived from the collective-farms market would seem to have added another Roubles 29 milliard. A second price cut in March 1949 was intended to save the population Roubles 71 milliard, and a gain of Roubles 110 milliard was expected from a third price cut one year later. There has even been a fourth price cut, applied from 1st March 1951, with an effect estimated at Roubles 34.5 milliard, made up of Roubles 27.5 milliard to be saved in state shops and some Roubles 7 milliard in the "kolkhos" and co-operative trade.

It is not easy to tell what is the exact significance of these price cuts but, on the basis of official figures, the total price reduction would seem to work out at something like 25 per cent., of which nearly 20 per cent. is estimated to have been the result of the first three cuts. Considering the increased turnover of goods and services in 1950 and 1951, the downward adjustments in these years would seem to have been on a fairly small scale not incompatible with an approach to greater stability in the retail price level.

Poland: Retail price index (for Warsaw).

Items	1949 June	1950 June	Percentage increase
	Basis: 1947 = 100		
Food	112	118	+ 5½
Rent	133	155	+ 16½
Articles of vegetable origin*	93	98	+ 5½
Articles of animal origin*	125	139	+ 11
Services	149	157	+ 5½
Total	111	118	+ 6½

* Products derived from domestic output.

The latest figures available for Poland relate to the summer of 1950.

Curiously enough, "rent" is recorded to have increased more than any other item. The price developments reflected in the table here occurred before the revaluation of the zloty in October 1950 (as described in Chapter V). From 1st January 1951 prices in Poland were reduced by a decree, the reduction for consumer goods varying between 5 and 37 per cent. and for capital goods between 7 and 32 per cent.

As regards the other countries in the eastern part of Europe fewer indications are available. It appears that in Bulgaria textiles, shoes and various other products were derationed as from 21st March 1951, a free market being established for all industrial goods. At the same time, the so-called "free prices", which had been applicable to the purchase of goods without coupons and were considerably higher than the controlled prices for the same goods when sold against ration cards, were reduced to an appreciable extent. But, even so, the new free prices were higher than the former controlled prices, it being explained that the derationing of industrial goods and the switching-over to free trade would necessarily cause certain transitional difficulties, the effect of which would be considerably reduced, however, by an increase in the salaries of factory and office workers and in pensions and scholarships.

It has been reported from both Hungary and Albania that prices have been reduced, but additional statements announce the reintroduction of rationing in Hungary (affecting bread, flour, sugar, fats, meat and soap) and reference has been made to a "consumption fever" prevailing in that country. In general, a great effort is being made to increase investments, especially in heavy industries, and more emphasis is being laid on production of capital goods. There is then, of course, a danger that a gap will emerge between the volume of purchasing power and the supplies of consumer goods. Thus in Hungary the output of light (consumer-goods) industry is officially estimated to have increased by 34 per cent. during 1950, while the total amount of wages is stated to have risen by 40 per cent. That a similar development has occurred in Czechoslovakia (where rationing of bread and flour had been reintroduced by the end of February 1951) can be seen from a statement made in March 1951 by the President of the State, according to which there had been a lag between the upward movement of wages and the development of production, as illustrated by the following figures.

Czechoslovakia: Percentage change in production and in remuneration from 1949 to 1950.

Branch of economy	Production	Wages and salaries
	Percentage change	
Heavy industry	+ 15½	+ 23
Light industry	+ 11	+ 28½
Foodstuff industry	+ 25	+ 53
Industry as a whole	+ 15½	+ 27½

The fact that remuneration has risen faster than output explains the frequent exhortations to renewed efforts. An ingenious system of wage funds has been introduced as a temporary measure "to ensure a healthy relation between the growth of productivity and the increase in wages". For each enterprise or factory a figure is fixed representing the total to be paid out in salaries and wages, provided that the quantities and qualities indicated in the production plan have been actually produced. In the event of under-fulfilment of the production target, a corresponding reduction has to be made in the wage total, while over-fulfilment is remunerated by a corresponding increase — as an incentive to further exertions. The internal distribution of the wage total is determined according to general rules with regard to higher pay for higher efficiency, etc.

Not much is known about the synchronisation in eastern European countries of price and production policies on the one hand, and of monetary and financial policies on the other. In most cases, however, the main budget figures are published; in the U.S.S.R. current expenditure is estimated to be fully covered by the yield of taxation and other current receipts, while investment is covered partly by such current receipts and partly by proceeds of genuine loans (a kind of lottery loan is the prevailing type, and subscriptions are made from private savings). There is no sign of any credit creation by the banking system to finance an extension of plant and equipment or other investment expenditure.

If a careful financial policy had not been followed, it would surely not have been possible to impose repeated reductions in the prices charged for goods and services, as has been the case in the U.S.S.R. — there being undoubtedly some reality behind the official pronouncements. And the policy adopted in Moscow has in a large measure provided a pattern for the other countries, although the results have not always been up to the targets. Even in China great efforts have been made to reduce prices or at least to prevent a rise (just as efforts have been made to improve the foreign exchange quotations for the Chinese currency).

It is only with great caution that labels in use in the western economies can be applied to developments in countries with a collective form of economy, but it is at least possible to state that price policy in the U.S.S.R. has been in no way inflationary. It might even be said, more precisely, that the policy actually applied has been in conformity with a principle advocated in years past by not a few economists in the West, viz. that an increase in output due to greater effectiveness in methods of production should be allowed to find its expression in lower prices, the benefit then being felt not only by producers but also by persons with fixed incomes. For a result of this kind to be achieved considerable restraint is required, it being easier to expound the advantages of such a policy than to put it into practice — and it is, therefore, not surprising to find that, in an interview given to a correspondent of "Pravda" in February 1951, J. V. Stalin stressed the great efforts necessary to pursue a policy of extensive development in the civil sector, including "a systematic reduction of prices of consumer goods".

* * *

In the western world the problem of how to avoid further bouts of inflation is one of the burning questions of the day, now that the relative stability of the particularly sensitive prices of primary products during the last few months (since February 1951) has raised new hopes that it might be possible to call a halt in — and even, to some extent, reverse — upward movements of prices. Considerable difficulties will have to be overcome before such a result can be achieved, but there are perhaps greater chances than previously of succeeding, if the appropriate measures are taken.

(i) The main difficulty is, of course, that the requirements of the rearmament effort, which give rise to strong demand based on effective purchasing power, will keep the demand for all materials at a high level and generally necessitate certain curtailments of civilian production. But the machinery for direct curtailment, e.g. through reduced allocations of materials, is already established in a number of countries and must clearly form part of the anti-inflationary measures (one of its effects being to cut out intense competitive bidding).

(ii) A curtailment of civilian output will mean reduced supplies in certain lines of consumer and producer goods — but it would be a mistake to imagine that the reduction will apply all along the line: as regards foodstuffs and many other commodities the net reduction in supplies need not be considerable, and in some branches the recent increases in productive capacity should continue to have their effect.

(iii) A further consideration is that in quite a number of countries there are appreciable stocks both of raw materials and of ready-made articles, and that the public has more consumer goods in its possession than at any other time since the war. Moreover, prices (e.g. of textiles) have risen to such a point that consumer resistance has set in, helped by the fact that some sections of the population had already reduced their available purchasing power during the periods of intense buying which occurred in the autumn of 1950 and early in 1951.

(iv) There is thus a possibility that the markets will take on a quieter tone, if only adequate steps can be taken to prevent financial inflation from spreading further and thus putting fresh purchasing power into the hands of consumers.

It is in this connection that increased importance attaches to a policy of restraint in the budgetary and credit field (including a cut in less essential government expenditure and in the existing volume of investment), since the other conditions conducive to more moderation in the rise in prices would seem to be fulfilled in more than one country. Restraint in the issue of new means of payment has important consequences in many directions: for one thing, it makes it possible to go on relaxing monetary and other restrictions which affect the flow of foreign trade and thus to allow goods from abroad to compete more freely on the domestic markets.

IV. A Better Balance in World Trade.

There are two general impressions which emerge from an examination of the recent evolution of world trade and the balances of payments:

(i) The total dollar value of world trade (imports plus exports) as well as the particular figures for the trade of different areas have remained almost unchanged during the three years 1948 to 1950.

(ii) The surpluses and deficits on the current accounts of the balances of payments have been greatly reduced.

The closer approach to equilibrium in international settlements, which the balance-of-payments figures indicate, represents an undeniable achievement, and one that was so well on the way even before the outbreak of the conflict in Korea that it cannot be attributed mainly to the ensuing changes in the currents of trade. On the contrary, some developments caused by that conflict (rising raw-material prices and rearmament) may render the return to complete equilibrium more difficult.

Particular care must be taken in interpreting the significance of the turnover figures for world trade, which have been calculated in dollars as the most stable unit available, but are, even so, not capable of reflecting with complete fidelity the actual changes in volume.

Turnover of world trade (imports plus exports).

Area	Pre-war		Post-war				
	1928	1938	1946	1947	1948	1949	1950
	in milliards of current U.S. dollars						
United States and Canada	12.4	7.0	20.3	27.7	26.9	25.6	26.8
United Kingdom	9.9	7.0	9.2	12.2	15.1	15.2	13.6
Sterling area (excluding United Kingdom)	7.5	5.4	8.6	12.4	16.1	16.6	16.2*
Total sterling area	17.4	12.4	17.8	24.6	31.2	31.8	29.8*
Latin American Republics	5.4	3.2	8.1	11.9	12.6	11.0	11.2
O.E.E.C. countries (excluding United Kingdom, Ireland and Iceland) (1)	20.4	14.4	15.5	23.0	26.3	27.9	29.6
Other countries (2)	9.5	7.1	10.4	14.4	17.9	18.6	17.8*
Total	65.1	44.1	72.1	101.6	114.9	114.9	115.2*

(1) Excluding also overseas territories of the European countries.
(2) Excluding China, the U.S.S.R. and some eastern European countries for which no figures are available for
(3) the post-war period. * Partly estimated.

In view of the full use made of the increasing mercantile marine, especially during the latter half of 1950, and the rise, on balance, in prices of commodities in 1950 as compared with the previous year, it seems strange that the total turnover should have risen so little in terms of value. Note has, however, to be taken of the decline in the U.S. export figures, which fell by $1.8 milliard from 1949 to 1950, while Canadian exports increased somewhat — by Can.$130 million. The quantum figures for world exports show a substantial increase — by 7½ per cent. — from 1948 to 1949. From 1949 to January-September 1950 the increase was only about 5 per cent., but it is likely to be larger for the whole year, since the quantum index rose steeply in the last quarter for Europe and for North America. In the last quarter of 1950 the quantum index of European exports stood 32 per cent. above the index figure for the corresponding quarter of 1949.

The above table indicates a reduction in the value of trade for 1950 for the United Kingdom, as well as for the rest of the sterling area. But the devaluation of the British pound, together with almost all the other currencies of the sterling area, led — at least at first — to a fall in the dollar value of the trade of the countries concerned,* although the volume of trade continued to expand. It should also be remembered that, for a large number of countries, a rapid rise in prices (such as occurred in the second half of 1950) would not immediately be reflected in higher trade figures because of the lag between the purchase of goods, at the price current when the contract was entered into, and the actual importation several months later. What was imported in November 1950 had perhaps been purchased in June while the ruling prices were still rather low — for some commodities, at the lowest level for the whole post-war period (see page 71). In this respect there is a marked difference between the rapid reactions of prices for primary products, which have sensitive markets, and the behaviour of prices for manufactured goods, which are often sold with long delivery periods (especially in the case of machinery). In these circumstances, behind a façade of almost

World exports.

Period	Europe			United States and Canada			World		
	Dollar value	Unit value*	Quantum	Dollar value	Unit value*	Quantum	Dollar value	Unit value*	Quantum
	Index: 1937–38 = 100								
1946	97	191	51	266	154	185	144	175	83
1947	146	218	67	436	184	237	212	211	99
1948	192	227	85	380	198	192	239	230	104
1949	213	214	100	360	186	194	243	216	112
1950	219	173	126	315	182	173	250	197 (1)	118 (1)
1950									
1st half (2)	197	172	115	297	176	168	226	194	116
2nd half (2)	240	175	137	334	188	178	274	202 (3)	123 (3)

* The unit value (or price) of world exports fell by 9 per cent. from 1949 to 1950. The decrease was only 2 per cent. for Canada and the United States, but 19 per cent. for Europe, a figure which reflects the lower value (in terms of dollars) of the exports of countries whose currencies have been devalued.

(1) January to September. (2) Dollar value on annual basis. (3) Third quarter only.

* The countries whose currencies were devalued in 1949 accounted for about two-thirds of the total of world trade.

unchanged value figures for the total of world trade there was in fact a growing volume. This may be seen from the preceding table of world exports.

In actual volume (quantum), the United States and Canada in the years 1946–47 exported about twice as much as before the war, while in those years Europe only managed to export one-half to two-thirds of its pre-war volume. For the world as a whole the pre-war volume of exports was reached in 1947, but for Europe only in 1949. In Europe, however, the growth of exports is still continuing, while for the United States and Canada the export volume has been shrinking since 1947. Even so, with a figure representing three-quarters as much again as the pre-war level, United States and Canadian exports show the most pronounced rise for any area. Clearly, the recent reduction in the exports of the United States largely reflects the greater capacity of other countries to meet a higher proportion of their own needs from domestic production, and also the growing possibilities of obtaining imports from other sources of supply. These shifts are among the adjustments which have led to a better equilibrium in the balances of payments. The cut in imports by the O.E.E.C. countries from the United States and Canada was particularly marked as regards solid fuel, timber, pulp and agricultural products.

O.E.E.C. countries:*
Imports of selected commodities from the United States and Canada.

Year	Agricultural products	Timber and pulp	Solid fuel	Total imports
	in millions of U.S. dollars			
1948 . . .	2,128	252	280	4,943
1949 . . .	1,882	184	195	4,637
1950 . . .	1,067	81	17	3,150

* Belgium-Luxemburg, Denmark, France, Germany, Italy, the Netherlands, Norway, Sweden and the United Kingdom (metropolitan areas only).

Thanks to the remarkable improvement in production in the O.E.E.C. countries themselves and in overseas countries, other than the United States and Canada, with which they were able to intensify their commercial relations, there was no diminution in the total supplies available to them, despite the reduction in imports received from the United States and Canada — a reduction which would have stood out even more sharply if comparable figures for the year 1947 had been available.

The most spectacular development in international trade in 1950 has been the shrinkage of the export surplus of the United States as a result of declining exports and increasing imports.

The decline in exports has been continuous since 1947, while U. S. imports dropped in 1949 (so that the U.S. export surplus was as large in 1949 as in 1948). Imports had already begun to recover in the first half of 1950 (i. e. before Korea) but the improvement was, of course, speeded up by the heavy purchases of raw materials in the latter half of the year. For the year as a whole the increase in imports, at the rate of $2,200 million, was larger than the fall of $1,800 million in exports.

United States: Foreign trade.

Year	Total exports (1)	Total imports (2)	Balance	Trade in relation to O.E.E.C. countries (3) Exports	Imports	Balance
	in millions of dollars					
1936–38 average	2,967	2,489	+ 478	1,129	606	+ 523
1947	14,430	5,756	+ 8,674	5,296	695	+ 4,601
1948	12,653	7,124	+ 5,529	4,182	977	+ 3,205
1949	12,051	6,622	+ 5,429	4,076	842	+ 3,234
1950	10,275	8,842	+ 1,433	2,878	1,260	+ 1,618

(1) Including re-exports. (2) General imports. (3) Excluding overseas territories.

August 1950 was the first month for thirteen years in which the United States had an import surplus.

A conspicuous feature of the foreign trade of the United States is the growing importance of food imports: in the two years 1949 and 1950 arrivals of crude and manufactured foodstuffs represented 30 per cent. of all imports, as compared with 22 per cent. in 1929 — coffee heading the import list of individual commodities in 1950 with an amount of $1,091 million, or about one-eighth of total imports. On the other hand, exports of crude and manufactured foodstuffs came to only 14 per cent. in that year, the United States being, on balance, a food-importing country* (against $1,360 million of foodstuffs exported in 1950 it imported nearly twice as much, viz. $2,650 million).

There has been a notable increase in the import of semi-manufactured goods, of which the most important individual item is wood pulp; but the proportion of manufactured goods imported continues to decline (having fallen to 17 per cent. of total imports), while U.S. exports of manufactured articles have kept their position, accounting for 56 per cent. of total exports (as compared with 48 per cent. in 1929 and 1937).

United States: Foreign trade.

Period	Exports	Imports	Balance
	in millions of dollars		
1937 quarterly average	837	771	+ 66
1947 1st quarter . . .	3,586	1,415	+ 2,171
2nd ,, . . .	3,943	1,454	+ 2,489
3rd ,, . . .	3,411	1,333	+ 2,078
4th ,, . . .	3,490	1,554	+ 1,936
1948 1st quarter . . .	3,315	1,810	+ 1,505
2nd ,, . . .	3,238	1,710	+ 1,528
3rd ,, . . .	2,937	1,729	+ 1,208
4th ,, . . .	3,164	1,875	+ 1,289
1949 1st quarter . . .	3,338	1,789	+ 1,549
2nd ,, . . .	3,376	1,601	+ 1,775
3rd ,, . . .	2,695	1,478	+ 1,217
4th ,, . . .	2,643	1,755	+ 888
1950 1st quarter . . .	2,366	1,889	+ 477
2nd ,, . . .	2,509	1,930	+ 579
3rd ,, . . .	2,451	2,385	+ 66
4th ,, . . .	2,949	2,638	+ 311
1951 1st quarter . . .	3,307	3,028	+ 279

There was a drop in the exports of all categories of goods, except crude materials. The relatively biggest decrease was in the category of "crude foodstuffs" — a reminder of the reappearance of the pre-war tendency on the part of the United States to count for less and less as an exporter of food to other countries (this being hardly surprising now that persons employed in agriculture, together with their families, represent less than 19 per cent. of the total population of the United States).

* That the United States purchases more foodstuffs (including coffee, tea, etc.) from abroad than it sells abroad is not a recent development; but the surplus imported has been growing. In 1929 exports of foodstuffs came to $750 million and imports to $960 million.

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

By commodity groups or trading areas	1929	1937	1948	1949	1950	1929	1937	1948	1949	1950
	in millions of dollars					in percentages				
By commodity groups										
Imports of:										
Crude materials	1,559	971	2,147	1,854	2,463	*35*	*32*	*30*	*28*	*28*
Crude foodstuffs	538	414	1,272	1,333	1,748	*12*	*13*	*18*	*20*	*20*
Manufactured foodstuffs .	424	440	731	741	897	*10*	*14*	*10*	*11*	*10*
Semi-manufactured goods	885	634	1,633	1,418	2,123	*20*	*21*	*23*	*21*	*24*
Manufactured articles . .	993	551	1,309	1,246	1,504	*23*	*18*	*18*	*19*	*17*
Imports for re-export . . .	.	74	32	30	107	*0*	*2*	*1*	*1*	*1*
Total	4,399	3,084	7,124	6,622	8,842	*100*	*100*	*100*	*100*	*100*
By major trading areas										
Imports from:										
Western Europe:										
United Kingdom	330	203	290	227	335	*7*	*6*	*4*	*4*	*4*
Other O.E.E.C. countries .	878	513	687	615	925	*20*	*17*	*10*	*9*	*10*
Total for western Europe .	1,208	716	977	842	1,260	*27*	*23*	*14*	*13*	*14*
Sterling area (excluding the United Kingdom, Iceland and Ireland)	570	517	1,096	880	1,204(1)	*13*	*17*	*15*	*13*	*14*
Canada	503	398	1,554	1,512	1,957(2)	*11*	*13*	*22*	*23*	*22*
Latin America(3)	1,081	695	2,488	2,432	3,090	*25*	*22*	*35*	*37*	*35*
Rest of the world	1,037	758	1,009	956	1,331	*24*	*25*	*14*	*14*	*15*
Total	4,399	3,084	7,124	6,622	8,842	*100*	*100*	*100*	*100*	*100*

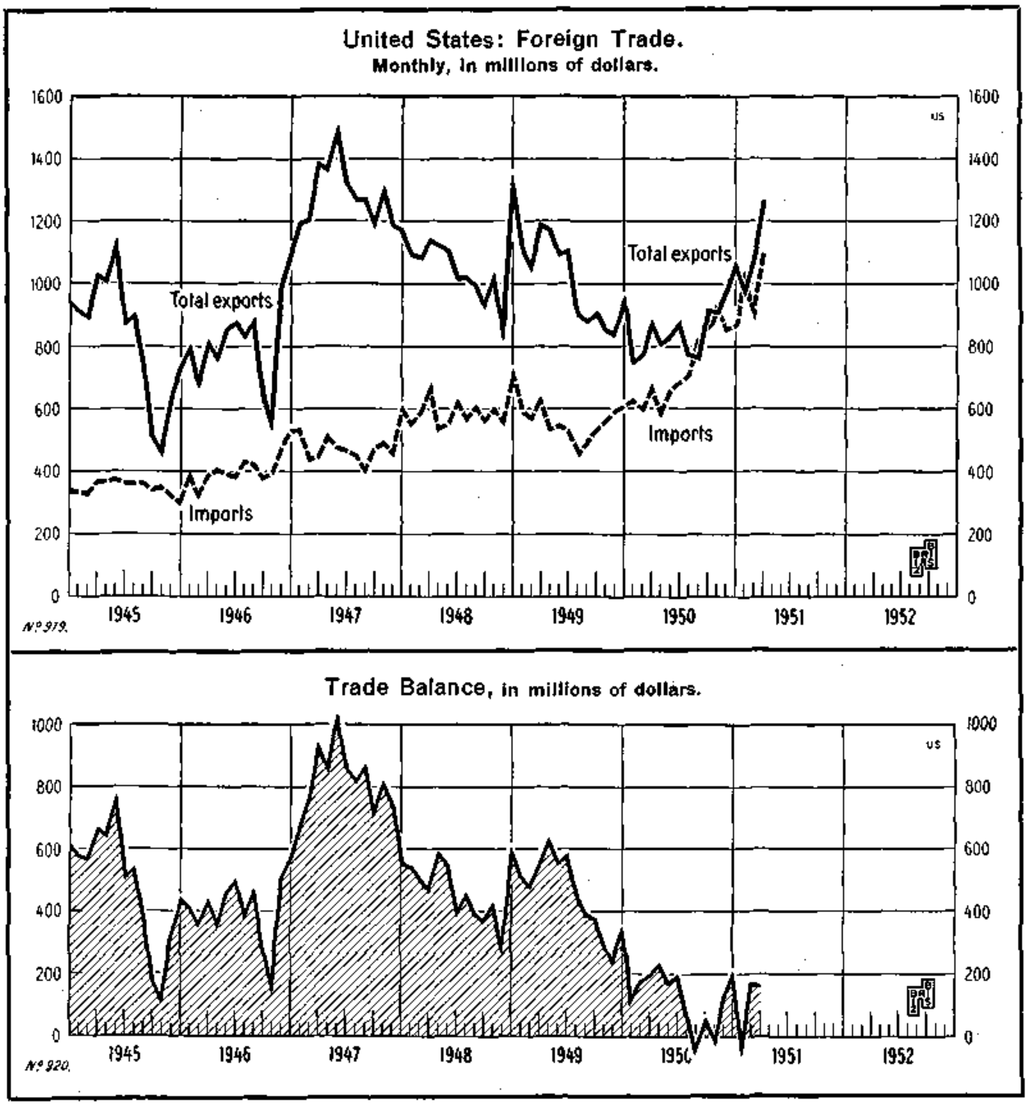
United States: Composition and direction of U.S. exports.

By commodity groups or trading areas	1929	1937	1948	1949	1950	1929	1937	1948	1949	1950
	in millions of dollars					in percentages				
By commodity groups										
Exports of:										
Crude materials	1,142	731	1,468	1,780	1,885	*22*	*22*	*12*	*15*	*18*
Crude foodstuffs	270	104	1,266	1,342	760	*5*	*3*	*10*	*11*	*8*
Manufactured foodstuffs .	484	178	1,314	886	602	*9*	*5*	*10*	*7*	*6*
Semi-manufactured goods	729	669	1,370	1,356	1,123	*14*	*20*	*11*	*11*	*11*
Manufactured articles . . .	2,532	1,617	7,094	6,573	5,772	*48*	*48*	*56*	*55*	*56*
Re-exports	84	50	121	115	133	*2*	*2*	*1*	*1*	*1*
Total	5,241	3,349	12,653	12,051	10,275	*100*	*100*	*100*	*100*	*100*
By major trading areas										
Exports to:										
Western Europe:										
United Kingdom	848	536	644	700	520	*16*	*16*	*5*	*6*	*5*
Other O.E.E.C. countries .	1,262	709	3,538	3,376	2,358	*24*	*21*	*28*	*28*	*23*
Total for western Europe .	2,110	1,245	4,182	4,076	2,878	*40*	*37*	*33*	*34*	*28*
Sterling area (excluding the United Kingdom, Iceland and Ireland)	413	319	1,359	1,040	700(1)	*8*	*10*	*11*	*9*	*7*
Canada	948	509	1,912	1,939	2,016(2)	*18*	*15*	*15*	*16*	*19*
Latin America (3)	943	616	3,310	2,842	2,750	*18*	*18*	*26*	*23*	*27*
Rest of the world	827	660	1,890	2,154	1,931	*16*	*20*	*15*	*18*	*19*
Total	5,241	3,349	12,653	12,051	10,275	*100*	*100*	*100*	*100*	*100*

(1) Partly estimated. (2) Including Newfoundland and Labrador.
(3) The figures for Latin America do not include imports or exports to certain countries (e.g. Jamaica) belonging to the sterling area.

Foreign trade is apt to return to its old channels; but in the case of the United States a very remarkable shift resulted from the second world war, and has shown a tendency to survive. What has been called a "closer hemispheric association" has arisen: Canada and Latin America have supplied 55-60 per cent. of total U.S. imports in the post-war period and they received between 40 and 46 per cent. of U.S. exports in the years 1948–50, as compared with 30–36 per cent. — the percentage both for imports and for exports — in the years 1936–38. The compensatory loss has occurred in trade with Europe: in 1950 Europe supplied approximately 16 per cent. of U.S. imports, as compared with 29 per cent. in 1936–38, and took 29 per cent. of U.S. exports, as against 42 per cent. before the war.

In these comparisons Europe comprises all O.E.E.C. countries (Turkey being thus included) as well as the countries in eastern Europe. The trade of these latter countries has in recent years represented about 3 per cent. of the total trade of Europe with the United States, and their share in trade with countries other than the United States is but slightly higher.



Thus, practically speaking, the figures for the trade of Europe as a whole reflect essentially the trade of the O.E.E.C. countries.

Estimates of the U.S. balance of payments have been reproduced on page 29 and they too show almost the same U.S. surplus on current account for 1948 and 1949 ($6.7 and 6.2 milliard), followed by a sharp drop to $2.2 milliard in 1950. The decisive change is accounted for by the trade figures — the net income of the United States from services (including yield from investments as well as income from transport and other services — but not emigrants' remittances, which are counted among "donations") fell from $1.1 milliard in 1948 to $1.0 milliard in 1949 and $0.8 milliard in 1950. There has been an increase in the income received by the United States from investments, but this has been more than counterbalanced by a reduction in the payments for transport and by higher net outlay of American tourists.

* * *

From 1948 to 1949 Europe managed to improve its balance with the United States more effectively than the other continents were able to do; but from 1949 to 1950 the improvement was more pronounced for other areas than for Europe.

U.S. surplus on current account with Europe and with other areas.

Year	Europe	Other areas	World total
	in milliards of dollars		
1947. . . .	5.8	5.7	11.5
1948. . . .	3.7	3.0	6.7
1949. . . .	3.1	3.1	6.2
1950. . . .	1.7	0.5	2.2

Note: A surplus for the United States corresponds, of course, to a deficit for "Europe" and "Other areas".

The change-over has been particularly marked in relation to the United Kingdom and also to the remainder of the sterling area. In 1950 the United States had a deficit of $322 million on current account in relation to the sterling area as a whole (as against a surplus of $750 million in the previous year) and even a deficit of $13 million in relation to the United Kingdom (as compared with a surplus of $309 million in 1949).

There is no official estimate for the balance of payments of the whole sterling area in relation to the rest of the world but there are certain transactions financed through London, which account for a considerable part of the total. In particular, the United Kingdom publishes a statement of the balance of current and capital payments in gold and dollars (which is a wider term than "in relation to the dollar area" and includes, for instance, gold sales by South Africa and other sterling-area countries to the United Kingdom, amounting to as much as £100 million in 1950).

In 1950 the rest of the sterling area had a credit balance of £281 million — an amount almost as large as the whole net surplus of £287 million. Some of the gold and dollar earnings of the overseas sterling area were, however, required to pay for part of the goods and services obtained from the United Kingdom. But the overseas sterling area also earned a net income from its economic relations with the O.E.E.C. countries.

Sterling area: Net gold and dollar receipts (+) and payments (—).

Items (net balance)	1947	1948	1949	1950*
	In millions of £ sterling			
United Kingdom with the dollar area: (1)				
Current account	— 571	— 263	— 303	— 111
Capital account (2)	— 91	— 63	+ 12	+ 109 (3)
Total	— 662	— 326	— 291	— 2
Rest of sterling area				
With the dollar area: (1)	— 266	— 74	— 85	+ 183
Subscriptions to I.M.F. and I.B.R.D.	— 7	—	—	— 2
Gold sales to the United Kingdom	+ 84	+ 55	+ 68	+ 100
Total	— 189	— 19	— 17	+ 281
Whole sterling-area account in relation to non-dollar countries (4)	— 173	— 77	— 73	+ 8
Total net gold and dollar balance	—1,024	— 422	— 381	+ 287

* Provisional.

(1) The dollar area includes Canada and the majority of the Central American countries. The fact that the dollar area comprises countries other than the United States must be remembered in any attempt to make the figures agree with those of U.S. statistics. If, however, the item of £109 million on capital account for the United Kingdom and the £100 million for gold sales to the United Kingdom are together deducted from the total net balance of £287 million, there remains an active balance of £78 million, equal to $218 million — *which is not greatly different from the U.S. deficit of $322 million on current account with the whole of the sterling area.*

(2) The items registered on the capital account do not include Marshall aid or the proceeds of loans from the United States, Canada and other countries, these proceeds being regarded as the means by which any net balance was financed.

(3) The rather large capital transactions in 1950 include an increase of £49 million in sterling liabilities in *relation to the sterling area, presumably arising from an inflow of funds in connection with an expectation* that sterling would be revalued.

(4) Including, for instance, dollar payments from the European Payments Union.

Sterling area:
Net balance with the O.E.E.C. countries.

Areas	1949 July to December	1950
	in millions of £ sterling	
United Kingdom		
Current account	— 29	+ 118
Capital account	— 4	+ 38
Total	— 33	+ 156
Rest of sterling area	+ 3	+ 148
Whole sterling-area account	— 25	— 31
Total net balance	— 55	+ 273

Here again the overseas sterling-area countries had a surplus settled through London and therefore likewise available to defray any current payments by these countries to the United Kingdom.

The net amount of £225 million due on current account by the overseas sterling area to the United Kingdom was more than paid for by the area's surplus of £281 million on the gold and dollar account and its surplus of £148 million with the O.E.E.C. countries. The amount remaining went to swell the sterling liabilities, which received a further addition as the net effect of capital transactions, the total increase in the liabilities of the United Kingdom in relation to the rest of the sterling area amounting to £382 million in 1950.

In relation to the O.E.E.C. countries the whole sterling area had a deficit of £55 million in the second half of 1949 but a surplus of £273 million in 1950. In fact, some of the most abrupt — and, one might add, unexpected — changes within

United Kingdom:
Net current balance with the rest of the sterling area.

Items	1947	1948	1949	1950
	In millions of £ sterling			
Visible trade	+ 43	+ 84	+ 152	+ 41
Invisible items	+ 59	+ 148	+ 132	+ 184
Total current balance	+ 102	+ 232	+ 284	+ 225

the orbit of the European payments schemes have occurred in the accounts of the sterling area, and this has given rise to the question whether there is any "normal" relation between that area and the continent of Europe and, if so, what.

The balance-of-payments relation of the O.E.E.C. countries with the sterling area is naturally a matter of great importance for the even run of international settlements. There has been a widespread impression that the continent of Europe had in years past (and as a regular state of affairs in the inter-war period) a very substantial surplus with the sterling area, and that the possibility which existed of converting this surplus into dollars and other currencies on the London market was of great importance in enabling the various continental countries to settle their deficits with other areas. In its "Interim Report", December 1948, O.E.E.C. published the specific statement that in 1938 the non-sterling countries now participating in O.E.E.C.* had a surplus equal to $450 million on current account with the sterling area. If this figure were correct, the surplus would certainly be large: it would correspond to a real value of fully $1,000 million at 1950 prices and, had it been convertible into dollars, would have covered an important part of the dollar deficit of continental Europe. The United Nations Economic Commission for Europe has not actually published any estimate of the pre-war balance on current account; it has, however, published estimates of the balance of trade and it has referred several times to the rôle played before the war by the convertibility of sterling. In particular, in its "Economic Survey of Europe in 1948 (page 163) it discussed the large overall debtor position of the United Kingdom" in intra-European trade and that country's large deficit, which it was able to settle in convertible currency out of its surplus of earnings outside Europe.

There can be no doubt that before 1939 there was a deficit of the sterling area in relation to the continental countries which are today members of O.E.E.C. if the overseas territories of those countries are included. But it is also true that any exact estimate of the pre-war balance of payments is an impossibility; sufficient data simply do not exist — and it might be added that even for recent years (after the second world war) the estimates are less accurate than they appear. However, such evidence as is available suggests that in 1938 the sterling-area deficit with the continental countries which are now members of O.E.E.C., including their overseas territories, was by no means as large as $450 million; in that year it was probably around $300 million, and it should further be noted that 1938 was a particularly unfavourable year for the sterling area; on the average for the years 1928 and 1935–37 it would seem that its deficit was less than $200 million a year.

According to the evidence available,(1) the sterling area appears to have been in approximate equilibrium with the continental countries now members of

* This presumably refers to the continental countries which are members of O.E.E.C. and overseas territories.

(1) Evidence is available for shipping, travel and investment income, which appear to have shown a deficit of £30 to £35 million per annum in 1935–38 (while British Government expenditure in Europe was negligible). Against this has to be set the United Kingdom's income from commissions, royalties, insurance and oil companies and other miscellaneous items which, in official post-war statements, are lumped together under the heading "Other (net)". These items showed a credit balance of £78, £83 and £136 million in 1948, 1949 and 1950 respectively; and it seems a reasonable assumption that before the war they represented at least £40 million, i. e. the same amount in purchasing power as in 1948–49.

O.E.E.C. as far as invisible items are concerned[1] — and the balance of visible trade may, therefore, serve as an indication of the total balance on current account.

Figures for visible trade are shown in the following table, calculated from the trade statistics of sterling-area countries.

Balance of trade (f.o.b.) of sterling area with continental countries now members of O.E.E.C.[1]

Areas	1928	1935	1936	1937	1938
	in millions of U.S. dollars				
Balance of sterling area					
1. With continental O.E.E.C. countries . .					
(a) United Kingdom	– 390	– 120	– 190	– 190	– 220
(b) Overseas sterling area	+ 390	+ 130	+ 140	+ 250	+ 120
Total	nil	+ 10	– 50	+ 60	– 100
2. With overseas territories of continental O.E.E.C. countries	– 200	– 140	(2)	(2)	– 200
Total	– 200	– 130	(2)	(2)	– 300

(1) Including overseas territories. (2) Not calculated.

It is also possible to use as a basis of calculation the trade returns of the continental O.E.E.C. countries and their dependent territories: these give the same general impression as the sterling-area trade returns; the main deviation is that the sterling area's deficit is then somewhat larger in 1928 but considerably smaller both in 1938 and in the various post-war years. Thus, according to these calculations, the deficit amounted to $210 million in 1938 (as compared with $300 million in the above table). In addition, the distribution of the deficit is different: in general, the continental returns show a larger surplus with the United Kingdom and a larger deficit with the other sterling-area countries — which is explained by the fact that in these returns goods produced overseas and re-exported through the London market are recorded as imports from the producing country and not as imports from the United Kingdom.

If the surplus, vis-à-vis the sterling area, of thirteen continental countries which are now members of O.E.E.C. amounted, as a rule, not to $450 million but to $200 million in pre-war years, the balance-of-payments relation between continental Europe and the sterling area presents quite a different appearance. Of the individual continental countries, France and Italy appear to have run appreciable deficits with the sterling area, while the only countries with really substantial surpluses were Denmark and the Netherlands, the net surplus of the latter being earned largely by its overseas territories.

As regards the change between the pre-war and post-war situations, complete figures have not been calculated for the trade of the continental countries' dependent territories, but there is no doubt that the position of the Netherlands has been very adversely affected by the fall in Indonesian exports.[2] The continental

(1) In these calculations U.K. imports are entered at their f.o.b. value. If they had been accounted for c.i.f., the sterling area would have had a surplus on invisible items.

(2) The sterling area appears to have had a deficit with Indonesia of nearly $200 million in 1928 and of around $100 million in 1935 and 1938, which means that something like half the surplus of continental Europe with the sterling area was derived from the latter's trade with the Dutch overseas territories.

countries' statistics (including the trade of their dependent territories with the United Kingdom but not with the overseas sterling area) indicate that these countries (now members of O.E.E.C.) had a surplus in their trade with the sterling area of about \$140 million in 1938, but deficits amounting to \$200 million in 1948, \$30 million in 1949 and \$500 million in 1950.

The trade of the continental O.E.E.C. countries with the overseas sterling area doubled (in terms of dollar value) between 1938 and 1949, the deficit increasing from \$200 to \$430 million (and it might be added that in 1950 the imports of these countries from the sterling area rose a good deal more than their exports to that area). Their imports from the United Kingdom doubled between 1938 and 1949, but their exports to the United Kingdom did not rise so much; this relative lag in exports was, however, due chiefly to the special position of two countries: Germany (where the statistics are not comparable, since for the period before the war they relate to the whole of the country and for the period after the war to the western zones only) and Switzerland (whose exports undoubtedly suffered from the discriminatory restrictions imposed until its entry into the European Payments Union). If these two countries are omitted, the remaining countries' exports to the United Kingdom amounted to \$735 million in 1938 and \$1,387 million in 1949 — a rise as large as that of their imports (c.i.f.), which increased from \$773 million to \$1,409 million.

However, the exports of individual countries fared very diversely: in terms of dollars those of France and Italy showed a large rise, while those of Belgium, Denmark and the Netherlands rose a good deal less.

In a retrospective survey of the development of the balance of payments of the United Kingdom since the war, 1947 stands out as the most critical year, after which there was a continuous improvement in almost all items.

United Kingdom: Balance of current transactions.

Items	1938	1946	1947	1948	1949	1950*
	in millions of £ sterling					
Visible trade						
Imports (f.o.b.)	835	1,081	1,560	1,790	1,971	2,374
Exports and re-exports (f.o.b.)	533	905	1,135	1,583	1,818	2,221
Balance of visible trade	— 302	— 176	— 425	— 207	— 153	— 153
Government transactions (net)	— 16	— 363	— 230	— 87	— 140	— 137
Invisible items (net)						
Interest, profits and dividends	+ 175	+ 71	+ 80	+ 77	+ 87	+ 122
Shipping	+ 20	+ 29	+ 33	+ 76	+ 83	+ 111
Travel	— 12	— 29	— 55	— 33	— 29	— 24
Emigrants' funds, private donations	.	+ 15	— 46	— 44	— 27	— 5
Other items	+ 65	+ 109	+ 98	+ 188	+ 209	+ 315
Total of invisible items	+ 232	— 168	— 120	+ 177	+ 183	+ 362
Balance of current transactions	— 70	— 344	— 545	— 30	+ 30	+ 229

* Provisional.

From 1949 to 1950 the improvement has been entirely due to higher income from "invisible items", i.e. from overseas investment, shipping and, in particular, "other items", including, inter alia, the net income from overseas transactions (other than capital expenditure) of U.K. oil companies. Geographically, the improvement has been mainly in relation to the O.E.E.C. countries and the dollar area.

United Kingdom: Regional distribution of current deficits and surpluses.

Areas	1946	1947	1948	1949	1950(1)
	In millions of £ sterling				
Sterling area	— 39	+ 102	+ 232	+ 284	+ 225
O.E.E.C. countries(2)	+ 86	— 7	+ 85	— 8	+ 118
Dollar area	— 330	— 571	— 263	— 303	— 111
Other countries	— 61	— 69	— 84	+ 57	— 3
Total	— 344	— 545	— 30	+ 30	+ 229

(1) Provisional. (2) Including overseas territories, but excluding sterling-area countries.

The following two tables show the composition and distribution of British foreign trade. Certain major changes stand out in comparison with pre-war conditions:

(i) As regards imports, there has been a decrease in the proportion of manufactured articles and an increase in the proportion of raw materials.

(ii) To an even more predominant extent than before the war, British exports now consist of manufactured articles (one reason being the drop in exports of coal).

(iii) The sterling area is of greater importance than before the war as an outlet for British exports; but 1950 has seen a return to a more even distribution, with larger exports to the western hemisphere and to the O.E.E.C. countries and their overseas territories.

In volume, British exports in 1950 are estimated to have been about 65 per cent. above pre-war (i. e. above the average for 1936–38), while imports were still some 10 per cent. below the pre-war level. In contrast to the trend in several other countries, British imports did not rise in volume from 1949 to 1950, but a marked increase took place early in 1951, bringing the import surplus to £235 million for the first quarter as compared with £348 million for the whole of 1950.

The import figures are swollen by the recent sharp increases in prices, especially in those of raw materials.

United Kingdom: Exports by groups and trading areas.

By groups of commodities or major trading areas	1929	1937	1949	1950	1929	1937	1949	1950
	in millions of £ sterling				percentages			
By groups of commodities								
Exports of:								
Food, drink and tobacco	55	39	98	135	*7*	*7*	*5*	*6*
Raw materials and articles mainly unmanufactured	79	65	82	105	*9*	*11*	*4*	*5*
Articles wholly or mainly manufactured	575	405	1,560	1,882	*69*	*68*	*85*	*83*
Other exports	20	12	47	48	*2*	*2*	*3*	*2*
Re-exports	110	75	57	85	*13*	*12*	*3*	*4*
Total	839	596	1,844	2,255	*100*	*100*	*100*	*100*
By major trading areas								
Exports (incl. re-exports) to:								
Western hemisphere	175	115	281	412	*21*	*19*	*15*	*18*
Sterling area	310	235	937	1,046	*37*	*39*	*51*	*47*
O.E.E.C. countries*	261	167	431	590	*31*	*28*	*23*	*26*
Rest of the world	93	79	195	207	*11*	*14*	*11*	*9*
Total	839	596	1,844	2,255	*100*	*100*	*100*	*100*

* And overseas territories.

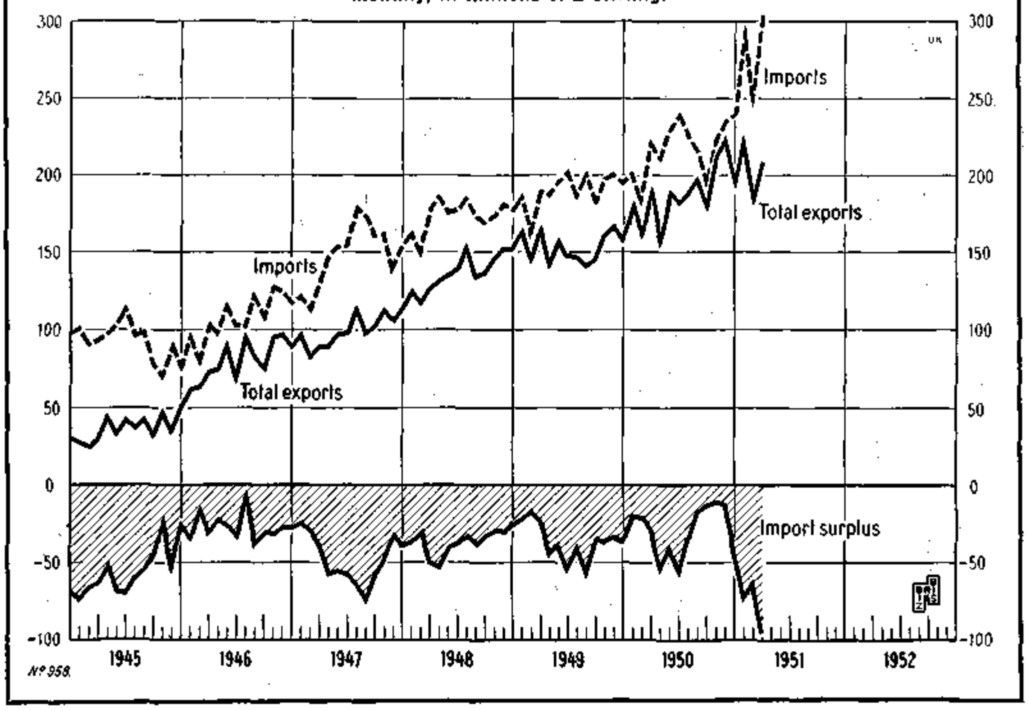
United Kingdom: Imports by groups and trading areas.

By groups of commodities or major trading areas	1929	1937	1949	1950	1929	1937	1949	1950
	in millions of £ sterling				percentages			
By groups of commodities								
Imports of:								
Food, drink and tobacco	535	431	971	1,024	*44*	*42*	*43*	*39*
Raw materials and articles mainly unmanufactured	340	315	773	997	*28*	*30*	*34*	*38*
Articles wholly or mainly manufactured	334	275	508	564	*27*	*27*	*22*	*22*
Other imports	12	7	22	18	*1*	*1*	*1*	*1*
Total	1,221	1,028	2,274	2,603	*100*	*100*	*100*	*100*
By major trading areas								
Imports from:								
Western hemisphere	382	307	633	643	*31*	*30*	*28*	*25*
Sterling area	312	316	852	990	*26*	*31*	*37*	*38*
O.E.E.C. countries *	377	248	537	657	*31*	*24*	*24*	*25*
Rest of the world	150	157	252	313	*12*	*15*	*11*	*12*
Total	1,221	1,028	2,274	2,603	*100*	*100*	*100*	*100*

* And overseas territories.

In the first quarter of 1951 the terms of trade of the United Kingdom were much more unfavourable than in the 1930s, when raw-material prices were exceptionally low; they were also more unfavourable than in the boom year 1929 but roughly the same as in 1913, just before the first world war (see page 80). Brisker trade, including particularly a larger volume of exports, might have offset

United Kingdom: Foreign trade.
Monthly, in millions of £ sterling.



the more unfavourable terms of trade but for the fact that the burden of rearmament is becoming so much heavier and that one specific effect of this is bound to be a reduction in current exports of engineering goods.

Among the continental countries, France and Italy had very heavy post-war deficits in their balances of payments and, like the United Kingdom, they have succeeded in improving their position very substantially within the last three years. Italy attained monetary stability in 1947, and in the following year the current deficit in its balance of payments was already cut by more than half. The figures are here given in dollars, the original estimates having been made in that currency (which increases the comparability of the figures for the various years).

The reduction in the current deficit from $220 million in 1949 to $75 million in 1950 was chiefly due to an expansion of exports; for the income from invisibles was at the same level as in 1949 in spite of the doubling of net tourist receipts (helped by the Holy Year and by the fact that a greater proportion of foreign currency sold in Italy flowed into official channels, thanks to the narrowing of the gap between official and free-market rates of exchange).

Italy: Current account of the balance of payments.

Items	1947	1948	1949 (1)	1950 (1)
	In millions of U.S. dollars			
Merchandise trade				
Imports (f. o. b.)	1,327	1,388	1,420	1,360
Exports (f. o. b.)	666	1,068	1,115	1,200
Balance	— 661	— 320	— 305	— 160
Services (net)				
Freight	— 161	— 107	— 95	— 60
Tourist traffic	+ 6	+ 24	+ 35	+ 65
Emigrants' remittances (2)	+ 34	+ 85	+ 95	+ 85
Other items (3)	— 11	+ 18	+ 50	— 5
Net income from services	— 132	+ 20	+ 85	+ 85
Balance on current account	— 793	— 300	— 220	— 75

(1) Including Trieste. (2) Including private donations in 1949 and 1950. (3) Including Reparations.

In terms of dollars, imports were lower in 1950 than in 1949 but there was an increase by 7 per cent. in quantities — Italy having imported more in the way of raw materials but less in the way of foodstuffs, owing to a good harvest. Account has to be taken of the decline by 8 per cent. in the exchange value of the lira vis-à-vis the dollar and of the trend of prices, which in Italy (in contrast to what happened in most other countries) was downward from the end of 1949 to the end of the first half of 1950, both for imports and for exports. A remarkable feature of the situation was an expansion by 24 per cent. in the quantities of exports. Among the individual items the largest increase was in sulphur, of which 45,000 tons was exported in 1949 and 200,000 tons in 1950, the value rising to Lit. 6.7 milliard (this being less than one per cent. of total exports, however). Otherwise most of the increase in exports was accounted for by certain agricultural products and by textiles — chiefly artificial silk and woollen cloth.

In 1950 as compared with 1949 a higher percentage of the country's imports was obtained from the O.E.E.C. countries (including twice as much

Italy: Balance on current account.
Distribution by currency areas.

Areas	Surplus (+) or deficit (–) 1949	1950
	in millions of U.S. dollars	
Dollar area	– 451	– 253
Sterling area	+ 126	+ 73
O.E.E.C. countries (1)	– 10	+ 66
Other areas	+ 30	– 6
Total balance (2)	– 305	– 120

(1) Excluding sterling area.
(2) Excluding unilateral transfers, i. e. emigrants' remittances, private donations and reparations.

Italy: Distribution of foreign trade.

Areas	1938	1949	1950	1938	1949	1950
	in milliards of lire			in percentages		
Imports						
O.E.E.C. countries*	5.4	212	308	*48*	*25*	*34*
Eastern Europe	1.3	53	44	*11*	*6*	*5*
United States	1.3	303	210	*11*	*35*	*24*
Argentina	0.3	45	48	*3*	*5*	*5*
Other countries	3.0	244	288	*27*	*29*	*32*
Total	11.3	857	898	*100*	*100*	*100*
Exports						
O.E.E.C. countries*	4.2	283	384	*40*	*45*	*52*
Eastern Europe	0.9	48	50	*8*	*8*	*7*
United States	0.8	26	48	*8*	*4*	*6*
Argentina	0.4	78	40	*4*	*12*	*5*
Other countries	4.2	200	224	*40*	*31*	*30*
Total	10.5	635	746	*100*	*100*	*100*

* Excluding overseas territories.

from Germany) and a lower percentage from the United States — but in neither case has the pre-war proportion yet been re-established. Truly remarkable is the increase in exports to the O.E.E.C. countries, which more than offsets the decline in exports to the Argentine.

The Italian deficit vis-à-vis the United States and Canada was met almost entirely by Marshall aid grants, which amounted to \$225 million in 1950 (against \$285 million in 1949), while the surplus with the O.E.E.C. countries was used mostly for advance payments for raw materials from the sterling area and equipment from the United Kingdom. In all, the advance payments for raw materials are estimated to have absorbed some \$100 million, while the equivalent of \$50 million was used for amortisation of foreign debt. The result was that in 1950 Italy did not increase its monetary reserves in all currencies, which, on the contrary, declined by \$30 million.

For France the improvement in the balance of payments dates only from 1949 but it was extraordinarily rapid once it had set in, a lower deficit appearing again in 1950.

The improvement has been due chiefly to a reduction in the import surplus, thanks to larger exports. The deficit of \$238 million on current account was counterbalanced by capital operations, in particular by external aid and a surplus of private investments.

While in 1948 only 50 per cent. of the country's imports was covered by exports, during the last quarter of 1950 exports corresponded to 105 per cent. of imports.

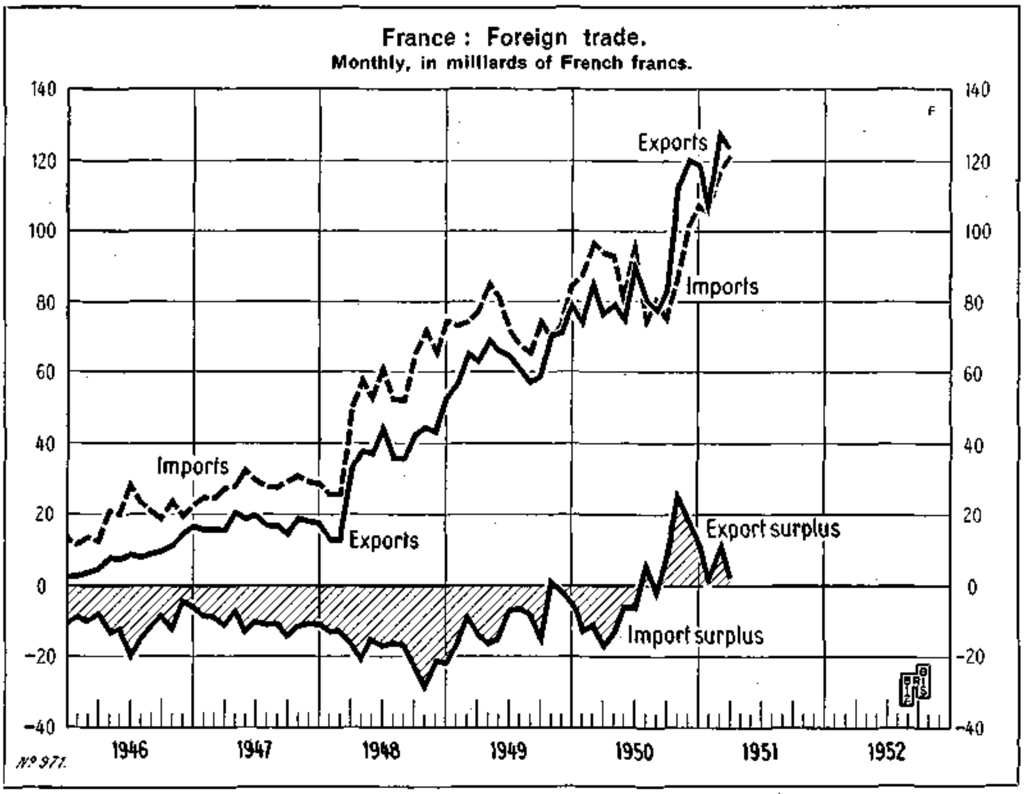
France: Current account of the balance of payments.

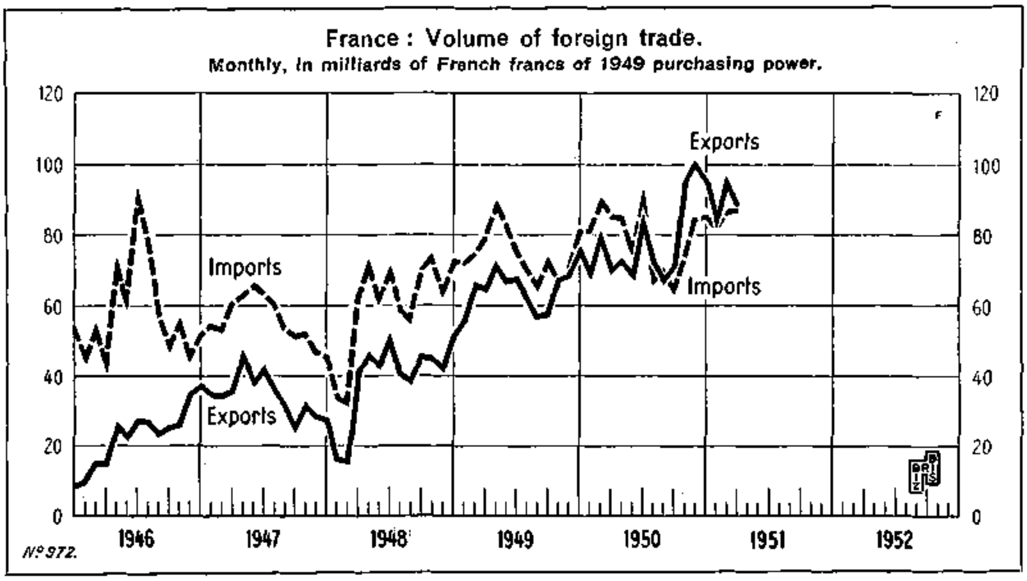
Items	1947	1948	1949	1950
	in millions of U.S. dollars			
Merchandise trade *				
Imports (f.o.b.)	2,492	2,510	2,035	1,958
Exports (f.o.b.)	1,040	1,082	1,567	1,880
Trade balance	— 1,452	— 1,428	— 468	— 78
Invisible items *				
Tourist traffic	+ 9	+ 70	+ 121	+ 141
Freights, etc.	— 311	— 273	— 209	— 141
Interest and dividends	+ 122	+ 132	+ 100	+ 52
Other items	+ 119	— 31	— 83	— 89
Total of invisibles	— 61	— 102	— 71	— 37
Deficit of French overseas territories	— 163	— 208	— 167	— 123
Balance on current account	— 1,676	— 1,738	— 706	— 238

* In relation to foreign countries.

