BANK FOR INTERNATIONAL SETTLEMENTS

TWENTY-SECOND ANNUAL REPORT

1st APRIL 1951 — 31st MARCH 1952

BASLE

9th June 1952

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TWENTY-SECOND ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held at

Basle, 9th June 1952.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank *for International Settlements for the twenty-second financial year,* which began on 1st April 1951 and ended 31st March 1952. The results of the year's business operations are set out in detail in Chapter X, together with a general review of the current activities of the Bank and an analysis of the balance sheet as at March 31st 1952.

The financial year closed with a surplus of 6,399,601.22 Swiss gold francs, of which 500,000 Swiss gold francs has been transferred to the account for exceptional costs of administration and 3,200,000 Swiss gold francs to the provision for contingencies. The net profit for the year thus amounts to 2,699,601.22 Swiss gold francs. After the allocation of 5 per cent. to the Legal Reserve Fund and with the inclusion of the balance brought forward from the preceding year, there is an amount of 5,490,443.60 Swiss gold francs available.

The Board of Directors recommends that from this amount the present General Meeting should declare a dividend of 12.60 Swiss gold francs per share, payable in Swiss francs in the amount of 18.00 Swiss francs per share, and that the balance of 2,970,443.60 Swiss gold francs should be carried forward.

The surplus for the previous financial year, ended 31st March 1951, was 6,088,693.31 Swiss gold francs, of which 300,000 Swiss gold francs was transferred to the account for exceptional costs of administration and 2,700,000 Swiss gold francs to the provision for contingencies. After the inclusion of the balance brought forward and the allocation of 5 per cent. to the Legal Reserve Fund, the amount then available was 5,431,822.44 Swiss gold francs. The dividend declared at the last Annual General Meeting was 12.53 Swiss gold francs per share, payable in the amount of 17.90 Swiss francs, and the balance carried forward was 2,925,822.44 Swiss gold francs.

The surplus for the financial year just ended has thus reached a level slightly above that for the preceding financial year. The following table shows the movements of the Bank's active resources during the last five 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
1952 „ „	741	201	942	513	429	942

* Including reserve for minor liabilities.

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 all been carried out, as in previous years, in conformity with the monetary policy of the central banks concerned.

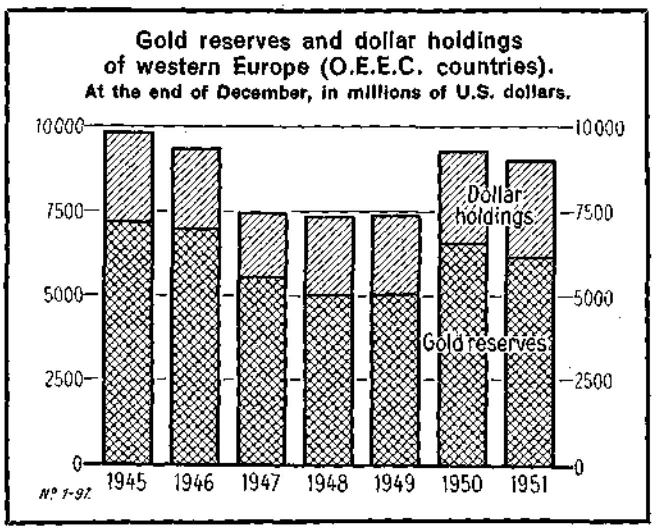
The Bank, as a centre of co-operation between the European central banks, has continued to render these banks the services which lie within its power. Its financial situation has remained satisfactory although no resumption of transfers on the assets connected with the Hague Agreements has as yet been possible. Negotiations for the resumption of these transfers have been initiated at the International Conference on German Debts, which opened in London last February.

The Bank has continued to perform the functions of Agent for the Organisation for European Economic Co-operation in the working of the Agreement for the European Payments Union. It has also continued to co-operate on a satisfactory basis with the other technical international organisations and commissions, in particular the International Bank for Reconstruction and Development and the International Monetary Fund.

As in previous years, the Monetary and Economic Department has been actively engaged not only in the preparation of the Annual Report and the other documents which are published from time to time, but also in making special studies of the economic and financial position of individual countries. These studies have been undertaken, in each case, at the request of the central bank concerned; and on these and other occasions the European central banks have again given evidence of the value which they attach to the maintenance of close contact with the Bank for International Settlements.

* * *

In the first half of 1950, before the outbreak of the conflict in Korea, there was a real approach to economic balance throughout the world. In the United States, the slight recession noticeable in 1949 had come to an end, and from the spring of 1950 onwards, mainly under the influence of intensified building activity, the upturn in American business really began to gather momentum. This prosperity had a stimulating influence on conditions elsewhere. In the raw-material-producing countries in south-eastern Asia and in other parts of the world, the worst ravages of the war had been repaired, and these areas were again in a position to serve as important partners in triangular trade, on account of the increase in their dollar earnings resulting from exports to the American market. In western Europe, further efforts were being made to increase production and balance budgets, good progress had been made in getting rid of the excess of money which was a legacy of the war, and current investments were being financed to an increasing extent from genuine domestic savings, reinforced by foreign aid. The devaluations of the autumn of 1949 may be said to have led to a more realistic alignment between the European currencies and the dollar area. On current account, the balance of payments of western Europe in relation to all other countries showed, for the first six months of 1950, a deficit of no more than $930 million (which was less than one-fourth of the corresponding deficit in 1947). During the same half-year, almost all the countries in western Europe were able to increase their monetary reserves, so that the stage was set for a further liberalisation of trade under the auspices of O.E.E.C. — a process which was also helped on its way by the special mechanism of the European Payments Union (in effect from 1st July 1950).



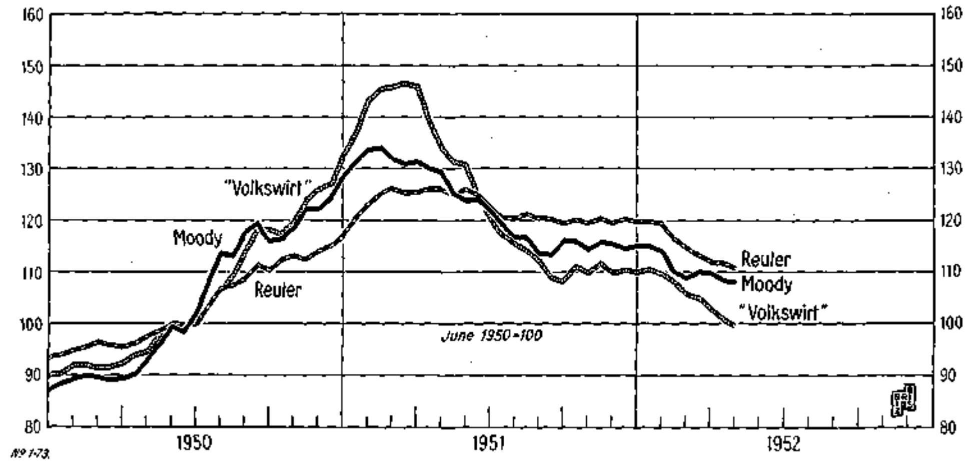
Yet the equilibrium was none too sure. The economies of the various European countries had been strengthened, but favourable conditions were not destined to last for long; soon their powers of resistance were to be exposed successively to two very severe tests:

(i) the outbreak of the conflict in Korea in the middle of 1950; and then — after an interval of a year or more —

(ii) the rearmament effort initiated by an increasing number of countries in 1951.

It was only when conditions had changed, and the strain of Korea and of rearmament was beginning to make itself felt, that it was duly appreciated how advantageous the situation had been for most countries in the first half of 1950, thanks to three important factors: the business recovery in the United States, to which reference has already been made; a reflux of funds to the countries which had devalued their currencies in the autumn of 1949 (with, in the sterling area, a further improvement in the balance of payments as a result of the restrictions on dollar imports agreed upon in the summer of that year); and the fact that in 1950 the flow of Marshall aid was effectively at its maximum. Confidence in the capacity of the nations to redress their economic and financial position was steadily growing, when suddenly the shrill warning note of Korea told the countries of the western world that their troubles were by no means over. Among those countries, the United States was the power most immediately affected and also, not unnaturally, the first to increase its imports. Intensified demand from the United States, both by the country's authorities (for stockpiling purposes) and by the private economy (which normally absorbs nearly one-half of the world output of industrial raw materials), had an instantaneous effect on prices, especially those of staple commodities, as may be seen from the sharp rise registered by Moody's, Reuter's and the "Volkswirt" Indexes.

International Commodity Prices.
Monthly indexes: June 1950 = 100.



In retrospect, two points in connection with the price rises during the past two years are particularly worthy of note:

1. Since, as usual, prices of manufactured articles did not rise at the same pace as those of raw materials, the terms of trade deteriorated for industrialised countries in general — and it is interesting to note that the extent of the deterioration was about the same for the United States as for the main manufacturing countries in western Europe.

   The fact, brought out by the table, that the degree of deterioration was very much the same for the United States, on the one hand, and the United Kingdom, France, the Netherlands and western Germany, on

Terms of trade of certain countries.

Period	Index of export prices divided by index of import prices (unit value)							
	United States	United Kingdom	Netherlands	France	Germany (western)	Italy	Belgium	Switzerland
1948	100	100	100	100	—	100	100	100
1949	97	100	98	93	100*	104	105	108
1950 1st half	92	95	95	88	88	110	93	116
2nd half . . .	84	88	86	82	83	106	92	113
1951 1st half	80	78	87	76	79	95	97	103
2nd half . . .	79	83	88	79	84	98	104	104

* July to December 1949 = 100.

the other, would appear to indicate that the devaluations as such did not decisively influence the terms of trade, important though their effect has been in other respects.* This is a somewhat surprising fact, and it may be due in part to statistical discrepancies, but it cannot be wholly explained away on such grounds. For the United Kingdom, the existence of bulk contracts prevented the prices of its imports from rising as rapidly as they would otherwise have done. Further, after the devaluations, export prices, along with wages and prices in general, soon began to rise in the countries which had devalued. In the United States, on the other hand, the price of export goods (reckoned in dollars) fell somewhat on an average between September 1949 and June 1950; at the same time, a large proportion of the country's imports consisted of those goods which rose sharply in price.

2. This last fact is connected with the second point, namely that it was not dollar commodities, but commodities from the sterling area and other areas attached to European currencies, that rose most sharply in price, as is shown in the table on the following page, in which the prices given are those quoted on the U.S. markets (the only exceptions being rubber, for which the London price also is given, and wool, for which only the price at British auctions is given.)

* Switzerland, although an importer of raw materials and an exporter of manufactured goods, was fortunate enough — unlike other European countries in a similar position — to see its terms of trade improve between 1948 and 1950. The very fact that Switzerland did not devalue its currency naturally made some of its imports cheaper when bought from countries with freshly devalued currencies. On the other hand, a large part of Swiss exports consists of highly specialised machinery for which, in terms of Swiss francs, the prices received remained very much the same as before, whereas, in the first half of 1950, Belgium had to lower considerably the prices for the steel it exported, and had to wait till 1951 before the more intense demand for steel, resulting from rearmament, and for some other export products brought about an improvement in its terms of trade. It was also of importance for Switzerland that its exports of textiles were greatly helped by increased purchases by Germany and other countries, especially after the O.E.E.C. liberalisation had given a fillip to trade in finished articles. The above table does not include figures for the important exporters of raw materials in northern Europe (Finland, Norway and Sweden) which were able to register a remarkable improvement in their terms of trade (as shown in the table on page 10).

Prices of some typical dollar and sterling-area commodities.

End of	Dollar commodities						Sterling commodities				
	Wheat	Sugar	Cotton	Copper	Lead	Zinc	Cocoa	Tin	Rubber		Wool
	Spot, New York	Spot, New York	American middling, spot, New York	Domestic Electro, New York	New York	East St Louis	Accra, spot, New York	Straits, New York	New York	London, R.S.S.	46's, British auctions (1)
	in cents per bushel	in cents per lb.								in d. per lb.	
1949 June .	226.63	7.85	33.41	16.0	12.0	9.00	19.50	103.00	16.37	10 5/16	31
Dec. .	253.87	8.05	31.56	18.5	12.0	9.75	26.87	77.50	18.00	15 5/16	47
1950 June .	249.13	7.70	34.79	22.5	11.0	15.00	32.25	78.25	31.25	24.50	65
Dec. .	271.75	8.20	44.17	24.5	17.0	17.50	34.25	151.00	75.00	55.00	146
1951 June .	261.87	8.60	46.06	24.5	17.0	17.50	36.60	106.00	66.00	45.00	101
Dec. .	285.00	8.20	42.60	24.5	19.0	19.50	32.50	103.00	52.00	41.25	70
1952 April .	282.25	8.65	39.15	24.5	18.0 (2)	19.50	38.37	121.50	48.50 (3)	31.25	50
Percentage increases *between June 1950 and*											
1950 Dec. .	*+ 9.1*	*+ 6.5*	*+ 27.0*	*+ 8.9*	*+ 54.5*	*+ 16.7*	*+ 6.2*	*+ 93.0*	*+140.0*	*+124.5*	*+124.6*
1952 April .	*+ 13.3*	*+ 12.3*	*+ 12.5*	*+ 8.9*	*+ 63.6* (2)	*+ 30.0*	*+ 19.0*	*+ 55.3*	*+ 55.2* (3)	*+ 27.6*	*— 23.1*

(1) Monthly averages.

(2) The price of lead was reduced to 15 cents per lb. in the middle of May 1952, this price corresponding to a percentage increase of 36.4 since June 1950.

(3) The price of rubber was reduced in New York to 38 cents per lb. in the middle of May 1952, this price corresponding to a percentage increase of 21.6 since June 1950.

It is only fair to mention that before the outbreak of the conflict in Korea some sterling-area commodities (in particular, tin and rubber — the latter being exposed to competition from its artificial substitute) were among those whose prices had risen least since pre-war days. In response to sudden fears that supplies from south-eastern Asia would be cut off, the price of rubber then rose by nearly three times within five months (from June to November 1950) and the prices of some other sterling-area commodities, such as wool, registered increases almost equally spectacular.

In general, countries were naturally anxious to import such commodities as they feared would not long remain procurable in the quantities which they required. This was a primary reason why the United States, in the first place, purchased materials not supplied on a sufficient scale by the dollar area. For somewhat similar reasons a number of countries on the continent of Europe — Belgium, the Netherlands, western Germany and Switzerland — which were afraid of having their supplies cut off in an emergency began to import at full speed before the end of the summer of 1950, while the United Kingdom and France, for instance, did not display the same haste. On the contrary, these two countries, in which imports were strictly controlled, used up part of their accumulated commodity stocks in 1950 — and this was one of the reasons why there was an increase in their holdings of gold and foreign exchange.

Countries with rising import figures had, of course, to have the wherewithal to make increased payments to other countries. Switzerland — like the United States — had no problem in this respect. Belgium, too, had the necessary reserves, provided the period of trade deficits was not too long; and, faithful to the principles of the flexible credit policy which it had followed ever since the war, the National Bank raised its discount rate from 3¼ to 3¾ per cent. in September 1950 and also tightened up the eligibility requirements for rediscounting commercial paper representing import transactions, while commercial banks were requested to restrict the volume of outstanding consumer credit and, in general, to refrain from extending credit for speculative purposes. As a result of these measures and thanks to a growing demand for Belgium's main export articles, it was not long before surpluses were again achieved in the balance of payments.

The monetary reserves of most of the other countries on the continent of Europe were, however, comparatively meagre and, had it not been for the credit facilities afforded by the European Payments Union, which began its first accounting period in July 1950, more than one of these countries would have experienced considerable difficulty in securing the raw materials required. In this connection, it was of the greatest importance that payments via the Union could also be made for purchases from the raw-material-producing regions in the monetary areas attached to the European mother countries; this meant the inclusion of the sterling area, the French and Belgian franc areas, the escudo area and also, via the guilder, Indonesia as well as the Dutch colonies.

As it turned out, there was another advantage for these countries in their adherence to the European Payments Union: when quotas came near to being used up, consultations were initiated with a view to effecting a rehabilitation of the position, there being the possibility of providing certain additional credit facilities. This became especially important in the case of Germany, which found, as early as October 1950, that its quota in the Union would soon be exhausted. In that same month the discount rate of the Bank deutscher Länder was raised from 4 to 6 per cent. and obligatory reserve requirements were tightened after discussions had taken place within the framework of O.E.E.C.

These initial measures were followed by the grant of a special credit amounting to $120 million by the European Payments Union as part of a general programme for the rehabilitation of the economy of western Germany. At the end of January 1951 further credit measures were taken, including the issue of a set of rules according to which the commercial banks were to keep the total of various classes of short-term credits granted by them within specified multiples of their capital and reserves. A second crisis developed, however, and in February control was imposed on the issue of import licences. But, apart from that special step, there was no interference with the lines of policy which had already been adopted: indeed, further measures were taken to ensure a reduction in the volume of short-term credits

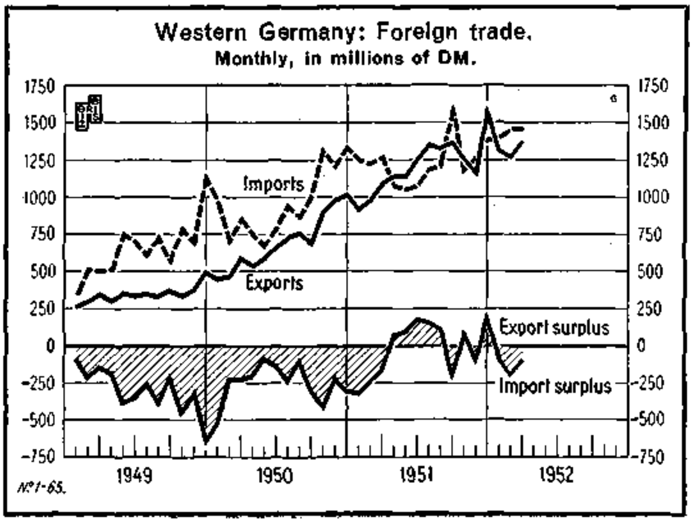
Germany's position in relation to the European Payments Union.

Quarterly periods	Deficit (—) or surplus (+) in E.P.U.	E.P.U. Quota: Credit obtained by Germany from (—) the Union, credit repaid or extended to (+) the Union	E.P.U. Quota: Dollar payments made by Germany to (—) or received from (+) the Union	E.P.U. Quota: Total	Special credit arrangement: Use (—) or repayment (+) of credit by Germany	Special credit arrangement: Dollar payments made by Germany to (—) or received from (+) the Union
	in millions of U.S. dollars					
1950 July–September . .	— 185	— 142	— 31	— 173	—	—
October–December	— 184	— 50	— 97	— 147	— 24	— 12
1951 January–March . .	— 89 (1)	—	—	—	— 56	— 33
April–June	+ 173	+ 9	+ 38	+ 47	+ 80	+ 46
July–September . .	+ 167	+ 78	+ 89	+ 167	—	—
October–December	+ 149	+ 148	+ 1	+ 149	—	—
1952 January–March . .	+ 92	+ 74	+ 18	+ 92	—	—
	+ 123 (2)	+ 118	+ 18	+ 135 (2)	—	—

(1) The change-over from deficits to surpluses in relation to the European Payments Union occurred in the course of the first quarter of 1951, Germany had a deficit of $42 million for January, followed by another deficit of $58 million in February, but in March a surplus of $11 million was attained and since then every month *up to the date of writing (May 1952) has shown a surplus.*

(2) The difference of $12 million between the total credit extended by Germany to the E.P.U. and gold received by Germany from the E.P.U. ($135 million at the end of March 1952) and the total balance of the monthly *surpluses or deficits ($123 million at the same date) results from the use made by Germany of "existing* resources".

outstanding; and as early as March 1951 a surplus for the month had already been achieved in the E.P.U. accounts. (This was before the control of import licences had had time to have any appreciable effect, for licences to a total equivalent to more than $600 million were outstanding in relation to other E.P.U. countries, and imports from E.P.U. countries were larger in March than in February. In the following months, however, the cut in imports was not without importance.) By the end of May 1951 the special credit obtained from the Union had been repaid in full, and by the end of the year Germany had not only wiped out its cumulative deficit but could even show a small surplus in relation to the E.P.U. At the beginning of 1952 the liberalisation of trade under the ordinary O.E.E.C. rules was resumed but at first did not go beyond 57 per cent. (as against the normal proportion of 75 per cent.); from 1st April 1952, however, the proportion of 75 per cent. was established.



Western Germany: Foreign trade.
Monthly, in millions of DM.

In the Federal Reserve Bulletin for December 1951 the following comment was made:

> "The success of Belgium and Germany in overcoming post-Korean inflationary pressures is largely the result of their credit policies. Their current E.P.U. surpluses, while clearly related to these policies, must also be ascribed to their ability to deliver goods urgently needed by other countries for rearmament or industrial expansion."

In Italy no new credit measures were taken in the year after the outbreak of the conflict in Korea. The Bank of Italy already possessed adequate means of action, and these were applied with sufficient stringency to prevent the emergence of a dangerous disequilibrium. In fact, the Bank of Italy, while keeping the official discount rate at 4 per cent. (the level to which it had been reduced in April 1950) and warning the commercial banks, in August 1950, to be most careful in their granting of credit, firmly resisted all demands for a reduction of the 25 per cent. minimum reserve requirements when commodity prices began to rise and manufacturers and merchants were anxious to obtain increased credit accommodation.

In some of the other countries where the strain of increasing imports was being felt, it was found necessary to make a new departure in the sphere of credit policy. To complete the picture of the changes introduced after the outbreak of the conflict in Korea, mention must be made here of the following measures (while a fuller account of the credit policies pursued in the countries referred to here and in a number of other countries will be found in Chapter VII):

(i) In July 1950 Sweden discontinued its policy of maintaining a stable yield of 3 per cent. on government securities by means of central-bank purchases in the market; and, as from 1st December 1950, the discount rate was raised from 2½ to 3 per cent. When, however, the yield on government securities showed a tendency to exceed 3½ per cent., the central bank again made support purchases to keep the yield at that level. This support was continued until, in the autumn, the market began to be fed by funds which were derived from a surplus in the balance of payments (mainly due to the exceptionally high prices fetched by the export products, pulp and paper) and which were allowed to add rather dangerously to the market's liquidity.

(ii) In Norway, the only change which occurred was an increase in the yield of government securities from about 2.5 to 2.8 per cent. between June 1950 and June 1951.

(iii) Denmark, on the other hand, is one of the countries in which very decisive credit measures have been introduced, including an increase in the official discount rate from 3½ to 4 per cent. in July and from 4 to 5 per cent. in November 1950.

Terms of trade of four northern countries.

Period	Index of export prices divided by index of import prices (unit value)			
	Denmark	Norway	Sweden	Finland
1948	100	100	100	100
1949	105	100	92	91
1950 1st half	94	88	84	78
2nd half	92	98	88	82
1951 1st half	82	98	102	93
2nd half	83*	101	113	123

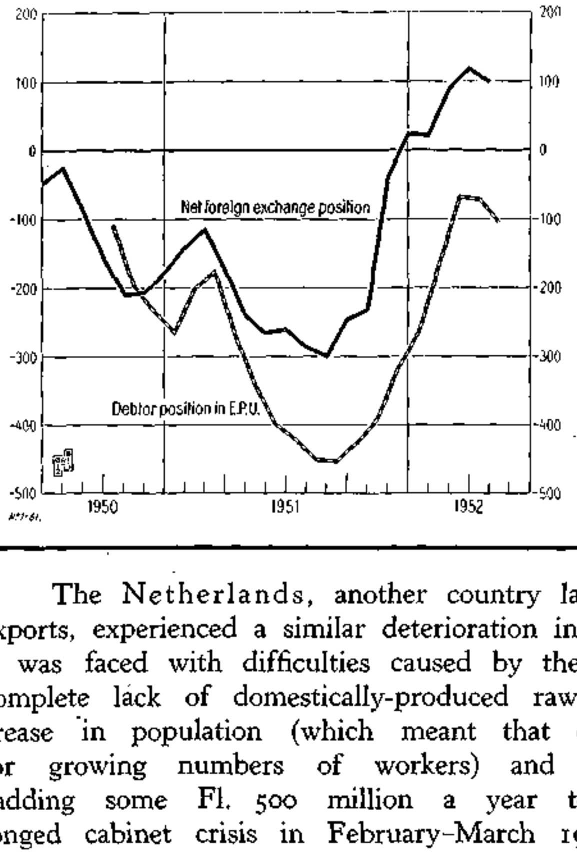
* The improvement in the Danish terms of trade is not yet visible in the statistics for the second half of 1951. But in January 1952 the terms of trade almost regained their 1950 level.

(iv) In the Netherlands also, recourse was had to an increase in the official discount rate, which was raised from 2½ to 3 per cent. in September 1950, other important steps being taken in the following spring.

(v) In November 1950 the official discount rate of the Bank of Finland was raised from 5¾ to 7¾ per cent., this being the highest official rate applied in any country in Europe, except Greece. A year later, a stabilisation scheme was worked out and put into effect.

While, in 1951, Norway, Sweden and Finland all obtained higher prices for some of their main export products, Denmark saw a considerable deterioration in its terms of trade and had to contend with other difficulties as well. According to calculations made by the Finance Department in Copenhagen, the fact that import prices rose more than export prices meant that (even after allowance for higher income from freights) an extra cost of D.Kr. 1,100 million (equal to two and a half times the annual amount of Marshall aid received) had to be borne in the country's balance of payments in 1951 as compared with 1949. To cope with the difficult situation that threatened the country and, in particular, to arrest the growth of the foreign indebtedness of the National Bank, a whole series of measures were introduced in the autumn of 1950 and during the following winter — including drastic action to limit imports, higher taxes, cuts in budget expenditure and curtailment of both public and private investments. In addition to the raising of interest rates, certain special concessions with regard to the rediscounting by the central bank of bills in respect of building operations were withdrawn in October 1950. Fortunately, towards the end of 1951 somewhat better prices were obtained for Danish agricultural products, while most imports of raw materials cost less than before; moreover, in volume, exports increased by 12 per cent. while imports declined by 7 per cent., and the amount earned abroad by Danish ships was some D.Kr. 300 million more in 1951 than in 1950. The combination of improved external circumstances and a resolute disinflationary policy at home reduced the deficit on current account from D.Kr. 700 million in 1950 to less than D. Kr. 100 million in 1951 (see Chapter IV) and, as regards the foreign exchange position of the National Bank, it actually turned a net indebtedness amounting to D. Kr. 300 million at the end of August 1951 into a credit balance of D. Kr. 24 million by the end of the year and D. Kr. 98 million by the end of April 1952. It seems to be agreed that the restrictive money policy and the higher taxation, by materially reducing the amount of purchasing power, whether in the hands of the public or of business firms and credit institutions, have discouraged the accumulation of stocks and, in doing so, have also helped to reduce imports, while at the same time the shrinkage in demand on the home market has forced a whole range of industries to concentrate more and more on exports — as is shown by the increase in exports of industrial articles during the year. In view of the improvement which had taken place, some alleviations were introduced in the autumn of 1951, including a restoration of rediscount privileges in connection with building operations and certain releases of counterpart funds — in themselves signs of the success of the policy pursued.

Denmark: Net foreign exchange position of the National Bank and deficit in E.P.U.
Monthly, in millions of D. Kr.



The Netherlands, another country largely dependent on agricultural exports, experienced a similar deterioration in its terms of trade. In addition, it was faced with difficulties caused by the loss of Indonesia, an almost complete lack of domestically-produced raw materials, a large natural increase in population (which meant that employment had to be found for growing numbers of workers) and a heavier armaments burden (adding some Fl. 500 million a year to the budget). After a prolonged cabinet crisis in February-March 1951, steps were taken to cope with the situation: in April the discount rate was raised by another one per cent., which brought it up to 4 per cent. (1½ per cent. above the rate quoted up to the autumn of 1950); the volume of investment was compressed; about 60 per cent. of the food subsidies in the budget were abolished (involving a reduction of Fl. 275 million in expenditure); and only one-half of the consequent rise in the cost of living, estimated at about 10 per cent., was immediately offset for the workers in the form of an increase in wage rates. At the same time certain taxes were increased and provision was made for closer scrutiny of the budgets of the local authorities with a view to retrenchments.

After a lapse of four months, i.e. in the second half of July 1951, the first signs of a change for the better could be observed and the Netherlands finished the year with larger monetary reserves than it had had at the beginning, the debt to the E.P.U. being repaid in full by the end of January 1952. And this was achieved without the country's going back to any appreciable extent on the measure of trade liberalisation previously adopted; balance was, in fact, attained almost as much by expanding exports as by taking advantage of the decline in imports which resulted from market conditions — a solution which is in any case desirable and should certainly be attempted during a boom, when demand on the world markets is strong. From the beginning of March 1952 liberalisation under the O.E.E.C. rules was extended from 71 to 75 per cent.

Important as the particular measures taken in the spring of 1951 were for the Dutch position both at home and in relation to other countries, it should be borne in mind that the steady reduction in excessive liquidity which had been brought about in previous years by repayments of short-term debts, etc. was an essential condition for the re-establishment of equilibrium and consequently for the success of the whole rehabilitation effort.

Netherlands:
Foreign trade and balance of payments.

Quarterly totals	Imports*	Exports	Trade balance	Current account balance of payments
	in millions of florins			
1950 Jan.-March . . .	1,712	1,109	— 603	— 715
April-June	1,996	1,174	— 822	
July-Sept.	1,906	1,347	— 559	— 376
Oct.-Dec.	2,138	1,658	— 480	
1951 Jan.-March . . .	2,428	1,647	— 781	— 792
April-June	2,706	1,777	— 929	
July-Sept.	2,406	1,854	— 552	+ 540
Oct.-Dec.	2,132	2,137	+ 5	
1952 Jan.-March . . .	2,297	2,140	— 157	.

* In the spring of 1951 certain fresh import quotas were fixed and some other control measures were taken, a procedure which, on the face of it, might have been expected to reduce the volume of imports and thus result in a set-back for the liberalisation of Dutch trade. But in practice the quotas established were found to be adequate, and in other respects also the trade restrictions were so applied that imports were curtailed very little, if at all, by the direct control: the decrease which occurred in the second half of 1951 was rather the result of general market conditions, as influenced not only by the change in credit policy and the other financial measures but also by the decline in prices (which made buyers hesitant) and the existence of fairly large stocks in many branches.

While it has unquestionably been of importance that producers have generally been able to count on finding ready markets for their export products (with the exception of just a few commodities, such as, in recent months, certain lines of textiles), it is at the same time necessary to stress the fact that as long as prices of raw materials were rising rapidly — as they continued to do up to February 1951 — the credit measures taken in the individual countries in Europe did not prove sufficiently effective to arrest the expansion of the volume of credit and the rise in domestic prices. As far as the raising of interest rates is concerned, it is unlikely that, if prices for a number of commodities rise as much as 2 to 3 per cent. in a month, an increase in discount rates of 1 or 2 per cent. a year will prove a deterrent to the taking-up of credits. But a time came, in the early spring of 1951, when the quotations for most staple commodities stopped rising and began, instead, to decline and, in the next phase, from the summer onwards, more stable price conditions prevailed on the world markets. Once the rise in world-market prices had been checked, the increase in interest rates and the other credit measures which were taken became very powerful instruments for the restoration of internal equilibrium and also for the improvement of the balance of payments.

Since the trend of world prices is so largely dependent upon developments in the United States, price movements in that country, as influenced by the policies pursued there, are, of course, of the greatest importance. One of the outstanding achievements of 1951 was the success with which, in the American economy, a halt was called to the inflationary rise in prices, so that a firm structure was provided, to which the monetary stabilisation efforts of other countries could be linked.

The fact that the change on the world markets came precisely in February–March 1951 is in itself an indication that it was in some way connected with the turn of military events in Korea — the connection being that, with the improvement in the military situation, it suddenly seemed possible to count once more on continued supplies of rubber and tin from the important raw-material-producing areas in south-eastern Asia and, with even greater certainty, on supplies of wool from Australia and New Zealand.

When the prices of a few commodities began to fall, the spell which had bound the markets was broken. It suddenly became apparent that manufacturers, wholesalers and retailers had laid in very large stocks of raw materials and other commodities and, since in many lines the inventories proved over-large in comparison with the volume of consumer demand, these stocks pressed upon the market and thus played a very useful part in preventing prices from rising.

United States:
Business inventories (book value).*

End of month	Manufacturing industry	Wholesale trade	Retail trade	Total
	In milliards of dollars			
1948 December	31.7	8.1	15.8	55.6
1949 December	28.7	7.7	14.5	50.9
1950 March	28.4	7.8	14.9	51.1
June	29.1	8.1	15.6	52.8
September . . .	30.1	8.4	16.6	55.1
December	33.3	9.4	17.8	60.4
1951 March	35.6	9.9	19.7	65.2
June	39.0	10.2	20.3	69.4
September. . . .	41.1	10.1	18.8	70.0
December	42.0	10.0	18.1	70.1

* Seasonally adjusted. Stocks held officially, whether as government stockpile or as inventories in Federal or other publicly-owned enterprises, are not included in the figures in the table, which refer only to private business inventories. The actual stockpiles held by the U.S. Government increased (at marked prices of 30th June 1951) from an announced value of \$1.8 milliard at the end of 1949 to \$2.5 milliard at the end of the following year and then to \$3.4 milliard at the end of 1951, i.e. by about one-third in each of the two years in question. At the last-mentioned date the total stockpiling objective stood at \$9.3 milliard, so that some 37 per cent. of the target had by then been realised.

At the time when, in the autumn of 1950 and the early months of 1951, the huge additions to commodity stocks — including the official stockpiles — were pushing up prices (in some instances quite unreasonably), the rearmament programme had not yet begun to affect government expenditure, whereas the downward pressure which the accumulated stocks exerted on prices from the spring of 1951 made itself felt (and most usefully) at a time when the outlay for rearmament was beginning to assume appreciable proportions.

When, as an additional factor, crop forecasts for 1951 began to point to a very good harvest and it became clear that, except as regards certain metals and other products directly required for the production of armaments, there would be no dangerous shortages, not only did all signs of panic buying disappear but the general public soon began quite definitely to reduce its purchases — perhaps less in the hope of lower prices in the future than with a view to accumulating a store of ready cash. Experience shows that in the United States almost all classes make a point of increasing their rate of saving in a national emergency — and to the American public, more than to the public in several other countries, the conflict in Korea has assumed that aspect. An increase in saving took place in the first and second world wars and also — in the case of those who could manage it — during the great depression of the 1930s. The low rate of personal saving in the first quarter of 1951 is an indication that, during the autumn of 1950 and the following winter months, the public was not yet making the traditional response to its view of the situation. Instead, its attitude would seem to have been prompted by the fear of impending shortages, and to some extent also by anticipation of

United States: Financing of gross investment (unadjusted).

Items	1950	1951				
	Total	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
	In milliards of dollars					
Total gross private domestic investment including changes in business inventories	48.9	16.7	14.4	14.7	13.4	59.1
Deduct: capital consumption allowances	21.2	5.6	5.8	5.9	6.1	23.5
Remains: total net private domestic investment	27.7	11.1	8.6	8.8	7.3	35.6
Amounts of finance available from:						
personal savings	10.7	0.0	6.6	6.8	3.8	17.2
business savings	13.6	3.1	2.7	2.2	1.5	9.5
Total private, i. e. personal and business, savings	24.3	3.1	9.3	9.0	5.3	26.7

Note: The business savings represent the difference between "corporate profits after tax" and "dividends". In 1950 corporate profits after tax amounted to $22.8 milliard and dividends to $9.2 milliard (equal to 40 per cent. of the profits after tax), while in 1951 the corporate profits after tax were $18.9 milliard and the dividends $9.4 milliard.

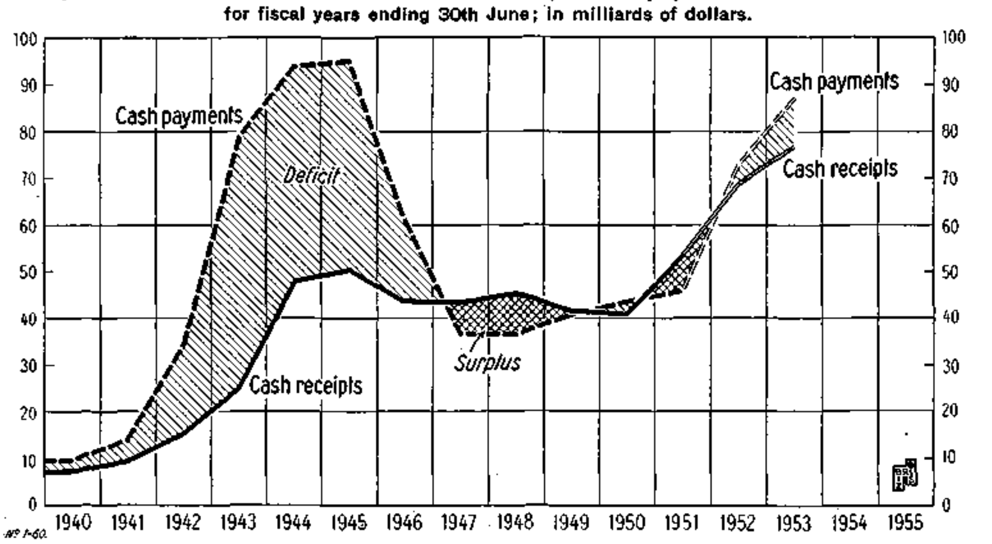
In addition to private savings (shown in the above table) account has also to be taken of "public savings" resulting, for example, from repayment of government debt or the growth of social and other trust funds in the hands of the public administration. Part of the difference between the total of net private domestic investment and the total of private savings is explained by the contribution from public savings (made available to the market when, for instance, debts are repaid). The remaining difference is accounted for by (i) net foreign investment or disinvestment, and (ii) a small statistical discrepancy.

irresistible inflation. Once these fears were shown to have been unfounded, the public went back to its "normal" habit of increasing its rate of saving in an emergency.*

The return to a high rate of saving in the spring of 1951 was, of course, a great advantage from a monetary point of view, since, needless to say, credit restrictions are imposed not for their own sake but to ensure the maintenance of a proper relation between savings and investments; thus a plentiful flow of savings enables such a relation to be maintained with lower rates of interest and less severe quantitative credit restrictions than would otherwise be required. But, in this case, something more was needed; for, even though the markets, for the reasons just mentioned, were ripe for a decline in certain prices, it was indispensable that the change in attitude and direction should be underpinned by appropriate measures of fiscal and credit policy — otherwise the improvement would have afforded no more than a temporary respite to an inflation-ridden world.

On 26th January 1951 price and wage control was reintroduced in the United States, but it is generally admitted that the downward turn which the trend took in the spring of that year was due not so much to the fixing of maximum prices by the authorities as to more general causes. In more than one case prices fell below the officially fixed levels. It would, however, be a mistake to think that the direct measures have not had any influence. In a period characterised by a sudden increase in demand rendered effective by an expansion of credit, direct control may help to slow down the rise in the

U.S. Government cash receipts and payments
for fiscal years ending 30th June; in milliards of dollars.



* From the spring of 1951 net saving of all kinds (private and public) in the United States was running at an annual rate of about $35 milliard — corresponding to about 13 per cent. of the national income, or about the same proportion as in Switzerland. At the official rate of exchange, the amount of $35 milliard is equal to £12.5 milliard, or as much as the national income of the United Kingdom in 1951.

cost of living and also in wages, so that time is gained for the taking of other measures which go more to the root of the matter.*

Among the other measures taken, those in the fiscal field have naturally been of particular importance at a time of rapidly rising expenditure.

Federal budget expenditure in the fiscal year 1951–52 is estimated at $71 milliard, which is 76 per cent. more than in the year before Korea. A further rise to $85 milliard is foreshadowed for 1952–53, and in that year, according to the President's estimates, the outlay on the armed forces, atomic energy and foreign aid (military and economic) will total $63 milliard, or more than one-fifth of the national income.

United States: Government revenue and expenditure
(fiscal years ending 30th June).

Items	1949–50	1950–51	1951–52*	1952–53*
	in milliards of dollars			
Budget revenue	37.0	48.1	62.7	71.0
Budget expenditure	40.2	44.6	70.9	85.4
Budget surplus (+) or deficit (—)	— 3.1	+ 3.5	— 8.2	— 14.4
Cash receipts from the public	41.0	53.4	68.7	76.9
Cash payments to the public	43.2	45.8	72.6	87.2
Cash surplus (+) or deficit (—)	— 2.2	+ 7.6	— 4.0	— 10.3

* Estimates presented by the President of the United States in January. These now appear to have overstated the deficit by $3 to 4 milliard for 1951–52, and probably by even more for 1952–53.

Note: As an indicator of the impact of public finance upon the economy as a whole, the cash statement is more reliable than the budget position, since the cash accounts include trust-fund transactions and exclude certain non-cash budget expenditure, such as accrued interest on savings bonds, which is not actually paid out. It is worth mentioning that the seasonal pattern in government transactions proved fortunate in that the concentration of tax payments in the first three months of 1951 produced a cash surplus of $6.9 milliard in that quarter, i.e. precisely at a time when inflationary forces needed counteracting. On the other hand, a cash deficit of $5.5 milliard in the second half of the year coincided with a downward trend in markets and the reaction which had set in after the inventory boom.

Prompt action by the government and Congress for the raising of tax rates has made it possible, so far, to finance the increase in expenditure without any recourse to borrowing (except for periods within the fiscal year). Three new revenue acts (dating from the autumn of 1950, January 1951 and October 1951 respectively) provided for an increase in revenue by an estimated total of $16 milliard, but the actual yield of this new taxation, as of older tax measures, was higher, owing to the expansion of the national income by 27 per cent. from 1949 to 1951. In fact, direct taxes on individuals and corporations now account for over three-quarters

* A slowing-down of price rises which affect the cost of living is especially important in cases where workers have the right to automatic wage increases by virtue of a "sliding-scale" arrangement (or "escalator clause", as the American expression is). Increases granted under such a system are apt to perpetuate the price rise that has taken place and almost to exclude the possibility of any subsequent downward adjustment, especially since the need for meeting the cost of higher wages usually gives rise to an immediate expansion of credit. In the United States, escalator clauses were determining the wages of nearly 3 million workers by the end of March 1951. In any country in which the wages of a considerable number of workers are fixed according to a sliding scale, price rises become singularly dangerous (for the reasons just noted) and it is therefore of particular importance that all inflationary tendencies should be nipped in the bud (by a stringent credit policy supplemented by other means of action) so that any cumulative effect is avoided.

The object of a sliding scale is to prevent a decline in real wages, but it is, of course, in the interest of the workers, as of other classes, that the real national income and the general standard of living should be raised — and this can really be done only when the monetary and economic system is sufficiently stable to offer an inducement to increased saving, resulting in the provision of resources for a larger volume of investment.

of the total Federal cash receipts. But, in spite of the increasing share of the national product taken by the Federal Government, the volume of real resources at the disposal of the rest of the economy actually increased in 1951, as shown in the following table.

Gross national expenditure of the United States.

Period	Federal Government purchases of goods and services (net)	Product remaining for other sectors	Use of product remaining: Personal consumption	Gross private domestic investment	Net foreign investment	State and local government	Total gross national product
	in milliards of current dollars						
1949	25.5	231.8	180.2	33.0	0.5	18.1	257.3
1950	22.8	259.8	193.6	48.9	— 2.3	19.7	282.6
1951	41.6	286.2	205.5	59.1	0.2	21.4	327.8
1952 - 1st quarter*	52.3	287.4	209.6	53.4	2.0	22.4	339.7
	in milliards of constant (1939) dollars						
1949	13.0	130.5	102.9	17.8	0.6	9.2	143.5
1950	11.0	143.3	108.7	24.8	0.0	9.8	154.3
1951	18.6	147.4	107.2	28.2	2.1	10.0	166.0

* Adjusted for seasonal variations and calculated at the annual rate.

It has been necessary to restrain consumption and investment but not to reduce them. The voluntary increase in the rate of saving was even sufficient to allow an increased rate of investment.

The direct danger of inflationary deficit financing having been almost eliminated thanks to the fiscal measures taken, there remained the necessity of preventing an unduly large credit expansion for business purposes and other private uses. Business demand for increased accommodation had shot up in the second half of 1950, owing mainly to the need for financing larger stocks at a time when prices were rising and funds were being immobilised by a record volume of investment in new plant and equipment. The measures introduced in the credit field were of six kinds:

1. Among the first measures taken was the imposition of certain selective credit restrictions by which specified minimum terms were laid down for the granting of particular kinds of credit. These regulations were intended to restrict the amount of credit granted in the three following sectors: consumer instalment credit, real-estate credit and stock-market credit.

2. The official discount rates of the Federal Reserve Banks were raised from 1½ to 1¾ per cent. in August 1950.

3. Reserve requirements were raised in January and February 1951. The immediate effect of this action was to increase the obligatory reserves of the member banks from about $16 milliard to $18 milliard, their total reserves amounting to $19 milliard by the end of February 1951.

4. The open-market policy of the Federal Reserve System was changed in March 1951 so as to reduce the System's purchases of government securities and thus curtail the availability of bank reserves.

5. A funding operation was undertaken in March 1951, whereby new 2¾ per cent. non-marketable bonds with limited redeemability were offered in exchange for 2½ per cent. ordinarily marketable bonds — an operation which helped to reduce the volume of realisations by investors.

6. In March 1951 a Voluntary Credit Restraint Program was organised, under which financial institutions (banks, insurance companies, etc.) were asked to conduct their credit operations in such a way as to contribute to the meeting of defence and other essential needs, while limiting the use of credit for other purposes.

The decisive change in U.S. credit policy resulted from an agreement between the Treasury Department and the Federal Reserve System, announced on 4th March 1951, relating to debt management and monetary policies. Although, measured by European standards, the increases in interest rates and the other modifications were decidedly moderate, the cumulative effect of the various measures has been to reduce the availability of credit facilities, the amount of credit extended to private borrowers having been considerably less in 1951 than in the preceding year. In reaction to the reduced availability of funds, combined with the continuing active demand for credit, there was a moderate rise in interest rates. Rates charged by the larger banks on prime loans to customers rose from about 2 per cent. in the middle of 1950 to 3 per cent. at the end of 1951, and a number of other rates are shown in the following table.

United States: Interest rates in money and capital markets.

Averages in	Federal Reserve Bank discount rate	U.S. Government securities (taxable)				Short-term commercial paper		Stock exchange call-loan renewals	Average yield of	
		3-month bills (1)	9 to 12 month issues (2)	3 to 5 year issues (3)	Bonds, 15 years and over	Prime commercial paper, 4 to 6 months (4)	Prime bankers' acceptances, 90 days (4)		Industrial, railroad and public utility bonds (5)	common stock (6)
	in percentages									
1946	1.00	0.375	0.82	1.16	2.19	0.81	0.61	1.16	2.74	3.97
1947	1.00	0.594	0.88	1.32	2.25	1.03	0.87	1.38	2.85	5.13
1948	1.25-1.50	1.040	1.14	1.62	2.44	1.44	1.11	1.55	3.08	5.78
1949	1.50	1.102	1.14	1.43	2.31	1.48	1.12	1.63	2.96	6.63
1950 January-June . .	1.50	1.142	1.17	1.44	2.27	1.31	1.06	1.63	2.84	6.10
July-September .	1.50-1.75	1.233	1.27	1.48	2.34	1.47	1.18	1.63	2.87	6.26
October-December	1.75	1.353	1.44	1.64	2.38	1.71	1.31	1.63	2.88	6.62
1951 January-March . .	1.75	1.400	1.62	1.73	2.42	1.96	1.51	2.00	2.88	6.33
April-June	1.75	1.532	1.84	2.02	2.61	2.20	1.63	2.13	3.11	6.36
July-September .	1.75	1.628	1.72	1.92	2.59	2.25	1.63	2.25	3.13	5.99
October-December	1.75	1.649	1.73	2.03	2.66	2.26	1.65	2.29	3.19	5.78
1952 January	1.75	1.688	1.75	2.08	2.74	2.38	1.75	2.45	3.24	5.53
February	1.75	1.574	1.70	2.07	2.71	2.38	1.75	2.38	3.18	5.73
March	1.75	1.658	1.69	2.02	2.70	2.38	1.75	2.38	3.19	5.49

(1) Rates on new issues within period.
(2) The series includes certificates of indebtedness and selected note and bond issues.
(3) Selected note and bond issues. (4) Averages of weekly prevailing rates.
(5) Moody's corporate-bond yields. (6) Moody's series, 200 stocks.

One awkward element in the market situation has been the extent to which banks and other credit institutions have held short-dated government securities which could easily be monetised. While this is still a difficulty, some progress towards its elimination has been made through funding operations; and the decline in the quotations of government securities seems, as was hoped, to be checking the banks' practice of selling bonds in order to raise funds for the expansion of their loans. It is not that the profit to be gained from such operations has vanished, for the spread between the yield on bonds and the rates charged for commercial loans was not reduced. But there has evidently been a decided disinclination to accept a capital loss on bonds in order to increase the amount of loans outstanding, and at the same time the inhibitions built up by the Voluntary Credit Restraint Program have had a certain effect. Although all controversy regarding the lines of credit policy to be followed has not yet died down, a profound impression has undoubtedly been made by the fact that, ever since the introduction of the changes listed above (i.e. for the past fifteen months), the average level of prices has remained remarkably stable, notwithstanding the heavy burden of government expenditure; moreover, it has been found that certain of the results which it had been feared would ensue from the new policy — for instance, panic sales of securities — have not materialised.

While in most European countries the stiffening of credit conditions was part of a general policy which aimed at overcoming balance-of-payments difficulties, such considerations did not apply in the United States where, on the contrary, a reduction in the surplus on the current account of the balance of payments would have been welcome from many points of view.

United States: Current account of the balance of payments.

Items	Balance in relation to: Europe					other areas					all countries (total)				
	1947	1948	1949	1950	1951	1947	1948	1949	1950	1951	1947	1948	1949	1950	1951
	in milliards of dollars														
U.S. exports (f.o.b.) .	6.2	4.9	4.5	3.6	5.3	9.8	8.4	7.9	7.1	10.1	16.0	13.3	12.3	10.7	15.4
U.S. imports (f.o.b.) .	1.0	1.4	1.2	1.5	2.2	5.1	6.4	5.9	7.8	9.4	6.1	7.8	7.1	9.3	11.7
Balance of trade . . .	+5.2	+3.5	+3.3	+2.1	+3.1	+4.7	+2.0	+2.0	—0.7	+0.7	+ 9.9	+5.5	+5.3	+1.3	+3.7
Balance on service account	+0.6	+0.2	—0.1	—0.4	+0.0	+1.0	+1.0	+1.2	+1.3	+1.2	+ 1.6	+1.2	+1.1	+1.0	+1.3
Balance on current account*	+5.8	+3.7	+3.2	+1.7	+3.1	+5.7	+3.0	+3.2	+0.6	+1.9	+11.5	+6.7	+6.4	+2.3	+5.0

* Because of rounding, the figures do not add up exactly.

The increase in imports of raw materials by the United States in the second half of 1950 helped to reduce the country's surplus on current account, which, as shown by the table above, was only \$2.3 milliard for the whole year. Account being taken of the foreign aid received from the United States (in grants and loans) at the year's rate of \$4,280 million, a net gain in dollars resulted for other countries, whose aggregate gold and dollar assets increased by $3,645 million. It had been hoped that the following year would witness a further decline in the U.S. export surplus, but developments took the opposite course: the surplus rose to no less than $5.0 milliard. As regards the origin of the increased surplus in the balance of payments and the means of settlement required and actually used, a distinction must be made between the two halves of 1951.

United States: Transactions with other countries in 1950 and 1951.

Items	1950	1951 1st half	1951 2nd half	1951 Total
	in millions of dollars			
Current account of the U.S. balance of payments:				
U.S. exports of goods and services	14,425	9,658	10,482	20,140
U.S. imports of goods and services	12,128	7,853	7,258	15,111
U.S. export surplus	2,297	1,805	3,224	5,029
Financed by means of:				
U.S. Government grants and other unilateral transfers – mainly E.R.P. aid (net)	4,120	2,314	2,220	4,534
Private donations (net)	481	208	197	405
U.S. Government long and short-term loans (net)	164	142	17	159
U.S. private long and short-term loans (net)	1,316	533	214	747
Dollar disbursements by:				
International Monetary Fund (net)	— 20	— 21	— 3	— 24
International Bank for Reconstruction and Development (net)	37	26	55	81
Errors and omissions	— 156	— 383	— 128	— 511
Total	5,942	2,819	2,572	5,391
Balancing items: dollar assets and gold acquired from (—) or sold to (+) the United States				
Dollar assets	— 1,902	— 66	— 349	— 415
Gold	— 1,743	— 948	+ 1,001	+ 53
Total of dollar assets and gold	— 3,645	— 1,014	+ 652	— 362
Total financing of current transactions	2,297	1,805	3,224	5,029

Nearly two-thirds of the export surplus of the United States came into existence in the second half-year, during which the level of exports, already high, rose again, while imports showed a decline, attributable to the fact that American manufacturers and traders were drawing on the considerable stocks which they had laid up in the autumn of 1950 and the following winter.* In the second half of 1951 the U.S. export surplus exceeded the amount of official aid and private donations by some $800 million, of which some $200 million was covered by an outflow of private U.S. capital while the remainder was financed by sales of gold to the United States (which were large enough to leave something over for a further building-up of dollar balances). As regards private U.S. capital, however, it should be remembered that this went mostly to Canada and the Latin American republics and therefore failed to help the balance-of-payments position in other directions. It was primarily the sterling area that felt the strain; indeed, most other countries (with the notable exception of France) were able to add to

* In its number for March 1952, the "Survey of Current Business", issued by the U.S. Department of Commerce, explains that in the United States "during the last quarter of 1951 manufacturing production was still approximately 20 per cent. higher than in the pre-Korea year, but the volume of imports had dropped to about 6 per cent. below the average for the same year. An import volume of crude materials and semi-manufactures corresponding to the volume of production (based on the 1949–50 relationship) would have required an increase in import values at fourth-quarter prices by about $350 million."

their monetary reserves (see Chapter VI). Those which had imported heavily in the nine months following the outbreak of the conflict in Korea had their accumulated stocks to draw upon, and in their current purchases they benefited by the decline in raw-material prices from the spring of 1951 onwards.