During the first quarter of 1951, about 65 per cent. of France's exports (excluding the trade with its own overseas territories) were sent to other O.E.E.C. countries and their associated areas.

The contraction of the trade deficit reflected a reduction of the deficit vis-à-vis the dollar area and a considerable improvement in relation to O.E.E.C. countries other than those of the sterling area. The sterling deficit (largely dependent on the import of raw materials) has remained at very much the same level.





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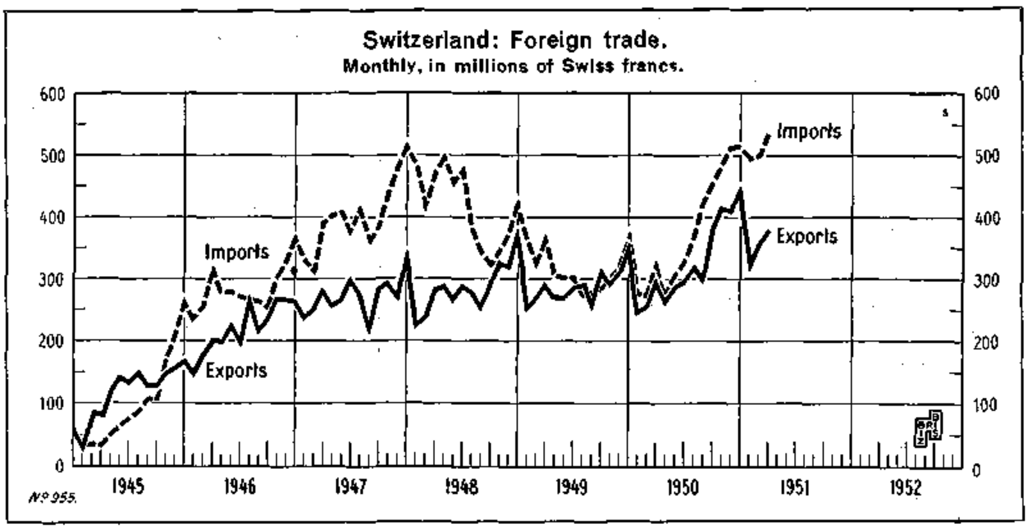
France and, to some extend, Italy are countries with sufficient agricultural production to enable them to feed themselves, given an average harvest. Belgium, western Germany, and Switzerland, on the other hand, have to import about 40 per cent. of their food requirements. In 1950 these three countries all increased their imports heavily during the second half of the year and consequently ran up substantial import surpluses. By the end of the year they had enlarged their stocks of industrial raw materials but had at the same time bigger amounts to pay abroad, which gave rise to difficult problems, except in Switzerland, where the higher trade deficit was more than covered by the income from invisible items.

Switzerland: Foreign trade.

Period	Imports	Exports	Balance
	in millions of Swiss francs		
1938	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
1950	4,536	3,911	— 625
1951 1st quarter	1,533	1,061	— 472



There is no official estimate of the balance of payments in Switzerland but it has been privately estimated that the annual income from invisible items is in the neighbourhood of Sw.fcs 1,100 million, of which Sw.fcs 300 million represents net receipts from tourist trade. For the first quarter of 1951 the import surplus was at a higher annual rate than in 1950 but the income from invisibles is probably also rising.

After the monetary reform in the middle of 1948, the foreign trade of Germany increased by leaps and bounds as part of the general expansion in the country's economic activity.

Western Germany:* Foreign trade.

Period	Imports			Exports	Balance	
	Paid for commercially	Financed by foreign aid	Total	Total	Commercial	Total
	In millions of U.S. dollars					
1947 yearly total	243	600	843	318	+ 75	— 525
1948 „ „	562	1,026	1,588	642	+ 79	— 946
1949 „ „	1,281	956	2,237	1,123	— 158	— 1,114
1950 „ „	2,224	480	2,704	1,981	— 243	— 723

* Including the western zones in Berlin.

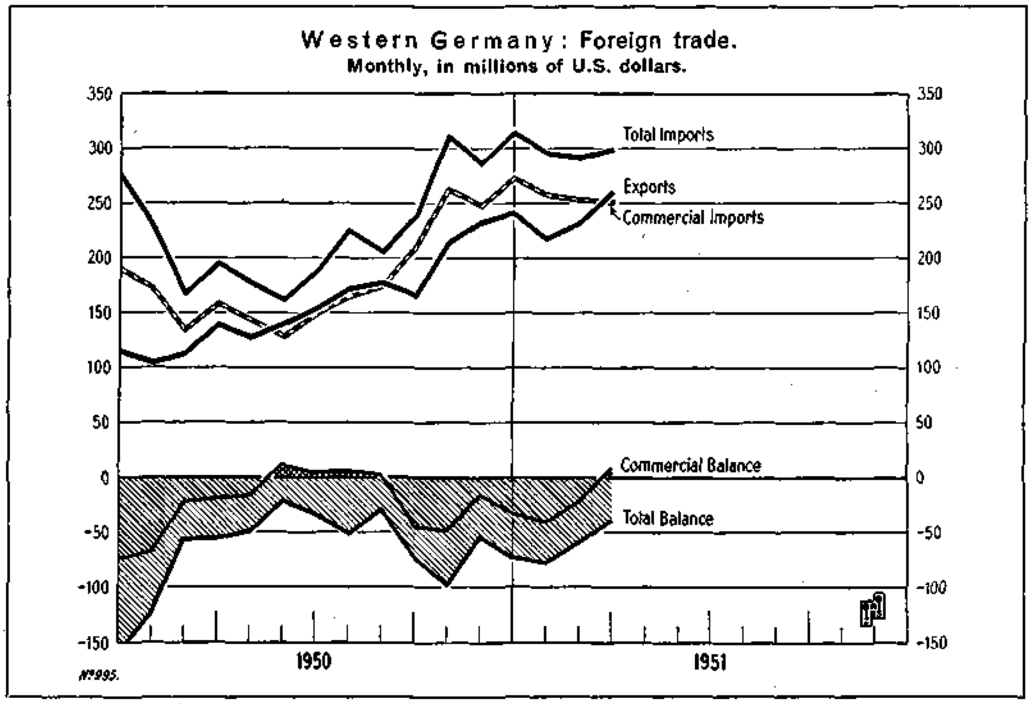
In 1950 the volume of imports per head of the population already exceeded the pre-war level but, on the same basis, exports did not reach that point until the first quarter of 1951. Relatively more foodstuffs are being imported than before, as a result of the increase by 20 per cent. in the population of the western zones.

The share of western Germany in the trade of most other European countries has risen quite sharply during recent years, but only in a very few cases has it reached the pre-war proportion.

Share of western Germany in trade of European countries.

Countries	Imports from Germany			Exports to Germany		
	1937	1949	1950	1937	1949	1950
	percentages					
Austria(1)	17	12	17	15	8	15
Belgium	11	6	8	11	10	7
Denmark	24	3	10	19	7	18
France(1)	8	7	7	6	5	8
Greece(2)	27	4	8	31 •	10	19
Italy(2)	23	4	8	17	8	10
Netherlands(1)	21	7	12	16	11	21
Norway	17	3	4	13	7	11
Sweden	20	7	11	16	7	13
Switzerland(2)	23	9	11	16	9	9
Turkey	42	4	18	37	16	21
United Kingdom(2) . . .	4	2	1	4	2	3

(1) Including eastern Germany until 1949. (2) Including eastern Germany until 1950.



German imports from other O.E.E.C. countries (including their overseas territories) rose from about \$1 milliard in 1949 to \$1.9 milliard in 1950, while imports from the western hemisphere fell from \$1 milliard to \$600 million. This shift was of importance in several ways: distances of transportation being shortened, Germany had, for instance, less to pay for freights, with a consequent improvement as regards the invisible items in the balance of payments. On the other hand, exports to other O.E.E.C. countries increased much less than imports from the same area, with the result that the deficit towards that area jumped from \$65 million in 1949 to \$366 million in 1950, creating particular payments difficulties in relation to the European Payments Union (see Chapter VIII).

The contraction of the deficit with the western hemisphere is the result of many factors and among them the reduction of foreign aid (which, it might be added, covered 71 per cent. of the imports in 1947, 65 per cent. in 1948, 43 per cent. in 1949 and 18 per cent. in 1950). Between 1949 and 1950 imports from the United States (on commercial and relief account) fell from \$822 to 430 million, while exports rose from \$47 to 103 million, the deficit being reduced from \$776 to 328 million, or by nearly 60 per cent.

Before the war commercial relations with eastern Europe accounted for as much as one-sixth of Germany's total foreign trade. By 1950 the proportion had been reduced to between 4 and 6 per cent. as far as western Germany was concerned.

Western Germany: Balance-of-payments accounts, by monetary areas.

Areas	Current account 1949	Current account 1950
	in millions of U.S. dollars	
O E E C countries*	+ 30	− 161
Sterling area	− 66	− 248
Dollar area	− 954	− 317
Other countries	− 64	+ 52
Total	− 1,054	− 674

* Including overseas territories but excluding all sterling-area countries.

Western Germany: Balance of payments.[1]

Items	1947	1948	1949	1950
	in millions of U.S. dollars			
Merchandise trade				
Imports (f.o.b.)	825	1,585	2,064	2,544
Exports (f.o.b.)	320	645	1,138	1,983
Balance	− 505	− 940	− 926	− 561
Services				
Income from tourist traffic and from members of occupying powers	[2]	[2]	16	12
Income from transport	[2]	[2]	− 137	− 87
Income from other services	[2]	[2]	− 7	− 38
Balance	+ 10	+ 45	− 128	− 113
Balance on current account	− 495	− 895	− 1,054	− 674
The following resources have been available on capital account				
G.A.R.I.O.A.[3] and U.K. contribution	600	884	536	178
Marshall aid including net drawing rights	−	133	318	313
Other resources	11	42	15	8
Total capital resources available	+ 611	+ 1,059	+ 869	+ 499
Balance on current and capital account	+ 116	+ 164	− 185	− 175
Changes in foreign exchange holdings	+ 116	+ 164	− 207	− 203 [4]

[1] As from 1949 the estimates of the balance of payments include western Berlin.
[2] Not indicated separately. [3] As regards G.A.R.I.O.A. see page 15.
[4] Including the use of the quota and part of the special credit in the European Payments Union.

Note: For 1949 there was a difference of $22 million and for 1950 one of $28 million between the balance on current and capital account and the changes in foreign exchange holdings, and these differences are accounted for by errors and omissions and also reflect changes in terms of payment, i.e. in the time-lag between the actual date of import, export or services rendered and the date of payment for such goods or services. It is rather remarkable how little the divergence between the overall balance (on current and capital account) and the foreign exchange balance altered from 1949 to 1950, in spite of a considerable increase in the trade figures. This means that the receipt of facilities in the terms of payment must have offset the increase in outstanding claims for exports.

It appears that, particularly from April to June 1950, several O.E.E.C. countries made advance payments for German exports (see page 47). On the other hand, advance payments for imports had been stopped by the end of 1949. In spite of more stringent payment conditions in the second half of 1950, the terms of payment were more favourable in that year than they had been in 1949.

Mainly as a result of the rapid increase in exports, Germany's current deficit in the balance of payments was reduced by one-third from 1949 to 1950.

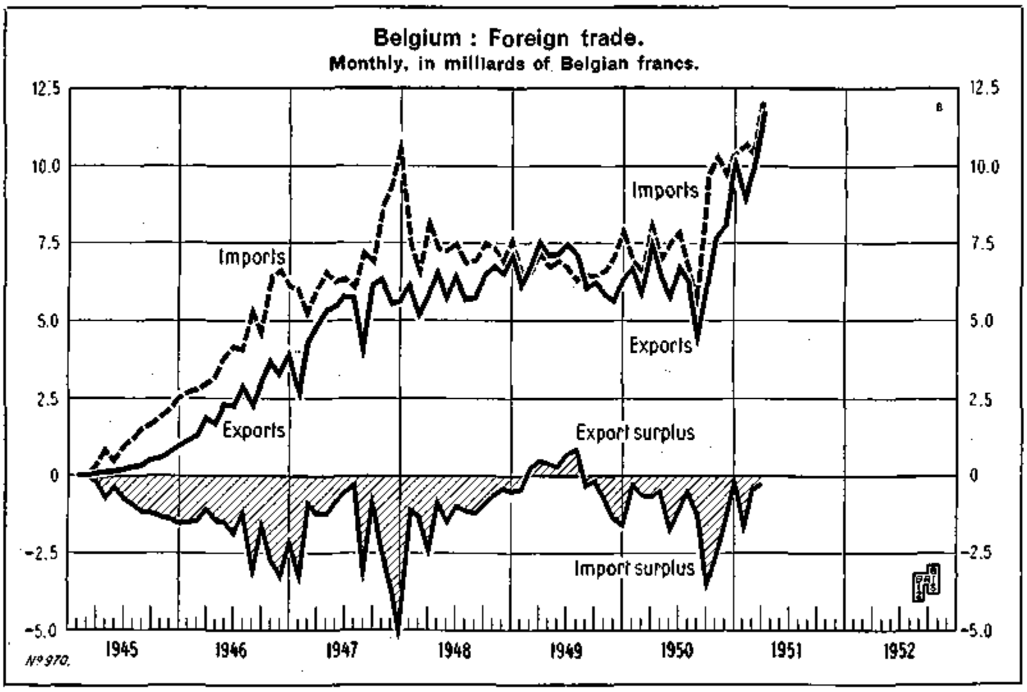
There was a reduction in the net payment for services from 1949 to 1950 because of smaller outlay for transport, but otherwise the net payment for services has risen owing to the closer commercial and other relations with the outside world.

The reduction in the current deficit from 1949 to 1950 having been brought about by an increase in exports, the programme for overcoming the balance-of-payments crisis in 1950–51 aimed at a further increase in exports to avoid a reduction in the turnover of trade (as explained more fully in Chapter II, pages 45 to 53).

In Belgium both import and export figures in 1950 were the highest for any post-war year.

Automobiles represented the largest single import item of manufactured products in 1950 but, even so, they accounted for only 4.4 per cent. of total imports. The countries which are now members of O.E.E.C. (excluding their overseas territories) have regained their pre-war position, having provided half Belgium's imports in 1950 and taken 63 per cent. of its exports.

The appearance of a current deficit in 1950 did not signify a loss of substance, since huge quantities of merchandise were imported in order to meet the increased demand of industry for raw materials and of the consumer for durable commodities.



Not only in money but also in volume, commodity stocks were larger at the end of 1950 than they had been at the beginning of the year.

Net invisible receipts increased by over 20 per cent., the import surplus being nearly seven times larger in 1950 than in 1949, these receipts were insufficient to fill the gap.

Belgium: Current account of the balance of payments.

Items	1947	1948	1949*	1950*
	In millions of Belgian francs			
Merchandise trade				
Imports	77,020	80,700	81,700	97,500
Exports	60,670	75,453	79,800	84,600
Balance	− 16,350	− 5,247	− 1,900	− 12,900
Services				
Freights	− 5,809	− 3,590	+ 5,000	+ 5,500
Tourist traffic	+ 294	− 2,102	− 1,300	− 400
Interest and dividends	+ 143	+ 1,740	− 1,000	− 1,500
Wages earned abroad	+ 1,698	+ 2,539	+ 2,200	+ 2,400
Other items	+ 6,690	− 383	+ 3,000	+ 3,700
Balance	+ 3,016	− 1,796	+ 7,900	+ 9,700
Balance on current account	− 13,334	− 7,043	+ 6,000	− 3,200

* Estimates by Professor Baudhuin.

For the Netherlands the great increase in imports in 1950 led to a serious deterioration in the balance of payments despite larger exports.

Netherlands: Current account of the balance of payments.

Items	1947	1948	1949	1950
	In millions of florins			
Merchandise trade				
Imports	3,595	4,174	4,610	6,731
Exports	1,772	2,738	3,431	4,658
Balance	— 1,823	— 1,436	— 1,179	— 2,073
Services: net income				
Interest and dividends	124	132	215	163
Others	133	347	711	804
Total services	+ 257	+ 479	+ 926	+ 967
Balance on current account	— 1,566	— 957	— 253	— 1,106

In current florins the income derived from foreign investment was still only two-thirds of the 1938 level but in real terms it represented, in 1950, only about one-fifth of the pre-war value. The amount received as Marshall aid in 1950 was equal to Fl. 1,375 million and thus more than covered the current balance-of-payments deficit for the year.

In the first quarter of 1951 the import surplus rose to Fl. 780 million — an amount which, notwithstanding continued Marshall aid, could be paid for only by drawing on the monetary reserves to the extent of Fl. 180 million.

Netherlands: Composition of exports.

Items	1938	1947	1950	1938	1947	1950
	in millions of florins			percentage distribution		
Cattle, agricultural products	257	517	1,632	*25*	*28*	*31*
Food, drink and tobacco	234	335	832	*23*	*18*	*16*
Metals, machines, vehicles	229	372	1,028	*22*	*20*	*19*
Chemicals	105	192	317	*10*	*10*	*6*
Others	214	443	1,479	*20*	*24*	*28*
Total *	1,039	1,859	5,288	*100*	*100*	*100*

* Excluding exports by parcel post and diamonds and, in 1950, bunker fuel for Dutch ships and aircraft.

Netherlands: Distribution of foreign trade.

Countries	Imports			Exports		
	1938	1949	1950	1938	1949	1950
	in percentages					
Germany (western)	21	7	12	15	11	21
Belgium-Luxemburg	11	14	19	10	13	14
United Kingdom	8	11	10	23	16	15
Indonesia	7	8	7	10	10	6
France	5	7	5	6	7	5
United States	11	17	12	4	3	4
Other countries	37	36	35	32	40	35
Total	100	100	100	100	100	100

Nearly one-half of the Netherlands' exports consists of agricultural products and food, drink and tobacco (which puts it with Denmark in a special category among the western European countries).

In 1950 the Netherlands imported more from the Belgium-Luxemburg Economic Union than from any other trade partner, while its best customer was again Germany, which absorbed over one-fifth of Dutch exports, paying for them at current market prices.

Germany also absorbed nearly one-fifth of the total exports of Denmark in 1950 and was, moreover, the country in relation to which Denmark had the largest export surplus, amounting to D.Kr. 216 million. The importance of trade with the O.E.E.C. countries (and their overseas territories) is shown by the fact that these countries received 83 per cent. of Denmark's exports and supplied 73 per cent. of its imports. One difficulty for Denmark is the fact that the average price paid for its imports (unit value) rose by 15 per cent. from the time of the devaluation in September 1949 to the fourth quarter of 1950, while the average price received for its exports fell in the same interval by about 3 per cent.

Denmark: Foreign Trade and Prices.

Year	Imports	Exports	Excess of imports	Price Index		Quantum Index	
				Imports	Exports	Imports	Exports
	In millions of Kroner			1938 = 100		1938 = 100	
1938	1,625	1,535	90	100	100	100	100
1946	2,848	1,618	1,230	201	177	87	59
1947	3,090	2,313	777	230	223	83	68
1948	3,424	2,731	693	258	276	82	65
1949	4,213	3,560	653	255	274	102	85
1950	5,897	4,579	1,318	296	262	123	114

It is estimated that, in volume, exports rose by over 30 per cent. from 1949 to 1950 and imports by 20 per cent.; but because price movements were unfavourable for Denmark the import surplus doubled in value and, in spite of a considerably increased income from shipping, the current deficit in the balance of payments rose from D.Kr. 272 million in 1949 to D.Kr. 745 million in 1950. As there was a decrease of D.Kr. 180 million in Marshall aid, the remaining deficit was met by a real reduction of D.Kr. 306 million in the Nationalbank's foreign exchange position.

The boom conditions which prevailed in Norway during 1950 were reflected in a value increase of 30 per cent. in exports and 15 per cent. in imports as compared with 1949, the visible trade deficit remaining almost the same in the two years, viz. N.Kr. 2 milliard in round figures.

Norway: Foreign trade.

Period	Imports		Exports		Balance total
	including ships	excluding ships	including ships	excluding ships	
	in millions of Norwegian kroner				
1938	1,193	1,042	787	747	− 406
1947	3,817	3,119	1,820	1,730	− 1,997
1948	3,721	3,033	2,063	2,016	− 1,658
1949	4,221	3,385	2,138	2,092	− 2,083
1950	4,846	4,001	2,787	2,669	− 2,059
1951 1st quarter	1,375	—	932	—	− 443

Norway: *Volume of trade.*

Yearly averages	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
1950	121	114	111	110

In volume, the increase in exports from 1949 to 1950 was also about 30 per cent.; but because of most unfavourable terms of trade the volume of imports increased only by 7 per cent., the percentage of increase being even smaller if imports of ships are included in the calculations.

While the adverse trade balance was almost as high in 1950 as in 1949, the net income from shipping rose from about N.Kr. 850 to 1,100 million, which helped to reduce the current deficit in the balance of payments by one-quarter.

Norway: Current account of the balance of payments.

Items	1938	1947	1948	1949	1950
	in millions of Norwegian kroner				
Merchandise trade*					
Imports (c.i.f.)	1,197	3,872	3,785	4,238	4,866
Exports (f.o.b.)	824	1,920	2,177	2,184	2,905
Balance	− 373	− 1,952	− 1,608	− 2,054	− 1,961
Services (net)					
Income from shipping	+ 426	+ 679	+ 806	+ 853	+ 1,100
Income from other services . . .	+ 51	+ 116	− 4	− 71	− 79
Balance	+ 477	+ 795	+ 802	+ 782	+ 1,021
Balance on current account	+ 104	− 1,157	− 806	− 1,272	− 940

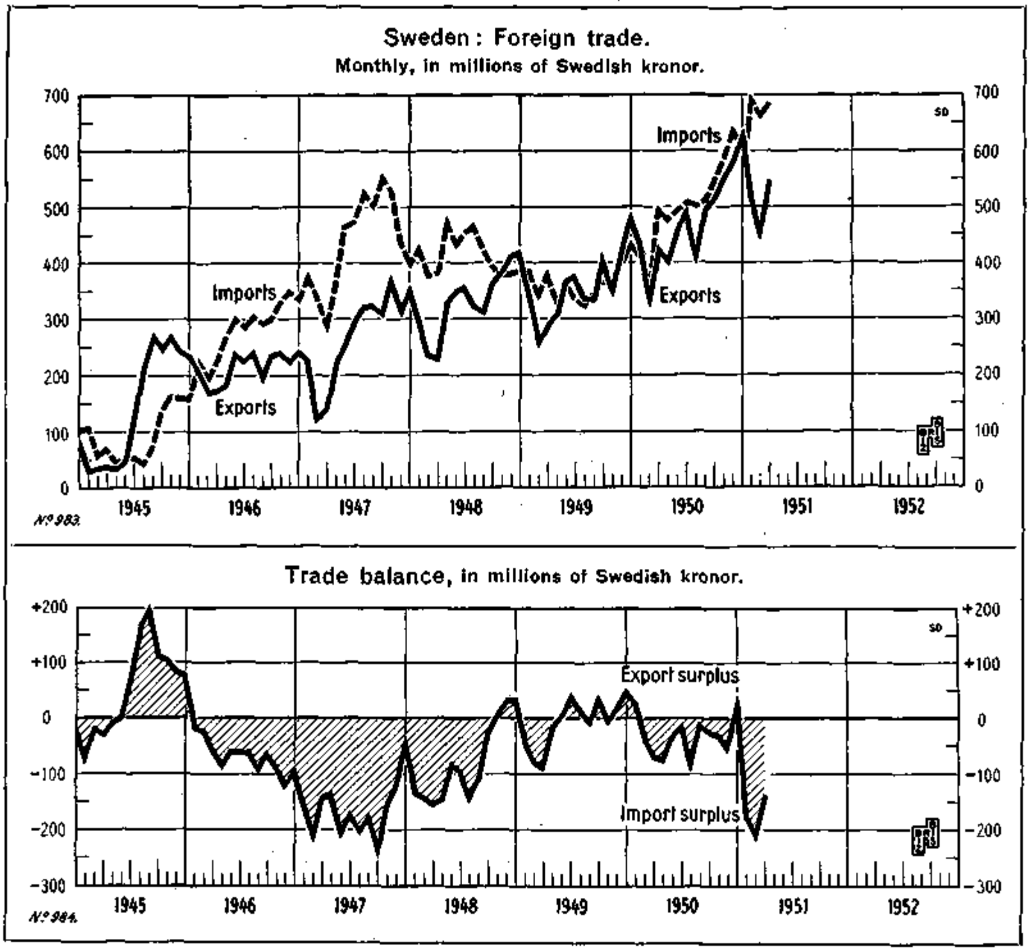
* Imports and exports include purchases and sales abroad of ships and whale oil. The net value of ships imported (to make good the losses suffered during the war) amounted to N.Kr. 656, 641, 790 and 732 million respectively for the four years 1947, 1948, 1949 and 1950. The trade figures in the above table differ slightly from those in the previous table of Norway's foreign trade.

The movements on Sweden's foreign accounts in 1950 show that capital transactions and changes in the time of payment for imports and exports can turn a surplus on the current account of the balance of payments into an overall deficit involving a loss of monetary reserves.

Sweden: Current account of the balance of payments.

Items	1947	1948	1949	1950
	in millions of Swedish kronor			
Merchandise trade				
Imports (c.i.f.)	5,230	4,950	4,330	6,100
Exports (f.o.b.)	3,250	3,990	4,250	5,710
Balance	— 1,980	— 960	— 80	— 390
Services (net)				
Income from shipping	+ 600	+ 640	+ 590	+ 600
Income from other services	— 70	— 80	— 20	— 20
Balance	+ 530	+ 560	+ 570	+ 580
Balance on current account	— 1,450	— 400	+ 490	+ 190

Sweden had in 1950 a current surplus of S.Kr. 190 million and also received from Marshall aid and repayments of various credits (granted by Sweden in earlier years) a net amount of about S.Kr. 40 million, but there was nevertheless a diminution by about S.Kr. 185 million in the country's gold and foreign exchange holdings (including those of the commercial banks). Together these three items caused a shift to the extent of S.Kr. 415 million. On the other hand, it is estimated that advance payments for imports absorbed about S.Kr. 250 million, while certain credits (in connection, for example, with Swedish deliveries of ships) and other transactions affecting payments for exports involved an amount of S.Kr. 165 million, making up the total of S.Kr. 415 million.



In volume, Sweden's imports and exports in 1950 both increased by around 25 per cent. — the larger import surplus in terms of value being due to an increase by 14 per cent. in import prices, while export prices had gone up by only 7 per cent.

In the first quarter of 1951 imports rose more than exports, the result being an import surplus of S.Kr. 527 million (against S.Kr. 82 million for the corresponding quarter of 1950).

Finland's terms of trade in 1950 were about the same as in 1937 but have moved in the country's favour early in 1951, imports and exports (excluding reparation deliveries) being approximately in equilibrium at FM 23 milliard in the first quarter.

Finland: Foreign trade.

Year	Index of wholesale prices	Imports	Exports			Balance	
			Commercial *	Reparation deliveries	Total	Excluding reparations	Total
		in milliards of markkas					
1938 . . .	100	8.6	8.4	—	8.4	— 0.2	— 0.2
1946 . . .	602	24.3	23.1	8.8	31.9	— 1.2	+ 7.6
1947 . . .	724	47.0	45.2	10.4	55.6	— 1.8	+ 8.6
1948 . . .	956	66.4	56.5	11.5	68.0	— 9.9	+ 1.6
1949 . . .	963	66.3	65.6	12.2	77.8	— 0.7	+11.5
1950 . . .	1,110	89.1	82.2	7.9	90.1	— 6.9	+ 1.0

* Including compensation for German assets.

The value of Finland's reparation deliveries to the U.S.S.R. up to the end of 1950 is estimated (in terms of dollars at 1938 prices) at about $200 million, the value of the deliveries still to be made up to 18th September 1952 — the closing date — being put at about $29 million.

By a trade treaty concluded with the U.S.S.R. in 1950 the products of the country's shipbuilding and metal industries have been ensured an outlet after reparations come to an end in the latter half of 1952.

Notwithstanding great difficulties, Austria was able to bring down the current deficit in its balance of payments by more than one-half from 1949 to 1950. The improvement was entirely due to a better relation between imports and exports, the increase in tourist receipts* being counterbalanced by higher outlay on transport.

Austria: Current account of the balance of payments.

Items	1948	1949	1950
	in millions of U.S. dollars		
Merchandise trade			
Imports	490	604	482
Exports	207	292	335
Balance	— 283	— 312	— 147
Invisible items (net)			
Tourism	— 1	+ 1	+ 11
Transport	+ 17	+ 1	— 9
Others		+ 15	+ 16
Total	+ 16	+ 17	+ 18
Total balance on current account	— 267	— 295	— 129
Covered by:			
Foreign aid	+ 280	+ 300	+ 207
Net proceeds of foreign credits	+ 13	+ 5	— 2
Net change in short-term foreign assets and liabilities	— 19	— 11	— 30
Balance	+ 274	+ 294	+ 175
Errors and omissions	— 7	+ 1	— 46
Grand total	+ 267	+ 295	+ 129

* The number of nights spent by foreign tourists in Austria increased from 2.1 million in 1949 to 4.6 million in 1950 but was, even so, 67 per cent. below the 1938 figure.

The import surplus tended to increase in the first quarter of 1951, with the result that Austria has been rapidly using up the resources available to it in the European Payments Union. On the other hand, it received increased allocations of Marshall aid in the spring of 1951 to enable it to meet dollar payments to the Union (see Chapter VIII). The O.E.E.C. countries (not counting their overseas territories) are supplying almost two-thirds of Austria's commercial imports (i. e. imports other than those financed by direct E.R.P. aid), while absorbing 60 per cent. of its exports. In 1950 the eastern European countries — formerly the markets for about 40 per cent. of Austria's foreign trade — provided a bare fifth of all commercial imports and absorbed a corresponding proportion of exports.

The balance of trade of Greece deteriorated in 1950 as compared with 1949, the value of exports falling by 18 per cent. while that of imports rose by 5 per cent.

Greece: Foreign trade.

Year	Imports	Exports	Balance
	in millions of U.S. dollars		
1938	130	89	− 41
1947	231	77	− 154
1948	364	94	− 270
1949	410	114	− 296
1950	428	93	− 335

In spite of the payment of export premiums on tobacco and fruit, the quantities exported diminished. Moreover, the prices paid for tobacco and certain other agricultural products exported by Greece fell on foreign markets, while import goods became more expensive — which helps to explain the unfavourable trade development.

The statistics of the foreign trade of Spain show for 1950 the same amount of imports and exports, imports having been reduced by one-fifth while exports increased by about 4 per cent. Spain applies strict import licensing and a complicated system of differential exchange rates in order to promote internal industrialisation. The reduction in import values was particularly substantial for foodstuffs and raw materials, while the value of finished goods remained almost at the 1949 level, notwithstanding a 10 per cent. increase in quantities.

Spain: Foreign trade.

Year	Imports	Exports	Balance	Quantum		Prices		Terms of trade
				Import	Export	Import	Export	
	in millions of gold pesetas			Index: 1948 = 100				
1946	773	574	− 199	88	75	73	97	133
1947	985	664	− 321	92	83	92	101	110
1948	1,187	810	− 377	100	100	100	100	100
1949	1,134	878	− 256	106	103	92	103	112
1950	912	912	0	106	138	78	80	102

Exports of mercury, wolfram and olive oil increased appreciably, both in quantities and value, while exports of fruit and vegetables fell well below their 1949 level.

The considerable increase, by 34 per cent., in the volume of exports was due to the extent of two-thirds to the sharp drop in export prices.

In contrast to most countries, Portugal imported less in 1950 than in 1949. Exports, on the other hand, rose by 30 per cent. and the trade deficit was in consequence reduced by half.

Portugal: Foreign trade.

Year	Imports	Exports	Balance
	In millions of escudos		
1938	2,280	1,135	− 1,145
1947	9,462	4,307	− 5,155
1948	10,351	4,295	− 6,056
1949	9,042	4,063	− 4,979
1950	7,864	5,303	− 2,561

Owing to better crops, the import of wheat and flour from North America could be cut down in 1950. Exports increased mainly in the second half of the year and particularly high figures were reached for cork, pyrites, wolfram, tin, textiles and timber products in comparison with the corresponding period of 1949.

Portugal: Trade by currency areas.

Areas	Imports		Exports		Balance	
	1949	1950	1949	1950	1949	1950
	In millions of escudos					
O.E.E.C. non-sterling countries including overseas territories	2,538	2,669	1,258	1,596	− 1,280	− 1,073
O.E.E.C. sterling countries including overseas territories	2,293	1,416	829	997	− 1,464	− 419
United States and Canada	1,906	1,413	451	732	− 1,455	− 681
Latin America	609	474	212	307	− 397	− 167
Other countries	1,696	1,892	1,313	1,671	− 383	− 221
Total	9,042	7,864	4,063	5,303	− 4,979	− 2,561

From 1949 to 1950 imports declined in relation to the United States and Canada and also to the O.E.E.C. sterling countries — imports from the United Kingdom falling from Esc. 2,210 million to Esc. 1,351 million. Exports, on the other hand, rose in relation to all areas, the highest relative increase being with the United States and Canada, whose share in total exports increased from 11 to 14 per cent. That Portugal became a strong creditor in the European Payments Union was at least partly due to earnings by Portuguese overseas territories.

* * *

Reference has been made to the trade of the eastern European countries in the Introduction (page 27). Here it need only be added that, on the basis of such scanty information as has been made available, the foreign trade of the U.S.S.R. and the other countries in eastern Europe among themselves and with the outside world may be estimated at the equivalent of $5–6 milliard each for imports and exports, the tendency being towards an intensification of trade between the members of the eastern bloc. If the above estimate is approximately correct, the foreign trade of the countries in the eastern bloc is equal to about 10 per cent. of the total turnover (imports and exports) of world trade.

* * *

The increasing importance of trade between countries in the western hemisphere which has been a characteristic of the post-war period (see page 96) has a counterpart in the very remarkable development of the commercial relations of the western European countries amongst themselves and also vis-à-vis the overseas territories maintaining strong commercial and monetary ties with the older countries in Europe. While in 1947 the volume of intra-European trade was still 40 per cent. below the 1938 level, by 1950 it had passed that level by some 20 per cent. (and even by 50 per cent. in the last quarter of the year). As regards the proportion of western Europe's trade accounted for by the United States and Canada, the following table shows that in 1947 (when supplies from elsewhere were often unobtainable) the pre-war percentage doubled, but in 1950 it was approximately back at the old level. In fact, one of the most remarkable aspects of the

O. E. E. C. countries:
Trade among themselves and with other areas.

Year	Participating countries and overseas territories	United States and Canada	Other countries	Total	Participating countries and overseas territories	United States and Canada	Other countries	Total
	in milliards of U.S. dollars				in percentages of total			
Imports								
1938 . . .	5.8	1.9	4.5	12.2	*48*	*15*	*37*	*100*
1947 . . .	8.5	7.1	6.3	21.9	*39*	*32*	*29*	*100*
1948 . . .	10.8	5.6	8.2	24.6	*44*	*23*	*33*	*100*
1949 . . .	11.6	5.5	7.7	24.8	*47*	*22*	*31*	*100*
1950 . . .	12.8	3.8	7.6	24.2	*53*	*16*	*31*	*100*
Exports								
1938 . . .	5.2	0.6	3.3	9.1	*57*	*7*	*36*	*100*
1947 . . .	7.5	1.0	4.5	13.0	*58*	*8*	*34*	*100*
1948 . . .	9.7	1.3	5.8	16.8	*58*	*8*	*34*	*100*
1949 . . .	11.2	1.2	6.4	18.8	*60*	*6*	*34*	*100*
1950 . . .	12.1	1.7	5.9	19.7	*61*	*9*	*30*	*100*

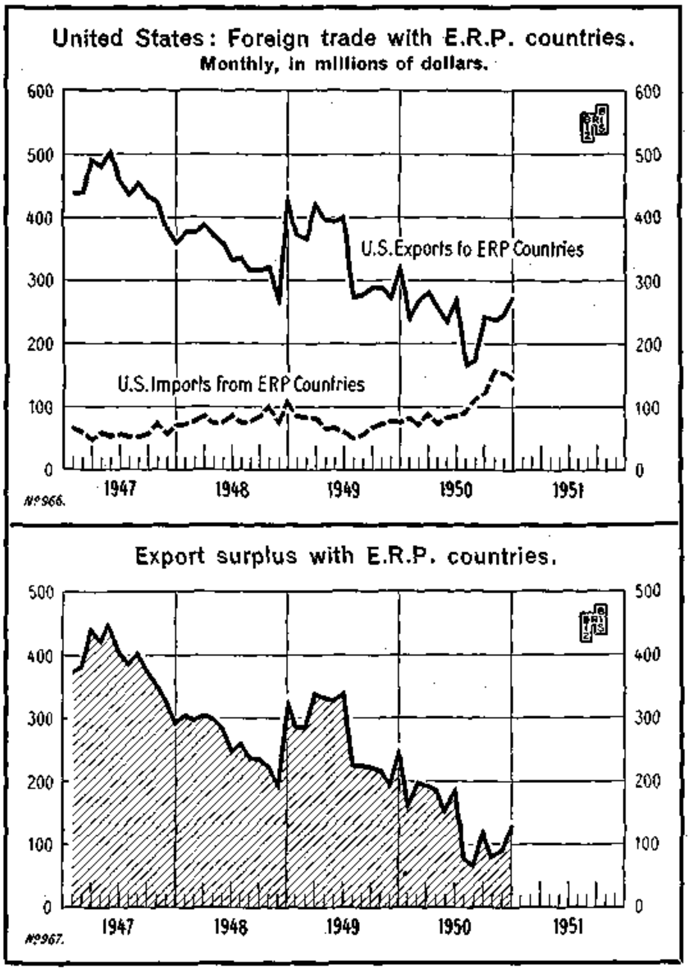
Balance of merchandise trade with the different areas.

Monthly average for period	Participating countries	Overseas territories of participating countries	United States and Canada	Latin America	Other countries	Total
	in millions of U.S. dollars					
1947	— 32	— 49	— 507	— 106	— 48	— 742
1948	— 23	— 61	— 362	— 98	— 105	— 649
1949 1st quarter	— 5	— 31	— 352	— 26	— 75	— 489
2nd "	+ 3	— 34	— 435	— 52	— 89	— 607
3rd "	— 28	— 24	— 368	— 47	— 43	— 510
4th "	+ 2	— 26	— 296	— 12	— 73	— 405
1950 1st "	— 20	— 44	— 234	— 26	— 112	— 436
2nd "	— 23	— 73	— 212	— 62	— 103	— 473
3rd "	— 3	— 56	— 151	— 60	— 61	— 331
4th "	+ 28	— 47	— 123	— 32	— 82	— 256

Note: The trade of the participating countries among themselves must, of course, be in equilibrium, since imports into one country are exports from another; the small balances are due to statistical differences in valuation (often connected with the cost of transport).

recovery facilitated by Marshall aid has been the continuous improvement in intra-European trade (based on growing production as well as sounder monetary relations) and the corresponding decrease in imports from the United States — incidentally a potent argument against the contention that Marshall aid was mainly intended as a means of creating outlets for American exports.

The decline in the percentage for "other countries" reflects not only a failure to re-establish commercial relations with Latin America on the pre-war scale but also decreases in trade in relation to eastern Europe and certain countries in the Far East. It has been possible, however, to reduce the deficits in merchandise trade with most areas.



In the fourth quarter of 1950 the total trade deficit was one-third of what it had been in 1947 (monthly averages in each case), while with the United States and Canada it was less than one-quarter. It might also be added that on service account western Europe had a deficit of some $450 million in 1947 in relation to the United States and Canada but by 1950 this had been turned into a surplus of about $30 million (yearly figure), mainly because net receipts from tourist traffic were three times as high, while payments for shipping had been reduced by two-thirds.*

* * *

After the first world war one of the primary tasks of the economic organisation of the League of Nations was to aid in the elimination of quantitative restrictions on trade, and considerable success was achieved

* These and other data relating to the O.E.E.C. countries have been obtained partly from the O.E.E.C. Foreign Trade Statistical Bulletin and partly from the third report of the O.E.E.C. Council.

through a Convention for the Abolition of Import and Export Prohibitions and Restrictions, concluded at Geneva on 11th July 1928. The Convention was adopted by twenty adherents, including not only European countries but also the United States. It embodied an undertaking to abolish all import and export prohibitions and restrictions, apart from certain specific exceptions.

After the second world war the attack on trade barriers was launched in conferences at first connected with the setting-up of an International Trade Organisation as a specialised agency of the United Nations. The original programme may have been largely modified, but a considerable amount of work has been done (see page 123). As regards quantitative restrictions within Europe, the matter was taken in hand by O.E.E.C. in Paris, a series of decisions being arrived at by the Council in July and August 1949 and in the following November with a view to bringing about a progressive removal of such restrictions.

In November 1949 the Council of O.E.E.C. decided that at least 50 per cent. of trade on private account between member countries should be freed. The percentage was to apply to each of three groups of imports, agricultural products, raw materials and manufactured goods, and was to be related to a base year: 1949 for Germany and 1948 for all other countries.

Most countries were able to comply to the full with the decisions taken in November 1949; and in January 1950 the Council decided to pass on to the next stage, namely a 60 per cent. liberalisation. This was to become binding only after the European Payments Union had been set up; for it was felt that the participating countries needed an assurance that additional resources would be available to meet any increased deficits which might arise in consequence of the liberalisation. With the Payments Union in working order in the early autumn, the obligation to free at least 60 per cent. of intra-European trade from restrictions became effective on 4th October 1950.

Originally, the countries had been entitled, under certain circumstances, to have recourse to discriminatory measures for balance-of-payments reasons, but this possibility was excluded upon the inauguration of the European Payments Union. As from 4th October 1950 all trade measures as between the participating countries had to be on a non-discriminatory basis. The rule of non-discrimination is applicable both to the liberalised and to the non-liberalised sector of their trade, but no procedure for dealing with complaints of violation has yet been established as far as the non-liberalised sector is concerned.

As from 1st February 1951 it was decided to consolidate the 60 per cent. liberalisation already achieved and to move on to 75 per cent. Because of the difficulty of raising the minimum requirements in the agricultural group, it was prescribed that in no group should liberalisation fall short of 60 per cent. and that the total for all groups should attain at least 75 per cent. In addition, a common list of commodities was drawn up, consisting mainly of textiles, textile machinery and certain agricultural and chemical products, which were in any case to be subject to a 75 per cent. liberalisation. This list was provisionally adopted on 1st April 1951, with certain reserves on the part of the Irish and Turkish Governments, however. It is not applicable to Austria, Denmark, Germany, Greece, Iceland and Norway, none of which have been able to reach the 75 per cent. stage.

The liberalisation effort has not been limited to commodities: it has also been applied to invisible transactions; but here it has proved more difficult to arrive at general principles, in view of differences in practice in the member countries. Some progress has been made in specific sectors, however. Thus, the invisible transactions have been divided into three separate categories, of which the last one — which includes tourist traffic — carries nothing more than an assurance from the governments that they will deal with the transactions involved "in as liberal a manner as possible". More far-reaching provisions apply to the other two categories. Thus, from 1st June 1950, freedom of transfer was to be authorised in respect of profits from business activity (provided these were genuine and did not involve a reduction in the working capital of the businesses concerned), dividends, interest on securities and mortgages and, as a rule, long-term contractual amortisation. The transfer of amounts representing participation by subsidiary companies and branches in the overhead expenses of parent companies situated abroad, and vice versa, is also provided for.

The O.E.E.C. liberalisation measures apply to imports (i) on private account and (ii) from participating countries only, and the result is a wide variation in the extent to which the individual countries' total (i. e. private and other) imports from other participating countries are affected, and a still wider variation in relation to their total imports from all countries. In no case has as much as one-half of a country's total imports been subject to O.E.E.C. liberalisation — and for some countries (especially those which practise the method of purchase by official agencies) not even a quarter of their total imports has been involved. It is also a fact that in 1950, when the original liberalisation was first extended, a number of countries raised protectionist duties in their tariffs, and in that way attenuated the practical influence of the liberalisation. It happened that particular interests were demanding increased protection; but it would also seem as if, in several instances, the authorities themselves feared that increased freedom for imports would cause serious difficulties in their balance of payments. In a few cases these fears have been justified — and then essentially because of an internal lack of equilibrium between the volume of money and the supply of goods; but more than one country soon found itself in a better position in relation to the European Payments Union than it had dared to hope. Trade has been on the increase and has permitted some of the O.E.E.C. countries to strengthen their monetary reserves in gold and dollars as well. The intimate connection between shifts in the currency position and the freeing of trade was realised from the beginning of the liberalisation effort, and it has been borne out by, for instance, the experience of Germany, which was temporarily obliged to suspend liberalisation when the remaining margin of its available foreign resources became altogether too narrow (see page 51). Thus the stricter credit policy which a number of European (and other) countries have adopted since the beginning of 1950 is of special importance from a trade point of view, seeing that a higher degree of restraint at home should facilitate further progress in the field of liberalisation.

In the main, the contraction since 1947 in Europe's trade with North America and the growth of intra-European trade have been healthy developments, since much of the trade across the Atlantic in the immediate post-war years simply reflected the impossibility of obtaining supplies from the normal sources. But it should not be forgotten that the better balance achieved is still of an artificial and somewhat precarious character, since special restrictions continue to be applied, particularly to dollar imports, this being one instance of the widespread discrimination still in existence. These wider problems — not confined to the European stage but interesting the United States as well — have been attacked at the three customs tariff conferences held at Geneva from April to August 1947, at Annecy from April to August 1949 and at Torquay from September 1950 to April 1951, within the framework of the General Agreement on Tariffs and Trade

(G.A.T.T.) and with the participation of a larger number of countries on each successive occasion. At these conferences the negotiations were conducted by pairs of countries on a bilateral basis but the results found a fairly wide multilateral application through the provisions of the General Agreement, which had been signed by twenty-three countries on 30th October 1947 in Geneva.(1)

The countries participating in the Torquay negotiations are responsible for about 80 per cent. of world imports and 85 per cent. of world exports. In all, 58,700 tariff concessions were granted at the three conferences. These concessions covered a very substantial part of world trade and affected, on an average, well over half the number of items on the customs lists of each of the countries which are parties to the G.A.T.T.(2)

While considerable progress had been made at Geneva and Annecy, at a time when monetary and commercial restrictions were greater hindrances to trade than the tariff barriers, the Torquay conference did not reveal the same willingness to make concessions. One reason for the greater hesitation was no doubt the uncertainty of the general outlook, clouded by political and other fears. But a more particular reason was that, with the relaxation of exchange controls and the extension of liberalisation, tariffs in most western European countries were being restored to their traditional position as the specific weapon of the protectionist. It might be going too far to say that a fresh wave of protectionism is sweeping over the world; it looks more as if in tariff matters an attitude of "wait and see" were being adopted. It may be hoped, however, that the ground already gained is sure of being held, now that the G.A.T.T. is playing an important rôle as an agent for the consolidation of the concessions so far obtained and as a guardian of the rules which have been laid down for commercial behaviour. Complaints may be lodged against infringements of the principles of the G.A.T.T.: in this respect a useful precedent was established at Torquay, when several questions which were raised (mostly with reference to discrimination) did not fail to secure redress.

* * *

Thus through the G.A.T.T. an organised effort is being made to deal with tariff matters, and in Paris liberalisation is being promoted. But the question is sometimes raised whether the export trade of the industrialised countries (especially those in western Europe where it is of such vital

(1) During the conference at Torquay in 1950–51 the U.S. Government informed the other contracting parties of its decision not to resubmit the Havana Charter for an International Trade Organisation to Congress. Instead, it would take steps to strengthen its collaboration within the G.A.T.T. (which had originally been introduced as a short-term agreement to bridge the gap until the full Charter could be put into force).

(2) The United States took a very active part in the three conferences and it has published some data which partially illustrate the value of the concessions it has made, it being necessary to remember that the United States applies practically no quantitative import restrictions. Before the introduction of the Geneva schedules on 1st January 1948, the United States collected in customs duties about 25½ per cent. of the value of all dutiable foreign goods imported. As a result of the Geneva and Annecy concessions this figure was reduced to 14½ per cent. — the lowest point recorded since the introduction of the Underwood Tariff of 1913. The concessions thus made are certainly very valuable, but it is impossible to overlook the fact that for textiles and certain other goods that might be exported from Europe the duty is in many cases still very high.

Certain "low-tariff countries", and especially the Benelux countries, have urged that they are in a weak bargaining position, given the existing tariff disparity in Europe, and that some consideration should be given to this fact. To meet their views, an Intersessional Working Party of fourteen countries (including the United States and some other important extra-European countries) was set up at Torquay to study the possibilities of levelling out the disparities in European tariffs.

importance to them) is not being endangered by the continued industrialisation of overseas countries. Will not world trade necessarily be contracted as these countries build up their own manufactures and become increasingly able to process the materials which for the time being they are still exporting?

That a more intense industrialisation is in progress in areas which have hitherto counted as almost exclusively primary producers is an undoubted fact. But European experience tells us that highly industrialised countries are the very ones between which trade is likely to expand — witness the oft-quoted instance of the United Kingdom and Germany, which became each other's best customer before 1914. Another example is provided by Switzerland: a visitor to the annual Swiss Sample Fair in Basle can hardly fail to get the impression that every kind of industrial article, including a wide range of machinery, is produced in that rather small country; and yet the Swiss trade statistics show that, in most years, imports of manufactured goods are as high as those of the other large groups: foodstuffs and raw materials.

A closer look at the statistics of certain overseas countries which are proceeding along the road of industrialisation is not without interest. Egypt is a case in point: there is a growing output of textiles, shoes, household articles, etc. from domestic industries. But imports also have continued to increase. The main import articles are wheat, fertilisers, oil, tea and coffee, timber and raw wool. With the partial exception of fertilisers, none of these commodities are obtained from Europe. In spite of their individual importance, these items together represent not more than one-third of total imports, and their aggregate value is less than that of the combined imports from the United Kingdom, Italy and France. Egypt is found to import a considerable quantity of miscellaneous articles — but not only Egypt: that is the case with most of the industrialised countries, both in Europe and elsewhere. It is a peculiarity of modern conditions that, with a rising standard of living — and Egypt is benefiting by the increase in cotton prices — the variety of goods entering into the flow of commerce greatly increases. This is shown by, inter alia, the extraordinarily large number of relatively small consignments which make up much of the trade in manufactured articles. Consequently each country has a chance to specialise in quality articles, now and then produced according to more or less detailed specifications (whether it be a question of machines for some special use or other installations).

One is apt to think of highly organised markets in connection with foodstuffs and raw materials — products which play a great rôle in international trade and are, for the most part, bulky in character. But it should not be forgotten that their counterpart in commercial exchanges is very largely constituted by a great variety of manufactured articles with a very considerable labour content. Trade in such articles does not lend itself to bureaucratic management but requires the existence of sensitive free markets; for it is thanks to the indications given by such markets that producers and traders can speedily adjust their output and their stocks to shifts in demand

and thus seize the opportunities afforded by changing price relations — their ability to do so being also to the advantage of the buyer, who in that way is more likely to get what he really wants at the best price.

The trade liberalisation being pushed forward in Paris is certainly most important, but it needs to be actively supplemented by a continued extension of the tariff concessions under the auspices of the G.A.T.T. and on the wider basis which it offers. Liberalisation inside Europe is certainly not sufficient — even if the territories of the associated monetary areas are included. For the industrialised countries in Europe it is imperative to find markets in overseas countries (since they cannot get much in the way of food and materials from one another) and to be able to count increasingly on exporting to North America now that parts of eastern Europe and the Far East have become less readily accessible. And it is also important that the European producer should react more sharply to competition, not only from other producers here on this continent but from the often more efficient American producer, with whom he will have to contend in the markets of third countries. It has, therefore, been all to the good that the United States has so actively participated in the tariff conferences; and there is every reason for a ready response on the part of the European countries, especially if they bear in mind the fact that their own industrial development needs the aid of free and sensitive markets for the best results to be obtained.

V. Consolidation of Foreign Exchange Rates.

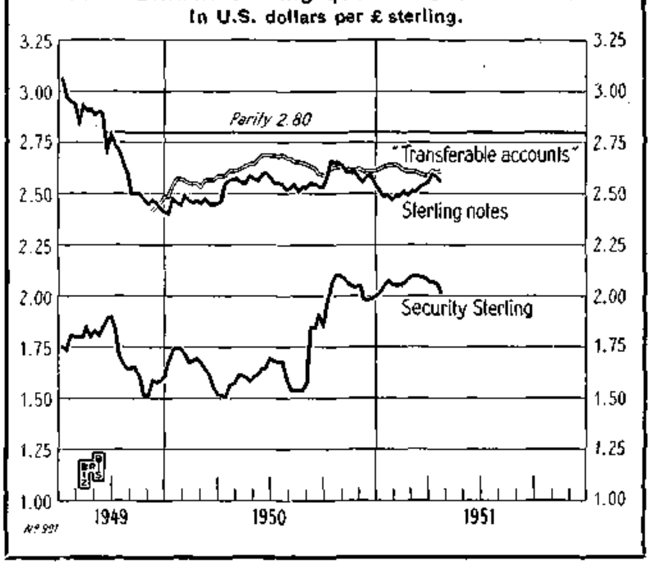
In comparison with 1949 — a year in which countries responsible for two-thirds of world trade devalued their currencies — 1950 was a year of relative stability in the field of foreign exchanges, but this has not meant that it was a year of inactivity, with little progress and no achievements. It can rather be described as a year of continued adjustment and some real consolidation. The following are notable developments since the spring of 1950 (the early part of the year having been reviewed in the twentieth Annual Report):

1. In the period from April 1950 up to May 1951, two European countries — Austria and Spain — and six Latin American countries — the Argentine, Bolivia, Colombia, Ecuador, Nicaragua and Paraguay — introduced certain modifications in their (multiple) exchange-rate systems involving various degrees of devaluation together with, in most cases, a simplification in their exchange-rate structure.

2. In October 1950, Poland carried through a monetary reform, at the same time defining the value of the zloty in terms of gold and thus relating it to the U.S.S.R. rouble, which, for its part, had already been revalued in terms of gold as from 1st March 1950.

3. Canada is a case apart. It allowed its currency to find its own level in the market as from 1st October 1950 — with the result that a single rate emerged at a level some 5 per cent. above the previous official rate of Can.$1 to U.S.$0.90909....

4. Most of the changes so far indicated have led to a certain consolidation in the rate structure, but a distinct trend towards consolidation is found in other cases as well: it has been particularly noticeable with regard to the pound sterling (as is recorded more fully on page 138). To mention only one aspect here: thanks to relaxations in the exchange-control



Great Britain: Sterling quotations in New York.
In U.S. dollars per £ sterling.

regulations connected with the "switching" of securities owned by non-residents, the disparity between the security sterling rates for government and for private securities has been eliminated and a single rate quoted since September 1950. Furthermore, the spread between this security rate, the rates for sterling on transferable accounts and the rate for bank-notes has narrowed appreciably.

5. In certain other countries — particularly Belgium and France — the exchange control has been simplified and at the same time restrictions have been relaxed. Thus, repatriation of notes has been admitted without limitation as to amount, and measures have also been taken to provide the basis for more real activity in the foreign exchange market, particularly with regard to dealings between banks.

A simplification of the rate structure also resulted, in practice, from the establishment in the summer of 1950 of the European Payments Union, which provides for the settlement of transactions between the participating countries. For one thing, the mechanism of the Union excludes private barter deals — and has thus done away with a procedure which had given rise to almost as many rates of exchange (known as "compensation rates") as the number of such transactions carried out, the difference between these rates and the official rates being often considerable.

An additional feature of the European Payments Union is that certain countries, which have not become members of the International Monetary Fund or, being members, have not so far established a parity in accordance with the Fund's Articles of Agreement, notify rates for the "unit of account" which are applicable to settlements inside the Union, thus giving for the various currencies exchange rates in relation to the U.S. dollar and the pound sterling.

The substantial advance which in 1950–51 has brought the world's exchange system progressively nearer to consolidation must not be regarded as merely a technical matter of exchange markets. It reflects an improvement in the balances of payments which, in its turn, is mainly due to the fact that a closer approach to internal equilibrium in the field of public finance, as well as in the relations between savings and investments and between costs and prices, has led to a more natural balance between the volume of money and the supply of goods and services in each individual market. The remarkable increase in production during recent years has, of course, contributed to the result attained, but has been able to do so only in conjunction with a return to more normal methods of adjustment in the financial sphere, including restraint in the granting of credit through higher rates of interest and otherwise.

From this point of view it is interesting to observe the effects of the devaluations which occurred in the autumn of 1949 and to relate them to previous experience. There have been instances in the past when a devaluation was required simply to correct too great a divergence between the internal and the external price level, and not because there was an excessive budget deficit or any undue volume of investment in the country with the higher prices. That was very much the case with the Netherlands and Switzerland in 1936, their difficulties being clearly connected with the devaluation of almost all other currencies, including the pound and the dollar. But such cases are rather exceptional: a devaluation is generally the sign of a maladjustment in the internal financial and economic affairs of the country which resorts to such a step. When that is the situation, devaluation alone will obviously not suffice to put matters right; it has to be accompanied by those internal reforms which are necessary to reduce a deficit in the budget, to curtail excessive credit expansion for private purposes and, in general, to eliminate the underlying causes of the internal maladjustment. Only when such steps are taken is it legitimate to expect a better balance on foreign account, with a closer relation between demand and supply on the home market and an increased resilience in the export trade.

As regards the devaluations in September 1949 it is fair to say that, in general, the countries which altered the value of their currencies took a number of internal steps to put their houses in order (see pages 32 and 33). Since in the summer of 1949 the American economy had already resumed its upward trend, it could be expected that, for most of the countries concerned, the combination of devaluation with corrective internal measures would bring about a replenishment of monetary reserves and thus strengthen their exchange position as well.

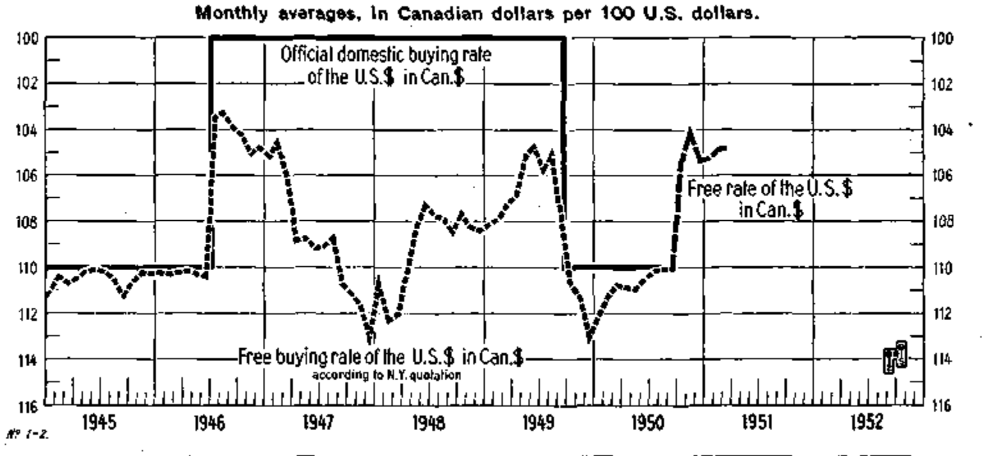
But so important a change as a 30 per cent. reduction in the value of the currency cannot as a rule be undertaken without some inconvenience, and this has made itself distinctly felt in a rise in prices in the countries which devalued. Contrary to what happened in the years 1931–33, world prices, as expressed, for instance, in U.S. dollars, continued firm after the wave of devaluations, the upward movement receiving a fresh impetus from the outbreak of the Korean conflict. Since in some cases purely internal measures would be powerless to check the rise in domestic prices in such a situation, the question was discussed in a number of countries whether a solution might not be found in a revaluation of the currency. There was one country — Canada — in which the external value of the currency actually improved (and there it happened in connection with the establishment of a free exchange market); in other cases — the pound sterling in the autumn of 1950 and the Danish and Swedish crowns early in 1951 — rumours about revaluation, although unsubstantiated, had a considerable influence on the timing of payments by traders and others, leading to movements of funds which the existing controls were, for the most part, incapable of arresting.

Like all extreme price movements, the recent increases in raw-material prices tend to be a source of considerable difficulties, especially from an exchange point of view, for the importing countries; but they are at the same time a sign of sustained world demand — which in itself is a factor of no mean importance. While it is rightly stressed (see page 11) that an improvement in a country's balance-of-payments position is mainly a consequence of a better internal equilibrium, it should not be altogether overlooked that the trend on the world markets and the international currents of trade also play a considerable rôle. In the first few years after the end of the war a number of essential commodities were practically unobtainable except from the United States, and this was obviously one of the reasons for the scramble for dollars. Since then, however, production has increased conspicuously in most other parts of the world; many products which Europeans previously had to import can now be obtained in large quantities in their own continent (some ready-made articles, for instance, from Germany) and Europe is beginning to be able to earn dollars again by triangular trade via south-eastern Asia and Latin America, thanks to the progress made in those areas. It is true that certain shortages have reappeared as a result of the rearmament effort but, once products are at a country's disposal, there is no difficulty in selling them abroad.

In order to become reliable partners in trade and foreign exchange relations, the overseas countries must — as everybody else must — put their own monetary affairs in order. It is typical that, among the sporadic cases of exchange readjustment during the past year, most are found to have occurred in countries which are primary producers.

Canada has a growing number of manufacturing industries but more than half of its exports still consist of raw materials and semi-manufactured products, the main ready-made article exported being newsprint, which alone accounts for one-sixth of the country's exports. The abandonment by Canada of the rigidly fixed rate of the dollar for a freely fluctuating rate — a change made in the autumn of 1950 — was the most important step taken in the field of foreign exchanges during the year. It is true that other countries — Italy and France — had led the way in permitting fluctuating rates; but in their case it was not initially a question of one single rate at which transactions could be carried out freely, and it was not, as in

Relation between the Canadian dollar and the U.S. dollar.
Monthly averages, in Canadian dollars per 100 U.S. dollars.



Canada, a step taken from strength. Canada is the first country since 1945 to relinquish a fixed rate because it could confidently expect that, as a result, its exchange rate would improve. In February 1951, a relaxation was introduced in the provisions governing trading in Canadian securities owned by non-residents. There was a practical elimination of the restrictions on trading in government securities with a term of more than three years and it was, moreover, made permissible to switch from corporate to long-term government securities.

After the devaluation in 1949 there had been a very rapid development in the direction of a more balanced trade account in relation both to the United States and to the rest of the world; but this was accompanied by a change from an overall surplus of Can. $187 million to a deficit of Can. $316 million on the current account of Canada's balance of payments. The sharp reduction in 1950 of Canada's previous import surplus in relation to the United States would not in itself have led to any major monetary measure in Canada had it not been for a stream of capital that began to come in from the United States after the outbreak of the Korean conflict.

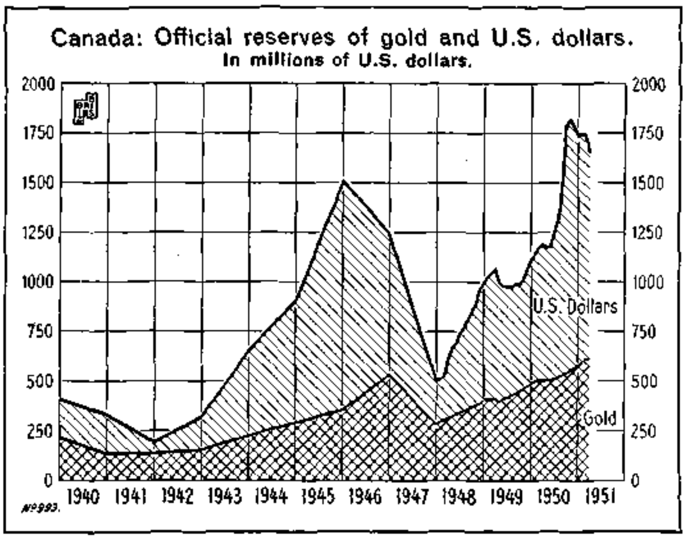
Canada: Official reserves in gold and U.S. dollars and Canadian balances with U.S. banks.

End of		Official reserves: In gold and U.S. dollars	Official reserves: Quarterly movement	Canadian balances with U.S. banks*: Government and private	Canadian balances with U.S. banks*: Quarterly movement
		in millions of U.S. dollars			
1949	September	985	+ 8	827	+ 47
	December	1,117	+ 132	869	+ 42
1950	March	1,192	+ 75	857	— 12
	June	1,255	+ 63	830	— 27
	September	1,790	+ 535	1,334	+ 504
	December	1,742	— 48	900	— 434

* The greater part of these balances are included under official reserves.

Immediately after the devaluation in September 1949 some capital moved into Canada, but it was only in the third quarter of 1950 that the influx from the United States became a flood, the net addition to official reserves amounting to more than $530 million within the space of three months. Faced with a difficult situation, the Canadian authorities preferred the introduction of a fluctuating rate to the alternative course of raising the Canadian dollar to the old parity with the U.S. dollar, since such a change — in the words of the Canadian Finance Minister — "might not have been justified by fundamental considerations and might therefore be found to require reversal or further adjustment in the near future". The International Monetary Fund explained that it

> "recognises the exigencies of the situation which have led Canada to the proposed plan and takes note of the intention of the Canadian Government to remain in consultation with the Fund and to re-establish an effective par value as soon as circumstances warrant".



Actually, the free market did not go right back to the old parity with the

U.S. dollar but stopped about half-way (see graph). This limited alteration of about 5 per cent. proved sufficient, however, to arrest the flow of "hot money" to Canada and even to reverse the movement.

The general structure of exchange control, originally instituted in 1939, has been retained, its maintenance being prompted — according to the Finance Minister — by the desirability of providing adequate defence against possible adverse conditions in the future. An important point is that residents are still required to obtain a special licence for exporting capital, and such a licence is not normally granted except for necessary business operations. Similarly, non-residents wishing to withdraw capital from Canada still need a permit, which is normally granted only in the case of sale of fixed assets in Canada or liquidation of capital investments made since 1939.

The U.S. dollar has retained its position as a currency of the first importance, being backed by about 60 per cent. of the world's total gold reserves. Such restrictions as have been imposed on the export of certain commodities for strategic and other reasons fall within the commercial field. In the spring of 1951 more than three-quarters of U.S. exports were still unaffected by measures of special control.

Latin American countries, in general, greatly improved their external economic position in 1950, thanks to higher prices for their produce (raw materials and foodstuffs). In the aggregate, their official gold and dollar holdings increased by more than $400 million in 1950, but this gain was not due to any surplus in the current balance of these countries with the United States, since their purchases of American goods kept up well. But some Latin American countries earned dollars from trade partners outside the western hemisphere and also continued to receive substantial amounts from abroad in the form of capital investments which, during recent years, have risen to as much as $500 million a year and have helped to pay for current imports. In the second half of 1950, there was also a considerable inflow of short-term refugee capital.

An improved balance on foreign account has enabled these countries not only to start paying off arrears of commercial liabilities but also to move towards rather less complicated exchange-rate systems. In some cases the process of reducing the number of rates and of narrowing the spread between them has entailed a devaluation, while here and there it has simply been a matter of dropping from the schedule a rate that had fallen into disuse.

Thus Bolivia, on 8th April 1950, discarded its official rate of Bs. 42 = $1, and the former special rate of Bs. 60 = $1 became the only fixed rate. But the free-market rate of Bs. 100 = $1 was left in use for a quota of export proceeds and for imports of non-essentials, as well as for non-commercial transactions.

A similar procedure was followed in Ecuador, which on 1st December 1950 devalued the sucre by 10 per cent. to the new parity of Sucres 15 = $1. Only one other rate is quoted — which means that five rates have been reduced to two.

Paraguay has also reduced the number and spread of its exchange rates, in connection with a devaluation which established the following rates from 5th March 1951:

Guaranies 6 = \$1 applicable to major exports and essential imports;

Guaranies 9 = \$1 applicable to minor exports and designated imports.

A free exchange rate of about Guaranies 19 = \$1 is also quoted, applicable to tourist expenditure and capital transactions.

Colombia twice altered its exchange system, first in July 1950 and then in March 1951. On the former occasion two rates were retained, viz. a basic rate of Pesos 1.95 = \$1 and a so-called certificate rate of about Pesos 3.00 = \$1. The further reform introduced in March 1951 envisaged a single free-market rate, to be kept stable by the central bank at Pesos 2.50 = \$1. During a transitional period the old basic rate of Pesos 1.95 = \$1 is being used for a progressively declining quota of the proceeds of exports of coffee; until the quota in question has reached vanishing-point the application of the lower rate will have the effect of a special tax.

In November 1950, Nicaragua likewise made some alterations in its multiple exchange-rate system, but the official rates in use still vary between Cordobas 5 = \$1 (applied to government transactions and to 20 per cent. of the proceeds of exports and invisibles) and Cordobas 10 = \$1 (applied to non-essential imports and designated non-trade remittances). A free-market rate for notes and coins also exists.

More sweeping changes have been introduced in the Argentine, where the previous profusion of exchange rates was reduced in August 1950 to three: a basic, a preferential and a free rate. This was the second substantial change in less than a year.

Argentine: Exchange rate schedule.

Types of rates	Rates prior to 19th Sept. 1949 [1]	Rates valid in the period 3rd Oct. 1949 to 28th Aug. 1950	Rates applicable from 29th Aug. 1950
	pesos per U.S. dollar		
Export rates (buying rates)			
Basic	3.36	3.36	5.00
Preferential "A"	3.98	4.83	7.50
,, "B"		5.73	
Special	5.00	7.20	
Free [2]	4.79	8.98	14.24[3]
Import rates (selling rates)			
Basic	4.23	6.09	7.50
Preferential "A"	3.73	3.73	5.00
,, "B"		5.37	
Free [2]	4.81	9.02	14.27[3]
Auction "A"	—	12.29[4]	—
,, "B"	—	12.77[4]	—

[1] Between 20th September and 2nd October 1949 the foreign exchange market did not function.
[2] Up to 28th August 1950 the so-called free rate was, in fact, fixed by the central bank.
[3] Rates quoted on 7th March 1951. [4] Average rates for June 1950.

The "free rate" has acquired a certain degree of flexibility since 29th August 1950, in manifest contrast to the past, when it was rigidly fixed by the central bank. The reappearance of a free market has not, however, caused the disappearance of a black-market rate for the dollar. After reaching Pesos 19.65 in October 1950, when the free rate stood at Pesos 13.63, this rate came down to Pesos 15.23 in March 1951, i.e. it has moved much nearer to the free-market rate, which was quoted at about Pesos 14.25 in that month.

Among the other Latin American countries no formal alterations were made in the exchange system but some other noteworthy movements occurred. Brazil has benefited by sales of coffee and cotton at high prices and has been able to pay back some \$150 million of commercial debts. In Mexico, thanks to an increase in the balance-of-payments surplus and an inflow of capital, especially from the United States, the full amount of a \$37 million stabilisation loan could be repaid in advance to the U.S. Treasury, and the Bank of Mexico's total gold and foreign exchange reserves rose to the equivalent of some $340 million at the beginning of 1951, as compared with only $84 million in the summer of 1949.

Even more spectacular has been the effect of an influx of capital in Uruguay. True, there has been no change in the basic and special rates, which vary from an official "basic" buying rate of Pesos 1.52 = $1 to a "special" selling rate of Pesos 2.45 = $1; but there is also a "free official rate" (applicable only to non-commercial transactions), the quotation of which is de facto influenced by central-bank intervention. From an average of Pesos 3.60 = $1 in November 1949, this free rate slowly began to harden in 1950, the trend becoming very strong towards the end of the year and continuing in the early months of 1951. By the end of February 1951, it had come down to Pesos 1.90 = $1, which represented an appreciation of 90 per cent. in relation to the November 1949 rate. The amount of capital which during 1950 has sought refuge in this "Switzerland of the western hemisphere" has been unofficially estimated at $450 million, of which 15 per cent. is reported to have been transferred in gold, 60 per cent. in dollars and the rest mainly in Swiss francs. Since December 1950 the Bank of the Republic has had to intervene from time to time in order to prevent heavy falls in the dollar rate.

A start has thus been made on the road towards simplification of exchange systems, including the elimination of multiple rates among Latin American currencies. It is certainly a rather long road, but as trade restrictions come to be increasingly relaxed – which should help to offset inflationary tendencies – Latin America will be able to resume its position as a pivot of multilateralism in trade and payments.

Among the primary producers in Asia, a great improvement has been experienced by Indonesia, whose exports consist, as to 75–80 per cent., of rubber, petrol, tin and copra. Between December 1949 and December 1950 Indonesian export prices rose, on an average, by four times and a trade deficit of nearly Rupiahs 400 million in 1949 gave place to a surplus of more than Rupiahs 900 million, while the gold and dollar reserves, which had decreased by some $25 million during 1949, rose by $130 million in the course of 1950. Consequently, there was no difficulty in maintaining the import rate of Rupiahs 11.43 = $1 and the export rate of Rupiahs 7.56 = $1 which had been adopted in March 1950, when a system of certificates was introduced. Prior to this change, a single set of rates at Rupiahs 3.79 (buying) and Rupiahs 3.81 (selling) had been in force. Although there is no community of monetary reserves between Indonesia and the Netherlands, Indonesia forms part of the florin area and its trade with E.P.U. members is thus included in the balances reported monthly by the Nederlandsche Bank.

The reconstitution of monetary reserves has begun in another eastern country — Japan — but under different conditions. Since the rate of exchange was unified and fixed at Yen 360 = $1 in April 1949, industrial production has risen by some 50 per cent., the budget has been balanced (this was the case in 1949–50 for the first time since the war) and it has been possible to increase the monetary reserves by $400 million, this corresponding to the greater part of the U.S. grants and credits, amounting to $479 million in 1949 and $132 million in 1950. From a level of Yen 600 = $1 the black-market rate for dollars in Tokyo fell to Yen 400, i.e. to only 10 per cent. above the official rate.

The political changes in China have had their influence on currency values. In the spring of 1949, the dollar rate quoted by the People's Bank had been established at P.B. $600 = one U.S. dollar; but it soon began to depreciate and one year later stood at P.B. $45,000. At that time steps were taken to reverse the trend:

from May 1950 onwards the People's Bank successively announced improvements, which by the end of January 1951 had brought the rate to P.B. $23,000 per U.S. dollar.

No change has been made in the U.S.S.R. currency since the revaluation on 1st March 1950, by which the value of the rouble was established in terms of gold, the new parity of Rouble 1 = 0.222168 grammes of gold corresponding to a rate of Roubles 4 = $1 (instead of Roubles 5.30 = $1 as previously).

The only other country in the eastern group to follow this example in pegging its currency to gold has been Poland. By a decree of 28th October 1950, the new zloty was defined as equivalent to 0.222168 grammes of fine gold (i.e. to the same legal gold value as the rouble), which gives a rate of Zl. 4 = $1 instead of Zl. 400 = $1 as previously; but prices and wages were translated into the new currency in the ratio of 100 to 3 — which obviously had the effect of making Polish products on the internal market more expensive in terms of other currencies. Old zlotys were exchanged for new ones in the ratio of 100 to 1, while savings deposits as well as banking deposits up to old Zl. 100,000 and credit balances of the Treasury, of nationalised enterprises and between individuals were converted in the ratio of 100 to 3, i.e. in the same ratio as prices.

The reasons for the Polish reform, as officially stated, relate to various aspects of the question. From an economic point of view, it was thought that the creation of a hard currency would help to inspire confidence and make saving worth while. Such a currency should also provide an incentive towards greater efficiency in production and thus lead to a rise in the standard of living. From a social point of view it was, however, thought desirable to penalise persons with currency hoards and large bank accounts. And as regards the relation between the zloty and foreign currencies (viz. those of capitalistic countries) the adoption of the new rate was intended to do away with what were called the unjustified advantages previously enjoyed by these currencies in relation to the zloty at the old parity of Zl. 400 = $1.

It seems to be a fact that Polish products have become more expensive for foreign buyers since the currency reform in the autumn of 1950, but in this connection it should be noted that trading with western countries is carried on almost entirely in dollars, sterling or other foreign currencies. On the other hand, the equalisation of the zloty and the rouble may, in conjunction with the price adjustments in both countries, facilitate the exchange of goods and services between Poland and the U.S.S.R.

Finally, it may be mentioned that the decree of 28th October 1950 prohibits the possession of foreign exchange or precious metals without a permit from the Exchange Commission, offenders being subject to trial by special courts, which may impose penalties up to capital punishment.

Austria had reformed its currency in the autumn of 1947 but various modifications have had to be introduced since then. In October 1950 a bold step was taken towards simplifying the foreign exchange system which, consisting in theory of three rates (basic, mean and premium), actually resolved itself into a much larger number — owing to the practice of allocating individual "exchange retention quotas", barter trading and other regulations, including those applying preferential rates to imports of coal, fats, cereals etc. Under the new system most, although not all, special rates were eliminated, and the three official rates were reduced to two:

(i) a uniform rate of Sch. 21.36 = \$1 to be used in all trade transactions (concerned with goods and accessory services), except for some imports directly bearing on the cost of living; and

(ii) a premium rate of Sch. 26.00 = \$1 applicable to tourist expenditure and financial transactions.

Official exchange rates 1939–1951.

Countries	National currency units	U.S. dollar middle rate					Percentage change	
		24th August 1939	31st December 1945	15th September 1949	31st March 1950	31st March 1951	24th August 1939 to March 1951	15th Sept. 1949 to March 1951
Austria	Sch.	5.34(1)	10.00	10.00	21.36(2)	21.36(2)	— 75.0	— 53.2
Belgium	B. Fcs	29.58	43.83	43.83	50.195(3)	50.40(3)	— 41.3	— 13.0
Bulgaria	Leva	83.90	287.36(4)	287.36(4)	287.36(4)	287.36(4)	— 70.8	—
Czechoslovakia	Kčs	29.235	50.00	50.00	50.00	50.00	— 41.5	—
Denmark	D. Kr.	4.795*	4.80	4.80	6.90¼	6.90¼	— 30.6	— 30.5
Finland	FM	48.40	135.70	160.00	230.00	230.00	— 79.0	— 30.4
France	Fr. fcs	37.755	119.10	272.49½(5)	349.60	350.00	— 89.2	— 22.1
Germany	RM/DM	2.493	10.00	3.33(6)	4.20	4.20	— 40.6	— 20.7
Greece	Dr.	117.60	500.00(7)	10,010.00(8)	15,000.00(8)	15,000.00(8)	(7)	— 33.3
Hungary	P/Frt	5.20	104,000.00	11.74(9)	11.74	11.74	(9)	—
Iceland	I. Kr.	5.7683*	6.4889	6.4889	16.29	16.29	— 64.6	— 60.2
Ireland	£stg	0.2126	0.2481	0.2481	0.3571	0.3571	— 40.5	— 30.5
Italy	Lit.	19.00	100.00	575.00	624.79	624.85	— 97.0	— 8.0
Netherlands	Fl.	1.86	2.65	2.653	3.80	3.80	— 51.1	— 30.2
Norway	N. Kr.	4.27	4.96½	4.96½	7.14¼	7.14¼	— 40.2	— 30.5
Poland	Zl.	5.325	—	400.00(10)	400.00(10)	4.00(11)	(11)	(11)
Portugal	Esc.	23.36	24.815	25.025	28.75	28.75	— 18.7	— 13.0
Roumania	Leu	143.59	3,635.00(12)	151.50(13)	151.50	151.50	(13)	—
Spain	Pts	9.05	11.085	11.085(14)	11.085(15)	11.085(16)	— 18.4	—
Sweden	S. Kr.	4.15*	4.19	3.59½(17)	5.17½	5.17½	— 19.8	— 30.5
Switzerland	Sw. fcs	4.435	4.30	4.30	4.29½	4.32¼	+ 2.6	— 0.5
Turkey	Liras	1.267	1.305(18)	2.8126	2.8126	2.8126	— 55.0	—
United Kingdom	£stg	0.2126	0.2481	0.2481	0.3571	0.3571	— 40.5	— 30.5
U.S.S.R.	Roubles	5.30	5.30	5.30	4.00(19)	4.00	+ 32.5	+ 32.5
Yugoslavia	Dinars	44.05	50.00	50.00	50.00	50.00	— 11.9	—
Canada	Can. $	1.0047	1.1025	1.0025(17)	1.1025	1.0506(20)	— 4.4	— 4.6
South Africa	£ SA	0.2279(21)	0.2488	0.2488	0.3581	0.3581	— 36.4	— 30.5
Australia	£ A	0.2822(21)	0.3108	0.3109	0.4474	0.4474	— 36.9	— 30.5
New Zealand	£ NZ	0.2814(21)	0.3125	0.2500(22)	0.3599	0.3598	— 21.8	— 30.5
Argentina(23)	Pesos	4.325	4.0675	4.8075	9.02	14.01	— 69.1	— 65.7
Brazil*	Cruz.	16.50	16.50	18.72	18.72	18.72	— 11.9	—
Japan	Yen	3.67(21)	15.00(24)	360.00	360.00	360.00	— 99.0	—

* Official selling rate.
(1) January 1938.
(2) Official rate for commercial exchanges since 6th October 1950; premium rate for capital transactions and tourist trade Sch. 26.00.
(3) Free rate since 30th November 1949.
(4) Official rate plus premium of 250 per cent.
(5) Mean rate between basic and free official rate.
(6) Export-Import rate.
(7) In November 1944 50,000,000,000 old drachmae were exchanged for each new drachma.
(8) With Exchange Certificates.
(9) The Forint was introduced on 1st August 1946 and was equal to 400,000 quadrillion pengö.
(10) With premium surcharge of Zl. 300 in practically all financial transfers abroad.
(11) One new zloty was made equal to 100 old zlotys.
(12) Including the supplementary premium.
(13) The new leu was introduced on 15th August 1947 and was equal to 20,000 old lei.
(14) 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.
(15) 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.
(16) In addition a sliding scale of rates, ranging from Pts 13.14 to the level of the free rate for specified export goods and from Pts 16.425 to the level of the free rate (December 1950 average Pts 39.84 = \$1) for specified imports goods, has been applied since August 1950 in the first case and since 18th October 1950 in the second.
(17) Revaluation in July 1946.
(18) Official rate, excluding premium.
(19) Official rate in effect since 1st March 1950.
(20) Free rate, as of 1st October 1950.
(21) Buying rate on New York.
(22) Revaluation in August 1948.
(23) Free-market selling rate.
(24) The 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.

In accordance with recommendations of the International Monetary Fund, Austria has eliminated trade on the basis of private barter and compensation but some individual "exchange retention quotas" have remained in operation. Thus the task of simplification is not yet completed.

Spain has retained the basic official rate of Pesetas 10.95 = $1 but this rate has become little more than a symbol. There are, in fact, fourteen special export rates, ranging from Pesetas 13.14 to Pesetas 32.85 = $1, and there is, in addition, a so-called "free-market rate" (quoted at nearly Pesetas 40 to $1 at the end of February 1951), which is applicable mostly to non-commercial transactions and, in particular, to tourist expenditure. The free-market rate was introduced in August 1950, when the whole rate structure underwent alterations.

As regards imports, besides the basic official rate of Pesetas 10.95 = $1, which applies to a very few items consisting of foodstuffs, five special rates are in use, ranging from Pesetas 16.42½ to about Pesetas 40 = $1 (free-market rate). In addition, three separate rates, ranging from Pesetas 16.425 to Pesetas 25 = $1, apply to financial operations.

* * *

The review given above sets out the major alterations which occurred in exchange rates in 1950–51 — alterations which, by and large, may be said to have contributed to the emergence of a better-balanced system. But attention should not be concentrated too exclusively on modifications of rates. In a number of countries where no formal alteration was made, the foreign exchange position was considerably strengthened by a replenishment of reserves, which in many cases permitted a relaxation of commercial and monetary restrictions. Paucity of reserves has been the great handicap for most European countries in the post-war period; as has already been pointed out (page 43 and page 51), the European Payments Union has provided, for some countries, additional payment facilities, which have served as a partial substitute for monetary reserves — and Germany obtained, in addition, a credit of $120 million, which enabled it, inter alia, to refrain from a devaluation certainly not called for on the basis of comparative costs and prices.

In Italy, the doubts that had been voiced here and there when, in September 1949, the lira was devalued by only 8–9 per cent. have proved unfounded, exports having risen in 1950 more than imports (notwithstanding some restocking late in the year), while the allocation of foreign exchange for travelling abroad was greatly liberalised. In eliminating trading on private-compensation terms in relation to other members of the European Payments Union, Italy has done away with the whole set of rates which had come into being in connection with such transactions.

In the course of the year, France has been able greatly to relax its foreign exchange restrictions. In July 1950 travellers leaving the country were allowed to take with them an amount of Fr.fcs 50,000 (instead of 25,000 as previously) in French bank-notes in addition to the current allocations in foreign exchange. Moreover, there is now complete freedom for the repatriation of French bank-notes.

Since 1st August 1950 there has been an "official market" for currencies not dealt in on the "free market" (i.e. currencies other than the dollar, the Swiss franc, the escudo, the Belgian franc and the Canadian dollar). Thus, authorised banks can deal in sterling, the principal sterling-area currencies, Egyptian pounds, florins, lire, Danish, Norwegian, Swedish and Czechoslovakian crowns, Deutsche Mark and Yugoslav dinars at rates fluctuating within the limits of the buying and selling rates of the Exchange Stabilisation Fund, which intervenes only when such limits are reached.

The Stabilisation Fund no longer intervenes on the forward market, the discount and premium rates being settled by free arrangement between banks. By this means the mechanism proper to a more efficient foreign exchange market has been put into working order again, the quotation of flexible rates also helping to re-establish more normal currents of foreign trade.

The relaxation of existing regulations has been extended to forward exchange transactions. In fact, with the purpose of facilitating short-term investments of dollar and Swiss franc funds on the French market, forward exchange transactions — formerly permitted only in connection with trading — have been allowed since the middle of October 1950 for covering such investments by Swiss and American banks in Paris.

In November 1950, it was further decided that — within the framework of the European Payments Union — balances in French francs held by residents in participating countries should be freely transferable. The French monetary authorities have had the satisfaction of observing that, upon each successive liberalisation measure, more foreign exchange has entered the country and a larger proportion of it has passed through the official channels.

The method of proceeding cautiously step by step in the relaxation of restrictions makes it possible to reverse a particular measure if need be, an interesting example of this being found in Belgium. Since 1949 that country had authorised, without limitation, the repatriation of bank-notes, which were to be credited to "note accounts" in the name of a resident of a foreign country acting through a bank. Such accounts were afterwards increasingly liberated and could be utilised both for the acquisition of foreign exchange and for direct payments inside Belgium, including payments for goods to be exported. In order to maintain the stimulus thus given to the export trade and at the same time to prevent reimported bank-notes from being used as a medium for flight of capital, the Exchange Control decided in October 1950 that the available balances on "note accounts" could no longer be used for the acquisition of foreign exchange.

Moreover, in order to avoid certain undesirable repercussions on the settlements carried out within the European Payments Union, the Belgian Government, with a view to finding a solution for difficulties* which had arisen in relation to Switzerland, agreed that, from 1st May 1951, bank-note accounts should no longer be kept in the names of residents in countries participating in the Union and would, therefore, no longer be available as a means of payment for goods and services in relation to those countries. But such accounts will still be available to residents of other countries and it will therefore remain possible for residents in the United States, for instance, to buy Belgian bank-notes in countries which are members of the European Payments Union and to have them redispatched to Belgium for crediting to bank-note accounts.

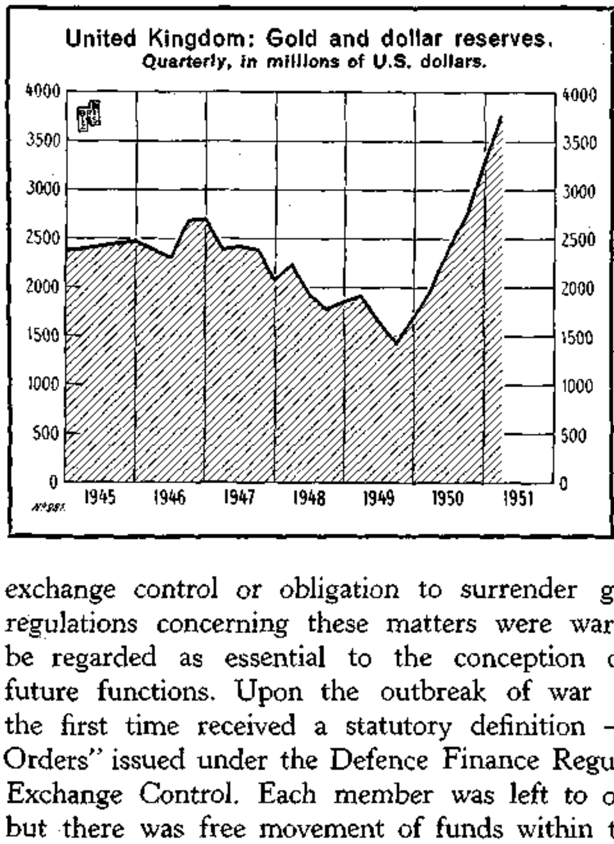
There was, however, no reversal of other steps previously taken for the establishment of free markets. On the contrary, there had been some further progress, during 1950, towards a free-market system: in June 1950 Belgium admitted the French franc and the Canadian dollar to quotation on the official free market, where the U.S. dollar and the Swiss franc were already being dealt in. This step was not contrary to the provisions of the European Payments Union.

At one time, early in 1950, it seemed as if the United Kingdom would remain outside the monetary arrangements on the continent of Europe; but sufficient reassurances were given regarding the system of the European Payments Union to make it generally acceptable — with all that this meant in the way of increased currency transferability, multilateral settlements and trade liberalisation (including an increase from £50 to £100 in the basic allowance of foreign currency granted in the United Kingdom for travel in the countries belonging to the European Payments Union). Moreover, in April 1951, trading by authorised banks in foreign bank-notes was reintroduced on the London market. Sales and purchases were allowed within the limits of the official rates, the routine business of dealing in such notes thus being handed back by the Bank of England to market institutions.

In addition to the more formal changes, administrative decisions taken by the Exchange Control in individual cases have also allowed greater freedom in the use of sterling. These modifications have been possible thanks to the substantial improvement in the British monetary reserves, which was larger than the simultaneous increase in sterling liabilities (see Chapter VI) — an increase which was in relation to sterling-area countries, while the sterling

* These difficulties have arisen from the fact that, once the system of bilateral payments agreements was abandoned between Switzerland and Belgium and a free system established, it became necessary for the two countries to agree to estimate each month the movements of funds which should be taken into account in determining the monthly surplus or deficit for reporting to the European Payments Union. It was then found that the existence of the "note accounts" rendered the task of estimation very difficult. The two countries therefore agreed to mutual concessions in order to maintain with each other a free system of payments, this constituting a great step forward which it would have been regrettable to have to abandon.

liabilities due to other countries fell by £50 million during 1950. Since holders in these latter countries have from time to time shown a desire to reduce the amounts held by them in sterling, the shift that has taken place in the ownership of the sterling balances has contributed to the consolidation of that currency, and this in its turn has made sterling more attractive for holders in general — an attraction which has been strengthened by the above-mentioned extension of the uses to which sterling can be put (for the value of a currency primarily depends on how much in the way of commodities can be freely bought with it and at what prices). The progress that has been made towards the removal of commercial shackles hampering purchases in the sterling area, together with the devaluations, which have made sterling-area goods relatively cheap, explains the greater demand which is gradually transforming sterling into a "hard" currency.



United Kingdom: Gold and dollar reserves.
Quarterly, in millions of U.S. dollars.

It should be remembered that the sterling area had its origin in ordinary trading and payment arrangements which developed gradually over a long period well before 1914. In the 1930s the conception of the sterling area became somewhat more formalised, the term being used to designate a free association of countries maintaining stable exchange rates in terms of sterling, the currency in which the bulk of their foreign settlements were carried out. At that time there was no exchange control or obligation to surrender gold or foreign currencies; the regulations concerning these matters were wartime additions, which must not be regarded as essential to the conception of the sterling area or of its future functions. Upon the outbreak of war in 1939, the sterling area for the first time received a statutory definition — by the "Statutory Rules and Orders" issued under the Defence Finance Regulations and creating the Sterling Exchange Control. Each member was left to operate its own exchange control but there was free movement of funds within the area; and another, unwritten but in practice accepted, principle was that resources in hard currencies and gold should be pooled in the area's central reserve in London.

In March 1947 the Sterling Exchange Control was transferred from a war to a peace status by the enactment of the "Exchange Control Act", which incidentally altered the designation "sterling area" to "Scheduled Territories". In addition to the United Kingdom and a number of colonies and dependencies with no central banks of their own, the Scheduled Territories include countries having complete

UNITED KINGDOM EXCHANGE CONTROL REGULATIONS.
OUTLINE OF PERMISSIBLE TRANSFERS, AMENDED FEBRUARY 1951.

→ The arrow indicates direction of transfers, permitted without the necessity of individual approval by the U.K. Control, between different categories of sterling accounts. All other transfers require separate approval.

AMERICAN ACCOUNT COUNTRIES

Inter-transfers permitted.

Bolivia
Colombia
Costa Rica
Cuba
Dominican Republic
Ecuador
Guatemala
Haiti
Honduras
Mexico
Nicaragua
Panama
Philippine Islands
Salvador
U.S.A. and its Dependencies
Venezuela

TRANSFERABLE ACCOUNT COUNTRIES

Inter-transfers permitted, provided payment is made from an account designated as a "Transferable Account"

Anglo-Egyptian Sudan
*Austria
Chile
Czechoslovakia
*Denmark (incl. Faröe Islands and Greenland)
Egypt
Ethiopia
Finland
*Greece
Iran
*Italy
*Netherlands Monetary Area
*Norway
Poland
Spanish Monetary Area
*Sweden
Thailand
U.S.S.R.

"OTHER COUNTRIES"

Inter-transfers permitted.

Afghanistan, Albania, Cyrenaica, Eritrea, Liberia, Nepal, Saudi Arabia, Southern Korea, Tripolitania

*SCHEDULED TERRITORIES ("Sterling Area")

Broadly speaking, inter-transfers are freely permitted; but some limitations are imposed by local controls, e.g. South Africa, Fiji, Hong Kong, India and Australia

British Commonwealth except Canada
Irish Republic
British Trust Territories
British Protectorates and Protected States
Burma
Iceland
Iraq
Jordan

"BILATERAL" COUNTRIES

Inter-transfers not permitted unless specifically authorised by U.K. Control.

Argentina
*Belgian Monetary Area
Brazil
Bulgaria
Canada
China
Formosa
*France and French Monetary Area
French Somali Coast
*Germany — Western Zones
Germany — Russian Zone
Hungary
Israel
Japan
Lebanon
Paraguay
Peru
*Portuguese Monetary Area
Roumania
*Switzerland
Syria
Tangier
*Turkey
Uruguay
Vatican City
Yugoslavia

Countries marked with * are members of the European Payments Union. Iceland is a member in her own right though also included in the Scheduled Territories.

Note: This diagram was originally designed in the Overseas Branch of the Midland Bank in September 1947 and has been revised from time to time.

autonomy in monetary affairs, such as Australia, New Zealand, South Africa, India and Pakistan, as well as Iceland and Ireland (but Canada belongs to the dollar area).

As a general rule, payments may be freely made within the Scheduled Territories and require no official permission either for current or for capital transactions. Imports and exports are, however, subject to the control of the trade authorities in the respective countries. In addition, restrictions have been placed on payments to Hong Kong, and a few members of the area (e.g. New Zealand and Australia) have established the power to regulate an outflow of capital. The method of handling the dollar and other "hard" currencies is generally arranged between the member countries by informal agreements, which leave ample margin for individual interpretation.

Outside the nucleus of the Scheduled Territories, other countries fall into three groups:*

1. American Account Countries. These accounts are held by residents in the dollar area. Sterling on such accounts is convertible into U.S. dollars and is also freely transferable to any other sterling account in the Scheduled Territories or in countries with Transferable Accounts.

2. Transferable Account Countries. Sterling held in these accounts can be used, by way of transfer, for making payments in respect of direct current transactions with other countries of the Transferable Account group, as well as in respect of current and capital transactions with Scheduled Territories.

3. Bilateral Countries. Sterling accounts of residents in this group of countries can be used only for payments within the Scheduled Territories.

These rules refer to automatic transfers, which do not require permission from the Exchange Control. In addition, there are many cases in which the Control will permit transfers not falling under the ordinary rules; these "administrative" permits are almost as important as automatic transfers.

Automatic and administrative transfers.

Items	1948	1949
	In millions of £ sterling	
Transfers under		
(i) automatic facilities	88	144
(ii) administrative permits	152	124
Total	240	268

For the use which may be made of existing balances in sterling for settlements in relation to the European Payments Union, see Chapter VIII. At the time of the establishment of the European Payments Union the United Kingdom invited all member countries not already belonging to the Transferable Sterling Account group to join that group. The invitation has been accepted and the necessary arrangements concluded by Austria, Denmark and Greece, while Germany in April 1951 intimated its willingness to accept — these four countries being all debtors of the Union, which, in so far as they may earn increased amounts in sterling, will find it easier to overcome the difficulties created by their indebtedness to the Union.

The table on the next page summarises the different degrees of "automatic" (as distinct from "administrative") transferability of the sterling held in the various groups of countries.

* A few residual countries, not included in the above groups (see list in the diagram on page 140), constitute the so-called "Other countries" group. Inter-transfers among them are automatically permitted, as well as transfers with Scheduled Territories.

Pounds sterling	
held in	may automatically be transferred to
Bilateral Account Countries	Scheduled Territories
Transferable Account Countries	Scheduled Territories Transferable Account Countries
American Account Countries	Scheduled Territories Transferable Account Countries American Account Countries

A detailed list of the countries comprising each of these groups is given in the diagram on page 140.

The only change in the list of members of the sterling area (Scheduled Territories) during last year was the inclusion of Jordan — the new state formed by the union of Transjordan and Arab Palestine, which had ceased to belong to the sterling area when the British mandate was terminated. A new currency, the Jordan dinar (equivalent to the pound sterling), was introduced in July 1950 in place of the Palestine pound, which had been in use for twenty-three years.

Another change within the sterling area was the opening, in August 1950, of the Central Bank of Ceylon, which took over the functions previously performed in Ceylon by the Colonial Currency Board and the Imperial Bank of India. Ceylon has thus become one of the Scheduled Territories with full autonomy in monetary matters. Agreements were reached in February 1951 regarding releases of sterling balances and the transfer by the United Kingdom of the equivalent of £4 million from the central gold and dollar reserves. As from 8th December 1950, the Bank of England had ceased to be responsible for providing dollar cover for authorised dealers in Ceylon, this responsibility being assumed by the Central Bank, which mentions in its annual report for 1950 that "after experience has been gained under the new arrangements, the two governments will, if necessary, consult further regarding the disposition of Ceylon's surplus of dollars on current account". It should be added that Ceylon retains all the advantages derived from membership in the sterling area.

At the end of February 1951 a trade agreement was reached between India and Pakistan. This ended the "two rupees war", which had begun in September 1949 when India devalued her currency by 30½ per cent. but Pakistan did not do so — the result being a complete breakdown of all trade between the two countries except for some border smuggling. In the latter half of 1950 the trend on the world markets became so favourable for Pakistan — an exporter of jute, cotton, wheat and hides — that even the idea of a compromise rate was dropped. India had, in the end, to recognise that it would be unnecessarily costly to direct trade to other sources of supply. Thus after seventeen months the trade deadlock was broken between the two countries.

On 19th March the International Monetary Fund announced the establishment of an initial par value for the Pakistan rupee of Rupees 3.30852 = $1.

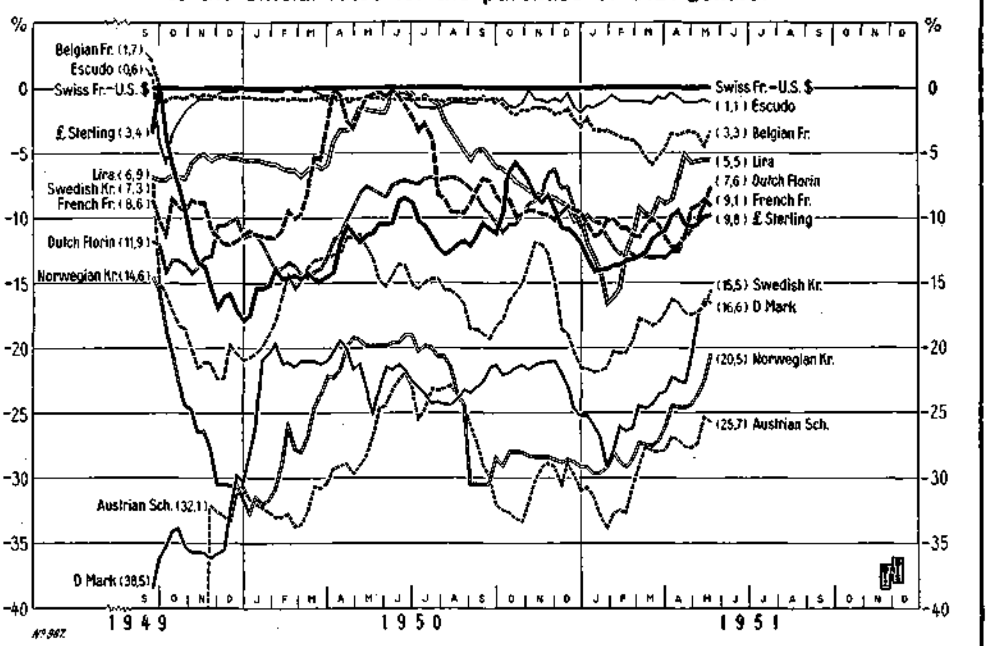
The rehabilitation of the sterling area's exchange situation is also reflected in an improvement in the quotations of sterling on free currency markets in New York and in Switzerland and other centres. Reference has already been made to the rates of security sterling, shown in the graph on page 143. The strong upward movement in the New York market price has coincided with the easing of the rules for switching securities, the new rule being that non-residents are allowed to switch into any security not redeemable earlier than ten years from the purchase date.

Another sterling rate commonly quoted is that for "transferable accounts". For the period from January 1950 to the time of writing (May 1951) this rate kept steadily within 10 per cent. of the official rate, there being now little or no inducement to use such sterling for purposes incompatible with the rules of the British Exchange Control. In this case the dominating factor is clearly the increased supply of goods purchasable with sterling.

As regards the free market for bank-notes, the ups and downs in the international political situation play an additional rôle.

After the bout of pessimism which characterised the last quarter of 1949 (when it was found that the devaluations had not served to bring free-market quotations of the currencies in question back into close proximity to the new parities) the improvement in the first half of 1950 is noteworthy indeed. The Belgian and French francs, together with the Italian lira and the escudo, came very near to the official parity with the U.S. dollar and the

Free-market rates for bank-notes in Switzerland since September 1949, in relation to the official rates for the purchase of U.S. 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.

Swiss franc,* while the quotations of most other notes kept up well — appreciable improvements being recorded by the Austrian and German currencies as compared with the quotations in the last quarter of 1949. While the outbreak of the Korean conflict was marked by a general decline in the quotations, there was no very conspicuous drop during the period up to October-November except for the Austrian schilling. But the aggravation of the conflict in Korea in December 1950 and January 1951 led to a new fall almost all along the line. Equally political in its origin was the recovery in the quotations from February 1951 onwards (although the intensity of any given movement would, of course, at the same time reflect the degree of appropriateness of the internal financial measures taken in the country in question). The hopeful attitude of June 1950 has not reappeared — but the market valuation of the notes is generally no worse and, in most cases, distinctly more favourable than at the beginning of that year. One has a feeling that the quotations are ready to harden as soon as the political outlook becomes rather less disturbing, this underlying tendency being one among several indications of a real consolidation in the foreign exchange position during the year.

It is, however, only too evident that the prevailing uncertainty about political and economic prospects has a considerable influence on actual foreign exchange policy, tending to prevent relaxations which, from a purely technical point of view, might be considered feasible. There is, in particular, the difficulty of forecasting what will be the exact consequences, for the balances of payments, of the growing rearmament burden, intensified by the high raw-material prices and the acute shortages of some important materials.

When due weight has been given to all the precarious elements in the situation, the fact remains that in the majority of countries a much better balance has been established between the supply of goods and services, on the one hand, and the volume of money, on the other — which is, after all, a crucial point. International trade can now offer alternative sources of supply which did not exist a few years ago; dollars can be earned in trade not only with the United States but with a number of other countries as well, there being, in fact, a keen demand for a great variety of goods and services paid for in dollars. Most important of all, there is a greater readiness to apply corrective measures even when they hurt; in other words, the "right-to-be-helped" complex is losing the hold which it has had over men's minds in more than one country during these post-war years.

The situation which has arisen since the outbreak of the conflict in Korea has, of course, added to the difficulties of the individual countries; but it has also opened up new possibilities, and it would be a pity if

* Belgium, France and Italy permit, without limit, the repatriation of their own bank-notes from abroad — which gives support to the quotations of these notes on foreign markets. The first country to bar the reintroduction of its own bank-notes, once exported, was the U.S.S.R., in 1928. After that the German Government in 1936, as part of its policy of autarky, imposed a prohibition on the repatriation of German bank-notes. In the second world war, it became a part of the exchange control of most countries to limit the repatriation of their own bank-notes, and only a few countries have so far rescinded these regulations.

they were not utilised to the utmost. The division of the western world into the two monetary camps of dollar and non-dollar countries constitutes a very dangerous separation and the present may be an opportune moment for proceeding step by step with the task of unification. This task is all the more urgent as the continued division gives rise to an unhealthy distortion of commercial operations in that the currencies of those members of the European Payments Union which apply the fewest restrictions in relation to the dollar area are the currencies most keenly sought after for purchases of so-called dollar goods (through a number of more or less complex devices). The goods in question are then resold, at considerable profit, in some other country belonging to the Union against payment in the local currency. In that way arbitrage operations which could not be carried out directly over the exchange rates (there being as yet no real exchange markets) are successfully engineered through the channels of trade — a method of dealing which cannot but be to the disadvantage of a number of countries.

Under a policy of gradual relaxation it would be possible, for instance, to rescind some of the restrictions on dollar trade which were imposed in 1947, when monetary reserves were shrinking; in fact, some of these restrictions have already been eliminated. Progress has also been made with regard to invisible items, e.g. increases in the allocations of foreign currency for travel abroad. Another line of action has been to allow bank-notes to be repatriated in larger amounts and, in some cases, to restore complete freedom in this connection. Such a policy tends to bring support to the quotations of notes on free markets, and experience proves clearly that a reduction of the discount at which a currency is quoted on such markets not only increases confidence in the currency in question but also helps to ensure a readier flow of foreign exchange into officially controlled channels. Moreover, owners of capital funds have, in some instances, been granted greater latitude in disposing of their holdings, and this has involved a certain progress towards the freeing of international capital movements. As regards such movements it is beginning to be realised that even the most perfect exchange control cannot prevent considerable transfers; quite apart from illegal deals, important capital movements can take place within the framework of the Control's rules, particularly since traders must be allowed a fairly wide margin of time for making or collecting foreign payments. This was, for instance, the case in 1949, when such movements were instrumental in bringing about a wave of devaluations — and if the control is not effective in preventing such violent changes it might well be asked whether it is not time for some revision of the attitude adopted towards the whole complex of questions concerning movements of capital. As a matter of practical experience, it has been found that, when it is a question of re-establishing exchange markets with only one rate quoted for a given currency, it becomes necessary to carry out all selling and buying orders brought to the market. This is, in point of fact, the situation within the sterling area, where as a rule money can be transferred without let or hindrance from one market to another, on capital as on current account — and the introduction of a flexible rate of exchange in Canada would seem to be a step in the same direction. The reappearance of the mechanism of free exchange markets in which flexible rates are quoted daily and, on occasion, if found desirable, are supported by the central bank of the market in question need not mean, however, that every kind of capital export is legally permitted. Certain safeguards can still be retained in this respect without impeding the gradual return to more freely functioning exchange markets for spot and forward transactions.

There is undoubtedly a growing inclination in most countries to get rid of the shackles of exchange control; but whether it will be possible, in practice, to proceed along such lines will very likely depend upon the development of monetary reserves in the hands of the individual central banks. At the moment there is a tendency towards a more even distribution of the world's gold and dollar reserves, while sterling reserves have gained in usefulness; if this process were to continue, it should be possible to look forward to a period of greater freedom in foreign trade and payments, notwithstanding the difficulties arising out of a sudden and considerable re-armament effort.

Official currency values – April 1951.[1]

Countries	Currency	Grams of fine gold	1 U.S. dollar equals	1 pound sterling (2) equals	Remarks
Europe					
Albania	Lek	—	50.–	140.–	Rates fixed on 11th July 1947.
Austria	Sch.	—	21.36 (3)	59.81	Rates fixed on 5th October 1950.
Belgium	Franc	.0177734	50.– (3)	140.–	IMF parity since 22nd Sept. 1949.
Bulgaria	Lev	—	287.36	805.–	Official middle rates, plus a premium of 250 per cent.
Czechoslovakia	Koruna	.0177734	50.–	140.–	IMF parity since 18th Dec. 1946.
Denmark	Krone	.128660	6.90714 (3)	19.35	IMF parity since 18th Sept. 1949.
Finland	Markka	—	230.–	643.–	Rate agreed by IMF since 19th Sept. 1949. No par value established.
France	Franc	—	350.– (3)	980.–	No IMF parity fixed.
Germany (western)	D.Mark	—	4.2000042(3)	11.76	
Greece	Drachma	—	15,000 (3)	42,000	Both dollar and sterling rates incl. Exchange Certificates.
Hungary	Forint	.0757002	11.7393	32.87	Official middle rates since 26th Sept. 1949.
Iceland	Krona	.0545676	16.2857(3)	45.60	IMF parity since 20th March 1950.
Ireland	Pound	2.48828	.357143	1.–	Rate fixed on 18th Sept. 1949.
Italy	Lira	—	624.85 (3)	1,749.64	Export rates for April 1951.
Luxemburg	Franc	.0177734	50.–	140.–	IMF parity since 22nd Sept. 1949.
Malta	Pound	2.48828	.357143	1.–	IMF parity since 18th Sept. 1949.
Netherlands	Guilder	.233861	3.80 (3)	10.64	IMF parity since 21st Sept. 1949.
Norway	Krone	.124414	7.14286(3)	20.–	IMF parity since 18th Sept. 1949.
Poland	Zloty	.222168	4.–	11.2	Rates fixed on 28th Oct. 1950.
Portugal	Escudo	—	28.75 (3)	80.5	Rates fixed on 21st Sept. 1949.
Roumania	Leu	—	151.5	424.6	Rates fixed on 15th Aug. 1947.
Spain	Peseta	—	10.95	30.66	Official basic buying rates.
Sweden	Krona	—	5.17321(3)	14.485	Rates fixed on 19th September 1949.
Switzerland	Franc	.203226	4.37282(3)	12.2439	Official parities.
Turkey	Lira	.317382	2.80 (3)	7.84	IMF parity since 19th June 1947.
United Kingdom	Pound	2.48828	.357143(3)	1.–	IMF parity since 18th Sept. 1949.
Yugoslavia	Dinar	.0177734	50.–	140.–	IMF parity since 24th May 1949.
U.S.S.R.	Rouble	.222168	4.–	11.2	Rates fixed on 1st March 1950.
North America					
Canada	Dollar	(4)	(4)	(4)	No par value since 30th Sept. 1950.
United States	Dollar	.888671	1.–	2.80	IMF parity since 18th Dec. 1946.
Central America					
Costa Rica	Colón	.158267	5.615	15.722	IMF parity since 18th Dec. 1946.
Cuba	Peso	.888671	1.–	2.80	IMF parity since 18th Dec. 1946.
Dominican Republic	Peso	.888671	1.–	2.80	IMF parity since 23rd Apr. 1948.
El Salvador	Colón	.355468	2.50	7.–	IMF parity since 18th Dec. 1946.
Guatemala	Quetzal	.888671	1.–	2.80	IMF parity since 18th Dec. 1946.
Haiti	Gourde	—	5.–	14.–	Rate fixed on 2nd May 1919.