According to U.S. statistics, the sterling area as a whole (i.e. the United Kingdom plus the countries with currencies attached to sterling) still had a balance-of-payments surplus with the United States of $310 million in the first half of 1951, but this was converted into a deficit of $570 million in the latter half of the year. Furthermore, no new allocations of Marshall aid to the United Kingdom had been made since 1st January 1951, but some aid allocated before that date was still due to come in, and the amount of economic aid received by the whole area in 1951 came to about $250 million, of which about $100 million was received in the second half-year.

The dramatic change which occurred in the payments position of the sterling-area countries about the middle of 1951 may also be illustrated with the aid of statistics published in the White Paper on the Balance of Payments of the United Kingdom. For the whole of 1951 the United Kingdom (alone) had a deficit in relation to all countries of £521 million (equal to $1,459 million), of which £93 million was incurred in the first and £428 million in the second half of the year.

For the sterling area as a whole the change-over on its gold and dollar accounts is shown in the following table.

Sterling area's gold and dollar accounts in 1950 and 1951.

Items	1950	1951 1st half	1951 2nd half	1951 Total
	in millions of £ sterling			
Transactions with the dollar area:(1)				
United Kingdom:				
Balance of current transactions (goods and services)	— 107	— 111	— 335	— 446
Other transactions (investments, etc.)	+ 141	+ 15	— 92	— 77
Total for United Kingdom	+ 34	— 96	— 427	— 523
Rest of the sterling area(2)	+ 255	+ 196	— 32	+ 164
Total of transactions with the dollar area	+ 289	+ 100	— 459	— 359
Transactions with the non-dollar area(3)	— 1	+ 48	— 104	— 56
Total net gold and dollar balance	+ 287	+ 148	— 564	— 416

(1) These comprise transactions with the United States, with Canada, and with American Account Countries in Central and South America, as well as transactions in respect of oil purchased from other countries if paid for in dollars. (2) Including sales of gold to the United Kingdom.
(3) Including amounts of gold received or paid in settlements with the E.P.U.

The surplus of £196 million (= $550 million) which the rest of the sterling area (i.e. countries in that area other than the United Kingdom) still had in relation to the dollar area in the first half of 1951 was turned into a deficit of £32 million (= $90 million) during the second half, when the United Kingdom's own deficit rose to £427 million (say, $1,200 million). The following table shows the shift in the position in relation to the European Payments Union.

Sterling area's accounts vis-à-vis the European Payments Union.

Items	1950 2nd half	1951 (1) 1st half	1951 (1) 2nd half	1951 (1) Total
	in millions of £ sterling			
Total of the United Kingdom's transactions	+ 103	— 38	— 210	— 248
Transactions of the rest of the sterling area . . .	+ 79	+ 114	— 93	+ 21
Sterling and dollar transfers, etc. (2)	— 12	— 29	— 82	— 111
Surplus (+) or deficit (—)	+ 170	+ 47	— 385	— 338 (3)

(1) Provisional.

(2) As these transfers etc. pass through the account of the sterling area as a whole, it is impossible to separate those relating to the United Kingdom from those relating to the rest of the sterling area.

(3) This amount includes net gold and dollar payments in relation to the E.P.U. which are already accounted for in the balance shown in the previous table.

In relation to the E.P.U. the United Kingdom already had a deficit in the first half of 1951; the deficit of the rest of the sterling area dates from the second half of the year.

It would seem that the same tendencies continued during the first quarter of 1952, when the gold and dollar reserves of the United Kingdom fell by an amount of $635 million (£227 million) to a level of $1,700 million, after having reached as high a figure as $3,867 million at the end of June 1951. The disappearance of the dollar surplus of the rest of the sterling area is all the more serious since it precludes the United Kingdom, in particular, from earning dollars through the sale of manufactured articles to a number of the raw-material-producing countries which are members of the sterling area.

The balance-of-payments difficulties of the overseas sterling area, which is a major producer of raw materials, were closely connected with the changes in world prices and in the volume of goods imported by the United States. When, in that country, the phase marked by huge additions to inventories (beginning in the second half of 1950 and continuing through the winter) was followed by a period of reduced imports, this meant smaller sales for the raw-material-producing countries and less current income for them in the second half of 1951; but, as no substantial mopping-up of purchasing power had been effected in those countries and as there had necessarily been an interval before the effective utilisation of the large earnings of the earlier period gave rise to increased imports of goods, it so happened that their own biggest payments had to be made at a time when their current receipts of foreign exchange were already declining. In these circumstances, country after country in the sterling area was obliged to draw on the dollar pool in London. The dollar deficit of these countries in the latter half of 1951 was made more serious by the fact that they continued to run their "normal" deficit with the United Kingdom, which amounted to £239 million in 1951. How sudden and how pronounced the change in the situation was may be seen from the following table, which shows the net result of the foreign transactions of the "rest of the sterling area" during the first and the second half of 1951.

Balance of payments of the "rest of the sterling area" in 1951.*

In relation to	1951 1st half	1951 2nd half
	in millions of £ sterling	
Dollar area	+ 196	— 32
E.P.U.	+ 114	— 93
United Kingdom	— 68	— 171
Total	+ 242	— 296

* Provisional.

Note: No complete figures are available for the balance of payments of the "rest of the sterling area", but the White Paper on the Balance of Payments of the United Kingdom contains separate figures of the balance on foreign account of the "rest of the sterling area" with (i) the dollar area, (ii) the E.P.U. (apart from the United Kingdom), and (iii) the United Kingdom itself. These data together cover well over 80 per cent. of the foreign transactions of the "rest of the sterling area". The change-over from the surplus of £242 million to a deficit of £296 million involves a total of £538 million (say, $1,500 million).

The increase which occurred in the imports of a number of sterling-area countries during 1951 would seem to have been occasioned in the main by additional private spending for consumption purposes, but it also reflected increased investment expenditure for development purposes. In official pronouncements (such as that made by the London Conference of Commonwealth Finance Ministers in January 1952) great stress has been laid on the relation between the condition of the internal economy and the balance-of-payments position. Stop-gap measures have been taken (by Australia and other countries) for the cutting-down of imports, but measures of a really corrective character are also in train, it being realised that there is need for considerable retrenchment in comparison with the previous period of lavish spending.

For the United Kingdom, the deficit of the rest of the sterling area naturally added to the difficulties arising from its own lack of balance.

United Kingdom: Balance of payments.

Items	1949	1950	1951 (provisional)
	in millions of £ sterling		
Current account			
Balance in relation to rest of the sterling area	+ 266	+ 234	+ 239
Dollar area	— 307	— 107	— 446
Other countries	+ 46	+ 117	— 314
Balance on current account	+ 5	+ 244	— 521
Net grants received(1)	+ 154	+ 139	+ 43
Balance on current account and grants received	+ 159	+ 383	— 478
Corresponding to:			
Increase (+) in U.K. assets abroad(2)	+ 179	+ 26	+ 202
Increase (+) or decrease (—) in U.K. gold and dollar holdings	— 3	+ 576	— 344
Increase (+) or decrease (—) in U.K. holdings of non-dollar currencies(3)	— 15	+ 108	— 283
Total gross increase (+) or decrease (—) in U.K. foreign assets	+ 161	+ 710	— 425
Adjust for:			
Increase (—) or decrease (+) in sterling liabilities(2)	— 2	— 327	— 53
Net increase (+) or decrease (—) in U.K. foreign assets	+ 159	+ 383	— 478

(1) Taking into account revaluation payments made by the United Kingdom to the extent of £60 million in 1949, £4 million in 1950 and £11 million in 1951.
(2) Excluding from the foreign assets and the sterling liabilities, in 1949, subscriptions to the International Monetary Fund and the International Bank for Reconstruction and Development, amounting in all to £173 million.
(3) Including, in 1950, assets in units of account of the European Payments Union and, in 1951, a liability in such units.

In addition to the current deficit of £521 million for 1951, the balance-of-payments estimates show, for the same year, overseas investments leading to an increase of £202 million in U.K. assets abroad — these two items, which add up to £723 million, having been financed to the extent of £627 million by drafts on the holdings of gold, dollars and other currencies (including the E.P.U. units) and, as to the rest, by £43 million in foreign grants and an increase of £53 million in sterling liabilities. With regard to the increase of £202 million in "assets abroad" it should be observed that, as mentioned in the explanatory notes to the tables presented to Parliament, this heading covers, inter alia, "the 'balancing item' involved in the construction of a complete balance of payments with the whole world. The inadequacy of data on long and short-term capital movements is an important factor leading to this balancing item; another factor is the variation in commercial credit." The shifts resulting from that variation — it should be added — have been considerable; when, in the winter of 1950–51 and the following spring, sterling was strong and there were rumours about "revaluation", those who had claims in sterling became inclined to wait for payment longer than they would otherwise have done, while payments due in sterling tended to be speeded up. Once it became clear that there would be no revaluation and that, on the contrary, the pound was exposed to pressure, the current set in the opposite direction; foreign claims expressed in sterling were called in promptly and foreign payments due in sterling were delayed. It is difficult to tell what amounts this change in "leads and lags" involved but even the exceptional gain on this account during the first half of 1951 would seem to have been more than offset by the exceptional loss in the second half.

The deterioration in the trade balance from 1950 to 1951 amounted to £642 million and it may be calculated that roughly one-half of this was due to a worsening of the terms of trade and one-half to the 16 per cent. increase in the volume of imports, only a small proportion of which was offset by a 3 per cent. increase in the volume of exports. The expansion of the volume of imports was due not so much to additional consumption of imported food and materials as to the partial replenishment in 1951 of commercial stocks and of the strategic stockpile, the reserves under both headings having been run down considerably in 1950.

Moreover, invisible income fell by £123 million in comparison with 1950. This was partly due to the loss of the income formerly derived from Persian oil, while another important factor was the beginning of the service of the United States and Canadian loans, contracted at the end of 1945 and early in 1946 respectively.

The change in the balance of payments, together with an expansion of the volume of real output by 2 to 2½ per cent. and the rise in prices, resulted in a considerable increase in the nominal resources used by the British economy.

United Kingdom: Gross national product and its uses.

Resources	1950	1951	Uses	1950	1951
	in millions of £ sterling			in millions of £ sterling	
National income	11,089	11,532	Personal consumption	9,260	9,970
Add:			Government consumption	2,053	2,440
Provision for depreciation and maintenance	818	882	Gross domestic capital formation and stock appreciation:		
Indirect taxes less subsidies . . .	1,578	1,782	(i) fixed investment	1,672	1,860
Stock appreciation	400	1,200	(ii) increase in value of stocks and work in progress. . . .	604	1,570
Gross national income and stock appreciation	13,885	15,396			
Adjust for:					
Net grants and loans from abroad plus certain current transfers	— 296	+ 444			
Total available resources.	13,589	15,840	Total gross expenditure	13,589	15,840

According to calculations in terms of stable prices, there was no real increase from 1950 to 1951 either in personal consumption or in fixed investments, whereas government consumption of goods and services rose by £175 million and the volume of stocks by £300 million.

A total increase in gross capital formation (as shown in the following table in terms of current sterling) coincided with a decrease in domestic savings.

United Kingdom: Investments and their cover.

Investments	1950	1951	Covered by	1950	1951
	in millions of £ sterling			in millions of £ sterling	
Gross domestic capital formation and stock appreciation by:			Savings and provision for stock appreciation:		
1. central government	50	370*	1. personal	87	95
2. local authorities	392	420	2. corporate	738	774
3. persons and corporate bodies	1,834	2,640	3. current surplus of central government, national insurance funds and local authorities	674	560
Total	2,276	3,430	Total	1,499	1,429
Less: stock appreciation	— 400	—1,200	Less: stock appreciation	— 400	—1,200
Remains: gross domestic capital formation	1,876	2,230	Remainder	1,099	229
			Addition to tax reserves, etc.	169	586
Increase in 1951 over 1950	+ 354		Provision for depreciation	818	882
			Total domestic cover	2,086	1,697
			Net gifts and loans from abroad	— 210	533
			Total cover	1,876	2,230

* The increase is largely due to the building-up of strategic stocks.

Against an increase of about £350 million in investments there is a decline of nearly £400 million in the total of domestic cover, chiefly owing to the fact that, after provision had been made for stock appreciation, net savings amounted to only about £230 million, as compared with about £1,100 million in 1950. In other words, corporate and other business firms had not been in a position to reserve sufficient funds to provide for the increase in the prices of commodities. The change-over from a surplus of £244 million on the current account of the balance of payments in 1950 to a deficit of £521 million in 1951 was needed to make good the deficiency in domestic savings.

The shortage of genuine savings is partly a reflection of the fiscal regulations, under which an increase in money receipts resulting from higher prices of stocks already in hand is counted as "taxable profits", although such receipts do not represent a real gain either for the individual firm or for the community. But, despite the increase in revenue from forms of taxation which really represented an inroad upon accumulated capital, the overall budgetary position worsened, and its deterioration was a major cause of the British difficulties in 1951.

In the fiscal year April 1950 to March 1951, there was an "ordinary surplus" amounting to £720 million of current revenue over current expenditure and an "overall surplus" amounting to £247 million of current revenue over all current and capital expenditure. In 1951–52 the ordinary surplus was reduced to £379 million and there was an "overall deficit" of £150 million. Thus the deterioration on government account (from "overall surplus" to "overall deficit") came to £397 million — a development which, it is true, was largely accounted for by a reconstitution of stocks but which, even so, imposed a heavy charge on the national resources. In the budget for 1952–53 the current surplus is estimated at £511 million and provision has been made for an overall surplus of £5 million — which means that the government has taken steps to cover all its outlay, current and capital, by means of current revenue.

Defence expenditure, which, according to the "Economic Survey"* for 1952, had amounted to £744 million in 1949–50 and £830 million in 1950–51, rose to

* The figures given in the "Economic Survey for 1952" are, for the years 1949–52, somewhat different from those in the budget account.

United Kingdom: Government revenue and expenditure.

Items	1949–50	1950–51	1951–52	1952–53 (1)
	in millions of £ sterling			
"Above the line"				
Ordinary revenue:				
Inland revenue	2,111	2,038	2,362	2,619
Customs and excise	1,520	1,630	1,752	1,815
Other revenue	293	310	319	227
Total ordinary revenue	3,924	3,978	4,433	4,661
Ordinary expenditure:				
Defence expenditure	741	777	1,110 (2)	1,377 (3)
National Health Service	345	377	400 (2)	393
Strategic reserves	—	13	179 (2)	53
Food subsidies	425	400	} 1,773	1,702
Other civil expenditure	1,326	1,146		
Consolidated fund services (4)	538	545	592	625
Total ordinary expenditure	3,375	3,258	4,054	4,150
Ordinary surplus	+ 549	+ 720	+ 379	+ 511
"Below the line"				
Loans to local authorities (net)	268	305	365	344
War damage	173	94	77	70
Other payments (net)	46	74	87	92
Net below-the-line payments	487	473	529	506
Overall surplus (+) or deficit (—)	+ 62	+ 247	— 150	+ 5
Public debt at the end of the fiscal year (31st March) (5)				
Internal debt:				
Funded debt	3,899	3,898	3,887	.
Floating debt	5,715	5,740	4,611	.
Other internal debt (net)	13,998	14,092	15,230	.
Net total internal debt	23,612	23,730	23,728	.
External debt (6)	2,190	2,192	2,166	. .
Net total national debt (7)	25,802	25,922	25,894	.

(1) Estimates. (2) Provisional.
(3) Excluding £85 million to be met out of the sterling counterpart of U.S. economic aid.
(4) Including sinking funds.
(5) Debt figures for 31st March 1952 are provisional, being based mainly on those issued in the Financial Statement of 11th March 1952. (6) Excluding debt arising out of the 1914–18 war.
(7) Changes in the debt do not correspond to the overall budget surplus or deficit, the main reasons being that the debt includes issues to the Exchange Equalisation Account (which rose by £600 million in 1950–51 and declined by £200 million in 1951–52) and that it was reduced by £275 million in 1950–51 through the use of E.C.A. counterpart funds.

£1,129 million in 1951–52 and is estimated at £1,462 million for 1952–53 — an amount which will be reduced to £1,377 million by deduction of the sterling equivalent of $238 million, appropriated out of the $300 million of U.S. economic assistance which has been allotted to the United Kingdom in the U.S. fiscal year ending 30th June 1952. Among the most important budget measures taken was a reduction in food subsidies, designed to bring the total down from £410 million to £250 million in a full year — a measure which, besides lessening the burden on the budget, should help to make it possible for certain foods to be derationed and thus permit the ordinary price mechanism to function again in this field also.

Before the introduction of the budget various measures had already been taken to arrest the drain on reserves. Cuts have been made in imports, and it is expected that the volume figures for 1952 will consequently be down by nearly one-tenth as compared with 1951. This is admittedly a stop-gap measure, but the changes introduced in the money and credit sector are of fundamental importance. As far back as 1947, and again in the tense situation of 1949, the quotations of government bonds were allowed to decline in response to market influences, and since the autumn of the last-mentioned year yields have exceeded 3 ½ per cent. — which means that the abnormally cheap money rates have been abandoned in the long-term sector. As far as short-term credits are concerned, some restraint on borrowing was attempted in the form of qualitative controls exercised by the banks; but it was by the steps taken in November 1951 that the authorities were first given extensive control over the volume of short-term credit.

The growing deficit in the balance of payments during the second half of 1951 meant that funds were being withdrawn from the market through sales by the Exchange Equalisation Account of the foreign exchange required to pay for the excess imports; but advances to customers (including the nationalised industries) continued to increase — a development by which the restraining influence exercised on the market by the above-mentioned withdrawals tended to be frustrated. The action taken in November 1951 included the following steps:

(i) The Bank of England discount rate was raised from 2 to 2 ½ per cent. — the first change in bank rate since October 1939.

(ii) Instead of purchasing Treasury bills virtually without any limit and at rates rigidly maintained at a very low level (roughly ½ per cent.), the Bank of England announced that it would hold itself free to supply the market with cash entirely at its own discretion, but that it was, all the same, prepared to advance money to discount houses at a rate of 2 per cent. for a minimum of seven days against Treasury bills.

(iii) A substantial reduction was effected in the floating debt by the successful issue of £1,000 million 1¾ per cent. Funding Stock, maturing at various dates up to 1954, to be paid for only in Treasury bills. By this means, the liquid assets of the banks (i.e. the money at call and Treasury bills) were reduced to not much more than the conventional minimum of 30 per cent. of total deposits, and the floating debt was brought down to more manageable proportions.

(iv) In addition, the qualitative controls were maintained and intensified. Revised instructions were given to the Capital Issues Committee, specifying the essential purposes for which new issues could be made and, in a further letter from the Chancellor of the Exchequer, the banks were requested to adopt similar criteria for the granting of advances to customers.

One of the first effects of these steps was to restore flexibility to the rates quoted in the market. Clearing-bank figures published in March 1952 show, in comparison with those for November, clear signs of restraint in the expansion of credit, viz. a greater fall in deposits than during the corresponding period of the previous year, a fall in investments and only a very modest rise in advances.

And, to supplement the measures announced in the budget on 11th March 1952, the Bank of England, on the same day, raised bank rate from 2 ½ to 4 per cent. — thus making reliance on monetary policy one of the chief elements in the British programme for restoration of balance in the economy. In his budget speech that day, the Chancellor of the Exchequer made the following announcement:

"Events have justified the monetary policy adopted last November. But the time has now come when a reinforcement of that policy is necessary to support our other measures. Accordingly, the Bank of England have today, with my approval, raised the bank rate from 2 ½ per cent. to 4 per cent.

This is a sharp upward movement and will, I am sure, show to the world that we not only recognise the very serious situation of the country, but are determined to deal with it by whatever firm measures may be necessary, however unwelcome they may be. This rise to a comparatively high level of money rates is, I believe, in present circumstances, an essential part of our campaign to fortify the currency."

It is still too early to tell what the results of these measures will be; but when it was announced that the gold and dollar deficit of the sterling area had amounted to $636 million in the first quarter of 1952, as compared with $940 million in the last quarter of 1951, it was also mentioned that the deficit in January came to $299 million, in February to $266 million and in March to $71 million (in which connection it should be noted that the smallness of the March figure was partly due to the offsetting effect of certain special receipts, to some extent of a capital nature, amounting to between $70 and 80 million).

In the course of 1951, France, too, experienced a sharp reversal of its currency position. Up to the spring of 1951 both its gold and dollar reserves and its credit balance in the E.P.U. had been increasing steadily; but from then onwards they underwent a steady decline, which culminated in very heavy losses of reserves in October and November. After having amounted to the equivalent of about $850 million at the end of March 1951, the gold and dollar holdings fell by about $300 million during the following twelve months, while the position of France in the E.P.U. changed from a claim equivalent to $174 million at the end of March 1951 to a liability equivalent to $351 million at the end of March 1952 (for further details see Chapter VI). Thus these two items together show a deterioration of over $800 million in the space of a year and, in addition, there has been some utilisation of other foreign assets available to the monetary authorities.

The circumstances responsible for this change in France's foreign exchange position are in some respects similar to those which have affected the United Kingdom, while in other respects each country has problems peculiar to itself.

1. In the half-year following the outbreak of the conflict in Korea, France, like the United Kingdom, drew largely on its accumulated stocks instead of joining in the general rush to import raw materials.

France: Trade with foreign countries.*

Period	Volume of Imports	Volume of Exports	Balance of trade in milliards of French francs
	Average for 1950 = 100		
1950 — 1st half	106	87	— 110
2nd half	93	113	+ 3
1951 — 1st half	117	128	— 114
2nd half	130	109	— 225
1952 — 1st quarter	147	95	— 181

* Excluding French overseas territories.

This meant a greater need to import in 1951 and early in 1952, and a growing trade deficit was reflected in a deficit of Fr.fcs 462 milliard on the current account of the balance of payments of the franc area in 1951, as compared with Fr.fcs 80.6 milliard in 1950. But there were also other reasons for the increase in the trade deficit: the rise in French domestic prices (partly due to protectionist measures) and the recurrence of monetary fears led to higher imports, while the rise in French prices made it more difficult to export.

2. France, like the United Kingdom, has had to provide resources for its overseas territories.

France: Trade with overseas territories and the balance of trade with foreign countries.

Period	Trade with overseas territories			Balance of trade with foreign countries
	Imports	Exports	Balance	
	Monthly averages, in milliards of French francs			
1950 — 1st half	23	30	+ 7	— 18
2nd half	24	34	+ 10	+ 1
1951 — 1st half	28	42	+ 14	— 19
2nd half	28	49	+ 21	— 38
1952 — 1st quarter*	31	55	+ 24	— 60

* Preliminary.

From a comparison of the figures in the last two columns, it will be seen that in 1950 the whole of France's trade deficit with foreign countries (i.e. all countries other than its overseas territories) was balanced by its trade surplus in relation to the overseas territories; if invisible items were taken into account, metropolitan France would even show a surplus in its balance of payments for that year. For the following year, 1951, it seems certain that again the deficit of metropolitan France with countries other than those in the French franc area was offset to a considerable extent by a substantial surplus with its own overseas territories.* As far as these territories taken by themselves are concerned, their current deficit in the balance of payments (when calculated in the same way as is normal in other countries) is considerably higher than their trade deficit, because of net payments due on invisible account (for freights, etc.); their deficits in the balance of payments with foreign countries and in trade with the mother country may be estimated to have reached an approximate total of Fr.fcs 200 milliard in 1950 and may have risen to about Fr.fcs 300 milliard in 1951. About 40 per cent. of the total deficit in the balance of trade of the rest of the French franc area was incurred by Indo-China, where production and the export trade were hindered by the war. As regards the remainder, an essential factor has been the rapid economic expansion in the French Union, especially North Africa, as a result partly of substantial private investments and partly of official action under the Monnet Plan, which has been applied not only to metropolitan France but also to the overseas territories, the necessary funds being obtained from local sources and from the competent official bodies in Paris. There can be no doubt that *the sums which, for various reasons, have been absorbed by the French overseas territories have constituted a serious drain on the resources of France, and one which became much heavier in the course of 1951 than it had been in any previous year.*

* The official French statistics of the balance of payments do not show the surplus of metropolitan France with its overseas territories, but only payments with foreign countries; on this basis, metropolitan France had a deficit of about Fr.fcs 40 milliard in 1950 and about 430 milliard in 1951 (see also Chapter IV).

3. The drain on the French monetary reserves in the second half of 1951 and the beginning of the following year may, moreover, be explained partly by monetary fears, which made importers pay as far as possible in advance while exporters left amounts due to them outstanding.

France: Government revenue and expenditure.

Items	1949		1950		1951 (1)		1952 (2)	
	In milliards of French francs							
Budget expenditure:								
Civil services	842		1,114		1,252 (3)		1,353	
National defence	377		463		696		1,269	
Total current expenditure		1,219		1,577		1,948		2,622
Reconstruction and re-equipment of civil services	150		121		109		154 (4)	
War damage and reconstruction	246		285		324		365 (4)	
Investments (5)	432		426		315		368 (4)	
Total investments and reconstruction		828		832		748		887 (4)
Special accounts of the Treasury		(6)		(6)		108		70
Total budget expenditure		2,047		2,409		2,803		3,578
Budget revenue		1,519		1,946		2,315		2,773
Budget deficit		— 528		— 463		— 488		— 805
Cash deficit (7)		— 611		— 570		— 517		— 805
Financed by:								
Counterpart in francs of external borrowing and American aid		289		185		153		265
Borrowing and Treasury resources		322		385		364		540
Public debt at 31st December								
Internal debt:								
Long-term debt	962		1,016		1,044		.	
Medium and short-term debt	990		1,155		1,319		.	
Debt to banks of issue	772		675		669		.	
Total internal debt	2,724		2,846		3,032		.	
External debt:								
Long-term debt	1,007		1,054		1,034		.	
Medium and short-term debt	175		233		220		.	
Total external debt	1,182		1,287		1,254		.	
Total public debt	3,906		4,133		4,287		.	
Prices (1949 = 100)*	100		110		134		149 (8)	

* Average of indexes of wholesale prices and cost of living.
(1) Provisional results for 1951.
(2) Budget estimates and appropriations for 1952.
(3) Including Fr.fcs 79 milliard for "miscellaneous".
(4) Of the budget appropriations for 1952, Fr.fcs 95 milliard are blocked as follows until the corresponding resources have been obtained by borrowing:

Reconstruction and re-equipment of civil services	9
War damage and reconstruction	50
Investments	36
	95

(5) Excluding investments of state enterprises financed by special borrowing, estimated at Fr.fcs 75 milliard and Fr.fcs 85 milliard in 1951 and 1952 respectively.
(6) Net expenditure out of special accounts of the Treasury in 1949 and 1950 has been distributed where possible among the categories into which the expenditure fell.
(7) The cash deficit is taken from the Treasury accounts and exceeds the budget deficit, owing mainly to lags in the collection of taxes and to the payment of budgetary arrears from earlier years. For 1952, the cash deficit is assumed to be equal to the budget deficit.
(8) First quarter.

4. France devoted nearly 8 per cent. of its national income to defence in 1951 — a percentage which is to rise to 12 in 1952 and is equalled by no other country in western Europe except the United Kingdom. There were "cash deficits" of Fr.fcs 500 to 600 milliard in each of the years 1949 to 1951 — exceeded, as may be seen from the table, by the total outlay for investment and reconstruction. On the revenue side, the counterpart of Marshall aid has all been used to meet budget expenditure. Furthermore, the proceeds of certain forms of saving, for instance, most of the amounts collected by the Postal Savings Bank, accrue automatically to the Treasury. While the direct advances from the Bank of France did not increase in 1951, the Treasury, in that year, borrowed about Fr.fcs 200 milliard from the banking system (see next page) and of this amount a considerable part was, in fact, derived from the Bank of France via credit facilities extended by it to other banks — through open-market operations, for instance. Thus, to some extent, the rather rapid expansion of credit in 1951 (see below) was undoubtedly connected with the state of the public finances; and there are also other circumstances to be taken into consideration.

The very fact that the whole amount of the proceeds in French francs of Marshall aid is entered as revenue to meet budget outlay, so that nothing is returned to the money and capital markets by way of debt repayment, has been one of the reasons why the markets in question have been starved of fresh funds available for capital investments. Similarly, the channelling of well-nigh the whole net surplus of the Postal Savings Bank and some other institutions to the Treasury has, in its turn, deprived the markets of resources for current financing. Much the same effect is produced by the obligation upon banks to invest in government paper 20 per cent. of any increase in deposits received. The consequence has been that industrial and commercial firms, unable to obtain finance in the market, have tended to seek credit accommodation from the banks, which are

France: Total credits granted by the banking system.

Period	Official credits (1)	Business credits		
		Banking system	Other institutions	Total
	In milliards of French francs			
	Amounts outstanding at end of month			
1948 December	1,276	850	74	924
1949 December	1,397	1,189	107	1,296
1950 December	1,422	1,355	219	1,574
1951 March	1,477	1,383	264	1,647
June	1,454	1,517	277	1,794
September	1,582	1,609	295	1,904
December	1,620	1,903	302	2,205
	Annual increase			
1948	+ 163	+ 360	.	.
1949	+ 121	+ 339	+ 33	+ 372
1950	+ 102 (2)	+ 166	+ 112	+ 278
1951	+ 198	+ 548	+ 83	+ 631

(1) For details see Chapter VII.

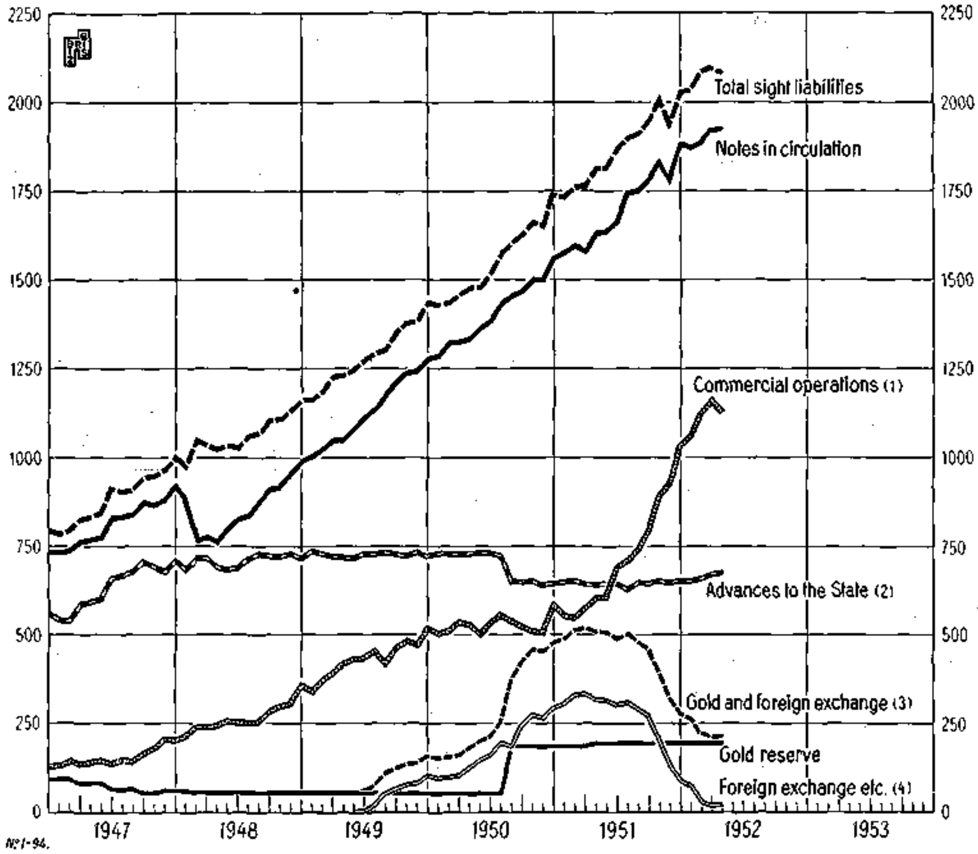
(2) As Fr.fcs 77 milliard of the Bank of France's credits were cancelled by book-keeping operations in connection with the revaluation of the gold reserve, the nominal increase in official credits in 1950 amounted to only Fr.fcs 25 milliard.

the less disinclined to comply with these requests since no other source of supply is available to the would-be borrowers.

5. The steep increase in the volume of credit will be seen from the table on page 31.

While in 1950 the banking system's credits to the government increased by a smaller amount than in any previous year since the war and while this relatively balanced position was maintained during the first half of 1951, there was an abrupt change in the third quarter, when the Treasury borrowed as much as Fr.fcs 128 milliard, partly from the Bank of France and partly from the commercial banks. The main element in the credit expansion was, however, the growth of business credits, which, in 1951, increased by 40 per cent. for the banking system as a whole and by 83 per cent. as regards credits of this type supplied by the Bank of France. Some of the new credits were connected with the increased volume of imports and the holding of larger stocks; but about Fr.fcs 142 milliard of the new

Bank of France: Principal items of the balance sheet.
In milliards of French francs.*



* Figures for the Thursday nearest to the end of each month.

(1) Bills discounted in portfolio, negotiable securities purchased in France, 30-day advances and advances against securities.

(2) Liability of the state in respect of the gold deposit of the National Bank of Belgium, negotiable bills of the Caisse Autonome d'Amortissement, interest-free loans to the state, provisional advances to the state and Treasury bills purchased.

(3) Gold reserve, gold loan to the Exchange Stabilisation Fund, foreign exchange holdings (sight funds) and claims on the European Payments Union, together with advances to the Exchange Stabilisation Fund.

(4) Same items as under (3), except for gold reserve.

accommodation came under the heading of "investment credits".* "Pre-financing" of investment is part of the normal business of the banking system, and it works well provided the credits granted are currently repaid out of the proceeds of issues of shares and bonds in the market or are replaced by other resources such as ploughed-back profits; but, if there is no such unloading, the credits in question become a source of inflationary expansion.

It should further be mentioned that in the second half of 1950 and the first quarter of 1951 the Bank of France provided about Fr.fcs 60 milliard to finance the surplus in the E.P.U. — a method of financing which involves an expansion of credit without any ready counterpart in the form of current savings. And when, from the autumn of 1951, France became a debtor in the E.P.U. and the foreign exchange holdings were drawn upon to pay for the increased trade deficit with other countries as well, there was no contraction in the volume of credit outstanding; indeed, the expansion proceeded at an even higher rate.

6. After the middle of the year a new factor, of great importance for the price level and consequently for the volume of credit, came into operation, namely the administrative procedure for determining prices. This has particularly far-reaching effects on account of its application to the price of wheat. This price is fixed in the spring or early summer of each year by the government, which has to take into account various cost elements. By this administrative action the price of wheat was raised by no less than 39 per cent. in August 1951, and the decision thus taken led to other upward adjustments; in the autumn there were increases in the prices of bread, coal and steel, as well as sugar, oil and electricity, and in the minimum wage, and in January 1952 the tariff for electricity was raised again, railway tariffs also were raised and plans were made for a sliding scale for wages. These two sets of measures involved increases of 10 to 40 per cent. at one blow and, whatever may be thought of the effects of earlier credit expansion as an auxiliary factor, it is obvious that, once price increases on such a scale had been officially sanctioned, the credit authorities could hardly refuse to allow them to be financed.

In France, qualitative credit restrictions had been introduced in 1947 and quantitative restrictions in 1948, and during certain phases these were no doubt helpful in moderating the credit expansion. But there were several devices (the so-called "safety valves") for permitting exemptions from the application of the "rediscount ceilings" and other limits and, when real pressure developed (for instance, when prices were raised by administrative decisions), the restrictions were incapable of checking the expansion of the credit volume — nor could they stifle the incessant demands arising from the fact that there was no properly functioning capital market.

As the strain on the gold and foreign exchange reserves became more intense, the Bank of France raised its official discount rate from 2½ to 3 per cent. in October and again to 4 per cent. in November 1951. It was also laid down that if a bank had recourse to rediscount beyond the ceiling applicable to it (the maximum rate of excess allowed being, in any case, limited to 10 per cent.), it would have to pay an extra 1½ per cent. interest, i.e. 5½ per cent. in all. Actually, the rates at present charged for bank credits vary between 7 and 8 per cent., while for middle-term credits the minimum rate has gone up to 7½ per cent. (in accordance with authorisations granted by the National Credit Council).

* The Fr.fcs 142 milliard of investment credits have been financed in part from long-term savings and in part by the budget (in particular, via the Crédit National, the agricultural credit institutions and the Crédit Foncier); as, however, the budget showed a deficit and the volume of savings was insufficient, the result was a more pronounced pressure on the banking system emanating from other sectors.

Early in February 1952 the government, seeing that the difficulties had not disappeared, decided to cut the volume of imports, and later in the same month it suspended trade liberalisation altogether, despite the adverse effect that such emergency measures would have in the sphere of prices. Furthermore, in connection with the budget for the current year, which still remained to be voted, higher tax rates were proposed as a means of reducing the deficit; but it was feared — not without reason — that, given the prevailing "inflation mentality" of the public, an increase in taxation might easily touch off another rise in prices, especially if it applied to taxes affecting the cost of production. The new government which came into power in the first half of March has sought, instead, to reduce the deficit by effecting economies (amounting to Fr.fcs 110 milliard) and blocking investment expenditure to the extent of Fr.fcs 95 milliard until the resources required can be obtained from loans. A fiscal amnesty was declared, covering past sins; but it was coupled with the enactment of much severer regulations and penalties for the future, to ensure more effective tax collection.

Finally, in the second half of May 1952, a loan with a gold clause, carrying important fiscal privileges, was issued with the object of obtaining fresh money to the tune of at least Fr.fcs 200 milliard. Interest is at the rate of 3½ per cent. and the capital is ensured against a fall in the gold value as measured by the quotations of the napoleon on the Paris market.

An impressive decline in the prices paid for gold bars and coins and certain reductions in commodity prices are signs of a break in the inflationary trend, but there is not yet sufficient evidence on which to judge how far the measures taken are likely to be effective and under what conditions a balanced cost and price position can be attained at home and in relation to other economies. The fixing of the price of wheat for the harvest year 1952–53 at the same level as in the previous year would represent an important departure from past practice. For in France, in addition to a deeply-rooted "inflation mentality", there is — as in many other countries — a long-standing "protectionist mentality", which became intensified during the depression of the early 1930s, when producers and traders sought to protect themselves against the fall in prices, and which received fresh reinforcement from the regulations of the 1940s, designed to minimise the effects of wartime and post-war inflation. This mentality finds expression not only in higher customs duties and other obstacles placed in the way of imports (some of these restrictions being, however, occasioned by the lack of foreign exchange) but also in a multitude of administrative rules and private agreements which, though primarily affecting the internal economy, nevertheless have their repercussions on the balance of payments. Now that world prices are no longer rising, influences from abroad are, of course, one of the safeguards against strong upward movements of domestic prices and it is therefore most important, for France as for other countries, that the liberalisation of trade should be resumed and gradually extended to include the dollar area also.

* * *

In France and the United Kingdom determined efforts are thus being made to restore equilibrium in the economic situation at home and at the same time to bring order into the balance of payments. Together, these two countries and their respective currency areas account for about one-third of the world total of foreign trade and about 55 per cent. of the foreign trade of western Europe. This high percentage may be taken as an indication of how important it is from the point of view of the world economy as a whole that the attempts at rehabilitation now being made in

France and the United Kingdom should succeed. It also gives an idea of the vastness of the problems with which these two countries are confronted: if the home country alone regains its balance, this is not enough from their point of view, the other members of their respective currency areas must also adopt policies which are effectual in halting the drain on their reserves.

Because of these complications, it may perhaps be thought that the policies pursued in countries with less comprehensive problems have no direct bearing on those of the whole sterling and French franc areas, and that successes scored elsewhere by such policies are no guarantee for their effectiveness in a wider setting. But these other countries, too, have had their own serious difficulties to overcome. It is sufficient to mention the presence of 8–9 million refugees in western Germany, the rapid increase in population in Italy and the Netherlands — both countries without any extensive sources of domestic raw materials — and the peculiar obstacles to which trade in agricultural products is exposed and which particularly affect countries such as Denmark. The paucity of monetary and other reserves which has been characteristic of the position of the great majority of European countries in recent years has set narrow limits to freedom of action; this being so, the extent to which so many countries have now got their own monetary and economic situation in hand is all the more remarkable.

In another way, too, these results are remarkable: they signify, in fact, that the countries in question — and among them the United States, which has been most decisively involved — have not submitted meekly to the inflationary and other tendencies which swept over the world after the outbreak of the conflict in Korea, but have been bent on influencing developments by their own purposeful action. And in doing this they have availed themselves of the various well-tried instruments at the command of the monetary authorities, including a flexible interest policy, which had fallen somewhat into desuetude since the depression of the 1930s. In recent years there has been a change in emphasis, and the problem of monetary stability has been given more attention; but a point which needs stressing (and which will receive more comprehensive treatment in the next chapter) is the fact that there is no inherent conflict between the pursuit of a policy aiming at higher production and an endeavour to attain monetary stability. On the contrary, experience has proved that, in the absence of confidence in the currency, the amount of resources set free for development purposes will remain inadequate.

II. The Volume of Production and Monetary Stability.

When the Marshall Plan was launched in 1947, there were three main tasks to be undertaken in the participating countries:

(i) to increase production;

(ii) to get rid of inflation, with a view to restoring monetary stability; and

(iii) to establish a closer co-operation within the group of participating countries which is often referred to as "western Europe" although Greece and Turkey, for instance, are included in it.

The setting-up of the Organisation for European Economic Co-operation (the O.E.E.C.) provided a centre for the co-operative effort. Thanks to this organisation some important problems have been dealt with through common agencies and, over a wide field, principles adopted in concert have been applied. But the nature of the task of reconstruction was such as to make it essential to concentrate, in the first place, on an expansion of production and the attainment of financial balance in each individual country. Each government therefore had to take the necessary steps to eliminate its budget deficit, and a special E.C.A. mission, primarily responsible for the drawing-up of procurement programmes and for the release of counterpart funds was sent to each beneficiary country. Well over 95 per cent. of the Marshall aid for Europe, which in all amounted to $12.4 milliard, has been allotted to individual countries under arrangements which, even on the technical side, varied from country to country, as will be seen later on (cf. page 50).

There can be no doubt that progress has been made along the lines marked out, although the advance has been more spectacular in the sphere of production — especially industrial output — than in the sphere of monetary affairs. This has not been a matter of chance but has been largely due to the fact that for a number of reasons, summarised below, attention came to be devoted in the first place to the task of nursing the productive forces in the various countries:

(i) In a number of enterprises where maintenance had been deferred during the war and where damage from other causes was more or less slight, a relatively small investment of fresh capital sufficed to put industrial and other plant in working order, and production could thus be increased fairly quickly in many branches.

(ii) Once certain troublesome bottlenecks were eliminated (shortage of electricity being a typical example), production could go ahead in a range of industries in which it had not previously been possible to utilise existing capacity to the full. Often the arrival of some badly needed material or machinery from abroad would make all the difference to the level of production in a particular branch of industry — this being one of many examples which could be quoted of the invaluable contribution made by Marshall aid to economic recovery in the recipient countries.

(iii) As a result of the continuous natural increase in population (and, in some cases, through an influx of refugees as well) manpower reserves were available in many countries, and it seemed important to give priority to the provision of the fresh plant and equipment required for their efficient utilisation.

(iv) In many quarters it was considered that, until supplies of goods and services were more nearly back to normal, price control could not be abolished and the price and cost system in general could not be set free.

(v) Finally, there was the example of the United States. In that country the enormous war effort had been sustained essentially by an all-round increase in production, and to Americans, in particular, it looked as if the most immediate task in Europe was the introduction of more effective technical methods in industry, etc.

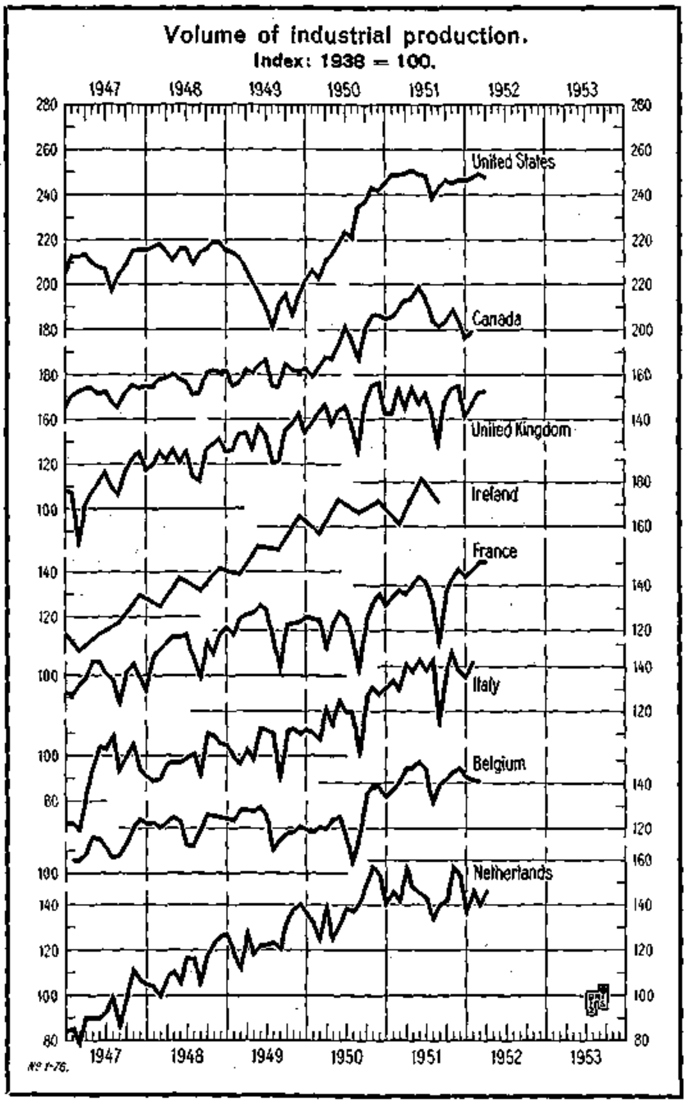
One consequence of the attitude thus adopted was that the monetary aspect of the reconstruction drive was pushed somewhat into the background, with the result that much remains to be done in order to put the monetary mechanism into proper working order. It is still a moot point whether a more purposeful and widespread attempt to combine efforts in the direction of industrial progress with the taking of more rational measures in the monetary field would not have restored equilibrium and general well-being more quickly and more surely. As things have turned out, it can at any rate be said that there has been a remarkable increase in production — and this, of course, is in itself a great boon for western Europe and a help in the present circumstances.

The data most commonly quoted to illustrate changes in production are the indexes of industrial production as calculated in the various countries.

Industrial production.

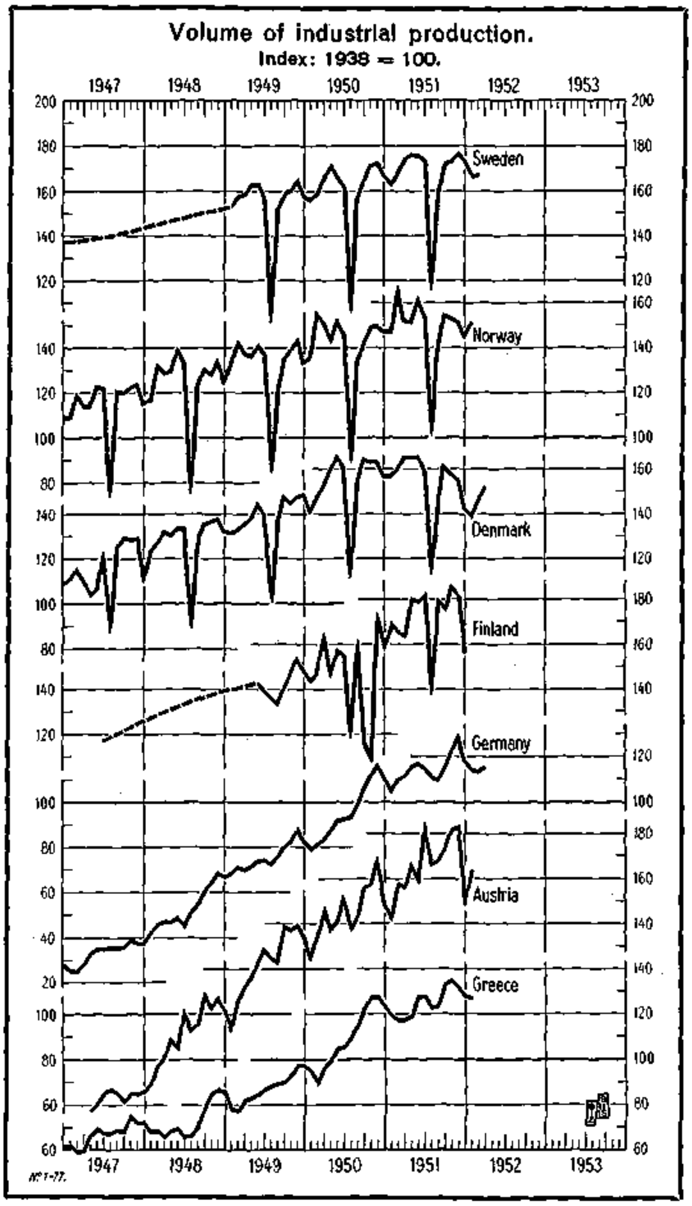
Countries	Yearly averages for 1946	1947	1948	1949	1950	1951	1952 March
	Index: 1938 = 100						
Austria (1)	.	57(2)	92	123	145	166	168(3)
Belgium	89	114	121	122	125	144	140(3)
Denmark	101	116	128	138	153	154	151
Finland	.	117	133	143	145	172	169(3)
France	84	99	113	123	123	138	150
Germany (western)	29	33	53	76	96	115	116
Greece (4)	53	67	73	87	110	125	124(3)
Ireland	112	121	132	151	167	172	.
Italy	.	93	99	105	120	137	137
Netherlands	74	94	113	126	139	145	146
Norway	100	115	125	132	141	148	153
Sweden	135	140	148	154	160	167	170
United Kingdom	102	110	123	132	143	147	153
Canada	156	172	178	181	194	208	203(3)
United States	192	210	215	197	225	247	247

(1) 1937 = 100. (2) Estimate. (3) February 1952. (4) 1939 = 100.



For western Europe as a whole it is calculated that in 1951 the volume of industrial production was about 40 per cent. larger than in 1938. By the spring of 1952 the total volume showed a further increase, although the expansion has recently been somewhat less rapid than was the case up to 1951 and some countries have had no part in it. For a number of countries 1938 had been a fortunate year of high industrial activity; in Italy and Germany this was largely the result of a speeding-up of armament production, while Finland and Sweden had reaped the benefit of a strong and sustained demand for their principal export goods. For some of the other countries, however, 1938 was a year of recession, in which they experienced the repercussions of an internal setback in the economy of the United States. But, whatever reservations have to be made with regard to the countries for which 1938 represents a low starting-point, there can be little doubt that, when indexes of industrial production show increases of 40 to 50 per cent., this really indicates a considerable rise in output.

Since an increase in production forms the basis for an improvement in the standard of living and, indeed, enables the economy to meet heavier expenditure at home and abroad, it may well be asked why, even now, so many European countries have great difficulty in finding enough resources to cover their consumption and investment requirements and to ensure the all-important restoration of equilibrium in their balances of payments. To some extent it is the old post-war difficulty of a



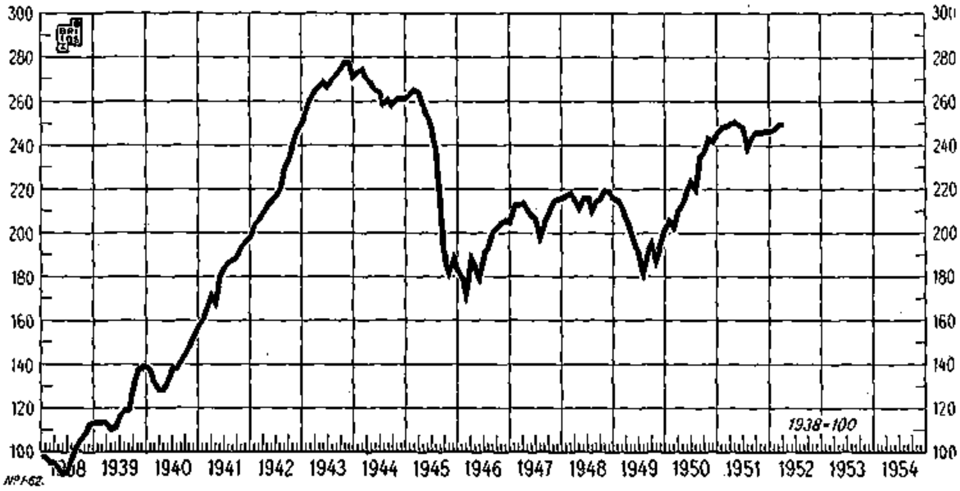
Note: For Austria: 1937 = 100. For Greece: 1939 = 100.

widespread lack of balance in the conditions of world trade (still hampering triangular settlements and the payment of debts), while another and even more important factor is the excessive expansion of money and credit in a number of countries or, in more general terms, the failure to master the monetary problems. But to a considerable extent the difficulty may also be explained by the fact that, for most countries, indexes of industrial production must not be looked on as giving a true picture of the real increase in the national income. There are several reasons why the increase in the national income (in real terms) has generally been much less than the percentage increase shown by the index of industrial production.