(1) The International Monetary Fund gives only parities in grammes of fine gold and in U.S. dollars.
(2) The rates in £ sterling were calculated via the official parity of $2.80 for £1.
(3) Rate used in EPU operations. For countries which have an IMF parity the rates used in EPU operations conform with that parity.
(4) Market rates at the end of April 1951 were U.S.$1 = Can.$ 1.0681 and £1 = 2.99 Can.$.

Official currency values — April 1951 (continued).

Countries	Currency	Grams of fine gold	1 U.S. dollar equals	1 pound sterling (1) equals	Remarks
Central America (continued)					
Honduras	Lempira	.444335	2.–	5.60	IMF parity since 18th Dec. 1946.
Mexico	Peso	.102737	8.65	24.22	IMF parity since 17th June 1949.
Nicaragua	Córdoba	.177734	5.–	14.–	IMF parity since 18th Dec. 1946.
Panama	Balboa	.888671	1.–	2.8	IMF parity since 18th Dec. 1946.
South America					
Argentina	Peso	—	5.–7.50	14.– 21.–	Official Export/Import rates since 29th August 1950.
Bolivia	Boliviano	.0148112	60.–	168.–	IMF parity since 8th April 1950.
Brazil	Cruzeiro	.0480363	18.5	51.80	IMF parity since 14th July 1948.
Chile	Peso	.0286668	31.–	86.80	IMF parity since 18th Dec. 1946.
Colombia	Peso	.455733	1.94998	5.459944	IMF parity since 17th Dec. 1948.
Ecuador	Sucre	.0592447	15.–	42.–	IMF parity since 1st Dec. 1950.
Paraguay	Guarani	.148112	6.–	16.80	IMF parity since 5th March 1951.
Peru	Sol	—	.	.	No par value since November 1949.
Uruguay	Peso	—	1.519 1.90	4.25 5.32	Official basic buying and selling rates since 6th Oct. 1949.
Venezuela	Bolivar	.265275	3.35	9.38	IMF parity since 18th April 1947.
Africa					
Belgian Congo	Franc	.0177734	50.–	140.–	IMF parity since 22nd Sept. 1949.
Egypt	Pound	2.55187	.348242	.975078	IMF parity since 18th Sept. 1949.
Ethiopia	Dollar	.357690	2.48447	6.956516	IMF parity since 18th Dec. 1946.
Liberia	Dollar	.888671	1.–	2.80	Parity with the U.S. dollar since 1st Jan. 1944.
Union of South Africa	Pound	2.48828	.357143	1.–	IMF parity since 18th Sept. 1949.
Asia					
Ceylon	Rupee	—	4.7619	13⅓	Official rates since 20th Sept. 1949.
China	P.B. dollar	—	22,890	62,350	Rates at beginning of 1951.
India (2)	Rupee	.186621	4.7619	13⅓	IMF parity since 22nd Sept. 1949.
Indonesia	Rupiah	.233861	3.80	10.64	Official rates since 21st Sept. 1949.
Iran	Rial	.0275557	32.25	90.30	IMF parity since 18th Dec. 1946.
Iraq	Dinar	2.48828	.357143	1.–	IMF parity since 20th Sept. 1949.
Israel	Pound	—	.357143	1.–	Rate established on 19th Sept. 1949.
Japan	Yen	—	360	1,008	Rate fixed on 25th April 1949.
Korea	Won	The official rate of Won 450 = 1 $U.S. was established on 13th June 1949.			
Lebanon	Pound	.405512	2.19148	6.136144	IMF parity since 29th July 1947.
Malaya and Singapore	Malayan dollar	.290299	3.06122	8.571429	IMF parity since 18th Sept. 1949.
Pakistan	Rupee	.268601	3.30852	9.263856	IMF parity since 19th March 1951.
Philippine Republic	Peso	.444335	2.–	5.60	IMF parity since 18th Dec. 1946.
Syria	Pound	.405512	2.19148	6.136144	IMF parity since 29th July 1947.
Thailand	Baht	—	12.50	35.–	Official rate since 26th Sept. 1949.
Australasia					
Australia	Pound	1.99062	.446429	1.25	IMF parity since 18th Sept. 1949.
New Zealand	Pound	2.48828	.357143	1.–	Official parity since 18th Sept. 1949.

(1) The rates in £ sterling were calculated via the official parity of $2.80 for £1.
(2) Includes French and Portuguese possessions in India.

VI. Gold and Movements of Monetary Reserves.

During the first four post-war years most of the countries outside the United States had to draw their reserves of gold and dollars down to the danger point in order to meet deficits in their balances of payments not covered by other means. In 1950 this trend was impressively reversed. Gold and dollar holdings in a number of countries — but not yet in all — were rebuilt to a level at which they could once again begin to play their traditional rôle as a cushion whenever the swing of the balance of payments turned adverse.

Meanwhile the usefulness of reserves of other currencies had been enhanced by a fairly general relaxation of trade restrictions, by the fact that more supplies were available outside the United States and by the extension of the transferability of currencies through administrative and other measures, including the operation of the European Payments Union. The increased usefulness of sterling has been an outstanding factor in this blurring of the line of distinction between "hard" and "soft" currencies.

Gold has, however, retained its place as the primary asset for monetary reserves, being as much sought after as at any time in the past. Gold developments in the first half of 1950 represented, on the whole, a continuation of tendencies which had made themselves felt in the last months of the previous year and especially after the widespread devaluations that occurred in September 1949. The Korean conflict brought a disturbing element into the gold markets, and movements which, in several respects, were most spectacular ensued in the second half of 1950.

1. The total output of gold in countries outside the U.S.S.R. rose from the equivalent of about $840 million in 1949 to $870 million in 1950, or by more than 3 per cent. At this new level production was still one-third below the peak of $1,295 million reached in 1940 but, even so, it was larger in 1950 than in any year outside the nine-year period from 1935 to 1943.

   A peculiar feature of gold production in 1950 was that the increase occurred chiefly in the United States, which had maintained the gold value of its currency, and in Canada, where only a moderate devaluation had taken place, while there was no improvement in South Africa and some other countries which had devalued by 30½ per cent. and in which the gold price in the respective national currencies had consequently risen by about 44 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.

2. The year 1949 had been the first since 1945 in which the American intake of gold did not absorb the whole current output, and in 1950 the United States actually became a net seller of gold to the extent of $1,743 million. The whole of the gold obtained from the

United States went into the monetary reserves of other countries, whose reported reserves seem also to have been increased by some $420 million from current production, while about $1,650 million was added to reserves in the form of dollar holdings. In all, this makes an addition of $3,800 million to official gold reserves and short-term dollar balances held by countries other than the United States.

These gains were fairly widely distributed. The fact that the sterling area and Canada accounted for almost two-thirds of the total does not invalidate this observation, since the accumulations of the sterling-area reserves in London do not appertain exclusively to the United Kingdom — something like 40 to 50 per cent. being really earned by other members of the area. A few countries in Europe saw their net gold and dollar holdings decline in 1950, but to a large extent the drain could be accounted for by advance purchases of raw materials.

The losses of gold by the United States and the increases in other countries' dollar holdings were due not to any current deficit in the balance of payments (there being still a surplus of $2,200 million on goods and services account) but partly to the continuance of American aid to other countries at the rate of about $4,100 million and, for the rest, to various financial transactions, of which the most important was a net outflow of private capital, estimated at nearly $1,100 million (see also page 30).

3. Of the $870 million representing the total (known) output of gold in 1950 some $420 million (as mentioned above) was estimated to have gone into monetary reserves and about $160 million to have been absorbed by the arts, industry and professions in the western world, leaving some $290 million as the amount which probably went into private hoards in the East and the West. The distinction between industrial uses and private hoarding is admittedly not very sharp. The two items together represent the gold which has "disappeared" during the year.

There was a conspicuous cleavage between the two halves of the year. In the first half there was a growing confidence in most currencies: in free and grey markets, not only in Europe but even in Asia (where hoarding, especially in China, was on the decrease), the price of gold fell to levels not far above the official price, and only some 8 per cent. of the current output of gold would seem to have gone into hoards. In the second half of the year, on the other hand, growing fears of inflation or even invasion greatly fostered the propensity to hoard, and it would seem that nearly 60 per cent. of the current output went into private hoards. Industrial uses having also taken their quota, only one-quarter of the current output was left for monetary reserves in the last six months of 1950. But it is interesting to note that the prices paid for gold, although higher in the second half-year, remained much below the levels reached in 1948 and 1949.

Of the gold obtained from the U.S. monetary stock over three-fourths remained in that country as gold under earmark at the Federal Reserve Banks for foreign account. In conformity with the Gold Reserve Act of 1934, the U.S. Treasury, acting through the Federal Reserve Bank of New York, has been prepared to sell gold for "legitimate monetary purposes" — which, in practice, has meant that, apart from sales to the arts, industry and professions, gold has been sold to central banks, Treasuries and other monetary institutions. Through the fact that gold has been purchased whenever offered to the U.S. authorities and has been made available in amounts "necessary to settle international balances", the dollar has more than ever occupied a pivotal position in connection with gold settlements in these post-war years.

Production and price of gold.

The following table contains no estimate for the output of gold in the U.S.S.R. In previous Annual Reports (covering the years 1938–1949) a conjectural figure of 4 million ounces (equal to $140 million at $35 per ounce) was included as an allowance for Soviet production. It was well before the war, however, that the latest indication of the actual output was obtained, and it therefore seems preferable to hazard no precise figure. It may be added that current estimates vary from 2 million ounces (put forward by the Union Corporation in London) to 7 million ounces (given by the U.S. Bureau of Mines).

Nearly 90 per cent. of the increase in the output of gold during 1950 — amounting in all to about 800,000 ounces — occurred in Canada and the United States.

After a decline both in 1948 and in 1949, production in the United States rose by 19 per cent. in 1950, reflecting in part an increase in gold recovered as a by-product in the working of base-metal mines, which were operating at full capacity towards the end of the year, and in part an increase due to fresh investments in gold mines. The total of 2.4 million ounces was well under one-half of what the U.S. output of gold had been at its maximum in 1940.

An 8 per cent. increase in Canada during 1950 was the result of the continuance of a rising trend which had been evident since the end of the war and which brought output in that year to within 17 per cent. of the previous maximum, reached in 1941. Since the beginning of 1948, Canadian gold producers have benefited by differential subsidies granted by the Federal Government and averaging Can. $3.34 per ounce in 1948 and Can.$3.50 in 1949. After the devaluation had sent up the price of gold, the subsidies were reduced somewhat (with effect from 1st January 1950), and it was expected that the average for the year 1950 would work out at Can.$2.27. The time limit which the original "Gold Mining Assistance Act of 1948" had fixed for the granting of subsidies was extended from the end of 1950 to December

World Gold Production.

Gold-producing countries	1929	1940	1946	1947	1948	1949	1950
	Weight, in thousands of fine ounces						
Union of South Africa	10,412	14,038	11,918	11,198	11,575	11,708	11,659
Canada	1,928	5,311	2,833	3,070	3,530	4,124	4,446
United States (1)	2,208	5,920	1,625	2,321	2,099	1,996	2,375
Australia	426	1,644	824	937	889	893	854
British West Africa	208	939	590	563	675	677	663
Rhodesia	562	833	552	523	514	526	510
Mexico	652	883	421	465	368	406	400*
Colombia	137	632	437	383	335	359	379
Belgian Congo	173	559	331	301	300	334	343
Philippines	(2)	(2)	1	64	209	289	300*
Brazil	107	150	140	136	130	119	234
Nicaragua (3)	12	163	203	213	223	216	225
Chile	26	343	231	169	164	179	206
India	364	289	131	172	185	162	191
Japan	335	864	43	69	98	119	120*
Peru	121	281	158	116	111	112	110*
New Zealand	120	186	119	112	94	85	85*
Sweden	35	209	92	76	75*	75*	75*
Total reported	17,826	33,244	20,649	20,888	21,574	22,381	23,177
Estimate of other production (4)	674	3,756	1,251	1,412	1,426	1,619	1,623
Estimated world production (4)	18,500	37,000	21,900	22,300	23,000	24,000	24,800
	Value in millions of dollars (5)						
Value of estimated world production (5)	648	1,295	766	780	805	840	868

* Provisional. (1) Including Philippines production received by the United States in 1929 and 1940.
(2) Included in U.S. production. (3) Gold exports representing about 90 per cent. of gold production.
(4) Revised estimates including other countries but not the U.S.S.R.
(5) Revised estimates for production outside the U.S.S.R., at the rate of $35 per fine ounce.

1951, but the scale of payments was somewhat revised, as from October 1950, upon the introduction of a free rate for the Canadian dollar, which led to a certain decline in the price of gold. Under the new scheme in its initial form, a reduction of the proportion of output eligible for assistance and in the maximum rates of assistance from Can.$16.00 to Can.$11.50 per ounce was expected to lead to correspondingly smaller total benefits for the producers. But in March 1951 the Minister of Finance announced that, while the reduction in maximum rates would continue to be applied, the proportion of output eligible for aid was being increased, these two factors roughly offsetting each other in their effect on total payments, which were estimated at Can.$10–11 million. This course of action had been chosen as an alternative to allowing producers to make premium sales. The question had been discussed with the International Monetary Fund, which raised no objection to the proposed Canadian measures.

The devaluations in September 1949 had conferred the benefit of a 44 per cent. increase in the price of gold on producers in the sterling area. Far from leading to an advance in output, however, this actually resulted in a decline in all the main producing centres, viz. South Africa, Australia, Rhodesia and British West Africa.

The chief reason why there was no increase in output was the fact that in each of these countries the gold-mining industries took advantage of the higher price to work lower grades of ore. In South Africa, as in the other countries, large amounts of such ores had previously had to be by-passed in developed mines because their gold content did not make it profitable to work them. Thus one of the most immediate effects of the increase in the price of gold was to make more ore usable, thereby lengthening the lives of the producing mines.

As regards the working of new mines — of which several in the Orange Free State are expected to come into production during the next few years — the cost of capital equipment has risen so considerably that, if these mines are to earn an adequate return on the invested capital, the average grade of ore worked by them may have to be higher than that being worked in mines already operating.

The extent to which it is possible to lower the marginal grade of ore that can be worked remuneratively depends, of course, upon the cost-price relation, which is influenced, on the one hand, by the price of gold in relation to costs and, on the other hand, by changes in the technique of extraction. In the latter respect a great advance has been made during recent years, the "real" cost of extracting gold having been considerably reduced.

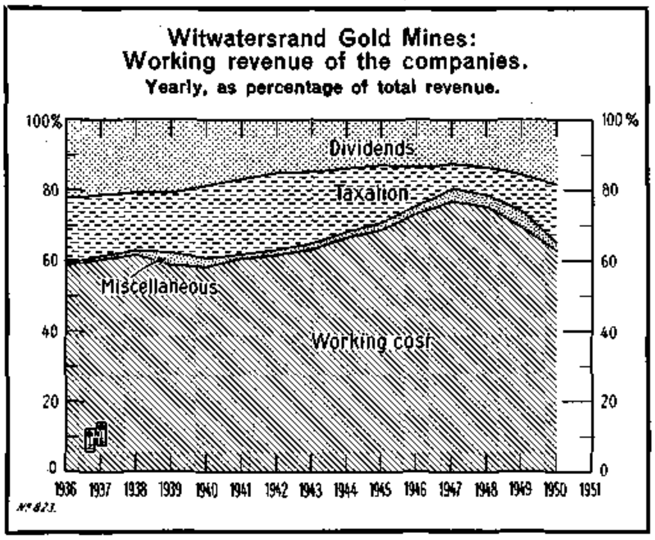
Witwatersrand Gold Mines: Operating statistics.[1]

Year	Yield per ton milled		Working cost	Working profits	Tons of ore milled	Total profits £ thousands
	in dwt [2]	in value	per ton milled			
1929	6.489	27s. 9d.	19s. 7d.	8s. 2d.	30,502,800	12,478
1930	6.515	27s. 10d.	19s. 5d.	8s. 5d.	31,119,800	13,051
1938	4.349	31s. 1d.	19s. 3d.	11s. 10d.	53,834,150	31,896
1940	4.196	35s. 5d.	20s. 8d.	14s. 9d.	64,515,350	47,525
1945	3.997	34s. 7d.	23s. 9d.	10s. 10d.	58,897,600	31,906
1949	3.942	38s. 11d.	27s. 0d.	11s. 11d.	56,981,550	33,950
1950	3.759	46s. 11d.	29s. 7d.	17s. 4d.	59,515,200	51,534

(1) Includes extensions from 1938.
(2) One dwt (= pennyweight) is equal to 1.555 grammes and one-twentieth of an ounce. At $35 per ounce one dwt of gold is worth $1.75.

It is owing to the rise in the price of gold from 172s. 3d. before the devaluation to 248s. after the devaluation that it has been possible to obtain a higher yield *in value* per ton milled, in spite of the milling of lower grades. The increase in the amount of ore milled has, however, required the employment of more labour. European labour has been in short supply but the average number of natives in service during 1950 was 299,020, i.e. 10,985 more than in 1949 and very nearly the highest figure recorded since 1941, in which year a total as large as 356,780 had been reached. It should be noted, however, that there was a sharp drop in the supply of manpower from this source during the latter part of the year, so that on 31st December 1950 the number in service was 24,915 less than on the same date in the previous year.

An important feature of the development during the year was a sustained rise in working costs. As against 26s. 7d. in September 1949, working costs per ton of ore milled rose to 30s. 7d. in December 1950. In this respect, the after-effects of the 1949 devaluation differ conspicuously from what happened in the period following the devaluations in 1931–33; for, as may be seen from the preceding table, working costs per ton milled were still lower in 1938 than they had been in 1930. One obvious difference between the two periods is that in the former the dollar was among the currencies devalued — but this was itself the result of a fundamental difference in the setting of the two devaluations. The devaluations of the 1930s may be regarded as an adaptation of the gold price to a level of world prices which had already passed its post-war maximum and was, so to say, ready to settle down at a more normal average. In 1949, on the contrary, the trend of world prices was still clearly upward, with no settled level yet in sight.



Witwatersrand Gold Mines:
Working revenue of the companies.
Yearly, as percentage of total revenue.

But, if working costs per ton of ore milled rose by some 10 per cent., the price of gold had risen by 44 per cent., and in 1950, as compared with the previous year, working profits rose by over 50 per cent. and dividends by 48 per cent.

Witwatersrand Gold Mines:
Working profits.

Year	Working profits *	Taxes	Dividends	
	in £ thousands		per ton	£ thousands
1938	31,696	13,658	6s. 5d.	17,207
1940	47,525	24,026	6s. 6d.	21,061
1945	31,906	16,526	4s. 5d.	13,056
1949	33,950	11,728	6s. 1d.	17,385
1950	51,534	22,510	8s. 8d.	25,770

* As in the previous table.

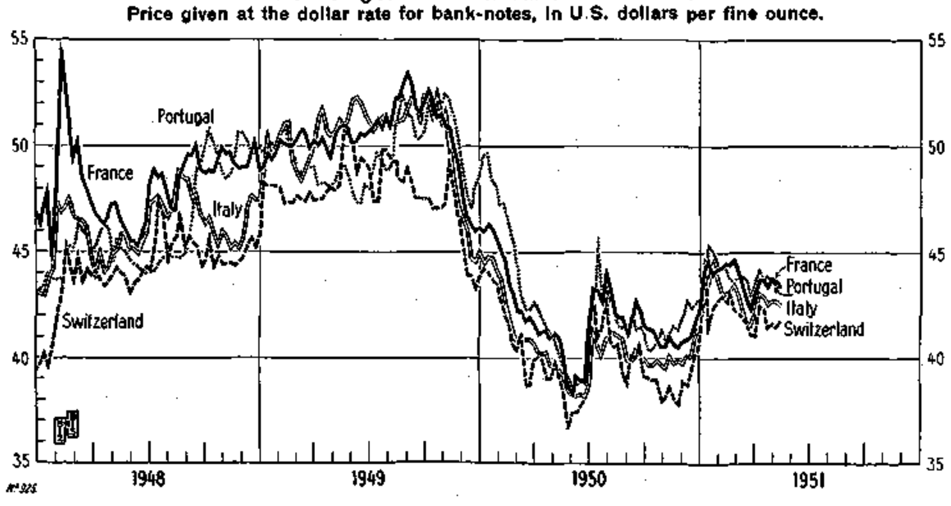
The increased attractiveness of the gold-mining industry brought new capital to South Africa. According to the balance-of-payments statistics, the net inflow of capital, in 1950, amounted to SA £77 million, of which SA £21.5 million came from outside the sterling area. The net inflow in 1949 had amounted to SA£53 million.

The output in South Africa, Canada and the United States comes to about three-quarters of the world's known gold production and nearly 85 per cent. is accounted for if the three following producers in order of output, Australia, British West Africa and Rhodesia, are included. These three producing countries have had very much the same experience with regard to costs and prices as South Africa. In Rhodesia, as in Australia, gold production had been subsidised up to September 1949 but the subsidies were discontinued after the devaluation. South African producers have not benefited by a subsidy, but they have gained a certain additional income from sales of gold at premium prices for industrial and artistic purposes, the receipts from such premiums amounting to SA£1.1 million in 1949, to roughly twice as much, or SA£2.1 million, in 1950, and to SA£1.9 million in the first three months of 1951.

The bulk of the gain in 1950 from sales at premium prices was obtained during the second half of the year. Indeed, in the spring of 1950, the price paid for gold on various free markets fell to well below $38 per ounce, and at that point it became uneconomic — considering the costly necessity of first fashioning the gold for commercial purposes and of employing middlemen — to sell the gold at other than the official price.

As may be seen from the graph, the outbreak of the conflict in Korea, arousing fears of wider conflicts and irrepressible inflationary tendencies, led to a renewed increase in the gold price, followed by fluctuations in response to the turn of political events — a decline in the price towards the beginning

Price of gold bars in various markets.
Price given at the dollar rate for bank-notes, in U.S. dollars per fine ounce.



Note: Weekly average prices on free markets, except in the case of Switzerland, where the price refers to gold in transit.

of December, then a rise in the price under the influence of the intervention of Chinese troops in Korea, then again a slight fall from January 1951 onwards.

It is interesting to note that the maximum prices reached in July–August 1950 and early in 1951 were substantially lower than those quoted at the beginning of 1950 and nowhere approached the peaks reached in 1949. In a measure, the moderation in the price rise during these months reflects a sounder intrinsic position of the various currencies involved, but it would seem to have been due also to the circumstance that greater supplies of newly-mined gold were unloaded on the free markets than in any other six-month period.

Estimates of "disappearing gold".*

Items	1946	1947	1948	1949	1950 First half	1950 Second half	1950 Total
	in millions of U. S. dollars						
Gold production (excluding the U.S.S.R.)	766	780	805	840	430	438	868
Increase in reported monetary reserves	300	450	400	470	320	100	420
"Disappearing gold"*	466	330	405	370	110	338	448

* Gold absorbed by industrial use and private hoards, as well as some gold going into unreported official reserves.

For 1950 as a whole the flow of gold into hoards (as distinct from gold absorbed by industrial use or going into unreported official reserves) was not appreciably larger than the average for the previous four years but it was almost all concentrated in the second half. Thus the amount of "disappearing gold", as shown by the table, rose from $110 million in the first half of the year to $338 million in the second half. Increased hoarding must account for most of this change. (The estimates given in the table are, of course, subject to a fairly wide margin of error, but the trend they indicate is too pronounced to be explained by faulty estimation.)

The South African Minister of Finance stated in February 1951 that sales of South African gold in semi-processed form were then running at the rate of 40 per cent. of current production. Now South Africa's gold production is equivalent to over $400 million a year, and the country's sales of semi-processed gold were thus taking place at the annual rate of $160 million, or roughly one-quarter of the world total of gold absorbed by industrial use, etc. and private hoards at the annual rate prevailing in the second half of 1950.

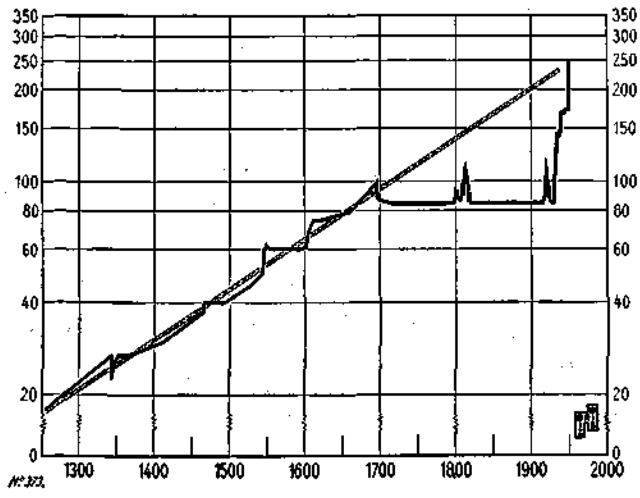
The Belgian Congo and Ruanda Urundi sell their entire output in the internal Belgian market at premium prices and for commercial purposes, and gold producers in French colonies and dependencies sell in the French internal market. The Belgian Government notified the International Monetary Fund that the buyers of the gold must be bona fide dentists, industrialists or goldsmiths residing in Belgium, the Belgian Congo or Ruanda Urundi.

In these internal markets gold is, of course, sold against the local currency, but dollars are regularly employed for international dealings in so-called "gold in transit", and in many cases these dollar payments are made in advance of delivery. This is one of the main reasons why the prices quoted for such gold do not generally differ very much in the various markets (see the graph on page 155).

When gold is sold against local currencies a calculation is sometimes made in order to show the corresponding dollar price. The question then arises what particular dollar rate — official or free or possibly black-market — should be chosen for the conversion. Often the local gold operators cannot use the official dollar rate and consequently base their pricing on the other rates, which generally move in conjunction with local gold prices. If, in such cases, the local gold prices were to be converted at the official rates, the dollar prices thus obtained would frequently be quite fantastic — even $90 per ounce was reported in 1949; but such prices reflect, of course, fears entertained with regard to the local currency and have no significance as a measure of the relation between gold and dollars.

It often happens that in a particular market multiple prices are quoted — especially higher prices for gold coins, although these coins are no longer legal tender anywhere. Typical instances are napoleons in France and sovereigns in Arabia, the Swiss 20-franc piece, the so-called "Vreneli", being also favoured in several markets. There are peculiar psychological attachments to certain well-known coins, and sometimes curious preferences are shown as, for instance, in the gold market in Cairo, where sovereigns with the head of one of the kings fetch a higher price than those withthe head of Queen Victoria because a Mohammedan may not carry the picture of a woman on his person.

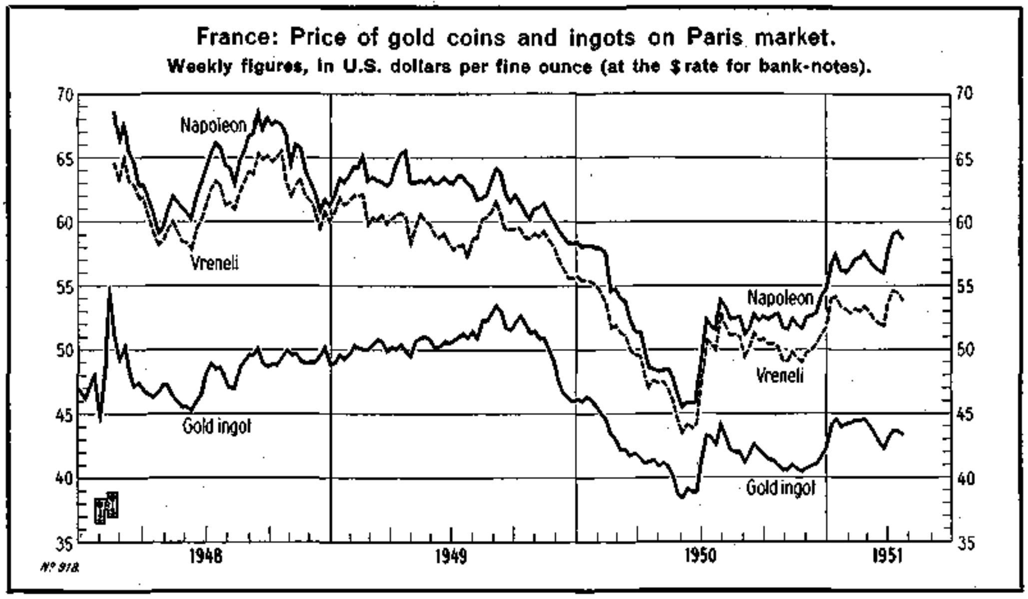
Great Britain: Price of gold over seven centuries.
In shillings per fine ounce.



Logarithmic scale.

Note. After a remarkable stability in the British gold price for more than two centuries (from about the year 1700 to 1931) the increases over the last twenty years have had the effect of bringing the price back into line with what may be called the secular development.

In May 1950 the International Monetary Fund rejected two proposals by the South African Government, viz. that the official price of gold should be raised and that gold producers should be allowed to sell half their output in any market at premium prices, and in March 1951 the Fund took the following decision:



Note: The Vreneli is a Swiss 20-franc gold coin.

"Since the amount of sales and purchases in the world markets of gold for jewelry, artistic and industrial purposes has recently been increasing at a rate indicating that at least a part of it finds its way to private hoards, contrary to the gold policy of the Fund established in June 1947, the Board considers that the existing arrangements and practices of several countries, including South Africa, are no longer a satisfactory basis to implement the Fund's gold policy and directs the staff of the Fund urgently to elaborate, after consultation with the countries concerned, more effective methods than the existing ones."

There are clearly two problems which, despite a widespread tendency to confuse them, are in many respects separate. One relates to a possible change in the official gold price, which in the United States is $35 per ounce, and the other relates to sales of gold on free markets. In a field so conspicuous for individual views affected not only by considerations of gain but also, in many cases, by personal predilections of a theoretical or other character, it is particularly hard to indicate the trend of any kind of general (as distinct from official) opinion. But it would seem as if, with regard to the question of a possible more or less uniform increase in the price of gold in all countries, there were an overwhelming mass of opinion against the taking of such a step under present circumstances, when it would undoubtedly intensify the impact of strong inflationary forces already existing.

As regards the sale of gold in free markets it seems obvious that a decline in the price paid for non-monetary gold means an improvement in the currency in question in relation to gold, as valued independently of official pricing; and it is also generally admitted that such a decline contributes to a strengthening of the currencies involved. But the most important matter in this connection is to curb inflationary tendencies. Quite clearly, the measures taken to that end in the various countries, including the United States, are of decisive importance for strengthening the intrinsic value of the different currencies and consequently bringing down the free-market prices of gold to the proximity of the official quotations — an objective which was practically attained in the spring of 1950.

But experience also proves that if such measures are neglected, so that inflationary tendencies reappear, administrative regulations as to the sale of gold, etc. are of little avail.

It is, of course, an understood thing that in wartime, or in an extreme emergency, controls will be tightened in order to channel gold into official reserves; but there is still a difference of opinion as to the best way to proceed under more ordinary conditions, including those prevailing in a period of rearmament, which may be of fairly long duration.

The view is widely held that in such a situation the question of making adequate provision for meeting private demand is of crucial importance, this being an indispensable condition without which the official price and the free-market price for gold will not converge sufficiently to make the value of the various currencies seem real and indisputable. But some are of the opinion that private demand is so strong that very substantial quantities of gold would be necessary to press down the free-market price. Others think, on the contrary, that fairly high prices — for instance, prices exceeding $40 per ounce — are extremely vulnerable, provided that a regular supply is available to meet current demand.

The experience of recent years provides clear evidence that the intensity of demand is greatly influenced by political events — vide the contrast between the first and the second half of 1950. But it is to be feared that, in a period so unsettled as the present one, strong divergences of opinion may continue unresolved. It is in any case safe to say that the measures which are taken in each individual country to prevent inflation and to maintain or re-establish a healthy monetary situation have a more decisive influence on the trend of the gold market than any administrative regulations.

Movements of monetary reserves.

After having been the world's largest individual buyer of gold between 1945 and 1949, the United States became the largest seller of gold in 1950.

Notwithstanding the transfer of $687.5 million to the International Monetary Fund, the increase in the gold stock of the United States between the end of 1945 and the end of August 1949 amounted to $4,688 million; but in the following period up to the end of March 1951 a decrease of $2,850 million cut the previous gain by about three-fifths. Even so, the United States still held $1,840 million more at the end of March 1951 than at the end of 1945 and its holdings still amounted to nearly 60 per cent. of the world's monetary gold stock outside the U.S.S.R. — about

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 (3)
	In millions of dollars (4)	
1946	+ 620	— 380
1947	+ 2,160 (1)	— 3,080
1948	+ 1,530	— 1,230
1949	+ 165 (2)	+ 250
1950	— 1,745	+ 2,020 (5)

(1) After allowing for the transfer of $687.5 million in gold as subscription to the International Monetary Fund, which received gold from other countries also and by the end of 1950 had $1,495 million actually in gold. Because of the gold received by the Fund and also for other reasons (e.g. incomplete reporting of gold holdings), the changes in the world's monetary gold stock cannot be ascertained simply by adding the figures for the United States to those of the other countries as shown in the table. For estimates of increases in the world's monetary gold stock see the table on page 161.

(2) The U.S. net gain of $165 million during 1949 was the result of an increase amounting to $373 million in the period January-August followed by a decrease of $208 million in the last four months of the year.

(3) Excluding gold held by international institutions.

(4) Rounded figures.

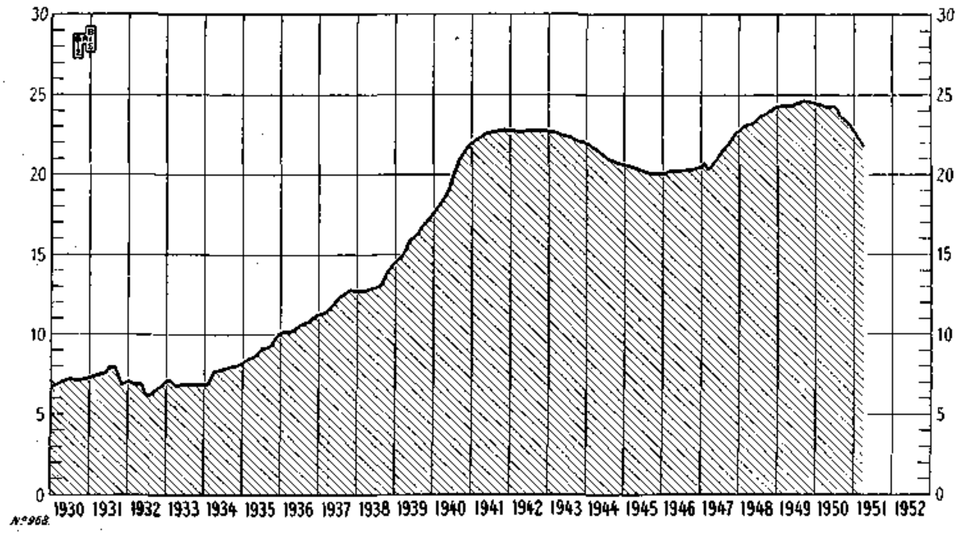
(5) Decline in U.S. gold stock ($1,743 million) plus gold added to reserves out of new production ($420 million), less the increase in the holdings of international institutions.

the same percentage as at the end of the war (as compared with a maximum of 70 per cent. at the end of 1949). From a general point of view, it is, of course, an advantage that the world's monetary gold stock is becoming rather more evenly distributed, since one of the main purposes of gold reserves is to meet deficits in the payments relations between different countries, and it is essential for the smooth working of such a system that most countries should have some reserves of their own to fall back upon in case of need.

It will be seen from the table on page 161 that the loss of gold in 1950 was not confined to the United States. Next to that country, Belgium and Switzerland were the largest losers of gold, and both for the same reason: heavy purchases of raw materials in the second half of 1950.

It should be noted that the figures in this table do not tell the whole story. Certain countries have adopted the practice of letting their

U.S. Monetary Gold Stock.
End of month, in milliards of dollars (at $35 per fine ounce).



Gold reserves of central banks and governments

(including international institutions).

Reporting countries	End of 1938	1945	1947	1949	1950	Gain (+) or loss (—) during 1950
	In millions of U.S. dollars					
United Kingdom (1)	3,449 (2)	1,995	2,020	1,350	2,900	+ 1,550
Netherlands	998	270	231	195	311	+ 116
Canada (3)	192	361	294	496	590	+ 94
South Africa	220	914	762	128	197	+ 69
Uruguay	73	195	175	178	236	+ 58
Sweden	321	482	105	70	90	+ 20
Peru	20	28	20	28	31	+ 3
New Zealand	23	23	23	27	29	+ 2
Austria	88	0	5	5	5	0
Brazil	32	354	354	317	317	0
Chile	30	82	45	40	40	0
Egypt	55	52	53	53	53	0
France	2,761 (4)	1,550 (4)	551 (4)	523 (5)	523 (5)	0
India	274	274	274	247	247	0
Iran (6)	26	131	142	140	140	0
Italy	193	24	58	252	252	0
Venezuela	54	202	215	373	373	0
Denmark	53	38	32	32	31	— 1
Norway	84	80	72	51	50	— 1
Turkey	29	241	170	154	150	— 4
Spain	525 (7)	110	111	85	61	— 24
Cuba	•	191	279	299	271	— 28
Switzerland (8)	701	1,342	1,356	1,504	1,470	— 34
Belgium (9)	772	733	597	698	587	— 111
United States (10)	14,592	20,083	22,868	24,563	22,820	— 1,743
International Monetary Fund	—	—	1,356	1,451	1,495	+ 44
Bank for International Settlements	14	39	30	68	167	+ 99
Total stock of monetary gold (11)	•	37,000	37,900	38,900	39,400	+ 500

(1) Partly estimated.
(2) Including gold held by Exchange Equalisation Account: $759 million end of September 1938.
(3) As reported by the Foreign Exchange Control Board and Minister of Finance.
(4) Including gold held by the Exchange Stabilisation Fund and the Caisse Centrale de la France d'Outremer: $331 million end of 1938, $460 million end of 1945 and $3 million end of 1947.
(5) Holdings of the Bank of France.
(6) As from 1947 gold holdings of issue and banking departments of Bank Melli Iran; prior to that, holdings of issue department only.
(7) End of April 1938.
(8) Including gold owned by the Swiss Government.
(9) Including gold held by the Treasury: $44 million end of 1938 and $17 million end of 1945.
(10) Including gold held by the Exchange Stabilization Fund.
(11) Including estimate for other countries and of unreported reserves.

acquisitions or losses of gold be carried — wholly or in part — on accounts which are not made public. Moreover, as will be shown in greater detail on page 163, it is more than ever necessary to include changes in holdings of currencies (especially dollars) in order to get a fairly complete picture of the movements of monetary reserves during the year. As far as gold alone is concerned, countries other than the United States and the U.S.S.R. added some \$2,020 million to their gold holdings during 1950 and as much as \$2,350 million between the end of September 1949 and the end of December 1950. In that way they made good one-half of the loss of \$4,700 million* suffered between the end of 1945 and the devaluations in 1949, and in the first quarter of 1951 a further 20 per cent. was regained.

More than 70 per cent., however, will be found to have been regained up to the end of 1950 if account is taken of the various countries' holdings of short-term dollar balances as well. The combined gold and short-term dollar holdings of countries other than the United States (and with the further exclusion of the U.S.S.R., for which no information is available) amounted to \$20.8 milliard at the end of 1945. By September 1949, when they attained their lowest point, they had fallen to \$14.7 milliard, or by almost exactly \$6 milliard. At the end of 1950 they stood at \$19.1 milliard, having then regained \$4.4 milliard, and they are known to have risen further in the first quarter of 1951 (complete figures being not yet available for that date).

There were only a few countries which in 1950 did not increase their combined gold and dollar reserves, the chief reason being (as in Belgium) that increased stocks of raw materials took the place of part of the gold and dollar holdings. The net increase shown in the table was furnished to the extent of \$3,628 million (i.e. almost exclusively) by the United States, the remainder being obtained from the annual gold production. This state of affairs was not the result of a current surplus in the balance of payments with the United States, for the goods and services account of that country still showed a surplus of \$2.2 milliard, which, though much smaller than the surplus of \$6.2 milliard for 1949, nevertheless constituted a considerable active balance that had to be paid for by the outside world. The transactions by which these payments were financed have been shown on page 30 of the Introduction.

Countries other than the United States accumulated dollars more rapidly than gold in the first three quarters of the year, while in the fourth quarter gold purchases exceeded gold and dollar receipts together, so that in this period dollar holdings dropped slightly. At the end of the year, however, the proportion of gold in the total amount of gold and dollars held by other countries was almost the same as at the end of 1949 (60 per cent. compared with 61 per cent.) and was less than the proportion at the end of 1945 (66 per cent.).

Most of the gold purchased from the United States was retained in that country as "earmarked gold", the amount of which rose by \$1,350 million in 1950 and by \$544 million in the first quarter of 1951.

* Some \$800 million of the pre-devaluation drain represented subscriptions to the International Monetary Fund and, since membership in the Fund gives a right to purchases of other currencies under certain specified conditions, the amounts subscribed cannot be regarded as an unqualified loss to national monetary reserves. In September 1949 the International Monetary Fund held about \$1,450 million in gold — an amount approximately corresponding to the reported intake of gold by the monetary gold stocks from current production in the period from the end of 1945 to the time of the devaluations.

Estimated changes during 1950 in gold reserves and short-term dollar balances of countries other than the United States.[1]

Areas and countries	Holdings at the end of 1949			Holdings at the end of 1950			Change in totals of gold and dollar balances during 1950
	Gold reserves	Dollar balances	Total	Gold reserves	Dollar balances	Total	
	in millions of U.S. dollars						
O.E.E.C. countries other than the United Kingdom							
Austria	5	42	47	5	40	45	— 2
Belgium-Luxemburg (2)	754	158	912	649	187	836	— 76
Denmark	32	38	70	31	45	76	+ 6
France (2)	543 (3)	196	739	543 (3)	285	828	+ 89
Germany (Federal Republic of)	—	149	149	—	222	222	+ 73
Italy	252	298	550	252	308	560	+ 10
Netherlands (2)	219	196	415	334	224	558	+ 143
Norway	51	69	120	50	43	93	— 27
Portugal (2)	190	44	234	204	52	256	+ 22
Sweden	70	90	160	90	114	204	+ 44
Switzerland	1,504	517	2,021	1,470	550	2,020	— 1
Turkey	154	10	164	150	14	164	0
Other O.E.E.C. countries (4)	256	117	373	451	254	705	+ 332
Total	4,030	1,925	5,955	4,229	2,338	6,567	+ 612
Rest of continental Europe (5)	489	109	598	475	88	563	— 35
Sterling area							
United Kingdom (2)	1,350	677	2,027	2,900	767	3,667	+ 1,640
India	247	63	310	247	56	303	— 7
South Africa	128	6	134	197	46	243	+ 109
Rest of sterling area (6)	157	59	216	159	46	205	— 11
Total	1,882	806	2,688	3,503	914	4,417	+ 1,729
Canada	496	869	1,365	590	1,399	1,989	+ 624
Latin America	1,655	1,401	3,056	1,880	1,582	3,462	+ 406
Asia	742	771	1,513	692	1,190	1,882	+ 369
All others	56	84	140	100	102	202	+ 62
Grand total	9,350	5,965	15,315	11,469	7,612	19,081	+ 3,766

Source: Federal Reserve Bulletin, March 1951.

(1) Dollar holdings include private and official balances as well as holdings of U.S. Government securities with original maturities of up to 20 months. But, for all countries together, the privately-owned dollar balances are estimated to have remained constant throughout the year. Therefore, the whole increase of $1.6 milliard in "foreign" dollar holdings accrued to official reserves. (2) Including dependencies.

(3) *Comprises gold reserves of Bank of France and French dependencies only. (See also pages 168–170).*

(4) Includes holdings of Bank for International Settlements and the European Payments Union, as well as gold to be distributed by the Tripartite Commission for Restitution of Monetary Gold and other unreported holdings of O.E.E.C. countries.

(5) Excludes gold reserves of, but includes dollars held by, the U.S.S.R.

(6) Excludes Ireland and Iceland, which are included under "Other O.E.E.C. countries".

During the first quarter of 1951, the U.S. gold stock declined by nearly $900 million, this outflow being more than half as large as that recorded for the whole of 1950. The following table shows the distribution of sales of monetary gold to other countries reported quarterly by the U.S. Treasury.

United States sales of gold to foreign countries.

Countries	1950 1st quarter	1950 2nd quarter	1950 3rd quarter	1950 4th quarter	1950 Total	1951 1st quarter
	in millions of dollars (at $35 per ounce)					
Argentina	—	—	—	—	—	49.9
Belgian Congo	—	—	—	3.0	3.0	8.0
Belgium	35.0	20.0	—	—	55.0	15.6
Canada	—	—	—	100.0	100.0	—
Chile	—	—	—	—	—	5.0
China (Nationalist)	—	—	4.2	—	4.2	—
Colombia	10.0	—	—	—	10.0	—
Denmark	—	—	—	—	—	13.4
Dominican Republic	—	—	—	—	—	2.0
Ecuador	—	—	—	—	—	3.5
Egypt	27.0	3.0	14.8	—	44.8	20.0
France	—	—	28.5	56.3	84.8	91.7
Greece	2.1	—	—	12.3	14.4	6.2
Indonesia	—	—	10.0	20.0	30.0	20.0
Mexico	15.8	—	40.5	61.9	118.2	124.3
Netherlands	—	—	—	79.8	79.8	4.5
Norway	—	4.0	—	—	4.0	—
Peru	—	—	—	3.0	3.0	15.0
Portugal	—	—	—	15.0	15.0	10.0
Salvador	1.5	1.5	—	3.0	6.0	—
Saudi Arabia	—	—	—	3.3	3.3	.8
Sweden	—	3.0	16.0	4.0	23.0	15.0
Switzerland	13.0	—	25.0	—	38.0	15.0
„ Bank for International Settlements	12.8	12.5	5.7	34.3	65.2	24.8
Syria	1.1	—	.7	.4	2.2	1.8
United Kingdom	80.0	—	580.0	360.0	1,020.0	400.0
Uruguay	12.0	8.0	23.9	26.9	70.8	50.9
Vatican	—	—	—	2.5	2.5	—
All others	—	—	.1	—	.1	.2
Total . . .	210.2	51.9	749.5	785.6	1,797.3*	897.5

* During 1950 the United States purchased $68 million worth of monetary gold from foreign countries, plus $4 million of gold ore imported for refining. The figures in the table represent gross sales, the net sales in 1950 amounting to $1,743 million.

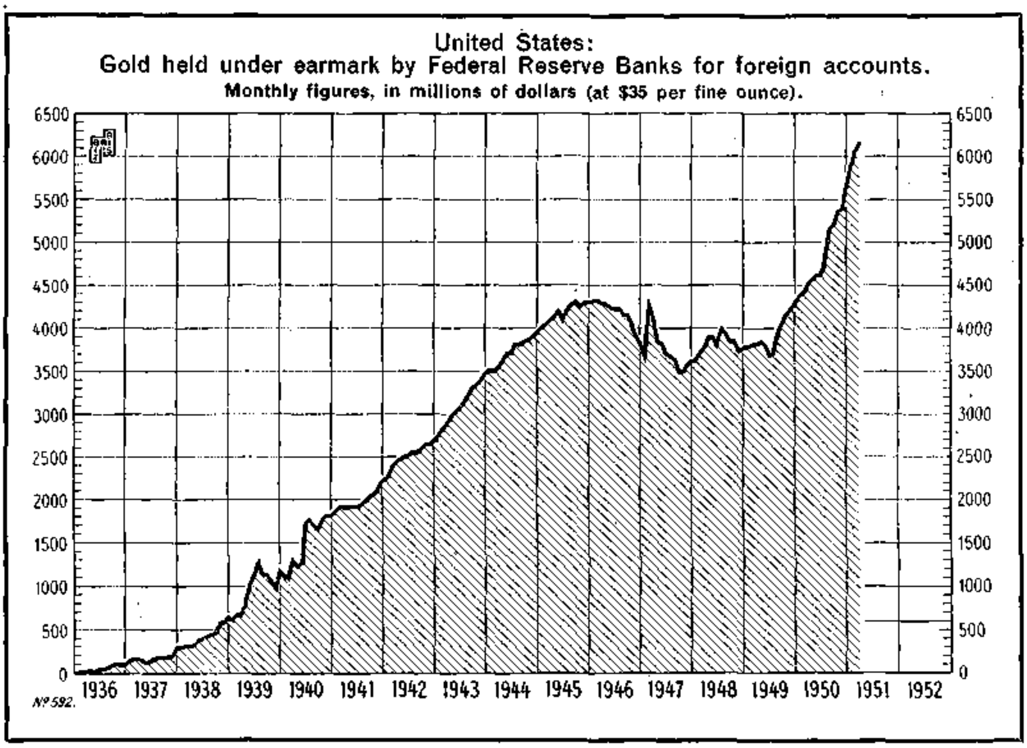
Note: Of the countries shown to which sales of gold were made, the only ones from which the United States also purchased gold, during 1950, were Uruguay ($6,000,000) and Nationalist China ($300,000).

Whereas dollars flow continuously, as transactions are carried out daily, gold purchases tend to be made intermittently in fairly large lump sums. For example, the purchase by the Netherlands of $80 million worth of gold from the United States during 1950 took the form of a single transaction during the last week in December. The Canadian purchase of $100 million was likewise carried out in the last quarter of the year. Other instances of somewhat jerky movements can be seen in the table.

Hence gold sales by the United States, whether the figures relate to single countries or to all countries together, are in no way an accurate indicator of the total flow of gold and dollars over short periods. The sharp fall in gold sales during the second quarter of 1950 was in fact accompanied by an increase in the rate of net gold and dollar outflow. And, contrarywise, the large gold sales during the last quarter of the year were accompanied by a slight decline in the dollar balances owned by other countries.

Net U.S. sales of monetary gold during the month of April 1951 again declined sharply, to $26 million. But, in view of the 1950 experience and the considerations discussed above, it would be premature to infer from this figure any fundamental change in the balance-of-payments position.

It is significant that, of the net flow of gold and dollars to other countries in 1950, $1.3 milliard, or over one-third, left the United States during the first half of the year, i.e. before the outbreak of the conflict in



Note: Gold under earmark is, of course, not included in the gold stock of the United States but is entered to account as part of the monetary reserves of the individual countries which are the owners of the earmarked gold.

Korea. This seems to indicate that much of the flow reflected an improvement in the economic position of other countries,* together with a revival of peace-time demand for imports in the United States after the business recession in 1949.

An outstanding change has occurred in relation to overseas territories of O.E.E.C. countries. The territories in question are mostly raw-material producers, and among them sterling-area countries other than the United Kingdom play an important rôle. The net additions in 1950 to the gold and

* In 1950 there was still a certain reflux of funds which had been transferred to the dollar area before the devaluations in September 1949. Roughly two-thirds would seem to have returned before the end of 1949, the bulk of the remainder being retransferred in the first quarter of 1950.

United States: Surplus (+) or deficit (—) of goods and services.

Areas	1949	1950
	in millions of dollars	
O.E.E.C. countries (metropolitan areas)	+ 3,136	+ 1,742
O.E.E.C. overseas territories	+ 199	— 344
Other European countries	+ 30	— 33
Canada	+ 549	+ 271
Latin America	+ 657	+ 271
All other countries	+ 1,638	+ 265
International institutions	+ 32	+ 37
All areas	+ 6,241	+ 2,209

dollar holdings of the sterling area amounted to $1,729 million, which was equal to about 45 per cent. of the total increase in gold and dollar holdings of countries other than the United States; the other main participants in the increase — also sellers of raw materials — were Latin American countries with a gain of $406 million and Canada with a gain of $625 million.

In the sterling area the rule that gold and dollar earnings are pooled in a central reserve in London (see page 139) continued to govern practice during 1950, except in regard to South Africa, with which special arrangements have been made, and Ceylon, which obtained a gold and dollar reserve equivalent to £4 million for its new central bank.

Additions to the gold and dollar reserves reported by the United Kingdom have, therefore, to be interpreted as reflecting the position of the sterling area as a whole. The United Kingdom's own share in this improvement can then be evaluated by setting against these additions the increase in its sterling liabilities towards the rest of the sterling area.

The following tables show, on the one hand, the increase in the gold and foreign exchange reserves of the United Kingdom and, on the other, the movements of sterling liabilities.

United Kingdom: Gold and foreign exchange reserves.

End of	Gold and dollar reserves		Holding of non-dollar currencies	Credit balances held in E.P.U. units of account	Total
	in millions of U.S. dollars	in millions of £ sterling			
1945	2,476	610 (1)	8	—	618
1946	2,696	664 (1)	41	—	705
1947	2,079	512 (1)	37	—	549
1948	1,856	457 (1)	38	—	495
1949 18th September	1,340	330 (2)	.	—	.
December	1,688	603 (3)	23	—	626
1950	3,300	1,178 (3)	51	80	1,309
1951 March	3,758	1,342 (3)	.	107	.

(1) Converted at the rate applicable previous to the devaluation in September 1949, i.e. at £1 = $4.03.
(2) Converted at the pre-devaluation rate. At the new rate of £1 = $2.80 the amount of gold and dollars held on 18th September 1949 was equal to £479 million.
(3) Converted at £1 = $2.80.

United Kingdom: Sterling liabilities.

End of	Due to non-sterling-area countries					Due to sterling-area countries	Grand total *
	Dollar area	Other western hemisphere countries	O. E. E. C. countries	Other non-sterling-area countries	Total for non-sterling-area countries		
	in millions of £ sterling						
1945	36	164	421	613	1,234	2,454	3,688
1946	35	213	424	632	1,304	2,417	3,721
1947	21	235	481	572	1,309	2,288	3,597
1948	24	135	371	533	1,063	2,361	3,424
1949	36	80	441	516	1,073	2,352	3,425
1950	85	46	398	494	1,023	2,734	3,757

* In addition to the liabilities shown in the table, there are certain latent liabilities in relation to non-territorial organisations (the International Monetary Fund and the International Bank for Reconstruction and Development). These amounted to £576 million at the end of 1950, having increased by £178 million in 1949, when the United Kingdom paid in £173 million after the devaluation of the pound in order to maintain the dollar equivalent of its subscriptions. Revaluation payments were also made to a number of the non-sterling countries included in the above table. They amounted to £60 million in 1949.

In 1950, the gold and dollar holdings increased by £576 million and other exchange holdings by £108 million. The total increase of £684 million was financed by:

	In millions of £ sterling
U.K. surplus on current account	+ 229
Net amount of E.R.P. and other grants(1)	+ 139
Overseas investment (net)	— 16
Net increase in sterling liabilities(2)	+ 332
Total	+ 684

By and large, it may be said that one-third of the increase in the gold and foreign exchange holdings in 1950 was earned by the United Kingdom through a current surplus in the balance of payments, one-fifth was a net addition resulting from E.R.P. grants, while nearly one-half had its counterpart in an increase in sterling liabilities, i.e. it was earned by other members of the sterling area, which became creditors of the United Kingdom to a corresponding extent. It appears from the balance-of-payments statistics that other countries in the sterling area had a surplus of £181 million(3) (= $507 million) with the dollar area and, moreover, sold £100 million in gold to the United Kingdom — the two figures together making a surplus of £281 million

(1) The net amount of E.R.P. and other grants is made up of a gross amount of E.R.P. grants of £248 million minus an amount of £105 million in respect of the Intra-European Payments Agreement, the European Payments Union and certain E.R.P. counterpart funds and an amount of £4 million in 1950 representing revaluation payments by the United Kingdom.

(2) The net increase in sterling liabilities is the result of an increase of £382 million in the liabilities in relation to the sterling-area countries and a reduction of £50 million in the liabilities due to other areas (see the above table and also page 139).

(3) This figure refers to the balance of the overseas sterling area's transactions financed through London, i. e. the greater part but not the whole of its foreign payments.

in gold and dollars. In addition, sterling-area countries other than the United Kingdom contributed in part to the acquisition of non-dollar currencies and to the increase in the holding of E.P.U. units of account.

The position of the sterling area was affected by certain movements of short-term capital in the autumn of 1950 in connection with the rumours about a possible revaluation of the pound. In relation to the dollar area these movements, which mostly took the form of advance purchases of sterling in anticipation of commercial needs, have been estimated at about $130 million (or nearly £50 million) — this being roughly the equivalent of the rise in sterling liabilities towards the dollar area during the year. Similar movements are believed to have taken place from other areas, especially from other European countries. These temporary inflows, plus the fact that there was a certain decline in U.K. stocks of imported raw materials during the year, somewhat reduce the real value of the recorded improvement in the monetary reserves.

The need for taking account not only of the gold and dollar reserves but also of other exchange holdings before judging a country's currency position may be exemplified by reference to the Netherlands, whose gold and dollar holdings increased by $143 million but whose total net reserves of gold and foreign exchange (including the deficit in relation to the E.P.U.) rose by only $48 million. It has become characteristic of the balances of payments of several European countries that they have been able to realise a surplus with the dollar area (when foreign aid is included in the reckoning) but have had a deficit in relation to the European Payments Union, partly because settlements through the Union have served to pay for raw materials imported from overseas countries in the monetary areas of other member countries (the sterling area, the French and Belgian franc areas, etc.).

An essential point in the recent monetary consolidation in Europe has been the partial reconstitution of the gold and foreign exchange reserves of France.

The very considerable deficit in the balance of payments, amounting to approximately $1,700 million a year from 1946 to 1948, was not entirely covered by foreign aid and by loans. The result was that the gold holdings shown in the returns of the Bank of France, which had amounted to more than the equivalent of $2,400 million at the end of 1938, fell to $547 million at the end of 1947; moreover, the gold and dollar holdings of the Exchange Stabilisation Fund were practically used up and the amount of sterling which had been accumulated was also on the point of exhaustion in 1948 — a year in which France's net debit balance in payments agreements with other countries showed a tendency to increase until in October it had reached a figure slightly above $400 million. Finally, if account is taken of the fact that part of the gold — namely, $100 million — served as security for dollar credits and that the Stabilisation Fund had considerable forward commitments, it is clear that, in real terms, the reserves had been reduced to a very low level.(1)

From November 1948 the net exchange position has shown a progressive improvement. Since July 1949 the Stabilisation Fund has no longer depended upon the Treasury for its supply of francs. Thenceforward the francs needed by the Fund for the acquisition of foreign exchange were to be obtained from the Bank of France; the Fund could either sell the foreign exchange to the Bank or obtain from the Bank advances, which would be repaid to the extent that the Fund's subsequent sales of foreign exchange exceeded its purchases.

One consequence of these changes has been that it has become possible to obtain an approximate idea of the improvement which has occurred since July 1949 in France's net gold and foreign exchange position from an examination of the various items in the returns of the Bank of France (the two relevant items in this connection being the "Gold holdings" and the "Sight funds abroad and E.P.U. balances").(2)

Apart from the claim on the E.P.U., the components of the item "Sight funds abroad and E.P.U. balances" are now largely, if not exclusively, made up of gold and convertible foreign currencies (U.S. dollars and free Swiss francs). At the end of the first quarter of 1951 the total of this item corresponded to $550 million, of which $174 million represented E.P.U. balances. Since the gold holdings of the Bank of France at the same date were equivalent to $522 million, it may be inferred that at the end of March 1951 the French assets in gold and convertible currencies must have been at least equal to $800 million.

In addition to these assets there are the claim on the E.P.U. and the funds in non-convertible currencies (mostly in the hands of the Stabilisation Fund).

As the net debit balance in the payments agreements, which still amounted to the equivalent of $183 million at the end of August 1949,(3) has since then been completely eliminated and the dollar credits for which gold had been earmarked as security have been fully repaid and, moreover,

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(1) The incidence, on the volume of sight liabilities, of the decrease in the reserves of the Bank and of France's growing indebtedness in connection with the payments agreements is not fully reflected, during the period in question, in the returns of the central bank.
One reason was that in those returns the balances in French francs accumulated by foreign central banks are not shown under a separate heading but included in the general item "Current accounts". In addition, the proceeds in French francs of the sales of foreign exchange effected by the Stabilisation Fund were not paid to the Bank of France but went to finance the Treasury; thus they did not affect the Bank's balance sheet and the result was that the expansion in the internal supply of money was not curbed by the loss of foreign exchange.

(2) It should be noted, however, that such estimate as can be made on the basis of these data alone is incomplete for two reasons: in the first place, the Fund keeps a working balance in foreign exchange; in the second place, the Bank of France's own liabilities in francs vis-à-vis foreign central banks continue to be included, as before, under the general heading "Current accounts of French and foreign banks and financial institutions".

(3) Figure published in the supplement to the "Schuman Inventory".

the annual reports of the Bank of France have stated that the forward commitments of the Stabilisation Fund have been reduced to a figure that is practically negligible, it follows that the gold and foreign exchange holdings appearing in the balance sheet of the Bank are now at the free disposal of the French monetary authorities.

The addition of $625 million to the official gold and U.S. dollar reserves of Canada is particularly interesting in its cause and effect. It was primarily the result of an inflow of speculative funds from the United States in the third quarter of the year, and it led to the Canadian Government's decision to suspend the policy of a fixed rate of exchange as from 1st October — thus showing that not only an outflow but also an inflow of funds can bring pressure for a modification of the exchange rate. In the three months from July to September 1950, the Canadian gold and dollar reserves rose by as much as $534 million.

There has also been a movement of short-term capital, together with a continued flow of investments, into various Latin American countries. The collective increase in their gold and dollar holdings reached about $400 million in 1950, and it was partly thanks to this influx of funds that a certain simplification and consolidation of the foreign exchange structure became possible in several of these countries (see page 131).

After the failure of sterling to return to convertibility in the summer of 1947 it seems to have been generally felt that the primary task was to realise certain fundamental conditions for the re-establishment of a healthy economy, and the two conditions recognised as fundamental were an increase in production and the halting of domestic inflation in the various countries. Of course, steps were also taken to facilitate an expansion in international trade; indeed, the Marshall Plan itself provided the means of financing the bulk of the dollar imports to several of the participating countries and, inside Europe, a system of compensations together with drawing rights made a steady increase possible in the exchange of goods and services. But at first relatively little attention was paid to the restoration of normal exchange markets or to the strengthening of monetary reserves; in view of the prevailing "dollar shortage" the attainment of such goals was thought to be rather far off.

Later on, the devaluations in September 1949 raised hopes in certain quarters that a speedy restoration of freedom in exchange transactions would ensue (it being remembered that in 1931 the countries whose currencies were devalued avoided the introduction of exchange control). These particular hopes were soon disappointed, and most currencies continued to be quoted at appreciable discounts in the free markets (see page 143). But at the beginning of 1950 the gold and dollar reserves of a number of countries began to show higher figures and the free quotations for their currencies to improve, with the result that a feeling of greater optimism gained ground — and at this stage the problem of re-establishing adequate monetary reserves began to be given more attention. The European Payments Union has created a partial substitute for reserves in the relations of the participant countries and thus remains an expedient useful in its fashion until general convertibility can be attained; but it cannot actually take the place of convertibility and genuine exchange markets. These questions were referred to in the report which Mr Gordon Gray, in the capacity of Special Assistant to the President of the United States, presented on 12th November 1950 with regard to "Foreign Economic Policies":

Para. 15: "The United States should consider the eventual desirability of assistance such as stabilization credits to permit convertibility of currencies for current account, notably the pound sterling. But such credits should not be granted until all requirements for convertibility, with the exception of adequate reserves, have been met. Neither should such credits be granted unless convertibility will be accompanied by a reduction of trade discriminations."

Stabilisation credits can be of great help on a return to convertibility (as several instances in the 1920s showed) but they will serve as a substitute for "adequate reserves" only if the resources furnished are available for more than a short period. Obviously, the resources in question must be held truly "in reserve"; they must not, for instance, be used to finance domestic investments, for that would normally lead to increased imports, and a corresponding amount of foreign exchange would have to be released in order to pay for them. To refer once again to what happened in the 1920s, the proceeds of the reconstruction loans for Austria, Hungary, etc., raised under the auspices of the League of Nations (as advised by its Financial Committee), were devoted in part — the smallest part — to covering a temporary deficit in the budget, in part to economic investments and in part to a reconstitution of monetary reserves. The countries in question proved themselves able to increase the reserves by other means also, but they still had to obtain capital from abroad for long-term investments. In the present situation a country may likewise require the aid of foreign resources to instal better plant and equipment or to improve its defence establishment, even though it is in a position to gain certain amounts of gold and foreign exchange. In judging the situation it is necessary to ascertain the origin and nature of any particular addition to a country's monetary reserves. It may, for instance, be the result of an inflow of short-term funds from abroad; or it may correspond to an increase in the liquid funds by commercial and industrial firms at home as part of their working capital, or to an increased holding of cash by the general public. In none of these cases does the increase in reserves furnish funds of a kind available for long-term domestic investments. If an attempt were nevertheless made to finance such investments by an internal credit expansion on the strength of the additions to the monetary reserves, this would soon result in a loss of reserves and probably before long in a reintroduction of import restrictions, together with internal controls, precisely for the purpose of curtailing the volume of investments.

Thus, it is quite possible that countries will need special aid for defence purposes or will have to borrow abroad for specific investment purposes, even though they are able to increase their holdings of gold and foreign currencies. As things are at present, the keen demand for goods and services for which payment is made in dollars should, indeed, give a number of countries a chance to reconstitute their reserves, provided they take steps to maintain a sufficient balance in their internal economy. But their ability to maintain that balance may well be conditional on their success in obtaining from abroad part of the resources required for their defence effort or their long-term investments.

Fortunately, it is being increasingly realised that the establishment of gold and foreign exchange reserves, sufficient to enable a country to have a considered monetary policy without continual resort to hand-to-mouth expedients for balance-of-payments reasons, constitutes one of the most useful investments for most countries in the world.

VII. Money, Interest Rates and Credit.

The year 1950 was marked, in the majority of countries, by an unusually large expansion of credit, which began in the spring and gathered momentum rapidly after the outbreak of the conflict in Korea.

This rapid growth of credit was required to some extent to finance an increase in production, but the greater part was used by both business and the private consumer for the accumulation of stocks — particularly stocks of imported goods — credit expansion thus having a direct effect on the balance of foreign payments. With the improvement in the public finances of most countries, the credit requirements of the government influenced the monetary situation to a lesser extent than in any year since before the second world war. The central banks of many countries have reacted rapidly to the danger of inflation by raising their discount rates and restraining credit expansion.

In the United States the expansion of credit to the private economy was the largest on record: total credits granted by the banking system increased by 22 per cent., consumer credit by 20 per cent. and credits to commerce and industry by 30 per cent.

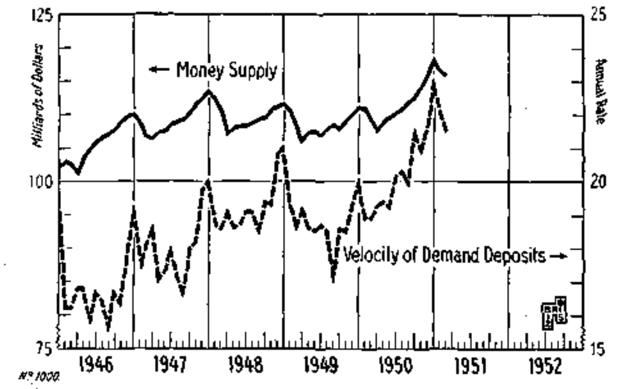
The increase in the credit volume in 1950 was concentrated in the second half of the year and was mainly due to larger purchases by consumers and accumulation of stocks by business. On an annual basis, consumer purchases of durable goods increased from $26 milliard in the first half of the year to $32 milliard in the second half, and business inventories rose by no less than $11 milliard (annual rate) in the fourth quarter. Credit expansion continued

United States: Credit to the private economy.[1]

End of	Loans granted by insured banks to				Credits of the banking system[2] in the form of			Consumer credit [4]
	industry and commerce	real estate	others	Total[3]	loans[3] (net)	holdings of securities	Total	
	in milliards of dollars							
1938	5.6	3.9	6.5	16.0	21.2	9.5	30.7	6.3
1945	9.5	4.7	11.6	25.8	30.4	8.6	39.0	5.6
1947	18.0	9.3	10.3	37.6	43.0	10.7	53.7	11.9
1948	18.8	10.7	12.9	42.0	48.3	11.4	59.8	14.4
1949								
June	16.3	10.9	13.8	40.5	47.1	11.9	59.1	14.3
December .	16.9	11.4	14.7	42.5	49.6	12.6	62.2	16.8
1950								
June	16.8	12.3	15.8	44.3	52.0	13.6	65.6	17.7
December .	21.8	13.4	17.3	51.8	60.5	14.7	75.2	20.1

(1) Including credits granted to States and local governments but not the holding of Federal bonds or other forms of credit granted to the Federal Government.
(2) Includes, in addition to the insured banks, various other commercial and savings banks and also the Federal Reserve System.
(3) From 1948, figures for various loan items are shown gross (i.e. before deduction of valuation reserves) while totals are shown net.
(4) Granted partly by banks and partly by other agencies.

United States: Money supply and velocity of turnover of bank demand deposits.
In milliards of dollars or annual rate.



in the first quarter of 1951 and there were indications that investments might rise still further: a survey published by the Department of Commerce has revealed that businesses intend to spend $24 milliard on new plant and equipment in 1951 — nearly 30 per cent. more than in 1950. The growth of consumer credit was, however, checked in the first quarter of 1951.

The growth of credit was accompanied by the largest increase in the "supply of money" since 1946, as is shown by the following "monetary balance sheet" constructed on lines similar to those adopted in Italy, France and Germany.

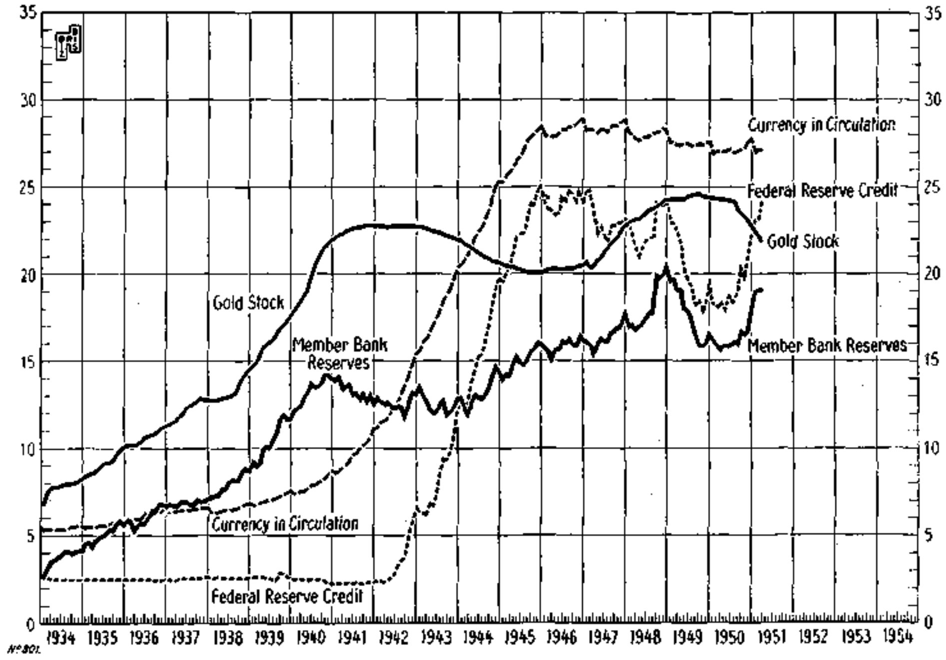
United States: Formation of the money supply.*

Items	1946	1947	1948	1949	1950
	in milliards of dollars				
Change in money supply					
Notes and coin	+ 0.2	— 0.3	— 0.4	— 0.7	— 0.4
Demand deposits	+ 7.5	+ 3.8	— 1.6	+ 0.3	+ 7.4
Time deposits	+ 5.5	+ 2.5	+ 1.1	+ 1.1	+ 0.4
Total	+ 13.2	+ 6.0	— 0.9	+ 0.7	+ 7.4
Change in items corresponding to the money supply					
Gold, inflow (+) or outflow (—)	+ 0.5	+ 2.9(1)	+ 1.5	+ 0.2	— 1.7
Business credits(2)	+ 6.4	+ 8.6	+ 5.9	+ 2.6	+ 13.5
Banks' holdings of U.S. Government securities	— 15.6	— 6.1	— 6.3	— 0.1	— 3.7
Deposits with banks by U.S. Treasury, increase (—) or decrease (+)	+ 22.1	+ 1.2	— 1.3	— 0.5	+ 0.5
Other items	— 0.2	— 0.6	— 0.7	— 1.5	— 1.2
Total	+ 13.2	+ 6.0	— 0.9	+ 0.7	+ 7.4

* Transactions of the whole banking system, including Federal Reserve, commercial and savings banks.
(1) Gold holdings increased by $2.2 milliard, $687.5 million being transferred to the International Monetary Fund.
(2) Including securities of State and local governments and other forms of credit held by banks.

How was so great an expansion of credit possible in a year in which the banks began with no high level of excess reserves, in which their legal reserve requirements were not reduced, and in which the outflow of gold tended to contract the credit base? The main explanation is that the commercial banks have been able to add to their cash reserves by the sale of securities, of which a large part was bought by the Federal Reserve Banks, which in 1950 increased their holdings of securities and other forms of credit by $2.7 milliard.

United States: Member-bank reserves, reserve-bank credit, and related items.
Monthly, in milliards of dollars.



It must be remembered that in accordance with the reserve requirements in force in 1950 a given increase in the cash reserves of the member banks enables these banks (which account for 85 per cent. of commercial-bank deposits) to increase their deposits (and thus also their lending) by about six times that figure. An increase of $2.7 milliard in Federal Reserve holdings of securities and other forms of credits exercised a powerful expansionary influence, even if its effect was partly offset by an outflow of gold amounting to $1.7 milliard.

In August 1950 the increase in the volume of credit was already described by the Federal Reserve authorities as being "clearly excessive", and in the latter half of 1950 measures were taken in various fields to counteract a further undue expansion.

(i) Residential building was restricted. As early as July 1950 the President of the United States decided upon a cut in the Federal building programme, and in October the Board of Governors of the Federal Reserve System prescribed detailed regulations for house-building credit, while the Federal Administration stiffened its rules with regard to building credit guaranteed by Federal agencies. These restrictions were extended to cover non-residential building (other than factories) in February 1951.

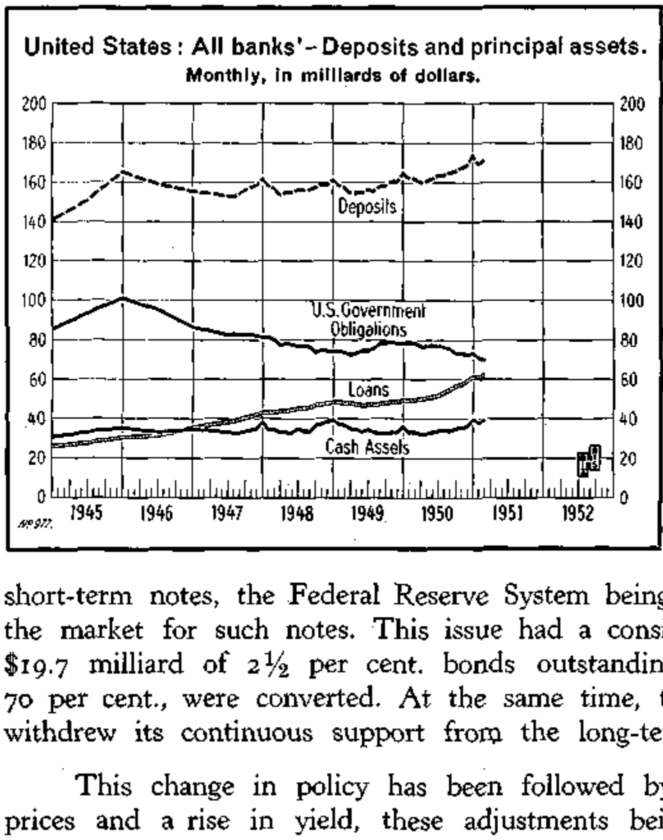
(ii) Consumer-credit regulation, which had lapsed in 1949, was reimposed in August 1950.

(iii) Federal Reserve discount rates were raised from 1½ to 1¾ per cent. in August 1950.

(iv) Margin requirements on stock exchange loans were raised from 50 to 75 per cent. in January 1951.

But it soon became obvious that further steps had to be taken to arrest the credit expansion and, in particular, to deal with the problem of the banks' lending capacity. In January 1951 the Federal Reserve Board raised the reserve requirements of member banks in two stages, the changes absorbing around \$2 milliard of reserves. But the banks could make the necessary increase in required reserves without difficulty, since the Federal Reserve Banks, in the first quarter of 1951, added \$2.3 milliard to their holding of government securities — such purchases forming part of a policy to support the quotations of government securities according to the Federal Reserve's principle of "preserving orderly conditions in the government security market". It was, however, decided to make certain modifications in the policy followed by the Reserve System in this respect. A joint statement issued by the U.S. Treasury and the Federal Reserve System on 4th March 1951 explained that

> "the Treasury and the Federal Reserve System have reached full accord with respect to the debt management and monetary policies to be pursued in furthering their common purpose, to assure the successful financing of the Government's requirements and at the same time to minimise the monetization of the public debt".



The first measure taken was to announce a scheme for the conversion of "restricted"* 2½ per cent. Treasury bonds 1967–72, offers of which had been pressing particularly heavily on the market. Holders were offered conversion into 2¾ per cent. bonds 1975–80, a higher nominal rate than had been obtainable for some considerable time. These new bonds were not to be directly negotiable but would be exchangeable at par for short-term notes, the Federal Reserve System being less concerned to support the market for such notes. This issue had a considerable success: out of the \$19.7 milliard of 2½ per cent. bonds outstanding, \$13.6 milliard, or some 70 per cent., were converted. At the same time, the Federal Reserve System withdrew its continuous support from the long-term market.

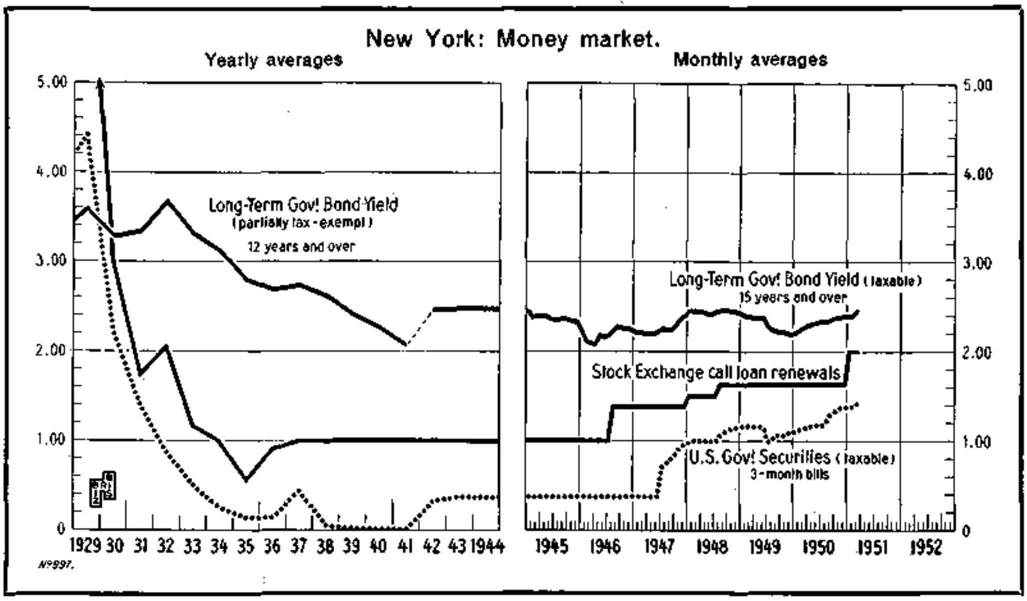
This change in policy has been followed by a certain fall in security prices and a rise in yield, these adjustments being moderate, however, especially if compared with the corresponding movements in some European countries.

* "Restricted" bonds are those which may not be acquired by banks before a certain date.

United States:
Government securities in March 1951.

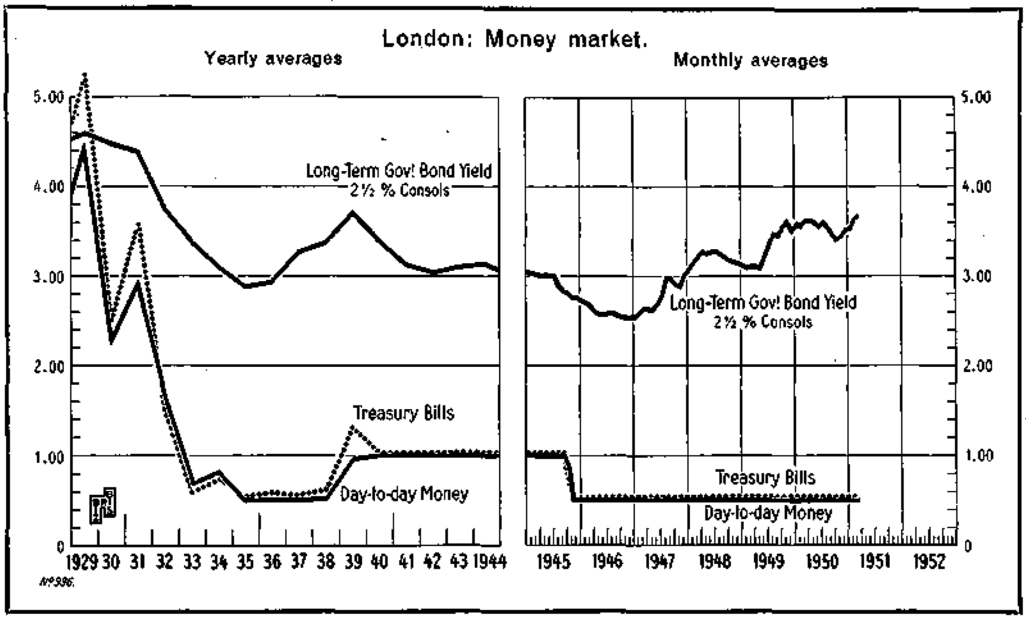
Items	Mean quotations on		Increase in percentage yield
	2nd March 1951	28th March 1951	
1½ per cent. Notes 1955	99.65	98.45	+ 0.27
2¼ per cent. Bonds 1956–59 . .	102.50	100.16	+ 0.29
2½ per cent. Bonds 1962–67 . .	102.12	100.20	+ 0.23
2½ per cent. Bonds 1967–72 . .	102.30	101.20	+ 0.14

Middle and long-term rates having changed less than short-term rates, the spread in the rate structure has become narrower, with a higher average for each particular group of rates. At the time of writing it is still too early to judge the combined effect of the various credit measures on the volume of credit, consumption and investment in the United States.



The result of the credit policy adopted in recent years in the United States has been to diminish the spread between short and long-term rates as quoted on the markets. In the United Kingdom, the spread has increased in consequence of a credit policy which has kept the short-term rate rigidly unaltered since the end of 1945 but allowed the long-term rates to fluctuate in response to the general trend of the market.

It was in 1947 that the attempt to keep long-term rates at a level of 2½ per cent. was abandoned; even when the security market was exposed to great pressure during the foreign exchange crises of 1947 and 1949, the Bank of England did not intervene on any substantial scale. Its influence on the market arises partly from the fact that it manages the investments of important official and semi-official funds. The mere appearance on the scene of the official broker may sometimes have a strong psychological effect on the market, not always justified by the actual volume of his transactions.



In the short-term market, the Bank of England has been ready to purchase Treasury bills whenever the rate has tended to rise above ½ per cent., the Bank's official discount rate of 2 per cent. (itself one of the lowest in the world) being thus out of touch with the market. It is, however, by no means always the case that the Bank needs to intervene to support the rate; indeed it is quite often a seller, not a buyer. There is usually a large supply of funds for short-term investment from institutional holders, almost irrespective of the rate of interest obtainable. The main lenders are the banks and discount houses (whose traditions compel them to hold a substantial amount of bills as a secondary reserve) or the overseas holders of sterling funds (largely central banks, which are not in a position to risk the fluctuations of the long-term market).

Thus the short and long-term markets are to a large extent insulated from one another, movements of short-term funds having little influence on the long-term market.*

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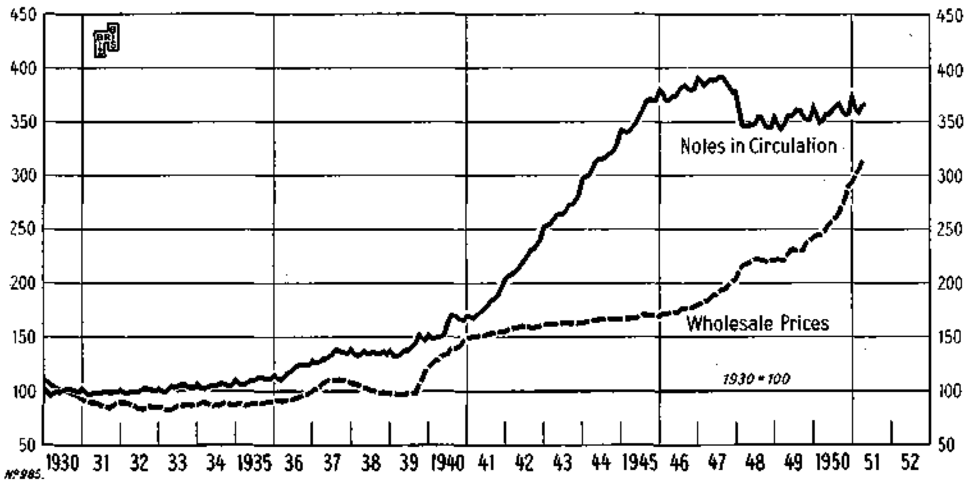
* While such a dualism may be helpful in an emergency situation, it is highly questionable whether it would be advisable as a lasting arrangement, particularly if the supply of commercial bills continues to increase. The normal situation is, of course, one in which the short-term rates vary more sensitively than the long-term ones and, in doing so, act as a "cushion" for the long-term market, helping to moderate the fluctuations in that market. Inflexibility of the short-term rates is clearly a hindrance to that smooth functioning of the money and capital markets so necessary for London's position as one of the world's principal monetary centres. While a rise in these rates would undoubtedly increase the burden on the budget, it should borne in mind that a large part of the short-term debt is held by government departments and other official institutions; thus a rise in the interest rate paid on this part of the debt would represent no real fiscal burden. Since the non-resident holders of sterling balances invest a considerable part of their funds in Treasury bills, it is often said that balance-of-payments considerations militate against the acceptance of higher rates; but over against this has to be set the fact that earnings on credits granted to foreign customers would also be larger. Moreover, under present boom conditions, there need hardly be any fear that a discarding of cheap money in the short-term market — after the upward adjustments already made in long-term rates — would lead to a wave of unemployment.

Moreover, a brake on new lending is being applied by direct means. In his budget speech in April 1951, the Chancellor of the Exchequer stated:

> "The policy followed by the banks in granting credit is of course closely associated with the whole problem of investments, ... I am certain that the banks fully appreciate the renewed importance, in the present circumstances, of the Government's disinflationary policy, and I am confident that I can continue to rely on them to maintain restraint in their credit policy and, in particular, to ensure that advances are not made for any speculative purposes or for capital expenditure or investment which would conflict with the intentions of the revised principles of guidance which I propose to issue in the next day or two to the Capital Issues Committee. The recent rise in interest rates may also exercise some check on investment."

The "revised principles of guidance" reiterate previous injunctions forbidding speculative credit and discouraging increases in consumer credit. There is, however, one important addition of a positive nature — first priority is given to projects essential to the defence programme.

United Kingdom: Note circulation and wholesale prices.
Indexes: 1930 = 100.



As a matter of fact, the expansion of both the supply of money and the volume of business credit has kept within moderate limits. Net bank deposits rose by a little over 2 per cent. in 1950 — and there are reasons for believing that the greater part may have been for the account of non-residents. The increase occurred wholly in August, September and October, * a time at which foreign funds were flowing into London.

Over the year there was practically no change in the government's borrowing from the banks, an increase in the amount of their holdings of

* British bank deposits show a strong seasonal fluctuation, largely owing to the concentration of tax payments in the first quarter of the year. But if deposits for each month are compared with those for the corresponding month of the previous year, it is found that up to August 1950 they remained at practically the same level as in 1949, whereas by the middle of October they had risen by £140 million.

London clearing banks.

End of	Liabilities	Assets					
	Net deposits	Coin, notes and balances with 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	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
1950	6,100	540	592	1,408	456	1,528	1,644
Change during:							
1949	+ 50	+ 31	+ 86	+ 368	— 604	+ 34	+ 145
1950	+ 136	+ 8	+ 21	+ 299	— 337	+ 16	+ 121

Treasury bills (needed to finance the purchases of gold and foreign exchange by the Exchange Equalisation Account) being more than offset by net redemption of Treasury deposit receipts. The latter, which are short-term non-marketable securities, had been a major form of government financing during the war but have been considered too inflexible for peacetime conditions.

Through the mechanism of the Exchange Equalisation Account changes in monetary reserves are generally precluded from directly influencing the supply of money. For these reserves are held not by the Bank of England but by the Account in question, whose capital is provided by the government and whose spare funds are reinvested in Treasury bills or other sterling securities. When the Account purchases gold (or foreign currencies) it does so with resources it obtains from the market by the sale of Treasury bills — and not with funds obtained from the central bank. Conversely, when it sells gold it uses the funds received to buy Treasury bills from the market. Thus the liquidity of the market is not altered on balance. During 1950 the Account's resources were increased by £600 million issued to it in the form of Treasury bills; a further issue of £300 million was arranged in April 1951.

It may be seen from the next table that there is no correspondence between changes in the supply of money and changes in the gold and dollar holdings. In part, this is due to the United Kingdom's gold and dollar transactions with the rest of the sterling area; when it buys gold and dollars from these countries in excess of the amounts required to settle its surplus in the balance of payments with them, it incurs a corresponding sterling liability, the United Kingdom's real net foreign exchange position being thus unaltered. Even when allowance is made for such transactions by deducting the increase in sterling liabilities from the gross increase in the gold and exchange reserves (see, in the following table, change in the item "net reserves"), it is still true

United Kingdom:
Changes in money supply and in gold and exchange reserves.

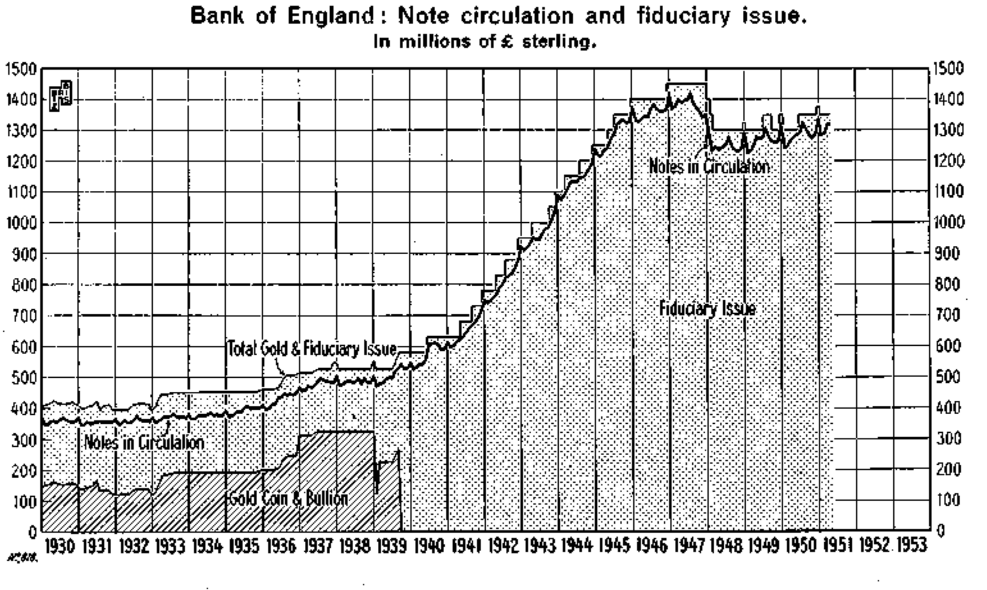
Change in	1946	1947	1948	1949	1950
	in millions of £ sterling				
Currency	+ 37	— 55	— 71	+ 14	+ 21
Net bank deposits	+ 778	+ 244	+ 232	+ 50	+ 136
Money supply	+ 815	+ 189	+ 161	+ 64	+ 157
Gold and dollar holdings	+ 54	— 152	— 55	— 3 (1)	+ 576
Other foreign currencies and credit balance in the E.P.U.	+ 33	— 4	+ 1	— 16	+ 108
Sterling liabilities (2), increase (—)	— 33	+ 65	+ 163	— 6	— 332
Net reserves (3)	+ 54	— 91	+ 109	— 25	+ 352

(1) Excluding the nominal increase of £149 million due to revaluation in September 1949.
(2) Excluding change in liabilities to the International Monetary Fund and the International Bank resulting from the United Kingdom's subscription in sterling to these organisations.
(3) Increase in holdings of gold, dollars, other currencies and credit balance in the E.P.U., minus the increase in sterling liabilities.

that, whether the net reserves have been falling or rising, the change in the internal money supply has been of quite a different order of magnitude — and in two years out of five it has been in the opposite direction.

It should further be pointed out that the special system applied in the United Kingdom for the deposit of the "counterpart funds", to which the receipt of Marshall aid gives rise, has prevented the accumulation or use of these funds from affecting the day-to-day liquidity of the money market.

The expansion of the total of bank advances was slightly smaller in 1950 than in 1949. The quarterly figures for advances, as published by



United Kingdom: Increase in bank advances.[1]

Change from February to February of successive years	Category of borrower: Industry and trade [2]	Finance, personal and services [3]	Total excluding public utilities and local government	Total including public utilities and local government
	In millions of £ sterling			
1947–48	+ 189	+ 83	+ 272	+ 280
1948–49	+ 99	+ 40	+ 139	+ 154
1949–50	+ 79	+ 52	+ 131	+ 185
1950–51	+ 115	+ 68	+ 184	+ 161

(1) These figures refer to the advances granted by the members of the British Bankers' Association, which includes various other banks in addition to the London clearing banks.
(2) Including agriculture and transport. (3) Including entertainment and other services, professions and individuals.

the British Bankers' Association, show, however, that advances to industry and trade grew faster than other types of advances: they grew by 13 per cent. between February 1950 and February 1951, whereas other advances grew by only 6 per cent. The total figures for advances tend to be distorted by the fact that the borrowers include public corporations which issue loans for very large sums, repaying bank advances out of the proceeds: thus the British Electricity Authority issued in the summer of 1950 a loan of £148 million, and bank advances to public utilities fell from £90 million in May to £42 million in November.

Total market issues (excluding the capitalisation of reserves, issues replacing existing securities, and issues of the British Government) amounted in 1950 to £313 million, of which £130 million was for companies and £183 million for public bodies (including the above-mentioned Electricity Authority loan). Of the total, £51 million was issued by overseas countries, mainly in the Commonwealth. In addition to the above issues, companies obtained about £45 million in 1950 from "institutional investors" (mainly insurance companies).

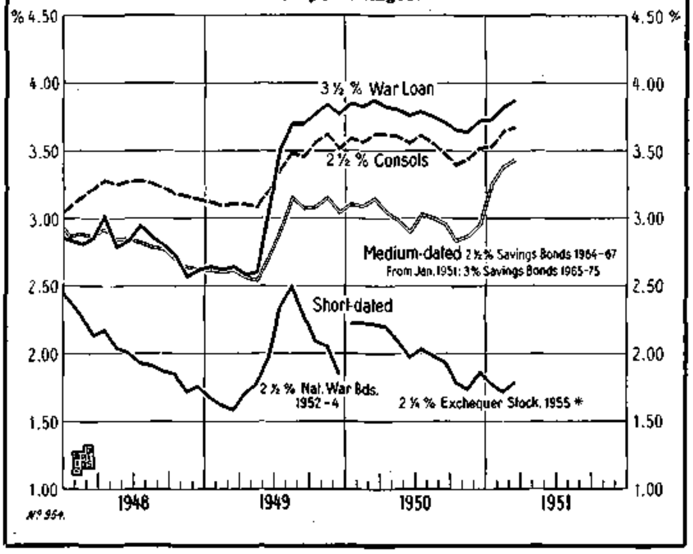
With the gradual ebbing of the belief in a prospective revaluation of sterling and growing anxiety over the new defence programme, the yield

United Kingdom: Government securities and ordinary shares. Average prices and yields.[1]

Average for year or month	British Government securities: Short-dated yield	Medium-dated yield	3½% War Loan yield	2½% Consols: Price	2½% Consols: Yield	Industrial ordinary shares: Price [2]	Industrial ordinary shares: Yield
1938 . . .	2.73	3.27	3.42	74.1	3.38	100	—
1946 . . .	2.09	2.55	2.48	96.3	2.60	150.3	4.32
1948 . . .	2.02	2.79	2.81	78.0	3.21	151.0	4.85
1949 . . .	1.94	2.83	3.55	75.9	3.30	136.8	5.40
1950 . . .	2.03	2.99	3.77	70.5	3.54	135.6	5.48
1950 Dec. .	1.86	2.95	3.73	71.1	3.52	140.6	5.36
1951 March	1.79	3.43	3.87	68.1	3.67	143.7	5.41

(1) The securities chosen to represent short-dated and medium-dated paper have been changed from time to time; a bar is placed between figures which are not strictly comparable.
(2) The Actuaries' Investment Index with December 1938 = 100 as base.

Great Britain: Yields of British Government securities.
In percentages.



of government securities rose all along the line at the end of 1950 and the yield of long-dated securities reached nearly 4 per cent. in April 1951. The government adjusted its terms of borrowing to the market. In the spring of 1951 it raised the rate of interest payable on "small savings" by the issue of a new series of National Savings certificates, yielding £3. 0. 11 per cent. tax-free if kept for ten years, as compared with £2. 13. 2 per cent. tax-free for the previous issue. A new series of Defence bonds (running for 10 years) carried interest at 3 per cent. instead of 2½ per cent. In May 1951, the officially sponsored Agricultural Mortgage Corporation increased its charge for loans from 4 to 4¼ per cent.

While the yearly average of prices for industrial ordinary shares was lower in 1950 than in 1949, the Actuaries' Investment Index shows a 6.4 per cent. increase in the twelve-month period from December 1949 to December 1950 and a further 2.2 per cent. rise in the first quarter of 1951. These movements reflect a tendency on the part of the public to prefer equities to government securities, while on the other hand the supply of equities has been considerably reduced in recent years by nationalisation.

According to the budget estimates for the financial year 1951–52, an amount of £457 million will presumably have to be raised by the government from loans to meet "below-the-line" outlay. The capital requirements of the nationalised industries are also heavy. These industries invested in new plant and in buildings a sum not far short of £400 million in 1950 and they plan further large investments for 1951.

In several respects, an economic and financial policy similar to that of the United Kingdom has been carried out in the northern countries. In particular, these countries have all been able to cover current expenditure in their budgets by current revenue, and in some years they have even attained an "overall balance" by also covering capital expenditure out of current revenue.

Throughout 1948 and 1949 the advances of the commercial banks in Sweden had remained stable at a level of S.Kr. 7,800–8,000 million, but in the first half of 1950 they rose to S.Kr. 8,560 million and by the end of the year they had increased to S.Kr. 9,240 million. The following table shows the amount of credit extended by various institutions in the period from the devaluation in the autumn of 1949 to the outbreak of the Korean conflict and then from the latter date to the end of March 1951.

The tempo of lending by the commercial banks has become more rapid since the middle of 1950. During the year 1950 (for which separate figures are not shown in the table) the amount of credit granted by credit institutions rose by 12 per cent., or S.Kr. 1,820 million, whereas the deposits received rose by only S.Kr. 970 million, the balance being financed mainly by sales of securities or by an increase in the net indebtedness to foreign banks.

The major part of the securities sold were purchased by the central bank.

Sweden: Credits granted by various institutions.

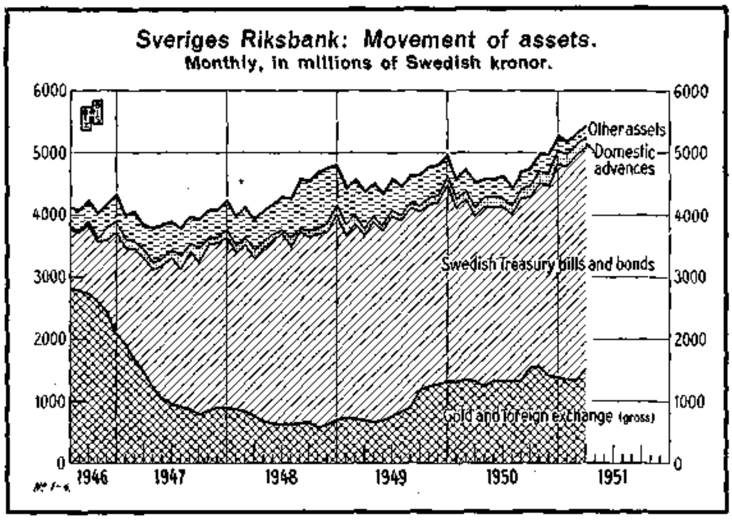
End of month or period	Commercial banks*	The 84 biggest savings banks	The Post Office Savings Bank	Central funds*
	in millions of Swedish kronor			
August 1949	7,818	4,644	685	336
June 1950	8,560	4,987	758	380
Change from August 1949 to June 1950	*+ 742*	*+ 343*	*+ 73*	*+ 44*
March 1951	9,723	5,201	888	414
Change from June 1950 to March 1951	*+ 1,163*	*+ 214*	*+ 130*	*+ 34*

* Amount actually drawn upon.

To limit the expansion of credit, which had set in with particular vigour in the middle of 1950, a number of measures were taken in the latter half of that year and at the beginning of 1951.

Sveriges Riksbank: Selected items from the balance sheet.

End of	Assets			Liabilities			
	Gold and foreign exchange (net)	Government securities	Domestic bills and loans on security	Note circulation	Sight deposits: government	Sight deposits: commercial banks	Sight deposits: other
	in millions of Swedish kronor						
1945	2,782	434	22	2,782	831	80	41
1948	605	3,317	140	3,113	679	358	101
1949	1,190	3,184	123	3,287	467	361	79
1950	1,154	3,443	177	3,513	511	312	44
1951 March	1,048	3,556	159	3,355	731	263	25
Change during:							
1945–48	— 2,177	+ 2,883	+ 118	+ 331	— 152	+ 278	+ 60
1949	+ 585	— 133	— 17	+ 174	— 212	+ 3	— 22
1950	— 36	+ 259	+ 54	+ 226	+ 44	— 49	— 35



Export levies were imposed (or increased) on timber, pulp and paper, the prices of which had shown spectacular rises; it was announced that building permits were to be reduced by 10 per cent. in 1951; the budgetary position was improved by cutting subsidies; and indirect taxes were raised. In the monetary field several important developments took place during 1950:

(i) *In the autumn the reserve requirements for commercial banks were stiffened*, this being the first time that the reserve provisions were used as an instrument of credit control. As from 1st October, the individual banks were to hold in liquid assets the following percentages of their liabilities other than guarantees and savings accounts.

Amount of bank's funds	Reserve ratio
Over 50 million kronor	10 per cent.
10 to 50 million kronor	8 „ „
Under 10 million kronor	6 „ „

"Liquid assets" comprised cash, sight deposits with the Riksbank, Treasury bills and Swedish bonds. Of the minimum reserves, at least 40 per cent. was to be held in cash and balances at the Riksbank, and at least 25 per cent. in balances at the Riksbank.

It does not seem that the commercial banks have found much difficulty in complying with these regulations; after a sharp rise in October, their balances at the Riksbank were actually smaller at the end of 1950 than at the end of 1949.

(ii) At the same time as the new reserve regulations were imposed, the banks agreed with the Riksbank to apply a more restrictive policy when granting loans: preference was to be given to exporting industries and to essential home industries, while speculative loans and credits for non-productive purposes were to be refused. In addition, the security offered for a loan was to be scrutinised more strictly, and the credit institutions were not to help in issuing new loans and debentures without prior consultation with the Riksbank.

(iii) On 6th October the Riksbank abolished the preferential rate for rediscounting bills to commercial banks and to central funds for agricultural credits, which had been ½ per cent. below the official discount rate. In addition, the lombard rate was raised from 2½ to 3 per cent.

On 1st December the discount rate was raised from 2½ to 3 per cent. The commercial banks at once raised their own rates on deposits and advances by ½ per cent., and other credit institutions followed suit.

(iv) As early as July 1950 the Riksbank announced that it would no longer support the bond market as it had done in the past, when long-term rates had been pegged around a level of 3 per cent. The price of long-term government bonds fell immediately by about 2 points and by the end of the year the quotations of the 3 per cent. 1934 loan had fallen from par to a little over 90, its yield rising from 3.02 to 3.32 per cent. The prices of short-term securities also reacted sharply, the yield of one-year government bonds rising from 1.8 per cent. in June to 3.3 per cent. in December.

Although the Riksbank much reduced its direct support of the bond market, it none the less provided a powerful indirect support by increasing its holdings of Treasury bills (the latter in turn helping to finance the overall budget deficit). In the first half of 1950 the Riksbank had decreased its holdings of Treasury bills and bonds by some S.Kr. 350 million. In the second half it increased them by S.Kr. 610 million.

In the first quarter of 1951 the Riksbank again added to its holdings of government securities, the increase amounting to S.Kr. 113 million; but the loss of gold and foreign exchange attained S.Kr. 106 million, and this helped to counteract the expansionary effect. In a statement on 28th April 1951, the Board of the Riksbank declared

"that in its opinion a repetition of the change in the rate of interest which occurred between the summer of 1950 and November 1950 ought not to be permitted. If anticipation of such a development should give rise to speculation (and there were certain signs of this in April), the Riksbank intended to break it, even if that involved a temporary departure from the endeavour to keep the money market in a tight position. Changes in the rate of interest should (according to the Board) be the result of decisions adopted by the responsible authorities, after taking account of the tendencies in the current situation and of the probable effect of the rate of interest on economic development as a whole. They should not be a consequence of concessions to temporary speculative factors in the market."

The Swedish Government has granted substantial credits to foreign governments. The accompanying table shows the amounts granted — mostly since the war — the amounts repaid and those still outstanding.

Swedish Government: Long-term foreign credits.

Lent to	Nominal credits granted *	Amount repaid	Amount outstanding
	in millions of Swedish kronor		
Denmark	159.4	—	144.4
Ethiopia	7.5	2.0	5.4
Finland	455.1	—	455.1
France	80.0	47.0	33.0
Netherlands . .	113.5	75.1	38.4
Norway	141.3	—	125.0
Poland	121.6	56.7	64.9
U.S.S.R.	1,000.0	—	304.2
Total	2,078.4	180.8	1,170.4

* In some cases the whole amount of credit granted has not actually been drawn upon.

In Finland the inflationary forces which seemed to have been brought under control at the beginning of 1949 could not be wholly mastered in the following year. There were substantial wage increases connected with a continued boom in the building industry, repercussions of the two devaluations undertaken in 1949, and the sharp rise in the world market prices of Finnish exports. In 1950 wholesale prices rose by 26 per cent. (as compared with 3 per cent. in the previous year).

Bank of Finland: Selected items from the balance sheet.

End of	Assets			Liabilities			
	Gold	Treasury bills	Other domestic loans	Foreign exchange (net liability)	Note circulation	Demand deposits	
						Treasury	others
	in millions of markkas						
1948 . . .	268	19,230	15,793	1,101	27,369	19	1,463
1949 . . .	269	22,030	18,272	4,237	29,606	80	1,865
1950 . . .	2,674	19,730	20,805	2,584	34,383	34	1,270

The note circulation rose by 16 per cent., against 8 per cent. in 1949, and deposits at all credit institutions by 13 per cent. (in 1949 by 26 per cent.).

The gold and (net) foreign exchange holdings rose by over FM 4 milliard in 1950, whereas in 1949 they had been reduced by FM 3.1 milliard. The increase in the value of the gold holdings is partly due to a revaluation at prices five times as high but it also reflects a real improvement. Treasury bills held by the Bank of Finland were reduced by FM 2.3 milliard; other bills and advances rose by about FM 2.5 milliard — approximately the same amount as in the previous year. Domestic loans of the commercial banks (excluding interbank loans) increased rather less in 1950 than in 1949: by FM 10.3 milliard against FM 12.8 milliard. The rise in prices being much greater in 1950, it is not surprising that the credit situation became much tighter, the Bank of Finland stating in its Bulletin (for November–December 1950) that "the demand for credit has indeed been very great, but the banks have been able to meet only a small part of it".

On 1st October 1950, the commercial banks raised their charges on loans by about 2 per cent., at the same time increasing the interest they paid on bank deposits from 5–5½ per cent. to 7–7½ per cent. and interest on current accounts from 1 to 2 per cent. On 3rd November 1950, the Bank of Finland raised its discount rate from 5¾ to 7¾ per cent.

In April 1950, the cover regulations for the note issue were revised, it being provided that the note circulation, together with drafts issued by the Bank of Finland in Finnish currency and other liabilities of the Bank payable on demand, should not exceed the gold reserves and balances with foreign correspondents by more than a given margin (this was normally to be FM 50 milliard, but in certain circumstances it could be raised to FM 58 milliard).

By the end of 1950 gold and (gross) foreign balances amounted to FM 10 milliard, so that the normal "ceiling" for notes and sight liabilities was FM 60 milliard — as against an actual total of FM 46.4 milliard in notes and sight liabilities.

Fresh wage increases were decided upon early in 1951 (see page 86) and again had the effect of tightening the money market. The loans of the commercial banks rose twice as much in the first quarter of 1951 as in the first quarter of 1950, and wholesale prices increased by 18 per cent.

In Norway also, the liquidity of the banking system was reduced in 1950, but under different circumstances. There were some significant changes in the post-war policy of rigid price control, subsidies and cheap money.

In 1950 the increase in the discounts and advances of the commercial and savings banks worked out at 17 per cent., which was appreciably less than the rise in wholesale prices (23 per cent.). While the supply of money (notes and demand deposits) showed only a small decrease, the liquid assets

Discount rates of central banks.

Central bank of	Discount rates at the end of							Change from Dec. 1949 to April 1951
	1929	1938	1947	1948	1949	1950	April 1951	
Switzerland	3½	1½	1½	1½	1½	1½	1½	.
United States (1)	4½	1	1	1½	1½	1¾	1¾	+ ¼
Canada	.	2½	1½	1½	1½	2	2	+ ½
England	5	2	2	2	2	2	2	.
Czechoslovakia	5	3	2½	2½	2½	2½	2½	.
France (2)	3½	2½	2½	3	3	2½	2½	— ½
Ireland	6	3	2½	2½	2½	2½	2½	.
Norway	5	3½	2½	2½	2½	2½	2½	.
Portugal	8	4½	2½	2½	2½	2½	2½	.
Yugoslavia (3)	6	5	1–4	1–3	1–3	1–3	1–3	.
Sweden (4)	5	2½	2½	2½	2½	3	3	+ ½
Turkey	.	4	4	4	4	4	3 (5)	— 1
Austria	7½	4	3½	3½	3½	3½	3½	.
Bulgaria	10	6	4½	3½	3½	3½	3½	.
Belgium (6)	4½	2½	3½	3½	3¼	3¾	3¾	+ ½
Italy	7	4½	5½	5½	4½	4	4	— ½
Netherlands (7)	4½	2	2½	2½	2½	3	4	+ 1½
Spain (8)	5½	4	4½	4½	4	4	4	.
Denmark (9)	5	4	3½	3½	3½	5	5	+ 1½
Hungary	7½	4	5	5	5	5	5	.
Roumania	9	3½	7	5	5	5	5	.
Albania	9	6	5½	5½	5½	5½	5½	.
Germany	7	4	3½	5	4	6 (10)	6	+ 2
Poland	8½	4½	6	6	6	6	6	.
Finland	7	4	5¼	7¼	5¾	7¾ (11)	7¾	+ 2
Greece	9	6	10	12	12	12	12	.