In the first place, there are certain purely statistical reasons why the ordinary index may overstate the rise in industrial production: being published monthly, the index is necessarily based on a sample of industry, usually limited to the larger firms. Much depends, then, upon what particular data are chosen; in the United Kingdom, an unofficial index (published by the London and Cambridge Economic Service) shows a rise in production of 41 per cent. between 1935 and 1950, whereas the official index, in its commonly quoted form, shows an increase of 59 per cent. Moreover, a yearly index*

* Calculated by C. F. Carter and published in an article in the *Bulletin of the London and Cambridge Economic Service* for August 1951.

United States: Index of industrial production.
Monthly index: 1938 = 100.



compiled on a much broader basis shows even lower figures of increase than those of the monthly index of the London and Cambridge Economic Service.*

Percentage distribution of employed population.

Countries	Year	Industry	Agriculture	Other occupations
		in percentages		
Austria	1951	32	40	28
Belgium	1950	46	11	43
Denmark	1951	32	28	40
Finland	1940	19	57	24
France	1946	29	36	35
Germany (western)	1950	44	22	34
Italy	1948	23	49	28
Netherlands	1947	32	19	49
Norway	1950	32	31	37
Sweden	1945	37	25	38
Switzerland	1941	44	21	35
United Kingdom	1951	50	5	45

Note: The variations from country to country are considerable, the range being at its widest between Finland, with 57 per cent. employed in agriculture, and the United Kingdom, with only 5 per cent. As broad averages for western Europe, it would appear that the percentages of the working population employed in the various branches of the economy are as follows: somewhat less than 40 per cent. for industry, less than 30 per cent. for agriculture, and 35 per cent. for various services (including commerce, transport, domestic service and the increasingly important government services).

* A rather different factor making for misleadingly high index figures is apt to come to the fore in wartime, when more than half the country's industry is concentrating on production of weapons of all kinds (including tanks, armoured cars, etc.). During the second world war, armaments were mass-produced with all possible technical aids, especially in the United States. The growth of such output, together with the working of longer hours during the emergency, will lift the industrial index to a level which the more varied peacetime production, working in response to civilian needs, will not so readily attain.

Secondly, it must be remembered that those engaged in industrial production form only a part — as a rule, not more than a third — of the total working population, and in the other branches of the economy (especially in the various service trades) the rise in output has generally been at a much lower rate.

In itself, however, the distribution of population cannot be taken as a measure of the contribution of each branch of the economy to the national product, one reason being that much more capital per person employed is invested in industry than in agriculture. The following table gives, for a number of countries, a comparison of the percentages of industrial and agricultural population with the contributions made by each to the national product.

The distribution of population and the contribution of industry and agriculture to the national product.*

Countries	Industry		Agriculture	
	Population	Gross national product	Population	Gross national product
	In percentages			
Denmark	32	36	28	22
Finland	19	26	57	30
France	29	40	36	16
Germany (western) .	44	55	22	12
Italy	23	34	49	29
Netherlands.	32	39	19	12
Norway	32	46	31	15
United Kingdom . .	50	48	5	5

* The most recent post-war data have been used, but for Finland only pre-war data have been available.

As a broad approximation, it would seem that, in the countries included in the table, industry employed 35 to 38 per cent. of the labour force but accounted for about 45 per cent. of the gross national product, while the corresponding percentages for agriculture were some 25 to 27 per cent. and about 15 per cent. This circumstance may somewhat reduce the importance, from a national-income point of view, of the relative lag in agriculture, although from a general point of view it remains a serious matter for a continent which has to import as much of its food as Europe must.

Unfortunately, the improvement in agricultural production has lagged far behind the improvement in the output of industry. The United Nations Economic Commission for Europe estimates that for Europe as a whole industrial production in 1951 was about 40 per cent. above the level reached in the late 1930s, while agricultural production exceeded that level by a small percentage only.

It is no easy matter to calculate the "real product", and estimates of it differ considerably. According to an investigation by F. W. Paish (published in the Bulletin of the London and Cambridge Economic Service for March 1952), the "real product" (i.e. the total output of the economy valued in constant prices) of the United Kingdom was about 21 per cent. higher in 1950 than in 1938 (as compared with an increase of 43 per cent. shown by the official index for industrial production).* But not even the figure of 21 per cent. represents the

* The real product of the United Kingdom has been estimated not only by F. W. Paish and C. F. Carter but also by Colin Clark (Review of Economic Progress, July–August 1951).

All three estimates agree that the real product rose substantially less between 1938 and 1950 than did the official index of industrial production, which showed an increase of 35–43 per cent. The discrepancy is even more striking for the period from 1946 to 1950: whereas the official index of industrial production rose by 40 per cent., Carter estimates that the output of industry increased by 30 per cent., and the contribution of services (excluding defence), together with that of agriculture, by only 11 per cent. He arrives at an increase of 15 per cent. in the total real

(For end of footnote see next page)

increase in the country's "real national income"; for it is necessary to deduct losses in income from overseas investments and those resulting from a worsening of the terms of trade. Moreover, it was out of the increases in this "real national income" that, in 1950, amounts had to be found for (i) an improvement in the balance of payments (instead of a deficit of £70 million in 1938 there was a surplus of £221 million* in 1950); (ii) higher expenditure on gross domestic investment; (iii) increases in government expenditure; and (iv) increases in personal consumption. The following table shows the main figures according to Paish's estimates.

United Kingdom: Increase in real output and expenditure between 1938 and 1950.

Items	Absolute amount of increase between 1938 and 1950 (in millions of £ of 1938 purchasing power)	Percentage increase (+) between 1938 and 1950
Increase in total output	1,166	+ *21*
Deduct net losses:		
in income from overseas investments	130	.
resulting from worsening of terms of trade	167	.
Remains: increase in real national income	869	+ *15*
Used for:		
1. Improvement on the current account of the balance of payments . . .	154	.
2. Increases in:		
gross domestic investment . . .	66	+ *8*
government current expenditure .	244	+ *33*
personal consumption	405	+ *9*

It will be seen from the table that the real national income rose by only 15 per cent. and that — in addition to a moderate increase in investment (by 8 per cent.) and a substantial increase in government outlay — part of the country's resources was absorbed by the improvement in the balance of payments (this being a short way of referring to the combined effect of the elimination of the 1938 deficit and of the emergence of a surplus which was the counterpart of an export of capital and of certain repayments of liabilities incurred during the war). As a result, the real amount available for personal consumption was only 9 per cent. larger in 1950 than in 1938, as compared with an increase of 6 per cent. in the total population and 12½ per cent. in the employed population.

These estimates are admittedly no more than approximate but they serve to indicate the order of magnitude of the overall changes in real income and consumption, the results being more in conformity with everyday experience than the often

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product, as compared with an increase of only 8 per cent. according to the estimates of Clark and Paish. It is agreed that production for civilian purposes rose faster than the total product: Carter estimates the increase in the former at 21 and in the latter at 15 per cent., this divergence being connected with the reduction in the defence establishments. He estimates that the civilian labour force increased by 12 per cent., so that the increase in civilian "productivity" amounted to only 8 per cent. during four years of recovery from war — which gives an average annual increase of about 2 per cent.

All three estimates are based in part on guess-work and it is, therefore, very difficult to judge how far those of Clark and Paish, which in substance agree with one another, are to be preferred to that of Carter, which shows a somewhat larger rise in the real product. Carter's estimate is based on direct calculations of production, whereas those of Clark and Paish are obtained by deflating the official figures of gross national expenditure at current prices. 70–75 per cent. of gross national expenditure is accounted for by personal consumption, for which Clark and Paish are able to use the official estimates at constant prices; the really dubious items are the price indexes used to deflate investment and government current expenditure.

* The surplus of £221 million, as given in the text, is expressed in current pounds, while in the table the figure for the item "improvement on the current account of the balance of payments" (£154 million) is given in pounds of 1938 purchasing power.

over-optimistic impression received from figures which reflect the development of industry alone and in which no account is taken of the lagging-behind of other branches of the economy.

Increase in industrial production and real national product between pre-war and 1950.

Countries	Industrial production	Gross national product at 1938 prices
	Indexes: 1938 = 100	
Austria (1)	145	100
Belgium	125	108
Denmark	153	130
Finland	145	120
France	123	112
Germany (western) (2)	114	116
Italy	120	107
Netherlands	139	125
Norway	141	144 (3)
Sweden	160	134
Switzerland	•	128
United Kingdom	143	121
Canada	194	194
United States	225	198

(1) 1937 = 100. (2) 1936 = 100.

(3) It should be noted that, in recent years, Norway's shipping and whaling activities have yielded a high rate of income. There has also been a great development of building and construction, and this is not included in the data upon which the index of industrial production has been computed.

In the accompanying table a comparison is made, for a number of countries, between the rise in the index of industrial production and the increase in the real national product between 1938 and 1950.

For western Europe as a whole real national product would seem to have increased by something like 20 per cent. between 1938 and 1951, as compared with the 40 per cent. advance in industrial production. But even the increase in real national product cannot be taken as a reliable measure of the true improvement in the supply of goods and services, since it is still necessary to allow for the effects of three kinds of maladjustment, which in some cases may be fairly serious:

(i) Where there are important shortages and bottlenecks the increase shown for national product is an inadequate guide to the true state of affairs. For instance, in the United Kingdom coal production in 1950 was still 10 per cent. short of the 1938 output, and building activity in general was 7 per cent. lower as measured by the official index of industrial production, while the construction of permanent houses was as much as 45 per cent. below the 1938 level. In both cases the supply was greatly inferior to the demand. The index of production is a true guide only if supply and demand are roughly balanced; if they are not, a fall of, say, 10 per cent. in the production of some essential goods is not really compensated by a 10 per cent. rise in the production of goods which are needed less urgently but which, of course, add to the statistically recorded volume and value of industrial output. It should be borne in mind that, in a number of countries, it is not "luxury" consumer goods that have been in short supply, but actually some of the most essential things (food, coal and houses), so that this particular maladjustment is one which must be said to be quite serious from a social point of view.

(ii) A kindred distortion may arise from a curtailment of foreign trade, since part of the real value of a country's production is derived from the fact that it can serve as a basis for an exchange of goods and services with other countries. The liberalisation of trade during recent years has helped to increase the real benefits ensuing from the production efforts in the various economies; so much the more are recent setbacks to be deplored; and so much the more urgent, even from a social-welfare point of view, is a speedy relaxation of trade restrictions, together with an all-round return to convertibility.

(iii) Proper attention is usually given to divergences between industrial and agricultural production but there is sometimes a tendency to overlook the fact that very considerable differences in output may be found between the main branches of industry itself. In Austria, for instance, the output of durable goods increased by 107 per cent. between 1937 and 1951, while the output of non-durable goods went up by only 28 per cent. On investigation it is found that, to a very large extent, these differences in output reflect differences in investment. The use made of the Marshall aid counterpart funds shows that investment was concentrated on the expansion of basic and power industries, the communications system, agriculture and forestry, while manufacturing industries (which actually employ some 60 per cent. of the Austrian industrial labour force) received very little. Handicrafts, along with commercial enterprises, had to obtain their financing from an extension of credit by the ordinary banking system, which also had, as a rule, to provide the working capital needed for all branches of the economy. In Austria (as in some other countries in which similar lines of policy were adopted) such an investment policy inevitably became a factor leading to inflation; for, given the paucity of domestic savings, it actually led to an excessive use of bank credit.

In addition, the kind of investment in question has led to production of goods at a rather large number of removes from the consumer, with the result that, for a period of two, three or perhaps even five or six years, the supply of goods available for consumption will actually be smaller than would have been the case with a more even expansion of economic activity. Nobody denies, of course, that electricity and steel are useful in the development of an economy, but it still remains a question of proportion. There are several disadvantages resulting from a lopsided development of industrial output; it is, for instance, not always sufficiently realised that the possibilities of a non-inflationary increase in wages will be determined by the available supplies of consumer goods (including agricultural products) and certainly not by the rise in the general index of industrial production.

It is of some interest to note that in western Germany investments in basic industries came to be restricted for a number of reasons. For instance, the ownership of mines, ironworks, etc. was in many cases not definitely settled; the prices paid for some commodities, including coal and steel, were kept down, partly by international control, and thus provided only a limited amount of funds for self-financing; and other considerations also (e.g. the high level of interest rates) led to a preference for investment in consumer-goods industries, where money invested (in machinery, etc.) would not, as a rule, have to be tied up so long. Since the production process is generally much shorter in the consumer-goods industries, one result of this investment policy was that at an early stage the market was filled with goods available for domestic consumption and export. There can be little doubt that the rapid recovery in German exports, as well as the balance comparatively quickly attained between the volume of money and the supply of goods and services on the internal market, had some connection with the orientation of Germany's investments towards shorter-term goals.

It is interesting to observe that the differences in the rate of development of the various branches of the economy noticeable, as mentioned above, in most European countries are not to be found in the United States and Canada; there, the output of other branches of the economy has expanded almost as fast as that of industry. The following table shows, for the United States, the development of industrial production and the total national product with 1929 as basis. In 1938, which was a year of recession, industrial production fell more sharply than the total national product, whereas over longer periods they have shown a parallel expansion. With its freedom from hampering controls, the United States has avoided most of the distortions characteristic of post-war economic developments in so many European countries: owing to the abundant supply of savings, heavy investments in plant and equipment of industrial enterprises have not reduced the means of financing expansion in other directions. Only in 1950–51, when large new armament factories had to be set up, were certain restrictions imposed on the financing of building projects and on consumer credit (see page 17); but, thanks to the ample flow of savings, it was not even necessary for the restrictions in question to be very severe, and it was found possible to relax them again in the spring of 1952.

United States: Industrial production and total national product.

Year	Indexes of	
	industrial production	real national product
1929 . . .	100	100
1937 . . .	103	102
1938 . . .	81	98
1946 . . .	155	161
1949 . . .	160	167
1950 . . .	182	180
1951 . . .	200	193

It is not always sufficiently realised to what extent a difference in capital resources accounts for the difference in efficiency between European and American industries. Naturally, it is not the only factor: differences in the size of the market play a rôle; European enterprises, having a longer history and a correspondingly greater reliance on the past, are generally not so ready to make technical and other improvements as their American counterparts; American labour is co-operating more willingly in measures of rationalisation; bigger prizes are the reward of those who succeed, and this may mean that more capable men are attracted to engineering and similar occupations in the United States than is usually the case in some of the countries in Europe. All this has to be taken into account; but the two outstanding differences are the greater abundance of natural resources and, still more, the higher degree of capitalisation — bringing with it, inter alia, the greater use of motive force — in American industries.

It is difficult, in this field, to get significant data regarding recent years for comparison. In the following table, for instance, heat requirements, shown together with the consumption of motive power, certainly introduce an element of non-industrial use; but the differences from country to country are so great, particularly in a comparison between Europe and the United States, that the

Heat and motive power consumed.*

Countries	1949 in milliards of calories per head of the population
United States	34
United Kingdom	10
Belgium	8
Germany (western)	6
Norway	6
Sweden	6
France (and Saar)	5
Finland	5
Denmark	5
Netherlands	5
Switzerland	3
Austria	3
Italy	1
Portugal	1
Average for the thirteen European countries listed above	4

* As published in the Economic Bulletin for Europe, Geneva, April 1952.

Expenditure on amortisation according to national-income statistics.

Countries	1938	1950
	in current dollars per head of population	
United States	60	140
United Kingdom	50	65
France	35	40
Germany (western)	35 *	35
Italy	15	20

* 1936.

inclusion of heat requirements does not prevent the table from giving a useful indication of the amount of capital resources available to the various economies.

There is undoubtedly, in the United States, more fixed capital per operative – and, as far as motive force in particular is concerned, it suffices to quote the President of the General Electric Company, Mr P. D. Reed, who in a speech to the E.C.A.-sponsored International Conference of Industrialists (in November–December 1951) explained that "motive power is the corner-stone of greater efficiency" and added that "the United States produce about 40 per cent. of total world output with only 7 per cent. of the world's population because they produce some 40 per cent. of the world's motive power".

It is, moreover, beyond dispute that in almost all European countries the machinery in use is older than in the United States and that the rate of replacement is insufficient, not only from the point of view of physical wear but also from that of technical obsolescence. The accompanying table shows estimates of the expenditure for amortisation, in current dollars, in the United States and in a number of European countries.

By 1950 the difference between the amounts set aside for amortisation in the United States and in the other countries had become much more pronounced than it was in 1938; and, considering that the dollar today buys no more than one-half of what it did in 1938, it is clear that it is only in the United States that the amortisation has kept in step with the rise in prices, while in the European countries included in the table the real value of the amortisation has gone down. The damaging effects of delayed maintenance and repair are obvious, and it is regrettable that insufficient amortisation is often due, in part, to the all too common practice of allowing tax-free amortisation solely on the basis of the original and not of replacement costs.

Up to a point, the size of the available market is clearly one of the factors determining the opportunities for large-scale capital investment (that being one of the reasons for its influence on the efficiency of industry). But there are few countries in Europe which have not, in most branches, a sufficiently wide internal market to allow the formation of optimum units of production — and, incidentally, it would be a grave mistake to suppose that in the United States all middle-sized firms are being weeded out (according to the census of 1947, one-third of the value added in manufacture by all manufacturing establishments was contributed by those with 1,000 or more employees, while those with fewer than 500 employees were responsible for about 54 per cent.). For both smaller and larger countries in Europe there is, moreover, the world market, offering possibilities to exporters. Part of the success of Switzerland is due to the strength of its export industries (another important factor in this case has been the preservation of peace, which has permitted a continuous formation of capital unimpaired by great material destruction).

Now that Marshall aid has disappeared (and is only partially replaced by "economic aid"), it is not only the dollars available for foreign purchases that are being missed but also the counterpart funds which had provided means of financing investments (the payment abroad and the financing at home being, of course, simply different aspects of the same thing: the effective receipt of the aid). When funds are in short supply, it may be *tempting to look to credit expansion for additional resources* — just as in the early post-war years, when needs were pressing, reconstruction was pushed on, even at the risk of a dose of inflation. But it is not at all certain that the volume of investment will get more than very temporary support from such a credit policy. For, in the first place, the expansion may lead to a deficit in the balance of payments liable to jeopardise the continuity of supplies of raw materials from abroad — in which case there may be serious consequences for the state of investment and employment. Moreover, it is very likely that, after a time, resort to credit devices will no longer produce any real resources. In the early stages of an inflationary process, when in a number of sectors prices and earnings are rising fairly slowly, it is generally found possible to extract "forced savings" (as they are often called) from the community; but once people have woken up to what is happening they become anxious to protect themselves by speeding up their purchases — and as the velocity of circulation increases, not only will the extraction of "forced savings" come to an end but there will also be a decline in the rate of ordinary saving. When this happens, the flow of domestic funds will dry up, and inflationary credit expansion will have become useless as a method of mobilising real resources. Under such circumstances, the authorities are no longer faced with a dilemma – they are left with no choice but to arrest the process of inflation if they do not want economic life to be disorganised and the employment position to be seriously impaired. It is due to a more profound understanding of this compelling necessity that during the last few years so many countries have taken steps to rectify their currency position, in an endeavour to restore the degree of confidence requisite for a continued flow of personal savings. Once the proper monetary measures have been adopted, the response of the public has often been astonishingly prompt and has been immediately visible in an increase in savings.

How dependent investment activity is on a smoothly functioning monetary system may be illustrated by an example from *France*. It has often been asserted that investment in that country was at a very low ebb during the inter-war period from 1919 to 1939, which was characterised by uncertainty and recurrent crises. There was, however, *one really healthy interlude, from 1926 to 1931,* during which, confidence in the franc having been restored, the French economy was not exposed to the effects of either inflation or deflation. Thus in the five years from 1926 to 1931 the use of motive power in manufacturing industries went up by 50 per cent.; there was great activity in the building trade; and the volume of industrial production in 1930 stood about 40 per cent. above the 1913 level.* At the same time, these years were characterised by a surplus in the budget and in the balance of payments and also by relatively stable prices. Thus, during the period when the monetary mechanism was working well, the private economy in France showed great vigour, and impressive progress was made.

Before the stabilisation in 1926 the French economy suffered from recurrent bouts of inflation; and from 1930 onwards it was involved in the world-wide deflation. Both these trends are disastrous for economic life. It is only natural that, after years of rising prices, "resistance to inflation" should seem the primary monetary task. But it is not enough simply to discontinue inflationary financing of government budget deficits or of extensive investments; there has to be a return to sensitive money and capital markets and also to a market mechanism in the field of exchange transactions, so that indications of a shift in demand or supply will be given in time, thus permitting suitable counter-measures to be taken while adjustment is still a fairly easy matter.

Perhaps it needs to be said again that *an increase in production does not in itself suffice to solve the monetary problem* and cannot even be regarded as a sovereign remedy against inflation. This is almost self-evident when the process of production (including the initial investment required) is financed by means of an inflationary credit expansion; for in that case new money generally makes its appearance in labour, commodity and money markets long before any new goods and services become available. But even when there is no such patent misuse of the possibilities of credit creation, it must be remembered that production is the main source of income and that an increase in production will (under a flexible money system) be followed as a rule by a corresponding increase in money income and consequently in expenditure (for consumption and investment). If there is already a redundant supply of money and if fresh requirements in the way of working capital continue to be financed, as is the normal procedure, via the banking system, it cannot be taken for granted that an increase in production will automatically absorb part of the monetary purchasing power already existing or fill the gap in the balance of payments. For this reason, expanding production is by no means incompatible with rising prices. The "supply of money" increased in the United States by three and a half times between the end of 1938 and the end of 1946, but a surer indication of the fact

* An increase of 40 per cent. in the seventeen years between 1913 and 1930 (including over four years of war) represented a significant improvement, since 1913–14 had marked the peak of a rapid industrial expansion. As 1938 was a year of depression (with a volume of industrial production about 30 per cent. below that of 1930) a 40 per cent. advance between the last pre-war year and 1951 is less remarkable. Over the period of twenty-one years between 1930 and 1951, the index of industrial production has registered no net increase.

that the increase was excessive is the change in the ratio between the supply of money and the national income, which rose by 30 per cent. during the same period (see Chapter VII). The increase in American production was not in itself sufficient to absorb the excess money; prices had also to rise before a genuine balance was established; in the four-year period between 1945 and 1949 wholesale prices rose by over 45 per cent. and it was not until the latter year that equilibrium would seem to have been attained — only to be upset again in the following year by the outbreak of the conflict in Korea.

When in the course of a world war — either the first or the second — there was a rise in prices, people felt it to be in a large measure unavoidable and really only asked that it should be kept within as narrow limits as possible; consequently, so long as the authorities took reasonably prompt steps to restore a fair degree of stability once the emergency was over, the confidence of the public in the national currency was not seriously impaired. When, however, prices continued to rise and the monetary situation continued to deteriorate under conditions no longer recognised as overwhelmingly difficult, the general attitude became one of growing suspicion and unwillingness to trust in the national currency. It is worth while remembering that, even in the United States, the general public became very uneasy for a few months in the late autumn and winter of 1950–51, when it began to entertain doubts with regard to the national currency — and it was fortunate, indeed, that the situation was got under control before any real injury had been done to confidence in the dollar. For countries on the continent of Europe where the public has seen the currency depreciating year after year, it is most important to make sure that no lapse occurs once stability has been attained. When so much can be lost through a resurgence of mistrust, it is better to be cautious and to recognise that — to say the least — experimenting with credit-expansion devices is now out of place; the full re-establishment of monetary order is a task that can no longer be postponed. It is being more generally realised that a successful accomplishment of this task will call for a fairly speedy return to convertibility — and, thanks to the progress made in monetary as well as other affairs during the last few difficult years, that goal, which to most people seemed so distant only a year or two ago, need, perhaps, no longer be looked at through a telescope. Monetary developments during recent years show that some important problems still remain to be solved, but they are by no means unsolvable.

1. In most countries, one of the great difficulties resulting from the war has been the *redundant supply of money and excessive liquidity*. There is no need to revert to the various steps which have been taken to reduce the volume of cash in the hands of the public (either by a once-for-all cut or by sterilising part of the amount of notes and deposits outstanding) and to render the floating debt more innocuous (these matters having been currently reviewed in previous Annual Reports of this Bank). In this Report reference has already been made to the funding operation and to the increase in interest rates on the money and capital markets in the

United States and several other countries — one important objective of these measures being to prevent an undue "monetisation" of debt.

Of interest in this connection is the use made of Marshall aid counterpart funds* for the purpose of reducing excessive liquidity in the market. For the whole period from April 1948 to the end of December 1951 allotments to various European countries had been made of \$12.4 milliard, of which \$9.3 milliard had resulted in the accumulation of counterpart funds, as shown by the table.

It is not only the amounts used for "financial stabilisation" (i.e. the repayment of government debt) that influence the state of liquidity but also the accumulation of unused counterpart funds and even, in the exceptional case of the Netherlands (see below), amounts devoted to "promotion of production" and the so-called "other purposes".

Counterpart funds available for withdrawal and amounts approved for withdrawal up to 31st December 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	2,031 (4)	171	290	2,492	0	2,492
United Kingdom	2	1,707	2	1,711	1	1,712
Germany (western)	728	—	240	968	102	1,070 (5)
Italy	696	—	247	943	109	1,052
Netherlands	239 (6)	—	90	329	455	785
Greece	168	—	187	354	360	714
Austria	381	85	43	509	189	697
Norway	—	201	0	201	126	327
Denmark	28	88	2	119	85	204
Turkey	55 (7)	—	11	66	18	84
Trieste	31	—	0	31	2	33
Yugoslavia	—	—	—	—	23	23
Belgium-Luxemburg	2	—	0	2	17	19
Portugal	16	—	—	16	1	17
Iceland	6	—	—	6	10	16
Ireland	0	—	—	0	15	15
Total	4,382	2,252	1,112	7,747	1,513	9,259

(1) The figures in the above table include \$594.4 million in respect of "interim aid" granted to Austria, France and Italy and \$2.9 million for aid to Greece and Trieste. (2) Actually debt retirement.
(3) The amounts available for withdrawal are somewhat less than the total deposited as counterpart owing to special allocations (5 per cent. reserved for U.S. authorities).
(4) Including \$114.3 million for military production, construction and material.
(5) Excluding the \$76.9 million balance of G.A.R.I.O.A. counterpart funds remaining after disbursements which have been requested by the United States.
(6) Including \$26.3 million for military production, construction and material.
(7) Including \$2 million for military production, construction and material.

* Upon disbursement of Marshall aid dollars in payment for imports, the government of the recipient country has had to deposit "local currency" at rates agreed upon, and these deposits have become the so-called "counterpart funds" (the government being reimbursed as and when the imported goods are sold to and paid for by the public or some official institution). Various time-lags have occurred, which have sometimes affected the rates of conversion, and for this and other reasons the "dollar equivalents" of the counterpart funds can give only an approximate idea of the magnitudes involved.

In Austria, Denmark, France and Norway, the amounts released for "financial stabilisation" (as shown in the table), and in the Netherlands an amount of Fl. 750 million (equal to $197 million) released for the same purpose in March 1952, have all served to redeem government debt to the central bank arising, in the four last-mentioned countries, from the financing of occupation charges during the war. Through such redemption, liquid funds in the national currency were withdrawn from the markets; but this was not the end of the story, for it was thanks to the withdrawals in question that commercial banks and other holders of liquid resources could utilise them, pro tanto, without their producing any fresh inflationary effect. How the use of counterpart funds in such a case has acted as a general offset to financing by means of previously created liquid funds may be seen, for instance, from what happened in Norway. Referring to commercial and other banks, the Governor of the Norges Bank in his address on 3rd March 1952 to the Bank's Supervisory Council explained that

> "at the end of the war the composition of loans and advances was abnormal, loans to business being relatively small while very large amounts were held in securities. The reason for this was that during the war the Germans financed activities in this country by means of their withdrawals from Norges Bank. There was therefore no need for the banks to extend credits.
>
> Since the war the composition of loans has reverted towards the position that we were accustomed to before. Mortgage loans now represent about the same percentage as in 1939. The percentage of ordinary loans and advances is lower today than in 1939, the figures being 47 per cent. and 52 per cent. respectively. Holdings of securities represented 26 per cent. in 1939, compared with 30 per cent. in 1951. The conclusion is therefore that short-term loans have increased most, but long-term loans are still relatively more important now than in 1939. This applies to joint stock banks as well as the savings banks.
>
> As we know, the liquid funds of the banks have decreased heavily since the war. In 1945 they amounted to about Kr. 5,000 million and they reached a minimum of Kr. 951 million in February last year."

Norway: Some items of the balance sheet of commercial banks and major savings banks.

End of	Cash assets: cash and balances at Norges Bank and Treasury bills	Discounts, advances, mortgages and securities	Deposits
	in millions of Norwegian kroner		
1945	4,699	2,964	6,625
1951	1,334	7,912	8,066
Change	— 3,365	+ 4,948	+ 1,441

Since February 1951 the liquid funds of the Norwegian commercial banks and major savings banks have increased again, largely thanks to the effect of a surplus in the balance of payments (see Chapter IV). From the end of 1945 up to the end of 1951 these banks had made use of liquid funds (which were at their disposal mainly because it was possible for them to reduce their holdings of Treasury bills) to the extent of about N.Kr. 3.4 milliard, which, together with the increase of N.Kr. 1.4 milliard in their time and savings deposits, has enabled them to expand their loans, mortgages and holdings of securities by nearly

N.Kr. 5 milliard. It is evident that, when the banks already held such a large volume of liquid assets, it would have been highly dangerous to increase those assets still further by means of releases of counterpart funds, and it is thus fortunate that all of these funds have been either used to redeem government debt held by the central bank (on the so-called "Regulation Account") or allowed to accumulate in a blocked account, the total amount of money sterilised in this way amounting to over N.Kr. 2 milliard by the end of 1951. The release of counterpart funds has not prevented the aid received from being used "productively", but it has had as a by-product the elimination of a most dangerous excess liquidity.

In the United Kingdom a technical system was adopted under which the counterpart funds, when released, went almost exclusively to redeem special short-term securities held by the Bank of England. In practice, the result was, however, that the amounts received from the sale against sterling of the imported goods which had been paid for by means of Marshall aid went to reduce the short-term government debt in the same way as if they had been budget surpluses; some £600 million has been redeemed in this way.

It is interesting to go one step further and seek to discover what use the market has made of the funds placed at its disposal by the repayment of government debt. As may be seen from the following table, the U.K. balance of payments was more or less in equilibrium in 1948 and 1949, while a substantial surplus on current account was realised in 1950. This being so, it is natural to infer that in those years the grants from abroad helped to reduce foreign liabilities or to sustain the volume of overseas investment or to strengthen the gold and dollar holdings (and this inference is supported by the data in the table); in all these cases, the net effect was an improvement in the country's overall position vis-à-vis other countries.

United Kingdom: Balance of payments.

Items	1948	1949	1950	1951
	in millions of £ sterling			
Balance on current account	— 26	+ 5	+ 244	— 521
Net grants received from abroad	+ 138	+ 154	+ 139	+ 43
Net current income and grants received from abroad	+ 112	+ 159	+ 383	— 478
Corresponding to:				
Increase (+) or decrease (—) in:				
(i) U.K. holdings of gold and currencies (including E.P.U. units of account)	— 53	— 18	+ 684	— 627
(ii) U.K. assets abroad	— 8	+ 179	+ 26	+ 202
Net repayment of (+) or net addition to (—) sterling liabilities	+ 173	— 2	— 327	— 53
Net increase (+) or decrease (—) in U.K. foreign assets	+ 112	+ 159	+ 383	— 478

Note: For further details in relation to the years 1949–51, see table on page 23.

In 1951, when there was a substantial deficit on the current account of the balance of payments, very little aid was received, and the brunt of the deficit and of capital movements then had to be borne by the holdings of gold and currencies, which declined by about the same amount as they had increased by in 1950.

In the Netherlands the bulk of the counterpart funds were left for a considerable time with the central bank (and during this phase they obviously exerted a contracting influence). As already mentioned, an amount of $197 million was released in March 1952 for redemption of government debt to the central bank (and to that extent the contraction became permanent); and, even when funds had been released for "promotion of production" (as had been the case in the three preceding years), the Dutch authorities arranged to use the funds in question not for additional expenditure but to finance projects allowed for in the regular budgets as already accepted by the authorities. This being so, the release provided the Treasury with additional amounts available for the redemption of short-term securities held mainly by commercial and savings banks, and this restricted the liquidity of the market by reducing the supply of rediscountable paper, or paper readily available for procuring advances — as explained in the annual report of the Nederlandsche Bank for 1950. It is true that some of the cash made available by the repayments remained on the money market, but there is clear evidence that part of it went into the market for middle and long-term funds (including mortgages) and thus helped that market to resume its function as a supplier of capital.

And when foreign aid is diminishing, the fact that the market mechanism has been restored makes it easier to bring about a reduction in demand for capital by the normal expedient of changes in interest rates — which means, according to the Nederlandsche Bank, that

> "the level of investments will gradually be pushed back within the limits set by current savings, which will result in an amelioration of the pressure on the balance of payments. The credit restriction ... is directed towards this same purpose."

The actual return to equilibrium in the balance of payments during the latter half of 1951 would seem to vindicate the policy of eliminating excessive liquidity, as applied in the Netherlands.

When in other countries (e.g. in Italy — and in Austria and France, too, as regards the bulk of the releases) counterpart funds were entered as revenue items in the annual budgets, they were generally used, in accordance with the views expressed by the E.C.A. missions, to finance additional investment expenditure, although the budgets in question were already out of balance, and in order to cover the deficit the Treasuries had to compete with business on the money and capital markets. When counterpart funds were used in this way, the investments in question were undoubtedly based on genuine savings obtained from abroad; but, in one of these countries after another, it seems to have been left to the public or private establishments concerned to find for themselves the working capital needed — and there were at the same time private firms which required more capital because the scope of their activities had been increased by additional orders for investment goods. If, in such circumstances, the banks were asked to assist and actually did so, the credits granted by them might easily prove to be inflationary.

In this connection it may be recalled that, in the past, countries borrowing abroad for long-term projects commonly found that particular care was necessary to prevent the actual use of the foreign loan from having an inflationary effect. When proceeds of the foreign loan were spent on, say, the building of a railway, the spending would give rise to an expansion of purchasing power in the borrowing country and, as a secondary effect, perhaps induce other people to undertake new business on the basis of bank accommodation. The situation called for the application of a judicious credit policy, for otherwise the expansion of domestic purchasing power might easily lead to a deficit in the balance of payments exceeding the amount obtained from the foreign loan. Thus in Italy it took the stubborn application of restrictive credit measures to prevent a distinctly inflationary pressure during the period of receipt of foreign aid.

The application of a more restrictive credit policy has gradually become the rule in one recipient country after another. With national incomes rising (even more in money terms than in real terms) and with a curb put on credit expansion, a more normal proportion is beginning to be restored between the supply of money and the material resources currently available (as is shown in Chapter VII).

Not only is there an undeniable improvement in the relation between money, on the one hand, and goods and services, on the other, but there is also a greater awareness of the problems involved and more willingness to take the necessary steps in such matters as preventing floating debt from unduly increasing the volume of money. The problems of "debt management" are no longer neglected to the same extent as they unfortunately were in more than one country for several years after the war.

2. Now that monetary problems inherited from the past are being put right, it is more imperative than ever to forestall any causes of fresh strain, lest all the good work already done should be undone again. In this connection the first and foremost consideration is, of course, to ensure that government budgets do not once more become a cause of inflation, after the considerable progress which has been made in this respect in the great majority of countries (as has been shown in the Introduction and in Chapter VIII).

Since the 1930s it has been the habit in many quarters to lay greater stress on fiscal than on credit policy, some even maintaining that fiscal measures ought to replace the ordinary forms of intervention by the monetary authorities, viz. changes in rates of interest, in cash reserve requirements, etc. Others who do not go quite so far nevertheless believe that fiscal and credit measures are to a large extent interchangeable, so that a government surplus combined with an easy money policy may have the same disinflationary effect as a government deficit with a tight money policy. Simple statements like that do not suffice, however, to indicate what is in many respects a very complicated relationship; while an increase in interest rates produces certain effects (in regard to market valuations, etc.) which will not ensue as long as interest rates remain unchanged, there are sometimes situations in which a budget surplus is preferable to an increase in interest rates. Suppose, for instance (to revert for one moment to the question of excess liquidity already considered in previous paragraphs) that a redundancy of money remains as a legacy of the war and that, in particular, there are certain types of Treasury paper or blocked balances which have to be redeemed or repaid. Here to arrange for a surplus (sometimes appearing in the accounts as the specially earmarked yield of an extraordinary tax) might clearly be the appropriate way of providing for substantial repayments, especially in a country in which no Marshall aid counterpart funds or similar resources were available for such a purpose. The procedure followed in Belgium, where special taxes were levied for the purpose of providing funds to repay blocked balances (see Chapter VIII), is a case in point.

In this connection it may be pointed out that an increase in interest rates has two distinct effects: inasmuch as it acts as a deterrent to borrowing and thus tends to restrict the volume of money, it exercises a downward pressure on prices; but at the same time it constitutes a certain addition to costs and may, therefore, tend to raise prices. Normally, the first-mentioned effect is the predominant one; but, if (for other reasons) there is already a redundant supply of money, the second effect may, by way of exception, be the more important of the two. It has been found to be one of the worst consequences of the so-called "creeping inflation" that the excess of money still remaining prevents the ordinary means of action employed in monetary policy from functioning properly.

A particular line of argument that has been put forward in favour of a more active fiscal policy is that a *budget surplus is necessary to eke out current savings*, it being feared that, in the various countries, personal savings cannot be relied upon to provide the full amount required for imperative investment needs. According to one view of the matter, it will suffice if the government meets its *own* capital outlay from current revenue; but others think that the budget should make an active contribution to the volume of funds seeking investment in the market — for instance, by repayment of debts out of an overall surplus.

Much depends, of course, on the general business trend; in boom conditions, it is no doubt quite a good thing for the government to try to cover its own capital outlay from current revenue and also redeem part of its debt; but, even under those conditions, the following considerations seem to be of importance:

(i) Whatever the different countries may have attempted, there is the stubborn fact that *few have succeeded in maintaining an overall surplus*. There are not many countries in which the amount of the public debt has been actually reduced, even with the aid of allocations of counterpart funds. It is dangerous to base a policy of investment on the prospect of a genuine surplus which may not be realised — for the result will be inflation.

(ii) A great deal naturally depends on the *level of the taxation already in force*. There is no doubt that a point may be reached at which further taxation will have an adverse effect on saving, so that the final result may be not an increase but a diminution of the real resources available for investment. Only too often, high taxation acts as an encouragement to waste and extravagant expenditure and, moreover, as a deterrent to enterprise — and in this connection it cannot be left out of account that there is international competition in the field of enterprise: in the past the most progressive economies were undoubtedly those which were able to get hold of new inventions, offer inducements to men of exceptional ability and attract risk capital.

(iii) As pointed out in Chapter VIII, it is an unfortunate fact that, when the need for rearmament arose, there was already very little unused taxable capacity left in most European countries — and in some it seems certain that the burden of taxation was already too heavy. It soon became clear that financial provision could not be made for all desirable civilian and other purposes at once, and that the increase in armament expenditure had to be counter-balanced — in part at least — by retrenchment elsewhere. In the government sphere such retrenchment is normally carried out by direct measures (cuts in food subsidies, curtailment of investment expenditure — for instance, in France, the reduction in the appropriations for modernisation), while in dealing with the private sector increased reliance has come to be placed on general measures of credit policy (including higher interest rates).

It may be recalled (see page 26) that in the United Kingdom the Chancellor of the Exchequer budgeted, in his 1952–53 estimates, for a surplus of £511 million on the current account, which is sufficient to cover the capital expenditure of £506 million "below the line" and to leave an overall surplus of £5 million. In two stages the official discount rate has been raised from 2 to 4 per cent. A serious attempt has thus been made to overcome the balance-of-payments difficulties by a number of restrictive internal measures in the fields of both fiscal and credit policy. But these lines of policy have not been followed in the United Kingdom alone; they are beginning to be applied in the majority of countries now that strict adherence to exceptionally low interest rates is no longer regarded as an unalterable tenet of financial policy. Indeed, the United Kingdom was not one of the first countries which endeavoured to combine fiscal and credit policies — nor, for that matter, was the United States; they had been preceded by Belgium, Denmark and the Netherlands — to mention only a few outstanding examples. And the new fiscal and credit measures taken in France in 1951–52 show that yet another country is moving in the same direction.

These questions of the proper relation between fiscal and credit policy have arisen, in one form or another, in practically every country; and among the fruits of the experience gained in this connection, mention may be made of the following points:

(i) It is clearly not possible to establish and maintain monetary stability by means of credit policy alone; it is, of course, necessary that there should be no huge and persistent budget deficit leading directly or indirectly to inflationary financing. With government expenditure now amounting to perhaps one-third (and sometimes even more) of the total national income, credit policy, however restrictive, cannot be expected to undo the real harm done by an incorrect budget policy. For, even if a restrictive credit policy can be counted on to keep down the amount of credit to the private sector and thus set resources free for other purposes, there is a practical limit to its effect in this respect.

(ii) Under conditions of rapid inflation it is, however, often found impossible to put the budget in order all at once; when that is the case, it is generally necessary to begin the process of rehabilitation by imposing very firm credit conditions, combining an increase in interest rates with severe quantitative limitations, in order to ensure the breathing-space required for the taking of the requisite fiscal measures. That is what was done in Italy in 1947; as soon as the restrictive credit measures had forced holders of stocks to sell out and prices had begun to fall, this policy was followed up by the elimination of food subsidies in order to narrow the budget deficit.

(iii) If there is not too intractable a deficit in the budget, the higher rates of interest will make it easier to sell government securities direct to the public instead of having to place them with banks — and this in itself will have a distinctly disinflationary effect.

(iv) In monetary controls the authorities have a more flexible instrument for keeping the economy in balance than can possibly be provided by budgetary changes (which have to be made via Parliament). Among the things learnt from the process of accounting in the Intra-European Payments and Compensations Schemes and the European Payments Union is the rapidity with which reversals occur in the external positions of the various countries. There is absolutely no possibility of modifying the intake of budget revenue or the volume of governmental outlay sufficiently quickly to be able to counteract such losses and gains in the foreign exchange position, since they are often unexpected.

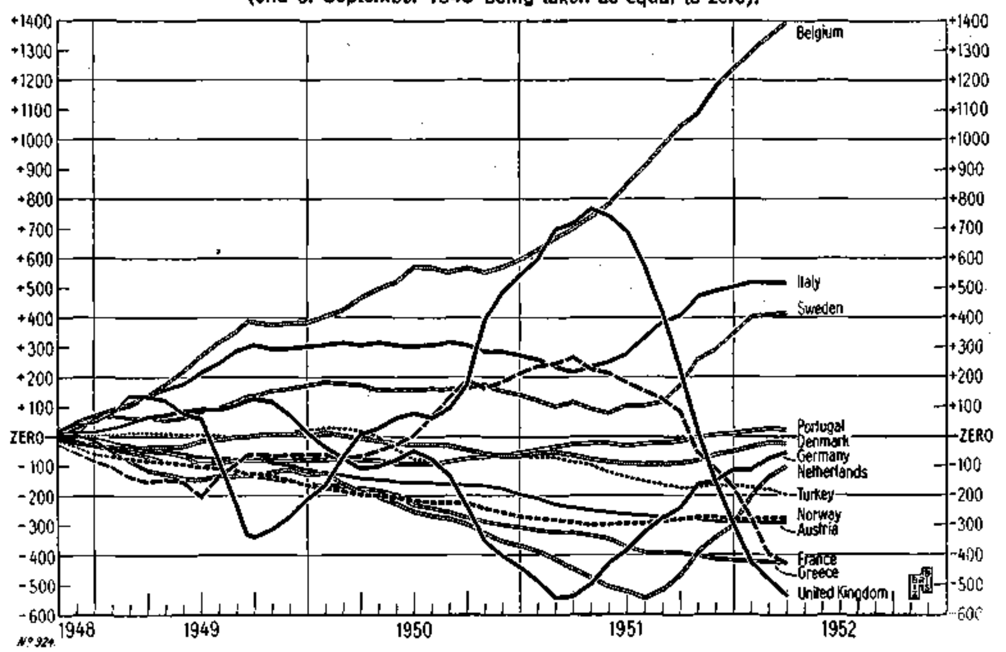
(v) Budgetary changes primarly affect the internal economy — and, though it can never be overstressed that an improvement in the balance of payments depends essentially on the restoration of equilibrium at home, it is just as well to have, in the rate of interest, a means of action which has at the same time a direct bearing on movements to and from other markets. Considerable changes in the flow of capital occur even when there is exchange control (a point which will be dealt with more fully in Chapter V). Experience proves that the movements in question are greatly influenced by the view taken at home and abroad as to the immediate policy likely to be followed by the authorities in the countries concerned and that, in this connection, alterations in the official discount rate generally have a pronounced psychological effect.

The objection is sometimes made that higher rates will mean increased costs for government budgets already heavily burdened. It should, however, be remembered, in the first place, that increases in interest rates need not be permanent but may well be reversed before long, in which case the increase in cost will not be very great. It should also be remembered, in the second place, that the real burden of the debt service has been very much lightened by the rise in prices, which has at the same time inflicted a corresponding loss both of income and of capital on the owners of government securities.

As pointed out in the House of Commons on 12th March 1952 by the British Minister of State for Economic Affairs, the decisive question is, of course, whether or not the disadvantage of the higher borrowing rate will "in the end be more than offset by its counter-inflationary effect and by the general benefit to the economy which will result from a more realistic

Net surpluses and deficits in intra-European payments on a cumulative basis by countries.

October 1948 to March 1952 (in millions of U.S. dollars) (end of September 1948 being taken as equal to zero).



Note: The above graph spans the period of operation not only of the European Payments Union (from 1st July 1950) but also of the Intra-European Payments Schemes, which began to be applied in the autumn of 1948 (cf. graphs in Chapter IX).

monetary policy". The Minister added that a surplus was already budgeted for and that, in the view of the government, "the counter-inflationary effect of a rise in the Bank rate will give much better value for money than the use of the same amount of a surplus for that purpose".

3. The very important swing of opinion and of practice towards a more vigorous use of monetary policy in order to restore stable monetary conditions does not, of course, exclude the use of other means of action also; but it is beginning to be more and more widely recognised "that price and wage controls are, at best, a necessary evil and that a programme to prevent inflation, whatever direct controls it may contain, will succeed only if it includes fiscal and monetary measures adequate to eliminate excess monetary demand".*

The brief review of credit policy in various countries in the Introduction shows how recourse has been had to a variety of measures (including increases in reserve requirements, qualitative and quantitative limitations,

* This pronouncement is quoted from a "Statement on Monetary Policy to Combat Inflation" by the Conference of University Economists called by the National Planning Association in the United States at Princeton, New Jersey, 12th–14th October 1951. It was expressly pointed out that this was the unanimous opinion of the seventeen economists who signed the statement. Of the four economists present who did not sign the statement, none made any reservation as to this particular point.

selective controls, voluntary restraint, etc.) in addition to increases in interest rates. In practice, whatever method is adopted, it is essential to ensure that an effective curb is applied in connection with lending operations effected directly with the customers of commercial and other banks — and not merely in connection with the "rediscounting" allowed by the central bank; for experience shows that, once accommodation has been arranged, it is very difficult not to honour the promises made and carry out the transaction in question, even though that will involve an additional call upon the central bank itself, leading eventually to an increase in its note circulation. It is the mass of individual loans to the banks' customers that carry the central bank along in their wake as lender of last resort. This is one of the reasons why the use of the interest weapon becomes an indispensable factor in rendering credit policy effective; for an increase in the long and short-term rates penetrates more surely to every corner of a wide field, and it is not so susceptible to influences from particular interests as direct controls are.

When it is a question of judging the effectiveness of a flexible monetary policy as opposed to the maintenance of a rigid set of interest rates, it is, from several points of view, preferable to take account, in the first place, of conditions on the long-term market. During the years immediately following the war (as during the war itself) cheap money meant, of course, low rates in both the short and long-term markets. At first the excessive liquidity which was a legacy of the war was, in many cases, sufficient to hold interest rates down without any intervention by the central bank. But in such cases the real order of events was that funds which had been kept out of the market were suddenly made use of and were thus translated into additional demand, which was, moreover, inflationary, since the money in question was not matched by any accretion of resources from current savings (except in the few instances when, as mentioned above, counterpart funds served as an offset). As the market yield on long-term securities showed a tendency to rise, it became the policy in a certain number of countries (e. g. Sweden and the United States) for the central bank to make purchases in support of the quotations of government securities, in order to ensure the continuance of cheap-money rates. In so far as such support led to issues of fresh central-bank funds, the likelihood was that newly-created money would be used for active investment — and it would then have an inflationary effect similar to that which is produced when such money is used to finance a deficit in the government budget. The dangerous inflationary effects of central-bank support in the long-term markets were soon recognised and, in one country after another, the central bank withdrew from those markets — except for temporary intervention involving no final creation of fresh funds. This meant, however, that the cheap-money policy was abandoned as far as long-term interest rates were concerned. On the London market the yield of long-term government securities rose from 2½ to 3 per cent. in the autumn of 1947 and to nearly 4 per cent. two years later. The question then arose whether the maintenance of excessively low rates in the short-term market (½ per cent.

for Treasury bills) would not represent such a cleavage within the rate structure as would tend to increase unduly the access to short-term accommodation (inter alia, for purposes for which it should not be used) and thus create the conditions for an inflationary bias, liable to lead to recurrent calls on the central bank. In a number of countries one of the many reasons for raising the official discount rate has been the desirability of adjusting the various parts of the interest structure to the rates in the long-term market. But, in such circumstances, attention must be given not merely to the official discount rate but also — and this is a particularly important point — to the height of the effective rates charged by the commercial banks and other credit institutions. During the long cheap-money period which, in its extreme form, is now coming to an end, most enterprises did not ever really hesitate to borrow when funds were required. Something was needed to make them think carefully before they proceeded to raise credits — and that is one of the main aims of the new monetary policy.

It would, indeed, be too great a simplification to say that the credit policy recently inaugurated has as its objective merely to restrict the volume of credit — and it would be even more inappropriate to speak of "deflation" as its main characteristic. An examination of the tables given in Chapter VII shows that in no country was the volume of money actually reduced in 1951; on the contrary, increases were the general rule and, in many cases, they were quite substantial.

Since output had generally risen, it was only fair to expect a certain increase in the supply of money; but in this connection it has become a point of special importance that, in most cases, the restrictive policy has significantly altered the direction of the monetary expansion. The effect desired has usually been to curtail the amount of short, middle or long-term credits for investment responding to the needs of the domestic consumer, since an overdose of such credits would act as an exaggerated stimulus to imports, whereas for most countries one of the objects of the changed credit policy was to attain a surplus in the balance of payments. Wherever such a surplus actually developed, the incoming foreign exchange would, as a rule, be acquired by the central bank and, although these acquisitions would lead to an increase in the liquidity of the market, the additional liquid funds would find their way, in the first place, into the hands of export industries — which would give the right bent to production. Employment may, of course, be provided in export industries just as well as in industries working for the home market. It is interesting to find that in western Germany, notwithstanding the raising of interest rates in the autumn of 1950, the employment figure rose by about 590,000 during the next twelve months.

While a shift in employment does not generally present any considerable difficulties during a period of increased investments, a serious situation may easily arise if the total resources available for investment are decreasing (as may happen when foreign aid tapers off — a contingency which, in the case of Marshall aid, was, of course, foreseen). Naturally, it had been hoped that the disappearing foreign resources would be replaced by an increase in domestic savings; and for such an increase to be realised it is clearly necessary that the public should retain full confidence in the currency. Since credit creation is liable to start inflationary trends, it is vain to think that it could take the place of ordinary saving (its effect is likely to be the opposite). Circumstances are not the same now as in the 1930s, when a cheap-money policy was a necessity for keeping up the total volume of monetary demand; in the years following the second world war demand has been quite strong enough, without any need for special incentives. Thus in present-day interest policy the rates' proper function of ensuring the right choice among different investment opportunities comes to the fore again and, that being so, more weight can be given to the consideration that the projects offering a more immediate return are the ones most likely to provide the greatest volume of employment. One reason for this is that their execution not infrequently requires more domestic "labour" in proportion to the capital invested; another is that, since the period of amortisation is shorter, the capital is more quickly remobilised via depreciation allowances and becomes available for renewed investment (thus bringing a further demand for labour). And it should also be mentioned that, once constructed, the plants in which much capital has been invested, e. g. electricity works, will mostly be run by relatively less labour. Naturally there may be long-term investments which, since they help to get rid of some troublesome bottlenecks (e. g. in the supply of coal), have to be specially "favoured" (although here it should be pointed out that in quite a number of countries the "bottlenecks" have largely been due to the maintenance of artificially low prices, which have encouraged, if not the waste, at least the excessive use by certain consumers of the existing scarce supplies). Furthermore, in so far as foreign aid was given for the particular purpose of "meeting a deficit on current account of the balance of payments", it may perhaps, in the short run, have "paid" to adopt a more ambitious investment policy, considering that the enlarged deficit ensuing was likely to be met by a larger allocation of foreign aid. But when the outside aid tapers off and it once again becomes rather a question of apportioning scarce national resources, a more careful monetary policy has to be adopted — and is in fact being adopted in the majority of countries.

4. When the governments and the monetary authorities have to ensure that the volume of investment shall not exceed the flow of current savings, they are faced with a number of difficulties:

(i) In many European countries the need for investment is still abnormally great owing to the existence of war damage not yet repaired and of outmoded types of machinery and other installations which ought to be replaced, lack of housing, insufficient transport facilities, etc. The strong demand for investment funds in most European countries even at high rates of interest* is evidence enough of an abundance of investment opportunities.

* In 1950 and 1951 there were many cases in which new share issues made on the London market by companies of the highest standing brought the investor, on the basis of current stock exchange quotations, an estimated yield of 4 to 5 per cent. — which meant that, since tax has to be paid before a dividend is distributed, the companies issuing the shares had to earn an additional marginal profit of 8 to 10 per cent. at least.

(ii) How the flow of domestic savings will shape is not easy to tell; in few fields have the "forecasts" made in recent years been so often wrong as in regard to the volume of savings, even in the near future — but then, this is a very difficult subject. So far as present prospects are concerned, it may be hoped that the attainment of greater monetary stability will exert an influence, and so should the fact that rising interest rates can be taken as an indication of greater consideration for those who save; on the other hand, the heavier taxation levied in many countries to meet the cost of rearmament leaves a narrower margin for personal economies and for business saving by companies. Moreover, part of the available resources will be required for private as well as public investments in plant and installations for the manufacture of armaments. Thus there is likely to be a net reduction in the amounts available for ordinary civilian investment as compared with recent years.

For the most part, however, such tendencies are not yet revealed in the figures for 1951. In that year the gross investments of every country included in the following table were larger, in terms of the national currency, than in 1950 — but it should be remembered that from 1950 to 1951 there was a rise in prices averaging no less than 10 per cent. (in most instances, the increase was considerably greater).

Only in two countries — the Netherlands and Norway — has the proportion of the gross national product devoted to investments been reduced. In the Netherlands the reduction in the rate of investment was the result of deliberate policy (see page 11). While the figures may not have been computed according to the same methods in the various countries (so that comparisons must be made with the utmost caution), the very high percentages still appearing for Norway would seem to indicate that this country was undertaking unusually large investments — and that at a time when foreign aid was beginning to diminish.

When the statistics for 1952 become available, a much greater number of countries than in 1951 will be found to have reduced the ratio between their volume of investment and the national product.

When military aid is given for the express purpose of enabling the recipient country to increase its rearmament expenditure, the additional spending absorbs not only the foreign exchange which is the original form of the aid but also its domestic counterpart, there being then no resources left free for civilian investments (including the strengthening of monetary reserves). Only the genuinely "economic" aid can be used for such purposes — and it may even be doubted whether, with all the investments being made by industry to meet indirect armament needs, any genuinely economic aid is still being provided. It has, of course, to be remembered that, although the strengthening of gold and dollar reserves is, in the present situation, very much called for in the majority of European countries, additions to those reserves represent a kind of investment, competing with other kinds. While even in the United States the growth of armament expenditure has occasioned a certain curtailment of investment in house construction and in a few other civilian lines, the supply of savings in that country has been so large that the volume of total investment has not

Investments in relation to the national product in various countries.

Countries	Gross investments (including stocks)	Stocks	Gross investments (excluding stocks)	Gross national product (1)	Gross investments (2) as percentage of gross national product (1:4)
	in milliards of national currency units				
	1	2	3	4	5
Denmark					
1950	5.9	0.7	5.2	23.7	25
1951	6.4	0.5	5.9	26.1	25
France					
1950	1,760	160	1,600	9,325	19
1951	2,375	300	2,075	11,620	20
Germany					
1950	20.45	2.18	18.27	90.3	23
1951	28.79	5.85	22.94	113.4	25
Italy					
1950	1,610	90	1,520	8,323	19
1951	2,029	194	1,835	9,606	21
Netherlands (3)					
1950	3.42	1.52	1.90	17.72	19
1951	3.00	0.80	2.20	19.62	15
Norway					
1950	5.63	0.15	5.48	16.61	34
1951	6.50	0.60	5.90	20.15	32
Sweden					
1950	8.5	— 0.1	8.6	31.5	27
1951	12.0	1.0	11.0	38.0	32
United Kingdom					
1950	1.88 (4)	0.20	1.67	11.91	16
1951	2.23 (4)	0.37	1.86	12.41	18

(1) At market prices. (2) Including stocks.
(3) Net investments and net national product. To make these figures comparable with those for the other countries, it is necessary to add depreciation and maintenance, which amounted to 10 per cent. of the gross national product in 1948 (more recent figures are not available).
(4) Excluding normal building repairs and maintenance.

had to be reduced; and the American economy is so dynamic that it can be said — without too much exaggeration — that the challenge arising out of the larger armament expenditure has been one that could be met through deployment of all the inherent strength of the country.

For most European countries it has unfortunately been a different story: still feeling keenly the effects of the war (which they had to suffer at closer range), they have not so much in the way of extra forces to mobilise; the danger for many of them is that rearmament must mean a slowing-down of progress in other directions. This applies also to the use of such economic aid as will still be received in the future; it is not possible, for instance, to invest money in electricity works and expect the same funds to add to the scanty monetary reserves. The chief argument in favour of earmarking part of the available funds for a strengthening of the reserve position is that otherwise it will be difficult to restore and maintain confidence in the monetary structure. In more than one European country the reserves are so low that every difficulty threatens to become a crisis. But a recurrence of monetary disturbances might have a most pernicious effect on the flow of domestic savings. Might it not be better to add to the reserves even if, for the time being, this would mean erecting one or two fewer factories — seeing that these factories could be built with money saved at home once the currency position had been made more secure?

There are thus many claims on the national resources, and ordinary civilian investments are bound to feel the impact of restrictions. During the past year, indexes of production in Europe have no longer shown such impressive increases as previously.

Industrial production: Annual increases.

Countries	Annual increase between 1947 and 1950	Percentage annual change in relation to corresponding month of previous year					
		1951			1952		
		Jan.	Feb.	March	Jan.	Feb.	March
	in percentages						
Belgium	+ 3	+ 16	+ 16	+ 21	+ 3	— 1	.
Denmark	+ 11	+ 11	+ 9	+ 8	— 11	— 8	— 8
Finland	+ 8	+ 18	+ 13	+ 1	+ 2	+ 2	.
France	+ 8	+ 8	+ 10	+ 21	+ 9	+ 9	+ 10
Germany (western)	+ 63	+ 33	+ 35	+ 34	+ 9	+ 3	+ 4
Greece	+ 21	+ 25	+ 30	+ 22	+ 7	+ 5	.
Italy	+ 10	+ 22	+ 21	+ 17	+ 5	+ 3	— 3
Netherlands	+ 16	+ 11	+ 14	+ 13	+ 1	— 1	— 7
Norway	+ 8	+ 9	+ 7	+ 1	+ 3	— 1	+ 1
Sweden	+ 5	+ 4	+ 6	+ 5	+ 2	— 0	— 2
United Kingdom	+ 10	+ 4	+ 8	— 2	+ 3	— 1	+ 6

It will not be easy for the European countries to find the real resources for any further expansion of investment activity; for most of them it will rather be a problem of limiting the reduction which will be necessary now that foreign aid is being diverted from the civilian-investment sphere and now that more national resources will be absorbed by rearmament. One thing is certain: attempts to solve the problem by recourse to credit creation would be followed by increased deficits in the balance of payments and, because of the consequent danger to the stability of the currency, would only make matters worse. In these circumstances, the chances are that total production will increase at a somewhat less rapid rate than in recent years. When account is taken not only of the industrial output but also of other elements in the real national income, it appears that even the "normal" increase of 3 per cent. per annum has recently been beyond the capacity of most countries. If progress on that scale were possible it would have to be regarded as already an excellent achievement for western Europe — but it is highly doubtful if such a rate can be held. It is obviously more difficult to increase production from the relatively high level now attained than from the low starting-point immediately after the war. And another — and even more fundamental — difficulty is that an expansion of production by means of increased investment depends not only on the total of available resources but also on the part of those resources which is not used up as counterpart of current spending by the government and the public, i.e. the resources that are actually "saved". The fact that these "free" resources are likely to be less substantial than they have been in recent years will prove a serious handicap; but there are fortunately some other means by which productivity can be intensified, and more attention should, therefore, be devoted to them. There must be an abandonment of restrictive practices of all kinds, and this will, in many places, call for a new spirit among operatives and employers; in addition, there must be more incentive to work hard and also freer scope for foreign competition. Government measures can do something in this respect, but much will depend on the attitude of the industrialists, the trade unions and various other bodies, as well as on the standpoint taken and the example set by individual men and women.

5. A final condition for the restoration of the money and price mechanism to working order is that distortions in the price structure, which came into being during the war and the post-war period, shall be allowed to disappear — and this applies to conditions within each country as well as to the relations between the various national economies. At one time it looked as if the conflict in Korea would lead to a fresh crop of artificialities — but that danger would seem to have been overcome in most places: prices are being increasingly allowed to move in response to actual market conditions (subsidies being reduced, controlled prices being adjusted, etc.) — and all this is helped by the fact that in "black" and "grey" markets the quotations for a number of metals are beginning to approach the officially fixed prices and that, in the case of lead, the quotation has even fallen below that price (see, further, Chapter III). There are, however, three important considerations to be taken into account:

(i) During the war it seemed necessary to keep down prices of such "essential commodities" as steel, coal and electricity. For if they were allowed to rise quickly the war effort would "cost" more, and this would probably cause additional inflation. Moreover, higher prices were not really needed to encourage output since that could be done by the use of direct measures. If, after a return to peacetime conditions, prices of essential goods continue to be fixed (by official control) at levels which are low in relation to costs and in relation to other prices, the danger is that production will be diverted to less essential items, while the demand for the essential goods will pile up, and the resulting shortages will cause bottlenecks, etc. A particular difficulty is that it becomes impossible for the "essential" industries to pay the increases in wages which would be necessary to attract additional labour. Besides, the discrepancies thus arising are likely to be aggravated by the fact that the fixing of relatively low prices limits the capacity of industrial enterprises for self-financing by the use of undistributed profits. In many cases it has happened that domestic prices have been kept well below world-market prices, and then the arguments for an adjustment have carried particular weight; they were, inter alia, given as a reason for an average increase by £4 per ton in the British steel price in February 1952. There is, incidentally, still an advantage in making the price rise gradual, since sudden appreciable increases in prices may have a highly disturbing effect — and this is especially true of agricultural prices, which directly influence the cost of living.

(ii) A considerable effect is produced on the general trend by the whole set of prices fixed by official agencies for munitions, tanks, etc. and also for certain semi-manufactured products (steel being the most important). Since in this field market conditions have only an indirect influence, much depends on the economic insight, ability and strength shown by those in charge of the agencies in question and on the backing they receive from the government. With the return to a more normal supply position in the civilian sector and the adoption of an anti-inflationary credit policy, there is gradually less and less need for price and wage control in cases where market forces hold sway, but such control may still be required as protection for the ordinary consumer and taxpayer in fields affected by administrative decisions.

(iii) Not only during the hectic winter of 1950–51 but also later on, a number of commodities, including paper and pulp and also steel (as an export product), were traded in on European markets at prices 30 to 50 per cent. or more above those quoted on the American market, one reason being that European countries have not had sufficient dollars to obtain the commodities in question from overseas sources. That has been a disadvantage for the individual purchasers. But there is also the more general disadvantage that behind the walls of exchange and trade restrictions prices tend to rise; and, if such tendencies are allowed to persist, the currencies of the countries in question are progressively weakened from within, with open depreciation as the final and not very distant result. There is a growing recognition that return to convertibility is not only the sole reliable safeguard of currency stability but also an indispensable condition for the proper working of the price system.

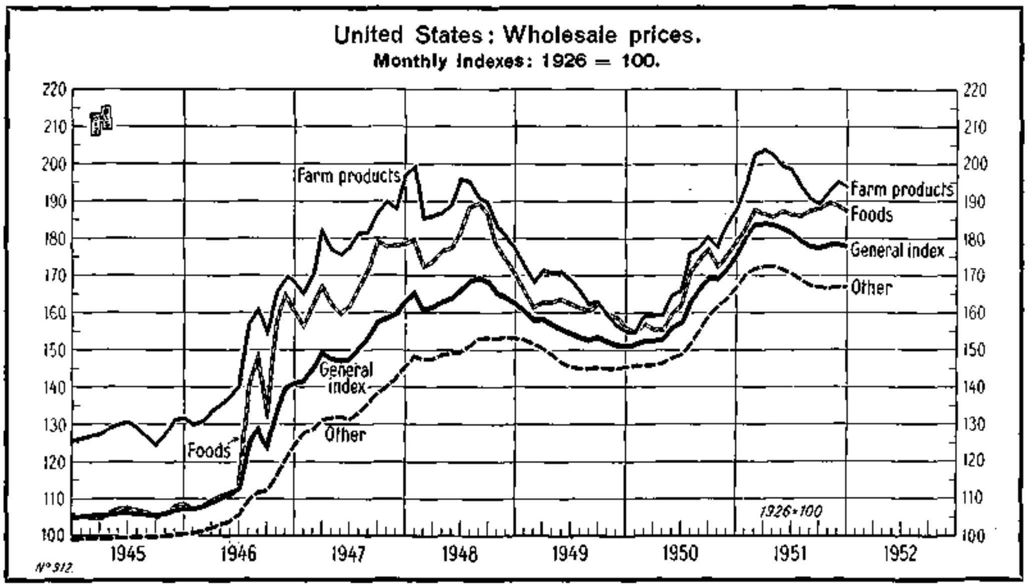
It is in the sphere of commodity prices that the influence of flexible markets is most clearly manifested, but the re-establishment of properly functioning markets is of importance also for money and capital, the foreign exchanges and international trade. "Properly functioning markets" means markets in which the relation between supply and demand is allowed to reveal itself and thus provide an indication to all and sundry of the prevailing trend. It is well to remember that under the old gold standard the gold points set limits to the extent to which the exchange rates could fluctuate. All transactions were free; but it was not necessary to allow the rates to move far in either direction, provided, always, that the central bank had adequate reserves and that the authorities pursued policies allowing sufficient latitude for other economic factors to be able to adjust themselves to the more or less fixed relations, viz., in this case, the more or less fixed exchange rates.

To what extent general measures have been taken which ensure an adequate degree of stability by exerting an influence via the market mechanism can only be determined by giving some attention to foreign trade and exchange movements, as well as to conditions with regard to gold, and to the state of affairs in the commodity markets and in the various credit systems — all questions which will be reviewed in greater detail in the following chapters of this Report.

In considering the general characteristics of the year 1951 it may again be stressed that the high degree of stability of prices on the world markets — a stability which has been compatible with numerous adjustments in the prices of individual commodities — is one of the great achievements of the year. It is true that there have also been setbacks, the most outstanding being that France and the United Kingdom have had to introduce severe import restrictions. But a crisis may be a positive advantage if it leads to the adoption of the proper remedial measures, and both France and the United Kingdom have now reinforced their credit policy and taken other steps designed to bring about internal balance and can consequently aim (as they are doing) at a speedy return to liberalisation in their commercial relations with other countries. In fact, a most serious attempt is being made to achieve the twin purposes of effective monetary stability and continuous expansion of both production and trade.

III. Price Movements.

It may well be regarded as something of a "natural law" that prices should rise during a war, for that has been the consistent experience of mankind as far back as history goes and whatever the monetary and economic system in force. But it has also been part of human experience — particularly in more recent times — that once peace returns and wartime scarcities have been overcome (and this has often been achieved more quickly than would have seemed possible) prices have begun to decline again in all those countries which have succeeded in putting an end to inflationary financing. When, therefore, in the latter half of 1948 and early in 1949, those raw-material prices which had gone up the most steeply began to come down, this decline could justly be regarded as a reversion to a peacetime state of affairs, in which there is less spread between the prices of the cheapest and the dearest commodities. That the downward movement did not denote the beginning of a general depression was soon shown by the fact that in the summer of 1949 there were already signs of recovery in the United States, especially in building activity (and an improvement in this sector is generally looked upon as the surest foundation for an all-round recovery). It was thus to what was already regarded as a rising market that the outbreak of the conflict in Korea brought an added stimulus which rapidly increased demand in a number of important countries and led to one of the most unusual commodity booms ever encountered: within a period of six months the prices of several commodities, headed by crossbred wool, natural rubber and tin, had more than doubled, and at the beginning of 1951 they were still rising fast. But another surprise was in the offing: in the early spring of 1951 the boom broke and there then



followed a period of comparative stability in the general level of prices on the world markets, the trend of which was primarily influenced by price movements in the United States.

It is true that this general stability masks important changes that have occurred in price relationships and that, not only among the quotations of raw materials (which are always the most sensitive) but also among consumer goods (especially textiles), appreciable price adjustments have taken place. From the point of view of the ordinary consumer, however, the price situation in most countries has been such as to make him more confident that the day of sudden scarcities and abrupt price increases is past: caution has taken the place of recklessness and price-consciousness has paved the way for selective buying and consumer resistance.

It is worth while to examine the stages by which this state of affairs has been reached. As far as the general movement of raw-material prices is concerned, the period from the beginning of 1951 falls into four distinct phases:

(i) the continuance of the price rise in the first two months of 1951 (a phase which had begun in the summer of 1950);

(ii) the break, in the early spring of 1951, followed by a decline in prices up to the middle of the year;

(iii) the overall stability up to the end of the year; and

(iv) a renewal of the price decline in the early months of 1952.

While it is not possible to analyse each particular reaction or deviation from the general price trend, the broad lines of the development are worth indicating.

1. The *developments* in the *first* two months of 1951, continuing the wild upward movement of the second half of the previous year, made an already unhealthy and highly artificial price position still more unhealthy and artificial. On almost every individual market, prices had been very remunerative for the marginal producer even before the outbreak of the conflict in Korea, and the question is whether the new advance, instead of causing a spurt in production, did not tend to make producers careful not to undermine their unique sellers' market by extraordinary exertions. An increase in current supplies, sufficient to bring about an early reversal of the trend, could hardly be expected; the crying need at the beginning of 1951 was clearly for greater restraint in demand and a new attitude to the whole price situation. The most important move in this direction was the first change made by the United States in its strategic stockpiling policy, the main emphasis now being laid on long-term deals rather than on immediate purchases far in excess of current requirements. In a few instances — the earliest being in February — deliveries coming in for the stockpile were actually diverted to industry in order to meet urgent needs.

2. The main causes of the downturn of raw-material prices in the spring of 1951 — which is one of the most important developments in post-war economic history — have already been indicated in the Introduction to this Report (pages 4 and 13). They are set forth again here in rather more detail in order to round off the review:

(i) Naturally, the height to which some prices had risen — the dollar price of crossbred wool to about nine times the 1939 price and three and a half times the pre-Korea price — was bound to make many parts of the price structure highly vulnerable; and when the threat that the war might spread to south-eastern Asia — a threat which had played such an important part in stimulating the frantic competitive buying in the previous autumn and winter — suddenly seemed to have disappeared as a result of the turn of military events in Korea itself, the prospect of continuing to receive supplies of such commodities as natural rubber and tin from the Malay Peninsula and wool from Australia and New Zealand immediately had an effect on the markets concerned.

(ii) Sulphur and non-ferrous metals (other than tin), however, remained scarce in relation to the increased demand, and this gave rise to serious difficulties; but in the course of the spring it became possible to arrange for more collaboration between the purchasing agencies of the various governments. At the same time, a greater moderation came to prevail in various quarters — the United States, in the first place, but other countries as well — with regard to stockpiling purchases.

(iii) When the market began to turn, it was suddenly realised in the private sector of the economy that manufacturers, wholesalers and retailers had laid in very large stocks (see page 13) and that consumers themselves had bought well in excess of their current needs. A reaction set in, and the decline in civilian consumption (a development which made itself felt in the form of consumer resistance and increased personal saving), coupled with the fact that rearmament production was only rising gradually, had a strong effect on market movements — which was not surprising, in view of the inordinately high general level of prices.

(iv) As spring gave place to summer, it seemed more and more certain that a good harvest would be reaped — and this prospect, too, began to influence quotations.

(v) At an earlier stage, however, a more general influence had already come into play, with the return to a more active credit policy in the majority of countries — a change which, in the United States, took place, significantly enough, in March 1951 (see pages 17 and 18). The result was an increase in interest rates and a partial, if not a complete, abandonment of support by central banks for the quotations of government securities, as well as the stricter application of quantitative and qualitative credit restrictions. While it would be an exaggeration to ascribe the downturn of prices exclusively to the adoption of the stiffer credit policy, it seems beyond question that, without the cessation of inflationary credit expansion in some of the more important countries, it would not have been possible to get a firm hold on price movements. The influence of credit policy is very wide; in the actual sphere of commodity markets dearer money is apt to curtail various forms of speculation, including the hoarding of scarce products and the withholding of supplies by producers.

(vi) Credit policy alone, as pointed out on page 15, would not have sufficed to put a stop to inflationary financing; it had to be combined with a more purposeful fiscal policy. There has been a general increase in tax revenue and, at the same time, military production has failed to come up to estimates — with the result that expenditure for defence has fallen short of the amounts fixed in the original plans and appropriations.

In the early summer of 1951, it was already obvious that the defence schemes of western Europe would be far slower in coming to fruition than had been anticipated during the "Korea boom". But in the United States also there were delays, and subsequently the period set for the execution of the U.S. defence programme was prolonged; this meant that the peak rate of production would be reached not in the autumn of 1952, as originally planned, but only in 1953.

By the middle of 1951 all commodity prices — apart from certain fixed prices such as those of mineral oil and some metals — had fallen well below the "peaks" (reached, in most cases, in the first months of the year). The outstanding exception was copper; while the "official" American price for domestic copper remained at 24½ cents, the price of imported copper was raised, in May 1951, by 3 cents to 27½ cents per lb., and the two prices were kept at these levels until May 1952, when, in order to meet requests from Chilean producers, some increase was made in the ceiling price for imported copper.

3. In contrast to the first half of 1951, with its violent price movements, the period from the beginning of July to the end of the year was characterised by remarkable stability in the general price level; even the graph for sensitive prices showed an almost straight line (see graph on page 77). This was contrary to the expectations entertained in many quarters, for it ran counter to the belief that the autumn would bring a revival of demand and consequently a rally in world prices. It is also worth noting that prices in the two main groups of primary commodities underwent considerable changes which, since they balanced each other, are not revealed by the general index figure: while the prices for "dollar commodities" continued to rise, those for "sterling commodities" moved steadily downwards (a development which has already been mentioned on page 6 and will be analysed more fully on page 75).

4. The end of 1951 found markets in a hesitant mood, but there was no definite indication that in the first quarter of 1952 an important new downward pull was in store. By about the middle of January signs of growing restlessness had already made their appearance and in the month of February there was a further drop in the prices of primary products — Moody's Index, for instance, registering a decline from a level of about 455–460 to a new "low" of 431. This drop cannot be explained by any falling-off in industrial activity but clearly reflects a more cautious tendency, with greater restraint in the demand for commodities both for current use and for strategic stockpiling. Attention to prices has come to play an important part again and seems capable of putting an end to the long post-war period of almost continuous sellers' markets.

After fifteen months during which movements were on an almost unprecedented scale, the general level of prices of primary products is nearly back at the pre-Korea level, but this return to the status quo ante does not mean that the price swings started by the outbreak of the conflict in Korea have left no final effect: there have been wide differences in the movements of individual prices and groups of prices and some of these differences are far from having been effaced in the recent recession. The international raw-material-price index* appearing twice a month in "Der Volkswirt",

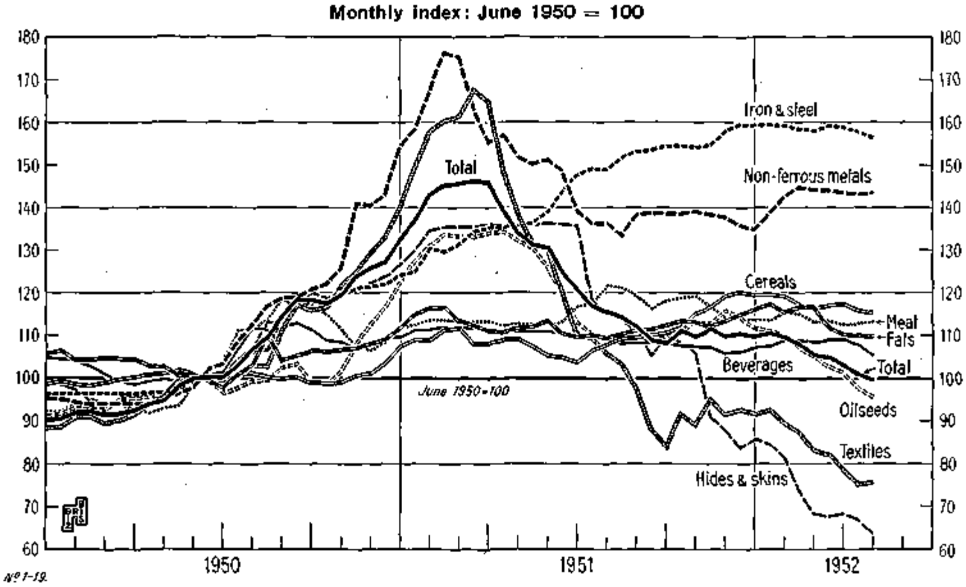
* This index, originally compiled by the German Statistical Office, has been calculated privately since 1948.

published in Frankfurt-am-Main, gives separate figures for nine groups of commodities, and these figures, as registered on selected dates, are shown in the following table and graph.

International raw-material prices
according to the "Volkswirt" Index.

Groups of commodities	1950	1951				1952	
	1st October	15th February	1st July	1st October	1st December	15th February	1st May
	June 1950 = 100						
Cereals	99	111	104	110	119	117	115
Beverages	111	112	110	108	106	109	105
Meat	117	113	117	118	114	115	113
Fats	106	117	110	112	113	117	110
Oilseeds	99	134	113	110	116	107	95
Hides and skins*	120	135	136	110	88	74	63
Textiles	116	160	110	84	92	88	76
Iron and steel	118	130	148	154	158	159	156
Non-ferrous metals	120	176	139	139	138	145	143
Total	118	145	120	108	110	108	100

Monthly index: June 1950 = 100



* Including rubber.

Although, at first glance, the graph gives the impression that there are still great divergences between the various price movements, there are certain common tendencies to be noted:

(i) Seven out of the nine price groups (viz. all except textiles and hides) show a fair degree of stability from the middle of 1951 onwards, with a weakening trend as from the early months of 1952.

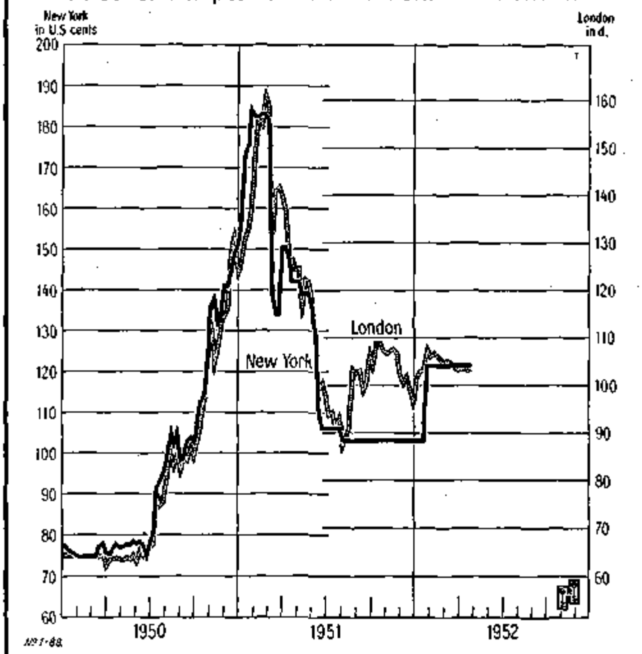
(ii) Five out of the nine price groups (viz. cereals, beverages, meat, fats and oilseeds) keep close to the average and tend to return to their June 1950 position (with oilseeds, however, showing a distinctly weak trend).

(iii) There are four stragglers: "iron and steel" and "non-ferrous metals", with prices well above the average, and the two groups "textiles" and "hides and skins", with prices below the average.

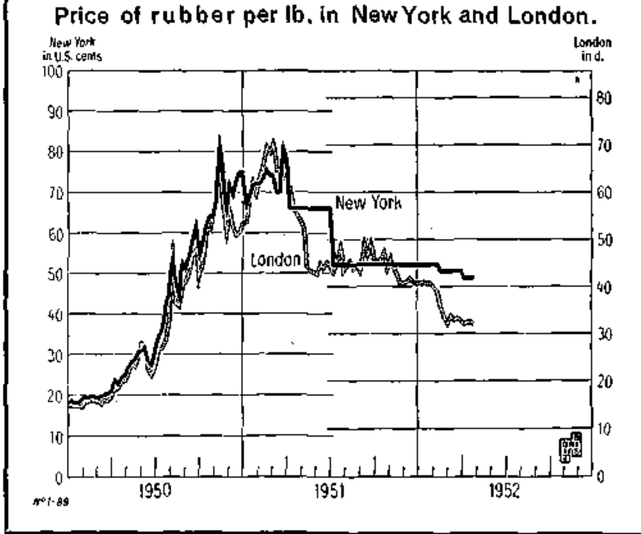
Prices in the iron and steel group continued to rise until the end of 1951, by which time their average was the highest for any group (this had not been so in the spring of 1951). As far as non-ferrous metals are concerned, the quotations on "grey markets" dropped considerably during the first quarter of 1952: for lead the grey price even fell below the official price, which itself was reduced three times in the spring of 1952; for zinc the disparity was reduced to less than 10 per cent. and in the case of copper to about 25 per cent. (as compared with a grey-market price which, at the peak of the Korea boom, was twice as high as the official price). The price of tin has had its own exciting history: there was no grey-market price; the officially quoted price rose to two and a half times the pre-Korea price before a gradual decline set in, and it is still some 60 per cent. above the pre-Korea level.

On the other side of the average, "textiles" as a group now stand some 20 per cent. and "hides and skins" some 30 per cent. below their pre-Korea quotations. Wool has touched both extremes: 46's, which were dealt in at 65d. per lb. on the eve of the outbreak of the conflict in Korea (i.e. on 23rd June 1950), fetched 211d. in March 1951, but in April 1952 the average price was only 50d. —

Price of tin per lb. in New York and London.



Price of rubber per lb. in New York and London.



even less than a quarter of what it had been a year earlier. The movements of the price of rubber (not shown separately in the table on page 72, rubber being included in the item "hides and skins" in the "Volkswirt" index) have also been violent: the London price for No. 1 R.S.S., which was 23d. per lb. on 23rd June 1950, rose to 73d. in March 1951 and had fallen to 24d. by the middle of May 1952. The price of natural rubber was further affected by a reduction in the price for synthetic rubber from 26 to 23 cents per lb.

The commodities whose prices have been the least affected by the Korea boom are those belonging to the important category "cereals" and the three other groups comprising beverages (coffee, tea and cocoa), fats, and meat, for they moved only within the narrow range of 10 to 20 per cent. above the level of June 1950. Thus it may be said that the commodities classified as human foodstuffs and animal feeding stuffs have exerted a stabilising influence amid the hectic price developments of the last two years.

The fact that the greatest price rises are those of metals and the smallest those of textiles and hides (raw materials for typical consumer goods) is a graphic illustration of the economic "schizophrenia" (as it has been called) from which the world has been suffering since the summer of 1950 as the result of an expansion of industrial activity for military purposes side by

Changes in prices of selected commodities since Korea.(1)

Commodities	Percentage change from June 1950 to the peak reached by each commodity	Percentage change from June 1950 to the end of April 1952
Wool (London):		
46's	+ 225	— 23
70's	+ 117	— 18
Rubber:		
London	+ 217	+ 36
New York	+ 204	+ 72
Tin:		
London	+ 174	+ 64
New York	+ 146	+ 63
Lard	+ 82	— 3
Lead	+ 73	+ 36 (2)
Cocoa	+ 38	+ 19
Cotton	+ 33	+ 13
Zinc	+ 30	+ 30
Maize	+ 23	+ 17
Wheat	+ 20	+ 16
Coffee	+ 14	+ 7
Crude oil	+ 13	+ 13
Sugar	+ 12	+ 12
Copper	+ 9	+ 9
Moody's Index	+ 35	+ 8
Reuter's Index	+ 28	+ 11
Volkswirt Index	+ 46	— ½

(1) In the absence of indications to the contrary, the prices considered are the ordinarily quoted U.S. prices, and in no case are they grey-market prices.
(2) For lead, account has been taken of the price on 15th May instead of that at the end of April 1952.

side with an increasing hesitancy in the civilian sector. Should ordinary business activity remain brisk, the likelihood is that prices of textiles and hides will recover somewhat, while the future movement of metal prices will, of course, be closely connected with the volume of rearmament.

In general, the prices which rose the most are also the ones which subsequently fell furthest. Commodities the prices of which are still at or close to their peak are: zinc, maize, wheat, crude oil, sugar and copper; and the price of cotton has also kept up fairly well (especially considering that it is a raw material for textiles). It is noteworthy that all these are so-called "dollar commodities", the prices of which, in general, never rose very steeply and have not fallen sharply either. Most of them have been subject to some sort of regulation: on the one hand, the prices for metals such as copper, tin, lead and zinc are officially fixed, and, on the other, the prices for wheat, maize and cotton, while not officially fixed, are determined indirectly by way of a system of price parities which has now been applied for about twenty years in the United States.

Unlike the "dollar commodities", the most typical "sterling commodities" — rubber, tin and wool — rose almost perpendicularly in the first seven or eight months after Korea, but then fell again sharply. Since wool is being quoted at a price distinctly below that of June 1950 while the prices of rubber and jute have again shown signs of weakness, it might seem as if sterling commodities had recently lost on balance (even when no account is taken of the fact that one predominantly sterling commodity, gold, is being sold officially at the same price in terms of dollars as before 1939, and in free markets at only slightly higher prices).

U.S. Commodity Prices.

Commodities	Unit	15th August 1939	End of April 1949	1950	1951	1952
Wheat	Cents per bushel	68	253,125	262,875	275.25	282.25
Maize	,, ,, ,,	45	160,5	173,25	208.375	203.00
Cocoa	,, ,, pound	4,19	20	25.75	38.375	38.375
Lard	,, ,, ,,	5,6	12,5	11.40	17.82	10,625
Sugar	,, ,, ,,	2,86	8.10	7.7	8.2	8.65
Coffee	,, ,, ,,	7.6	26.5	46.5	54.5	52.875
Cotton	,, ,, ,,	9.29	33.70	33.40	46.06	39.15
Iron	Dollars ,, ton	20.50	50.65	50.42	57.77	57.97
Steel scrap	,, ,, ,,	13.88	23.75	33.75	44.00	43.00
Lead	Cents ,, pound	4.89	15	11	17	15 (2)
Copper	,, ,, ,,	10.37	23.625	19.5	24.5	24.5
Tin	,, ,, ,,	48.76	103	76.875	142	121.5
Zinc	,, ,, ,,	4.72	12,5	11	17.5	19.5
Mercury	Dollars ,, flask (1)	86.15	85	70	216	202
Silver	Cents ,, ounce	36.0	71.5	71.75	90.16	82.75 (2)
Rubber	,, ,, pound	16.66	18.5	25	66	38 (3)
Hides	,, ,, ,,	11,6	18.75	18	30	10
Crude oil	,, ,, barrel	82	340	354	425	425

(1) Flask of 76 lbs equal to 34.5 kilogrammes. (2) In May 1952.
(3) Official U.S. price in May with effect from 1st June 1952.

The price declines which have occurred since the spring of 1951 — and especially the more or less unexpected downturn in February 1952 — seem to have allayed earlier fears of a general shortage of raw-material supplies. Once more, experience has shown that, when prices begin to fall and money becomes tighter, supplies suddenly appear on the market in greater abundance than had previously been thought possible. In itself this is not conclusive evidence that the problem of inadequate production has ceased to exist — for the easing of the situation may be only temporary; but it must be admitted that the output of several important commodities rose substantially from 1950 to 1951.

Estimates of world production of basic commodities.

Commodities	Unit	1937	1946	1950	1951 (provisional)	Percentage increase (+) or decrease (—) 1951 over 1937
Aluminium	1000 tons	490	790	1,510	1,795	+ *266*
Electricity	milliard kwh	444	644	948	1,057	+ *138*
Synthetic fibres	1000 tons	830	775	1,675	1,915	+ *131*
Crude oil	million tons	285	380	525	695	+ *109*
Cement	" "	81	74	133	147	+ *81*
Steel	" "	135	110	190	210	+ *56*
Rubber, natural	1000 tons	1,225	850	1,885	1,895	+ *55*
Rubber, synthetic	" "	5	820	545	925	+ .
Soya beans	million tons	12 (1)	14	17	18	+ *50*
Brown coal	" "	270	250	370	400	+ *50*
Pig iron	" "	105	80	130	150	+ *43*
Zinc (2)	1000 tons	1,635	1,405	1,905	2,030	+ *24*
Nickel	" "	120	125	135	145	+ *21*
Sugar (3)	million tons	30	26	35	36	+ *20*
Coal	" "	1,280	1,185	1,455	1,540	+ *20*
Copper (2)	1000 tons	2,535	1,950	2,850	2,810	+ *11*
Wheat (3)	million bushels	5,980	5,700	6,320	6,500	+ *9*
Maize (3)	" "	4,980	5,265	5,145	5,320	+ *7*
Wool (greasy)	million lbs	3,850	3,790	3,920	3,950	+ *3*
Lead (2)	1000 tons	1,690	1,040	1,720	1,745	+ *3*
Mercury	1000 flasks (4)	135	145	120	125	— *7*
Cotton (3)	million bales	37	22	28	34	— *8*
Manganese ore	1000 tons	6,060	3,670	4,950	5,100	— *16*
Tungsten	" "	39	19	29	32	— *18*
Coffee (3)	million bags	39	27	30	32	— *18*
Tin (2)	1000 tons	205	100	175	165	— *20*

(1) Average 1934-38. (2) Smelter production. (3) Crop years. (4) Flask of 76 lbs equal to 34.5 kilogrammes.

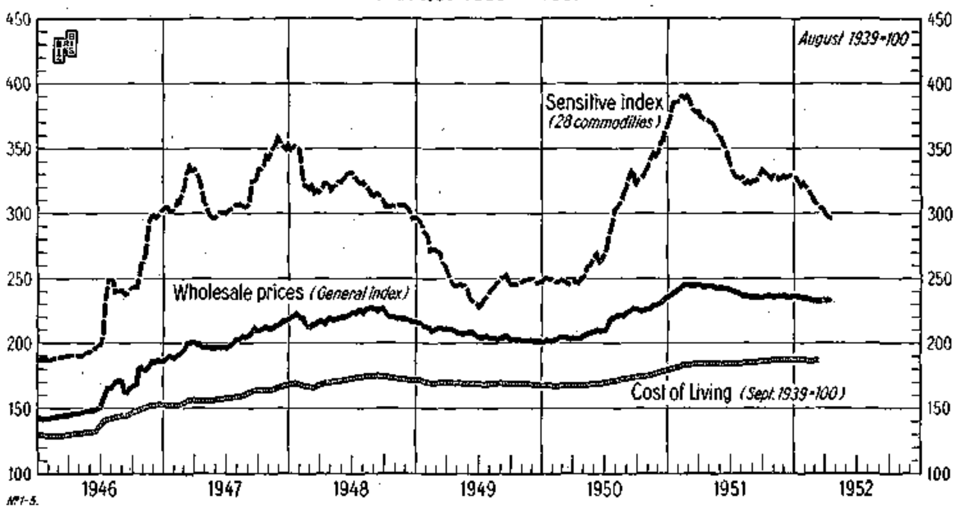
Note: The above table is intended to give figures for "world" production, but in view of the statistical blackout prevailing in certain parts of the world it must be admitted that the estimates are not as reliable as might be desired. Provided that the figures for each commodity are based on approximately the same range of data year by year, they may be taken as giving a near enough indication of the magnitudes involved.

A number of the items in the above table show impressive increases, viz. aluminium, electricity, crude oil, synthetic fibres, and rubber. In the case of all of them, the volume of production in 1951 was more than twice as large as in 1937 — which, it should be remembered, was a "boom" year, while 1938 was a year of recession (see page 87). At the bottom of the table, however, coffee, cotton, manganese ore,* tungsten*, mercury and tin show lower production figures than before the war, while an important group of commodities comprising wool, wheat, maize, sugar, copper, lead, zinc and coal shows only a relatively moderate rise in output (in some cases, however, there are more or less suitable substitutes, such as aluminium for copper). World population has increased by fully 12 per cent. since 1937, while the corresponding rise in industrial production averages 40 per cent. in western Europe and 95 per cent. in the United States. The output of a number of primary products has obviously not kept pace with industrial development — hence the higher prices and the necessity for an increased use of substitutes over a wide field.

From the graph below it may be seen that in the United States the sensitive index of twenty-eight commodities shows a higher rise than the general index of wholesale prices and has still further outstripped the increase in the cost-of-living index. And it was only to be expected that raw-material prices would go up more quickly than those of other commodities, seeing that in 1938 there were still nine to eleven million unemployed persons in the United States — which meant that the consumption of raw materials in the country now responsible for one-half of the world's industrial output was at that time exceptionally low. A high level of economic activity in the United States has many advantages as a stimulus to world trade in general, but it brings with it higher raw-material prices.

In the table on the following page an attempt has been made to compare the level of prices of primary products with the level of wholesale prices and

United States: Price movements.
Indexes: 1939 = 100.



* As regards manganese ore and tungsten it should be remembered that important sources of supply in the past have been the U.S.S.R. for the former and China for the latter, and the decline shown in the table may, therefore, reflect insufficient information.

the level of the cost of living over a longish period — and, in particular, to provide a comparison with 1913 and 1926, which were not years of depression for the American economy.

United States: Index of price movements.

Index of	1913	1926	1932	1938	February	
					1951	1952
Sensitive prices	100	143	73	100	347	280
Wholesale prices	100	143	93	113	263	253
Consumer-goods prices .	100	179	136	143	260	266

The story revealed by the index of sensitive prices is a strange one: in 1932, at the depth of the depression, these prices were as much as 25 to 30 per cent. below the 1913 level, and in 1938 they had still barely regained that level, whereas other prices had risen well above their pre-1914 quotations. Then, during and after the second world war, came the extraordinary "recovery" in the prices of primary products, which lifted them well above other prices — creating a new disparity which has not yet been wholly wiped out. The difference is no longer very marked, however, as is borne out by the fact that in the early months of 1952 the average of the "parity ratio" for U.S. agricultural commodities stood at 100 — which meant that the relationship between prices was approximately what it had been in the basic period 1910-14. Even so, the rather greater increase in raw-material prices than in other prices indicates a continued shortage of many staple commodities and is therefore a sign that increased output is needed in order to keep pace with the continued expansion of the general volume of industrial production and of consumption requirements. Everything possible should be done to ensure that the readjustment of the prices of staple commodities to a level more in line with current wholesale prices and the cost of living shall not revive memories of the depression in the 1930s and lead to pressure for a reintroduction of regulation schemes. The Korea boom at least had the advantage that it convinced the world, as nothing else had done since 1945, that a major expansion of resources for the production of primary products was indispensable. This being so, it is very important that the recent weakness of the markets, which for most (though perhaps not for all) commodities represents a thoroughly healthy adjustment, should not be misinterpreted, since this would bring back a slump mentality with its tendency to inhibit enterprise.

When at the end of 1950 and early in 1951 the impression given by the raw-material markets was one of an extreme shortage of supplies, several European governments and the U.S. Government decided to make arrangements for an allocation of certain exceptionally scarce raw materials and also to encourage their production. To this end the governments created the International Materials Conference, which held an initial meeting on 26th February 1951 in order to establish contacts. As mentioned in the twenty-first Annual Report, a central group was formed, but the more active work has been carried out in seven commodity committees, on which between eleven and sixteen governments are represented.

The mode and degree of intervention has varied from committee to committee; in some instances there has been actual allocation of materials (as in the case of copper and tungsten). It seems probable that the various arrangements made have tended to reduce the amount of precipitate buying by the various countries, and the methods employed may thus be said to have contributed to the restoration of quieter markets. There is no doubt, however, that the general decline in prices from the spring of 1951 — a decline which set in before the International Materials Conference had begun to operate actively — made it much easier to ensure adequate supplies for the various countries.

The International Materials Conference is also endeavouring to bring about a more economic use of materials in short supply. One of its main tasks, moreover, is to promote the production of materials which are really scarce, and, in as far as it may be successful in this endeavour, it will help to solve the problem of the long-term adjustment of world supplies.

* * *

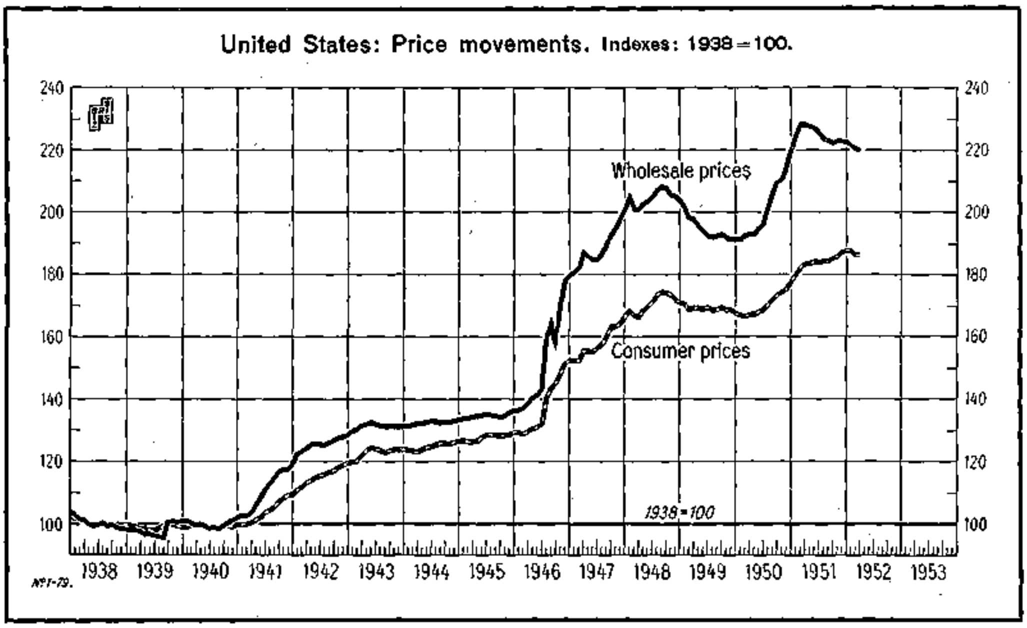
Changes in the index numbers of wholesale prices and of the cost of living.

Countries	Percentage increase between 1938 and March 1952		Percentage increase: from June 1950 to March 1952		Percentage increase: during 1951	
	Wholesale prices	Cost of living	Wholesale prices	Cost of living	Wholesale prices	Cost of living
Australia	+ 200 (1)	+ 133	+ 35 (1)	+ 36	+ 24	+ 24
Austria	+ 728 (2)	+ 598 (2)	+ 60	+ 54	+ 38	+ 39
Belgium	+ 362	+ 302	+ 25	+ 14	+ 9	+ 10
Canada	+ 126	+ 85	+ 10	+ 14	+ 6	+ 12
Denmark	+ 237	+ 103	+ 33	+ 15	+ 17	+ 7
Finland	+ 1525	+ 1010	+ 48	+ 18	+ 34	+ 7
France	+ 2830	+ 2447 (3)	+ 44	+ 38 (3)	+ 26	+ 19
Germany (western)	+ 158	+ 71	+ 30	+ 13	+ 14	+ 13
Greece	+ 38,900 (4)	+ 36,908	+ 36 (4)	+ 25	+ 13	+ 10
Iceland	.	+ 616 (5)	.	+ 43	.	+ 19
Ireland	+ 196 (1)	+ 109	+ 23 (1)	+ 12	+ 13	+ 11
Italy	+ 5220	+ 5375	+ 14	+ 14	+ 1	+ 8
Japan	+ 26,562	+ 18,258 (1)	+ 54	+ 41 (1)	+ 25	+ 19
Netherlands	+ 302	+ 168 (1)	+ 24	+ 11 (1)	+ 13	+ 5
Norway	+ 171	+ 107	+ 33	+ 25	+ 17	+ 14
Portugal	+ 182	+ 108	+ 17	+ 0	+ 16	— 0
South Africa	+ 153 (1)	+ 82 (1)	+ 27 (1)	+ 13 (1)	+ 20	+ 9
Spain	+ 478 (1)	+ (1) 274 (6)	+ 37 (1)	+ 10 (1)	+ 11	+ 3
Sweden	+ 189	+ 95	+ 44	+ 24	+ 26	+ 23
Switzerland	+ 123	+ 71	+ 13	+ 8	+ 4	+ 6
Turkey	+ 405 (4)	+ 269 (4)	+ 17 (4)	+ 3 (4)	+ 5	+ 4
United Kingdom	+ 229	+ 115	+ 30	+ 17	+ 13	+ 12
United States	+ 120	+ 87	+ 12	+ 10	+ 1	+ 6

(1) February 1952. (2) March 1938 = 100. (3) Retail prices: 1st quarter 1952.
(4) January 1952. (5) January-March 1939 = 100. (6) July-December 1939 = 100.

As regards price movements in individual countries, it should first of all be noted that in the spring of 1952 the general level of wholesale prices and of the cost of living in the United States stood only some 10 to 12 per cent. above the pre-Korea level. The preceding table shows that five other countries, viz. Canada, Italy, Portugal, Switzerland and Turkey, registered an increase of between 10 and 20 per cent. in wholesale prices and of not more than 15 per cent., if any, in the cost of living. In the majority of the countries reviewed (Australia, Belgium, Denmark, western Germany, Greece, Ireland, the Netherlands, Norway, South Africa, Spain and the United Kingdom), wholesale prices have risen by more than 20 but less than 40 per cent., while five countries, viz. Austria, Finland, France, Japan and Sweden, show a rise of more than 40 per cent.

As usually happens when there is an upward movement of prices, the cost of living increased less promptly and less sharply than the more sensitive wholesale prices; and, now that the latter are beginning to turn downwards, there is a fair chance that eventually the curves may more nearly coincide and that the outcome will be a better balance in the whole price structure.



One of the important factors affecting the rate at which prices have risen in the various countries has, of course, been the extent of the devaluation to which each individual currency has been subjected, for the devaluations of the autumn of 1949 had not yet produced their full effect when the Korean conflict broke out.

Contrary to what happened after the devaluation of sterling and a number of other currencies in the autumn of 1931, viz. a continued fall in world-market prices as expressed in dollars, there was quite a fair increase in the dollar prices of commodities during the nine months which elapsed

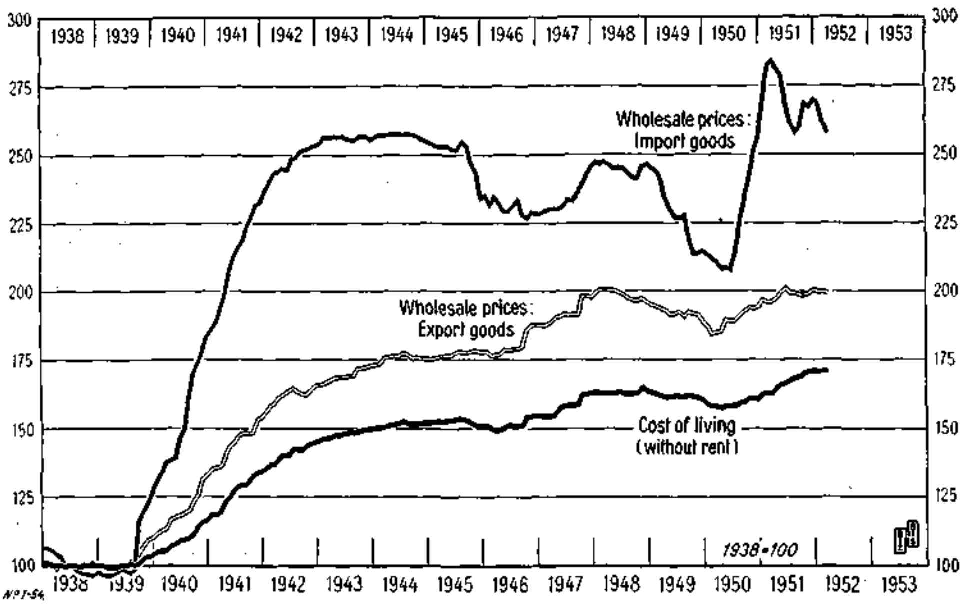
Currency devaluations and the extent to which prices had increased by March 1952 in relation to the period January to June 1948.