(1) Rate of the Federal Reserve Bank of New York for discounts and advances under sections 13 and 13a of the Federal Reserve Act. Present rate in effect since 21st August 1950.
(2) Rate for discount of public and commercial bills. Latest decrease on 8th June 1950.
(3) Since the amagalmation of institutions of the public sector with the National Bank, differential rates have been introduced according to the *type of debtor*.
(4) Discount rate increased to 3 per cent. on 1st December 1950 and rediscount rate to 2½ per cent. on 6th October 1950.
(5) In effect since 26th February 1951.
(6) Rate in effect since 11th September 1950 for accepted bills domiciled with banks and for warrants. The rate for bank acceptances previously endorsed by the National Bank and representing exports of goods was *raised from 2½ to 3 per cent. on 11th September 1950 and to 3¾ per cent. on 7th December 1950* (i.e. to the same rate as for those representing imports of goods).
(7) Rate for bills discounted. Latest increases on 25th September 1950 and 17th April 1951.
(8) The rediscount rate is 3.20 per cent.
(9) The discount rate was raised on 4th July 1950 from 3½ to 4½ per cent. and on 2nd November 1950 to 5 per cent., the *rediscount rate being raised on the same dates from 3 to 4 per cent. and then to 4½ per cent.*
(10) In effect since 27th October 1950.
(11) In effect since 3rd November 1950.

Norway: Balance sheet of commercial and savings banks.

End of	Assets					Liabilities	
	Cash assets		Discounts and advances	Mortgages	Securities	Demand deposits	Time deposits
	Cash and balances at Norges Bank	Treasury bills					
	in millions of Norwegian kroner						
1939 . . .	77	—	1,670	578	863	179	2,312
1945 . . .	748	3,951	863	539	1,562	2,663	3,962
1948 . . .	935	1,475	2,521	1,063	2,303	2,551	4,609
1949 . . .	1,448	380	2,786	1,308	2,525	2,388	4,906
1950 . . .	929	61	3,273	1,474	2,646	2,185	5,092

of the banks (including Treasury bills) were reduced by 46 per cent. Altogether these liquid assets have been reduced by N.Kr. 3,800 million since the end of the war, but at the end of 1950 they still stood just below N.Kr. 1,000 million, as compared with about N.Kr. 80 million before the war. Ampler liquid reserves are now required, however, since a higher proportion of the banks' liabilities consist of demand deposits.

The change which has been made in the liquidity position is also reflected in the balance sheet of the central bank.

While in 1949 the deposits of commercial and other banks with the Norges Bank increased, these deposits fell sharply in 1950. The difference in the development was due to the following main factors:

(i) The occupation account (the chief asset of the Norges Bank) was reduced by N.Kr. 800–900 million in both 1949 and 1950. In the former year a large part of the reduction had been effected by using the balance of the proceeds of a capital levy, together with other sums which, in point of fact, had already been sterilised on accounts with the Norges Bank (so that the result was simply a transaction in the books of that bank). In 1950, on the other hand, the whole of the reduction was made by using currently accruing counterpart funds, and money was thus absorbed from the commercial banks.

(ii) In 1949 the government had drawn very heavily on its deposits with the Norges Bank, not only in order to write down the occupation account, but

Norges Bank: Selected items from the balance sheet.

End of	Assets		Liabilities				
	Gold and foreign exchange (net)*	Occupation account (net)	Notes in circulation	State deposits		Deposits of Norwegian banks	Blocked deposits
				counterpart funds	total		
	in millions of Norwegian kroner						
1947. . .	752	8,094	2,088	—	3,079	1,309	847
1948. . .	483	7,924	2,159	197	3,282	818	750
1949. . .	258	7,114	2,308	317	1,935	1,324	580
1950. . .	302	6,202	2,397	355	1,600	739	515

* Including balances under clearing agreements and liabilities to foreign banks.

also in order to repay Treasury bills — a process which tended to increase the cash holdings of the banks. This was not continued on the same scale in 1950, the decrease of government deposits with the Norges Bank being relatively small.

With the general decrease in liquidity, market rates of interest rose (though the discount rate of the Norges Bank was left unchanged). 2½ per cent. government bonds, which had been quoted at or close to par from 1946 to March 1950, began to weaken in April 1950; by July they had fallen to 94.3 and in January 1951 they were quoted at 93.2 — a sign of the relaxation of the extreme cheap-money policy, which had depended on the very high degree of liquidity prevalent until recently.

In Denmark also the liquidity of the banking system was appreciably reduced in 1950, as is most clearly shown by the decline in the amount of "sight deposits" held with the central bank.

Danmarks Nationalbank: Selected items from the balance sheet.

End of	Assets		Gold and foreign exchange (net)	Liabilities			
	Advances, bonds and shares	Regulation account		Notes in circulation	Sight deposits	Government deposits ordinary account	Government deposits special accounts*
	in millions of Danish kroner						
1938	467	—	+ 202	441	123	— 60	—
1945	162	7,611	+ 285	1,561	3,516	292	2,445
1948	212	5,092	— 482	1,614	1,063	218	1,640
1949	284	4,761	— 331	1,627	1,119	— 73	1,853
1950	480	3,991	— 603	1,709	697	— 202	1,285

* Including counterpart funds.

In 1949 the commercial banks' liquidity increased as a result of an improvement in the central bank's (net) gold and foreign exchange position and of a rise in its credit to the government. In 1950 the Nationalbank's credit to the government continued to expand but this was more than outweighed by the effects of providing for the current deficit of D.Kr. 745 million in the balance of payments; a little more than half of this deficit was covered by Marshall aid and the remainder by a further increase in the central bank's foreign liabilities — the net debtor position in gold and foreign exchange rising from D.Kr. 331 million to D.Kr. 603 million. On balance, the liquidity of the banks was reduced by about D.Kr. 350 million.

As part of the measures successively adopted in order to overcome the balance-of-payments difficulties in 1950 the Danmarks Nationalbank raised its discount rate: from 3½ to 4½ per cent. in July and to 5 per cent. in November. The commercial and savings banks followed suit, with a total increase in their discount rates from a range of 3½–5½ per cent. to 5–7 per cent.

The interest on deposits was also increased, as much as 4 per cent. being paid on deposits at six months' notice.

In the long-term market also, rates of interest went up. The yield of the 3½ per cent. irredeemable government bonds rose from 4.42 per cent. in June 1950 to 4.84 per cent. in December and 4.95 per cent. in March 1951. The 4 per cent. government loan of 1919, which had been quoted at 95¾ in June 1950, fell to 87 in April 1951.

Denmark: Bank advances and deposits.

End of	Advances			Deposits		
	Commercial banks	Major savings banks	Total	Commercial banks	Major savings banks	Total
	in millions of Danish kroner					
1938	2,143	1,522 (1)	3,665	2,305	1,922 (1)	4,227
1948	3,916	2,176	6,092	5,377	4,198	9,575
1949	4,275	2,455	6,730	5,543	4,308	9,851
1950	4,645 (2)	2,778	7,423	5,718 (2)	4,408	10,126

(1) March 1939. (2) Provisional.

In October 1950, the Danmarks Nationalbank announced that it would discontinue the arrangements which had been introduced in 1948 for refinancing building loans granted by commercial and other banks. It is not surprising that, with this change in the central-bank policy, with the losses resulting from a fall in security prices and with the general decrease in liquidity, the commercial banks should have shown considerable restraint in making advances, notwithstanding the increased demand for credit natural at a time of rising prices. The rise in advances granted by commercial and savings banks was only a little larger in 1950 than in 1949.

In the Netherlands the commercial banks have been extremely liquid owing to the large quantity of government securities with which they were loaded during the war.

Netherlands: Combined balance sheet of 42 commercial banks.

End of year	Assets			Liabilities		Total of balance sheet
	Treasury paper	Loans, credits and bills	Other items	Current accounts in florins	Other items	
	in millions of florins					
1946 . . .	3,357	700	886	3,326	1,773	5,098
1948 . . .	3,517	870	1,060	3,328	2,119	5,447
1949 . . .	3,596	1,050	1,032	3,324	2,354	5,678
1950 . . .	2,933	1,247	1,080	2,823	2,437	5,260
Change during 1950 . . .	− 663	+ 197*	+ 48	− 501	+ 83	− 418

* In addition, credits to the extent of Fl. 185 million were granted by agricultural credit banks and Fl. 73 million by other banks.

Two main developments during the year have been the reduction in current accounts and the increase in credits. In both cases, it has been primarily a question of financing increased imports. In this connection it should be noted that the increase in Dutch imports had already begun in the last quarter of 1949, largely as a reaction to the trade liberalisation, which made it possible to build up stocks to more normal figures. There was a current deficit of Fl. 1,106 million in the balance of payments in 1950 (as compared with Fl. 253 million in 1949). Gold and foreign exchange reserves continued to rise, but this was due primarily to the receipt of Fl. 1,305 million in Marshall aid grants; as the payments into "counterpart funds" were left to accumulate at the central bank, the balance-of-payments deficit was allowed to exercise its traditional effect of contributing to a contraction of the supply of money. The internal credit expansion was not large enough to offset this; but, as the President of the Nederlandsche Bank explained in his annual report, it was this "expansion and its irrefutable connection with the financing of the balance-of-payments deficit" that "caused the Nederlandsche Bank, in September 1950, to increase its rate of discount and to announce its intention of introducing quantitative credit restrictions".

Netherlands: Changes in money supply.

Items	1948	1949	1950
	in millions of florins		
Changes in the money supply			
Currency	+ 122	− 58	− 159
Bank deposits	+ 256	+ 278	− 312
Total	+ 378	+ 220	− 471
Factors causing changes in the money supply			
Change in credit to public authorities	+ 542	+ 82	+ 267
Change in credit to private economy	+ 185	+ 160	+ 455
Release of blocked balances	+ 257	+ 90	+ 94
Changes in gold and foreign exchange reserves	− 60	+ 429	+ 220
Changes in counterpart funds (increase −)	− 347	− 650	− 1,320
Other factors	− 199	+ 109	− 187
Total	+ 378	+ 220	− 471

After the increase in the official discount rate from 2½ to 3 per cent. in September 1950, a further increase to 4 per cent. was made in April 1951. Long-term interest rates also stiffened from the level of 3.1 to 3.25 per cent. prevailing in the first half of 1950 to over 3½ per cent. in the spring of 1951. The yield on a loan issued by the government in April 1951, and redeemable by instalments between 1952 and 1976, works out at 3.53 per cent.

In the autumn of 1950, a scheme of credit control was devised, to come into effect on 1st January 1951. This scheme was introduced primarily to prevent the banks from unloading their large holdings of government securities in order to expand business credit. As liquidity conditions varied greatly from bank to bank, uniform reserve requirements could not be imposed, and the following more complicated system was adopted:

(i) In general, banks are to maintain at least 40 per cent. of their deposits in liquid assets (cash, money at call, balances with bankers and short-term government securities). Those banks which do not already observe this ratio require special authorisation from the Nederlandsche Bank if they wish to grant further credits.

(ii) Those banks whose liquidity ratio exceeds 40 per cent. can choose between observing one or other of the following requirements. Either the amount of credits they grant may not exceed 105 per cent. of the amount granted on 30th September 1950 or they are to hold a minimum of liquid assets, amounting to 90 per cent. of the average of their holdings on 30th June and 31st December 1949, this amount being raised (or lowered) by two-thirds of any increase (or decrease) in their deposits. The effect of these measures is that business credits may in any case increase by 5 per cent. over the level of 30th September 1950 and that, if deposits rise, around 60 per cent. must be held in liquid form, only the remaining 40 per cent. being available for additional credits.

In Belgium, neither the note circulation nor the volume of bank money has increased appreciably since the end of 1948.

Belgium: Note circulation and money supply.*

End of	Note circulation and coins	Bank money				Total money supply
		National Bank	Postal cheque system	Other banks and institutions	Total	
	in milliards of Belgian francs					
1938	23.6	2.1	3.0	14.6	19.7	41.2
1947	83.8	1.8	17.8	39.0	58.5	142.3
1948	88.5	2.3	18.7	40.7	61.6	150.1
1949	91.0	1.5	20.2	43.1	64.9	155.9
1950	92.3	1.0	19.6	42.8	63.4	155.7

* Excludes amounts held by banks, public authorities and non-residents.

There was a rapid growth in the National Bank's refinancing of credits to the economy (B.fcs 7.3 milliard) and in its financing of public authorities (B.fcs 3.7 milliard), but appropriate action made it possible to limit this to the amount that could be absorbed without too great a reduction in the country's gold and exchange reserves.

Both the expansion of the volume of credit and the fall in the monetary reserves took place mainly in the second half of the year, and there was a close connection between them, since the increased credits granted by the National Bank either helped to finance imports directly or in any case served to strengthen the demand for them. A law of 10th August 1950 credited the revaluation profits to a special account of the Treasury, which drew on it to finance the budget, while the hope was expressed that this special account might be replenished later if circumstances permitted.

National Bank of Belgium: Changes in major items of the balance sheet.

Items	Change during 1949	Change during 1950
	in millions of Belgian francs	
Note circulation	+ 3,030	+ 709
Deposits at National Bank		
E.C.A. accounts	— 228	— 402
Treasury	— 13	+ 2
Banks in Belgium	— 795	+ 155
Others	— 970	— 550
Total	+ 1,024	— 86
Gold and foreign exchange (excluding revaluation profit)	+ 1,619	—10,596*
Credits to the economy	— 1,488	+ 7,310
Credits to public authorities (including revaluation profit and securities)	+ 1,010	+ 3,703
Other items (net)	— 117	— 503
Total	+ 1,024	— 86

* To make this estimate of changes in the net gold and foreign exchange position more comparable with those published for other countries, the liabilities to the I.M.F. and the E.C.A. are excluded throughout. These liabilities were reduced by B.fcs 1.5 milliard in 1950. The profit on the revaluation in 1950 of the gold reserves amounted to B.fcs 4.3 milliard. The decrease in the published figures of the net reserves (which allow for the liability to the I.M.F., and also, until recently, for certain liabilities to the E.C.A.) amounted to B.fcs 4.8 milliard in 1950.

To moderate the expansion of credit, the National Bank took various steps during the latter half of 1950.

(i) On 11th September it raised its discount rate from 3.25 to 3.75 per cent.

(ii) At the same time, it reduced by 30 days the maximum maturities that it would accept for certain import bills submitted to it.

(iii) It issued instructions to the commercial banks to exercise restraint in granting instalment credit.

(iv) On 17th October it discontinued forward sales of pounds and Swedish crowns and on 20th November it ceased to handle forward sales of all currencies other than U.S. and Canadian dollars, these sales being thenceforward left to the market.

(v) On 7th December it raised its discount rate on certain export acceptances from 3 to 3.75 per cent., thus abolishing the preference which export paper had previously received.

The effectiveness of these measures was enhanced by the circumstance that care had been taken to make the commercial banks dependent on the support of the National Bank in the event of any substantial expansion of credit. Of the increase in credit to the economy by B.fcs 8.9 milliard in 1950, no less than B.fcs 7.3 milliard was rediscounted with the National Bank.

Belgium: Credits to the economy and public authorities.

End of	Credits to the economy			Credits to public authorities		
	National Bank	Others	Total	National Bank	Others	Total
	in milliards of Belgian francs					
1948	5.9	21.4	27.3	8.4	33.6	42.0
1949	4.4	22.7	27.1	9.4	34.2	43.6
1950 June	5.2	23.8	29.0	8.4	35.5	43.9
December	11.7	24.3	36.0	8.7*	34.9	43.6

* Excluding the revaluation profit.

In the long-term market the 4 per cent. Dette Unifiée, which had risen from 89.6 to 92 between January and June 1950, fell to 86½ at the beginning of March 1951, while the yield of 4 per cent. industrial bonds rose from 4.37 per cent. in June 1950 to 4.52 per cent. in March 1951. On the other hand, the prices of ordinary shares showed a sharp increase, the share index (1936–38 = 100) standing at 165 in December 1949, 167 in July 1950 and 195 on 16th March 1951.

Public authorities and institutions (including the railways and the Congo authorities) floated loans to a gross value of B.fcs 9.5 milliard in 1950, against B.fcs 14.6 milliard in 1949, while issues for private business remained moderate, the net amount issued in 1950 being B.fcs 2,594 million.

There was in 1950 a great similarity between economic and credit conditions in Belgium and in Switzerland. Both countries felt the disappearance of the sellers' market for their products in the first half of the year, and both were quickly drawn into the revival of business in the second half, with an intensification of industrial activity, largely due to foreign orders, and a sudden flood of imports. But Switzerland, having been almost unscathed by the war, had larger reserves and could, therefore, weather the strain with little or no difficulty.

Indeed, some concern was felt in the first half of 1950 because of a continued inflow of gold (connected with the active balance of payments), which led to a state of extreme liquidity, with a further fall in interest rates, the yield of Federal loans going down from 2.60 per cent. in November 1949 to 2.27 per cent. in May 1950. In order to avoid further increases in liquidity the Confederation agreed to take over and thus sterilise the inflow of gold, its own gold holdings increasing by Sw.fcs 226 million in the first six months of the year; and the National Bank arrived at a "gentleman's agreement"

Swiss National Bank: Selected items from the balance sheet
(together with the gold holdings of the Confederation).

End of	Confederation	National Bank				
		Assets			Liabilities	
	Gold holdings	gold and convertible currency (i.e. dollars)	bills	advances	notes in circulation	sight deposits
	in millions of Swiss francs					
1938	—	3,169	54	22 *	1,751	1,663
1945	1,030	4,939	84	68	3,835	1,110
1948	182	6,058	124	79	4,594	1,243
1949 June	144	6,414	109	27	4,319	1,781
December	269	6,500	82	31	4,566	1,731
1950 June	495	6,534	73	24	4,283	2,202
December	387	6,232	170	85	4,664	1,773
1951 March	276	6,237	157	32	4,420	1,897

Switzerland: Forty-three commercial and other banks.*

End of	Assets					Liabilities		
	Cash	Bills	Advances	Mortgage loans	Securities	Sight liabilities	Time and savings deposits	Bonds and loans
	In millions of Swiss francs							
1945.	651	1,428	2,645	6,489	2,976	3,618	5,565	4,013
1948.	939	1,736	4,417	7,331	2,160	4,314	6,508	4,544
1949 June. . .	1,268	2,023	4,091	7,543	2,172	4,630	6,536	4,699
December	1,311	2,321	4,007	7,763	2,082	4,990	6,598	4,690
1950 June. . .	1,533	2,168	4,052	7,929	2,284	5,313	6,806	4,682
December	1,076	2,358	4,553	8,136	2,145	5,167	7,086	4,693

* The banks included in the table hold about three-quarters of the deposits of the Swiss banking system (apart from the National Bank).

with the other banks that they would pay no interest on deposits made in future by non-residents and that such deposits, if not withdrawn in a short time, would be subject to one month's notice.

In the second half of the year a heavy import surplus had to be paid for and the National Bank and Confederation together lost Sw.fcs 410 million of gold and dollars. The commercial banks' cash reserves were reduced by Sw.fcs 460 million or nearly one-third, while their advances rose by Sw.fcs 500 million (after having remained almost stable since June 1949).

The discount rate of the National Bank was left unchanged at 1½ per cent., but market rates of interest rose. Day-to-day money, which cost 1 per cent. at the beginning and ¾ per cent. in the middle of the year, rose to 1.56 per cent. in December. The yield of Federal loans rose from 2.27 per cent. in May to 2.74 per cent. in December and to 2.87 per cent. by 13th April 1951.

The pressure of funds in the Swiss capital market was somewhat relieved during the year by issues for foreign account, which during 1950 amounted to a total of Sw.fcs 208 million, loans being contracted by Belgium, the Netherlands, South Africa and the Belgian Congo. The National Bank explained in its annual report that under the prevailing circumstances the granting of foreign credits led to an outflow of funds which was not undesirable; and it was particularly advantageous when it gave direct or indirect support to the Swiss import and export trade.

In Belgium and Switzerland business credit had fallen in 1949 but grew rapidly in 1950; in France and Italy, on the other hand, business credit and the supply of money expanded a good deal less in 1950 than in 1949.

In France the supply of money expanded by Fr.fcs 417 milliard or 15 per cent. in 1950, compared with increases of 25 per cent. in 1949 and 29 per cent. in 1948, and the increase in demand deposits was relatively moderate.

France: Note circulation and demand deposits.

End of	Note circulation	Demand deposits*					Total money supply
		Bank of France	Postal cheque system	Deposits with Treasury	Banks	Total (net)	
	in milliards of French francs						
1938	112	19	3	—	58	80	192
1947	921	47	85	15	608	755	1,676
1948	993	66	143	19	966	1,174	2,167
1949	1,301	79	187	22	1,145	1,403	2,704
1950							
June. . .	1,400	54	195	22	1,158	1,429	2,829
December	1,590	63	209	28	1,351	1,531	3,121

* Demand deposits of businesses and individuals only. Deposits are given gross except for the total, which is obtained after deducting the following amounts for deposits representing settlements postponed till the succeeding month: December 1948, 20 milliard; December 1949, 30 milliard; December 1950, 120 milliard.

During 1948 and 1949, with a revival of confidence in the franc, the public increased its cash holdings and there was consequently room for a non-inflationary credit expansion (see page 22). But this process of filling a temporary vacuum could not go on for ever, and more restraint was therefore appropriate.

France: Formation of the money supply.

Items	1947	1948	1949	1950
	in milliards of French francs			
Increase in money supply (1)				
Currency in circulation	+ 189	+ 72	+ 308	+ 289
Demand deposits	+ 138	+ 419	+ 229	+ 128
Total	+ 327	+ 491	+ 537	+ 417
Changes in items corresponding to increase in money supply:				
Gold and foreign exchange transactions of the Bank of France (2)	— 30	—	+ 90	+ 195
Credits to public authorities				
Bank of France (including portfolio)	+ 199	+ 39	+ 35	— 4
Other banks	— 56	+ 65	+ 35	+ 30
Postal cheque system	+ 23	+ 58	+ 44	+ 28
Total	+ 166	+ 162	+ 114	+ 54
Credits to the economy				
Bank of France	+ 34	+ 113	+ 147	.
Other banks	+ 148	+ 260	+ 189	.
Total	+ 182	+ 373	+ 336	+ 260
Other items (net) (3)	+ 9	— 44	— 3	— 92
Grand total	+ 327	+ 491	+ 537	+ 417

(1) For details see preceding table.
(2) It is only for the years 1949 and 1950 that the "gold and foreign exchange transactions of the Bank of France" give a fairly accurate picture of the changes in the net official reserves. The annual reports of the Bank of France reveal that the French authorities' reserves of gold and foreign exchange were reduced considerably in 1947 and 1948 and that a substantial debt was incurred in respect of payments agreements; but, in the main, these transactions were carried out by the Exchange Stabilisation Fund and not through the banking system. Most of the counterpart in French francs obtained from the net sales of foreign exchange was credited to the Treasury and, in fact, went to finance expenditure of the government — the consequence being that the reduction in reserves did not contract the supply of money (see Chapter VI, page 168). (3) Including counterpart funds, Treasury account at the Bank of France, time deposits, etc.

Notes in circulation.

Countries	End of June 1939	Dec. 1947	Dec. 1948	Dec. 1949	Dec. 1950	Dec. 1950
	In millions of national currency units					Index June 1939 = 100
Austria	900 (1)	4,326 (2)	5,635	5,721	6,349	*706* (3)
Belgium	22,212	80,374	84,861	87,890	88,599	*399*
Denmark	446	1,641	1,614	1,627	1,709	*383*
Finland	2,200	25,162	27,369	29,606	34,383	*1,563*
France	122,611	920,831	987,621	1,278,211	1,560,561	*1,273*
Germany	9,115	.	6,727 (4)	7,698 (4)	8,232 (4)	*90* (5)
Greece	8,002	973,609	1,202,166	1,858,613	1,887,060	*23,582*
Iceland	12	107	175	184	197	*1,589*
Ireland	16	48	50	54	57	*351*
Italy	21,533 (6)	794,989 (6)	970,853 (6)	1,057,047 (6)	1,174,223 (6)	*5,453*
Netherlands	1,045	3,144	3,263	3,149	2,992	*286*
Norway	475	2,088	2,159	2,308	2,397	*505*
Portugal	2,096	8,752	8,696	8,456	8,526	*407*
Spain	13,536 (7)	26,014	26,472	27,645	31,661	*234* (8)
Sweden	1,059	2,895	3,113	3,287	3,513	*332*
Switzerland	1,729	4,383	4,594	4,566	4,664	*270*
Turkey	211	888	932	890	962	*457*
United Kingdom	499	1,350	1,293	1,322	1,358	*272*
Canada (9)	213	1,046	1,115	1,110	1,136	*533*
United States	6,489	27,464	26,760	26,116	26,187	*404*
Argentina	1,128	5,346	7,694	10,128	13,258	*1,175*
Bolivia	301	1,848	2,169	2,547	3,432	*1,138*
Brazil	4,803	20,399	21,696	24,045	31,205	*650*
Chile	866	4,067	4,720	5,744	7,047	*814*
Colombia	57	298	362	476	463	*807*
Costa Rica	28	87	112	109	108	*388*
Ecuador	64	338	341	357	471	*733*
Guatemala	8	30	34	36	37	*479*
Mexico	318	1,762	2,000	2,262	2,798	*879*
Paraguay (10)	12 (11)	43	65	89	134 *	*1,091* (12)
Peru	113	699	761	883	1,034	*914*
Salvador	15	54	57	65	73	*497*
Uruguay	91	241	271	297	361	*396*
Venezuela	133 (11)	606	769	814	798	*598* (12)
Egypt	21	138	154	166	184	*888*
Israel	.	.	31	50	73	.
India	1,846	12,388	11,882 (13)	11,065	11,633	*630*
Iran	893	6,905	6,631	5,984	6,737	*754*
Iraq	4	35	35	33	35	*802*
South Africa	19	66	68	68	76	*398*
Australia	48	205	218	240	272	*573*
New Zealand	16	52	53	59	62	*399*
Japan	2,490	219,142	356,280	355,312	422,063	*16,949*

* November 1950.
(1) 7th March 1938. (2) 7th December 1947. (3) Compared with 7th March 1938.
(4) For the Bank deutscher Länder, in DM.
(5) Compared with the circulation of Reichsbank and Rentenbank notes in June 1939.
(6) Including state and Allied Military currency. (7) End of December 1941.
(8) Compared with end of December 1941.
(9) Not including notes held by the chartered banks as reserves. (10) Notes and coin.
(11) End of December 1939. (12) Compared with end of December 1939.
(13) India's notes in circulation in Pakistan are not included.

In 1949, for the first time for many years, the increase in the supply of money had been backed by an increase in the country's gold and foreign exchange reserves. In 1950, another long-standing practice was changed: on balance, the Bank of France supplied no funds to the government.

The major part of the expansion in the supply of money in 1950 was accounted for by an increase of Fr.fcs 195 milliard in the gold and foreign exchange holdings and of Fr.fcs 178 milliard in business credits given to the economy by the ordinary banking system.

Deposits in savings banks and public subscriptions to Treasury bonds rose from Fr.fcs 120 milliard in 1949 to Fr.fcs 180 milliard in 1950. But time deposits with banks and investments in life insurance continued to show only negligible increases, and issues on capital markets were disappointingly small. If a deduction is made for securities amortised and for subscriptions by institutions, the net subscription by the public to capital issues other than Treasury bonds amounted to only Fr.fcs 121 milliard in 1949 and Fr.fcs 104 milliard in 1950. Owing to this inactivity of the capital market, by far the greater part of investment has been financed out of profits, foreign aid and budget provisions (for war damage and other investments) and by banks.

In the earlier part of 1950 complaints were heard of the onset of a "depression", current statistics showing a certain slowing-up in the rise in production. With the foreign exchange reserves increasing steadily, the authorities decided that the credit restrictions could be somewhat relaxed and the following measures were taken:

(i) In April 1950, the limit beyond which business credits required the prior authorisation of the Bank of France was raised from Fr.fcs 50 million to Fr.fcs 100 million.

(ii) On 8th June 1950, the Bank of France lowered its discount rate from 3 to 2½ per cent. and its lombard rate from 4½ to 3¾ per cent. Following this lead, the other banks lowered their charges, the minimum rate for advances being reduced from a range of 5¾–6 per cent. to 5½ per cent.

(iii) During the year the Bank of France raised the "ceilings" placed on banks' rediscounts from Fr. fcs 200 milliard to Fr. fcs 250 milliard.

(iv) In July 1950, state guarantees to exporters were extended and in that and the following months greater facilities (subsidies to private builders and easier loan terms) were granted in order to stimulate building activity.

With the increase in prices and production stimulating the demand for financing, the measures just mentioned led to a substantial expansion of credit during the last quarter of the year: out of an increase of Fr.fcs 327 milliard in business credits in 1950, Fr.fcs 215 milliard fell within the last quarter — a larger proportion than could be accounted for by the seasonal trend.

When in the autumn of 1947 it proved possible in Italy to arrest the inflation, the supply of money (as measured by the notes in circulation and current accounts at the banks) had risen little more than half as much as prices since 1938 and there was thus room for a substantial increase. But

Italy: Money supply and savings deposits.

End of	Supply of money					Savings deposits (1)		
	Circulation of notes and coin	Other forms of currency	Current accounts: Banks (2)	Current accounts: Postal system	Total	Banks	Postal system	Total
	in milliards of lire							
1938 . . .	22	2	17	1	44	38	29	67
1947 . . .	795	133	485	33	1,446	529	199	728
1948 . . .	971	152	715	51	1,889	805	342	1,147
1949 . . .	1,058	137	933	135	2,263	1,016	522	1,538
1950 . . .	1,176	136	1,061	128	2,501	1,172	661	1,833

(1) After the real value of savings deposits had fallen by 80 per cent. during the period of inflation, it was bound to take some time for the pre-war level to be regained. But the resumption of saving in this form has been truly remarkable. Between the end of 1947 and the end of 1950 the total of savings deposits rose by more than two and a half times, corresponding at the latter date to 29 per cent. of the national income, as compared with 57 per cent. in 1938 and only 15 per cent. in 1947.
(2) Excluding the Bank of Italy.

by the end of 1949 this phase was over: the supply of money had risen to 38 per cent. of the national income, or approximately the pre-war ratio, and it was no longer to be expected that an expansion could take place without inflationary dangers.

During the first half of 1950 both the note circulation and current accounts decreased, thus marking the reappearance of the seasonal rhythm

Italy: Formation of the money supply.(1)

Items	1947	1948	1949	1950
	changes, in milliards of lire			
Change in money supply and savings deposits				
Notes, coin etc.	+ 315	+ 195	+ 72	+ 117
Demand deposits	+ 163	+ 248	+ 302	+ 121
Savings deposits	+ 220	+ 419	+ 391	+ 295
Total	+ 698	+ 862	+ 765	+ 533
Change in items corresponding to money and savings deposits:				
Net gold and foreign exchange transactions	+ 14	+ 161	+ 258	+ 61
Balance of counterpart funds (net outflow +)	+ 18	— 53	— 135	+ 122
Credits to the economy				
Bank of Italy	+ 114	+ 9	+ 46	+ 38
Other banks	+ 310	+ 328	+ 324	+ 265
Postal system	+ 18	+ 24	+ 15	+ 24
Total	+ 442	+ 361	+ 385	+ 327
Credits to public authorities (2)				
Bank of Italy	+ 119	+ 76	— 2	— 78
Other banks	+ 55	+ 197	+ 69	+ 70
Postal system	+ 48	+ 137	+ 161	+ 161
Total	+ 222	+ 410	+ 228	+ 153
Other items (net)	+ 2	— 17	+ 28	— 130
Grand total	+ 698	+ 862	+ 765	+ 533

(1) This table is derived from the comprehensive "monetary balance sheet" compiled by the Bank of Italy.
(2) Including changes in banking accounts with the Treasury and in Treasury accounts with the Bank of Italy.

which had been normal before the war. Under the influence of the upward movement of international prices, there was a renewed expansion in the latter part of the year, and for the year as a whole the supply of money rose by Lit. 238 milliard (as against Lit. 374 milliard in 1949).

In the formation of the supply of money the growth of the gold and foreign exchange reserves played a much smaller part in 1950 than in 1949, but internally the effect of this change was offset by the larger releases from counterpart funds, which in fact exceeded the amount of foreign grants received during the year.

Credits from the banking system to public authorities as well as to the private economy rose less in 1950 than in 1949. This was not due, however, to any decrease either in the cash budget deficit (which in fact rose from Lit. 413 milliard in the calendar year 1949 to Lit. 459 milliard in 1950) or in the volume of investment but was the result of more ample supplies of funds from other sources. Thus the capital market provided Lit. 121 milliard towards the budget deficit in 1950 (as against Lit. 65 milliard in the previous year) and releases from foreign aid accounts ("counterpart funds") came to Lit. 234 milliard in 1950, as compared with Lit. 56 milliard in 1949.

Investment (including government-financed investment) is estimated to have been 10 per cent. larger in 1950 than in 1949, finance being provided to a greater extent out of profits and by loans for the purchase of machinery in the dollar and also in the sterling area (as well as by amounts remaining unspent from fairly large issues of industrial bonds in the latter part of 1949).

Early in 1950, it was clear that the monetary position had been consolidated, and the Bank of Italy on 6th April reduced its official discount rate from 4½ to 4 per cent. The average yield of government securities fell from 5.91 per cent. in April to 5.77 per cent. in June; but in July it rose again and by March 1951 it had reached 6.19 per cent. In January 1951 a new issue of 5 per cent. tax-free Treasury bonds was announced: these were nine-year bonds, issued at 97½ and giving a yield of 5.94 per cent.

In the earlier part of 1950 the government had been anxious to encourage investment on a larger scale. Its programme contemplated gross investments of Lit. 1,650 milliard (20 per cent. of the gross national product), of which Lit. 500 milliard were financed by the state. Of the remaining Lit. 1,150 milliard (total gross private investments) nearly Lit. 600 milliard represented net private investments, including between Lit. 100 and 150 milliard for increase in inventories. A special institution (the "Cassa del Mezzogiorno") was set up. It was to provide Lit. 100 milliard a year for investments in southern Italy over a period of ten years.

In the latter half of the year it was feared that inflationary developments abroad and increasing government expenditure would lead to a dangerously sharp rise in internal prices; but it was felt that the existing system of restrictions would suffice to prevent the credit expansion from getting out of hand.

The relative stability in the money and credit system which, by 1949, had been reached by a number of European countries had not yet been attained by Austria in 1950.

Austria: Money supply and savings deposits.

End of	Notes in circulation	Sight deposits (excluding National Bank)	Total	Savings deposits
	in millions of schillings			
1947 October (1) .	6,219	4,544	10,763	2,614
1948 March (2) . .	3,994	4,802	8,796	1,119
1948 December .	5,635	4,783	10,418	1,272
1949 December .	5,721	5,988	11,709	1,670
1950 December .	6,349	7,271	13,620	2,198
1951 March	6,089	8,131	14,220	2,359

(1) Before the second monetary reform.
(2) After the second monetary reform.

The flood of money resulting from wartime finance had been pretty well absorbed by two monetary reforms and by increases in production and prices, so that the expansion of the volume of money in 1950 — and especially the increase in the note circulation, after a year when it had remained virtually unchanged — denotes the operation of fresh inflationary forces.

In 1950 more than one-half of the increase in the commercial banks' credits was refinanced at the National Bank, but it should be noted that the greater part of the increase in central-bank discounts represented the "use" of the counterpart funds arising from Marshall aid. In the main, releases from these funds were used (indirectly) to cover non-budgetary investment; under the special system adopted in Austria, they went to reduce the government's debt to the National Bank, which in its turn undertook to rediscount a corresponding amount of "reconstruction bills". Thus, the growth in the National Bank's holdings of "reconstruction bills" was fully covered by foreign aid and, if it had proceeded pari passu with the receipt of that aid, it would not have had any inflationary effects. In fact, however, there was a considerable time-lag between the original receipt of foreign-aid goods and the corresponding releases from counterpart funds, so that the alternate accumulation and release of these funds produced alternate tendencies towards contraction and expansion. It was only in the last quarter of the year that the National Bank's holdings of other bills increased rapidly.

Austria: Credits granted to the economy. (1)

End of	National Bank			Other banks		
	Bills discounted					
	Reconstruction bills	Other bills	Total of bills	Reconstruction credits	Other credits	Total of credits
	in millions of schillings					
1948	274	12	286	319	3,887	4,206
1949	781	154	935	1,057	5,954	7,011
1950	2,227	809	3,036	2,268	8,434	10,702
1951 March. .	2,527	653	3,180	2,603	9,276 (2)	11,879 (2)

(1) Including credits to local authorities. The credits of the "Other banks" include bills rediscounted at the National Bank; consequently, the totals under "National Bank" and under "Other banks" must not be added together. (2) Preliminary figures.

At the beginning of 1951 there was a further expansion of credit, and the deterioration in Austria's foreign payments position (particularly in relation to the European Payments Union), together with the sharp rise in prices, caused considerable anxiety. On 16th March 1951 the National Bank reached an agreement with the Bankers' Association on a qualitative limitation of credit. After consultations with the National Bank and with the parties concerned, the Finance Minister was able to announce in April 1951 that an agreement had also been reached with the commercial banks on a scheme for minimum-reserve ratios. From 1st May the banks were to keep at least 25 per cent. of their liabilities other than capital and reserves in liquid assets of either first or second grade — first-grade assets being cash and deposits with the National Bank and the postal savings system, and second-grade assets being bills and securities eligible for discount or as cover for advances from the National Bank, cheques and coupons due for payment and sight deposits at other credit institutions. At the beginning of 1952 these regulations are to be stiffened; the ratio of liquid assets of both grades is to be raised to 30 per cent., while 10 per cent. is to consist of first-grade assets.

Certain aspects of the credit developments in Germany have been dealt with in Chapter II (page 46) in connection with the balance-of-payments crisis in the autumn of 1950 and the special credit granted by the European Payments Union under conditions holding out the hope of an improvement in the situation. For this reason, some additional data are all that need be given in this chapter.

Until the spring of 1951, a remarkable feature of the German development was the continuous and rapid expansion of credit, which proceeded even faster than the growth of industrial production (itself 30 per cent. higher in the second half of 1950 than in the corresponding period of the previous year).

Germany: Credits to business and individuals.

End of	Granted by the commercial banks: short-term	Granted by the commercial banks: medium and long-term	Other medium and long-term credits	Total amount outstanding
	in millions of DM			
1948 . . .	4,389	412	—	4,801
1949 . . .	9,121	1,818	432	11,371
1950 . . .	13,034	5,249	1,048	19,331

In 1949 the volume of credit more than doubled; in 1950 it increased by 70 per cent.

It should be remembered, however, that in Germany a considerable proportion of current savings passes through the channels of the banking system. Thus, to a large extent, the granting of medium and long-term credits has its counterpart in the receipt of savings and other long-term funds. In the second half of 1950 the total of medium and long-term credits (including those of certain institutions not taken into account in the above table) increased by DM 2,667 million, while savings deposits and other long-term funds increased by DM 1,924 million. The "other medium and

Germany: Changes in major items in the combined balance sheet of the central-banking system.

Period	Liabilities				Assets				
	Notes and coins	Deposits with the central bank		Total (including certain additional items)	Central-bank credits			Foreign trade transactions (1)	Total (including certain additional items)
		banks	others		to banks	to others	Total		
	in millions of DM								
1948 4th quarter(2).	+ 961	+ 247	— 176	+ 1,534	+ 1,288	+ 70	+ 1,358	+ 289	+ 1,534
1949	+ 1,418	— 304	— 147	+ 1,697	+ 2,095	+ 333	+ 2,428	— 1,542	+ 1,697
1950	+ 676	+ 572	+ 514	+ 1,676	+ 1,160	+ 1,240	+ 2,400	— 850	+ 1,676

(1) Including net changes in the outstanding balance of counterpart funds and also transfers of public securities to the Bank deutscher Länder for the purpose of redeeming Marshall aid advances.

(2) Statistics available only from September 1948.

long-term credits" shown in the table on page 203 represent credits extended by the Kreditanstalt für Wiederaufbau and by the Finanzierungs A. G., and these have been financed mainly out of "counterpart funds" under Marshall aid. Further, after the currency reform the German economy was starved of means of payment and, while the public was building up its cash holdings, there was room for a non-inflationary credit expansion. In the autumn of 1950, however, this would seem to have come to a point at which it was decidedly necessary to exercise more caution, particularly in view of the extensive recourse to refinancing with the central-bank system.

The increase in central-bank credit to banks and others (the latter being mainly public authorities) would have had a greater expansionary effect if part of this increase had not been offset by:

(i) net in-payments from the banks in respect of foreign trade transactions resulting from the deficits in the balance of payments;

(ii) the increase in 1950 in the deposits with the central-banking system — partly as a result of stiffer minimum-reserve requirements for commercial and other banks.

Thanks to these "offsets", the increase in the note circulation was less pronounced in 1950 than in previous years. In fact, the amount of notes and coin outstanding in March 1951 was only 3 per cent. larger than in the corresponding month of the previous year.

The measures taken to bring the credit creation under control and restore equilibrium are indicated on pages 49—52, together with certain observations on the relation to the balance-of-payments problem. In May 1951 it became clear that these measures had had a good deal of success: the banks' short-term credits had been reduced and a steady rise in exports had contributed to a distinct improvement in the balance of payments.

Notwithstanding the difficulties with which Greece had had to contend, its national income would seem to have increased in 1950 to within 20 per cent. of the pre-war level, and there was a marked strengthening of confidence in the drachma after the upward movement of prices had ceased in 1949. In 1950 a rise by 14 per cent. in the cost of living was in a large measure due to the increase in world prices. While sight deposits with the principal banks rose by 37 per cent., the note circulation showed no appreciable increase. Thanks to foreign aid, the accumulation of counterpart funds (and some other official deposits) more than offset the growth in the Bank of Greece's advances to the government, so that a margin remained for fresh advances to business. None the less, the dependence of business on finance from the central bank has continued to be one of the major Greek problems.

Greece: Money supply and advances of the Bank of Greece.

End of	Bank of Greece						Principal banks		Cost of living 1938 = 1 (annual average)
	Advances		Note circulation	Deposits of			Deposits		
	to the government	to business *		banks	others	the government	total	sight deposits	
	in milliards of drachmae								
1946	599	643	537	17	107	75	151	136	*145*
1947	935	1,186	974	32	185	177	398	349	*175*
1948	1,689	1,456	1,202	84	276	581	657	488	*247*
1949	3,937	2,277	1,859	200	529	2,460	1,153	957	*284*
1950	5,255	3,149	1,887	309	680	4,198	1,540	1,313	*306*

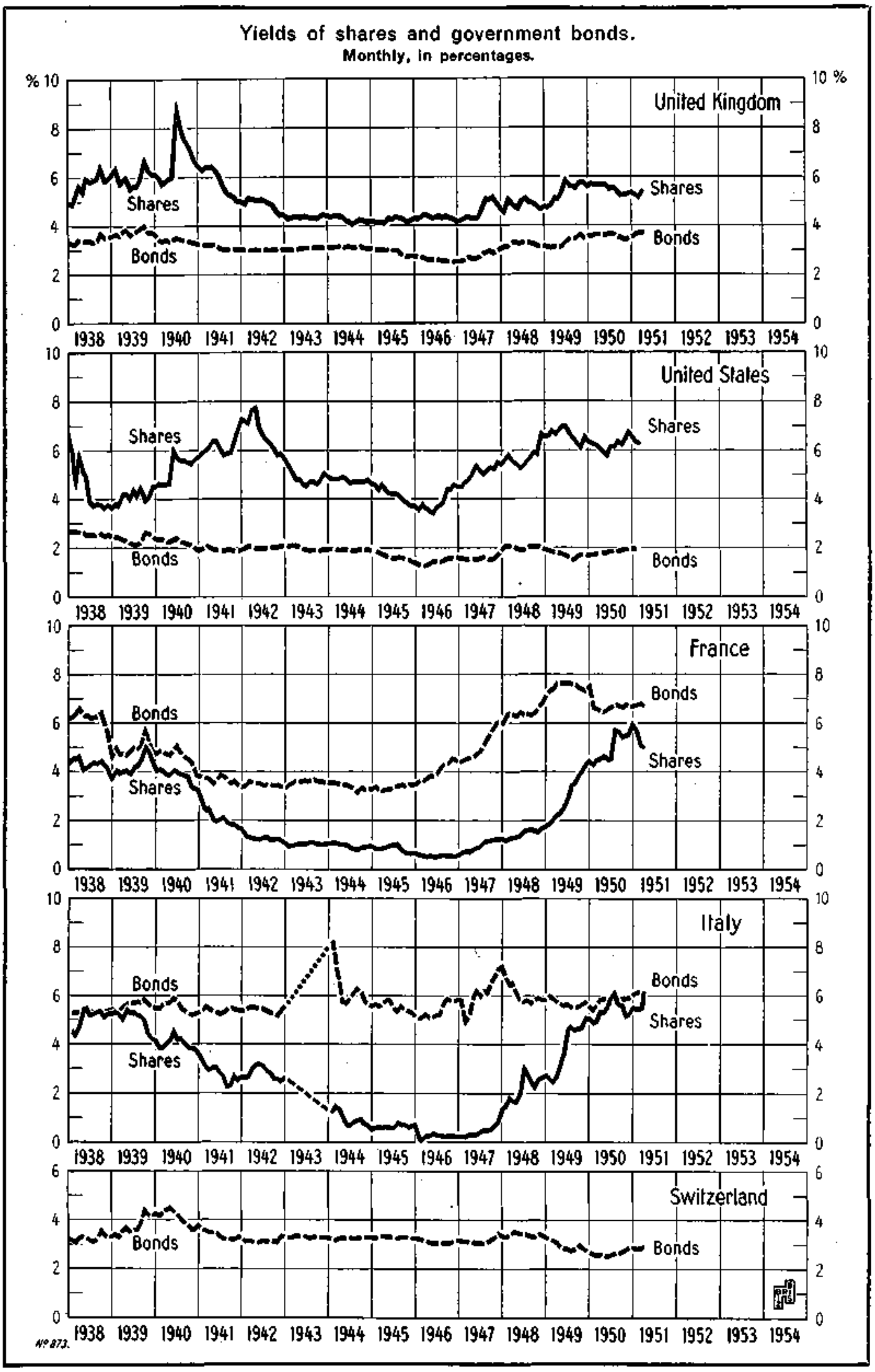
* Including bills and advances made via commercial banks.

As in other countries where a violent inflation has destroyed the currency, the real value of the supply of money (e. g. in relation to the national income) remains low, but it has risen considerably since 1948, as may be seen, for instance, by comparing it with the rise in the cost of living.

Greece:
Money supply adjusted for increase in the cost of living.

End of	Note circulation	Total money supply (1)	Cost of living (2)	Note circulation	Total money supply (1)
	in milliards of current drachmae		1938 = 1	in milliards of drachmae at 1938 prices	
1938	7.2	19.2	*1*	7.2	19.2
1946	537	781	*145*	3.7	5.4
1948	1,202	1,966	*266*	4.5	7.4
1949	1,859	3,344	*283*	6.6	11.8
1950	1,887	3,881	*324*	5.8	12.0

(1) This includes, besides the note circulation, sight deposits at the principal commercial and savings banks, and "other accounts" at the Bank of Greece.
(2) The rise in the cost of living as shown in the table leaves out of account the war and early post-war inflation, which completely annihilated the value of the drachma.


Yields of shares and government bonds.
Monthly, in percentages.
United Kingdom
United States
France
Italy
Switzerland
Shares
Bonds
% 10
10 %
1938 1939 1940 1941 1942 1943 1944 1945 1946 1947 1948 1949 1950 1951 1952 1953 1954
Nº 873.

There are still great problems arising from large investment needs and from the fact that, in a country almost wholly lacking in reserves, it is difficult to restore the confidence of the population in the currency.

The countries in eastern Europe have made radical changes in their credit structure, aiming at a concentration of the main banking functions in one state bank, whose task is to manage the currency and at the same time act as distributor of working capital to different branches of the economy, while the provision of funds for investment is effected through the operations of an independent "Investment Bank". Another important feature of the régime has been that much of the control over the separate enterprises is exercised via the banking system. Such were the main principles affecting credit which were developed in the U.S.S.R. between the two wars, and it would seem as if they were serving as a model for the reorganisations of the banking system in other countries with a collective economy.

* * *

This review of conditions in individual countries has shown that in 1950–51 widespread changes were made in credit policy; the doctrine of the efficacy of cheap money — an intellectual legacy from the great depression of the 1930s which had remained in vogue during the war and in the years immediately after it but which by 1947 had begun to command less widespread support — has fallen still further out of favour. The armament outlay which is now to be superimposed on an already brisk inflationary boom seems finally to have convinced most countries of the need for action to stop the chronic inflation which has persisted for more than ten years. Long-term interest rates have been rising, and other measures for the purpose of restraining the expansion of credit have been taken as part of a general financial and economic policy, more fully discussed in Chapter II (pages 59–64). The most obvious signs of a change of heart (or at least a change in tactics) have been the increases in discount rates in Belgium, Canada, Denmark, Finland, Germany, the Netherlands, Sweden and the United States — increases of as much as 2 per cent. in Finland and Germany and of 1½ per cent. in Denmark and the Netherlands.

The redundant supply of money found in most countries at the end of the war was clearly attributable, on the one hand, to credit expansion and, on the other, to direct controls which, for the time being, had prevented consumers and business enterprises from spending as much as they wished. In such a situation people were forced to "save" to an unusual extent, simply because they could not buy the goods they wanted. But, that being so, part of the resulting forced savings was sure to be spent as soon as opportunity arose. Thus a pent-up demand was accumulated which was bound to make itself felt once peace had returned and supplies became more plentiful.

One indication of pent-up demand is given by the relation of the supply of money to the national income. It can be seen from the following tables that this relation rose very sharply in most countries during the war

National income and money supply.*

Year	Currency circulation	Total money supply	National income	Currency circulation	Total money supply
	in milliards of national currency units			as percentage of national income	
Belgium (francs)					
1938	23.6	41.2	65	36	63
1946	77.8	138	191	41	72
1948	88.5	150	244	36	62
1949	91.0	156	249	37	63
1950	92.3	156	265	35	59
Denmark (kroner)					
1938	0.43	1.78	6.4	7	28
1945	1.49	6.59	12.0	12	55
1948	1.54	5.35	15.5	10	35
1949	1.55	5.16	16.5	9	31
1950	1.64	5.23	18.5	9	28
Finland (markkas)					
1938	2.0	3.9	29.7	7	13
1945	10.5	22.1	99.2	11	22
1948	25.3	44.9	307	8	15
1949	25.9	49.2	322	8	15
1950	31.1	55.6	350	9	16
France (francs)					
1938	112	192	369	30	52
1946	732	1,357	2,476	30	55
1948	993	2,167	5,712	17	38
1949	1,301	2,704	6,875	19	39
1950	1,590	3,121	7,390	22	42
Italy (lire)					
1938	25	44	117	21	38
1947	928	1,446	4,954	19	29
1948	1,123	1,889	5,645	20	33
1949	1,194	2,265	5,935	20	38
1950	1,312	2,501	6,350	21	39
Netherlands (florins)					
1938	1.05	2.54	4.9	21	52
1946	2.80	6.19	9.3	30	67
1948	3.18	7.33	12.9	25	57
1949	3.13	7.55	14.1	22	54
1950	2.97	7.08	15.5	19	46
Norway (kroner)					
1938	0.45	0.62	3.74	12	17
1945	1.70	4.69	4.46	38	105
1948	2.10	4.95	9.14	23	54
1949	2.23	4.93	9.64	23	51
1950	2.29	4.81	10.38	22	46

* As a general rule, these tables show annual figures of national income at factor cost, and money supply at the end of the year. "Currency" includes notes and coin (excluding the holdings of banks). "Money supply" includes, in addition to "currency", demand deposits with banks (other than the central bank) and with the postal-cheque system; but accounts with savings institutions and time deposits are, in general, excluded.

National income and money supply (contd).

Year	Currency circulation	Total money supply	National income	Currency circulation	Total money supply
	in milliards of national currency units			as percentage of national income	
Sweden (kronor)					
1938	1.04	2.18	10.0	*10*	*22*
1945	2.79	5.29	16.2	*17*	*33*
1948	3.17	6.27	22.9	*14*	*27*
1949	3.34	6.42	24.0	*14*	*27*
1950	3.57	6.88	25.4	*14*	*27*
Switzerland (francs)					
1938	2.0	4.8	8.7	*23*	*55*
1945	4.1	8.8	13.5	*30*	*65*
1948	4.9	10.3	17.6	*28*	*59*
1949	4.9	11.0	17.0	*29*	*65*
1950	5.0	11.3	17.4	*29*	*65*
United Kingdom (pounds) (¹)					
1938	0.46	1.72	4.80	*10*	*36*
1946	1.38	5.20	8.31	*17*	*63*
1948	1.25	5.41	9.81	*13*	*55*
1949	1.27	5.43	10.43	*12*	*52*
1950	1.29	5.55	10.85	*12*	*51*
United States (dollars) (²)					
1935–39	5.6	31.1	67.0	*8*	*46*
1946	26.7	110.0	180.3	*15*	*61*
1948	26.1	111.6	223.5	*12*	*50*
1949	25.4	111.2	216.8	*12*	*51*
1950	25.0	118.2	235.6	*11*	*50*

(¹) If deposit accounts (time deposits) were included, the ratio of money supply to the national income would be: 1938, 56%; 1946, 85%; 1950, 71%.

(²) If time deposits were included, the ratio of money supply to the national income would be: 1929, 63%; 1935–39, 65%; 1946, 91%; 1950, 75%.

as governments financed themselves by printing notes, while prices were held in check by controls. Since the war the supply of money, considered in relation to the national income, has fallen again, and in most of those countries which have succeeded in their efforts to regain balance in their foreign payments it is now little greater (in some cases smaller) than before the war.

At the end of the war a surprisingly large number of countries expected prices to fall in the near future and only a few — notably Belgium, Denmark and the Netherlands — took any steps to reduce the supply of money created by war finance. In many countries the supply of money was even allowed to rise further as the demand for credit expanded. It soon became clear, however, that repressed inflation (or "too much money chasing too few goods", as it was expressed in England) had very grave disadvantages, notably shortages, low productivity and deficits in the balance of payments, and strenuous efforts were made to restore equilibrium. But the excess of money was, in many countries, too great to be removed simply by stopping new inflation and increasing production, and the authorities had to allow, though with great reluctance, a substantial rise in prices. When equilibrium was reached, or at least approached, it was found that in most cases the supply of money stood once more in much the same relation to the national income as before the war. Even in the United Kingdom, the Scandinavian countries and the Netherlands, which have maintained their wartime controls longer and more completely than has been the case elsewhere, the supply of money is much nearer its pre-war relation to the national income than it was in 1945, the only country in this group in which it is still far above the pre-war level being Norway.

The return in so many countries to the pre-war relation between money and national income suggests that in each country the public, in the aggregate, wishes to hold a fairly fixed proportion of its income in the form of money. It would, however, be going too far to say that in a free economy the relation between money and income never varies:* there may be not only short-run but also long-run changes. In countries where confidence in the currency is severely shaken by a major inflation there may well be a permanent shift, the ratio of money to the national income settling down at a lower level than previously; in France this ratio is still well below the pre-war level.

On the other hand, there may be a permanent shift upwards, as seems to have occurred in the United States in the 1930s.

United States: Money and National Income.