Countries	Percentage rate of devaluation (—)	Corresponding increase in the price of the U.S. dollar (+)	Increase (+) in wholesale prices	Increase (+) in cost of living	Increase (+) in wage rates
	in percentages				
United States	—	—	+ 8	+ 11	+ 25
Switzerland	—	—	+ 2	+ 5	+ 6 (1)
Italy	— 8.0	+ 9	+ 1	+ 12	+ 31
Belgium	— 12.3	+ 15	+ 18	+ 8 (3)	+ 29 (2)
Germany (western)	— 20.6	+ 26	+ 70 (4)	+ 13 (4)	+ 54 (4) (5)
Netherlands	— 30.2	+ 43	+ 44	+ 29 (1)	+ 22
Sweden	— 30.5	+ 44	+ 52	+ 26	+ 33 (1)
United Kingdom	— 30.5	+ 44	+ 53	+ 24	+ 22
Finland	— 41.0	+ 70	+ 73	+ 42	+ 80 (6)
Austria	— 53.2	+ 114	+ 166	+ 128	+ 161 (1)

(1) Fourth quarter of 1951. (2) February 1952. (3) Retail prices.
(4) In relation to June 1948. (5) September 1951. (6) Third quarter of 1951.

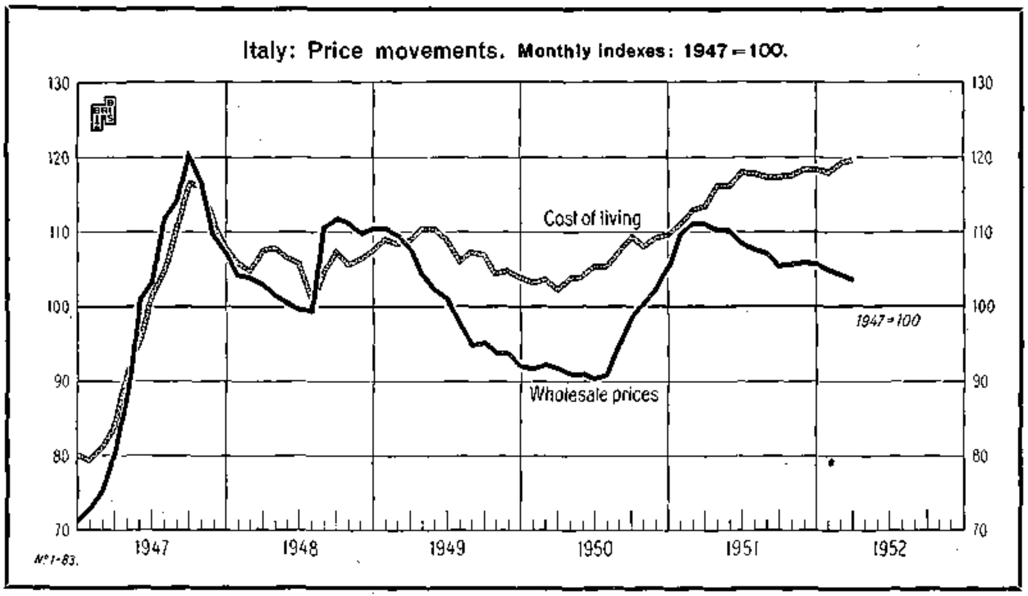
between the wave of devaluations in September 1949 and the outbreak of the conflict in Korea. And when the beginning of the struggle in Korea brought a further rise, the countries which had devalued were exposed to strong price-raising tendencies from abroad. It may be noted that, among the countries in the group with the lowest rise in wholesale prices between June 1950 and March 1952 (viz. less than 20 per cent.), Italy had devalued its

Switzerland: Wholesale prices of import and export goods and the cost of living.
Monthly indexes: 1938 = 100.

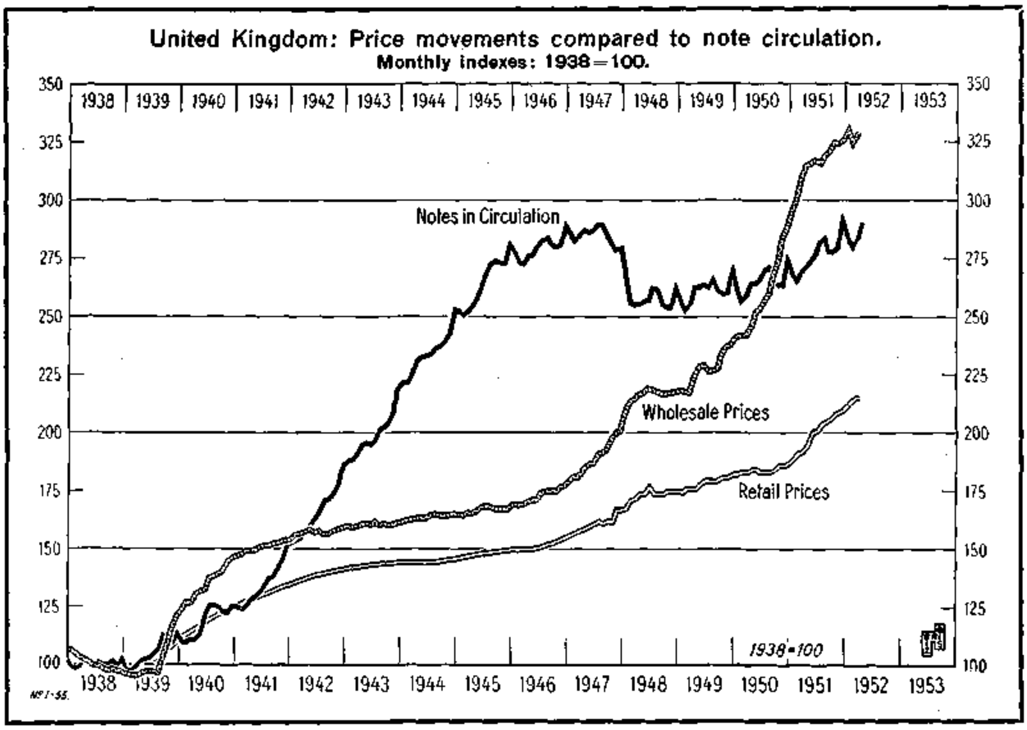


currency by only 8 per cent., Switzerland and Turkey had not devalued at all, and Canada has seen its currency appreciate in terms of the U.S. dollar. The steepness of the rise which took place in the cost of import goods from the middle of 1950 for the countries which had not devalued is brought out by the price movements in Switzerland, as shown in the preceding graph.

In Italy prices have been on the move — sometimes upwards and sometimes downwards — ever since the "stabilisation" effected in the autumn of 1947; but in the spring of 1952 wholesale prices were no higher, on balance, than they had been in June 1947, this maintenance of a comparatively high degree of stability — which has only been achieved thanks to a very careful credit policy (see page 9) — having been the foundation on which the Italian authorities based their successful attempt to strengthen confidence in the lira.



Most of the countries in the middle group — comprising those in which wholesale prices have remained within the range of more than 20 but less than 40 per cent. above the level of June 1950 — had devalued their currencies by about 30½ per cent. in the autumn of 1949. This applies to the United Kingdom, as well as Australia, Denmark, Ireland, the Netherlands, Norway and South Africa, while in Greece the rate of devaluation was slightly higher, viz. by 33.3 per cent. The same group includes western Germany, which devalued to the extent of 20.6 per cent., and — perhaps rather surprisingly — also Belgium, with a 25 per cent. rise in its wholesale-price level (as compared with 30 per cent. in Germany and in the United Kingdom), although the Belgian franc had been devalued by only 12.3 per cent. It should be remembered, however, that Belgium, with its strong international ties, is particularly sensitive to the impact of price movements on the world markets: before Korea, the growing competition in the markets for iron, steel and coal tended to have a depressing effect on the Belgian economy while, on the other hand, the boom in these commodities since Korea has helped to make the country's export position almost too strong and, at the same time, the consequent spreading of purchasing power has exposed Belgian prices to upward pressure. It has not been easy for the authorities to keep this rising tendency within reasonable limits.



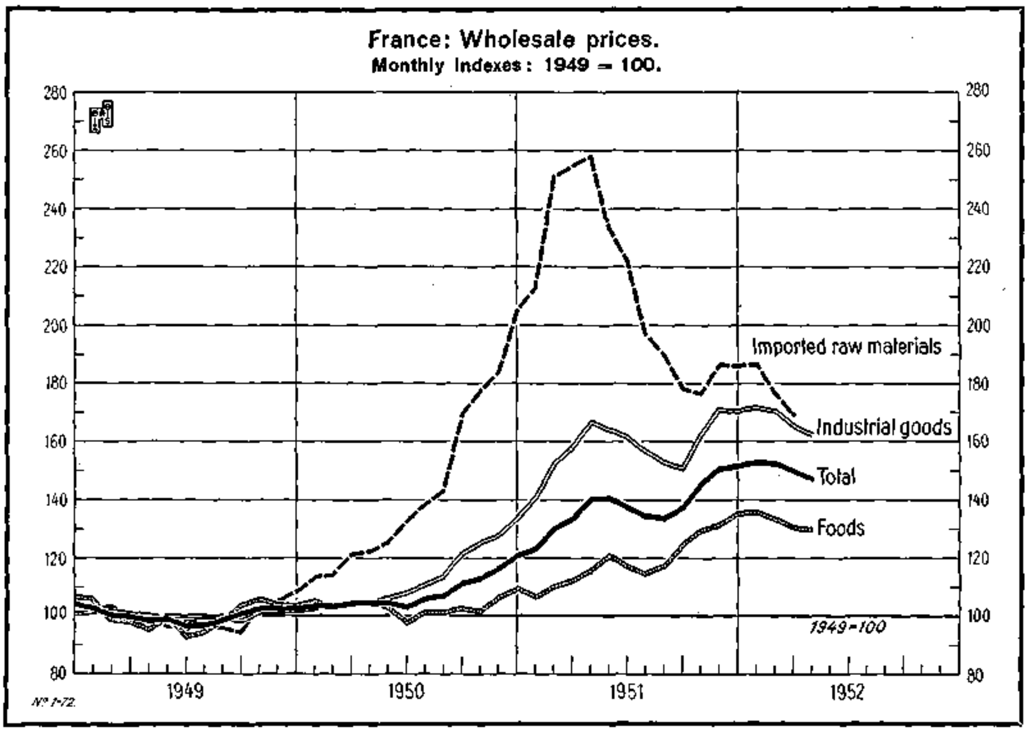
Among the countries of the group in which wholesale prices have risen more than 40 per cent. above the level of June 1950, France had devalued by 22 per cent. and Sweden by 30½ per cent., while for Austria the percentage was as high as 53 per cent. For Finland, which lowered the exchange value of its currency in two stages, the total devaluation came to 41 per cent. Apart from the effect of devaluation, Sweden and Finland found their foreign earnings suddenly swollen by the high prices of forestry products, which in the case of Sweden account for fully 50 per cent. of total exports and in the case of Finland for over 90 per cent.* High profits were

* In Norway and Sweden and also to some extent in Finland, special duties were levied on the export value of various forestry products — particularly pulp, which had risen precipitously in price and reached quotations far above the U.S. level. In the third quarter of 1951, the Norwegian and Swedish levies in the case of mechanical wood-pulp came to about 20 to 25 per cent. of the f.o.b. export price, while the corresponding Finnish levy came to about 10 per cent. While the dollar price for bleached paper pulp on the American market in the autumn of 1951 still stood at the equivalent of about S.Kr. 800 per ton, the prices obtained by Sweden for exports of corresponding pulp rose, in individual cases, to as much as S.Kr. 2,200. Such exaggerated prices simply asked for counter-measures; there was a decline in consumption in several countries; at the end of 1951 import restrictions were imposed by the United Kingdom; and in the middle of February 1952 that country fixed buying prices for wood-pulp coming from other countries in

(For end of footnote see next page)

made, which, together with the rising cost of living, led to the payment of higher wages, and these in their turn were followed by subsidiary price increases.

In France the steep price rise which began again in the autumn of 1951 was initiated (as explained on page 33) by government decisions to increase the officially fixed prices of agricultural products, while in Austria the fifth round of the "price and wage agreements" in the summer of 1951 led, in conjunction with other price-raising factors, to an actual increase of 33 per cent. in the cost of living and of 28 per cent. in net wage rates.



It has, indeed, been a feature common to recent developments in all the four countries just mentioned that abrupt increases of 15 to 20 per cent. or more have been made in wage rates and also in prices. Such sudden leaps are invariably part of an inflationary process (since rising productivity could at the very most justify a real wage increase of, say, 4 to 5 per cent. a year — and even that would be a rarity). When prices and rates of remuneration change by 20 per cent. or more all at once, the whole scale of customary valuations is upset and a great feeling of uncertainty is created. In an attempt to remedy this state of affairs, a radical change of

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Europe. In the case of paper pulp buying prices were 20 per cent. below what the foreign exporters to the British market had generally been able to secure up to then; there was also a 15 per cent. reduction in the price offered for mechanical pulp, while the price for rayon pulp remained unchanged.

Import restrictions imposed in France likewise affected the market, with the result that, by May 1952, prices for unbleached paper pulp had fallen to about S.Kr. 1,200 to 1,300 a ton. Under the system in force, the price fall in question brought about an automatic reduction in the Swedish export levy — and Finland and Norway also introduced reductions in their export duties.

policy has been made in the countries which have experienced these sharp increases. Thus in Austria a voluntary price-reduction campaign was launched in October 1951 by representatives of industry and trade, who, with the support of the labour unions, aimed at reducing prices of consumer goods by an average of 3 to 5 per cent. for the time being; and this voluntary effort was afterwards followed up by a stiffer credit policy (including a 1½ per cent. increase in the official discount rate), curtailment of public investment and other measures for the balancing of the budget. In Finland, also, action was taken to lower prices, and there it was part of a fairly comprehensive official programme. In Sweden certain price increases for agricultural products were authorised as recently as the beginning of 1952, but they were to some extent offset by an increase in food subsidies, while a reduction of prices is being attempted principally by way of an almost complete liberalisation of imports from countries within the E.P.U. area and by the application of some credit restrictions. In France too — as explained on page 32 and in Chapter VII — credit policy was tightened up (here the quantitative and qualitative restrictions were accompanied by substantial increases in the interest rates charged by commercial and other banks, and, in general, an attempt was made to bring about a readjustment in the cost and price position by inspiring greater confidence in the general financial structure).

International comparison of cost — and especially wage — increases has been made more difficult by the fact that changes in the magnitude and incidence of social charges have not been uniform; but in the situation which has prevailed in recent years, with influential trade unions and a strong demand for labour, increases in living costs have generally been followed by rises in wages even in cases where no sliding-scale arrangements have been in force. Current statistics show that, in general, the increase in wages has been somewhat larger than the rise in the cost of living (but the fact cannot be wholly overlooked that the official cost-of-living indexes often somewhat understate the real increase). When the figures for western Germany show an improvement of fully 20 per cent. in "real wages" between the summer of 1949 and the autumn of 1951, account has, of course, to be taken of the relative lowness of the wage level in 1949 (the year following the monetary reform); but all the same this is an indication that the increase in the official discount rate to 6 per cent. in the autumn of 1950 and the taking of other restrictive credit measures have not prevented an improvement in the standard of living of the workers.

* * *

In the eastern countries of Europe the process of industrialisation, which is the leit-motiv of their economic policy, is accompanied, as a rule, by a shift of working population (often of excess population) from the countryside to the towns and to industry. As a result, the demand for the marketable or marketed portion of agricultural output will normally increase, and so will the demand for other kinds of consumer goods. The economic programmes most recently adopted in the countries with centrally-planned economies seem to be laying more stress on the manufacture of consumer goods. In order to enable people to acquire the increasing supply of consumer goods without any rise in wage rates, the authorities in the U.S.S.R. have deemed it good economic policy to reduce prices. This procedure took the form of four consecutive price cuts made during the period from the end of 1947 to the early months of 1952, while a fifth price cut has been in effect since 1st April 1952. No price indexes are published but, at the time when each price cut is made, specific reductions are indicated, and in connection with each of the first four cuts an amount which the population was expected to "save" vis-à-vis the state and other sellers was expressly mentioned. It is difficult for outsiders to judge the real significance of such savings figures (which for the single year 1950 were put at no less than Roubles 110 milliard), but it may perhaps be estimated that, during the fifty months up to the beginning of 1952, the total decrease in retail prices worked out at something like 20 per cent.

In the case of the fifth cut, specific reductions are being made in the prices of individual groups of "foodstuffs of general consumption". (This cut applies to the "state retail trade" only, but it may be assumed that corresponding price reductions will also be put into effect in the not unimportant co-operative trade and in the free collective-farm markets.) The individual price reductions range between 10 and 30 per cent.

For the public the benefit derived from these particular price cuts will, of course, depend upon what quantities of the commodities affected are consumed; but it would not seem an exaggeration to estimate that an average Soviet family will find that its cost of living has gone down by 5 to 10 per cent.

It has also been announced that further reductions have been made, from the beginning of 1952, in important groups of wholesale prices and that this has been possible owing to the favourable development of industrial output resulting from a rise in industrial productivity together with a decline in the cost of production — a further possible explanation for the various reductions in the prices of consumer and other goods being that availability of a larger volume of commodities may have permitted a lowering of the effective rate of turnover tax. The groups of products to which the reduced wholesale prices apply are stated to comprise metals, machinery, equipment, fuel, chemicals, building materials and paper, while cuts have also been made in the tariffs for electricity and heating, and in freight charges as well.

In the eastern countries of Europe, no price indexes are published, but sometimes, as in the U.S.S.R., statements are issued giving the amounts which, it is calculated, have been or will be "saved" by the population thanks to certain prescribed reductions in prices. In eastern Germany, no official price index is published but certain data are available on prices charged in the state-managed shops (the so-called "H.O."), and from time to time statements have been issued regarding the amounts "saved" as a result of price reductions for purchases in such state shops. The supply of consumer goods has clearly improved in eastern Germany in recent years. The technique followed has been the sudden prescription of price reductions, of which there were no fewer than twelve applicable to the state trade in the period from 15th November 1948 to the end of April 1952. As, at the earlier date, prices — apart from those fixed for the limited supplies of rationed goods — were excessively high, there was room for substantial reductions, and, according to the data available, the cuts have brought the level down to less than one-fourth of what it was before the first one was made in the autumn of 1948. At the time of the eleventh price cut, in December 1951, it was announced that the aggregate "saving" by the population in respect of purchases of relevant consumer goods during the year 1952 would amount to (eastern) DM 2.3 milliard. On an average, prices are undoubtedly higher in eastern Germany than in the western part of the country, but the difference has gradually become less marked.

* * *

While in many countries 1951 was a year of rapidly rising prices, the prevailing mood everywhere has gradually become one of reaction against inflationary price increases, with the result that the general consumer's prospects of a more stable price level have improved. The outstanding developments have been:

(i) The decline in world-market prices of staple products (the effects of this tendency being visible even in countries like France, where prices otherwise have risen sharply — see graph on page 84).

(ii) The steps taken in several countries to restore a more normal price mechanism (this being one aspect of the more ample use now being made of monetary policy).

One of the dangerous consequences of the Korea boom was that the sharp increase in raw-material prices widened the divergence between the rise in wholesale prices and the rise in the cost of living; in doing so, it intensified an existing distortion which, inter alia, acted as an inflationary force in so far as the increase in the cost of raw materials and the financing of that increase tended to cause a rise in prices generally. Thus, from this point of view as from so many others, the downward movement of raw-material prices in the spring of 1951 was of the utmost importance as a corrective, but, up to the end of that year, no appreciable narrowing of the "gap" could as yet be seen.

As the prices of primary products were exceptionally low in 1938, owing to the relative slackness of industrial activity at that time in the United States (see page 76), it may well be that the ideal equilibrium ratio today would be one incorporating a somewhat more pronounced increase in wholesale prices than in the cost of living.

Ratio between wholesale prices and the cost-of-living indexes (base year: 1948) in the last month of 1949, 1950 and 1951.

Countries	December 1949	December 1950	December 1951
	Cost of living = 100		
Italy	89	97	89
United States	96	103	99
Switzerland	93	102	100
Canada	99	106	100
Turkey	94	99	100
France (1)	99	103	106
Australia	104	113	109
Netherlands	100	107	114
Belgium	99	116	115
South Africa	102	106	117
Norway	103	114	117
Sweden	100	109	118
Austria	101	114	118
Denmark	103	114	124
United Kingdom	106	123	125
Germany (western) (1)	105	127	129
Finland	99	104	129
Spain	104	120	129
Japan	128	167	171

(1) 1949 = 100.

The process of removing price controls and rationing — a process which had been interrupted by the outbreak of the conflict in Korea — was resumed after prices of staple commodities and of some consumer goods (textiles, shoes, household appliances, etc.) had begun to decline in 1951. A situation had arisen in which, at current prices, the markets were rather oversupplied, and this, in itself, made it possible to dispense with the system of allocations. But, even so, it was not until the first half of 1952 that, in the United States, the Office of Price Stabilization ordered the first lifting of the price controls which had been reimposed at the height of the Korea boom. Thus by April ceiling prices had been suspended for sixteen commodities in the following three groups: cattle-hides, wool, and oils and fats. And in the following month the Office suspended the price control for raw cotton and virtually all textiles, it being stated, however, that control would be reintroduced should the cotton price again go beyond the limit of 43.39 cents per pound.

In the United Kingdom, the markets for an increasing number of commodities (e.g. timber and tea) are being freed; on the other hand, it has been decided that the time has not yet come to put the machinery of the cotton exchange into working order. In many cases the difficulty of removing controls is still a monetary one: the lack of adequate reserves. In the return to more active markets, an important step is the progressive abandonment of the system of subsidies, which has, in point of fact, tended to create a situation in which supplies of imported goods are not allowed to increase in full response to the demand, since the weight of the burden on the state finances is directly proportionate to the amount of these goods made available to consumers. At the same time, the practice of bulk buying, which played a considerable rôle, especially in the United Kingdom, during the war and in the post-war period, is being restricted to a narrower field.

The discarding of controls after the first world war took place in the years 1920–23, when prices were falling, and the decline in prices after the boom of 1950–51 is now having a similar effect. What is happening is that general controls in the monetary and credit field are beginning to make it unnecessary for direct control measures to be applied any longer to individual commodities. As regards general controls, it is rather remarkable that, despite the increased outlay for rearmament, it has proved possible to curb the tendencies to undue expansion of credit without resorting to anything but moderate increases in interest rates — at least in those countries whose currencies have not suffered a far-reaching loss in real value.

One of the great economic difficulties still remaining is the absence of a proper adjustment between prices in different countries and currencies. Unfortunately the obstacles to international trade are still very considerable; in many cases they are primarily a reflection of monetary difficulties (unadjusted credit positions at home, coupled with a lack of reserves); but only too often they are of a purely protectionist nature. There are indications that the countries of eastern Europe with centrally-controlled economies have taken steps to co-ordinate their prices and to increase opportunities for trade with one another. The other countries have every reason for attempting to achieve the same results by the methods suited to predominantly free economies.

IV. Expansion in World Trade.

As shipments of staple commodities form a large part of the goods exchanged between nations and the prices of these commodities rose steeply after the outbreak of the conflict in Korea, it was only to be expected that the value figures of world trade (as expressed in terms of current dollars) would show a considerable rise; but there has also been a very impressive increase in the volume (or quantum) of foreign trade. In the first half of 1951 the quantum of world exports was as much as 20 per cent. larger than in the corresponding period of the previous year. This compares with an increase in the value figures by more than 50 per cent.

Turnover of world trade in terms of value
(exports and imports together).

Areas	1947	1948	1949	1950	1951 (1)
	In milliards of U. S. dollars				
United States and Canada	27.7	26.9	25.6	26.6	35.6
United Kingdom	12.2	15.1	15.3	13.6	18.5
Rest of the sterling area	12.5	16.4	16.8	16.6	23.0
Total for the sterling area	24.7	31.5	32.1	30.2	41.5
O.E.E.C. countries (excluding the United Kingdom, Ireland and Iceland)	23.0	26.5	28.0	29.7	41.5
Latin American republics	11.9	12.7	11.0	11.6	16.0
Other countries	14.6	17.5	18.5	18.4	25.4
Total (2)	101.9	115.1	115.2	116.5	160.0

(1) Partly estimated. (2) Excluding China, the U.S.S.R., the Soviet zone of Germany and eastern European countries, for which figures are not reported currently.

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: 1948 = 100								
1949	111	93	119	95	95	100	102	94	108
1950	114	75	152	83	92	90	104	87	120
1951	155	92	169	119	106	112	.	.	.
1950 1st quarter	101	74	137	75	89	84	92	82	112
2nd "	104	74	141	81	89	91	95	84	113
3rd "	111	75	148	80	92	87	105	88	119
4th "	140	78	179	96	98	98	127	94	135
1951 1st quarter	139	83	167	103	103	100	136	102	133
2nd "	155	89	174	123	107	115	148	107	138
3rd "	156	94	166	118	106	111	138	106	129
4th "	171	98	174	128	106	121	.	.	.

* Excluding China, the U.S.S.R., the Soviet zone of Germany and eastern European countries, for which figures are not reported currently.

Note: As regards the changes in "unit value", it should be remembered that in 1948 (the year before the devaluations) European prices were, in general, on the high side, so that a certain reduction in relation to extra-European prices was no doubt called for; consequently, the apparent moderateness of the European "unit value" even as late as the autumn of 1951 should not be taken as indicating that there was still room for further increases.

All parts of the world have participated in the expansion of trade. The data regularly published by the U.N. Secretariat as to the dollar value, the unit value (price) and the quantum of world exports are shown in the preceding table.

European trade was at a low level in 1948, with exports amounting to only 85 per cent. of the 1938 volume, and there was thus quite a lot of leeway to be made up. By 1951 the volume of intra-European trade was some 40 per cent. larger than in 1938, while the volume of western Europe's exports to other areas had increased by 58 per cent.

Thanks to the briskness of trade in 1951, increased use was made of the world's available shipping.

World shipping tonnage.(1)

Countries	1914	1939 September	1951 December	Percentage change (Sept. 1939-Dec. 1951)
	in thousands of gross register tons			
United States (2)	2,027	8,722	25,769	+ *195*
United Kingdom	18,892	16,892	16,526	— *2*
Other British Commonwealth countries	1,632	1,716	3,099	+ *81*
Total British Commonwealth	20,524	18,608	19,625	+ *5*
Argentina	.	246	951	+ *287*
Denmark	770	1,093	1,263	+ *16*
France	1,922	2,748	3,122	+ *14*
Germany (western)	5,135	4,185	854	— *80*
Greece	821	1,763	1,259	— *29*
Italy	1,430	3,322	2,937	— *12*
Japan	1,708	5,427	2,200	— *59*
Netherlands	1,472	2,792	3,005	+ *8*
Norway	1,957	4,686	5,582	+ *19*
Panama	.	722	3,658	+ *407*
Spain	884	932	983	+ *5*
Sweden	1,015	1,442	2,061	+ *43*
U.S.S.R.	.	1,154	1,192	+ *3*
Other countries	3,479	3,564	6,042	+ *69*
World total	43,144	61,426	80,503	+ *31*

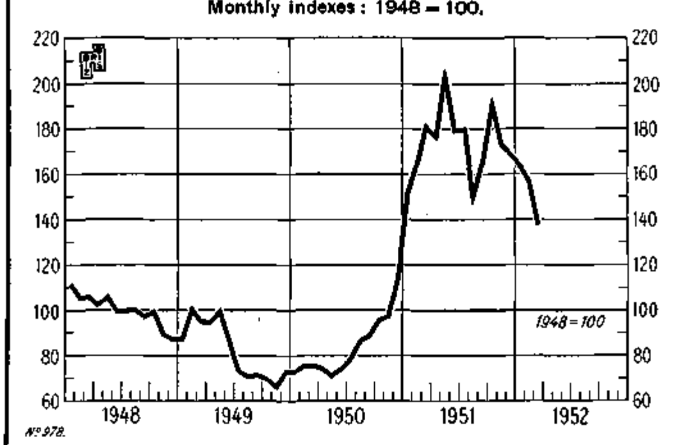
(1) Steam and motor vessels of 500 gross register tons and over, excluding lake and river tonnage.
(2) Vessels of 1,000 tons and over, except in 1939.

The world total of available tonnage has risen by one-third since the eve of the second world war, but in the United States about 2,000 vessels, aggregating some 20 million dead-weight tons, were put in "moth balls" at the end of the war. The additional demand for shipping after the outbreak of the conflict in Korea has been met largely by recommissioning about one-third of the ships laid up and using them to carry emergency supplies, including wheat to India (threatened by famine) and coal to Europe.

The war losses suffered by Norway, the Netherlands, France and Denmark had all been made good by the end of 1951; the United Kingdom reached that stage by the end of the first quarter of 1952. Not only have the losses in tonnage been replaced, but the ships built since the war are more efficient than the old. As regards the composition of the fleets, the pattern has changed somewhat. Before the war 82 per cent. of the deadweight tonnage represented dry-cargo ships and 18 per cent. tankers; in 1951 tankers accounted for 22 per cent. of the total tonnage. It has been reported that by July 1951 the proportion of tanker tonnage in the world shipbuilding programme amounted to as much as 38 per cent. of the total.

Freight rates went up to unprecedented heights in the spring of 1951. Then, after some months of fluctuation, a definite decline set in during the autumn of that year and by April 1952 the rates were back at practically the same level as at the beginning of 1948 (the diagram below shows the movement until March 1952 only). The decline reflects the decrease in Europe's need for American coal (and the consequent release of shipping-space previously required to transport it), as well as the constant addition of new vessels to the total of tonnage available. It is possible that the import restrictions decided upon by a number of countries in the winter of 1951–52 have also begun to exert an influence, especially as regards trade with overseas raw-material-producing countries; but, on the other hand, there is an increased need for transport in connection with the rearmament effort.

United Kingdom. Tramp-shipping freight rates.
Monthly indexes: 1948 = 100.



While the overall figures both for the value and for the volume of international trade have shown a remarkable increase, 1951 saw the development of certain shifts and tensions which, for some countries, took on the character of a crisis. Reference to them (and their principal causes) has been made in other chapters of the Report, especially the Introduction. The main features are briefly recalled below.

(i) After the outbreak of the conflict in Korea, the raw-material-producing countries experienced a sudden increase in their foreign exchange earnings, and when, with a certain time-lag, they came to spend their larger income, their imports began to rise rapidly. But by the time that happened it had already become clear to their customers that the expected scarcities were not going to develop, and the consequent fall in commodity prices confronted the raw-material-producing countries with serious balance-of-payments deficits. The countries most affected were various members of the sterling area and certain Latin American countries. To cite only one example: the export surplus of A£250 million earned by Australia in the year July 1950 to June 1951 is giving place to an import surplus which, it is estimated, will amount to some A£400 million in the accounting year July 1951 to June 1952.

(ii) The decline in the earnings of the outer sterling area led to heavy demands on the dollar pool in London, at the same time as other causes, partly internal, were leading to an increasing deficit in the balance of payments of the United Kingdom itself. Partly as a result of similar developments, France, too, was faced with a growing deficit in its balance of payments.

(iii) As stop-gap measures designed to halt the drain on the dwindling reserves, the raw-material producers, as well as the two European countries most directly affected, imposed trade restrictions. In addition, these two countries and some of the others made more fundamental changes in their fiscal and credit policy with a view to restoring real balance and preparing the way for a return to trade liberalisation.

Although, in any attempt to allocate responsibility for the difficulties of the European and raw-material-producing countries concerned, it would be a serious mistake to minimise the influence of certain domestic policies, it must be recognised that the sudden ups and downs in world prices and the sharp variations in the currents of world trade have been primarily reactions to changes which had their starting-point in the United States.

United States: Foreign trade.

Period		Exports (1)	Imports (2)	Balance
		in millions of dollars		
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 „	2,510	1,931	+ 579
	3rd „	2,451	2,388	+ 63
	4th „	2,949	2,644	+ 305
1951	1st quarter	3,335	3,033	+ 302
	2nd „	4,019	2,980	+ 1,039
	3rd „	3,689	2,496	+ 1,193
	4th „	3,978	2,452	+ 1,526
1952	1st quarter	3,991	2,776	+ 1,215

(1) Including re-exports, aid and relief shipments.
(2) General imports.

The decline in the export surplus, which had begun in the second half of 1949 and had reached its extreme point in the third quarter of the following year, was reversed in the fourth quarter of 1950. In 1951 the active balance of trade climbed back to $4 milliard and the surplus in the balance of payments was about $5 milliard (see the table on page 19). Invisible receipts were larger in 1951 than in 1950, mainly owing to an increase on transport account. After having shown a considerable decline during the period from 1947 to 1950, U.S. earnings from shipping became an important item again in 1951 because of increased shipments of coal and grain, with freight at higher rates and payable in dollars.

Western Europe was able to reduce its current deficit in the balance of payments up to 1950 but a setback occurred in 1951.

O.E.E.C. countries: Current account of the balance of payments.

Items	Balance in relation to the United States				other non-O.E.E.C. countries				all countries			
	1948	1949	1950	1951*	1948	1949	1950	1951*	1948	1949	1950	1951*
	in milliards of U.S. dollars											
Merchandise trade (f.o.b.)												
Imports	4.5	4.2	3.4	5.1	10.8	9.2	9.4	13.2	15.3	13.4	12.8	18.3
Exports	1.2	1.0	1.3	2.0	8.2	9.2	8.6	12.1	9.4	10.2	9.9	14.1
Balance on trade account	—3.3	—3.2	—2.1	—3.1	—2.6	0	—0.8	—1.1	—5.9	—3.2	—2.9	—4.2
Net income from:												
Investments	0	0			+0.4	+0.5			+0.4	+0.5		
Transport	—0.3	—0.2	+0.4	+0.1	+0.3	+0.1	+0.5	+0.3	0	—0.1	+0.9	+0.4
Other services	+0.2	+0.3			+0.1	—0.2			+0.3	+0.1		
Balance on service account	—0.1	+0.1	+0.4	+0.1	+0.8	+0.4	+0.5	+0.3	+0.7	+0.5	+0.9	+0.4
Balance of goods and services	—3.4	—3.1	—1.7	—3.0	—1.8	+0.4	—0.3	—0.8	—5.2	—2.7	—2.0	—3.8

* Preliminary figures. The official estimates of the balance of payments for a number of European countries, including Belgium, France and Italy, were not yet available to the International Monetary Fund when it made the overall estimates which have been reproduced in the above table. Thus the estimates for 1951 are merely tentative.

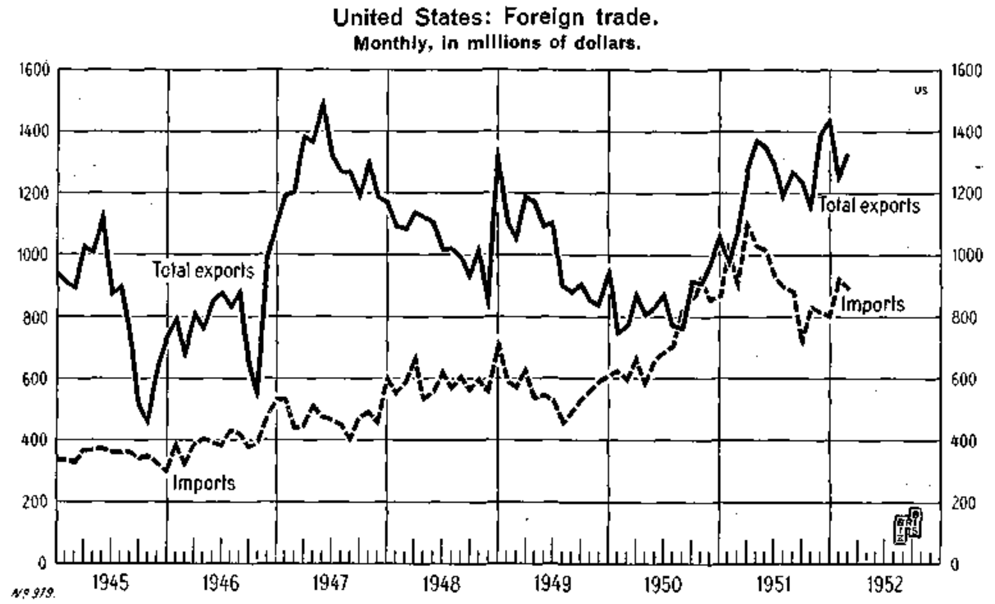
The increase in the current deficit is mostly in relation to the United States, but the effects of restrictive import measures taken in several raw-material-producing countries will as a rule affect the trade only in 1952.

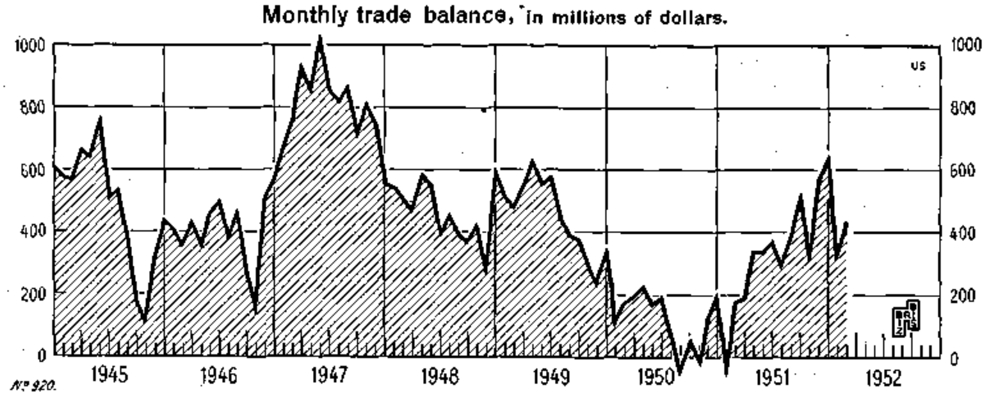
United States: Foreign trade.

Period	Exports (1)	Imports (2)	Balance	Trade with O.E.E.C. countries (3) Exports (1)	Imports (2)	Balance
	in millions of dollars					
1949	12,051	6,622	+ 5,429	4,076	842	+ 3,234
1950	10,275	8,852	+ 1,423	3,165	1,261	+ 1,904
1951	15,020	10,962	+ 4,058	4,824	1,911	+ 2,913
1950 1st half	4,875	3,820	+ 1,055	1,538	483	+ 1,055
2nd half	5,400	5,032	+ 368	1,627	778	+ 849
1951 1st half	7,354	6,014	+ 1,340	2,375	1,028	+ 1,347
2nd half	7,666	4,948	+ 2,718	2,449	883	+ 1,566

(1) Including re-exports, aid and relief shipments. (2) General imports. (3) Excluding overseas territories.

It was in the first quarter of 1951 that U.S. import figures were highest, while exports, despite a temporary decline in the third quarter, remained at record levels for most of the year. A number of special circumstances — discontinuance of oil shipments from Iran, failure of cereal crops in India and the Argentine, and the fact that the output of coal in Europe was still low — deprived other countries of supplies of basic commodities from the normal sources and made them turn to the United States. The value of the coal exported by the United States to the O.E.E.C. countries amounted to $280 million in 1951, as compared with $8 million in 1950, but this export item is fortunately declining since European





coal production is coming nearer to satisfying the demand. On the other hand, the export value of the so-called "special category" items (primarily military equipment) rose from a total of $632 million in 1950 to $1,552 million in 1951.

United States: Indexes of total value, unit value and quantity of U.S. imports and exports.

Year	Imports for consumption			Exports*		
	Total value	Unit value	Quantity	Total value	Unit value	Quantity
	Base: 1936–38 = 100					
1936–38	100	100	100	100	100	100
1947.	230	213	108	518	188	275
1948.	288	235	123	428	200	214
1949.	268	224	120	408	185	221
1950.	355	243	146	347	180	193
1951.	439	305	144	508	206	247

* Excluding re-exports.

The United States imports a quantity of goods 40 to 50 per cent. greater than before the war but pays unit prices three times as high as before the war (largely as a result of the intense demand for raw materials by the United States itself — in contrast to the state of affairs during the depression period of the 1930s). The quantity of exports has risen by two and a half times and they are sold at prices which have about doubled. In total value, imports (despite the higher prices which had to be paid) had, by 1951, risen somewhat less than exports, the level in both cases being about four to five times as high as before the war.

Manufactured and semi-manufactured articles made up about two-thirds of U.S. exports in 1951, or very nearly the same high proportion as in other recent years. A characteristic feature of American trade developments has been the increase in supplies of ready-made articles furnished to raw-material-producing countries.

As will be seen from the following table, there are few areas of the world in relation to which the United States has not now a surplus on the current account of its balance of payments.

United States: Balance of goods and services by geographical areas.*

Period	O.E.E.C. countries	O.E.E.C. overseas territories	Canada	Latin America	Other areas	World total	Sterling area
	In millions of dollars						
1949	3,171	190	585	725	1,700	6,371	790
1950	1,734	— 312	293	357	225	2,297	— 361
1951	3,041	— 518	672	1,017	817	5,029	260
1949 1st quarter	926	29	167	224	492	1,838	143
2nd ,, ...	962	65	276	200	523	2,026	318
3rd ,, ...	664	80	74	184	379	1,381	231
4th ,, ...	619	16	68	117	306	1,126	98
1950 1st quarter	520	— 50	63	6	188	727	9
2nd ,, ...	443	— 75	142	128	179	817	— 103
3rd ,, ...	284	— 69	— 29	— 11	— 55	120	— 107
4th ,, ...	487	— 118	117	234	— 87	633	— 160
1951 1st quarter	526	— 196	178	— 82	34	460	— 171
2nd ,, ...	880	— 133	280	235	83	1,345	— 139
3rd ,, ...	708	— 106	87	474	198	1,361	70
4th ,, ...	927	— 83	127	390	502	1,863	500

* A deficit is indicated by a minus (—) sign. The absence of a sign signifies a surplus.

While by 1950 it had again become possible for the European countries to earn dollars by triangular trade (i.e. by selling manufactured articles to overseas raw-material producers who had a surplus with the United States), by the end of 1951 these possibilities had practically vanished.

As may also be seen from the table just given above, the reversal in the balance of payments of the United States has been most pronounced in relation to the sterling area.

Reference has already been made to the sudden change in Australia's trade figures. The accounting year July 1951 to June 1952 has not yet run its full course, but a tentative estimate has been made on the basis of the data for the first eight months.*

* Published in the issue of "The Banker" (London) for April 1952.

Australia: Balance of payments.

Items	1949–50	1950–51	1951–52*
	in millions of A£		
Exports (f.o.b.) and gold output	606	992	700
Imports (f.o.b.)	538	743	1,100
Balance	+ 68	+ 249	— 400
Invisible items (net)	— 117	— 165	— 200
Balance on current account	— 49	+ 84	— 600

* Advance estimate.

Rapid industrialisation, together with the arrival of a large number of immigrants, made for an increasing flow of imports, until steps were taken in the spring of 1952 not only to reduce imports but also to adjust the volume of investment to the amount of domestic savings plus such resources as could be obtained from abroad.

New Zealand still had an export surplus in the first half of 1951 but a deficit in the second half (and for the whole year a surplus of NZ£16 million on the current account of its balance of payments), but it is expected that this year's wool cheque will be about half the size of last year's because of the fall in prices by more than 50 per cent. In order to help to redress the position of the sterling area as well as to improve its own position, New Zealand decided, in the spring of 1952, to restrict private imports by 20 per cent.

For the United Kingdom itself, the deterioration in the balance of payments, which turned a current surplus of £244 million for 1950 into a deficit of £521 million for the following year, had already begun in the first half of 1951 but was more pronounced in the second half.

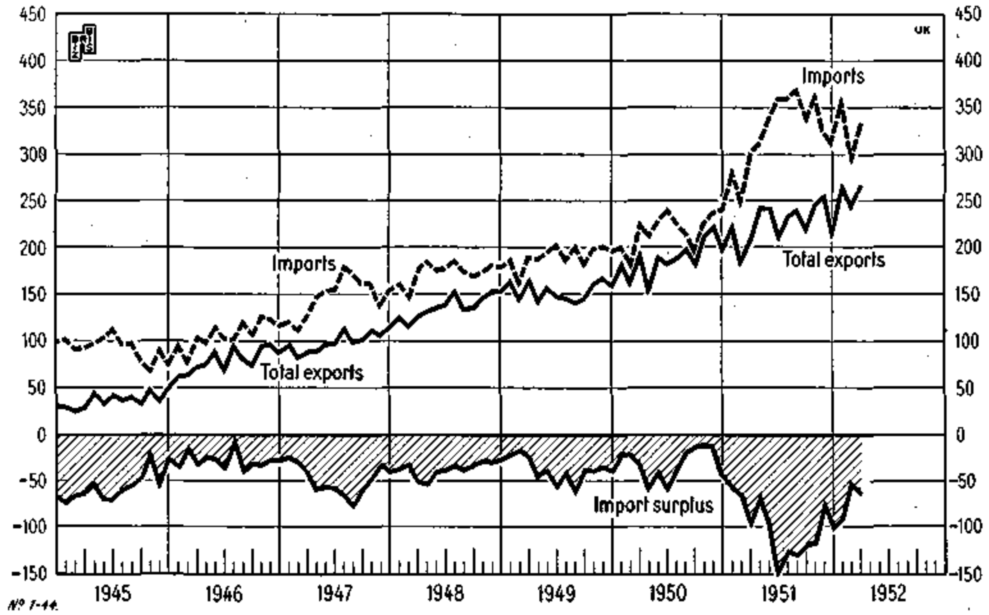
Not only was there an increase in the import surplus, but the net result for every invisible item (as given in the published statistics) was less favourable in 1951 than in 1950. Moreover, the whole of this deterioration took place in the

United Kingdom: Current account of the balance of payments.

Items	1947	1948	1949	1950	1951*
	In millions of £ sterling				
Imports (f.o.b.)	1,560	1,791	1,974	2,372	3,497
Exports and re-exports (f.o.b.)	1,135	1,588	1,820	2,225	2,708
Balance of trade	— 425	— 203	— 154	— 147	— 789
Government transactions (net)	— 230	— 92	— 149	— 141	— 149
Invisible items (net)					
Interest, profits, dividends	+ 80	+ 76	+ 78	+ 128	+ 90
Shipping	+ 33	+ 76	+ 81	+ 113	+ 106
Travel	— 55	— 33	— 30	— 22	— 34
Other items	+ 52	+ 150	+ 179	+ 313	+ 255
Total of invisible items	— 120	+ 177	+ 159	+ 391	+ 268
Total balance of current transactions	— 545	— 26	+ 5	+ 244	— 521

* Provisional figures.

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



second half of the year when the setback was greatest in relation to "other items" (which include the income from the overseas current transactions of British-owned oil companies — cf. page 24).

The considerable rise in the value of U.K. imports in 1951 was due to a 30 per cent. increase in prices and a 16 per cent. increase in volume as compared with 1950. The volume of exports, which had been improving by leaps and bounds since the end of the war, registered an increase of no more than 3 per cent. in 1951.

United Kingdom: Volume of foreign trade.

Year	Imports	Exports
	Index: 1947 = 100	
1947	100	100
1948	105	127
1949	114	140
1950	114	162
1951	132	167

The replenishing of stocks in 1951 led, in particular, to larger imports of raw materials and certain semi-manufactured products for use in industry. Not only did larger imports contribute to an increase in the trade deficit, but the changes on invisible account and the worsening of the terms of trade, between them, cost the United Kingdom about £500 million in 1951 (according to the "Economic Survey for 1952").

It had been feared that the rearmament drive would seriously curtail exports, especially in the metal and engineering industries; but, in point of fact, the volume of engineering products exported in 1951 was 4 per cent. greater than in 1950 and represented no less than 38 per cent. of the year's total exports. Even so, the engineering industry had difficulty in carrying out all the orders it received; there were often long delays in delivery. At the same time, there was a fall in world demand for textiles and several other types of consumer goods, coinciding with an intensification of foreign competition. As the "Economic Survey" puts it: "The result was that we could not sell enough of the things we could supply and we could not supply enough of the things we could sell."

United Kingdom: Import and export percentages by major trading areas.

Year	Imports from				Exports to			
	western hemisphere	sterling area	O.E.E.C. countries*	rest of the world	western hemisphere	sterling area	O.E.E.C. countries*	rest of the world
	in percentages of totals							
1929	31	26	31	12	21	37	31	11
1937	30	31	24	15	19	39	28	14
1948	30	36	21	13	16	48	25	11
1949	28	37	24	11	15	51	23	11
1950	25	38	25	12	18	47	26	9
1951	25	36	26	13	17	49	25	9

* Including overseas territories (except those in the sterling area).

As compared with the period before the war, the share of the sterling area in United Kingdom trade has gained in importance both on the import and on the export side. This development reflects not only the relative freedom of trade and payments within the area but also, as far as exports are concerned, the fact that countries holding large sterling balances have increased their demand — so that exports which would otherwise have gone elsewhere have tended to be channelled towards them. The reduction in the share of imports from the dollar area is connected partly with the increased availability of other sources of supply (in, for instance, some of the O.E.E.C. countries and their overseas territories) and partly with the curtailment of dollar imports by the authorities.

At the meeting of the Commonwealth Finance Ministers in London in January 1952 it was decided that, after defence aid to the United Kingdom and other foreign gifts or loans had been taken into account, the sterling area as a whole must be in balance with the non-sterling world in the second half of 1952, whereas in the second half of the previous year it had had a deficit of about £750 million. In the first five months of 1952, most of the overseas sterling-area countries announced new measures to reduce imports from the non-sterling world, and some of them, notably Australia, have found it necessary, in view of their large overall deficits, to restrict imports from the sterling area as well.

As far as the United Kingdom is concerned, substantial cuts had to be made in the original programme of overseas expenditure in 1952. This programme had been designed to allow for broadly the same consumption of food as in 1951; an increase in raw-material consumption (as the necessary concomitant of an increase in industrial activity); substantial imports of machine-tools and of other equipment necessary for the defence effort; some rebuilding of commercial stocks; and additions to the strategic stockpile. When, later, the list was revised in order to cut down expenditure by £600 million,* care was taken to ensure that industry should continue to get the essential supplies necessary to support an expansion of production. Consequently, the main burden of the cuts was to fall on food consumption and the holding of stocks of food, tobacco and raw materials, while cuts in invisible imports (tourism, shipping freights and government expenditure overseas) were also to be made.

The effect of these cuts will be to bring imports down to less than the volume normally imported in the years immediately before the second

* As mentioned on page 26, the Economic Survey estimates the reduction in the volume of imports from 1951 to 1952 at 10 per cent.; in terms of unchanged prices this would correspond to an import-value figure for 1952 about £300 million short of the 1951 figure — one-half of the reduction to be in the form of a cut in imports for the building-up of stocks.

world war, and this is contemplated regardless of the 6 per cent. increase in population and the great advance in industrial production which have occurred since then. In making these cuts the country has, to some extent, gone back on the trade liberalisation previously agreed to, but the U.K. Government had obtained the necessary approval from the competent O.E.E.C. bodies for the action contemplated.

France, too, decided to cut its imports in order to check the depletion of its monetary reserves. By virtue of decisions of the French Government in February 1952 and with the due approval of O.E.E.C., quotas were applied once more to all imports from O.E.E.C. countries, except some items of food and raw materials. According to a statement by the French Minister for Economic Affairs, the result would be a reduction in the liberalisation ratio (i.e. the relation of imports free from quantitative restrictions to total private imports from O.E.E.C. countries) from 75 to 40 per cent. At the same time, certain steps were taken to promote exports (including the extension to all exports of the exemption from tax and social-security payments which had previously been granted only for exports to the dollar area) and the control over acquisition of foreign exchange to pay for imports has been tightened.

The circumstances which explain the sudden deterioration in the French foreign exchange position have been indicated in the Introduction to this Report. In that connection it was mentioned that metropolitan France has had to bear the burden of heavy deficits incurred by the French overseas territories, which would seem to have amounted to about Fr.fcs 200 milliard in 1950 and perhaps Fr.fcs 300 milliard in 1951. These figures are only approximate; the French balance-of-payments statistics give data for the balance of payments of:

(i) metropolitan France in relation to foreign countries (i.e. to all countries other than the French overseas territories);

(ii) French overseas territories in relation to foreign countries (i.e. to all countries other than metropolitan France); and

(iii) the whole French franc area in relation to the rest of the world — a figure which is obtained by adding together the balances arrived at under (i) and (ii).

On the other hand, there is no separate estimate of the balance between metropolitan France and the rest of the French franc area (as there is of the balance between the United Kingdom and the rest of the sterling area); there is consequently no estimate of the balance of payments of metropolitan France in relation to all other countries, including its own overseas territories.

As a matter of fact, France, like the United Kingdom, had a substantial surplus with its own overseas monetary area. As far as merchandise trade is concerned, this appears from the ordinary trade statistics.

On invisible account, too, metropolitan France has undoubtedly been a creditor in relation to its overseas territories — and not only in respect of freight but also as regards interest and profits, although no precise data regarding these income items are available. Excluding these invisible items, it

Metropolitan France:
Trade with its overseas territories.

Year	Imports	Exports	Balance
	in milliards of French francs		
1948	190	192	+ 2
1949	241	327	+ 86
1950	280	387	+ 107
1951	335	546	+ 211

can be estimated that in trade, reckoned f.o.b., metropolitan France had a surplus with the "rest of the French franc area" of at least Fr.fcs 150 milliard in 1950 and Fr.fcs 270 milliard in 1951 (these figures corresponding to about \$400 million and \$770 million respectively). If the method used in calculating the balance of payments of the United Kingdom were applied to France, metropolitan France would be found to have had a substantial surplus on current account in 1950, since its own deficit in relation to other countries (estimated at the equivalent of \$115 million) would be more than counterbalanced by its surplus of at least \$400 million in relation to its overseas territories. Since the surplus in question (which, of course, corresponds to a deficit for the overseas territories) was financed mainly by French capital exports — on official and private account — it did not bring in any immediate resources; moreover, the French overseas territories had a deficit in relation to the outside world, i.e. countries other than metropolitan France, as mentioned on the previous page.

For the whole French franc area, estimates of the balance of payments for 1951 show a considerable increase in the current deficit.

French franc area: Current account of the balance of payments.

Items	1947	1948	1949	1950	1951 (1)
	in millions of U.S. dollars				
Metropolitan France:					
Merchandise trade (2)					
Imports (f.o.b.)	2,492	2,510	2,035	1,958	3,267
Exports (f.o.b.)	1,040	1,082	1,567	1,880	2,496
Trade balance	— 1,452	— 1,428	— 468	— 78	— 771
Invisible items (net)					
Tourist traffic	+ 9	+ 70	+ 121	+ 141	+ 77
Freights	— 311	— 273	— 209	— 141	— 203
Interest and dividends	+ 122	+ 132	+ 100	+ 52	+ 38
Other items	+ 119	— 31	— 83	— 89	— 113
Total of invisibles	— 61	— 102	— 71	— 37	— 201
Balance of French overseas territories	— 163	— 208	— 167	— 123	— 88
Balance on current account of the whole French franc area	— 1,676	— 1,738	— 706	— 238	— 1,060

(1) Provisional figures.
(2) In relation to foreign countries, i.e. countries other than the French overseas territories.

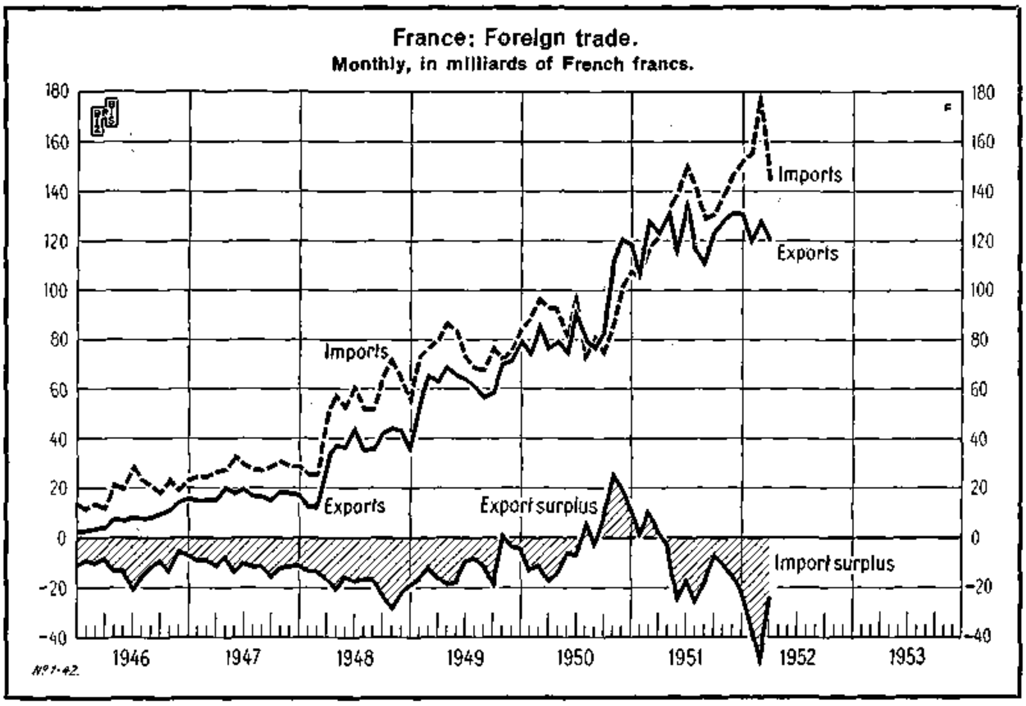
The adverse turn taken by events in the course of 1951 may be seen from the trade figures.

Metropolitan France: Foreign trade.*

Period	Value: Imports	Value: Exports	Value: Balance
	in milliards of French francs		
1948	673	434	— 239
1949	926	784	— 142
1950	1,073	1,073	0
1951	1,607	1,479	— 128
1950 1st quarter	278	236	— 42
2nd ,,	270	244	— 26
3rd ,,	229	240	+ 11
4th ,,	296	352	+ 56
1951 1st quarter	344	357	+ 13
2nd ,,	424	380	— 44
3rd ,,	402	351	— 51
4th ,,	437	391	— 46
1952 1st quarter	477	367	— 110

* With foreign countries and the French overseas territories.

After having been in balance in 1950, the foreign trade of metropolitan France again showed a deficit in relation to all other countries taken together but, in real terms, this was much smaller than in 1948 and 1949, since account has to be taken of the rise in wholesale prices (by 20 per cent. in 1950 and 26 per cent. in 1951). In 1951, moreover, no less than 92 per cent. of the import total was covered by exports, as compared with 64 per cent. in 1948 and 85 per cent. in 1949.

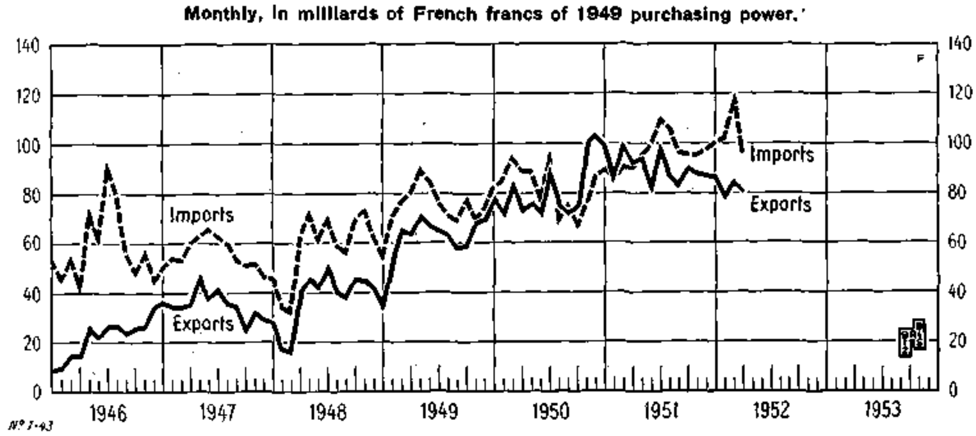


The volume of trade has risen steadily in recent years: imports in 1951 are estimated to have been 23 per cent. above the 1949 level, while for exports the advance was no less than 61 per cent.

Metropolitan France: Foreign trade according to monetary areas.

Items	Dollar area	Sterling area: O.E.E.C. countries	Sterling area: Other countries	Sterling area: Total	O.E.E.C. countries not in the sterling area	Other countries	French overseas territories	Total
	In milliards of French francs							
1950: Imports	165	86	161	247	262	119	280	1,073
Exports	60	112	30	142	353	131	387	1,073
Balance	— 105	+ 26	— 131	— 105	+ 91	+ 12	+ 107	0
1951: Imports	241	162	286	448	397	185	335	1,607
Exports	116	157	52	209	420	188	546	1,479
Balance	— 125	— 5	— 234	— 239	+ 23	+ 3	+ 211	— 128

France: Volume of foreign trade.
Monthly, in milliards of French francs of 1949 purchasing power.



The year 1951 was characterised by a growing deficit in relation to both the dollar and the sterling area (especially the latter) and by a growing surplus in relation to the French overseas territories. In the first two months of 1952 the heavy net import surplus continued, but in March the trade deficit was reduced to Fr.fcs 24 milliard — this reduction, however, being largely a consequence of the vigorous import restrictions which had been imposed.

Italy, too, experienced an increase in its trade deficit in 1951; for imports rose in value by as much as 46 per cent., against a 36 per cent. increase in exports.

About one-third of the increase in the value of imports was due to an increase in volume and about two-thirds to the rise in prices. In the

Italy: Foreign trade.*

Period	Values			Price		Volume	
	Imports	Exports	Balance	Imports	Exports	Imports	Exports
	in milliards of lire			index: 1948 = 100			
1949	883	641	— 242	*93*	*97*	*110*	*111*
1950	926	753	— 173	*88*	*91*	*118*	*139*
1951	1,353	1,027	— 326	*116*	*112*	*130*	*144*

* Including trade of Trieste.

first half of 1951 the terms of trade were more unfavourable to Italy than at any other time since 1948; the following months saw an improvement, thanks mainly to the fall in raw-material prices. One of Italy's difficulties is the fact that its main exports are finished articles and "luxury" farm products, while in 1951 as much as 65 per cent. of Italian imports consisted of raw materials and semi-manufactured goods and 19 per cent. of foodstuffs.

From the following table, which gives the trade figures in terms of current dollars, it can be seen that the total trade deficit was almost exactly twice as large in 1951 as in 1950. While the surplus in relation to the O.E.E.C. countries went down by $45 million, the deficits with American countries increased by nearly $140 million.

Italy: Trade distribution by currency areas.

Currency areas	1950			1951		
	Imports (c.i.f.)	Exports (f.o.b.)	Balance	Imports (c.i.f.)	Exports (f.o.b.)	Balance
	in millions of U.S. dollars					
O.E.E.C. countries	768	845	+ 77	1,173	1,205	+ 32
Eastern Europe	79	90	+ 11	101	107	+ 6
American countries with bilateral agreements	109	82	— 27	133	86	— 47
without bilateral agreements* . . .	393	133	— 260	556	178	— 378
Other countries	93	48	— 45	155	53	— 102
Total	1,442	1,198	— 244	2,118	1,629	— 489

* Actually the dollar area.

During the period in which there was a persistent surplus in relation to the E.P.U. (see Chapter IX), Italy increased the degree of trade liberalisation to almost 100 per cent., and early in 1952 it was decided to prolong until the end of 1952 the application of the present reduced customs tariff in which a cut of 10 per cent. had already been made. Largely thanks to these measures, a state of external balance in the E.P.U. sector was attained in February, March and April 1952.

In 1951, as compared with 1950, the current account of the balance of payments showed a larger trade deficit and smaller receipts from services, the total current deficit amounting to $223 million as against $50 million. In 1950 the cash balance had roughly corresponded to the economic balance, but in 1951 there was a difference of some $40 to 50 million, due to changes in the terms of payment.

Italy: Current account of the balance of payments.*

Items	1947	1948	1949	1950	1951
	in millions of U.S. dollars				
Merchandise trade (f.o.b.)					
Imports	1,327	1,388	1,420	1,360	1,915
Exports	666	1,068	1,115	1,200	1,640
Balance	— 661	— 320	— 305	— 160	— 275
Services (net)					
Freights	— 161	— 107	— 95	— 60	— 101
Tourist traffic	+ 6	+ 24	+ 35	+ 67	+ 71
Emigrants' remittances	+ 34	+ 85	+ 95	+ 74	+ 73
Other items	— 11	+ 18	+ 50	+ 29	+ 9
Net income from services	— 132	+ 20	+ 85	+ 110	+ 52
Balance on current account	— 793	— 300	— 220	— 50	— 223

* Trieste included as from 1949.

For Germany, also, 1951 brought a deterioration in its position in relation to the dollar area; but this was coupled with a favourable development in relation to the O.E.E.C. countries, and the net result was a pronounced improvement in the country's balance-of-payments position on current account, a deficit of DM 2,636 million (= \$627 million) in 1950 being turned into a surplus of DM 640 million (= \$152 million) in 1951.

Western Germany: Balance of payments.

Items	1950	1951 (1)
	in millions of U.S. dollars	
Merchandise trade (2)		
Imports (c.i.f.)	2,713	3,515
Exports (f.o.b.)	1,984	3,479
Balance	— 729	— 36
Services (net) (3)	+ 102	+ 188
Total balance on current account	— 627	+ 152

(1) Provisional figures.
(2) Including trade in gas, water and electric current.
(3) Including purchases of Deutsche Mark by the U.S. occupation administration.

Western Germany:
Balance on current account by monetary areas.

Areas	1949	1950	1951 (1)
	in millions of U.S. dollars		
E.P.U. countries (2)	+ 32	— 159	+ 499 (3)
Dollar area	— 922	— 275	— 335
Sterling area	— 67	— 246	— 99
Other countries	— 64	+ 53	+ 87
Total	— 1,021	— 627	+ 152

(1) Provisional figures.
(2) E.P.U. countries, excluding the sterling area but including other overseas territories attached to European currencies.
(3) Including \$4 million paid in interest to the E.P.U. itself.

In value, imports rose by 30 per cent., but average prices for imports are calculated to have risen by 27 per cent., so that the increase in volume did not go beyond 2 per cent. To some extent the smallness of the increase in imports was due to the utilisation of stocks accumulated during the import rush in the second half of 1950 and to the fact that, with raw-material prices falling, German importers became somewhat more hesitant; another contributory factor was the suspension of liberalisation in February 1951 (see page 7). It should be added that, thanks to an excellent harvest in 1950 and again in 1951, a volume of food imports only 5 per cent. greater than in 1950 sufficed in the following year, in spite of a considerable increase in consumption.

Exports, on the other hand, increased in volume by as much as 43 per cent. for all goods and by 62 per cent. for finished goods alone. In value, the export total increased by 75 per cent. (export prices having risen 22 per cent. above their 1950 level). Even so, western Germany's exports in 1951 amounted to only about 5 per cent. of total world exports, as compared with the proportion of 10 per cent. accounted for by the whole of Germany before 1939.

It was especially in relation to E.P.U. countries (and their monetary areas) that the improvement occurred, since these countries took nearly three-quarters of Germany's exports while furnishing about 60 per cent. of its imports.

Very much the same impression is given by the figures for visible trade.

Western Germany: Foreign trade by monetary areas.

Year	E.P.U. countries and their overseas territories	Dollar area	Other countries	Total
	in millions of U.S. dollars			
1950: Imports	1,934	575	204	2,713
Exports	1,502	229	252	1,983
Trade balance . . .	— 432	— 346	+ 48	— 730
1951*: Imports	2,204	831	480	3,515
Exports	2,544	380	555	3,479
Trade balance . . .	+ 340	— 451	+ 75	— 36

* Provisional figures.

In 1951 the account with the dollar area was burdened with large coal imports costing $126 million, i.e. representing 19 per cent. of the year's imports from the United States. All in all, about half the imports from the dollar area were paid for by foreign aid, amounting to $428 million.

The greatest relative expansion in the trade turnover was in relation to the third group of countries, comprising Latin America, the Middle and Far East and eastern Europe, and it was in trade with the overseas components of this group that the increase was the most marked.

The Benelux countries, also, were able to improve their respective balance-of-payments positions in 1951, but under rather different conditions: Belgium and Luxemburg being, in particular, large producers and exporters of steel, benefited by the strong demand for some of their main export products (see page 5), while the Netherlands, after some very decisive changes in policy (see page 12), was able to secure a surplus on the current account of its balance of payments in the second half of the year.

The improvement in Belgium's* balance of payments is predominantly the result of higher export figures; invisible trade (service items) showed an increased deficit, this being due to larger disbursements for freights.

* In the following paragraphs Belgium stands for the Belgium-Luxemburg Economic Union.

Belgium: Current account of the balance of payments.

Items	1947	1948	1949	1950	1951 January–September
	in millions of Belgian francs				
Merchandise trade					
Imports (f.o.b.)	77,020	80,700	72,400	88,900	85,000
Exports (f.o.b.)	60,670	75,450	79,900	84,100	102,100
Balance	— 16,350	— 5,250	+ 7,500	— 4,800	+ 17,100
Services (net)					
Transport	— 5,810	— 3,590	— 2,800	— 5,200	— 7,500
Tourist traffic	+ 290	— 2,100	— 1,300	— 1,400	
Interest and dividends	+ 140	+ 1,740	+ 300	+ 200	
Wages earned abroad	+ 1,700	+ 2,540	+ 1,600	+ 1,600	
Other items	+ 6,050	— 1,370	— 1,000	— 900	
Balance	+ 2,370	— 2,780	— 3,200	— 5,700	— 7,500
Donations	+ 640 *	+ 990	+ 600	+ 1,100	+ 1,600
Balance on current account	— 13,340	— 7,040	+ 4,900	— 9,400	+ 11,200

While the volume of imports was about the same in 1951 as in 1950, the volume of exports is estimated to have risen by 13 per cent. In the second half of 1951 import prices were falling while export prices continued to rise.

Belgium: Foreign trade.

Period	Value			Prices		Volume	
	Imports	Exports	Balance	Imports	Exports	Imports	Exports
	in milliards of Belgian francs			Index: 1948 = 100			
1949	81.9	80.1	— 1.8	95	100	98	108
1950	97.8	82.8	— 15.0	99	90	112	123
1951	127.2	132.6	+ 5.4	120	120	113	139
1951 1st quarter	33.1	30.7	— 2.4	117	111	123	141
2nd „	32.5	33.5	+ 1.0	122	118	111	145
3rd „	27.7	32.9	+ 5.2	121	124	98	133
4th „	33.1	34.6	+ 1.5	120	126	119	138
1952 1st quarter	32.3	34.6	+ 2.3	.	.	.	.

Belgium: Distribution of exports by categories.

Categories of goods	Values			Share of total		
	1949	1950	1951	1949	1950	1951
	in milliards of Belgian francs			in percentages		
Iron and steel	19.7	13.6	33.0	*24.6*	*16.4*	*24.9*
Textiles	13.6	19.2	26.2	*17.0*	*23.2*	*19.7*
Chemicals and fertilisers	7.4	8.1	13.5	*9.3*	*9.8*	*10.2*
Machinery and vehicles	12.2	7.8	11.5	*15.2*	*9.4*	*8.7*
Metallurgical products	3.7	3.8	5.5	*4.6*	*4.6*	*4.1*
Total of above goods	56.6	52.5	89.7	*70.7*	*63.4*	*67.6*
Other exports	23.5	30.3	42.9	*29.3*	*36.6*	*32.4*
Total of exports	80.1	82.8	132.6	*100.0*	*100.0*	*100.0*

•Iron and steel and textiles are standard Belgian exports, while the products of the chemical industry have recently been gaining in importance.

In 1950 iron and steel exports were slumping and textiles then headed the list of export commodities; but in 1951 this order was reversed, and since then the new tendency has continued.

For years, a characteristic feature of the foreign trade of Belgium has been the existence of an export surplus in relation to other European countries, together with a surplus of imports from overseas, and especially from the dollar area, since Belgian manufactures are largely based on materials imported from overseas, the finished articles being sold in Europe.

Belgium: Distribution of foreign trade.

Foreign trade in relation to	1950	1951
	in milliards of Belgian francs	
Europe:		
Exports	56.5	86.5
Imports	51.4	65.3
Balance	+ 5.1	+ 21.2
United States and Canada:		
Exports	8.1	12.3
Imports	18.2	24.6
Balance	— 10.1	— 12.3
Other countries:		
Exports	18.2	33.8
Imports	28.2	37.3
Balance	— 10.0	— 3.5
All areas:		
Exports	82.8	132.6
Imports	97.8	127.2
Balance	— 15.0	+ 5.4

This structural orientation of Belgian trade was reinforced in 1951 by other circumstances, including the greater facility of exports inside Europe owing to the E.P.U. The various credit measures taken by Belgium to guard against an overintensification or a further intensification of its European exports are indicated in Chapter VII. Here it may be added that in the first half of 1951 transit trade was again subjected to licensing and that early in 1952 certain additional restrictions were imposed on imports paid for in dollars.

The improvement in the balance-of-payments position of the Netherlands in the second half of 1951 appears from the following table.

Netherlands: Current account of the balance of payments.

Items	1949	1950	1951 1st half	1951 2nd half	1951 Total
	in millions of florins				
Merchandise trade					
Imports (f.o.b.)	4,610	6,811	4,161	3,881	8,042
Exports (f.o.b.)	3,431	4,763	2,922	3,479	6,401
Balance	— 1,179	— 2,048	— 1,239	— 402	— 1,641
Services (net)					
Interest and dividends	+ 215	+ 133	+ 112	+ 124	+ 236
Others	+ 711	+ 824	+ 335	+ 818	+ 1,153
Total of services (net)	+ 926	+ 957	+ 447	+ 942	+ 1,389
Balance on current account	— 253	— 1,091	— 792	+ 540	— 252

On account of seasonal factors, it is normal for the Dutch balance to be more favourable in the second half of the year, but in 1951 the difference between the two halves was exceptionally marked. For the year as a whole, the import surplus was about Fl. 400 million less than in 1950 and the net income from services about Fl. 450 million more. Among the service items, income from investments has not maintained its pre-war importance, having been reduced in consequence of loss of investments in Indonesia and of sales of foreign assets in the United States and elsewhere (the result of official liquidations and voluntary realisations). Net receipts on transport account (including income from shipping on the high seas and on the Rhine) amounted in 1951 to Fl. 370 million, or about one-quarter of the total net receipts from services.

While imports remained almost unchanged in volume from 1950 to 1951, it is estimated that the volume of exports rose by nearly 20 per cent., the most pronounced increases during recent years being in paper goods, chemical products, and leather and leather goods.

Netherlands: Foreign trade.

Year	Value			Price		Volume		Percentage of imports covered by exports
	Imports	Exports	Balance	Imports	Exports	Imports	Exports	
	in millions of florins			Index: 1948 = 100				
1947	4,251	1,859	— 2,392	*95*	*100*	*92*	*69*	*44*
1948	4,919	2,670	— 2,249	*100*	*100*	*100*	*100*	*54*
1949	5,297	3,794	— 1,503	*96*	*94*	*111*	*151*	*72*
1950	7,752	5,288	— 2,464	*108*	*98*	*147*	*204*	*68*
1951	9,671	7,415	— 2,256	*131*	*115*	*150*	*242*	77

As regards the geographical distribution of foreign trade, the most important changes were:

(i) a slight drop in the value of exports to western Germany and a sharp decrease in that country's relative share in the export total (due, to a large extent, to the import restrictions applied by Germany in order to redress its balance in E.P.U.);

(ii) a 50 per cent. increase in exports to the United Kingdom, which absorbed 16 per cent. of the total of Dutch exports in 1951; and

(*iii*) an *increase in the share* of exports to the United States from 4 to 6 per cent.

Netherlands: Balance in relation to the dollar area.

Items	1949	1950	1951
	in millions of florins		
Merchandise trade			
Imports (f.o.b.)	870	1,016	1,242
Exports (f.o.b.)	169	332	480
Balance	— 701	— 684	— 762
Services (net)	+ 127	+ 254	+ 106
Balance on current account	— 574	— 430	— 656
Capital account			
1. Repayments (—) of long-term government credits	— 112	— 131	— 94
2. Repayments (—), etc. by individuals	— 12	— 47	+ 2
Total of 1 and 2	— 124	— 178	— 92
Total dollar balance	— 698	— 608	— 748

The deficits on the current account of the balance of payments were covered in full by the foreign aid received, since the U.S. grants amounted to Fl. 768 million in 1949, Fl. 1,305 million in 1950 and Fl. 541 million in 1951 (these figures including, for 1949 and 1950, certain receipts on account of drawing rights granted within the system of intra-European payments). It should be mentioned in this connection that the improvement in the balance of payments did not extend to transactions with the dollar area.

In so far as the dollar-area deficit in 1951 was not covered by foreign aid, the balance was met to the extent of Fl. 125 million by continued liquidation of dollar assets abroad, by the government's taking up certain fresh credits, and by a small draft upon the gold and foreign exchange reserves, which, however, were replenished by receipts from other areas.

In 1951, all the northern countries were able to show a distinct improvement in the current account of the balance of payments. In every case, larger earnings from shipping contributed to this development and, as regards Finland, Norway and Sweden, the high prices obtained for exports of forestry products (see page 9 and page 83) were also an important factor; Denmark, on the other hand, saw its terms of trade deteriorate as compared with 1950.

Northern countries: Current account of the balance of payments.

Countries	Year	Currencies	Imports (c.i.f.)	Exports (f.o.b.)	Balance of trade	Invisibles (net balance)	Total balance
			in millions of national currency units				
Denmark	1949	D.Kr.	4,284	3,644	— 640	+ 396	— 244
	1950	,,	6,022	4,746	— 1,276	+ 580	— 696
	1951	,,	7,162	5,989	— 1,173	+ 1,080	— 93
Finland*	1947	FM	48,010	45,110	— 2,900	+ 3,090	+ 190
	1948	,,	67,440	56,390	— 11,050	+ 4,480	— 6,570
	1949	,,	69,500	65,030	— 4,470	+ 6,010	+ 1,540
	1950	,,	89,740	82,100	— 7,640	+ 1,850	— 5,790
	1951	,,	155,500	186,800	+ 31,300	.	.
Norway	1947	N.Kr.	3,885	1,912	— 1,973	+ 733	— 1,240
	1948	,,	3,784	2,177	— 1,607	+ 866	— 741
	1949	,,	4,241	2,182	— 2,059	+ 868	— 1,191
	1950	,,	4,880	2,919	— 1,961	+ 1,160	— 801
	1951	,,	6,303	4,584	— 1,719	+ 1,909	+ 190
Sweden	1947	S.Kr.	5,220	3,240	— 1,980	+ 540	— 1,440
	1948	,,	4,940	3,980	— 960	+ 560	— 400
	1949	,,	4,330	4,250	— 80	+ 570	+ 490
	1950	,,	6,100	5,710	— 390	+ 580	+ 190
	1951	,,	9,190	9,210	+ 20	+ 860	+ 880

* Finland: Exports exclude reparation deliveries to U.S.S.R. For 1951, the trade figures are unadjusted for balance-of-payments purposes.

While Denmark has not yet had a surplus on the current account of its balance of payments in any year since the end of the war, the deficit in 1951 amounted to less than D.Kr. 100 million, or only one-seventh of the previous year's figure. Towards the end of the year the terms of trade became somewhat less adverse and exports increased, largely in response to changes in the internal policy, as described on page 10.

Since 1948 Danish imports have risen in volume by about 50 per cent. while exports have nearly doubled.

Denmark: Foreign trade.

Year	Imports			Exports		
	Value	Volume	Prices	Value	Volume	Prices
	Index: 1948 = 100					
1947	90	96	93	85	92	92
1948	100	100	100	100	100	100
1949	123	129	95	129	129	100
1950	172	163	105	166	171	97
1951	202	153	132	211	192	110

The loss resulting from the worsening of the terms of trade since 1949 is calculated at about D.Kr. 700 million in 1950 and D.Kr. 1,500 million in 1951; but, if account is taken of the increase in freight rates, the loss is reduced to about D.Kr. 500 million in 1950 and D.Kr. 1,100 million in 1951.

The capital account of the balance of payments is shown in the following table.

Denmark: Capital account of the balance of payments.

Items	1949	1950	1951
	in millions of Danish kroner		
Balance on current account	— 244	— 696	— 93
Capital account:			
Marshall aid.	560	460	443
Repayment (—) of foreign debt	— 81	— 167	— 167
Other capital items	50	8	8
Total of capital items . . .	529	301	284
Difference (approximately equal to the change in the foreign exchange position).	+ 285	— 395	+ 191

In an address given on 13th May 1952 to the Savings Banks Association, the Governor of the National Bank stated that by the spring of 1953 the arrears on debt payments abroad would amount to D.Kr. 350 million, and added: "The only hope of repayment seems to lie in our inducing America to conduct herself as a creditor nation as Britain did before 1914 ... If America wishes to get her money back, she must enable us to increase our exports."

From 1950 to 1951 Norway improved its balance of payments on current account by about N.Kr. 1,000 million, of which about N.Kr. 800 million was accounted for by an increase in the income from freights, which brought in a total of N.Kr. 1,910 million in 1951.

Norway: Foreign trade.

Year	Imports			Exports		
	Value	Volume	Prices	Value	Volume	Prices
	Index: 1948 = 100					
1938	32	100	32	39	123	32
1947	105	119	88	89	100	89
1948	100	100	100	100	100	100
1949	115	118	97	101	104	97
1950	128	121	106	136	137	99
1951	182	140	130	208	161	129

Since 1938 the country's volume of imports has risen by about 40 per cent. and the volume of exports by about 30 per cent.

In relation to the dollar area, the current deficit in the balance of payments was reduced from N.Kr. 287 million (= $40.2 million) in 1950 to N.Kr. 111 million (= $15.5 million) in 1951. American aid, amounting to $49.8 million in 1951, just covered this current deficit together with payments on capital account amounting to $34.1 million.

Sweden had a surplus of S.Kr. 880 million on the current account of its balance of payments in 1951 whereas, according to the calculations of the Business Research Institute in Stockholm, there would have been a deficit of S.Kr. 830 million if the 1950 prices (and freight rates) had remained unchanged.

Sweden: Value and volume of foreign trade.

Year	Imports			Exports		
	Value	Volume	Prices	Value	Volume	Prices
	Index: 1948 = 100					
1949	88	87	101	107	115	93
1950	123	108	114	144	144	100
1951*	190	129	147	232	148	157

* Preliminary figures.

In volume, imports have risen by nearly 30 per cent. and exports by nearly 50 per cent. since 1948.

Sweden: Distribution of foreign trade by currency areas.

Year	O.E.E.C. group			Dollar area*	Other countries	Total
	Countries in sterling area	Other countries	All countries			
	in millions of Swedish kronor					
1950						
Exports . . .	905	2,758	3,663	472	1,572	5,707
Imports . . .	1,395	2,534	3,929	627	1,546	6,102
Balance . .	— 490	+ 224	— 266	— 155	+ 26	— 395
1951						
Exports . . .	1,942	3,987	5,929	647	2,630	9,206
Imports . . .	1,865	4,103	5,968	1,090	2,131	9,189
Balance . .	+ 77	— 116	— 39	— 443	+ 499	+ 17

* Comprising the United States, Canada, Mexico, Central America and Venezuela.

Sweden provides yet another example of a country whose trade showed an increase in the dollar deficit in 1951.

For Finland, the 1951 trade figures reveal a record advance in imports as well as in exports, as regards both value and volume. Reparation deliveries excluded, the excess of exports over imports amounted to FM 31,300 million, against a trade deficit of FM 7,640 million in 1950. Since Finland invariably has a surplus on invisible items, it may be concluded that a considerable balance-of-payments surplus will appear when the estimates are published in the autumn, as usual.

Finland: Value and volume of foreign trade.

Year	Imports Value	Imports Volume	Imports Prices	Exports Value	Exports Volume	Exports Prices
	Index: 1948 = 100					
1947	71	77	92	81	95	85
1948	100	100	100	100	100	100
1949	100	93	107	115	119	97
1950	135	100	135	141	131	108
1951	243	129	188	323	159	203

Imports have risen, in volume, by about 30 per cent. since 1948 and exports, apart from reparation deliveries, by about 60 per cent.

Up to the end of 1951 reparation deliveries to the U.S.S.R. amounted to a total of FM 83 milliard, spread over the last eight years as shown in the following table.

Finland: Reparation deliveries to U.S.S.R.*

Year	In milliards of FM
1944	0.3
1945	7.0
1946	9.8
1947	12.5
1948	15.7
1949	13.6
1950	9.2
1951	14.9

* According to the Institute of Economic Research.

It is estimated that, owing to price increases since 1944, the amounts actually paid by Finland will be the equivalent of about $700 million, as compared with an original obligation of $300 million in 1938 prices — reduced in 1948 to $226.5 million (also in 1938 prices) by the Soviet Government.

The volume of exports (excluding reparation deliveries) has not quite reached the 1937 level. A most striking feature has been the steadily increasing importance of forestry products, which in 1951 represented over 92 per cent. of total exports. As regards imports, the intake of consumer goods has been restricted in order to allow for larger purchases of equipment.

While, to a large extent, the structure of Finland's export trade is based on domestic resources in the form of extensive forests, Switzerland occupies a diametrically opposite position in that its exports, which, to the extent of about 90 per cent., consist of finished commodities, are derived from the processing of raw materials obtained from abroad. With, perhaps, the exception of a brief lull in the first half of 1950 and another one quite recently as regards certain lines of textiles, demand for Swiss products has been consistently very strong: in 1951 exports as well as imports reached the highest level, both in volume and in value, ever recorded.

Switzerland: Foreign trade.

Period	Imports	Exports	Balance
	in millions of Swiss francs		
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	5,916	4,691	— 1,225
1952 1st quarter	1,403	1,141	— 262

Some of the goods imported in the latter half of 1950 and in 1951 were for the stockpile, the government having arranged that credits on cheap terms and certain other facilities should be granted to firms which agreed to hold special reserves of imported commodities.

For Switzerland the terms of trade deteriorated somewhat in 1951 in comparison with the previous year but they still remained more favourable than in 1948. There was an import surplus of Sw.fcs 1,225 million in 1951, notwithstanding the impressive rise in the volume of exports since 1948. No balance-of-payments estimates are published, but it may be assumed that income from invisible items (interest and dividends, tourist and transit traffic, etc.) fully covered the visible trade deficit.

Switzerland: Foreign trade — volume and prices.

Year	Volume		Prices				
			Imports				Exports
	Imports	Exports	Foodstuffs	Raw materials	Manufactures	Total	
	Index: 1948 = 100						
1947	100	91	94	99	102	98	104
1948	100	100	100	100	100	100	100
1949	81	99	78	96	98	90	97
1950	100	113	73	84	87	81	93
1951	118	136	83	113	100	98	102

Switzerland:
Payments registered by the Clearing Office.*

Items	1950	1951
	in millions of Swiss francs	
Merchandise trade		
Imports	2,500	3,523
Exports	1,892	2,860
Balance	— 608	— 663
Services (net)		
Transport	— 54	— 69
Tourism	+ 125	+ 362
Foreign labour, contributions, taxes	+ 44	+ 92
Royalties, etc.	+ 61	+ 82
Insurance business	+ 21	+ 40
Other services	+ 42	+ 124
Total of services	+ 239	+ 631
Total of current items	— 369	— 32
Financial transfers	+ 150	+ 251
Total	— 219	+ 219

* The figures represent in-payments by Swiss debtors to the National Bank and authorised banks and out-payments by those institutions to Swiss creditors. In-payments correspond to expenditure abroad, out-payments to receipts from abroad. All such transactions in relation to countries with which Switzerland has concluded payments agreements are registered by the Swiss Clearing Office.

The Swiss Clearing Office publishes statements of the payments made to and received from all countries whose transactions with Switzerland are regulated by payments agreements (which actually cover about two-thirds of the total of foreign trade). This category comprises, in addition to the O.E.E.C. area, all countries in eastern Europe (except the U.S.S.R.), as well as Finland and Spain and, outside Europe, the Argentine, Egypt and Iran.

It should be noted that Switzerland has normally a surplus in relation to the dollar area and several Latin American countries, so that a deficit on its current account with partners in payments agreements does not, in fact, signify a Swiss deficit in relation to all countries.

In Austria, too, imports rose more than exports, but this country's earnings from invisible items are not as large as Switzerland's.

The increase in the import surplus may have been partly due to a deterioration in the terms of trade during the first half of 1951 but it also reflected the continuance of inflationary pressure and of the rise in domestic prices up to the late autumn.

In addition to direct aid, Austria received a grant of $80 million (in the form of an "initial credit balance" — see Chapter IX) for the first E.P.U. year (July 1950 to June 1951) in order to provide cover for a possible deficit in the E.P.U. The whole of this allocation had been used up by March 1951. Since then Austria has from time to time been granted special dollar allocations to cover monthly deficits in the E.P.U., these additional allocations having amounted to a total of $40 million for the period up to the end of March 1952. At the same time Austria has had to provide $17.5 million from its own resources.

There was little change in the structure of foreign trade in 1951: foodstuffs accounted for a quarter of all imports, raw materials and semi-manufactured products for about 45 per cent. and manufactured goods for 30 per cent. Among exports, manufactured goods accounted for nearly 58 per cent. of the total and raw materials and semi-manufactured goods for about 38 per cent., while the export of electric current represented about two per cent.

Austria: Current account of the balance of payments.

Items	1948	1949	1950	1951
	in millions of U.S. dollars			
Merchandise trade (including electric current)				
Imports (c.i.f.)	490	604	482	655
Exports (f.o.b.)	207	291	332	454
Balance	— 283	— 313	— 150	— 201
Invisible items (net)				
Tourism	— 1	+ 1	+ 11	+ 18
Transport	+ 17	+ 1	— 9	— 16
Others		+ 15	+ 16	+ 23
Total	+ 16	+ 17	+ 18	+ 25
Total balance on current account	— 267	— 295	— 132	— 176
Covered by:				
Foreign aid (direct and other)	+ 280	+ 300	+ 207	+ 206
Net proceeds of foreign credits	+ 13	+ 5	— 2	— 4
Net change in short-term foreign assets and liabilities	— 19	— 11	— 30	— 8
Total cover	+ 274	+ 294	+ 175	+ 194
Errors and omissions	— 7	+ 1	— 43	— 18
Total	+ 267	+ 295	+ 132	+ 176

Austria: Geographical distribution of foreign trade.

Items	1948	1949	1950	1951 (1)
	In percentages of total imports			
Imports (2)				
O.E.E.C. countries	*55.1*	*58.1*	*65.2*	*72.0*
Eastern Europe (3)	*30.9*	*24.1*	*18.6*	*15.3*
Rest of Europe	*0.5*	*0.8*	*1.4*	*2.0*
United States	*6.9*	*5.6*	*3.6*	*4.0*
Other overseas countries	*6.6*	*11.4*	*11.2*	*6.7*
Total	*100.0*	*100.0*	*100.0*	*100.0*
	In percentages of total exports			
Exports				
O.E.E.C. countries	*66.5*	*59.9*	*60.2*	*63.4*
Eastern Europe (3)	*19.6*	*25.0*	*18.5*	*15.2*
Rest of Europe	*1.0*	*1.2*	*2.6*	*1.8*
United States	*5.1*	*3.0*	*5.6*	*6.0*
Other overseas countries	*7.8*	*10.9*	*13.1*	*13.6*
Total	*100.0*	*100.0*	*100.0*	*100.0*

(1) Owing to a change made in 1951 in the system of recording, figures for that year are not strictly comparable with those for previous years. Formerly, imports were classified according to the country of origin and exports according to the country of ultimate consumption; as from 1951, both imports and exports are recorded under the name of the country which is Austria's trading partner. This explains the relative drop in imports from overseas and the increase in the import percentage for the O.E.E.C. countries. On the other hand, the share of eastern Europe in Austrian imports and exports would not be much affected by the statistical change in question.

(2) Excluding direct E.R.P. deliveries.

(3) Bulgaria, Czechoslovakia, Hungary, Poland, Roumania, U.S.S.R. and Yugoslavia.

Since 1948 the share of eastern Europe in Austria's import trade has fallen from 31 to 15 per cent., while the importance of the O.E.E.C. countries in this connection has steadily increased, mainly, but not exclusively, because of the larger volume of imports from western Germany. On the export side, western Germany and Italy are the most important customers for Austrian products.

In 1951, as in all years since 1948, over 80 per cent. of the deficit of Greece on current account of the balance of payments was covered by foreign aid.

Greece: Balance on current account.

Items	1947	1948	1949	1950	1951 (1)
	in millions of U.S. dollars				
Merchandise trade(2)					
Imports (f.o.b.)	341.7	486.4	428.7	386.8	395.4
Exports (f.o.b.)	79.4	89.4	83.4	85.1	102.3
Balance	— 262.3	— 397.0	— 345.3	— 301.7	— 293.1
Services (net)					
Transport	— 26.4	— 49.3	— 45.6	— 28.1	— 20.8
Other services	+ 6.7	+ 6.5	+ 1.2	— 2.5	— 9.5
Total of services	— 19.7	— 42.8	— 44.4	— 30.6	— 30.3
Balance of goods and services	— 282.0	— 439.8	— 389.7	— 332.3	— 323.4
Covered by:					
Grants and private donations	146.4	360.7	381.5	292.1	278.0
Credits, official and private	86.9	33.2	2.0	—	1.3
Capital movements, private	11.7	11.1	17.7	16.0	14.4
Monetary gold	4.8	7.5	— 0.1	4.8	— 2.3
Other items	39.3	33.2	— 14.0	15.9	33.9
Total cover	289.1	445.7	387.1	328.8	325.3
Errors and omissions	— 7.1	— 5.9	2.6	3.5	— 1.9
Total	282.0	439.8	389.7	332.3	323.4

(1) Preliminary figures. (2) Including non-monetary gold.

In 1951 imports amounted to $432 million and exports to $102 million, leaving a trade deficit of $330 million, as compared with one of $313 million in 1950. Exports still cover only a quarter of imports, as against 70 per cent. before the war. The volume of exports of most commodities rose, and in some cases there was an improvement in the prices obtained — but this did not as yet apply to tobacco, which represented the largest single export item. Measured in quantities, exports of mineral ores doubled as compared with 1950, those of citrus fruits increased fourfold and those of tobacco by 23 per cent. For the first time, cotton was exported in substantial quantities.

The foreign-trade system was simplified as from 1st June 1951 by the abolition of exchange certificates (see Chapter V), while in the course of the year the Bank of Greece took over the issuing of import permits.

From 1950 to 1951 the imports of Turkey rose, in value, by 40 per cent. and, in volume, by 15 per cent., largely owing to increased purchases of equipment.

Turkey: Foreign trade.

Year	Value			Volume		Prices	
	Imports	Exports	Balance	Imports	Exports	Imports	Exports
	in millions of liras			Index: 1948 = 100			
1947	685	624	— 61	94	96	85	112
1948	770	551	—219	100	100	100	100
1949	812	693	—119	114	129	89	95
1950	800	738	— 62	133	126	75	96
1951	1,126	880	—246	157	130	90	117

Turkey has obtained favourable export prices in recent years. In 1951, for the first time, cotton replaced tobacco as the main export commodity.

Turkey has been a recipient of Marshall aid and, after having exhausted its initial credit balance of $25 million and its quota of $50 million in the E.P.U. (see Chapter IX), has, like Austria, been granted special allocations in dollars to cover deficits in relation to the Union.

In 1951 Portugal's exports rose, both in value and in volume, to their highest recorded level. Rearmament increased the demand for tungsten, the price of which went up by nearly three and a half times as compared with 1950, and the value of tungsten exports rose from Esc. 95 million in 1950 to Esc. 549 million in 1951. The export value of cork, which was also in great demand, increased by 70 per cent., the price having risen by 52 per cent.

Portugal: Foreign trade.

Year	Imports	Exports	Balance
	in millions of escudos		
1948	10,351	4,295	— 6,056
1949	9,043	4,090	— 4,953
1950	7,879	5,334	— 2,545
1951	9,464	7,563	— 1,901

The figures in the last column represent the combined balance of Portugal's trade with foreign countries and with its own overseas territories. In relation to those territories Portugal, in 1951, reduced its imports and increased its exports, with the result that the export surplus in trade with them increased from Esc. 60 million to over Esc. 600 million. If foreign countries (i.e. countries other than the overseas territories) alone are considered, the import surplus (shown in the table as Esc. 1.9 milliard) amounted to Esc. 2.5 milliard.

Spain, too, has increased the volume of its main export items; thus the export value of the two items pyrites and iron ore, taken together, rose from Pesetas 59 million in 1950 to Pesetas 85 million in 1951, while that of mercury went up from Pesetas 16 to 26 million and that of tungsten from Pesetas 3 to 21 million.

Import prices also rose, and the improvement in the terms of trade was consequently slight. As the increase in exports went hand in hand with a contraction in the volume of imports (made possible by the easier domestic

Spain: Foreign trade.

Year	Value			Volume		Prices		
	Imports	Exports	Balance	Imports	Exports	Imports	Exports	Terms of trade
	In millions of gold pesetas			Index: 1948 = 100				
1947	985	663	— 322	*92*	*83*	*92*	*101*	*110*
1948	1,187	810	— 377	*100*	*100*	*100*	*100*	*100*
1949	1,135	878	— 257	*106*	*103*	*92*	*103*	*112*
1950	912	912	— 0	*107*	*139*	*78*	*80*	*103*
1951	986	1,150	+ 164	*101*	*154*	*82*	*86*	*105*

supply situation, after the long drought had come to an end and adequate rainfall in 1950 and 1951 had produced better harvests), the statistics show an export surplus.

In relation to the eastern European countries (comprising in this context Bulgaria, Czechoslovakia, Hungary, Poland, Roumania and the U.S.S.R.) the trade of the eighteen countries grouped under the name of western Europe increased in absolute value from 1950 to 1951, but this was entirely due to higher prices, since the volume of exports to these countries is estimated to have fallen by 9 per cent. and imports from these countries would also seem to have declined.

Western Europe: Trade with eastern Europe.

Year	Value		Volume	
	Imports	Exports	*Imports*	*Exports*
	In millions of U.S. dollars		Index: 1938 = 100	
1950	705	585	28	63
1951 *	899	655	.	57

* Data for the first nine months of 1951, given at the annual rate.

While in 1938 9 per cent. of western Europe's imports came from the eastern European countries in question and some 6 per cent. of western Europe's exports went to those countries, the percentage in both cases has now fallen to 3 per cent. or less.

From the scattered information available regarding the trade of eastern European countries it seems that in 1951 there was a considerable increase in eastern Germany's trade with the countries in question and that there was also a large increase in the trade between the U.S.S.R. and the other eastern European countries. The U.S.S.R. being left out of account, the volume of trade transacted by the eastern European countries with one another would seem to have shown a rather smaller expansion than in previous years. The traditional patterns of production of the individual countries of this group are not mutually complementary, so that certain structural changes would seem to be a pre-requisite for any increase in their trade with one another. Some long-term trade agreements, generally covering the period of the current national production plans, were concluded in 1951.

Since 1950, Yugoslavia has severed its trade relations with the eastern bloc and has developed its trade with the west. How complete the change-over has been may be seen from the following table.

Yugoslavia: Geographical distribution of trade.

Year	Europe				Total Europe	U.S.A.	Other countries	Total
	U.S.S.R.	Czecho-slovakia	Germany	United Kingdom				
	in percentages of total							
Imports								
1945	*46.7*	*0.3*	—	—	*93.7*	*6.2*	*0.1*	*100*
1946	*21.9*	*17.8*	—	*0.4*	*97.1*	*2.1*	*0.8*	*100*
1947	*21.1*	*18.2*	—	*5.1*	*90.6*	*4.1*	*5.3*	*100*
1948	*10.7*	*17.5*	*1.6*	*4.6*	*90.8*	*3.4*	*5.8*	*100*
1949	*1.6*	*6.1*	*5.4*	*12.9*	*82.2*	*8.6*	*9.2*	*100*
1950	—	—	*16.5*	*16.9*	*66.6*	*21.7*	*11.7*	*100*
1951	—	—	*13.1*	*11.8*	*76.5*	*15.8*	*7.7*	*100*
Exports								
1945	*63.5*	*4.7*	—	—	*89.5*	*10.5*	—	*100*
1946	*42.2*	*26.9*	—	*1.1*	*96.3*	*2.3*	*1.4*	*100*
1947	*16.5*	*18.0*	—	*2.7*	*93.8*	*2.0*	*4.2*	*100*
1948	*15.0*	*15.8*	*0.2*	*6.2*	*92.5*	*2.6*	*4.9*	*100*
1949	*5.0*	*4.5*	*5.6*	*19.4*	*84.9*	*8.0*	*7.1*	*100*
1950	—	—	*12.4*	*18.6*	*74.5*	*13.5*	*12.0*	*100*
1951	—	—	*16.7*	*18.4*	*65.3*	*14.6*	*20.1*	*100*

The foreign-trade statistics, the publication of which was resumed in April 1951 after an interruption of ten years, show a mounting deficit in dinars up to 1949.

Yugoslavia: Foreign trade.

Year	Imports	Exports	Balance
	in millions of dinars		
1945.	1,079	461	— 618
1946.	1,744	2,789	+ 1,045
1947.	8,272	8,642	+ 370
1948.	15,782	15,112	— 670
1949.	14,576	9,613	— 4,963
1950.	11,791	7,930	— 3,861
1951.	12,110	9,184	— 2,926

It may be recalled that as from 1952 the external value of the Yugoslavian currency was changed from $1 = Din. 50 to $1 = Din. 300 (see Chapter V).

In the years 1949–1951 Yugoslavia received about $430 million in foreign aid, the largest single allocation being $103 million in the form of deliveries of food in 1950, when the country was suffering from a disastrous drought. In 1951 France, the United Kingdom and the United States decided to grant Yugoslavia a credit of $100 million to enable it to pay for excess imports, and in January 1952 Yugoslavia concluded a Mutual Security Aid agreement with the United States.

* * *

In the past, experience has generally shown that in a period of strong demand on the world markets and of rising prices — such conditions as prevailed in the years 1900 to 1914 — industrialists and traders do not have to worry overmuch about finding customers to buy what they produce and offer for sale, and, since they then have less reason to ask for "protection", such a period is likely to witness a lowering of trade barriers. In the years since 1945, demand on the world markets has been strong (with only a minor recession in 1949–50), and there has generally been no difficulty in getting goods sold. In such circumstances, there have not often been any good reasons for demanding increased protection, and there have been more than a few instances in which previous protectionist measures have actually been toned down — one example being the tariff concessions made by the United States. But not all changes have consisted in a relaxation of restrictions; for a number of reasons progress in this direction has been slow and some important setbacks have occurred:

(i) Whatever may have been the causes of the general failure to re-establish monetary equilibrium at an early date after the war, the procrastination has meant that exchange restrictions have been maintained, and these in themselves represent a formidable hindrance to trade.

(ii) The monetary difficulties could, moreover, be made a pretext for granting "protection" — and it must not be forgotten that, after years of wartime controls (not to mention the special protectionist measures applied during the depression), business has become unused to competition from abroad and is often far too afraid of it.

(iii) There would also seem to have been some raising of tariffs for the purpose of securing a strong bargaining position in negotiation. Here, it has generally been found that the net result has been higher trade barriers, since any reductions conceded in the course of negotiations have rarely been sufficient to offset the earlier increases. A number of countries which used to apply specific duties have gone over to a system of ad-valorem duties, and this has meant that the period of rising prices in connection with the second world war has brought little alleviation in the real weight of the tariff.

(iv) Further, the monetary and other changes — including the rearmament effort — occasioned by the outbreak of the conflict in Korea have in more than one way cut across the advance towards liberalisation, especially for countries whose monetary reserves were insufficient (and this applied to the majority of them).

(v) Even where there has been no lack of monetary reserves, protectionist tendencies have been revived since the middle of 1951 by the fall in prices, which has affected not only primary products but also certain lines of consumer goods, and which is making itself felt in the form of growing competition at home and abroad.

It should be remembered that most international economic agreements of the post-war period have contained so-called "escape clauses", to be applied in special circumstances. Thus Article XII of the General Agreement on Tariffs and Trade ("G.A.T.T.") has been officially summarised as follows:

XII. Restrictions to safeguard the Balance of Payments.

This contains the most important of the exceptions to the rule of Article XI requiring the elimination of quantitative restrictions. In certain circumstances defined in the article, a Contracting Party may use import quantitative restrictions to safeguard its external financial position and balance of payments, but these restrictions must be progressively relaxed as conditions improve and must be eliminated altogether when conditions no longer justify their use. Moreover, the restrictions are to be applied so as not to prevent imports of minimum commercial quantities the exclusion of which would impair regular channels of trade.

A Contracting Party which is considering the need to apply restrictions is required to consult with the Contracting Parties as to the nature of its balance-of-payment difficulties, alternative corrective measures, and their effect on the economies of others. (South Africa consulted with the Contracting Parties under this provision in 1949.) And a Contracting Party which has substantially intensified its restrictions is required to consult within thirty days. (It was under this provision that consultations with the United Kingdom and six other countries of the sterling area and with Chile took place at the Fifth Session in November 1950.) Positive action on the initiative of the Contracting Parties is required in 1951 in the form of a review of all balance-of-payment restrictions; this was carried out in September–October 1951 and resulted in a report which has been published. Finally, if there is a persistent and widespread application of restrictions under this Article, indicating the existence of a general disequilibrium which is hampering international trade, the Contracting Parties are to initiate discussions to consider whether other measures might be taken by any of the Contracting Parties to remove the underlying causes of the disequilibrium.

This article contains a provision which was the subject of lengthy discussions when it was drafted. This is the provision which calls upon Contracting Parties to recognise that, as a result of domestic policies, such as those directed towards the maintenance of employment, a Contracting Party may experience a high level of demand for imports; accordingly, no Contracting Party will be required to withdraw or modify restrictions on the ground that a change in such policies would render unnecessary the restrictions applied under this article; on the other hand, Contracting Parties have undertaken when in that situation to carry out those policies with due regard to the need for restoring equilibrium in their balance of payments and to avoid unnecessary damage to the interests of other Contracting Parties.