Year*	National income(1)	Money supply(2)	Money supply as a percentage of national income
	in milliards of dollars		percentage
1899 . .	15.4	5.3	*34*
1909 . .	26.5	9.5	*36*
1913 . .	31.4	11.0	*35*
1918 . .	57.0	18.1	*32*
1920 . .	68.4	23.7	*35*
1929 . .	79.5	26.2	*33*
1937 . .	69.4	30.7	*44*
1935–39 average	67.0	31.1	*46*
1946 . .	180.3	110.0	*61*
1949 . .	216.8	111.2	*51*
1950 . .	235.6	118.2	*50*

* Up to 1937: end-of-June figures.

(1) Up to 1937 the national-income figures are the estimates of the National Industrial Conference Board; from 1935–39 onwards the estimates of the Department of Commerce.

(2) The supply of money is made up of notes and coin in the hands of the public plus demand deposits other than those held by foreigners, banks and the U.S. Government.

The stability of the ratio of money to national income from 1899 to 1929 is striking: these thirty years included the first world war; population rose from 76 to 123 million and national income (in money terms) increased fivefold. The rise in the ratio during the 1930s was clearly connected with the business crisis: it is hardly surprising that, when the share index fell by 90 per cent. (from 360 in 1929 to 40 in 1932), the American public should have developed a preference for more liquid assets. The relatively high

* It is variations in the relation between money and national income which economists have in mind when speaking of changes in the "velocity of circulation" and "liquidity preference"; and these vary to some extent inside the business cycle.

yields on ordinary shares (still about 6 per cent. early in 1951) suggests that this preference has not been eliminated even now that business has revived. Once price and other controls were imposed in 1942 the ratio between money and national income rose again, reaching its peak in 1946; with the subsequent rise in prices it has fallen back a considerable way towards the pre-war level (if time deposits are included in the money supply, the ratio is now below the 1935–39 average).

It is possible that this ratio has also been permanently shifted upwards (though not to a very great extent) in Switzerland — in this case, owing to external as well as internal factors. The stability of the Swiss franc has contrasted so glaringly with the fate of the currencies of neighbouring countries that large amounts of Swiss notes(1) have been acquired by non-residents, not for business purposes but as a safe investment.

That a sudden major change in the relation between the supply of money and the national income becomes sooner or later untenable is clearly illustrated by developments in Germany — a country in which the super-inflation of 1920–23 had convinced the authorities and the public that nothing was more destructive economically and socially than the collapse of the currency, involving an "astronomic" rise in prices. But in the rearmament period of the 1930s resort was already being had to fairly large-scale creation of new money.

When inflationary pressure developed in the 1930s, a full-scale price and wage-stop was enforced, which in view of the discipline of the population was more effective than any such measure would be in most other countries; between 1938 and 1944 wholesale prices and the cost of living rose by only 11–12 per cent., although the note circulation and bank deposits increased by four to five times. And in the following period, from the end of hostilities up to the currency reform, the same development was to be noted: there was a further increase(2) in the volume of money, while the general level of wages as well as the prices paid for most commodities purchased by the

Germany: National income and money supply.

Year	National income	Money supply *	Money supply as a percentage of national income
	in milliards of Reichsmarks		percentage
1929 . .	73.4	28.4	39
1933 . .	46.5	20.5	44
1936 . .	65.8	23.8	36
1938 . .	82.1	30.9	38
1939 . .	89.8	42.0	47
1940 . .	92.5	55.5	60
1942 . .	98.0	101.7	104
1943 . .	99.0	130.8	139
1944 . .	90.0	162.9	181

* The figures for supply of money refer to the end of the year, except for 1944 (September). The supply of money is made up of notes and coin in circulation plus deposits in commercial banks.

(1) Non-residents also hold bank accounts, but these do not seem to have risen at the same rate as foreign holdings of notes in recent years — it being difficult to add to such deposits under the restrictions in force in the other countries.

(2) It is estimated that for the whole of Germany the total note circulation (including Allied Military Marks) came to about RM 65 milliard in the spring of 1948, as compared with RM 55 milliard in February 1945, RM 8.6 milliard at the end of 1938, and RM 4.1 milliard at the beginning of 1933, when the National Socialists came into power.

population remained remarkably stable. The flood of unusable purchasing power did, however, disorganise economic life so seriously that it was not until the superfluity had been removed by the drastic "currency reform" of June 1948 that production revived on a substantial scale.

For the United Kingdom the data available with regard to the relation between the supply of money and the national income in past years are not so complete as for the United States, but rough estimates suggest that in the United Kingdom also a very stable ratio has existed. If time deposits are excluded from the supply of money, the ratio was about 35 per cent. in 1921–23 and 37 per cent. in each of the years 1932–35, the latter being the maximum figure for the fifteen-year period, while the minimum was 31.

From the table on page 209 it can be seen that the ratio rose sharply during and in the period immediately after the war, reaching its peak in 1946. Since that time it has been considerably reduced, without returning to the pre-war level, however. (The same general impression would be given if deposit accounts, i.e. time deposits, were included in the money supply;

Indexes of share quotations.

Date	Stock exchange — Index: 1938 = 100												
	Amsterdam	Brussels	Copenhagen	Helsinki	Lisbon	London	Milan	Montreal	New York	Oslo	Paris	Stockholm	Zurich
1939 December .	88	74	93	92	95	94	134	97	110	100	128	77	81
1940 ,, .	121	158	93	111	90	87	154	74	96	112	250(1)	85	76
1941 ,, .	149	281	112	160	115	93	193	71	81	133	376	101	94
1942 ,, .	141	295	114	187	248	99	226	75	86	160	613	110	102
1943 ,, .	159	264	130	167	230	106	450	85	104	167	588	117	93
1944 ,, .	154	304(2)	126	160	267	111	1,124	91	119	160	613	129	95
1945 ,, .	. (3)	282	118	318	279	117	582	118	158	140	694	135	108
1946 ,, .	123	252	123	260	294	121	1,340	112	142	132	1,244	150	124
1947 ,, .	158	173	119	256	244	115	1,239(4)	112	139	140	1,211	138	132
1948 March . . .	179	186	119	198	234	112	1,337	107	132	144	1,239	133	123
June . . .	161	169	119	208	224	116	1,130	127	153	152	1,086	129	125
September.	160	167	120	189	236	112	1,423	119	142	148	1,285	128	122
December .	146	162	107	174	229	113	1,468	122	135	149	1,366	127	118
1949 March . . .	140	163	107	195	214	110	1,809	112	134	146	1,114	129	113
June . . .	145	163	100	199	186	106	1,347	105	127	133	1,042	124	119
September.	157	181	106	204	196	106	1,598	115	140	137	1,148	132	124
December .	152	188	113	208	189	109	1,572	124	150	140	1,085	137	128
1950 March . . .	148	188	118	256	182	109	1,496	125	157	140	1,045	144	131
June . . .	141	186	123	321	171	113	1,383	138	167	145	1,056	150	133
September.	146	199	126	352	187	113	1,537	149	172	159	1,080	154	137
December .	145	206	118	355	199	114	1,589(5)	154	180	159	944	170	138
Index of wholesale prices: December 1950 (1938 = 100)	*350*	*442*	*292*	*1,262*	*241*	*288*	*5,424*	*224*	*223*	*231*	*2,410*	*228*	*219*

(1) May 1940 (Paris market closed from June 1940 to 28th March 1941).
(2) August 1944 (Brussels market closed from 1st September 1944 to 3rd June 1945).
(3) No quotations available from September 1944 to May 1946; new index began December 1946.
(4) New index. (5) Middle of month.

but the movements would be smaller.) These figures point to the continued existence of a disequilibrium connected with a still excessive supply of sterling at home and abroad.

The evidence goes to show that controls will not permanently prevent a rise in prices once the volume of money has been allowed to increase, and that monetary purchasing power, once created, is very difficult to destroy. Price controls alone have been of limited help; as a rule they have slowed down but not stopped the rise in prices, and in "repressing" rather than curing inflation they have removed only a few of its evils. Under such conditions the "weight of money" has tended to force down interest rates to levels which are dangerously low from the point of view of getting a hold on the trend of private investment — and this pressure on interest rates is at work even if the central bank does not actively support the market by purchases of securities.

More important are the forms of control which help to limit the issue of new money. A case in point is a reduction of the percentage of the value of a house on which builders can obtain a mortgage. Limitation of consumer credit and direct curtailment of investment may both serve an important purpose. It may be that, when there are wage and price controls, the government spends less and consequently borrows less. In no case must the effect of policy on the volume of purchasing power be neglected, for it is an illusion to think that an excess of purchasing power can be neutralised for more than a short while by control measures prohibiting a rise in prices.

VIII. From the Intra-European Payments Schemes to the European Payments Union.

Previous Annual Reports of this Bank have reviewed the working of the agreements for multilateral payments and compensations concluded between the countries which are members of the Organisation for European Economic Co-operation; the last of these Agreements, that for 1949–50, remained in force until June 1950.*

The payments schemes, in which indirect American aid in the form of "drawing rights" played a decisive part, could, however, be no more than a first step towards the re-establishment of a more normal financial and commercial régime in Europe. They were, indeed, only a palliative to the rigidity of the bilateral agreements which had, nevertheless, enabled the countries of Europe — stripped as the majority of them were of their material means of existence — to resume some measure of international trade after the war.

As a result of great progress achieved, more especially since 1949, not only in the field of production but also in the struggle against inflation and in the reconstitution of monetary reserves, it became possible, during the year 1950, to advance an important stage further within the framework of the Organisation for European Economic Co-operation.

The member countries of the Organisation agreed to liberate both trade and payments simultaneously: the Agreement for the Establishment of a European Payments Union, with retroactive effect from 1st July, was signed on 19th September 1950 and, fifteen days later, the decision to liberalise trade amongst member countries up to sixty per cent. of imports on private account came into force. The steps taken from July 1949 onwards to liberalise intra-European trade are described in the twentieth Annual Report (page 142) and the more recent measures are reviewed in Chapter IV of this Report.

The object of the following review is to give:

(1) A brief survey of the operations effected up to June 1950 under the old Agreement.

(2) An analysis of the new payments system constituted by the European Payments Union and an account of its operations during the first nine months of its practical working.

* The eighteenth, nineteenth and twentieth Annual Reports of this Bank described in some detail the working of the First Agreement for Multilateral Monetary Compensation of 1947 and of the Agreement for Intra-European Payments and Compensations for 1948–49 and took the review of the Agreement for Intra-Eurpoean Payments and Compensations for 1949–50 up to March 1950.

1. Intra-European Payments and Compensations.

The Agreement for 1949-50 was based on a system of "drawing rights", bilateral and multilateral, linked to a corresponding "firm allotment" of conditional aid in E.C.A. dollars to the "creditor" country making the drawing rights available (in its own currency), as explained in the twentieth Annual Report (page 226).

The statistics on the following page give some details of the amounts finally established taking account of the various modifications made during the year. The table on bilateral drawing rights shows the bilateral position where each drawing right was established (and in which it had to be used); the table on multilateral drawing rights shows the amount received by each country for general use (on all countries), the special amounts to be used concurrently with the Belgian loans, and the redistribution of $30 million drawing rights.*

It may be remembered that certain balances (and other short-term assets) known as "agreed existing resources" had to be used by the countries owning such resources to cover their respective bilateral deficits before they could utilise drawing rights (either bilateral or multilateral) in these relationships. The amounts of agreed existing resources, which were established in national currencies and expressed as dollar equivalents only for convenience, are shown in the small table, as well as the remaining balances, at post-devaluation rates, in those four cases where the total amounts were not fully utilised.

Agreed existing resources 1949-50:
Position after completion of the final operations.

Countries owning resources	Countries in relation to which resources were held	Equivalent of the amount in national currencies: Amount established at pre-devaluation rates	Equivalent of the amount in national currencies: Unused balance at new rates
		in thousands of U.S. dollars	
Denmark	Netherlands	5,000	nil
	Norway	2,600	1,806
Germany	Denmark	7,100	nil
	Sweden	10,000	nil*
Norway	United Kingdom	30,000	nil
Portugal	Netherlands	2,400	558*
	United Kingdom	28,000	10,066
Sweden	United Kingdom	64,000	44,467
Turkey	France	2,000	nil*
United Kingdom	Denmark	30,500	nil

* Positions where bilateral drawing rights had originally been established.

* Switzerland did not participate in the drawing-rights system. Belgium, Italy and Sweden received no drawing rights; Germany also received no drawing rights in its favour under Annex C of the Agreement, but $60 million old bilateral drawing rights were brought forward from 1948-49 and $12 million multilateral drawing rights were allocated to it under the redistribution of June 1950.

"Germany" in this chapter means the western zones. The Agreement for 1949-50 was signed separately by representatives of the Commanders-in-Chief of the French Zone of Occupation of Germany and of the "Bizone" (British/United States Zones), the three western zones together being known as the "Trizone" and shown as such in the tables (regarding drawing rights, etc.) in the Agreement for 1949-50. The Agreement for the Establishment of a European Payments Union was signed by a representative of the Federal Republic of Germany and all references in this Agreement are to "Germany". For convenience of presentation "Germany" is maintained throughout this chapter and always applies, of course, to the same area.

Agreement for Intra-European Payments and Compensations for 1949–50.

A. Bilateral drawing rights finally established for the year 1949–50.

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 U.S. dollars												
Austria	—	6.8	—	4.1	41.5	—	0.2	0.8	—	—	—	15.5	68.9
Denmark	—	11.0	—	6.0	—	—	—	—	—	—	—	—	17.0
France	—	21.5	—	—	23.7	8.3	—	—	—	—	—	—	53.4
Germany	—	—	—	—	—	—	—	2.4	—	2.9	6.7	48.3	60.3
Greece	1.0	14.6	2.1	8.5	12.4	7.9	5.3	1.5	0.8	7.0	6.0	27.8	94.7
Netherlands	—	39.0	—	—	—	—	—	—	—	—	—	—	39.0
Norway	—	13.2	—	6.9	9.5	0.9	3.8	—	—	27.4	—	—	61.5
Portugal	0.2	9.5	—	3.0	—	1.0	—	1.1	—	—	—	—	14.8
Turkey	0.8	5.1	2.9	7.0	12.2	6.2	4.7	0.4	—	1.7	—	20.0	60.9
United Kingdom	—	29.0	—	—	—	—	—	—	—	—	—	—	29.0
Totals	2.0	149.5	5.0	35.5	99.2	24.3	13.9	6.1	0.8	38.9	12.7	111.6	499.4

B. Total bilateral and multilateral drawing rights finally established for 1949–50.

Amounts established for year 1st July 1949 to 30th June 1950	Bilateral	Multilateral				Total drawing rights established
	total established as above	one-third of original bilateral	special on Belgium	re-allocation	total	
Recipient countries:	in millions of U. S. dollars					
Austria	68.9	21.5	—	+ 3.0	24.5	93.3
Denmark	17.0	5.7	—	+ 1.0	6.7	23.6
France	53.4	52.3	28.0	— 18.6	61.7	115.1
Germany	60.3	—	—	+ 12.0	12.0	72.3
Greece	94.7	26.8	—	+ 8.0	34.8	129.5
Netherlands	39.0	17.4	49.0	—	66.4	105.4
Norway	61.5	19.2	—	+ 6.0	25.2	86.7
Portugal	14.8	6.8	—	— 1.1	5.7	20.5
Turkey	60.9	13.3	—	—	13.3	74.2
United Kingdom	29.0	9.5	35.5	— 10.3	34.7	63.7
Totals	499.4	172.4	112.5	± 30.0	284.9	784.3

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. Subsequently, new bilateral drawing rights were established for a total amount of $37.4 million, the equivalent of $78.4 million was brought forward from the Agreement for 1948–49 and bilateral drawing rights for a total amount of $133.5 million were cancelled, these modifications bringing the total up to $499.4 million, as shown in the tables above.

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. The column "re-allocation" shows where the new multilateral drawing rights were established for a total amount of $30 million and an equal amount of the original multilateral drawing rights were cancelled.

The agreed existing resources did not necessarily represent all the short-term assets of the country owning the resources but the amount which it was agreed between the two countries should be utilised before drawing rights.

The utilisation of drawing rights, both bilateral and multilateral, for the year 1st July 1949 to 30th June 1950, is shown in the table on the next page; the bilateral drawing rights "finally" established were all fully utilised (largely owing to the last-minute cancellation of unused amounts) while over $80 million of the multilateral drawing rights remained unutilised.

Drawing rights established, used and unused for the year 1949–50.

Established, used and unused	Bilateral	Multilateral: corresponding to one-third of bilateral originally established — automatic	Multilateral: corresponding to one-third of bilateral originally established — by request	Multilateral: special on Belgium	Multilateral: total	Total bilateral and multilateral
	in millions of U.S. dollars					
Finally established	499.4	172.4 *	—	112.5	284.9	784.3
Utilised	499.4	90.3	62.9	50.1	203.4	702.8
Utilised more (+) or less (—)	—	— 82.1	+ 62.9	— 62.4	— 81.5	— 81.5

* This is the theoretical maximum which would have been used automatically if no requests had been made.

Note: In accordance with Council Decisions C(50)250 and 251 of 18th August 1950, France granted a bilateral drawing right of $3.5 million to Turkey. This was too late to be used in the normal way during the operations for the year 1949–50; the amount was drawn on 21st August and credited to Turkey with retroactive value date 31st July 1950. This amount is included with the "utilised" drawing rights.

As may be seen from the table above, of the $203 million of multilateral drawing rights used during the year 1949–50, $140 million were utilised automatically (up to one-third of the bilateral drawing rights in the same relationship or concurrently with the Belgian loans) and $63 million were used at the request of the debtor. This gives an indication of the "multilateral" use of drawing rights under the 1949–50 scheme; out of some $700 million drawing rights used only $63 million, 9 per cent., were used in a direction requested by the debtor, the remainder being utilised automatically in the bilateral relationship.

It may be recalled (see twentieth Annual Report, page 227) that special arrangements were made in the Agreement for 1949–50 for the case of Belgium, whose intra-European surplus (estimated to be at least $400 million for the year 1949–50) was expected to exceed its foreseen western-hemisphere deficit ($200 million). The first $200 million was to be covered by drawing rights in the ordinary way, and the second $200 million as to $112.5 million by special drawing rights (against which a separate allocation of E.R.P. aid was set aside from the total amount available before its distribution amongst participating countries) and $87.5 million by credits (on the same terms as E.R.P. loans) granted by Belgium to France, to the Netherlands and to the United Kingdom.

Actually, during the year to June 1950, the Belgian surplus in Europe was put at $278 million, and of this amount $239 million was covered by

Agreement for *Intra-European* Payments and Compensations for 1949–50.

Total amounts of drawing rights* (bilateral and multilateral) utilised for the year July 1949 to June 1950.

Amounts utilised in twelve months	Countries on which drawing rights were exercised												
	Austria	Belgium	Denmark	France	Germany	Italy	Netherlands	Norway	Portugal	Sweden	Turkey	United Kingdom	Total
Recipient countries:	in millions of U.S. dollars												
Austria	—	9.0	—	5.5	57.0	—	0.3	1.0	—	—	—	20.5	93.3
Denmark	—	12.5	—	8.0	—	—	1.3	—	1.8	—	—	—	23.6
France	—	21.5	—	—	23.7	23.8	—	—	—	—	—	nil	69.0
Germany . . .	—	6.4	—	—	—	—	—	2.4	5.6	2.9	6.7	48.3	72.3
Greece	1.5	22.2	3.1	13.7	15.8	8.8	5.5	1.9	0.8	12.0	7.5	36.7	129.5
Netherlands . .	—	104.6	—	—	nil	0.8	—	—	—	—	—	—	105.4
Norway	—	14.4	—	14.4	10.0	2.7	7.5	—	0.1	37.7	—	—	86.7
Portugal	0.2	12.8	nil	3.0	—	1.0	nil	1.1	—	nil	—	—	18.2
Turkey	1.0	5.1	2.9	7.0	14.7	6.2	5.9	0.5	—	2.2	—	28.7	74.2
United Kingdom	—	30.6	—	—	—	—	—	—	—	—	—	—	30.6
Totals . . .	2.7	239.1	6.0	51.7	121.2	43.4	20.5	6.9	8.3	54.7	14.2	134.2	702.8

Amounts utilised in twelve months	Bilateral	Multilateral			Total bilateral and multi-lateral
		one-third of original bilateral	special on Belgium	total	
Recipient countries:	In millions of U.S. dollars				
Austria	68.9	24.5	—	24.5	93.3
Denmark	17.0	6.7	—	6.7	23.6
France	53.4	15.6	nil	15.6	69.0
Germany	60.3	12.0	—	12.0	72.3
Greece	94.7	34.8	—	34.8	129.5
Netherlands . .	39.0	17.4	49.0	66.4	105.4
Norway	61.5	25.2	—	25.2	86.7
Portugal	14.8	3.4	—	3.4	18.2
Turkey	60.9	13.3	—	13.3	74.2
United Kingdom	29.0	0.5	1.1	1.6	30.6
Totals . . .	499.4	153.3	50.1	203.4	702.8

* The tables show drawing rights only and so omit the drawings on the Belgian loans, amounting to $38.0 million by the Netherlands and $1.1 million by the United Kingdom. In this table "—" means no amount established and "nil" means established amount not used.

drawing rights and the remaining $39 million by loans. France did not draw on its Belgian loan at all and the United Kingdom drew only $1 million; the Netherlands alone achieved the foreseen deficit on Belgium and drew its full share of the loan, amounting to $38 million.

The disposition of unused drawing rights from the 1949–50 scheme was regulated by Articles 37 and 38 of the Agreement for 1949–50, which envisaged the formation of a "pool" of currencies at the disposal of O.E.E.C. In practice, the E.C.A. found itself unable to accept the recommendation of the Council of O.E.E.C. on this subject, so that over $80 million, corresponding to the unused multilateral drawing rights, was saved by the American administration and, consequently, lost to the participating countries.

Although the mechanism created for the previous payments plans remained essentially unchanged, the practical working of the plan for 1949–50

Compensations.
Turnover: December 1947 to June 1950.

Agreement of	Category		Total turnover
	First (1)	Second (2)	
	in millions of U.S. dollars		
18th Nov. 1947. .	6.0	46.6	51.6
16th Oct. 1948 . .	99.4	4.3	103.7
7th Sept. 1949 . .	63.0	86.4	149.3
Totals	167.4	137.3	304.6

(1) Obligatory for all member countries from October 1948 onwards, except Portugal (until July 1949) and Switzerland.
(2) Includes also a few "non-automatic" first-category compensations and outside compensations notified to the Agent.

was extremely complicated. Apart from the innovations in connection with multilateral drawing rights (which could be used automatically or in a direction requested by the debtor) and the working of the Belgian Loan Agreements, there was insistence on the "30th June 1949 ceiling", formed by the balances and debts outstanding at that date, as a limit to the amount of drawing rights which could be received notwithstanding any deficit there might be on the month (Article 26).

Added to these complications, there were the wholesale devaluations in September 1949 (and the consequent adjustments to drawing rights used in that month, made during the December operations) and also the final clearing-up operations in respect of the month of June 1950, involving the cancellation of unused bilateral and multilateral drawing rights, the final adjustments of Belgian loans and of drawing rights on Belgium to correspond with the pattern envisaged when they were established, and the winding-up of operations for the repurchase of off-shore dollars under Supplementary Protocol No. 2 of 31st March 1949.

The turnover of first and second-category "compensations" put through under the Agreement for 1949–50 amounted to nearly $150 million, bringing up the total of all compensations since the beginning of the system in December 1947 to over $300 million — an average of nearly $10 million a month.

Drawing rights utilised:
Net amounts given and received
1948–49 and 1949–50 (twenty-one months).*

Drawing rights given (net)	In millions of U.S. dollars	Drawing rights received (net)	In millions of U.S. dollars
Belgium	486	France	297
United Kingdom	320	Greece	206
Germany	99	Netherlands . .	195
Italy.	82	Austria	153
Sweden	77	Norway	123
		Turkey	54
		Denmark	26
		Portugal	10
Totals	1,063	Totals . . .	1,063

* Although these amounts are expressed in dollars the actual drawing rights were, of course, made available in the national currency of the "creditor" (i.e. the country granting the drawing right); it is evident that, after the devaluations of September 1949, a given amount of national currency had in nearly all cases an appreciably lower dollar equivalent than before. This factor somewhat impairs the comparability of the figures under the two plans.

The payments schemes for 1948–49 and 1949–50 were on a "gross basis", that is to say each country both gave and received drawing rights according to estimates, made before the plans came into operation, of the probable balance of payments in each bilateral relationship. As thirteen countries have between them seventy-eight bilateral relationships, some imagination is needed to grasp the volume of work required for such detailed negotiations. And this exercise was repeated twice. It is true that multilateral drawing rights under the 1949–50 scheme gave some flexibility to this very rigid system, but their influence was not, in practice, very great.

Where drawing rights were not established this meant that either the position was estimated to be in equilibrium or that the agreed existing resources were considered to be sufficient to cover the foreseen movements; where these resources were considered insufficient a correspondingly limited amount of drawing rights was established. By and large, the drawing rights which the Agent might use automatically should have been sufficient to cover the estimated bilateral deficits by one hundred per cent., if the estimates had been correct. The effect of drawing rights should thus have been to wipe out all intra-European deficits and surpluses.

One of the by-products of the calculations of the Agent is the establishment of monthly figures for the flow of payments in each bilateral relationship amongst the participating countries (see graph and table on pages 235 and 236). In the table below the net figures for the duration of the payments plans are compared with the net amounts of drawing rights

Agreements for Intra-European Payments and Compensations for 1948–49 and 1949–50.

Intra-European net surpluses (+) or net deficits (—) and the net effect of drawing rights.

Countries*	Agreement for 1948–1949 (9 months)			Agreement for 1949–1950 (12 months)			Total for 21 months October 1948 to June 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 U.S. dollars								
Austria	— 71	+ 63	— 9	— 87	+ 91	+ 4	— 158	+ 153	— 5
Belgium	+ 268	— 207	+ 61	+ 302	— 278	+ 24	+ 570	— 486	+ 85
Denmark	— 19	+ 8	— 11	— 6	+ 18	+ 9	— 28	+ 26	— 2
France	— 201	+ 280	+ 78	+ 203	+ 17	+ 220	+ 1	+ 297	+ 298
Germany	+ 91	— 50	+ 41	— 141	— 49	— 189	— 50	— 99	— 149
Greece	— 90	+ 76	— 14	— 143	+ 129	— 14	— 233	+ 206	— 28
Italy	+ 215	— 38	+ 177	+ 90	— 43	+ 46	+ 305	— 82	+ 223
Netherlands	— 147	+ 72	— 75	— 107	+ 123	+ 15	— 254	+ 195	— 59
Norway	— 103	+ 43	— 60	— 115	+ 80	— 36	— 218	+ 123	— 95
Portugal	— 93	nil	— 93	— 0	+ 10	+ 10	— 93	+ 10	— 83
Sweden	+ 82	— 22	+ 60	+ 75	— 55	+ 21	+ 157	— 77	+ 80
Turkey	+ 6	— 6	+ 0	— 84	+ 60	— 24	— 78	+ 54	— 24
United Kingdom	+ 62	— 218	— 156	+ 16	— 102	— 86	+ 79	— 320	— 241
Totals	± 724	± 542	± 416	± 686	± 528	± 349	± 1,112	± 1,063	± 686

* 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 twelve months the equivalent of $38 million was drawn by the Netherlands and $1 million by the United Kingdom.

given or received to show their actual effect on the intra-European balance of payments for each country.

It is interesting to take a broad view of the final results of the two payments plans and to indicate which countries were givers and which receivers on a net basis.

Taking the twenty-one months as a whole, it remains true that France (as a country but not, of course, per head of the population) was still the greatest net recipient of drawing rights — this being largely a result of the considerable amounts received in the autumn of 1948 and the spring of 1949; next came Greece, the Netherlands, Austria and Norway. On the other side of the account, Belgium and the United Kingdom granted by far the largest net amounts of drawing rights, followed, it is interesting to remember, by Germany.

The disadvantages of the payments plans derived largely from their having been conceived on a "gross" basis, which meant that they were essentially bilateral, were based on estimates made before the schemes came into operation, gave no possibility for a country by improving its position to build up reserves and, finally, created certain wrong incentives.

The devaluations of 1949 rid the atmosphere of the thunder clouds which had hung so long over the European balances of payments; more profound examination dissipated the hesitations felt in some quarters regarding the "net" system; and free "untied" E.R.P. dollars became available to back intra-European payments: all these factors contributed to the circumstances which made possible the creation of the European Payments Union.

2. European Payments Union.

The Agreement for the Establishment of a European Payments Union differs greatly from the intra-European payments schemes which were the forerunners. Although it did not prove possible to proceed, directly and without intermediate stages, to a completely free and multilateral system of payments devoid of all restrictions, the member countries have, at any rate, done their utmost to establish multilateral relations of a financial as well as of a commercial character throughout their circle.

This endeavour is closely related to the simultaneous effort to liberalise trade relations to the greatest possible extent on a non-discriminatory basis.

In general, the bilateral payments agreements between individual countries remain in force, the member countries are not obliged to maintain or to reintroduce such agreements. Likewise, the participating countries can either maintain a more or less strict internal control of foreign exchange or, alternatively, relax this control to a large extent (as a good many of them have done during the year 1950, see Chapter V).

One result arising from the working of the bilateral payments agreements in the past has been eliminated, namely the accumulation of inconvertible balances with partner central banks. To this end, the new balances shown by every member central bank in relation to each of the other central banks are offset monthly to obtain the net position, whether creditor or debtor, of each member country in relation to the Union, that is to say towards all other members collectively.

In settlement of this position, each country makes or receives payment, partly in gold (or dollars) and partly in the form of credit, within the limits and in the proportions agreed upon.

Under the European Recovery Programme the U.S. Government has granted a $350 million allocation to the Union to maintain its liquidity (i.e. to cover the differences in the amounts received or paid in gold or dollars each month) and to assure its solvency.

An important feature of the new system is that payments in gold (or dollars) by the debtors come into the picture at an early stage — and the creditor countries, instead of getting a blocked claim on a single partner, as they would previously have done under the bilateral agreements, receive, firstly, a claim on the Union enabling them to make payments in any of the member countries (including their monetary areas*) and, secondly, amounts in gold (or dollars) enabling them to make payments in any country of the world, including those of the dollar area.

* In this way the Union has close links with the sterling area and the overseas territories of Belgium, France, the Netherlands and Portugal, as well as a link with Indonesia.

At the same time the old bilateral debts outstanding in June 1950 have either been consolidated (and are in process of repayment through the monthly settlements of the Union), or remain as "existing resources" which the countries owning them can use (and, in many cases, have already used) to cover their net deficits towards the Union.

The Agreement for the Establishment of a European Payments Union was signed on 19th September 1950 by representatives of the governments of Austria, Belgium, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, the United Kingdom, and the British/United States Zone of the Free Territory of Trieste.*

The following paragraphs deal with

A. the constitution of the European Payments Union,

B. the practical working of the Union.

A. The constitution of the European Payments Union.

The Union is operated within the framework of the Organisation for European Economic Co-operation, under the authority of the Council, by the Managing Board and by the Bank for International Settlements, the latter acting as Agent for the Organisation.

The provisions of the Agreement became effective as from 1st July 1950 (except for Switzerland, which adhered as from 1st November 1950 without retroactive effect; consequently, Switzerland may be considered as an exception whenever reference is made to 1st July 1950 in connection with the Union) and the Union is designed to remain in being, if necessary after the end of the European Recovery Programme, "until it is possible to establish, by other means, a multilateral system of European payments". The financial engagements of the member countries are, however, undertaken in the first instance for two years, i.e. up to the end of June 1952. The Union possesses the same international privileges and immunities as those already accorded to O.E.E.C., including immunity from taxation and customs duties.

The purpose of the Union is to facilitate, by means of a multilateral system of payments, the settlement of all transactions between the monetary

* The principal documents relevant to the formation of the Union are:

the Agreement for the Establishment of a European Payments Union,
the Protocol of Provisional Application,
the Directives for the Application of the Agreement,
the Mandate of the Managing Board, and
the letters dated 18th September and 17th October 1950 from the U.S. Special Representative in Europe to the Secretary-General of O.E.E.C.

There are, in addition, a number of resolutions of the Council and other documents of the Organisation for European Economic Co-operation dealing with the European Payments Union and with the liberalisation of European trade (both visible and invisible), the most important of which is the "Code of Liberalisation".

areas of member countries, according to their currency-transfer policies, with the objectives, described in the preamble to the Agreement, of:

(a) achieving the largest possible measure of liberalisation of trade, including the invisible items, on a non-discriminatory basis between member countries;

(b) assisting them in their efforts to become independent of extraordinary outside assistance;

(c) encouraging them to achieve or maintain a high and stable level of trade and employment, bearing in mind the need for their internal financial stability; and, finally,

(d) assisting the transition to the situation which will arise on the termination of the European Recovery Programme, by providing them, in particular, both with resources to play in part the rôle of gold and foreign currency reserves and also with the possibility and incentive, should their position improve, to strengthen their reserves in gold and foreign currencies.

The preamble also stresses the point that the maintenance of internal and external financial equilibrium of the member countries is an indispensable condition for the proper operation of this system of payments, which should "assist a return to the general convertibility of currencies".

The Council of O.E.E.C. has the power to take any decisions which may be necessary for the execution of the Agreement, subject, however, to certain powers delegated to the Managing Board.

The Managing Board consists of seven members appointed by the Council from persons nominated by the signatory countries; each member of the Board has an alternate.* The Managing Board is responsible for the supervision of the carrying-out of the Agreement and takes all necessary decisions concerning the execution of the operations and the management of the fund. Decisions — taken by a majority including not less than four members — may not be modified by the Council unless ultra vires.

The Bank for International Settlements, as Agent, is entrusted with the execution of the operations and the management of the fund in accordance with the decisions of the Council and the Managing Board. The duties of the Agent are laid down specifically in the Directives, which are also binding on the member countries; the Agent is responsible for keeping the books of the Union.

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* In addition, the Chairman of the Intra-European Payments Committee of O.E.E.C. and the Representatives of the U.S. Government, of the Agent and of the Secretary-General of O.E.E.C. have the right to be present at the meetings of the Board.

The Managing Board may also invite other persons, and experts from Austria, Germany, Greece and Portugal have been present at meetings of the Board when particular questions affecting these countries were under discussion.

The *accounts of the Union* are kept, calculations relating to operations are made, and credits granted by and to the Union are expressed in terms of the *unit of account* of 0.88867088 grammes of fine gold, i.e. one thirty-fifth of an ounce, so that the unit of account has a theoretical gold value equivalent to that of the current U.S. dollar.

Each member country establishes a parity between its national currency and the unit of account; this is necessary in order that the operations may take place even if a national currency has no official dollar parity. If a currency has varying rates of exchange an average rate is reported each month.

The theoretical gold value of the unit of account may be modified by decision of the Council; no member country may oppose such a decision if the change is no greater than that made since 1st July 1950 by the country concerned with respect to its own national currency.

It will be noted that the unit of account is not a new currency but merely a measure of indebtedness and claims, having an exchange guarantee for the purposes of the Union.

The working of the Union is based on the "*cumulative principle*", i.e. when any position is reduced, there is a corresponding reversal of the previous operations in the opposite order, before a new operation is effected.

At the heart of the Union are the quotas and the fund, and their working is simple; the complications arise principally from other matters such as "initial balances" and "existing resources", and these do not affect all the members.

The quotas and the fund. The quotas are the limits for each country of its cumulative accounting surplus or deficit* in intra-European payments from 1st July 1950 onwards (on either side of "zero", i.e. a balanced position) which can be dealt with through the Union by credit and gold payments.

Quotas in the Union.[1]

Member countries	In millions of units of account	Individual quotas as percentage of total quotas
Austria	70	*1.8*
Belgium [2]	360	*9.1*
Denmark	195	*4.9*
France	520	*13.2*
Germany	320	*8.1*
Greece	45	*1.1*
Iceland	15	*0.4*
Italy	205	*5.2*
Netherlands	330	*8.3*
Norway	200	*5.0*
Portugal	70	*1.8*
Sweden	260	*6.6*
Switzerland	250	*6.3*
Turkey	50	*1.3*
United Kingdom . .	1,060	*26.9*
Totals . . .	3,950	*100.0*

* The "accounting period" is any period in respect of which operations are carried out; the first accounting period was July–September 1950 and the succeeding periods have been the calendar months. The "accounting surplus or deficit" of any country is its net position adjusted for any use of existing resources and initial balances. The "cumulative accounting surplus or deficit" of any country is an amount equal to the difference between the sum of its accounting surpluses and the sum of its accounting deficits since 1st July 1950. Only the cumulative accounting surplus or deficit of a country is covered by its quota.

(1) Equivalent to approximately 15 per cent. of each country's turnover of intra-European trade (both visible and invisible) in 1949 with some modifications (particularly for Belgium and Switzerland).

(2) Where Belgium is mentioned in this chapter it means the Belgium-Luxemburg Economic Union (B.L.E.U.).

All **credit** granted to the Union by the creditors within the quotas bears interest at 2 per cent. per annum; credit granted to debtors by the Union bears interest on an ascending scale, being at

(a) 2 per cent. per annum for the first year, or any part thereof;

(b) 2¼ per cent. per annum for the second year, or any part thereof; and

(c) 2½ per cent. per annum for any period exceeding two years.

These rates are reviewed every six months by the Managing Board and may be changed with the approval of the Council; no change was made after the first six months' working. Interest is payable half-yearly through an automatic adjustment, made by the Agent, of the net surplus or deficit of the member country concerned.

An obligation to pay gold (whether incumbent on a member or on the Union) may be discharged by a payment in U.S. dollars at the rate of $35 per fine ounce; in practice, all payments have been made in dollars. In certain circumstances and with the approval of the Managing Board, payments may be made in currencies other than the U.S. dollar.

The proportion of gold and credit in the settlement of surpluses and deficits is established as shown in the table below.

On this subject the third annual report of the Organisation for European Economic Co-operation says:

> "There had to be limits to the size of gold payments required and credit facilities offered. Few countries in Europe had gold to spare and none could grant unlimited credit. But if gold were too easy to earn, countries might be tempted to build up a surplus in Europe and try to solve their own gold and dollar problem at the expense of other members. If credit were too easy to obtain, a country in deficit would be under no pressure to improve its position. The provision was made in E.P.U. that a creditor would receive gold in settlement of part of his credit position; he would have to grant credit to the Union to cover the balance. A debtor, on the other hand, would receive some credit without the liability to pay gold. Thereafter he would have to settle an increasing part of his deficit with the Union in gold."

Gold payments and credits.

Percentages of quotas	Creditors: receive gold from the Union	Creditors: grant credit to the Union	Debtors: pay gold to the Union	Debtors: receive credit from the Union
	percentages			
Above 0 and up to 20	—	20	—	20
„ 20 „ „ „ 40	10	10	4	16
„ 40 „ „ „ 60	10	10	8	12
„ 60 „ „ „ 80	10	10	12	8
„ 80 „ „ „ 100	10	10	16	4
Overall percentages of total quotas	40	60	40	60

It was expected that out-payments of gold by the Union to creditors would exceed the Union's receipts from debtors from the beginning of operations. As things turned out, the Union received more gold (in the form of dollars) during the first nine months than it had to pay out — but this was a temporary development, soon to be reversed. The Union must always be prepared to pay out gold (or dollars) on a considerable scale.

A fund is created for the purposes of the Agreement and is entrusted to the Organisation.

It is paid or credited with:

(a) an amount of $350 million obligated by the U.S. Government;

(b) the gold and dollar payments from the debtors of the Union;

(c) the claims in respect of credit granted by the Union to the debtors; and

(d) the proceeds and income from these assets.

The fund is used:

(a) to make gold and dollar payments to the creditors of the Union;

(b) to meet the obligations of the Union in respect of credits granted by the creditors; and

(c) to cover any expenses of the Union with regard to transfers of gold or currency, the investment of assets, etc.

Upon the signature of the Agreement, the U.S. Government obligated the $350 million in U.S. dollars mentioned above; on account of the "initial balances", the fund, in the course of the operations, receives grants from Belgium, Sweden and the United Kingdom, and makes grants, in the course of the operations, to Austria, Greece, Iceland, the Netherlands and Norway (and also makes a loan to Norway). Further, the fund is debited and credited with gold payments and receipts and with the obligations and claims for credit granted and received within the quotas. Thus, the composition of the fund gradually changes as the operations proceed.

The fund is an essential part of the mechanism of the Union, and the working of the credits within the quotas would be impracticable if it were not for the solid backing afforded by the free dollars which the U.S. Government has provided in connection with the European Recovery Programme.

Initial balances. The Government of the United States of America has, through the intermediary of the E.C.A., allotted initial debit and credit balances in respect of a number of countries.

Initial balances
for the year 1st July 1950 to 30th June 1951.

Initial debit balances		Initial credit balances	
Prospective creditors	millions of U.S. dollars	Prospective debtors	millions of U.S. dollars
Grants:		Grants:	
Belgium	44.05*	Austria	80
Sweden	21.2 *	Greece	115
United Kingdom	150	Iceland	4
		Netherlands	30
		Norway	50
		sub-total	279
		Loan:	
		Norway	10
Total	215.25	Total	289

Note: The U.S. Government reserved the right to allocate to Turkey an initial credit balance on the basis of a loan up to $25 million; this right was exercised early in June 1951 and Turkey drew on its initial credit balance by loan in the operations for May.

Initial debit balances, allotted to Belgium, Sweden and the United Kingdom as prospective creditor countries in intra-European payments, constitute, in effect, grants from these countries to the Union in consideration of the receipt of conditional aid from the E.C.A. for

* These amounts were given in a letter from the U.S. Special Representative in Europe to the Secretary-General of O.E.E.C., dated 17th October 1950; they represent respectively one-half of the E.R.P. aid allotted to the B.L.E.U. and the total E.R.P. aid allotted to Sweden.

the year 1950–51; "firm allotments of conditional aid" were made by the E.C.A. in lump sums to the creditor countries concerned on the coming into force of the Agreement.

Initial credit balances were allotted to Austria, Greece, Iceland, the Netherlands and Norway. For Austria, Greece, Iceland and the Netherlands the whole amount is considered as a grant; for Norway the amount is partly a grant and partly a loan from the Union.

For countries with initial balances as grants, these balances may be considered as a sort of positive or negative "handicap" in the Union, to be used, in general, before the quotas, and with no repayment obligation.

"Existing resources" are the balances outstanding on 30th June 1950 (for Switzerland, 31st October) on current account (plus any other balances notified by central banks) which both parties agree should not be consolidated or which, if consolidated, may be used partly or wholly as existing resources.

Existing resources may be utilised in the operations by a net debtor country, irrespective of the position of the country in whose currency the resources are held (who owes the debt), but only up to the limit of the net deficit of the using country in the current accounting period, except to the extent that the country

E.P.U.: Quotas and the initial balances (up to 30th June 1951).

Member countries	If country is creditor					If country is debtor				
	Initial debit balance	Quotas: gold-free tranche	Quotas: other tranches: credit	Quotas: other tranches: gold	Total initial balance and quota	Initial credit balance	Quotas: gold-free tranche	Quotas: other tranches: credit	Quotas: other tranches: gold	Total initial balance and quota
	in millions of units of account									
Austria	—	14	28	28	70	80	—	—	—	80
Belgium	44	72	122	122	360	—	72	144	144	360
Denmark	—	39	78	78	195	—	39	78	78	195
France	—	104	208	208	520	—	104	208	208	520
Germany	—	64	128	128	320	—	64	128	128	320
Greece	—	9	18	18	45	115	—	—	—	115
Iceland	—	3	6	6	15	4	3	6	6	19 (1)
Italy	—	41	82	82	205	—	41	82	82	205
Netherlands	—	66	132	132	330	30	66	132	132	360
Norway	—	40	80	80	200	60 (2)	40	80	80	260
Portugal	—	14	28	28	70	—	14	28	28	70
Sweden	21	52	104	104	281	—	52	104	104	260
Switzerland	—	50	100	100	250	—	50	100	100	250
Turkey	—	10	20	20	50	—	10	20	20	50 (3)
United Kingdom	150	212	424	424	1,210	—	212	424	424	1,060
Totals	215	790	1,558	1,558	4,121	289	767	1,534	1,534	4,124

(1) See, however, the special arrangements made for Iceland, page 234.
(2) Of which 10 million is loan and 50 million grant.
(3) See, however, footnote to previous table.

Note: For convenience of presentation, the second to fifth tranches have been lumped together in the table. This raises no difficulty as regards the creditors, for which these four tranches are all on a fifty-fifty basis (half gold, half credit). But, as regards the debtors, it should be remembered that their gold payments increase from tranche to tranche while the credit they receive decreases, as shown in the table on page 226, the overall proportion, however, being the same as for the creditors.

concerned had a cumulative accounting surplus at the conclusion of the operations relating to the preceding accounting period.

The utilisation of existing resources is the only exception to the cumulative principle; such resources can be used according to the conditions set out above but they can never be reconstituted; existing resources thus tend to disappear during the period covered by the Agreement as they are utilised in various operations to offset net deficits.

The United Kingdom has a special arrangement in this matter owing to the importance to member countries of their sterling balances. The U.K. Government has announced that all sterling balances outstanding on 30th June 1950 may be utilised by member countries to settle their net deficits towards the Union. In an exchange of letters between the U.K. Minister of State for Economic Affairs and the U.S Special Representative in Europe, the E.C.A. agreed to indemnify the United Kingdom for any loss of gold or dollars to the extent that such loss may have been caused by the use of sterling balances of net debtors in the settlement of their deficits with the Union.

It is now possible to give a general picture of the Union as it emerges from the foregoing paragraphs, based on the official documents. This is most concisely done by means of the table on the preceding page.

This table is imperfect in several ways, particularly in making a direct comparison of initial balances with quotas, but certain points are brought out:

(a) Belgium as creditor has its initial balance included within the amount of the quota (and not outside as for other countries); and

(b) Austria and Greece as debtors do not have the use of their quotas in the year 1950–51.

To complete this review of the provisions of the Agreement for the European Payments Union, it is necessary to say a few words on liquidation and withdrawal.

In order to liquidate the Union, it is necessary to establish, first of all, the final debit or credit position of each member. The convertible assets of the fund (including any undrawn remainder of the American contribution if the U.S. Government does not object to the liquidation) are then distributed among the creditors in proportion to their claims, which will be pro tanto reduced.

The debtor positions in the Union are likely to exceed the remaining creditor positions. As much of the debtor positions as is required to meet these reduced claims of the creditors is dealt with under arrangements which re-establish a complete system of bilateral debts and credits. Each debtor's position, to the extent required, and each creditor's position is split up among all the other members in proportion to their respective quotas. Thus each member has, with every other member, two bilateral positions which are added together or offset as far as possible.

The resulting bilateral debts are expressed in the creditor's currency unless otherwise agreed, the terms of repayment being settled by bilateral negotiations; if, even with the mediation of the Organisation, agreement is not reached bilaterally, the debt automatically becomes payable in equal monthly instalments over a period of three years and bears interest at 2¾ per cent. per annum.

After all the creditors' claims have been fully met in this way, any remaining debit positions of member countries, which form the residuary assets of the Union, are, subject to the approval of the U.S. Government, distributed among all members of the Union in accordance with the same formula as that used for the distribution of direct aid. Claims in respect of this distribution which are due to countries remaining debtors to the Union are offset against their residual debit positions in the Union. The resulting net debts and claims are then transformed into bilateral credits granted by each creditor to each debtor in the proportion which each individual debtor's liability represents in relation to the total liability. These debts, again, are expressed in the currency of the creditor unless otherwise agreed and, in the absence of bilateral agreement or of a decision of the Organisation, are to be consolidated over a period of fifteen years, amortisation commencing in the third year and interest being payable at 3 per cent. per annum.

In certain conditions, a member may withdraw from the Union, or be required to withdraw, the procedure being, in principle, similar to that applicable under the liquidation rules.

B. The practical working of the Union.

Enough material has now been published from O.E.E.C. in Paris and by member countries to make possible a review of the actual working of the Union since 1st July 1950.

The new Agreement for the Establishment of a European Payments Union was not signed until 19th September 1950, so that the first operations of the Union covered the accounting period from 1st July to 30th September 1950; the second accounting period was the month of October 1950 and operations have been effected monthly ever since.

In the practical working of the Union there are two phases which may be distinguished:

(a) the offsetting operations. The gross bilateral surpluses and deficits of each month are fully "compensated" for each member country, leaving only the net surplus or deficit for that month; further, this net surplus (or deficit) on the month is "compensated" against any net deficit (or surplus) the country may have had in previous months (the application of the "cumulative principle", see page 225).

(b) the settlement operations on the final net positions.

The results of the operations of the Union, from July 1950 to March 1951, are summarised on the following page. The table shows the gross bilateral surpluses and deficits reduced to the net positions for the nine months (i. e. after the two forms of "compensation" under (a) above, which produce the same result as if the nine months were covered in one operation). These net positions are then settled by the use of existing resources and the utilisation of initial balances, only the remaining "accounting positions" being covered by credit and gold payments within the quotas (and, in the case of Germany, by the special credit arrangements in addition).

The telegram which the Agent sends to the central bank of each member country every month is in three parts: the first part gives information as to the country's position on the month; the second part gives instructions to the central bank to credit the central banks of those partner countries with which its country had a bilateral surplus on the month (with any necessary adjustments for the use of existing resources) and informs it that partner central banks will credit its account where there are deficits; the third part of the telegram deals with the operations in the Union (i.e. the utilisation of initial balances and the quotas) and, where necessary, gives

E.P.U.: Cumulative position, July 1950 to March 1951.

Member countries and monetary areas (1) (2)	Offsetting operations			Settlement operations				
	Gross positions		Net positions	Existing resources	Initial balances	Covered by the Union: Credit received or gold paid (+), credit granted or gold received (—)		
	total bilateral surpluses (+) and deficits (—) of country		cumulative surplus (+) or deficit (—) of country (3)	used (net) on (+) or by (—) country	debit (+) or credit (—) balances utilised	Credit received (+) or granted (—) by the Union	Gold paid (+) or received (—) by the Union	Total gold and credit equal to accounting surplus (+) or deficit (—) of country
	in millions of units of account							
Austria	+ 12.7	— 95.3	— 82.6	—	— 80.0	—	— 2.6	— 2.6(4)
Belgium	+ 276.6	— 187.1	+ 89.5	— 15.8	+ 44.1	+ 61.2	—	+ 61.2
Denmark	+ 62.6	— 103.6	— 41.0	— 2.0	—	— 39.1	— 0.0	— 39.2
France	+ 409.2	— 137.9	+ 271.3	+ 1.1	—	+ 187.4	+ 83.4	+ 270.9
Germany	+ 159.4	— 616.3	— 456.9	— 11.9	—	— 272.1	— 173.7	— 445.8(5)
Greece	+ 4.6	— 98.3	— 93.7	— 1.1	— 92.6	—	—	nil
Iceland	+ 0.7	— 4.6	— 3.9	—	— 3.9	—	—	nil
Italy	+ 84.7	— 168.2	— 83.5	— 42.5	—	— 41.0	—	— 41.0
Netherlands	+ 122.1	— 314.7	— 192.7	—	— 30.0	— 118.8	— 44.1(6)	— 162.9
Norway	+ 27.0	— 100.9	— 73.9	— 0.0	— 60.0(7)	— 13.8	—	— 13.8
Portugal	+ 79.3	— 15.9	+ 63.4	—	—	+ 38.7	+ 24.7	+ 63.5
Sweden	+ 101.2	— 146.8	— 45.7	— 15.4	nil	— 30.3	—	— 30.3
Switzerland	+ 89.7	— 63.2	+ 26.5	—	—	+ 26.5	—	+ 26.5
Turkey	+ 53.9	— 64.8	— 10.8	+ 1.9	—	— 12.2	— 0.5	— 12.7
United Kingdom	+ 857.0	— 223.1	+ 633.9	+ 85.7	+ 150.0	+ 305.4	+ 93.4	+ 398.9
Totals	± 2,340.7		±1,084.6	± 88.8	+ 194.1 — 266.5	+ 619.4 — 527.3	+ 201.6 — 220.9	+ 821.0 — 748.3

(1) Switzerland is included from November 1950 onwards.
(2) Ireland and Trieste are included in the monetary areas of the United Kingdom and Italy respectively and the United Kingdom includes, in addition to the dependent overseas territories, the non-participating sterling area.
(3) Interest paid on loans granted or received should be in the net position but for convenience of presentation is included only in the accounting position.
(4) The amount of 2.6 million units of account by which Austria's cumulative net deficit exceeded its initial credit balance of 80 million was fully settled in dollars in accordance with Article 13 (a) of the Agreement.
(5) The amount of 125.8 million units of account by which Germany's cumulative accounting deficit exceeded its quota of 320 million was covered outside the quota under the special credit to Germany.
(6) Including 18.5 million units of account paid under Article 11 (d).
(7) Of which 10 million units of account were a loan.

instructions as regards gold payments to be made. All offsetting and settlement operations are executed on the same value date, generally the tenth working day in the month after that to which the operations apply, e. g. 13th April for the operations in respect of March.

Fourteen reporting countries (including Switzerland) have ninety-one bilateral positions between them and, in addition, Iceland is now included with a further five positions, making ninety-six in all. These ninety-six positions are fully covered every month (Switzerland from November 1950 only) and in this way $2,341 million* bilateral surpluses were offset against a similar amount of deficits during the period July 1950 to March 1951.

There remained $1,085 million net positions which were adjusted in December for interest paid and earned on credits received and granted within the quotas up to December 1950.

The utilisation of initial balances falls unevenly on creditors and debtors so that the accounting surpluses of $821 million exceed by $73 million the accounting deficits of $748 million. It should be noted that credit granted to the Union by the creditors exceeded the credit granted by the Union to the debtors — and also that the Union, up to March 1951, had received more dollars than it had to pay out.

It was, however, necessary to draw on the U.S. Treasury for part of the $350 million obligated by the U.S. Government. This was done during the operations in respect of July to September 1950, when $42.6 million was paid out to the net creditors. Dollars received on the Agent's account at the Federal Reserve Bank of New York in later months, from the net

E.P.U.: Summary of Statement of Account.

After operations for accounting period	Assets			Total of Statement(4)	Liabilities		
	Liquid resources(1) (U.S. dollars)	Grants not yet received(2)	Credits granted(3)		Capital(5)	Grants not yet given(6)	Credits received
	in millions of units of account						
Opening	350	215	—	565	286	279	—
1950 July-September	338	130	169	637	286	187	164
October	420	52	274	746	286	158	302
November . . .	448	57	309	814	286	126	402
December . . .	404	44	362	810	286	88	436
1951 January	379	21	431	831	286	63	482
February . . .	355	21	519	895	286	35	574
March	370	21	537	928	286	23	619

(1) $350 million plus dollars received from net debtors and interest received on U.S. Treasury bills and minus dollars paid to net creditors. (2) Initial debit balances not yet utilised.
(3) Including loan to Norway (on account of initial credit balance) and the special credit to Germany.
(4) Including an item "Miscellaneous": an asset of 167,000 for December and a liability for 9,000 in January, 35,000 in February and 40,000 in March (difference between interest paid and received by the Union, not including interest accrued).
(5) $350 million less $63.75 million (difference between initial debit and credit balances allotted as grants).
(6) Initial credit balances not yet utilised.

* The dollar sign ($) is used in the text of this chapter for convenience, whether the operations are effected, as in this case, in the national currencies of member countries or in units of account of the Union.

in-payments of member countries in excess of this $42.6 million, rose to the highest point of $97.5 million as a result of the November operations; $19.3 million still remained after the March operations. Out of the dollar balance arising as a result of these net in-payments by members, investments have been made in U.S. Treasury bills.

An audited balance sheet of the European Payments Union will be published after the conclusion of the operations in respect of June 1951; meanwhile, a Statement of Account is published monthly. A summary of the Statements of Account from the commencement of business up to March 1951 is reproduced in an abbreviated form on the preceding page.

* * *

The accounting results of the working of the European Payments Union during the first nine months, as summarised above, do not suffice to afford a complete view of the change introduced into the system of payments between the European countries belonging to O.E.E.C.

In the first place, it should be noted that the consolidation and amortisation of the old bilateral debts have formed the subjects of agreements, with the results summed up in the table below.

Amortisation of old bilateral indebtedness through the Union (in millions of units of account).