The text of Article 3 of the O.E.E.C. Trade Liberalisation Code may also be cited.

Article 3. Clauses of derogation from Article 2.

(a) If its economic and financial situation justifies such a course, a Member country need not take the whole of the measures of liberalisation of trade provided for in Article 2.

(b) If any measures of liberalisation of trade taken in accordance with the provisions of Article 2 result in serious economic disturbance in the Member country concerned, that country may withdraw those measures.

(c) If, despite any recommendations made under paragraph (a) of Article 31, the deficit of a Member country with the Union is increasing at a rate and in circumstances which it considers serious in view of the state of its reserves, that Member country may temporarily suspend the application of measures of liberalisation of trade taken in accordance with Article 2.

(d) Unless the Organisation decides or has decided otherwise, Member countries to which the provisions of Note (1) to Table III of the Agreement for the Establishment of a European Payments Union apply need not, during the period of application of these provisions, take the whole of the measures of liberalisation of trade provided for in Article 2 or may temporarily suspend the application of measures taken in accordance with that Article.

(e) Any member country invoking the provisions of this Article shall do so in such a way as to avoid unnecessary damage which bears especially on the commercial or economic interests of another Member country, and, in particular, shall avoid any discrimination as between one Member country and another.

As regards invisible transactions, Article 20 of the O.E.E.C. Trade Liberalisation Code contains provisions somewhat similar to those in Article 3 concerning visible trade.

But, before an account is given of the difficulties which have arisen and the setbacks which have occurred, it should be recalled that the growth of international trade in recent years has been very substantial. Admittedly, the expansion has been financed largely by foreign aid and kept going by special facilities, such as bilateral credits or the accommodation provided via the E.P.U., with its quasi-multilateral system; but it has nevertheless served to bring the various economies more into harmony with the requirements of foreign trade than they would otherwise have been. Moreover, a number of countries, including the United States, have made tariff concessions, and the liberalisation efforts of the O.E.E.C. countries, initiated in 1949, have produced some tangible results.

The third stage of liberalisation, viz. the freeing of 75 per cent. of all imports on private account from quota restrictions, was due to be concluded by August 1951. The intention was that this percentage should be attained as regards each of the three categories: agricultural products, raw materials and manufactured goods; but several countries maintained that in the agricultural-products sector it was difficult for them to go so far, and it was then agreed that only the average percentage need reach 75, while in none of the three categories was the degree of liberalisation to fall below 60 per cent. For all those countries which had reached the 75 per cent. stage (and there were a number of exceptions: see the table), the application of their liberalisation measures to certain specified groups of goods was obligatory. These groups, known collectively as the "common list", included, in the first place, textiles, textile machinery and some agricultural and chemical products.

O.E.E.C. countries: Comparison of stages of liberalisation attained.

O.E.E.C. member countries	August 1951 (proposed date for conclusion of 75% stage)	April 1952
Austria (1)	none	none
Belgium-Luxemburg	75	75
Denmark	63	65 (2)
France	76	suspended
Germany	suspended	75
Greece (1)	none	none
Iceland	41	41
Ireland	75	75
Italy	76	77
Netherlands	61 (3)	75
Norway	51	75 (4)
Portugal	83	84
Sweden	75	75
Switzerland	75	75
Turkey	63	63
United Kingdom	90	46

(1) Under Article 3(d) of the Liberalisation Code, countries whose quotas in the E.P.U. are blocked are absolved from applying the prescribed measures of liberalisation, unless the Organisation decides otherwise.
(2) Intention to raise quota to 75 per cent. in the near future.
(3) As from 1st September 1951.
(4) As from 1st May 1952.

When, in February 1951, it was found that western Germany's balance-of-payments difficulties could not be solved by internal credit measures alone, the issuing of licences was suspended, which meant a setback to liberalisation; but a number of circumstances concurred to make it possible for equilibrium to be quickly re-established (see page 8). In any case, imports never fell much. As from 1st January 1952, the degree of liberalisation was raised to 57 per cent. and from 1st April 1952 the 75 per cent. rate was established.

Four countries which have developed large surpluses in the E.P.U. — Belgium, Italy, Portugal and Switzerland — have taken additional liberalisation measures on an administrative basis. But these measures have not been notified officially to O.E.E.C. and have consequently not been taken into account in the official percentages — which makes it possible for the countries concerned to withdraw them without formalities. In the case of Italy and Portugal, it would seem as if the degree of effective liberalisation has nearly reached 100 per cent.

These developments unquestionably represent progress towards freer trade, but they have been overshadowed by the reverses constituted by the British and the French suspension of liberalisation. In November 1951, the United Kingdom, faced with substantial losses of reserves, reduced the liberalised sector from 90 to 61 per cent., and a second curtailment narrowed it down to 46 per cent. in February 1952. In the latter month, France suspended all liberalisation; this does not mean, of course, that there are no imports of non-liberalised goods, but such imports are once again subject to licensing and quotas.

Liberalisation in accordance with the rules of O.E.E.C. relates, of course, to intra-European trade, while trade in a wider context is governed by the provisions of the General Agreement on Tariffs and Trade. Under the "escape clause", providing for revision of commitments in the event of balance-of-payments difficulties, the United Kingdom was able to curtail its imports, the first anouncement of its intention to do so being made in November 1951, and the second at the Conference of Commonwealth Finance Ministers in London in January 1952.

But the "escape clauses" provided by the G.A.T.T. have not been invoked exclusively for the purpose of overcoming balance-of-payments difficulties; recourse has also been had to these clauses on the plea that "imports caused serious injury to domestic industry". It was on this ground that the U.S. Government withdrew the concession granted with regard to imports of hats, with effect from 1st December 1950 (which meant that the ad-valorem duty was raised from an average of 32 per cent. to the old level of 70 per cent.).

Another protectionist move was made when, in July 1951, Congress passed an amendment to the Defense Production Act, requiring the imposition of controls on oils, fats and dairy produce, if their import would (i) impair or reduce domestic production, (ii) interfere with orderly domestic storing and marketing, or (iii) result in any unnecessary burden or expenditure under any government price-support programme. In application of this so-called "Andresen Amendment", the U.S. Department of Agriculture announced, on 10th August, the immediate suspension of commercial imports, for domestic consumption, of peanuts, butter and butter fat, as well as quantitative restrictions on the import of cheese and casein. The governments of ten countries* have lodged formal protests, pointing to the great harm done to their exports by these measures. On more general grounds, the governments of Italy and the United Kingdom have also protested against the taking of protectionist measures in the United States. In his official answer to Italy, the U.S. Secretary of State agreed that the United States ought to follow the lines of policy proper to a creditor nation and accordingly open its doors to imports.

An aspect of recent developments that is unquestionably disturbing has been the widening gap between U.S. exports and imports, for which there are, of course, a number of causes. As mentioned before, one important factor has been the reduction in U.S. imports coincident with the utilisation of stocks previously accumulated; another factor may be found in the shipments of armament goods, which swell the volume of exports. Moreover, it cannot be denied that in arresting the inflationary trend in the spring of 1951 the United States was ahead of several European countries — and this, in itself, meant that goods tended to be attracted to certain parts of Europe. However, the European countries, too, have taken decisive steps to attain monetary stability — and it is, in fact, because their prices are no longer rising and have therefore become more able to compete with U.S. domestic prices that the European countries may have to face increased difficulties of another kind in exporting to the United States. In that country, as elsewhere, there are industrialists and agriculturalists who, after years of easy sales, are unlikely to welcome a harsher climate of trade, although the best among the business men know that the intensification of competition, bringing down the most exaggerated prices, will encourage greater circumspection with regard to expenses and result in the general introduction of cost-saving methods, to the advantage of consumers as well as producers.

It is important, however, that the present situation should not be made a pretext for a new wave of protectionism, resulting in fresh hindrances to trade. The European countries may well ask what chance there is of balancing trade with the dollar area if higher duties are imposed whenever they succeed in lowering their costs of production by technical improvements, etc. It is, of course, a dangerous feature of at least some of the "escape clauses" that they create conditions of great uncertainty. It is in this respect that the post-war arrangements differ conspicuously from the old commercial treaties, which used to bind duties for ten or fifteen years or even longer, so that producers planning their investments knew just what they had to contend with in their sales to foreign markets. Much will naturally depend on the spirit in which all these questions are approached now that the time has come for testing the willingness of the participating countries to translate into practical policies the principles of co-operation to which most of them have solemnly pledged themselves.

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* Argentina, Australia, Canada, Denmark, France, Italy, the Netherlands, New Zealand, Norway and Switzerland.

One particular danger is that questions of commercial policy may perhaps be looked at too exclusively from an international angle, it being assumed more or less consciously that every lowering of a country's trade barriers represents a "concession" to foreign interests. The old free-trade doctrine had, after all, the advantage that it brought out the fact that each individual country had an interest in maintaining a high level of trade with the rest of the world. Without falling back on the well-known arguments about the advantages which all parties derive from an increase in the exchange of goods and services, it may be permissible to recall that the raising of tariffs during the depression period between the two wars did not benefit the countries which had recourse to such an expedient. This is a matter in which enlightened self-interest might suggest the right action, without its being necessary expressly to invoke the principles of international co-operation.

V. Foreign Exchange Rates.

Despite the appearance of some very critical and disturbing elements in foreign exchange relations, the fifteen months that have elapsed between the beginning of 1951 and the spring of 1952 must be regarded as a period not only of comparative stability but also of further consolidation: in several countries there was an additional relaxation of control and more scope was given to market forces. One important country, Canada, virtually threw all exchange restrictions overboard (no more "permits" being required), and so its already strong currency became the strongest in the world. The United Kingdom, notwithstanding the deterioration in its gold and foreign exchange reserves, introduced more flexibility into spot and forward dealings in foreign currencies as part of a new monetary policy designed to bring about a return to convertibility.

During the period under review, only one European country devalued its currency: Yugoslavia. This was more a formal than an effective alteration, for the dollar rate had remained unchanged at Din. 50 = $1 since 1945, while most of the country's external trade had been carried on either in foreign currencies or on a barter basis. Roumania in January and Bulgaria in May 1952 introduced monetary reforms involving a radical cut in prices and in the volume of means of payment and an appreciation of the external value of the leu, and the lev respectively, both being now linked to gold. Thus Roumania was the second and Bulgaria the third eastern European country to follow the lead given by the U.S.S.R., which in February 1950 had fixed the value of its currency in terms of gold — Poland having adopted the same course in October 1950.

Outside Europe, some important alterations were introduced in connection with foreign exchange rates. In many cases, they were adopted in order to get away from an inflexible official parity, although the result was, on the face of it, a more complicated system than before. Thus Israel in February 1952 abandoned the single-exchange-rate system (officially in force up to that date) for a system of three exchange rates. Since January 1952 all trade transactions in Iran have been effected at a single fluctuating rate (actually involving a devaluation of some 30 per cent.), while in Indonesia the number of effective rates has been increased (and this, too, has involved a certain devaluation).

What lends the period its special interest from the standpoint of currency developments is not these various modifications in official exchange rates but the widespread attempt to make the existing rates more realistic. This has been one of the results of more effective credit and fiscal policies, which have been applied in the individual economies with a view to securing a durable improvement in the balance of payments.

* * *

To begin with the one downward exchange adjustment in Europe, the fundamental reason for the step taken by Yugoslavia was that in its trade with the West the country was finding it more and more difficult to carry on with a rate of exchange (fixed in 1945) which had no connection at all with the purchasing power of the dinar. In agreement with the International Monetary Fund, a new rate, Din. 300 = \$1 (corresponding to a parity of 2.96 milligrammes of fine gold for one dinar), was put into effect from 1st January 1952. In relation to the previous official rate of Din. 50 = \$1, the change amounted to a devaluation of $83^1/_3$ per cent.

On the basis of the material available for Yugoslavia it is somewhat difficult to judge to what extent the degree of adjustment in the rate corresponds to economic realities. It would seem, however, as if a downward pressure would have to be exerted on costs and prices in order to keep the exchange rates at the level fixed — and this impression is strengthened by the report that the monetary authorities in Yugoslavia are carrying out a policy of credit contraction and price reduction.

The monetary reform in Roumania was in the nature of a purge, the supply of money being cut by rates of conversion varying between 20 to 1 and 400 to 1, as shown in the following table.

Roumania: Rates of conversion of old lei into new lei for bank-notes and bank deposits.

Type	Private sector (individuals and private enterprises)	Public sector (state, state agencies, state enterprises, co-operatives, etc.)
Bank-notes		
up to 1,000 old lei (1)	100 : 1	200 : 1
from 1,001 to 3,000	200 : 1	
above 3,000	400 : 1	
Deposits with savings banks		
up to 1,000 old lei	50 : 1	—
from 1,001 to 3,000	100 : 1	
above 3,000	200 : 1	
Deposits with credit institutions (2)	200 : 1	20 : 1

(1) 1,000 old lei corresponded to between two and three days' pay for a worker.
(2) Amounts needed for payment of two weeks' wages and salaries were exchanged at 20:1.

The table shows that private individuals and enterprises were hit considerably harder than the public sector, and even the deposits of small savers were cut to a much greater extent than prices, which were brought down to one-twentieth of their previous level (or rather lower in the consumer-goods sector, where special reductions had been decreed). Wages, pensions and debts were also cut down to one-twentieth. The cuts thus made in the means of payment and in prices were more drastic in Roumania than in Poland, while the revaluation in terms of foreign exchange was much lighter (only 13½ old currency units to 1 new unit in Roumania, against 100 to 1 in Poland).

The fine-gold content of the new leu was fixed at 0.079346 grammes and on this basis the rate of the leu in relation to the rouble became Lei 2.80 = Rouble 1. The cross rate for the U.S. dollar works out at Lei 11.20 = \$1, as compared with the rate of Lei 151.50 = \$1 which had prevailed since August 1947, the change corresponding to a writing-up of thirteen and a half times. Trade with the western world — in so far as it still takes place — is, however, almost all transacted in foreign currencies, as is the practice in the other eastern European countries. The fact that the cut in prices and in the supply of money was greater than the adjustment in the exchange rates should help exports. As regards the extent of the price cut, it is not unlikely that, in the process of building up increasingly close ties with the U.S.S.R., the Roumanian authorities have found it necessary to bring domestic prices more into line with Russian prices (which in April 1952 were cut for the fifth time since January 1948).

In Bulgaria also there was a monetary purge in the first half of May 1952, involving an alteration in the foreign exchange rates of the currency. In order to mop up the excess money in circulation and, at the same time, to establish closer links with Russia in the monetary and price sectors, the lev has been given a higher fine-gold content (0.130687 grammes), and an exchange rate of Leva 1.70 = Rouble 1 has been established, which gives a rate for the U.S. dollar of Leva 6.80 against the old rate of Leva 287.36 = U.S. \$1. While the rate of exchange has been written up by 42 times, prices, wages, pensions, debts, etc. have been converted into new leva in the ratio of 25 to 1, bank-notes have been exchanged in the ratio of 100 to 1 and deposits with banks have been converted in different ratios according to their nature, their amount and the public or private character of the depositor.

While no fundamental change has been made in the multiple-rate system applied in Spain, a greater measure of freedom has been given to movements of bank-notes, exports of which are now allowed up to an amount of Pesetas 2,000, while reimports are permitted up to Pesetas 10,000. Since 1st November 1951, moreover, wider scope has been given to the free market by a reform enabling exporters to retain a variable percentage of their foreign exchange proceeds, which can be sold on this market. Thanks to adequate control, however, quotations have remained very stable, in the neighbourhood of Pesetas 40 = \$1. The free-market rate is applicable to imports of non-privileged goods and to non-trade transactions. How great the differences still are between the various rates may perhaps best be seen from the following table, which shows that the simplification aimed at has not yet been carried very far.

In addition, a "curb rate" is unofficially quoted. This reached Pesetas 53 = \$1 in December 1951 and since then has, from time to time, shown a tendency to improve slightly (at the end of March 1952 it was down at Pesetas 48 = \$1).

Spain: Exchange-rate structure (pesetas per dollar).

Items	Import	Items	Export
Imported foodstuffs (basic official rate) (Group F)	11.22	Non-listed goods (basic rate)	21.90
Coal and power (Group A)	16.425	Group 1 — (10% sold on free market) .	23.673
Liquid fuels and tobacco (Group E)	25.0	„ 2 — (30% sold on free market) .	27.219
Scrap metals, feeding stuffs, etc. (Group B)	25.707	„ 3 — (50% sold on free market) .	30.765
Raw materials (Group C)	28.992	„ 4 — (70% sold on free market) .	34.311
Semi-manufactured goods (Group D) .	32.538	„ 5 — (90% sold on free market) .	37.857
Other imports and non-trade items (free-market rate*)	39.65	Non-trade items (free-market rate*) . .	39.65

* End of May 1952.

Mention should also be made of the following minor measures taken in three European countries, namely Denmark, Finland and Greece.

In Denmark, a 20 per cent. tax on sales of foreign currencies for travel purposes had been introduced in November 1950 as part of the action taken for the protection of the monetary reserves. In view of protests from other countries, on the one hand, and thanks to the gradual improvement in the Danish foreign exchange position, on the other (cf. page 11), this tax was abolished in October 1951 — half a year before it was due to be withdrawn.

In Finland also, a special tax — in this case at the rate of 30 per cent. — was levied on sales of foreign exchange for travel purposes; it came into effect on 11th June 1951 but was allowed to lapse at the end of the year, there having been a great improvement in Finland's monetary reserves (cf. Chapter VII). During the period of application of the tax in question, dollars bought for travel purposes cost FM 300 each instead of FM 230.

In Greece, by way of simplification, the foreign exchange certificates introduced in the middle of 1947 were abolished as from 1st June 1951, their price (fixed at a rate of Dr. 10,000 = $1) being then incorporated in the official parity, which underwent a formal change from Dr. 5,000 to Dr. 15,000 = $1, while the effective rates remained the same. The internal purchasing power of the drachma was not much impaired in 1951 (prices having been relatively stable); but the balance precariously maintained was dependent on foreign aid (which covered about two-thirds of the country's imports) and on sales of sovereigns by the authorities to the public (see Chapter IV).

Outside Europe, the most far-reaching alteration has been introduced in Israel. Early in 1952 it was decided to abandon the official single-exchange-rate system, which dated back to the time of the British mandate. In accordance with that system, when the new state was established in 1948, one Israel pound had been made equal to one pound sterling, and the current official parity since September 1949 had thus been I£ 1 = \$2.80. For some time, however, a considerable volume of exchange transactions had been taking place at rates involving a marked depreciation in relation to the official rate. The respective fields of application of the new rates (which came into force on 17th February 1952) and the corresponding degrees of devaluation may be seen from the following table.

Israel: Exchange rates and percentage of devaluation.

Uses		Old rates	New rates	Percentage of devaluation
Payments for	Receipts from	U.S.\$ per I£		
Imports of wheat and essential products	Exports of non-listed commodities	2.80	2.80	—
Imports of fish, coffee, tea, seeds, fertilisers, pharmaceutical products	Exports of citrus fruits and products, exports of finished products containing domestic raw materials, tourist traffic, etc. . .	2.80	1.40	50 %
Imports of non-listed commodities	Exports of finished products containing imported raw materials, capital imports and immigrants' remittances	2.80	1.00	64 %

How soon it will be possible for a more definitive exchange system to be adopted in Israel (a new country with a considerable volume of investment, largely supported by gifts from abroad and foreign capital in other forms) will obviously depend on the progress made towards a more fundamental equilibrium. Since 1949 the country's exports have paid for only between 12 and 14 per cent. of its imports; although an import surplus is a natural consequence of a large intake of funds from abroad, it is, of course, essential to manage the disposal of these funds in such a way that there is no undue expansion of domestic credit and of the note circulation.

Up to the end of 1951 the position in Iran was as follows. The official rate of Rials 32.00–32.50 = \$1 was applicable to transactions with the Anglo-Iranian Oil Company (until they were suspended), tourism, medical and student expenditure of Iranians abroad, government requirements and certain non-commercial needs of private persons. In addition there were two stabilised certificate rates: Rials 41.50 = \$1 (applicable to about half the country's authorised imports) and Rials 47.25 = \$1 (applicable to all other permitted transactions). In theory, the official rate still remains in effect for essentially the same purposes as before, though it has lost almost all its practical importance; since January 1952, however, all trade transactions have actually been effected at a single fluctuating (certificate) rate of exchange, which at the end of that month stood at Rials 67.75 to the dollar (selling rate). In relation to the "highest" previous rate, Rials 47.25 = \$1, this innovation corresponds to a devaluation of about 30 per cent.

In Indonesia also, there has been a devaluation of the currency, while the continuance, or rather development, of the existing certificate system has resulted in an increase in the number of effective rates (but only in relation to the dollar area; vis-à-vis other currencies the certificates have been abolished). A new official rate of Rupiahs 11.40 = $1 has replaced the three former rates of Rupiahs 3.80 (basic), 7.60 (export) and 11.40 (import) to the dollar. The use of the "certificates", however, gives rise to five separate rates, as shown in the following table, in which the "dollar certificate" has been calculated at its February 1952 market price of Rupiahs 1.50 = $1 and the so-called "inducement certificate" at its fixed price of Rupiahs 7.98 = $1.

Indonesia: Effective exchange rates since 4th February 1952.

Applied to	Rupiahs per U.S. dollar
All exports to non-dollar areas; (1) and essential imports from those areas	11.40
Exports to dollar area (2) and payment of claims, arbitration costs, etc.	12.45
Essential imports from dollar area.	12.90
Imports of luxury and semi-luxury goods from non-dollar areas .	19.38
Imports of luxury and semi-luxury goods from dollar area	20.88

(1) Exports of rubber and copra pay a 25 per cent. export duty.
Exports of oil, tin, coffee, etc. pay a 15 per cent. export duty.
(2) United States, Canada and Japan.

The establishment of the exchange rates on a more realistic basis has gone hand in hand with an improvement in the country's balance of payments, helped partly by grants from the United States and from the Netherlands but even more by the high prices received for rubber, copra, tea, coffee and tin. The combined gold and dollar reserves, totalling $194 million at the end of 1949, had risen to $420 million by the end of 1951: but in view of the fall in raw-material prices in the course of last year, which is bound to reduce the foreign exchange receipts, a rather cautious policy is now indicated for Indonesia as well as for other raw-material producing countries.

Another country which devalued its currency in February 1952 was Afghanistan. The exchange rate was altered from Afghani 16.80 to Afghani 21.– = $1 — a devaluation of 20 per cent.

Elsewhere in Asia there have been relatively few alterations in foreign exchange regulations and rates. In China, the rate of exchange has remained at about P.B.$22,500 = $1 and in Japan the parity is still Yen 360 = $1.

Similarly, Central and South American countries have had a relatively uneventful history in 1951–52 as far as foreign exchange developments are concerned. It is not as if inflation had been wholly overcome:

it is still strong in several countries. In some cases this is due to over-ambitious programmes of industrial expansion, usually financed via the budgets at the cost of heavy deficits; in a few instances it is an indirect effect of export surpluses resulting from the high prices fetched by one or two special products; not infrequently it has its origin in successive and considerable cost increases — especially increases in wages — which have followed in the wake of the profit inflation; and it may have been helped on by political unrest. A number of countries, however, have put up a more determined resistance to inflationary tendencies by pursuing active fiscal and credit policies. Otherwise the modifications in exchange rates in this part of the world would hardly have been so few, considering that in 1951 — according to U.S. statistics — Latin America had a deficit, on current account of the balance of payments with the United States, of about $900 million, as compared with about $300 million in 1950. An increased flow of capital from the United States made up for part of the difference in the deficit but, in terms of gold and dollar reserves, Latin America registered a loss of about $113 million in 1951 as compared with a gain of $400 million in the previous year.

While basic changes were avoided, the modifications in the exchange-rate structure often consisted in the transfer of certain types of payment from one category of exchange transactions to another. In countries with multiple exchange rates such a modification may be equivalent in effect to a sectional devaluation (theoretically, a sectional revaluation is also a possibility, but it does not seem to have occurred anywhere). Thus in February 1952 it was decided in the Argentine that, to encourage the exportation of cheese and butter (the peso prices of which had risen sharply), 40 per cent. of the proceeds of exports of these dairy products would be convertible at the free-market rate of about Pesos 14 to 14.50 to the dollar, while in the case of meat the preferential rate of Pesos 7.50 per dollar, instead of the basic rate of Pesos 5 per dollar, has been applied to the export proceeds since 1st March 1952. The situation is further complicated by the existing methods of government trading; for example, the farmers receive about two-thirds of the world-market price for wheat, while in 1951 the government was able to sell wheat at prices which were often 20 to 30 per cent. above the Canadian export price.

Similarly in Chile, though the rates have remained unchanged, there has been a general up-grading of commodities into groups to which higher effective rates are applied — and in that country there is a wide difference between the official rate of Pesos 31 = $1 and the so-called gold rate, which has been quoted at as much as Pesos 157 = $1.

In Brazil, on the other hand, there is only one official rate, of about Cruz. 18.50 = $1. This is applicable to all exchange transactions in connection with exports, essential imports, debt service, financial transfers on private account and consular and diplomatic remittances, while all other remittances are subject to an additional 8 per cent. tax, which has brought the effective selling rate to Cruz. 20.22 = $1. *Black markets exist; the authorities have* tried to suppress them by imposing direct penalties and by pursuing an anti-inflationary policy. Some difficulty has been caused by the accumulation of outstanding liabilities in foreign exchange, but amounts in dollars and

Official exchange rates 1939–1952.

Countries	National currency units	U.S. dollar middle rate					Percentage change	
		24th August 1939	31st December 1945	15th September 1949	31st March 1951	31st March 1952	24th August 1939 to March 1952	15th Sept. 1949 to March 1952
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	50.40(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	6.90¾	6.90¾	— *30.6*	— *30.6*
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)	350.00(6)	349.95 (6)	— *89.2*	— *22.1*
Germany	RM/DM	2.493	10.00	3.33(7)	4.20	4.20	— *40.6*	— *20.6*
Greece	Dr.	117.60	500.00(8)	10,010.00(9)	15,000.00(9)	15,000.00(10)	(8)	— *33.3*
Hungary	P/Frt	5.20	104,000.00	11.74(11)	11.74	11.74	(11)	—
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	0.3555	— *40.2*	— *30.3*
Italy	Lit.	19.00	100.00	575.00	624.85(12)	624.88(12)	— *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	4.96¼	4.96¼	7.14¼	7.14¼	— *40.2*	— *30.5*
Poland	Zl.	5.325	—	400.00(13)	4.00(14)	4.00(14)	(14)	(14)
Portugal	Esc.	23.36	24.815	25.025	28.75	28.75	— *18.7*	— *13.0*
Roumania . . .	Lei	143.59	3,635.00(15)	151.50(16)	151.50	11.20(17)	(17)	(17)
Spain	Pts	9.05	11.22(18)	11.22(18)	11.22(18)	11.22(18)	(18)	(18)
Sweden	S. Kr.	4.15*	4.19	3.59½(19)	5.17½	5.17½	— *19.8*	— *30.5*
Switzerland . .	Sw. fcs	4.435	4.30	4.30	4.32¼	4.3573	+ *1.8*	— *1.3*
Turkey	Liras	1.267	1.305(20)	2.8126	2.8126	2.8126	— *55.0*	—
United Kingdom	£ stg	0.2126	0.2481	0.2481	0.3571	0.3555	— *40.2*	— *30.2*
U.S.S.R.	Roubles	5.30	5.30	5.30	4.00(21)	4.00	+ *32.5*	+ *32.5*
Yugoslavia . . .	Dinars	44.05	50.00	50.00	50.00	300.00(22)	— *85.3*	— *83.3*
Canada.	Can. $	1.0047	1.1025	1.0025(19)	1.0506(23)	0.9847	+ *2.0*	+ *1.8*
South Africa . .	SA £	0.2279(24)	0.2488	0.2488	0.3581	0.355	— *35.8*	— *29.9*
Australia	A £	0.2822(24)	0.3108	0.3109	0.4474	0.4444	— *36.5*	— *30.0*
New Zealand. .	NZ £	0.2814(24)	0.3125	0.2500(25)	0.3598	0.3563	— *21.0*	— *29.8*
Argentina(26) . .	Pesos	4.325	4.0675	4.8075	14.01	14.01	— *69.1*	— *65.7*
Brazil *.	Cruz.	16.50	16.50	18.72	18.72	18.72	— *11.9*	—
Japan	Yen	3.67(24)	15.00(27)	360.00	360.00	360.00	— *99.0*	—

* Official selling rate. (1) *January 1938.*
(2) Official rate for commercial exchanges since 5th October 1950; premium rate for capital transactions and tourist trade Sch. 26.00. (3) Free rate since 30th November 1949.
(4) Official rate, including premium of 250 per cent.; on 12th May 1952 the lev was put on a gold basis.
(5) Mean rate between basic and free official rate.
(6) Official free rate established on 2nd February 1948. Since 20th September 1949 it has been applicable to all transactions. (7) Export-import rate.
(8) In November 1944, 50,000,000,000 old drachmae were exchanged for each new drachma.
(9) With Exchange Certificates. (10) On 1st June 1951 the official rate of exchange was fixed at 15,000 drachmae per U.S. dollar and the certificate system was abolished.
(11) The forint was introduced on 1st August 1946 and was equal to 400,000 quadrillion pengö.
(12) Official free rate. (13) With premium surcharge of Zl. 300 in practically all financial transfers abroad.
(14) One new zloty was made equal to 100 old zlotys. (15) Including the supplementary premium.
(16) The *new leu was introduced on 15th August 1947* and was equal to 20,000 old lei.
(17) On 28th January 1952 the leu was put on a gold basis.
(18) Basic selling rate. Spain has a multiple-exchange-rate system. At present, in addition to the basic selling rate, there exist six other selling rates, ranging from Pts 16.425 to Pts 39.65, and seven buying rates, ranging from Pts 21.90 to Pts 39.65 (free-market rates). (19) Revaluation in July 1946.
(20) Official rate, excluding premium. (21) Official rate in effect since 1st March 1950.
(22) New rates since January 1952. (23) Free rate, since 1st October 1950.
(24) Buying rate on New York. (25) *Revaluation in August 1948.* (26) Free-market selling rate.
(27) The military rate was first established at Yen 15 per U.S. dollar in August 1945. It was raised to Yen 50 on 12th March 1947 and to Yen 270 on 5th July 1948, at which level it remained until the present official rate was established on 25th April 1949.

sterling have been obtained from the International Monetary Fund in order to speed up payments.

Among the other Latin American countries, Colombia, Paraguay and Costa Rica may be mentioned as having simplified their exchange-rate structure. Cuba, at the end of June 1951, introduced a legal tender of its own (the peso) in replacement of the U.S. dollar — with which, however, the existing parity has been maintained.

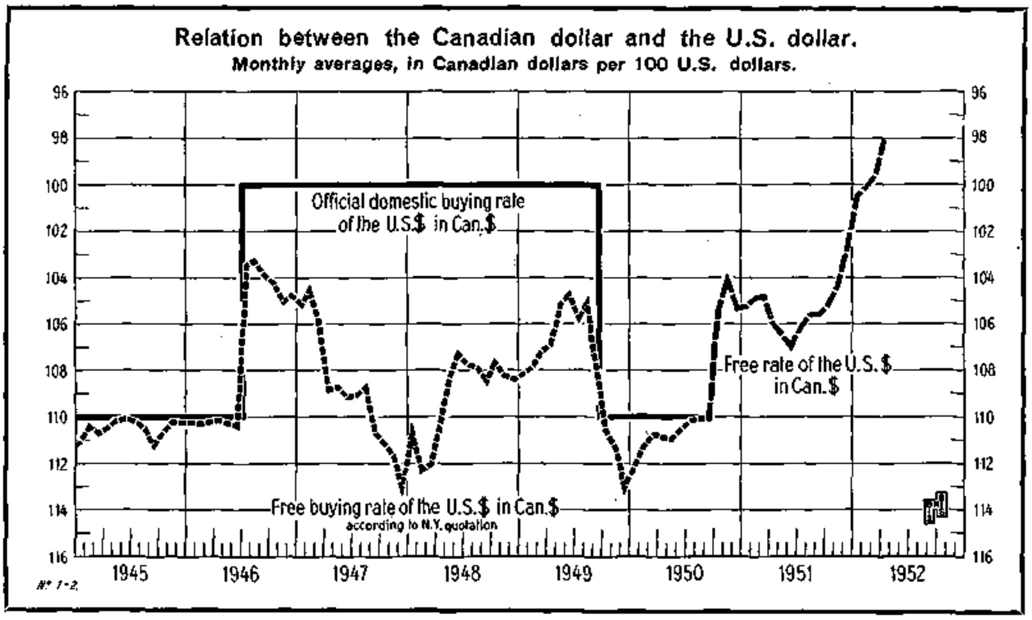
At various times the question has been raised whether or not Latin American countries would benefit by the establishment of a "Latin-American Payments Union", on much the same lines as the European Payments Union. But even a cursory examination of the basic conditions soon showed how considerable was the difference between the European continent and Latin America. Over 40 per cent. of the foreign trade of the members of the E.P.U. is intra-European — or nearly 70 per cent. if "intra-European" is taken to include trade with overseas members of the various monetary areas (the sterling area, the French and Belgian franc areas, the escudo and the guilder area) in so far as their transactions are settled through the E.P.U. As regards Latin America, on the other hand, less than 10 per cent. of the foreign trade of the component countries represents trade between them. It should be noted that, from a commercial point of view, these countries may be divided into two groups: a northern group (roughly coinciding with the Caribbean area) whose principal trading and currency relations are with the United States, and a southern group, comprising the bulk of the South American continent, which has the United States as a partner for, say, up to one-third of its foreign trade and, consequently, has to maintain close trading relations with other countries as well. For each individual Latin American country it is, of course, a difficulty that its relations with European countries are on a bilateral basis, which means that a surplus with one country cannot generally be used for settlements with another. Now that serious efforts are being made to get back to convertibility in the near future (see below), it seems less necessary to discuss in detail more complicated solutions; for the Latin American countries — having, in most cases, a dual trade orientation, towards the United States and towards Europe — would undoubtedly be best served by the restoration of convertibility of European currencies into gold and consequently into dollars.

* * *

Credit for the most spectacular action yet taken for the restoration of complete freedom of exchange transactions goes not to Europe but to a country on the North American continent: Canada, in October 1950, abandoned the rigidly-fixed parity of its currency for a freely-fluctuating rate and, one year later, followed up this decision by announcing that, as from 14th December 1951, all classes of foreign exchange transactions would be exempt from permit requirements — a measure equivalent to the total abolition of exchange control. The Canadian Finance Minister, Mr Abbott, explained that what a currency needed was not crutches but sound internal policies, and added:

> "The conclusion I have come to is that we would be better advised not to rely on exchange restrictions but rather on the general handling of our domestic economic situation to keep us in reasonable balance with the outside world."

When, in the autumn of 1950, the Canadian dollar had been freed, it soon moved from the rate of U.S. $0.90 to U.S. $0.95 = Can. $1. With minor fluctuations, it remained at that level until the second half of November 1951, when it resumed its upward movement, which was even accelerated by the abolition of exchange controls. On 22nd January 1952 the Canadian dollar reached parity with the U.S. dollar, and since then it has been quoted at a certain premium.



It may be said that Canada has had the odds in its favour: there was a marked improvement in its terms of trade in the autumn of 1951, and the important discoveries, in recent years, of additional natural resources (iron ore, oil, etc.) have continued to attract large amounts of investment capital from the United States — the net inflow in 1951 being put at some Can.$560 million. But an outstanding factor has been the general confidence that Canada's policy has won for its economy and its currency: on the one hand, by the end of 1951 the gross public debt had been reduced by about Can. $2 milliard since the end of 1946 through the realisation of overall surpluses in the budget since 1947 and, on the other hand, Canada has progressively relaxed its rigid adherence to a cheap-money policy — late in 1950, by allowing the market quotations of long-term bonds to decline and, in October of the same year, by raising the official rate of discount from 1½ per cent. to 2 per cent. As was to be expected, the great influx of capital for the financing of internal investments led to increased imports and to a deficit on current account of the balance of payments in the first half of 1951. But the net effect was nevertheless to increase the official Canadian gold reserves and the official and private Canadian dollar balances with U.S. banks* by an amount of U.S. $166 million during 1951.

* * *

The success scored by Canada in introducing a free-market rate and subsequently removing all exchange restrictions, under conditions which brought the value of the currency unit back to its old parity with the U.S. dollar, has undoubtedly given a fresh impetus to the whole movement for a return to more normally functioning exchange markets.

From this point of view, developments in the foreign exchange policy of the United Kingdom have been of importance.

The character of the events leading to the dramatic change in the current position of the British balance of payments, by which a surplus of £244 million in 1950 was transformed into a deficit of £521 million in 1951, has been described in the Introduction to this Report. Because stocks were eaten into in the first of these two years and were replenished in the second, and because of shifts in the terms of payment, the downturn in 1951 may appear worse than it really was. In any case, it is interesting to find that while the strain on the reserves was still at its height the authorities decided that the London foreign exchange market, which had been closed for more than twelve years, should be reopened for spot and forward transactions as from 17th December 1951. This was part of the general fiscal and credit policy designed to restore equilibrium within the national economy and in the balance of payments; it should therefore be judged in conjunction with the increase in interest rates, cuts in certain items of budget expenditure, etc. In the specific field of foreign exchange operations the step meant:

(i) Freedom of movement for the rates of spot transactions within precise limits set by the Bank of England. The spread between the present highest and lowest rates is somewhat wider than the margin previously allowed and is also greater than the difference between the old gold points, but it is narrower than the swing permitted under the Articles of Agreement of the International Monetary Fund (one per cent. on each side of the official parity). The following extreme rates, fixed for the U.S. dollar and the Swiss franc, are given by way of example.

(ii) Full freedom of movement for the rates of forward transactions. Since September 1939 the handling of such transactions had been a prerogative of the Bank of England, which provided forward exchange cover for genuine commercial transactions, at a forward-rate margin of 1 per cent.

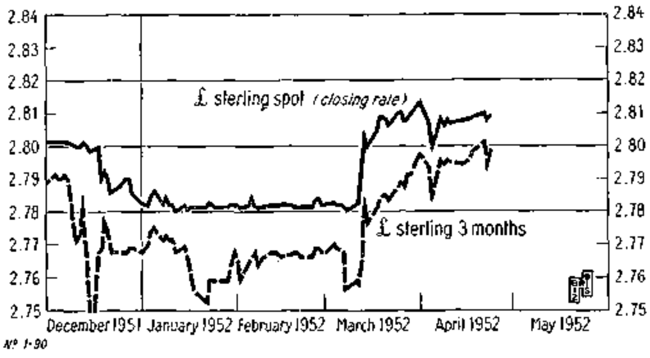
* Including holdings of U.S. Government securities with an original maturity of up to twenty months.

Bank of England: Buying and selling rates for the U.S. dollar and the Swiss franc.

Period	Rates	
	Buying	Selling
U.S. dollar		
Limit of rates before 17th December 1951	\$2.79 7/8	\$2.80 1/8
„ „ „ after that date	\$2.78	\$2.82
Swiss franc		
Limit of rates before 17th December 1951	Sw. fcs 12.23	Sw. fcs 12.26
„ „ „ after that date	Sw. fcs 12.14	Sw. fcs 12.35

At first, freedom was confined to bilateral arbitrage in dealings with banks in the U.S. and Canadian dollar areas. From January 1952 it was extended to include France and the French franc area, Belgium and the Belgian franc area and Switzerland, but it remained on a bilateral basis, i.e. dealings were limited to operations in the currencies of the United Kingdom and the other country concerned.

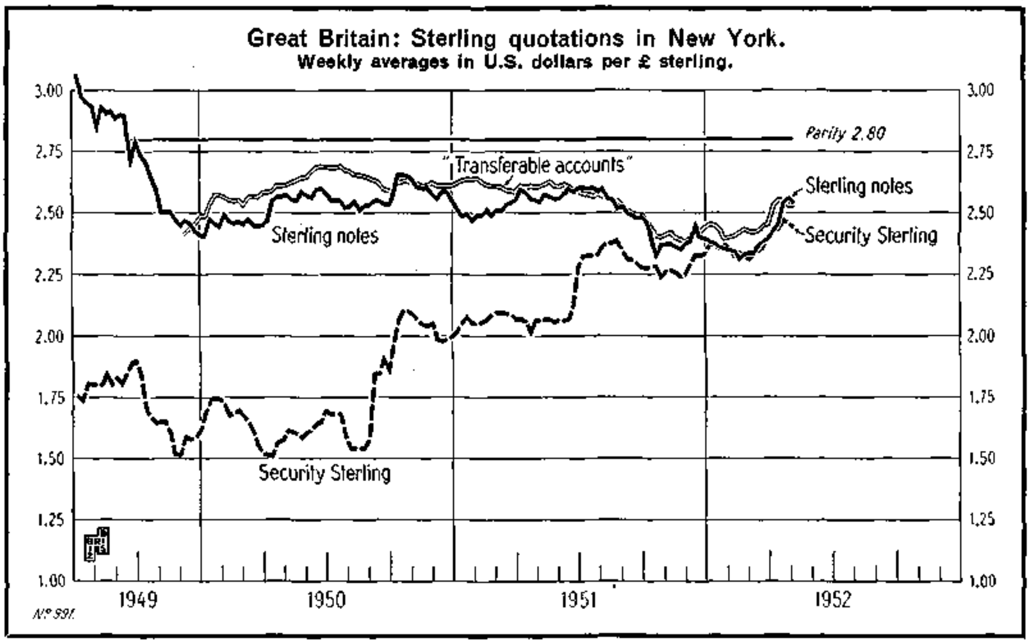
Great Britain: Official quotations, spot and forward, for the pound. Daily rates in dollars per £ sterling.



Within the permitted limits of the spread for spot rates, current quotations are once more providing a useful indication of the trend of the market, while the less restricted movements of forward rates may actually have an influence on imports and exports and give rise to counterbalancing credit transactions.

At first the pound showed signs of weakness and the spot rate soon reached the lower official support point (£1 = U.S. \$2.78); but after budget day (11th March 1952) there was a distinct improvement, to well above par, and the forward rates, too, have improved. Special measures, such as the restriction of refinancing facilities for the export of sterling-area products and the re-export of foreign goods merchanted through London (it was principally a question of exports to the United States), the shortening of the term for acceptances and the increase in interest rates on the London market, have undoubtedly had their effect — and have produced it even more promptly than the typical stop-gap device of cutting down imports. In one way or another these various measures may provide a welcome respite pending the restoration of a more fundamental balance. That must be the aim, and it is not without interest to note that the moment when the market rates for the pound began to improve was not just after the announcement of the import cuts but after the changes introduced at the time of the budget, of which the most important were the reduction in food subsidies, and the impressive increase — by 1½ per cent. — in the discount rate.

The substantial losses of gold and dollars in the autumn of 1951 and the following winter had naturally had the effect of depressing the free-market rates for sterling, as may be seen from the following graph; but a remarkable recovery occurred in the spring of 1952.



Note: Quotations for transferable-account sterling represent the average of some eighteen different rates (one for each transferable account in existence), while those for "security sterling" have represented one single rate since the autumn of 1950. "Security sterling" or, as it is also called, "switch sterling" derives from transactions between non-residents of the sterling area in respect of sterling assets which were blocked upon the introduction of wartime exchange control and which have not yet been released. Between 1948 and the autumn of 1950, only a limited freedom to "switch" from one kind of blocked assets to another was granted to the holders. Since then switching has, in practice, been permitted between all types of assets; hence the uniform rate for this form of sterling.

The spread between the different rates has now become much narrower: the free rate for sterling notes is within 10 per cent. of par and so is the "transferable-account" sterling rate — which means that the point where the use of such sterling becomes unprofitable will soon be reached. By May 1952 the rate for "security sterling" had risen to $2.47, i.e. this is the amount which one American resident has to pay another for one pound's worth of assets blocked in the sterling area.

The following table shows the alterations in the free-market quotations for various currencies (and, in particular, quotations of bank-notes) in New York between early 1951 and April 1952.

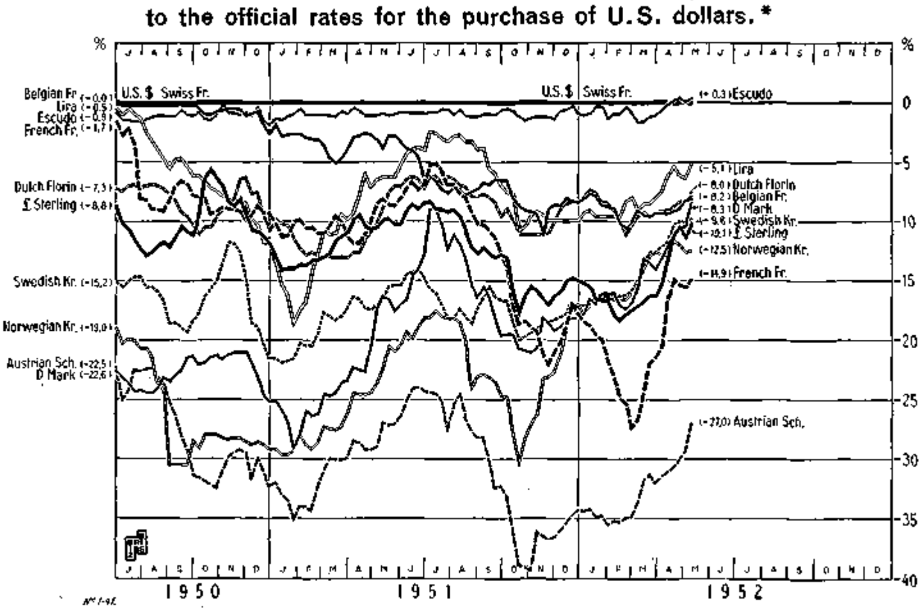
The same general tendencies as in New York are shown by the free-market quotations of bank-notes in Switzerland.

Free foreign exchange rates in New York.

Countries	Official rate	Free-market quotations (notes)		
		End of January 1951	End of April 1952	Percentage change
	foreign-currency units per U.S. dollar			
Argentina	5.00-7.50*	16.85	25	— 33
Austria	21.36	32.25	30	+ 8
Belgium	50	52	54.45	— 5
Denmark	6.91	9.86	7.81	+ 26
Finland	230	525	380	+ 38
France	350	391	410	— 5
Germany (western): Notes	4.20	5.70	4.63	+ 23
"Blocked marks"	—	9.60	12.80	— 25
Greece	15,000	18,450	17,800	+ 4
Israel	0.3571-1.00*	1.18	2.44	— 52
Italy	625	770	660	+ 17
Japan	360	400	425	— 6
Netherlands	3.80	4.20	4.16	+ 1
Norway	7.14	9.94	8.10	+ 23
Spain	11.22-21.90*	52	49.50	+ 5
Sweden	5.17	6.48	5.74	+ 13
Turkey	2.80	4.00	4.15	— 4
United Kingdom: Notes	0.3571	0.400	0.393	+ 2
Transferable-account sterling	.	0.379	0.394	— 4
Security sterling	.	0.489	0.411	+ 19
Yugoslavia	300	330	610	— 46

* Multiple-exchange-rate system; the rates given here are the lowest and highest official rates.

Free-market rates for bank-notes in Switzerland since July 1950, in relation to the official rates for the purchase of U.S. dollars.*



* Weekly averages.

After the first gloomy months of 1951 had passed and when the rapid rise in prices appeared to have been curbed in the United States and elsewhere, confidence revived and the quotations improved, i.e. came nearer to parity. But the difficulties which were being experienced by the British and French economies led to rumours of further devaluations and — except in individual cases such as that of the Norwegian krone, which after a sharp fall staged a recovery in the autumn of 1951, due more especially to the increased earnings of the country's mercantile marine — quotations sagged, on the whole, until the spring of 1952, when, in the United Kingdom, the turning of the corner on budget day and, in France, the acceptance by Parliament of the main budget proposals helped to change the general outlook and were the starting-point of a very remarkable improvement. In May 1952 the quotations were mostly within 10 per cent. of par, and even where the disparity was wider, as in the case of the Austrian schilling, there was still a well-defined upward movement.

The improvement in the free-market valuation of so many currencies is also a reflection of the growing belief that return to convertibility is becoming more and more the accepted aim of the different countries. Important in this connection is the unequivocal opinion which was voiced in the concluding statement issued on 21st January 1952 by the Conference of Commonwealth Finance Ministers:

> "We agree that ... recovery will not be complete until the conditions have been created in which sterling can become and remain convertible. Accordingly, it is our definite objective to make sterling convertible and to keep it so."

For some years after the last war, many people seemed to hold the view that a return to convertibility might well be desirable from a general point of view (as a stimulus to world trade, etc.) but that it was, after all, possible for individual countries to protect their currencies and maintain balance in their economies by means of the systems of exchange control introduced during the war. The recurrence of foreign exchange crises (in 1947, 1949 and 1951 — every other year) has, however, shown that this form of "protection" is not good enough. Moreover, the tendency of prices to rise behind the fences of exchange and trade restrictions — creating a "high-cost area" — and the obstacles those restrictions place in the way of ordinary international credit transactions, without which the monetary system cannot be expected to work effectively, have brought home to people the great advantages of convertibility. In a more general way, there is a growing dislike of the labyrinthine confusion created by the coexistence of official and other rates in free, grey or black markets (more or less tolerated), the quotation of differential export prices, balances utilisable only for specific purposes, permits granted or withheld more or less arbitrarily, and all the other jungle growths to be found in highly "regulated" systems, which not only distort the patterns of trade and the price structure but are also subversive from a moral point of view. People are tired of all these

UNITED KINGDOM EXCHANGE CONTROL REGULATIONS
OUTLINE OF PERMISSIBLE TRANSFERS.

Amended April 1952.

→ 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, Republic of
Mexico
Nicaragua
Panama
Philippine Islands
El Salvador
U.S.A. and its Dependencies
Venezuela
Former Japanese Pacific Islands under U.S. Trusteeship
Former Japanese Islands under U.S. Military Administration

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 (including Faröe Islands and Greenland)
Egypt
Ethiopia
Finland
*Germany — Western Zones
*Greece
*Italian Monetary Area
*Netherlands Monetary Area
*Norway
Poland
Spanish Monetary Area
*Sweden
Thailand
U.S.S.R.

CANADA

UNCLASSIFIED COUNTRIES

Inter-transfers permitted.

i.e. all countries not listed elsewhere, including Afghanistan, Albania, Andorra, Eritrea, Liberia, Nepal, Saudi Arabia, Yemen

*SCHEDULED TERRITORIES ("Sterling Area")

Broadly speaking, inter-transfers are freely permitted; but some limitations are imposed by local controls.

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

"BILATERAL" COUNTRIES

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

Argentina
*Belgian Monetary Area
Brazil
Bulgaria
China (incl. Manchuria)
Formosa
*French Franc Area
French Somali Coast
Germany — Eastern Zone
Hungary
Iran
Israel
Japan
Lebanon
Paraguay
Peru
*Portuguese Monetary Area
Roumania
*Switzerland and Liechtenstein
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.

complications, whose insidious dangers they have come to realise — and a reaction against all these practices (or rather malpractices) is really at the bottom of the growing demand for the re-establishment of convertibility. As is generally recognised, sterling will be in a key position in any action taken to achieve this, and it is significant that the members of the sterling area — whose currencies are interchangeable among themselves — feel so strongly the need for a more comprehensive monetary arrangement providing for general convertibility.

The diagram on page 141 shows the different categories of sterling accounts at the end of April 1952.

Canada is no longer in the group of "Bilateral Countries" but is now in a class by itself, with full automatic inter-transferability with "American Account Countries" and with automatic transferability from its accounts to Scheduled Territories (i.e. sterling-area countries) but not vice versa. Western Germany, which has also left the bilateral group, has joined the "Transferable Account" group, being the eighth E.P.U. country to do so. Libya became a member of the sterling area as from 3rd January 1952, after the proclamation of the country's independence and the creation of the Libyan pound in replacement of the three currencies — the military-authority lira, the Egyptian pound and the French colonial franc — previously circulating in that country. Another change was the transfer of Iran from the group of "Transferable Account Countries" to the group of "Bilateral Countries".

The operations and difficulties of the European Payments Union (which was formed for the purpose of overcoming the limitations inherent in bilateral relations by means of a special kind of clearing and, at the same time, of furthering trade liberalisation) are described in a special chapter (Chapter IX). There can be no doubt that the Union has been conducive to an increase in intra-European trade and has obviated many of the drawbacks of bilateral relations; furthermore, in its contacts with the participating countries, it has contributed, in some instances, to the adoption of fiscal and credit measures — often severe in character — designed to restore internal balance and, in doing so, to get rid of disequilibria vis-à-vis other countries. But it is evident that neither international organisations nor technical devices can really get to grips with the fundamental problems, which can only be properly tackled and solved by the authorities in each individual country.

It is of some importance from an exchange point of view that the operation of the E.P.U. made it necessary for the Belgian-Swiss Agreement of 1949, which had been the first example of an almost complete return to freedom of commercial and financial transfers, to be replaced by a new agreement in which all payments between the two countries were subjected to control. Belgium and Switzerland have also found it necessary to take further action, each on its own account, with reference to the repayment of debts and the limitation of certain exports — all in order to prevent too strong a creditor position from developing in relation to the E.P.U. While there is no denying the usefulness of the functions performed by the European Payments Union, the experience gained during the period of its operation has provided yet another proof of the superiority of a convertible-currency system.