Total of bilateral debts reported as at 30th June 1950 . . . 844			
Repayments in quarters	through regular amortisation and repayments	through utilisation as existing resources *	Total repayments
July–September 1950	65	20	85
October–December 1950 . . .	79	32	111
January–March 1951	39	43	82
Total repayments to March 1951	183	95	278
Total debts still outstanding as at 31st March 1951 566			

* This is the gross amount and, therefore, somewhat higher than the net total given in the table on page 231.

The net cumulative surpluses and deficits have actually been diminished by the amortisations of old debts, mainly because the United Kingdom, the largest creditor of the Union, has repaid the greatest amount of old indebtedness. Up to the present the call on the Union for new credit has been reduced by bringing the repayment of old indebtedness into the picture.

In the second place, the Managing Board has endeavoured to introduce a certain flexibility into the automatic working of the Union by its handling of particular cases submitted to it. All the deliberations of the Managing Board are strictly confidential, but its principal decisions have been published, so that it is possible to give a brief review of them.

When the Managing Board met for the first time in October the problem of the balance of payments of Germany (which had utilised 54 per cent. of its quota in the first operations) was imminent. The background to the German problem is reviewed in Chapter II (page 46); after investigation of the position by two independent experts and examination of a report from the German Federal Government, the Managing Board recommended that a special credit arrangement be made for Germany, and the Council of O.E.E.C. gave its approval on 13th December 1950.

> Subject to the German Government's carrying-out of the programme which it had itself proposed, the German accounting deficit with the Union in excess of the German quota (of $320 million) is covered up to a total of $180 million, as to one-third in gold or dollar payments and the remaining two-thirds by a special credit from the Union, bearing interest at 2¾ per cent; the "plafond" of the special credit, after remaining at $120 million until the end of April, is reduced by $20 million a month from May until its extinction in October 1951. This arrangement fits in automatically with the normal monthly operations of the Union to cover the German deficits as they arise. The German Government pledged as security for the credit the dollar funds on the "No. 2 Account" of the Bank deutscher Länder at the Federal Reserve Bank of New York.*

After the full utilisation of Austria's initial credit balance of $80 million and a payment by Austria of $2.6 million in dollars in March 1951, it was decided with the agreement of the E.C.A. that any further accounting deficit with the Union should be covered, up to a limit of $20 million until June 1951, one-half from Austria's own resources in dollars and one-half from the Special Assistance Fund.

After the full utilisation of Iceland's initial credit balance of $4 million in April 1951, any further accounting deficit with the Union is covered, not by utilisation of Iceland's quota, which was blocked, but by additional dollar aid to Iceland from the U.S. Government up to a limit of $3 million until June 1951.

As regards Greece, the E.C.A. announced that it was prepared to facilitate, by certain re-allocations of funds, the payments which that country has to make to the Union before June 1951 and after the full utilisation of its initial credit balance.

Agreements have likewise been made with the countries whose credit balances are in danger of exceeding their quotas.

Any surplus of Portugal in excess of its quota (of $70 million) would be covered, up to a limit of $25 million, one-half by gold payments by the Union to Portugal, and one-half by credit granted by Portugal to the Union.

As regards Switzerland, some elasticity was introduced into the working of the Union by the Council decision of 18th August 1950, whereby, if Switzerland exceeds its quota as a creditor, it will remain in the Union on the basis of fifty per cent. credit granted, to the Union and fifty per cent. gold payments by the Union to cover its further net surpluses.

Thus the nature of the special arrangements has been adapted to the circumstances of each case. For instance, the German balance-of-payments crisis in the autumn of 1950 was considered to be of a temporary, even

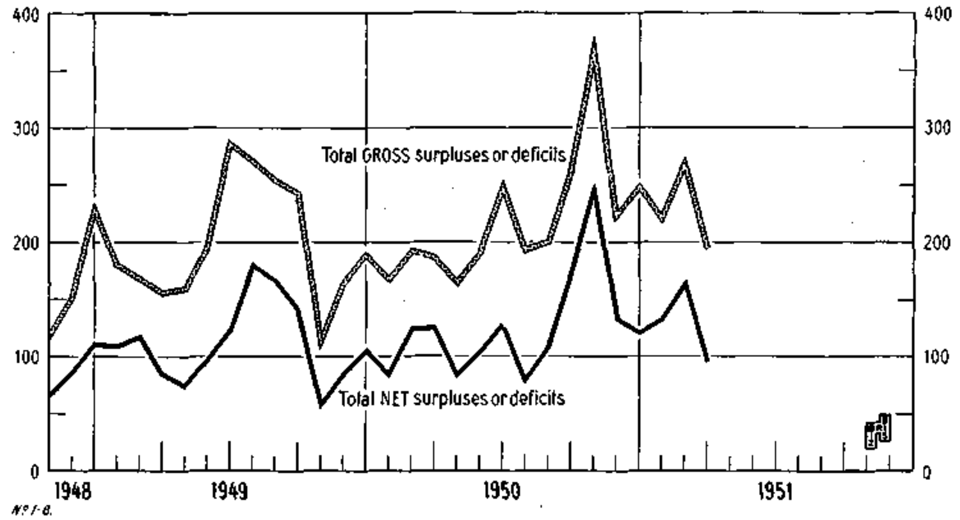
* This special credit of $120 million, granted by the Union to Germany, was heavily drawn upon in the operations for December 1950 and January and February 1951, the maximum utilisation being $91.4 million; this amount was reduced by German surpluses in March and April and the credit outstanding extinguished in the operations for May 1951.

if acute, nature properly met by short-term credit arrangements; on the other hand, the continuous Austrian deficits were so persistent that credit arrangements did not appear appropriate and a grant from the Special Assistance Fund of the E.C.A. was considered necessary.

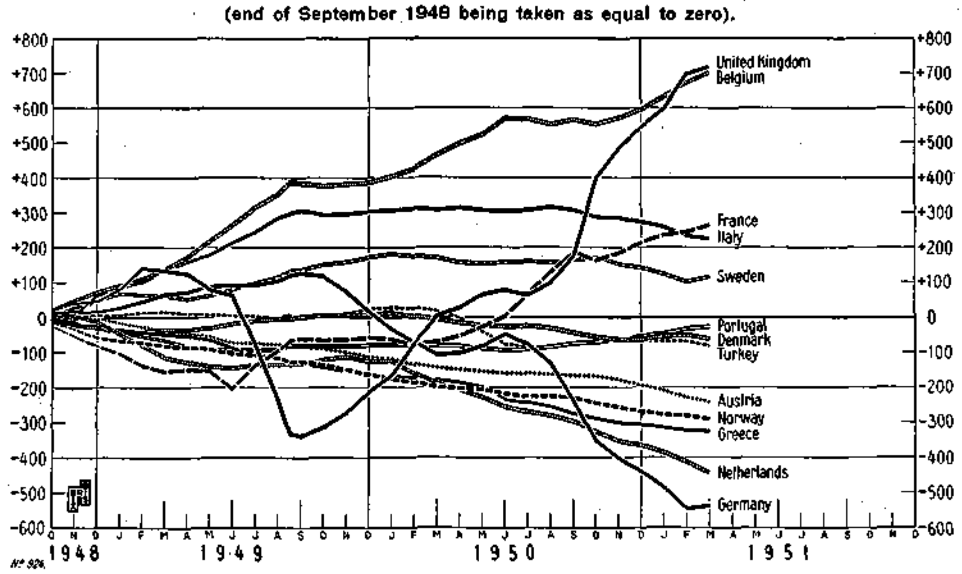
* * *

The European Payments Union was formed at a critical moment in the development of the intra-European balances of payments, which received the full impact of the rapid rise in prices from the middle of 1950. This is reflected in the sharp increase in the total of the net deficits, which

Gross and net surpluses and deficits in intra-European payments.
October 1948 to March 1951 (in millions of U.S. dollars).



Net surpluses and deficits in intra-European payments on a cumulative basis by countries.
October 1948 to March 1951 (in millions of U.S. dollars) (end of September 1948 being taken as equal to zero).



amounted to \$1,080 million in the nine months of the operation of the Union to March 1951, compared with \$580 million in the corresponding period a year earlier (which included the devaluation of sterling and other currencies of member countries).*

Net surpluses (+) or deficits (—) of member countries in their intra-European payments.

Month	Austria	Belgium	Denmark	France	Germany	Greece	Italy	Netherlands	Norway	Portugal	Sweden	Turkey	United Kingdom	Total net surpluses and net deficits
	in millions of U.S. dollars													
1948														
October	+ 1	+ 21	− 10	− 27	+ 15	− 10	+ 3	− 0	− 15	− 5	+ 4	+ 3	+ 19	66
November	− 1	+ 28	− 14	− 29	+ 4	− 9	+ 4	+ 5	− 21	− 11	+ 24	− 2	+ 22	86
December	− 4	+ 21	− 8	− 26	− 3	− 8	+ 53	− 18	− 26	− 19	+ 28	+ 3	+ 5	110
1949														
January	− 15	+ 20	− 5	− 21	+ 13	− 11	+ 28	− 38	− 8	− 10	+ 12	+ 2	+ 33	108
February	− 11	+ 20	− 6	− 36	+ 17	− 8	+ 14	− 32	− 7	− 12	− 5	+ 5	+ 61	117
March	− 8	+ 29	+ 5	− 14	+ 19	− 5	+ 30	− 33	− 7	− 12	− 0	+ 2	− 4	85
April	− 10	+ 35	− 0	+ 6	+ 7	− 4	+ 27	− 11	− 6	− 18	− 9	− 3	− 13	74
May	− 9	+ 45	+ 6	− 4	+ 17	− 12	+ 17	− 13	− 4	− 5	+ 10	− 4	− 44	95
June	− 14	+ 49	+ 14	− 50	+ 2	− 23	+ 38	− 6	− 10	− 2	+ 19	− 0	− 17	123
July	− 3	+ 48	+ 8	+ 65	+ 2	− 23	+ 31	+ 10	− 6	− 1	+ 16	− 4	−143	180
August	− 3	+ 36	+ 8	+ 44	+ 12	− 4	+ 42	+ 2	− 7	+ 3	+ 20	− 2	−151	167
September	− 7	+ 32	+ 5	+ 32	+ 23	− 15	+ 17	+ 1	− 10	+ 8	+ 19	+ 2	−108	140
October	− 6	− 7	+ 4	− 6	− 9	− 9	− 11	+ 13	− 7	− 0	+ 16	− 1	+ 26	58
November	− 9	+ 4	+ 4	+ 4	− 45	− 14	+ 3	+ 10	− 16	− 0	+ 8	+ 10	+ 42	84
December	− 12	+ 5	− 0	+ 4	− 55	− 7	+ 6	− 15	− 15	+ 3	+ 13	+ 13	+ 60	104
1950														
January	− 10	+ 16	+ 4	− 4	− 54	− 4	+ 5	+ 2	− 12	− 0	+ 8	+ 4	+ 44	84
February	− 11	+ 22	− 8	− 14	− 35	− 5	+ 4	− 36	− 10	+ 1	− 5	− 0	+ 97	124
March	− 9	+ 40	− 10	+ 7	− 38	− 7	− 4	− 27	− 13	− 2	− 6	− 9	+ 77	124
April	− 6	+ 33	− 10	+ 19	+ 6	− 9	+ 4	− 22	− 1	− 0	− 15	− 19	+ 21	83
May	− 4	+ 24	− 8	+ 23	+ 20	− 11	− 6	− 18	− 4	− 10	− 1	− 42	+ 35	103
June	− 6	+ 49	− 4	+ 29	+ 32	− 36	− 2	− 27	− 14	− 2	+ 1	− 36	+ 16	127
July	− 1	− 0	+ 2	+ 68	− 29	− 9	+ 3	− 14	− 6	+ 2	+ 3	− 6	− 14	79
August	− 2	− 16	− 6	+ 61	− 53	− 14	+ 9	− 12	− 1	+ 5	− 2	− 2	+ 32	107
September	− 5	+ 14	− 14	+ 58	−104	− 20	− 10	− 16	− 4	+ 10	+ 5	+ 9	+ 76	172
October	− 3	− 13	− 13	− 24	−116	− 12	− 19	− 31	− 15	+ 5	+ 8	+ 9	+224	246
November	− 8	+ 16	− 6	+ 20	− 49	− 12	− 2	− 26	− 12	+ 7	− 18	+ 2	+ 85	131
December	− 19	+ 24	− 1	+ 28	− 39	− 6	− 12	− 13	− 13	+ 8	− 11	− 4	+ 61	120
1951														
January	− 14	+ 35	+ 9	+ 24	− 45	− 9	− 14	− 22	− 9	+ 10	− 18	− 0	+ 54	132
February	− 20	+ 40	+ 4	+ 7	− 60	− 7	− 27	− 25	− 3	+ 12	− 22	− 1	+100	164
March	− 11	+ 30	− 13	+ 22	+ 6	− 5	− 6	− 35	− 10	+ 5	+ 13	− 16	+ 20	96

Note: These are the net figures of intra-European payments as calculated under the payments plans (October 1948 to June 1950) and for the purposes of the European Payments Union. For technical reasons (e.g. the inclusion of the amortisation of the old bilateral debts from July 1950 onwards) the figures are not strictly comparable but a reasonably correct picture is given of the broad developments. Also for technical reasons, Switzerland is excluded from this table and from the graphs on the preceding page. The inclusion of Iceland (from July 1950 onwards) would make no material difference to the figures.

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* These are rounded figures of the cumulative net deficits for each period of nine months (cf., for the E.P.U. period, the table on page 231). The total of the net deficits for the nine months taken separately was \$1,110 million for July 1949–March 1950 and \$1,310 million for July 1950–March 1951. These totals differ slightly from those which can be obtained by adding the figures in the last column of the table above, as this table excludes Switzerland.

The graphs on page 235 are based on calculations made under the intra-European payments schemes as well as for the operations of the European Payments Union and, although changes of technique interfere somewhat with comparability, a reasonably correct picture is given of the broad developments.

Over the whole thirty-month period a few countries have been approximately in balance in their intra-European payments, e.g. Portugal, Denmark and Turkey. Belgium has been the most persistent creditor and the Netherlands the most persistent debtor. The United Kingdom and Germany have had the widest fluctuations, contributing heavily at times to the net surpluses and at others to the net deficits.

How were these deficits covered? As regards the European Payments Union, the \$2,340 million gross deficits were reduced, by the monthly "offsetting" operations and by the application of the cumulative principle, to \$1,080 million of net deficits; these net deficits were settled as to \$70 million by the use of old resources, \$255 million by grants and \$220 million by gold payments, leaving only \$535 million to be covered by new credit from the Union (including, of course, the special credit to Germany). This is the picture looked at from the deficit side; from the point of view of the net creditors the composition of the "cover" is slightly different, largely owing to the differences of percentages of gold and credit.

E.P.U.: Cover of gross deficits, July 1950 to March 1951.

Items	In millions of U.S. dollars
Bilateral deficits: total in nine separate months	2,340
"Compensations"	1,260
Net deficits remaining	1,080
Cover of net deficits by:	
existing resources(1)	70
grants	255
gold paid to Union	220
credit from Union(2)	535
Total cover of net deficits	1,080

(1) Net amount used by cumulative net debtors as at the end of March 1951.
(2) Including the special credit to Germany and also the initial credit balance of Norway as a loan.

Comparison of the "net" working of the Union with the "gross" payments schemes calls for some rather complicated statistical adjustments but the broad lines are evident.

The monthly average of the gross deficits rose from \$190 million in the twenty-one months of the payments schemes to \$260 million in the first nine months of the Union. The total of \$4,000 million odd of gross deficits under the payments schemes was covered as to 2 per cent. by "compensations", 32 per cent. by grants (drawing rights), 6 per cent. by gold payments, and the remaining 60 per cent. by fluctuations of the bilateral accounts (i.e. largely an increase in bilateral debts). The contrast with the Union is striking: the gross deficits exceeding \$2,300 million (including amortisations) were reduced by 54 per cent. through the "compensations", 11 per cent. was covered by grants, 9 per cent. by gold payments, 3 per cent. by drawing down old balances (existing resources) and 23 per cent. by new credit from the Union.

* * *

The European Payments Union is essentially an attempt at a transitional solution of the payments problem upon a regional basis; the region is, indeed, a considerable one, having close links with the monetary areas of the member countries, the most important being the sterling area. Further, the system involves gold payments by debtor countries on a scale sufficient to subject its members to a severe discipline.

On the other hand, the European Payments Union is necessarily confronted with the problems inherent in any system which is limited to a particular region (even if it embraces a wide area) but which cannot at any cost establish itself on a footing of autarky. Each of the countries and monetary areas belonging to the Union has its own method of solving the problem of its relations with the rest of the world — and, in particular, with the dollar area; and it is in no way desirable that the countries which have maintained or re-established the greatest freedom in their relations with that area should fall into line with those which still find it necessary to maintain more or less severe restrictions.

The European Payments Union is, indeed, no substitute for full convertibility: it is intended as a step taken towards convertibility, combined with the liberalisation of trade, by the co-operative effort of a group of countries whose economies were severely disrupted by the war — this effort representing the most efficient multilateral use of American aid. Convertibility of currencies on a world-wide basis must remain the objective towards which all endeavours in this field are bent.

IX. Current Activities of the Bank.

1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1951, examined and certified by the auditors, is reproduced in Annex I to the present Report. It is drawn up in the same form as last year.

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 as on 31st March 1951 amounts to 1,025,482,155.30 Swiss gold francs, against 754,808,842.63 Swiss gold francs a year previously. There was thus an increase of 270.7 million Swiss gold francs during the financial year. This was accounted for almost exclusively by the rise in short-term and sight deposits expressed in various currencies and in gold, which increased by more than 264 million. The central banks which are members of its organisation realise that the services the Bank for International Settlements can render them vary with the means at its disposal and that, by leaving on deposit with it such part of their monetary reserves as is convenient to them, they strengthen the institution which is their permanent centre of co-operation.

The business handled by the Bank has continued to expand in response to the requirements of the European central banks and in line with their monetary policy.

In its current operations the Bank has also continued to use and to perfect the technique described in the preceding Annual Reports — consisting of short-term credit facilities, gold operations between central banks, and the combining of spot and forward transactions in currencies and in gold.

* * *

The total of earmarked gold, not included in the Bank's balance sheet, had amounted to 193.1 million Swiss gold francs on 31st March 1950. At the end of the financial year under review it stood at 231.5 million, after having reached a peak of 234.7 million on 28th February 1951.

Attention may be drawn to the fact that, as indicated in Note 1 at the bottom of the Bank's monthly statement of account, the funds held as Agent for the Organisation for European Economic Co-operation (in connection with the European Payments Union), as well as the funds held for the service of International Loans for which the Bank is Trustee or Fiscal Agent, are likewise excluded from the statement.

Note III at the foot of the balance sheet gives the amount of the bills rediscounted with the Bank's endorsement or undertaking to repurchase. On 31st March 1950 there were no operations of this nature. At the end of May and the end of June the figure for such bills was 3.7 million Swiss gold francs; by 31st July it had risen to 15.9 million, but as from the end of September it declined progressively until its temporary disappearance at the end of January 1951. On 31st March 1951 this item reappeared, at 1.5 million.

The general development of the Bank's monthly statement of account during the financial year under review can be outlined as follows.

The total of the first part of the Bank's statement of account, which had stood at 754.8 million Swiss gold francs on 31st March 1950, increased steadily each month, with the exception of August, until the end of the calendar year, when it amounted to 1,070.5 million. It then decreased slightly, falling to 1,012.4 million on 28th February 1951, but stood at 1,025.5 million at the end of the financial year.

* * *

Assets.

The total of the item "Gold in bars and coins", which had amounted to 267.6 million Swiss gold francs in the statement of account at 31st March 1950, rose from month to month (in this case, too, August was the sole exception) until, on 31st December, it stood at 509.7 million, the highest figure reached as yet. After this, however, it declined sharply, falling to 363.8 million on 31st March 1951. The increase during the financial year thus amounted to 96.2 million Swiss gold francs.

There is a broad correspondence between the fluctuations in the Bank's gold holdings and in the deposits expressed in a weight of gold, the two items having developed along parallel lines.

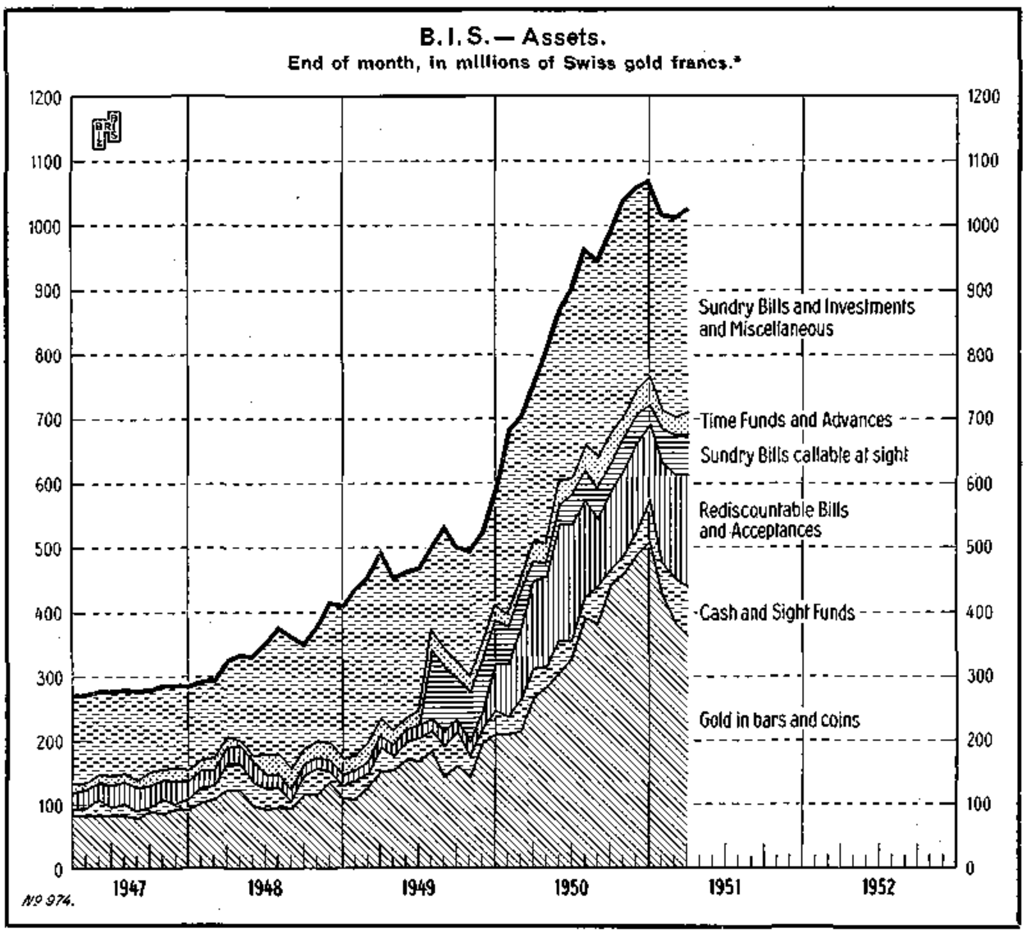
B.I.S.: Gold position.

Date	Gold in bars and coins	Deposits expressed in a weight of gold	Net stock of gold taking account of deposits only	Net stock of gold taking account of deposits and forward operations
	in millions of Swiss gold francs			
1950 31st March	267.6 (min.)	96.8 (min.)	170.8	188.4
30th June	330.0	188.5	141.5	180.9 (min.)
31st October	457.1	362.4	94.7 (min.)	187.2
30th November	487.1	380.5 (max.)	106.6	189.7
31st December	509.7 (max.)	347.8	161.9	200.1
1951 28th February	383.3	211.6	171.7	203.2 (max.)
31st March	363.8	178.6	185.2 (max.)	198.3

The figure shown in the statement of account does not, however, include forward operations; for this reason, the Bank's net assets in gold are actually larger than the figure obtained by comparing the assets and commitments in gold shown in the balance sheet. The preceding table gives a comparison, on certain representative dates, of the four items which have to be taken into account in considering the Bank's gold position; it shows also the scale on which gold has been employed for operations.

The geographical distribution of the Bank's net assets in gold naturally varies according to the operations in progress, but the changes are never of long duration, a certain degree of equilibrium being always maintained in the distribution.

The Bank's cash holdings in various currencies, which had amounted to 42.6 million Swiss gold francs on 31st March 1950, reached a total of 70.6 million on 31st March 1951. The average balance shown under this heading in the monthly statements of account during the financial year 1950–51 comes to more than 42 million Swiss gold francs, as compared with about 33 million in the financial year 1949–50.



* Not including assets connected with the execution of the Hague Agreements.

Despite the considerable alterations which have taken place in the situation on the various markets, the fact remains that, as has been mentioned in previous Reports, it is never easy to find short-term investments offering all the necessary prerequisites. In addition, the magnitude which its operations have assumed has obliged the Bank to have a large amount of liquid funds at its immediate disposal, mainly in dollars.

On 31st March 1950, cash held in dollars accounted for 86 per cent. of the Bank's total cash holdings in currencies, and cash held in Swiss francs for 13 per cent. The corresponding figures on 31st March 1951 were 76 per cent. and 23 per cent.

On 31st March 1951, gold and cash holdings, taken together, represented 42.4 per cent. of the total of the first part of the statement of account, as against 41.1 per cent. on 31st March 1950.

Sight funds at interest varied only between a minimum of 1.7 million Swiss gold francs, as registered on 31st March 1950, and their highest level of 4.4 million reached on 31st March 1951.

The fluctuations of the total of the rediscountable portfolio are shown in the following table, which gives the minimum and maximum figures for each category.

The proportion of acceptances in the total of the portfolio was slightly larger at the end of the financial year than it had been at the beginning.

B.I.S.: Rediscountable portfolio.

Date	Commercial bills and bankers' acceptances	Treasury bills	Total
	in millions of Swiss gold francs		
1950 31st March	32.2	103.0	135.2
30th June	27.3 (min.)	155.8 (max.)	183.1 (max.)
31st August	28.9	76.3 (min.)	105.2 (min.)
1951 31st March	46.1 (max.)	128.9	175.0

The item "Sundry bills cashable on demand" amounted to 31.3 million Swiss gold francs on 31st March 1950. After having declined to its minimum of 20.6 million on 30th April, it fluctuated, for the most part between 40 and 50 million, until the end of 1950 and then rose progressively, to reach its maximum of 62.6 million at the end of the financial year.

The increase in the total of the Bank's investments at sight, comprising the various items mentioned above, is very nearly 200 million Swiss gold francs. Although, as shown below, only two-fifths of the increase in deposits was attributable to sight funds, it may be noted that almost three-quarters of the additional resources have been invested in immediately realisable assets. The Bank's liquidity position may thus be considered particularly satisfactory.

Time funds and advances, which had totalled 31.2 million Swiss gold francs on 31st March 1950, amounted to 34.0 million on 31st March 1951. The lowest level touched by this item during the financial year was 26.8 million on 30th June and the highest 50.1 million on 31st August.

On 31st March 1950 the total of sundry bills and investments had been 175.5 million Swiss gold francs. During the financial year under review it consistently remained above this level, reaching its maximum of 261.7 million on 31st October 1950. On 31st March 1951 the figure for this item was 245.4 million.

The Bank's care to maintain a liquid position is reflected also in the development of time funds and advances and sundry bills and investments, taken together. In the following table a comparison is made of the distribution of these two items at the beginning and at the end of the financial year under review.

B.I.S.: Time funds and sundry bills and investments.

Period	31st March 1950	31st March 1951	Difference
	in millions of Swiss gold francs		
At less than 3 months	174.5	231.8	+ 57.3
At 3 to 6 months	21.2	19.2	— 2.0
At 6 to 9 months	—	0.9	+ 0.9
At 9 to 12 months	—	16.1	+ 16.1
At more than a year	11.0	11.4	+ 0.4
	206.7	279.4	+ 72.7

The increase in the total is, to a great extent, attributable to operations at less than three months.

* * *

Liabilities.

There has been no change in the Bank's capital and reserves. As a result of the operations of the year (see below, section 4 "Financial Results"), the balance of the Profit and Loss Account, which includes the profit for the financial year ended 31st March 1951, rose from 2.6 to 5.7 million Swiss gold francs. The item "Provision for contingencies" amounted to 104.4 million Swiss gold francs on 31st March 1950 and to 107.1 million on 31st March 1951. For the item "Miscellaneous" the figure was 6.2 million Swiss gold francs at the beginning of the financial year and 6.7 million at the end.

It is the movement of the short-term and sight deposits, in gold and in currencies, that determines the movement of the balance-sheet total.

As mentioned above, these deposits have registered a fresh, substantial increase, brought out in the following table, which shows the trend of the items in question during the past three financial years.

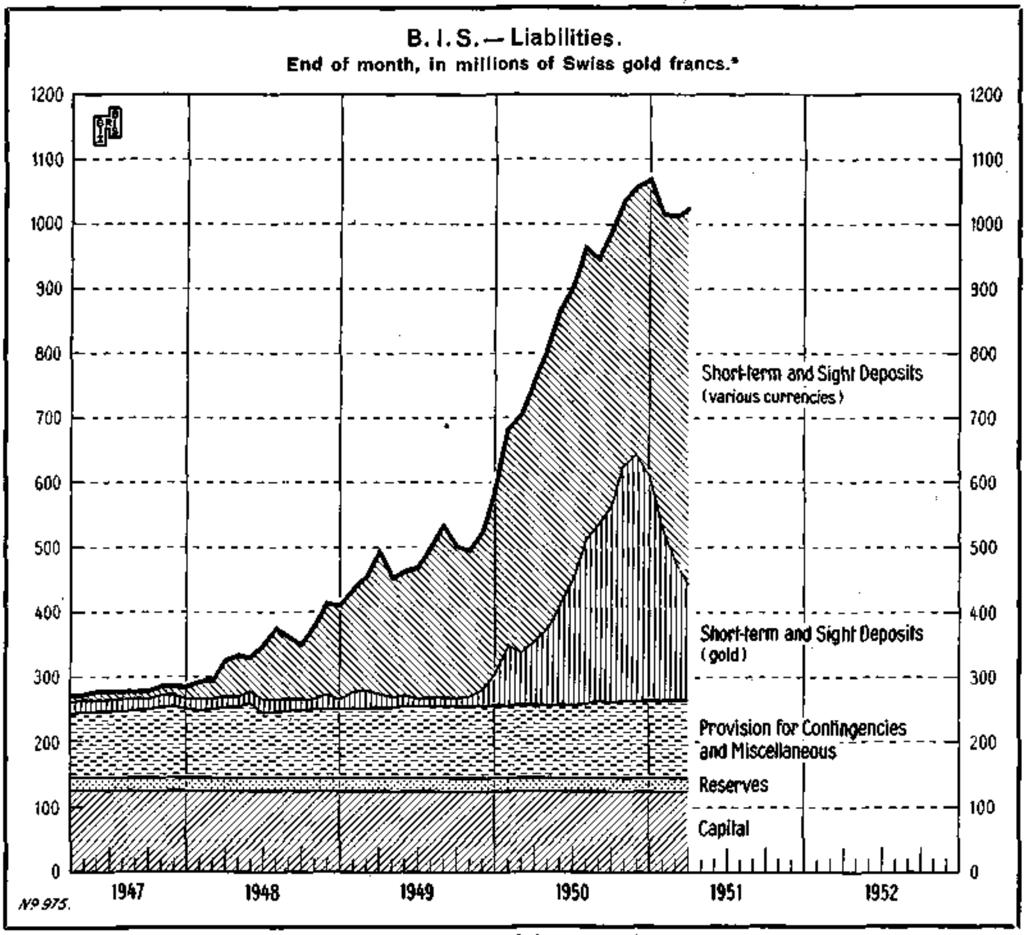
B.I.S.: Short-term and sight deposits.

Items	31st March 1948	31st March 1949	31st March 1950	31st March 1951
	in millions of Swiss gold francs			
Gold	17.7	21.6	96.8	178.6
Currencies:				
Central banks for their own account	48.4	218.9	373.5	558.6
Central banks for the account of others	8.5	0.7	2.4	2.4
Other depositors	0.5	0.6	23.9	21.4
Total in currencies	57.4	220.2	399.8	582.4
Total in gold and currencies	75.1	241.8	496.6	761.0
including: sight funds	50.5	93.1	132.2	234.8
short-term funds	24.6	148.7	364.4	526.2
Total	75.1	241.8	496.6	761.0

Deposits expressed in a weight of gold almost doubled in the course of the financial year; currency deposits made by the central banks for their own account increased by nearly 50 per cent.; deposits made by other depositors (international institutions) remained at approximately the same level.

During the financial year the movement of deposits passed through two distinct phases; in the first, from the end of March to the end of November 1950, deposits expressed in a weight of gold registered a steady and substantial increase, from 96.8 to 380.5 million Swiss gold francs, whereas deposits in currencies rose only from 399.8 to 415.4 million, after having passed the 400 million mark in April; in the second, from December 1950 to the end of the financial year, a reverse trend set in and continued uninterrupted, with the result that deposits expressed in a weight of gold were reduced to 178.6 million and currency deposits increased to 582.4 million Swiss gold francs.

As already indicated in the preceding Annual Report, the expansion in the deposits expressed in a weight of gold had been influenced by the volume of gold operations effected by the Bank. Thanks to the facilities afforded by deposits of this type, the Bank's correspondents are having increasing recourse to accounts expressed in a weight of gold. The greater part of these deposits are, however, of a temporary nature and are liable to fluctuate considerably — as was the case at the end of the financial year.



* Not including liabilities connected with the execution of the Hague Agreements.

Before the beginning of the financial year, the deposits in question included only a negligible amount at time (about 244,000 Swiss gold francs). For 31st May, the corresponding figure was 6.9 million Swiss gold francs. A further advance brought it to 38 million on 31st October and it reached 43.4 million at the end of December and January, before finishing the financial year at 38 million. This is the first step towards obtaining gold resources available for some length of time, and therefore utilisable for operations.

The increase in time deposits as compared with sight deposits is also very marked as regards deposits in currencies.

The distribution of the Bank's deposits at short term and at sight, in gold and in currencies, at the beginning and at the end of the financial year under review is shown in the following table.

About three-fifths of the total increase in deposits was accounted for by time funds. On 31st March 1951, short-term deposits represented about 69 per cent. of the total of deposits, and 84 per cent. of deposits in currencies. The predominance of time deposits has given the Bank greater latitude in its operations for account of its correspondents.

B.I.S.: Short-term and sight deposits.

Items	31st March 1950	31st March 1951	Difference
	in millions of Swiss gold francs		
Sight			
Gold	96.5	140.6	+ 44.1
Currencies	35.7	94.2	+ 58.5
Total	132.2	234.8	+ 102.6
Short-term			
Gold	0.2	38.0	+ 37.8
Currencies	364.2	488.2	+ 124.0
Total	364.4	526.2	+ 161.8
Grand total	496.6	761.0	+ 264.4

With regard to gold operations the Bank has been in a position to carry out, for the account of central banks and international institutions, fairly considerable exchanges of gold. Operations of this kind, which were facilitated by the relatively large size of the stock of gold kept by the Bank for its own account, had the object and result of considerably reducing the cost, in money and time, which physical transfers of gold would have entailed.

The purchases, sales and exchanges of gold, effected on the basis of the official prices applied by the central banks, leave the Bank only a very narrow margin of remuneration. At the same time they oblige it to keep a large stock of gold for its own account. This explains why the profits realised by the Bank on gold operations are — although by no means negligible — extremely modest in relation to the volume of operations handled.

The total of short-term credits granted by the Bank has, on balance, remained at a slightly higher level than in recent years. The operations involved have always been handled in complete agreement with all the central banks concerned. In individual cases the Bank has sometimes had occasion to give certain central banks guarantees in favour of other central banks, the cover taking the form of deposits either in gold or in currencies.

As in the preceding years, the Bank has maintained its technical co-operation with various international organisations, including, in particular, the International Bank for Reconstruction and Development and the International Monetary Fund.

* * *

Second section of the balance sheet.

As last year, the second section of the balance sheet comprises the assets and liabilities connected with the execution of the Hague Agreements. The total for this section remains unchanged at 297,200,597.72 Swiss gold francs. As is shown in Note II at the foot of the balance sheet, the Bank has received from Governments whose Annuity Trust Account Deposits amount to the equivalent of 149,920,380 Swiss gold francs — out of a total of 152,606,250 Swiss gold francs for all the Creditor Governments — confirmation 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 itself can obtain reimbursement and transfer by Germany in currencies approved by the Bank. Up to 31st March 1950, confirmations had been received in respect of 141,649,121.25 Swiss gold francs.

2. 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.

As was stated in the twentieth Annual Report, 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.

3. The Bank as Agent for the O.E.E.C. (European Payments Union).

The Agreement for the Establishment of a European Payments Union was signed on 19th September 1950. A description of the working of the Union is contained in Chapter VIII.

The Council of the Organisation for European Economic Co-operation requested the Bank for International Settlements to act as Agent for the purposes of this Agreement as for the earlier Agreements for Intra-European Payments and Compensations. In performing the rôle of Agent, the Bank, as under the earlier payments schemes, carries out duties of a purely technical nature and without political implications of any kind. The Bank continues to render its services without profit or commission on the transactions it carries through, its expenses being reimbursed by the Organisation.

The expenses of the Bank as Agent for the O.E.E.C. amounted to Sw.fcs 240,300 in the nine months of the Agreement for 1948–49 and Sw.fcs 417,800 in the twelve months of the Agreement for 1949–50. For the nine months of the European Payments Union up to March 1951, expenses amounted to Sw.fcs 624,900. These amounts have been duly reimbursed by the Organisation. The expenses of the Agent in connection with the European Payments Union are well below one-tenth of one per mille (0.01 per cent.) of the turnover of the operations carried out.

The authorisations previously accorded to the Bank by the Contracting Parties, raising banking secrecy regarding the central-bank accounts and permitting the Agent to debit and credit these accounts for the purposes of the payments schemes, have been extended to the new agreement on the European Payments Union.

4. Financial Results.

The accounts for the twenty-first financial year ended 31st March 1951 show a surplus, before making allowance for contingencies, of 6,088,693.31 Swiss gold francs, the Swiss gold franc being as defined by Article 5 of the Bank's Statutes, i.e. the equivalent of 0.290 322 58... grammes of fine gold. The comparable figure for the preceding financial year was 6,027,272.95 Swiss gold francs. Although the surplus for each of the last two years is thus practically the same, it is nevertheless necessary, as in previous Annual Reports, to emphasise the possibility that the annual financial results may show considerably wider fluctuations than was the case before 1939. The income of the Bank continues to be derived to a much smaller extent than before the war from income on investments and in a much larger degree from receipts arising from various banking operations. However, the figures for the financial year just closed indicate a marked upward tendency in the proportion of income derived from interest.

For the purpose of the Balance Sheet as at 31st March 1951, 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 for the financial year ended 31st March 1951, the Board of Directors has decided that it is necessary to transfer 300,000 Swiss gold francs (1950: 400,000 Swiss gold francs) to the account for exceptional costs of administration and 2,700,000 Swiss gold francs (1950: 3,000,000 Swiss gold francs) to the provision for contingencies. This provision now amounts to 107,148,567.70 Swiss gold francs.

The net profit for the year, after making allowance as above for contingencies, amounts to 3,088,693.31 Swiss gold francs. To this amount has to be added the sum of 2,627,272.95 Swiss gold francs carried forward at the end of the preceding year, making a total of 5,715,966.26 Swiss gold francs. After providing 5 per cent. for the Legal Reserve Fund as required by the Statutes, i.e. 285,798.31 Swiss gold francs, and after including the undistributed balance of 1,654.49 Swiss gold francs brought forward from the financial year ended 31st March 1944, there is a sum of 5,431,822.44 Swiss gold francs available.

The Board of Directors recommends that from this amount the present General Meeting should declare a dividend of 12.53 Swiss gold francs per share payable in Swiss francs in the amount of 17.90 Swiss francs per share (the total sum required therefor being 2,506,000 Swiss gold francs), and should decide that the balance of 2,925,822.44 Swiss gold francs then remaining should be carried forward.

The accounts of the Bank and its twenty-first 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.

The term of office as a Director of Mr Klas Böök, Governor of the Sveriges Riksbank, being due to expire on 31st March 1951, the Board, at its meeting held on 12th March 1951, re-elected Mr Böök, under Article 28 (3) of the Statutes, for a period of three years, ending 31st March 1954.

The following reappointments to the Board under Article 28 (2) of the Statutes for a further period of office of three years were made:

In March 1951: Monsieur Henri Deroy, by the Governor of the Bank of France, and Monsieur Albert E. Janssen, by the Governor of the National Bank of Belgium.

In May 1951: Baron Brincard, by the Governor of the Bank of France, and Sir Otto E. Niemeyer, by the Governor of the Bank of England.

The ex-officio Directors, acting in application of the terms of Article 28, clause 2, § 3, of the Statutes, decided on 12th June 1950 to invite Dr. Rudolf Brinckmann of Hamburg to become a member of the Board.

* * *

The Board learned with the greatest regret of the death, on 10th November 1950, of Monsieur Emile Moreau, who had been Governor of the Bank of France from 1926 until 1930. Monsieur Moreau had been closely connected with the preparatory work for the formation of the Bank for International Settlements and, from its foundation, in 1930, until his retirement from the Bank of France, he had been the first French ex-officio Director. Monsieur Moreau had given strong support to the Bank during the early months of its existence.

* * *

In October 1950, Dr S. G. Binnerts was appointed as an Assistant Manager in the Banking Department.

Conclusion.

When the second world war was over and the question arose what economic and financial policies should be pursued, one of the dominant ideas, firmly rooted in wide and influential circles, was that the world economy was heading for a serious depression, which would make its appearance in the very near future and bring back the terror of unemployment. With the prolonged crisis of the 1930s still a living reality in people's minds, these forecasts and fears created something of a psychosis.

In order to be able to stave off a repetition of the losses and sufferings experienced in the years before the war, those in authority were, in most cases, bent on pursuing a cheap-money policy and financing investments by much the same methods as had been employed during the war. Any danger of inflation could, they believed, be counteracted by administrative control over trade and prices; this had proved useful during the war and it was commonly thought that it could be continued in time of peace. In relation to other countries, emphasis was laid on the attainment of exchange stability in terms of official rates (in order to avoid "chaos") rather than on creating a true exchange market, which would have enabled currencies to be used on a multilateral basis for current transactions and a reasonable volume of capital transfers. Efforts were directed mainly towards an increase in production, it being thought that, if only output rose, inflation would be checked, even though the new plant and equipment were financed by the creation of fresh money.

But instead of falling, prices continued to rise — more slowly in some countries, more rapidly in others, the cost of living being kept down rather by the granting of food subsidies (which were a heavy burden on the budgets) than by the operation of systems of control (which under peacetime conditions could not be made very effective). The continued influence of inflationary forces, whether "repressed" or allowed to affect prices, necessarily led to losses of monetary reserves for most European countries — one financial crisis following the other, especially in the field of foreign exchange, until, in the difficult year 1947, a real breakdown in international trade and payments seemed imminent. The threatened calamity, which would have had serious repercussions on the domestic situation in the countries concerned, was, however, averted by a series of fresh efforts, varying in form from country to country but all having as one of their principal aims the prevention of any further inflationary expansion of credit. Internationally, a new venture, commanding resources far beyond the means of existing institutions, was launched under the name of Marshall aid. Nationally, a new note was struck by several countries: in the United Kingdom a real overall surplus was established in the budget and artificial support was withdrawn from long-term interest rates on the London market, while in Italy, and afterwards in France, stabilisation was attained with the help of credit restrictions.

The result of these international and national efforts was great progress, not only in production and investment (of which the full fruits have yet to be seen) but also towards a better internal equilibrium — inflationary pressure being increasingly brought under control. For the most part, however, the real mechanism of adjustment, in the form of a flexible interest policy and of a genuine exchange market, was still out of gear. So it happened that the façade of exchange stability could offer little resistance to even a moderate degree of strain. Never in the history of the world have there been more frequent alterations in exchange rates than in the period of official stability after the second world war.

After the devaluations in the autumn of 1949, however, a period of more solid progress seemed to be bringing a real stabilisation within reach. An increase in domestic production went hand in hand with a reconstitution of monetary reserves and was accompanied by a relaxation of control as regards the internal relations of certain areas and a liberalisation of trade within their bounds. In addition, a number of countries on the continent of Europe began to allow free repatriation of their bank-notes — a development which helped to narrow the margin between official and free-market quotations and, in particular, to ensure a more ready flow of foreign exchange into official channels.

Many tasks still remained, however. Since restrictions imposed by other countries in relation to the dollar area had been relaxed only to a small extent, foreign competition was prevented from producing its full effect, and this meant a limitation of the international division of work, with a consequent reduction in the general level of efficiency. As long as liberalisation was confined to a particular group of countries, it was inevitable that a number of difficulties would arise, particularly since the countries belonging to this group had not all attained the same degree of exchange stability and had not all relaxed their restrictions vis-à-vis the dollar area to the same extent.

Then in the middle of 1950 the world was faced with a fresh rearmament effort without having had time to re-establish its economy on a truly sound basis after the last conflict. Clearly, the goal of the present efforts should be to avoid another war — and the measures in which the countries place their reliance ought, therefore, to be such as would, to the greatest possible extent, be compatible with continued economic progress and especially with exertions sustained over a prolonged period.

It would, in particular, be a fatal error to believe that the methods of financing and the controls which had been applied during the second world war could be usefully employed in time of peace, even if it were an "armed peace". It is essential for the purpose of maintaining the effective strength of the various countries that the rearmament effort, initiated as it has been for the sake of security, should steer clear of inflation, with all the perils and chaotic conditions which its recurrence would involve. For a relapse into inflation would weaken the social and economic structure — and the countries with a relatively free system are even less able to afford such a loss of strength than those which adhere to a collectivist type of economy. In the conditions which have arisen there is clearly a need for much "true planning", based on a careful calculation of the resources really available and on a determination to face the difficulties that have to be overcome. Confronted as they are with the increased cost of armament, the countries will have to inaugurate a stiffer budget policy, with heavier taxation and curtailment of non-essential expenditure. But, considering the heavy burdens already borne in more than one country, it seems impossible to expect that the increase in government expenditure will everywhere be met by higher current revenue. Some government borrowing would seem to be inescapable and, this being so, it is of the greatest importance that no methods of financing should be used which would lead to inflation; in other words, there should be neither direct nor indirect recourse to the central bank. Because of the increased resources to be devoted to armaments, it will clearly be necessary to curtail lending for other purposes, and one of the main ways of achieving that result will obviously be the application of a restrictive credit policy. In this connection mention may be made of the experience of several countries which, with the aid of a careful credit policy, have been able to restore and maintain balance in their internal economies, even though they have not managed to rid themselves completely of the deficit in their budgets.

In certain countries the conditions for the pursuit of a successful credit policy are today more propitious than they have been at any time since the war:

(i) The excess of money which was a general feature just after the war has been practically eliminated in most countries; thus a condition without which the ordinary instruments of credit policy cannot regain their effectiveness is on the point of fulfilment.

(ii) Quite a number of countries have succeeded in building up fairly substantial reserves and have in that way acquired greater opportunities of exerting an influence on credit conditions in their markets.

When countries with weak monetary reserves encounter difficulties in their balances of payments they have obviously particularly strong reasons for the application of a restrictive credit policy. But, in real life, such countries are apt to rely upon direct measures (only too often in the belief that this might relieve them of the need for contracting credit at home), while the countries with stronger reserves feel that they have something to lose and, therefore, something to defend. But it is now becoming more generally recognised that, when reserves have to be used to meet foreign payments, decisive steps must be taken to ensure that funds are withdrawn from the domestic market; the proof of this change of attitude is that central banks have been increasingly prompt to take the necessary action by raising their discount rates and limiting the granting of fresh credits in other ways. It may be recalled that in the years 1945–47 the central banks in Belgium, France and Italy had already raised their discount rates; they have now been followed by the monetary authorities in Canada, Denmark, Finland, Germany, the Netherlands, Sweden and the United States, and the list could be lengthened if account were taken also of the countries which (like the United Kingdom) have allowed an increase in their long-term interest rates or applied more direct methods of curtailing credit to consumers, the building trade, etc.

This is a development of great importance as laying the foundation for a non-inflationary financing of the armament effort on lines which represent the abandonment of obstinate adherence to a cheap-money policy that had been one of the essential tenets in the financing of the last war. An influence thus being more definitely exerted through general financial action, it becomes less necessary to introduce a host of individual control measures, and this applies also to the unavoidable curtailment of investments. In this connection it must be noted that the need for such a curtailment cannot be blamed on credit policy. The truth is, of course, that investments have to be kept within limits compatible with the amount of capital available from domestic savings or foreign sources. No doubt it is regrettable that a deficiency of real resources has made such a curtailment necessary; but past investments will still yield results, and there are fortunately various means of a different character by which the effectiveness of production can be enhanced. Governments and business leaders do not seem as yet to have quite got rid of their obsession with the idea that a serious post-war depression is to be expected in the not very distant future and that it may therefore be wise not to push on too far with the output of agricultural and other products. In addition to the change called for in this fundamental attitude towards production, there is also need for the discontinuance of more specific ways of limiting production and trade — ways which often involve a certain measure of price support. It is a fortunate circumstance that the taking of steps in relation to these matters does not as a rule require any additional outlay of capital.

There is a further way of strengthening incentives to higher productivity and that is by the restoration of free scope for foreign competition through the relaxation if not the complete weeding-out of import restrictions. Too long have foreign influences been kept out of the home markets, and especially influences from the dollar area; since manufacturers in Europe will anyhow have to compete with dollar-area producers in third markets, there is a strong case for extending the salutary effects of this competition. When there is a danger of their being crowded out, this often spurs people on to greater efforts than any other incentive. Some new capital for the introduction of fresh methods of production will no doubt be required, but a number of enterprises will very likely be able to secure the necessary funds by ploughing back profits and, in general, it may be said that no better use can be made of limited resources than to devote them, in the first place, to an improvement in technique, whether it is a question of production or of marketing.

It is one of the merits of the more careful credit policy which is now being adopted in so many centres that this policy facilitates the task of relaxing restrictions on trade and foreign payments and thus enables the countries in question to take fuller advantage of an expansion of the international exchange of goods and services.

It will certainly not prove easy to remove the indirect protection afforded by the existing exchange restrictions (particularly those in relation to the dollar area) now that so many vested interests are flourishing inside the fence of the exchange control. But the attempt must be made and must succeed. The most effective use to which the remaining foreign aid and the more plentiful reserves can be put is to employ them in decisive steps towards the re-establishment of genuine exchange markets and towards securing a significant relaxation of the restrictions hampering trade and payments between Europe and its overseas territories, on the one hand, and the dollar area, on the other. Progress along such lines is, indeed, an essential condition for the attainment of a lasting economic co-operation in Europe; for the structure of this continent is such that no form of integration will prove sound and durable if it is in any way fashioned on the lines of a closed area.

Respectfully submitted,

ROGER AUBOIN

General Manager.

ANNEXES

BALANCE SHEET

IN SWISS GOLD FRANCS (UNITS OF 0.29032258...

ASSETS			%
I—GOLD IN BARS AND COINS		363,848,657.60	35.5
II—CASH			
On hand and on current account with banks		70,635,292.26	6.9
III—SIGHT FUNDS at interest		4,411,861.19	0.4
IV—REDISCOUNTABLE BILLS AND ACCEPTANCES			
1. Commercial bills and bankers' acceptances	46,061,107.05		4.5
2. Treasury bills	128,919,440.61		12.6
		174,980,547.66	
V—SUNDRY BILLS CASHABLE ON DEMAND		62,621,740.76	6.1
VI—TIME FUNDS AND ADVANCES			
1. Not exceeding 3 months	32,342,155.39		3.1
2. Between 6 and 9 months	921,841.14		0.1
3. Between 9 and 12 months	688,451.50		0.1
		33,952,448.03	
VII—SUNDRY BILLS AND INVESTMENTS			
1. Treasury bills			
Not exceeding 3 months	108,424,997.16		10.6
2. Other bills and sundry investments			
(a) Not exceeding 3 months	91,048,016.32		8.9
(b) Between 3 and 6 months	19,153,610.93		1.9
(c) Between 9 and 12 months	15,372,449.29		1.5
(d) Over 1 year	11,381,929.60		1.1
		245,381,003.30	
VIII—MISCELLANEOUS ASSETS		1,359,381.78	0.1
IX—OWN FUNDS EMPLOYED in execution of the Hague Agreements of 1930 for investment in Germany (see below)		68,291,222.72	6.6
		1,025,482,155.30	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 received confirmation from Governments whose deposits amount to the equivalent of Swiss gold francs 149,920,380 that they cannot demand from the Bank, in

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 4, 1951.

ANNEX I

AS AT MARCH 31, 1951

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.—	12.2
II—RESERVES			
1. Legal Reserve Fund	6,527,630.30		
2. General Reserve Fund	13,342,650.13		
		19,870,280.43	1.9
III—SHORT-TERM AND SIGHT DEPOSITS (gold)			
1. Central Banks for their own account:			
(a) Not exceeding 3 months	38,043,460.91		3.7
(b) Sight	130,022,562.10		12.7
2. Other depositors Sight	10,582,537.14		1.0
		178,648,560.15	
IV—SHORT-TERM AND SIGHT DEPOSITS (various currencies)			
1. Central Banks for their own account:			
(a) Not exceeding 3 months	468,416,532.09		45.7
(b) Sight	90,171,213.42		8.8
2. Central Banks for the account of others:			
(a) Not exceeding 3 months	2,121,271.50		0.2
(b) Sight	240,528.58		0.0
3. Other depositors:			
(a) Not exceeding 3 months	17,664,822.05		1.7
(b) Sight	3,782,342.60		0.4
		582,396,710.24	
V—MISCELLANEOUS		6,702,070.52	0.7
VI—PROFIT AND LOSS ACCOUNT			
1. Balance brought forward from the financial year ended March 31, 1950	2,627,272.95		
2. Profit for the financial year ended March 31, 1951	3,088,693.31		
		5,715,966.26	0.6
VII—PROVISION FOR CONTINGENCIES		107,148,567.70	10.4
		1,025,482,155.30	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	

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 — Bills equivalent to Swiss gold francs 1,526,500 have been sold with the Bank's undertaking to repurchase.

NOTE IV — 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 245.50 per share or in total Swiss gold francs 49,100,000.

accounts of the Bank for the financial year ending March 31, 1951, 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, 1951

		Swiss gold francs
Net Income from the use of the Bank's capital and the deposits entrusted to it (including net exchange gains)		8,957,262.29
Transfer fees		564.35
		8,957,826.64
Costs of Administration:—		
Board of Directors — fees and travelling expenses	195,108.07	
Executives and staff — salaries, pension contributions and travelling expenses	2,370,925.03	
Rent, insurance, heating, light and water	117,712.78	
Renewals and repairs of building and equipment	117,905.30	
Consumable office supplies, books, publications, printing	311,386.95	
Telephone, telegraph and postage	106,665.97	
Experts' fees (auditors, interpreters, etc.)	34,941.61	
Cantonal taxation	35,293.99	
Miscellaneous	91,310.73	
	3,381,250.43	
Less: Amounts recoverable for expenses as Agent of the Organisation for European Economic Co-operation under the Agreements in respect of Intra-European Payments and Compensations and the European Payments Union	512,117.10	2,869,133.33
		6,088,693.31
The Board of Directors has decided that it is necessary to transfer		
to the account for exceptional costs of administration	300,000.—	
to the provision for contingencies	2,700,000.—	3,000,000.—
NET PROFIT for the financial year ended March 31, 1951		3,088,693.31
Balance brought forward from the preceding year		2,627,272.95
		5,715,966.26
To the Legal Reserve Fund — 5% of 5,715,966.26		285,798.31
		5,430,167.95
Undistributed balance from the financial year ended March 31, 1944		1,654.49
		5,431,822.44
Dividend of 12.53 Swiss gold francs per share, as recommended by the Board of Directors to the Annual General Meeting called for June 11, 1951		2,506,000.—
Balance carried forward		2,925,822.44

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
Dr Rudolf Brinckmann, Hamburg
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
Dr Sjoerd G. Binnerts	Assistant Manager

* 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.