The goal is thus the re-establishment of convertibility; but which is the way to that goal?

Canada's action in introducing a free rate — soon recognised as having been a striking success — naturally raised the question whether this example should not be followed by other countries. A free rate has certain obvious advantages:

(i) The introduction of a genuinely free rate is a method of clearing away at one sweep the whole complex of multiple exchange rates — official rates, ordinary free and black-market rates, transferable-blocked-currency or security rates and the rest, with all their various designations. If this could be done, it would be an enormous step forward. In itself, the introduction of genuinely free rates would mean the disappearance of certain restrictions, and that, in turn, would pave the way for the removal of other restrictions — often remaining from the war — in the internal economies of the various countries.

(ii) A genuinely free rate will never be wholly out of line with economic realities; while it would be an illusion to think that the market always finds the right level, there are many artificial rates which could not for a moment stand up to the test of a free market. In recent years there have, indeed, been a number of "official" and "basic" rates, tenable only thanks to foreign aid and representing, in reality, a method of subsidising imports which is liable to retard the process of economic recovery. To get rid of the multitude of uneconomic rates (the existence of which often gives rise to dishonest practices) would be a way of eliminating the causes of many dangerous distortions in the price and cost structure.

Indeed, one of the main advantages of the introduction of a free rate would be that it would result in the re-establishment of genuine exchange markets in which existing claims could be currently settled at the real rate; there would then remain no uncleared balances such as would be likely to be settled (legally or otherwise) at depreciated rates.

(iii) The fluctuations of a free rate — even when, and perhaps particularly when, they are disappointing for the country concerned — do attract attention and thus bring it home to the public that there is something radically wrong. As long as the public believes in the officially fixed exchange rates, it is easily lulled into a false sense of security, and when the crisis has already started it is generally too late to react; at that stage, to devalue the currency by 20 or 30 per cent. is often the only solution. If, on the other hand, there had been free exchange rates, whose unfavourable movements could have been reported on from day to day and made the subject of — sometimes trenchant — comment, the public might have become aware of the danger in time and have demanded the adoption of appropriate countermeasures. In France, for instance, the fall in the exchange value of the French franc in the years after the first world war led to a redressment of the whole position through the financial and other measures taken in the latter half of 1926; and these were sufficiently comprehensive to restore confidence in the currency and lay the foundation for a period of useful long-term economic projects (see page 47). Stabilisation was achieved with a price level about two and a half times as high as it had been at the end of the war (in 1919), whereas, since the end of the second world war (in 1945), there has been an eightfold rise in prices.

It might be hoped that the authorities and the public in western Europe and elsewhere have been sufficiently impressed by the appearance in recent years of one financial crisis after another; but it is questionable whether these crises really rouse the general public as effectively as the special warning given by adverse movements of the foreign exchanges.

It should also be remembered that, in the past, every time the exchange rates of individual countries have been allowed to fluctuate by a substantial percentage (i.e. beyond the gold points or other not very much wider limits), there has immediately been a demand for a return to "stable exchange rates". That was the case in the years after the first world war and in many quarters the same thing happened again after the devaluations of 1931; but the demand was definitely less urgent in the latter period, since there was then a de-facto state of exchange stability throughout the sterling area (which, with all the countries then attached to sterling, accounted for more than 50 per cent. of the world's trade at the time), and an attempt was being made to limit the variations of the sterling-dollar rate. One of the disadvantages of fluctuating exchange rates is that industrialists and traders, instead of attending to the problems of production and marketing, each in his own branch, devote time and energy to "guessing at" future movements of exchange rates — an occupation extraneous to their real concerns. It is only when exchange rates become stable (apart from the minor and useful variations within reasonable limits) that the world's monetary systems achieve sufficient unity for the movements of prices in the various markets and the granting of credit to be able to exert their valuable influence on the direction of trade and the international division of labour.

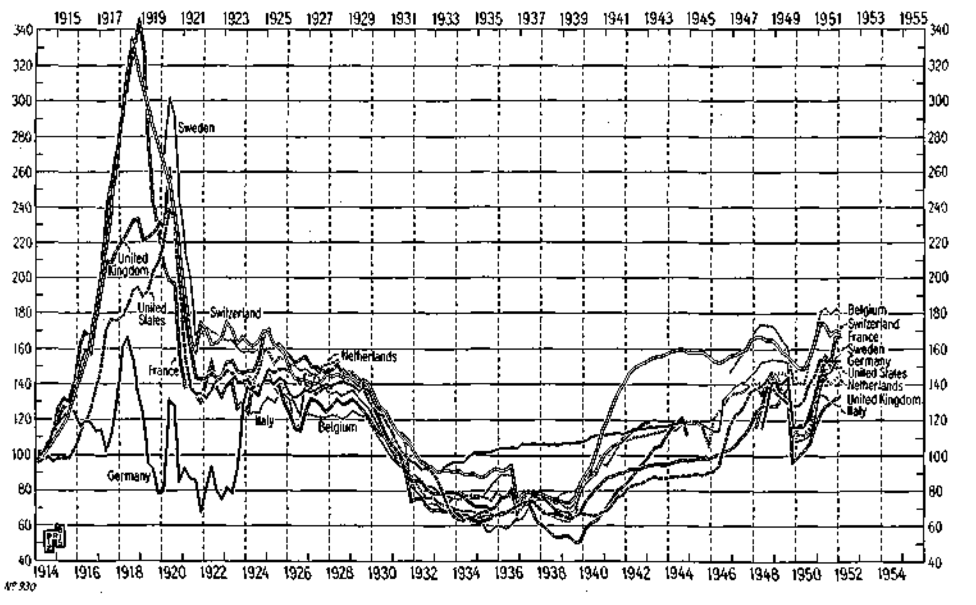
In practice, there are strong reasons against leaving rates entirely "free", for that would mean that seasonal and other "temporary" influences might cause them to fluctuate very widely — and the knowledge that such a thing might happen would in itself form an obstacle to foreign trade and to the granting of credit from one market to another. An even more dangerous situation would arise if — owing to flight of capital, for instance — the exchange value of a currency abruptly declined, with the result that imports suddenly cost more and internal prices in general were exposed to strong upward pressure. Such a development can be disastrous for the currency concerned — as it was for the Reichsmark in the years 1919-23.

It may be that some countries will see fit to restrict the export of capital, but such action need not in itself prevent the re-establishment of real exchange markets in which sales and purchases are freely effected. Everybody could have access to the market, but anybody who was found to have exported capital in contravention of the regulations would afterwards be answerable in the same way as if he had contravened any other law.

The world needs free exchange markets in the sense that all transactions on them can take place at a single rate (so that all the other odd rates disappear), but that in itself is not enough: the rates should be sufficiently stable not to upset trade and the price levels — and that is a condition which in the past has not proved incompatible with freedom of exchange transactions. The question is whether the present rate structure is such as to offer a suitable basis for a return to convertibility.

According to the purchasing-power-parity theory, the external value of a currency depends upon its internal value and, therefore, the rates of exchange have a tendency to move in inverse ratio to the changes in the purchasing power of the respective currencies, as related to a given base period (which should be a period of equilibrium). Many modifications were introduced to allow for changes in the terms of trade, in productivity, etc., which would cause deviations from the strict purchasing-power parities; but the existence of such deviations must be accepted — and in practice they would not seem to make very much difference once equilibrium is attained. In this connection, it is instructive to examine the following graph.

Wholesale-price movements on a gold basis.



After the upheaval caused by the first world war, the price levels of the various countries, as calculated on a gold basis, had begun to draw together by 1928–29 — only for this equilibrium to be upset again by the great depression. But by 1937–39 equilibrium at a new level was in prospect — except in the case of Germany, which kept to its own isolated price and exchange policy, and of France, whose currency remained patently undervalued up to the first year of the war. In between these returns to equilibrium there were sometimes very marked deviations, which, however, had little or nothing to do with changes in terms of trade and the other causes of deviation usually recognised by the textbooks but meant that, owing to flight of capital or, for instance, import or export restrictions, exchange rates were not at their equilibrium point. Unfortunately, market forces will not always, by themselves, bring "freed" rates of exchange to the exact level calculated by comparing the price indexes of the countries concerned.

(i) In the first place, it is unhappily impossible to regard current price indexes as true measuring rods in cases where prices are artificially kept down by controls, with the result that goods and services are not freely purchasable — a state of affairs usual in periods of "repressed inflation". In such a situation it has sometimes been possible to eliminate the excess of money by a cut in the volume of notes and deposits, as Germany did in 1948; but in western countries the time for such radical cures is now probably past. It then remains to try to refrain from creating further money and to let prices rise to a level representing a new equilibrium; along this road a fair amount of progress has undoubtedly been made in recent years, although it would be an overstatement to assert that a true balance has already been attained in all the principal western countries. One typical result of repressed inflation is excessive length of delivery periods — and here the fact that, outside the rearmament sector, goods are becoming more readily available may be taken as one of the signs of a general improvement.

(ii) In the second place, mention must be made of all the difficulties hampering international movements of goods. Even if exports are unrestricted, there are often substantial hindrances originating in the importing country — and this is just as bad.

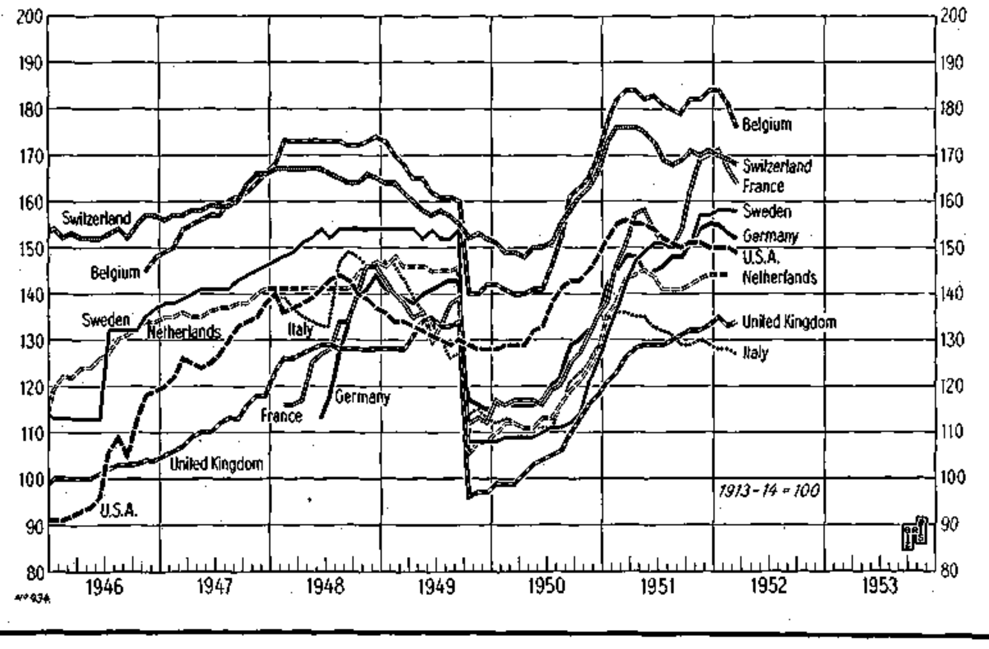
(iii) In the third place, attention must be drawn to a factor which exerts its harmful influence in a more general way. This factor is the present inadequacy of the international credit system, as operating against a background of exchange restrictions and of clearing accounts, which for many countries still remain the principal method of settlement for international payments. In "normal" times, financial credits could generally be relied on to come to the aid of a market under pressure (one reason being that downward movements in the rates of exchange — within the gold points — would make the currency concerned "temporarily" cheaper, and another being that, in the market under pressure, interest rates would probably stiffen and consequently attract funds from abroad). The difficulty since 1945 has been that not only have few, if any, financial credits come along to mitigate the effects of temporary deficits in visible and invisible trade but even ordinary trade financing has been less freely granted to countries in difficulties, with the result that every adverse movement has tended to be intensified. It should be added that inside some particular areas, e.g. the sterling area, the granting of credit has been continued on a rather more normal basis.

(iv) Finally, a grave danger arising from excessive liquidity is that it tends to facilitate a flight of capital from the country in question — and that largely in clandestine forms. Flight of capital may, of course, be due also to political fears; but experience seems to show that when there is no redundancy of money the amounts transferred abroad are not of very great importance.

It is one of the lessons of experience, and it is still as true as it always was, that too large a supply of money is the greatest hindrance to the reconstitution of free and stable exchange markets. While it would be an exaggeration to assert that in this respect all is now well, there is no lack of evidence that in the past few years very great progress has been made towards more healthy conditions. As will be shown in Chapter VII, there are quite a number of countries in which the percentage relation between the supply of money and the national income has reverted to the pre-war ratio or even fallen below it; moreover, in countries where this result has not yet been attained, as in the United Kingdom, the most recent developments (not yet wholly reflected in the data available) point to the re-establishment of more normal conditions. It often happens that special precautions have to be taken to prevent foreign liabilities from upsetting the exchange markets. As far as sterling balances are concerned, complete information is not available as to how far arrangements for gradual repayment, etc. have been made by the U.K. authorities with the holders of the balances in question; but in any case it is certain that the claims of some of the larger creditor countries (Australia, Egypt and India) have been much reduced in recent months.

Supposing that redundancy of money no longer gave rise to great concern, the next question for consideration would be to what extent price relations between the various countries are actually such as would allow exchange rates to remain stable. Here, too, it would be going too far to maintain that all is well; but it is interesting to see from the following graph that the differences in prices are not very marked and that, anyhow, some of the countries in a very strong exchange position appear to have a relatively high price level in terms of gold (i.e. on a basis suitable for comparisons). It does not look as if an adjustment of price differences as between the European countries would necessitate any major exchange alterations. In any case, where

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



limited adjustments are required in order to secure a firm basis for a new course of action, it is often a good plan to make them without undue delay.

Perhaps there is greater cause for concern in the fact that trade is still subject to many restrictions, which make it difficult for currencies to find their true level. However, the actual volume of trade is by no means small, and liberalisation has been extended in a number of countries even in the past six months. The setback caused by recent measures in France and the United Kingdom is not to be taken lightly, but both these countries have adopted important internal measures, and the beneficial effects to be expected from their tighter money policies may be helped by the repercussions of the lowering of interest rates and the relaxation of other forms of credit restrictions in Canada, Belgium, Finland, the Netherlands, western Germany and the United States, i.e. in countries which have already seen an improvement in their own positions (see, again, Chapter VII).

Much will no doubt depend on the course which trade takes during the next six or twelve months. Is it not a fact that American stocks of a large number of raw materials have been reduced, and will not this lead to increased imports by the United States before long? Whether or not the trend of world business is such as to promise increased possibilities of gaining foreign exchange will be a question of great importance for those who have to take the actual decisions as to the restoration of free and effective exchange markets.

Insufficient recognition of the need for establishing a true balance in the internal economy has been a mistake often made in past discussions of foreign exchange problems: but it would be equally wrong to ignore the many difficulties arising out of the existing conditions of international trade which have also to be overcome if a durable exchange stability is to be attained. Some of the most considerable difficulties of this nature have their origin in *relations with the dollar area*. It remains a circumstance of importance that the United States has a high tariff — it is still high for the bulk of manufactured goods and processed agricultural products, notwithstanding the reductions made in recent years. For most European countries this tariff has made it very difficult to earn dollars in *direct* trade with the United States; in the past — especially when there was no Marshall or other aid — they had been forced to rely largely on *indirect* trade, such as selling manufactured articles to the Malay States and other raw-material-producing countries and being paid, for part of the goods supplied, by methods which made it possible for the European countries to obtain dollars either directly or (except in the case of the United Kingdom) via the pound sterling. The dollars in question were earned by the raw-material-producing countries by means of their exports of rubber, tin and other staple goods to the United States (mostly free of import duty). *For indirect trade of this kind to run smoothly, however, several conditions must be fulfilled.*

(i) *European countries must produce at sufficiently low prices and in sufficient quantities* to be able to export the articles which the raw-material-producing areas demand. Now that European countries have gone a good way towards restoring balance in their internal economies, they are in a better position for satisfying this requirement; and it is high time that this should be so, considering that Japanese and other competition is bound to make itself increasingly felt.

(ii) The overseas producing areas, for their part, must be able to supply sufficient quantities of their indigenous raw materials — and this involves in addition to technical difficulties, the question of the maintenance of law and order, with all the attendant political problems. As regards physical output and in some other respects, there has been a distinct improvement since 1945, but the situation cannot yet be said to be wholly reassuring.

(iii) In the third place, it is necessary that the raw-material-producing areas should use their current dollar earnings to cover their current deficits with European countries. One of the difficulties arising from the existence of sterling balances has been that a number of overseas territories have already had at their disposal sufficient European means of payment. It is true that during the war and the critical post-war period, as a result of the "dollar pool" arrangements within the sterling area, various overseas countries have continued to sell dollars to London even though they already had large sterling balances outstanding; but not all of them, by any means, have done this — various overseas countries have drawn heavily on the dollar pool; and it is, of course, in any case preferable that the flow of dollar funds should be induced by ordinary economic considerations rather than by official agreements. Some progress has been made towards "normalising" the situation, and thanks to this it seems likely that in future in order to make their current payments in full, the raw-material-producing countries will be obliged to make certain remittances of dollars to Europe. But the difficulties in this field cannot yet be said to have been wholly overcome.

Now that European countries are carrying out the reforms incumbent upon them in their efforts to find a solution for the problem of convertibility, the roundabout and often precarious procedure by which dollar settlements have to be made, owing largely to the American tariff and customs regulations, is a matter which must not be neglected — and the necessity of giving due weight to it must be brought home to all those who are concerned with these problems. An additional difficulty arises from the tendency to jerkiness characteristic of the foreign trade of the United States, the most recent example being the rush to import in the first eleven months after Korea — from July 1950 to May 1951 — followed by a reduction of imports of raw materials as well as other goods while the accumulated stocks were being drawn upon. For the other countries the rapid ups and downs in the volume of American purchases from abroad cannot but be a source of disturbance. The difficulties are felt not only by the raw-material-producing areas most immediately affected but also by their trade partners in Europe, which serve as their bankers — and are, therefore, doubly sensitive to the impact of trade fluctuations. It is natural that the U.S. authorities should frame their policy so as to mitigate these fluctuations (for instance, by keeping to a more even rate of stockpiling, as they are doing at present). But it seems unlikely that a steady and regular flow of trade with the United States can be counted upon for certain, and probably the only reliable solution will be for other countries to hold larger monetary reserves than would otherwise be required. As has often been pointed out, the resources made available through Marshall aid have not been allowed to serve, to any appreciable extent, as a means of adding to the monetary reserves of the recipient countries. The result is that some serious problems remain to be solved in this field — but perhaps the very gravity of the present situation has one advantage, in that it has served to secure fuller recognition for the importance of these problems.

* * *

The question of restoring a smoothly-functioning international monetary system is even wider in scope than the question of restoring convertibility — as was found in the years 1930–31, when, despite the fact that almost all currencies were convertible, the established exchange structure broke down. For a return to convertibility the primary condition is, without a doubt, to attain internal balance in each separate country; but for the international monetary system itself to be immune from breakdowns, which also disturb the economic life of each individual country, one of the essential conditions is that the flow of trade shall not encounter too many man-made obstacles.

Official currency values – End of March 1952.[1]

Countries	Currency	Grammes of fine gold	1 U.S. dollar (equals)	1 pound sterling (equals)	Remarks
Europe					
Albania	Lek	—	50.–	140.–	Rates fixed on 11th July 1947.
Austria	Sch.	—	21.36 (2)	59.81	Rates fixed on 5th October 1950.
Belgium	Franc	.0177734	50.– (2)	140.–	IMF parity since 21st Sept. 1949.
Bulgaria	Lev	—	287.36	805.–	Official middle rates, including a premium of 250 per cent.
Czechoslovakia	Koruna	.0177734	50.–	140.–	IMF parity since 18th Dec. 1946.
Denmark	Krone	.128660	6.90714 (2)	19.35	IMF parity since 18th Sept. 1949.
Finland	Markka	.00386379	230.–	643.–	IMF parity since 28th June 1951.
France	Franc	—	350.– (2)	980.–	No IMF parity fixed.
Germany (western)	D.Mark	—	4.20 (2)	11.76	Rates since 19th September 1949.
Greece	Drachma	—	15,000 (2)	42,000	Official middle rates since 29th Sept. 1949.
Hungary	Forint	.0757002	11.7393	32.87	Official middle rates since 1st Aug. 1946.
Iceland	Krona	.0545676	16.2857 (2)	45.60	IMF parity since 20th March 1950.
Ireland	Pound	2.48828	.357143	1.–	Rate fixed on 18th Sept. 1949.
Italy	Lira	—	624.88 (2)	1,749.66	No IMF parity fixed.
Luxemburg	Franc	.0177734	50.–	140.–	IMF parity since 23rd Sept. 1949.
Netherlands	Guilder	.233861	3.80 (2)	10.64	IMF parity since 20th Sept. 1949.
Norway	Krone	.124414	7.14286 (2)	20.–	IMF parity since 18th Sept. 1949.
Poland	Zloty	.222168	4.–	11.20	Rates fixed on 28th Oct. 1950.
Portugal	Escudo	—	28.75 (2)	80.5	Rates fixed on 21st Sept. 1949.
Roumania	Leu	.079346	11.20	31.355	Rates fixed on 28th January 1952.
Spain	Peseta	—	11.22	31.416	Official basic selling rates since 3rd April 1940.
Sweden	Krona	.171783	5.17321	14.485	IMF parity since 5th November 1951.
Switzerland	Franc	.203226	4.37282 (2)	12.2439	Official parities.
Turkey	Lira	.317382	2.80 (2)	7.84	IMF parity since 19th June 1947.
United Kingdom	Pound	2.48828	.357143 (2)	1.–	IMF parity since 18th Sept. 1949.
Yugoslavia	Dinar	.00296224	300.–	840.–	IMF parity since 1st January 1952.
U.S.S.R.	Rouble	.222168	4.–	11.20	Rates fixed on 1st March 1950.
North America					
Canada	Dollar	(3)	(3)	(3)	No par value since 30th Sept. 1950.
Mexico	Peso	.102737	8.65	24.22	IMF parity since 17th June 1949.
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. — The rates in £ sterling were generally calculated via the official parity of $2.80 for £1.

(2) Rate used in EPU operations. For countries which have an IMF parity the rates used in EPU operations conform with that parity.

(3) Market rates at the end of March 1952 were U.S.$1 = Can.$0.9867 and £1 = Can.$2.76.

Official currency values – End of March 1952 (continued).

Countries	Currency	Grammes of fine gold	1 U.S. dollar	1 pound sterling	Remarks
			equals		
Central America (continued)					
Honduras	Lempira	.444335	2.–	5.60	IMF parity since 18th Dec. 1946.
Nicaragua	Córdoba	.177734	5.–	14.–	IMF parity since 18th Dec. 1946.
Panama	Balboa	.888671	1.–	2.80	IMF parity since 18th Dec. 1946.
South America					
Argentina	Peso	—	5.–7.50	14.– 21.–	Basic export/import rates since 29th August 1950.
Bolivia	Boliviano	.0148112	60.–	168.–	IMF parity since 24th April 1950.
Brazil	Cruzeiro	.0480363	18.50	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 2nd Dec. 1950.
Paraguay	Guarani	.148112	6.–	16.80	IMF parity since 3rd March 1951.
Peru	Sol	—	.	.	No par value since 12th Nov. 1949.
Uruguay	Peso	—	1.519–1.90	4.25–5.32	Official basic buying and selling rates since 6th October 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 19th 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 January 1944.
Union of South Africa	Pound	2.48828	.357143	1.–	IMF parity since 18th Sept. 1949.
Asia					
Burma	Rupee	—	4.7619	13⅓	Official rates since 19th Sept. 1949.
Ceylon	Rupee	.186621	4.7619	13⅓	IMF parity since 16th January 1952.
India (1)	Rupee	.186621	4.7619	13⅓	IMF parity since 18th Sept. 1949.
Indonesia	Rupiah	—	11.40	31.72	Official rates since 4th Feb. 1952.
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.
Japan	Yen	—	360	1,008	Rate fixed on 25th April 1949.
Korea	Won	The official rate of Won 2500 = 1 U.S.$ was established on 1st Nov. 1950. (2)			
Lebanon	Pound	.405512	2.19148	6.136144	IMF parity since 29th July 1947.
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	.0710937	12.50	35.–	Official rate since 27th 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) Includes French and Portuguese possessions in India.
(2) Since 1st April 1951 the counterpart rate has been Won 6000 = $1.

VI. Gold and Movements of Monetary Reserves.

The year 1951 was a time of dramatic contrasts in the gold market as it had been in the commodity markets, with which gold movements were closely connected. On the commodity markets, the event of the year was the halting of the inflationary rise in prices — which had a steadying effect on the world business trend, notwithstanding the repercussions of rearmament. But the quieter tone of the commodity markets was connected with a decline in the imports of the United States in the second half of the year and a consequent falling-off in the earning power of the raw-material-producing countries of the sterling area; and this in its turn, together with the financial crisis in the United Kingdom and France, led to greater balance-of-payments difficulties, renewed nervousness on foreign exchange markets (as shown by the "free" quotations for bank-notes — see page 139) and a resumption of the flow of gold to the United States. In the second half of 1951 that country added \$1,001 million to its gold reserves, but, as this was only a little more than the amount which had left these reserves during the first half of the year (\$948 million), the net increase in 1951 was limited to \$53 million. For the United Kingdom, on the other hand, the losses in the second half of 1951 were greater than the gains during the first half, so that, over the year as a whole, there was a net decline of \$700 million in the country's gold holdings. France gained gold in the first quarter and then sustained a considerable loss (but the precise amounts are not shown by the reported figures). Since the gold holdings of the United States increased only a very little, it is clear that the gold leaving France and the United Kingdom went to swell the reserves of other countries: and, indeed, one of the distinctive features of 1951 has been the large number of countries that have been gainers of gold, though the amounts involved have mostly been moderate, only one country — Canada — having increased its gold stock by more than \$100 million.

Outside the U.S.S.R. the gold reserves of central banks and governments, including those of international institutions, are estimated to have increased by \$130 million during 1951. This is the smallest increase in official gold holdings recorded for any year since the end of the war — a fact which is the more remarkable since the total output of gold outside the U.S.S.R. (\$844 million), though slightly less than in 1950, was larger than in any other year since 1943. The difference of \$714 million between \$844 and 130 million represents gold which has "disappeared" either into private hoards or through being used for industrial purposes. The distinction between these destinations is in many respects vague — but it would seem that in 1951 about two-thirds of the disappearing gold was absorbed by hoarders and one-third by industry.

By the end of 1951, however, there were signs that private hoarding was once more on the wane, and these became still clearer in the early months of 1952. Free-market gold prices fell from about $44 per ounce early in 1951 to $39 in December, and during May 1952 they dropped below $37 in some markets. A circumstance not without importance has been the fact that, after the International Monetary Fund had announced a modification of its restrictive policy in a statement dated 28th September 1951, many countries allowed their gold producers to sell either the whole or an increased part of their output on the free market. But the quoting of lower prices for gold reflects, at the same time, increased confidence in the individual currencies; thus the decline in the free-market gold prices is partly attributable to the very serious efforts made by various countries to put an end to the post-war inflation by balancing their budgets and pursuing a more active credit policy.

Gold production in 1951.

The world output of gold in 1951 (excluding the output of the U.S.S.R., for which no data are available) is estimated at 24.1 million ounces (worth $844 million at the official dollar price of $35 per ounce), as compared with 24.5 million ounces in 1950. There was thus a decline of about

World Gold Production.

Gold-producing countries	1929	1940	1947	1948	1949	1950	1951
	Weight, in thousands of fine ounces						
Union of South Africa	10,412	14,038	11,198	11,575	11,708	11,659	11,505
Canada	1,928	5,333	3,085	3,542	4,124	4,441	4,364
United States (1)	2,208	5,920	2,321	2,099	1,996	2,375	1,995
Australia	426	1,644	938	886	889	861	883
British West Africa	208	939	563	675	677	689	699
Rhodesia	562	833	523	514	528	511	487
Colombia	137	632	383	335	359	379	431
Philippines	(2)	(2)	64	209	288	334	394
Mexico	652	883	465	368	406	408	388
Belgian Congo	173	559	301	300	334	339	362
Nicaragua (3)	12	163	213	223	216	225	252
India	364	289	172	185	162	188	218
Japan	335	864	69	98	128	147	189
Chile	26	343	169	164	179	186	174
Brazil	107	150	136	130	119	132	139
Peru	121	281	116	111	114	125	130
New Zealand	120	186	112	94	85	76	80
Total	17,791	33,057	20,828	21,508	22,312	23,075	22,690
Other production (4)	709	3,943	1,272	1,292	1,488	1,425	1,410
Estimated world production (4)	18,500	37,000	22,100	22,800	23,800	24,500	24,100
	Value, in millions of U.S. dollars (5)						
Value of estimated world production	648	1,295	774	798	833	858	844

(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 total production outside the U.S.S.R., at a rate of $35 per fine ounce.

2 per cent. over the year. The world's three major producers — South Africa, Canada and the United States — accounted for the whole of this decline, while output increased somewhat in nearly all the other gold-producing countries. The fact that in 1951 there was more to be earned from premium sales of gold in free markets than in previous years may have helped to keep production in some countries at a higher level than would otherwise have been reached, but the striking increase in such sales after the change in the policy of the International Monetary Fund last September came too late to affect the year's results to any marked extent.

South African gold output again declined slightly, as it had done in 1950. The supply of native labour is the most important short-run determinant of the volume of operations, and during the first half of 1951 the number of native workers employed was smaller than in the corresponding period of the previous year. In the second half, however, recruitment improved and by the end of the year there were 280,000 natives working on the Witwatersrand — 9,000 more than a year earlier. As a result, the tonnage of ore milled and the output of fine gold have been higher during the months since September 1951 than in the corresponding months of the previous year.

Witwatersrand Gold Mines(1): Operating statistics.

Year	Yield per ton milled		Working costs	Working profits	Ore milled	Total working profits (3)	Taxes	Dividends (4)
	in dwt (2)	in value	per ton milled		in thousands of tons	in thousands of SA £		
1929	6.489	27s. 9d.	19s. 7d.	8s. 2d.	30,503	12,478	3,246	8,085
1930	6.515	27s. 10d.	19s. 5d.	8s. 5d.	31,120	13,051	3,349	8,255
1938	4.349	31s. 1d.	19s. 3d.	11s. 10d.	53,834	31,896	13,658	17,207
1940	4.196	35s. 5d.	20s. 8d.	14s. 9d.	64,515	47,525	24,026	20,359
1945	3.997	34s. 7d.	23s. 9d.	10s. 10d.	58,898	31,906	16,527	12,505
1950	3.759	46s. 11d.	29s. 7d.	17s. 4d.	59,515	51,534	22,500	24,700
1951	3.759	46s. 11d.	31s. 9d.	15s. 2d.	58,505	44,323	24,230	22,788

(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.
(3) Excluding revenue received from the sale of gold at premium prices, amounting to SA£1,105,649 in 1949, SA£2,123,547 in 1950 and SA£6,693,001 in 1951.
(4) From 1940 these are net dividends, i.e. they do not include payments made to associated companies in the industry.

After the 1949 devaluations, the gold producers took advantage of the higher gold price in terms of pounds to work lower grades of ore and thus extend the life of the mines. This was also the policy in 1951, the average yield of fine gold per ton milled being at the same low level as in the previous year.

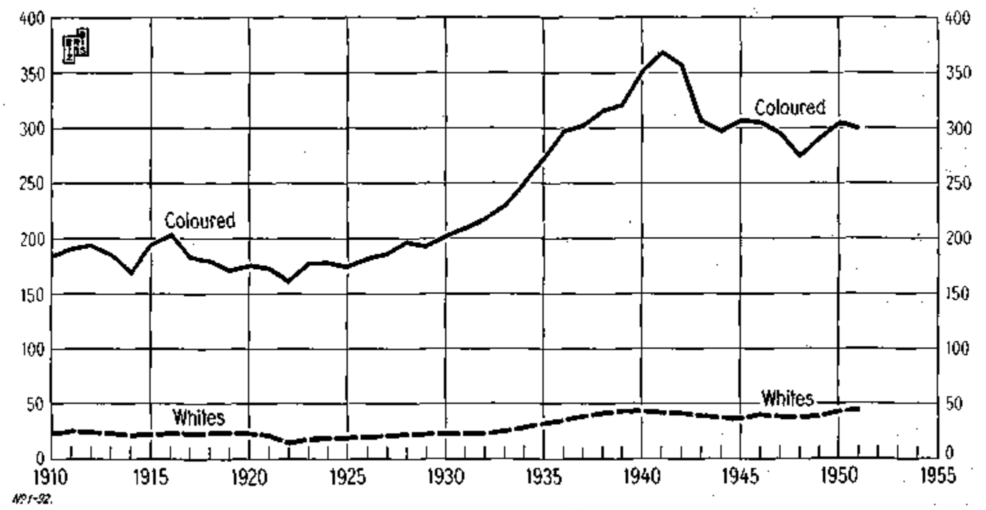
The rise in working costs has, however, continued to absorb an increasing share of the extra receipts resulting from devaluation. At the rate of 33s. 3d. per ton milled, working costs in December 1951 had risen by 25 per cent. since September 1949, as against a corresponding rise of 44 per cent.

in the sterling gold price. Total working profits declined in 1951 and they were taxed at an effective rate of 48 per cent. The tax rates applying to gold mining, however, were not changed in the budget for 1952-53, although those for other enterprises were increased.

While movements of costs are, of course, an important consideration (so that a curb on inflationary price and wage increases should help the industry), the future of the South African gold output is closely bound up with the opening of new mines. The goldfields now being developed in the Orange Free State are the most important to come into production since the Main Reef of the Central Rand was discovered in 1886. New mines are also being developed in two other recently-opened fields, the Far West Rand and the Klerksdorp region. As regards long-term prospects, the South African Minister of Mines stated on 5th March 1952 that the gold output could be expected to increase steadily for at least the next ten years. He expected that the tonnage milled would increase and would exceed the present levels for twenty years to come, adding that, despite an anticipated decrease in tonnage milled thereafter, richer ore from the Orange Free State and Klerksdorp mines was likely to ensure that the gold output per year would remain well in excess of the present figure for at least thirty years.

At 1950 prices, the equipment of a mine is estimated to cost between SA£7 and 8 million, so that, for the twenty-five mines now developing or definitely planned, at least SA£200 million would be required. It would seem that about two-thirds of this amount had been raised by the end of 1951 — but auxiliary costs for housing, supply of electricity, etc. require additional financing to the extent of some 50 per cent. Balance-of-payments statistics show a net capital inflow to the Union of SA£53 million in 1949, SA£74 million in 1950 and SA£72 million in 1951, of which perhaps one-quarter has

Witwatersrand Gold Mines*: Average number of employed
in thousands, 1910 to 1951.



* Including Orange Free State mines from 1949.

been invested in gold mining and part of the rest has helped to finance the auxiliary costs. Late in 1950 arrangements were made for financing, with the aid of British and U.S. funds, a new activity, namely the extraction of uranium from gold-bearing ores, which will provide a new source of income for the gold-mining companies. The British and U.S. Governments have agreed to pay for the uranium on a cost-plus basis. The concentration of uranium is not great but, as far as mining the ore is concerned, the major part of the cost will already have been met as incidental to the obtaining of the gold.

In Canada, there has been a tendency to shift from gold to base-metal production; while total mining employment and output of all metals rose by 5 and 2 per cent. respectively, gold output fell by 1¾ per cent. from 1950 to 1951. In addition to the rising prices paid for ferrous and non-ferrous metals after the outbreak of the Korean conflict, there were three main influences at work in Canada.

(i) Payment of the differential subsidy granted to gold producers by the Federal Government under the Emergency Gold Mining Act of 1948 was continued during 1951 and the period of application has now been extended until the end of 1953. The subsidies paid in 1951 totalled Can.$11.5 million, which works out at an average of Can.$2.60 per ounce of total production. As in earlier years, they no doubt helped to sustain the rate of the country's gold output.

Canada:
Estimates of government subsidies paid to gold producers.

Year	Gold production	Total subsidies	Average subsidy per fine ounce produced
	in thousands of fine ounces	in millions of Can.$	in Can.$
1943	3,542	10.5	2.97
1949	4,124	12.6	3.04
1950	4,441	7.2	1.62
1951	4,364	11.5	2.60

(ii) The second influence is the opening of the premium market after September 1951.

Since October 1951 Canadian producers have been allowed to sell their gold in semi-manufactured form on the free markets of the world, but those electing to do so are no longer eligible to receive the government subsidy for the remainder of the current year. It would seem as if only the relatively low-cost mines, which, under the rules in force, receive little or no subsidy, find it profitable to enter the premium market. High-cost marginal producers can obtain more for their gold under the subsidy scheme, the maximum rate of aid actually granted having been as high as Can.$11 per fine ounce in 1951.

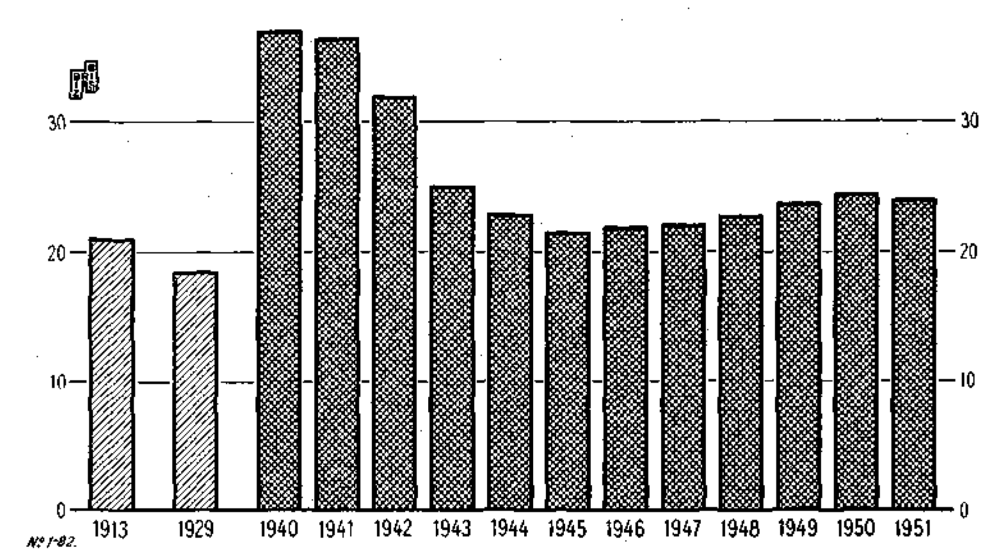
(iii) The appreciation of the Canadian dollar late in 1951 and early in 1952 has reduced the local-currency price paid to Canadian producers, since the price at which the Canadian Mint buys gold (announced weekly) is based on the official U.S. price converted at the prevailing rate of exchange. In March 1952, for the first time in fourteen years, the official Canadian gold price fell below Can.$35 per fine ounce.

While the decline in the official Canadian price has a depressing influence on domestic gold production, it does not, of course, shift the balance of advantage as between the free market and the subsidy scheme.

The decline in gold output was sharpest in the United States, where there was a fall of 16 per cent., in contrast to an increase of 19 per cent. in the previous year. As in Canada, this was the result of a shift to base-metal mining. Employment in metal mining as a whole rose by 4 per cent. and the total metal production was 7 per cent. higher in 1951 than in 1950; but, while the output of metals other than gold and silver increased by 12 per cent., both gold and silver production fell off. (Much silver production in the United States is incidental to gold production and the silver market continues to be dominated by an official Treasury buying price.) No change was made in the Treasury's gold regulations, which effectively prevent participation by U.S. producers in the various premium gold markets.

In sterling-area countries and territories where producers had formerly been required to sell their entire output to the monetary authorities at the official price, they received permission, late in 1951 or early in 1952, to sell all the gold they produced on the free market for U.S. dollars. The list of these countries includes Australia, Southern Rhodesia, the Gold Coast, Kenya, Tanganyika and the Fiji Islands. There is no doubt that most producing areas are feeling the strain of rising costs, and if the amounts earned from sales above official prices continue to dwindle, the result will

World Gold Production, *in millions of fine ounces.**



* Estimates of production outside the U.S.S.R., at a rate of $35 per fine ounce.
Note: The increase in working costs which went together with the rise in price levels after the first world war depressed gold production, which in 1929 was distinctly less than it had been in 1913. The devaluation of sterling and a number of other currencies in 1931, and also the devaluation of the U.S. dollar in 1933-34, gave a new fillip to gold output, *which reached its highest figure in 1940 — to decline again during the second* world war.

no doubt be a decline in the output of several of the gold-producing countries. The question then will be to what extent the expected increase in South African production will counterbalance or, possibly, exceed the decline in output elsewhere.

The diagram shows the development of gold production in ounces. It will be seen that output is now somewhat above the 1913 level, and commodity prices, as recalculated on a gold basis, are also somewhat higher than they were just before the first world war (cf. graph in Chapter V).

Premium gold markets and hoarding.

The importance of hoarding in this post-war period may perhaps be seen most readily from the following table. The table gives estimates of the "disappeared gold" (calculated by subtracting the net additions to official reserves from the total gold production) and also attempts to split up the disappeared gold into the amounts used for industrial purposes and the amounts stowed away in private hoards.

Estimates of "disappeared gold".

Items	1946	1947	1948	1949	1950	1951	Total 1946–1951	1950 1st half	1950 2nd half	1951 1st half	1951 2nd half
	in millions of U.S. dollars										
Gold production (U.S.S.R. excluded)	763	774	798	833	858	844	4,870	428	430	420	424
Increase in official gold reserves (1) . .	350	430	380	480	410	130	2,180	320	90	110	20
Disappeared gold (2)	413	344	418	353	448	714	2,690	108	340	310	404
Industrial uses . . .	280	120	170	200	210	220	1,200	100	110	110	110
Private hoarding . .	133	224	248	153	238	494	1,490	8	230	200	294

(1) Estimates published in the Federal Reserve Bulletin for May 1952, which include estimates of unreported official holdings.
(2) *Gold absorbed by industrial, artistic and professional uses, and by private hoards.*

The splitting-up of the disappeared gold into amounts used for industrial purposes and amounts entering private hoards is to some extent arbitrary, since jewellery can be bought for hoarding purposes. It may here be recalled that the Gold Delegation of the League of Nations, basing its calculations on the old gold parity, estimated the average net industrial consumption of gold in the years 1925 to 1929 at a figure which, at the rate of $35 per fine ounce, works out at $170 million per year. The U.S. Mint calculated an average of $240 million per year for the period 1922 to 1928 (also at $35 per fine ounce), the figures being higher in the earlier years. The latter estimate includes not only new gold but also scrap and coin used in the arts — which the Gold Delegation excluded from its estimate.

The amount taken by industry fell sharply in the depression and remained low throughout the thirties, averaging less than $70 million per year from 1932 to 1938, according to the U.S. Mint. Evidently the demand is very elastic both in its response to changes in income and in its response to changes in the relative price of gold.

It appears reasonable to assume that in the years since the second world war industrial consumption of gold has gone beyond the level of the 1920s. Incomes have been much higher than in the earlier period and the dollar price of gold has borne about the same relationship as before to the price of other dollar commodities. The figures presented in the following table suggest that, in the United States alone, industrial consumption of gold has averaged more than $90 million a year since 1946. The Canadian jewellery industry is officially reported to have consumed over Can.$6 million of new gold in 1948.

On the basis of these considerations an average of some $200 million a year is put forward as a measure of world industrial consumption of gold in the post-war period but the estimate may well be on the low side. Some support for such a supposition is afforded by the data for the first half of 1950, the state of the market and especially the movements of gold prices in that period suggesting that net hoarding was at a minimum. The annual rate at which gold was then "disappearing" — almost exclusively into the arts and industry — was about $220 million.

"Disappeared gold" in the United States.

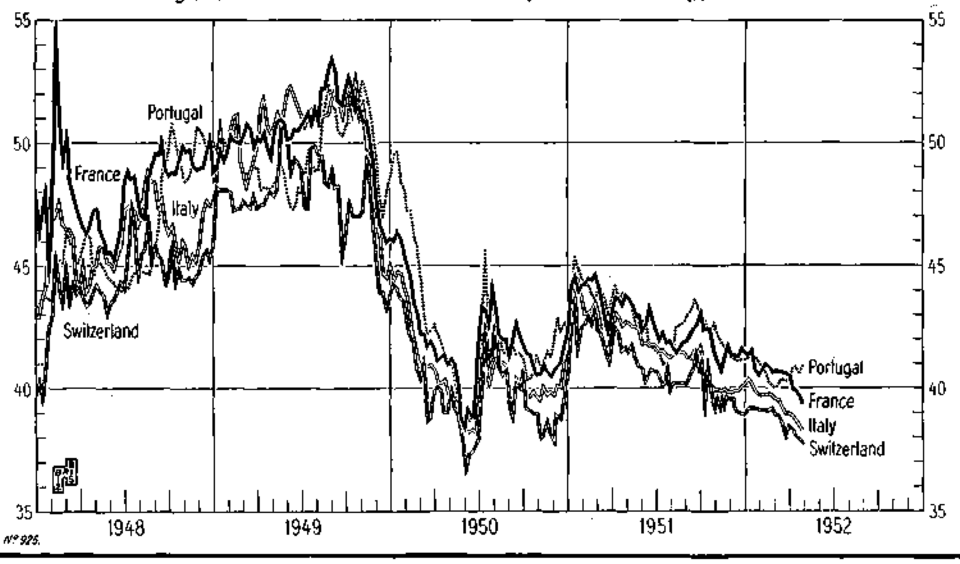
Items	1945	1946	1947	1948	1949	1950	1951
	in millions of U.S. dollars						
Net gold supply in the United States:							
Domestic production .	32.0	51.2	75.8	70.9	67.3	80.1	69.9
Net imports	— 106.3	311.5	1,866.3	1,680.4	686.5	— 371.3	— 549.0
Total . . .	— 74.3	362.7	1,942.1	1,751.3	753.8	— 291.2	— 479.1
Monetary uses:							
Increase in U.S. official gold stock	— 547.8	623.1	2,162.1(2)	1,530.4	164.6	—1,743.3	52.7
Increase in earmarked gold held in U.S.A.	356.7	— 465.4	— 210.0	159.2	495.7	1,352.4	— 617.6
Total . . .	— 191.1	157.7	1,952.1	1,689.6	660.3	— 390.9	— 564.9
"Disappeared gold"(1) in the U.S.A.	116.8	205.0	— 10.0	61.7	93.5	99.7	85.8

(1) Gold absorbed by industrial, artistic and professional uses (hoarding and smuggling being on a very small scale in the United States).
(2) After payment of $687.5 million representing the U.S. subscription in gold to the International Monetary Fund.
Note: The sharp fluctuations in industrial gold consumption during the first post-war years as indicated by the table can be explained by (a) industrial restocking in 1945 and 1946, (b) initial uncertainties about the post-war pattern of gold prices and exchange rates, and (c) the stiffening of the U.S. gold regulations in 1947, limiting the size of gold inventories which industrial users were permitted to hold.

It may be seen from the table that for the whole of the period 1946–51 the amount of gold which disappeared ($2,690 million) was larger than the amount which went to increase official reserves ($2,180 million). There were only two years — 1947 and 1949 — during which the monetary reserves acquired the major part of the newly-produced gold; but if "half-years" are examined the best period from the point of view of the monetary authorities was the first half of 1950 (i.e. the six months before the outbreak of the conflict in Korea), when official reserves absorbed three-quarters of the current gold production.

The following graph of the price paid for gold bars in the various free markets shows the price was highest in 1949 — curiously enough the year in which the monetary authorities managed to secure more gold than in any other post-war year. The reason for the increasingly high prices paid for gold up to September 1949 was the widespread desire to hedge against the devaluations which were thought to be impending — and rightly so, as events proved. Once the devaluations were "over and done with", the demand from hoarders ceased, with the result that, up to the outbreak of the Korean conflict, virtually all new gold flowed into monetary reserves and market prices fell (approaching the official price in June 1950). It was thus clearly demonstrated that much of the demand had been inspired by fear of inflation and currency devaluation; and by the first half of 1950 the progress which had been made towards monetary balance in the world appeared to be solving the gold-hoarding problem. Another factor of importance should, however, be mentioned, namely, that after the communist victory in China in 1949 the demand from the Far East practically ceased — indeed, the fear that measures would be taken against gold hoarders would seem to have even led to an outflow of gold.

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.

The outbreak of war in Korea revived all the old economic fears and brought two additional incentives to hoarding: (i) apprehension that the war would spread and (ii) rumours of an impending all-round increase in the official gold price, which persisted despite the repeated assertions by the U.S. authorities, among others, to the effect that no such move was contemplated. In these circumstances gold hoarding was resumed — at fully twice the pre-devaluation rate.

But it is interesting to note that the prices paid for gold in the free markets did not rise to anything like the 1949 heights, and the main reason for this moderation is undoubtedly to be found in the increased sales made on those markets, more or less directly, by the gold producers themselves. In February 1949 South Africa had begun to sell part of its newly-mined gold at prices higher than the official price and in May of that year the International Monetary Fund had agreed to an arrangement under which a certain proportion of such sales became permissible. As costs increased, more and more producers sold part or even the whole of their output on free markets, some of the gold passing through the hands of monetary authorities. Sometimes the monetary authorities themselves intervened on the market; thus in France the Exchange Stabilisation Fund bought gold in bars with the proceeds of sales of coins carried out so as to prevent too strong a rise in the price for coins, including, in particular, the popular "napoleon", which in January 1952 was still commanding a premium of 32 per cent. above the price for gold in bars. The French method of procedure led to no net increase in the amount of gold on the market; in Greece, on the other hand, such an increase has resulted from the policy of the central bank, which, in all these post-war years, has sold sovereigns against drachmae in order to contain inflation and — as the Bank observed — to guard the Greek economy against wild monetary fluctuations. The amount of sovereigns sold in the period 1944–51 comes to $59.5 million, of which $15.5 million was sold in 1950 and $9.1 million in 1951. In January 1952, the number of sovereigns in private hands in Greece was estimated at about 15 million — worth about $125 million.

There is a steady demand for gold coins in the Middle East, especially Arabia, where they continue to serve as the principal medium of exchange and standard of value for accounting. In this area, oil companies regularly pay their employees in gold coins. The holdings of gold coins in the countries of the Middle East are not "hoards" in the strict sense of the term but gold coins used on and off as means of circulation; and some of these coins may find their way back to monetary reserves, as they have been doing in Lebanon and Syria where, since early in 1949, the governments have purchased gold sovereigns and Turkish gold pounds in their internal markets, as well as fine gold from abroad, in order to build up a cover for their currencies.

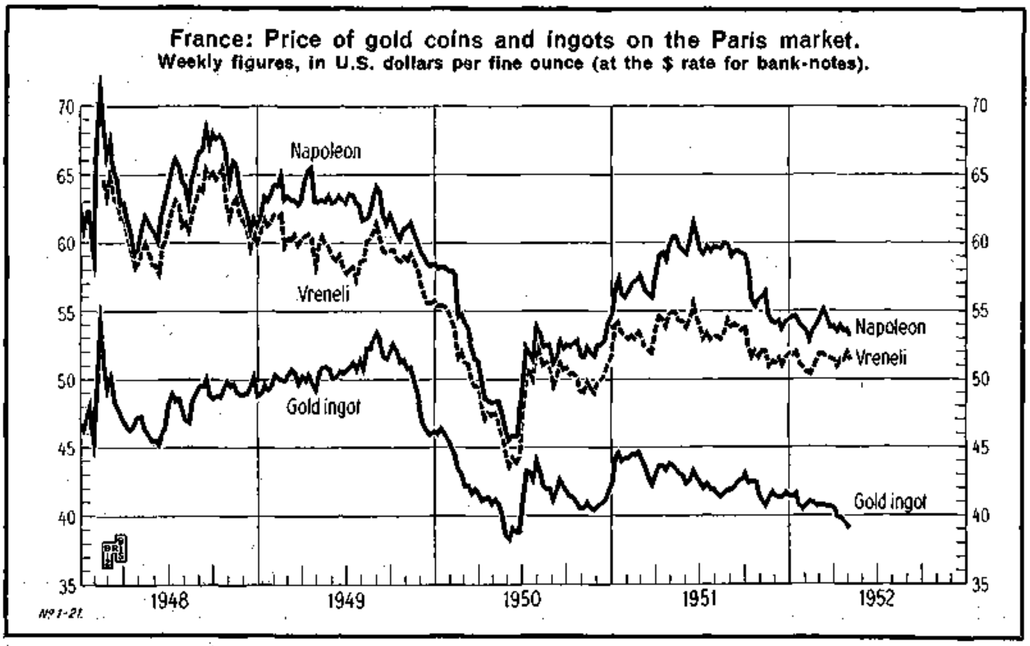
The flow of gold into hoards is thus exceedingly complicated and difficult to trace, and in 1950–51 the view became more and more prevalent (although it was not shared by all) that attempts to control this traffic would not only be vain but even make matters worse. Recognising all the practical difficulties arising from controls, the International Monetary Fund made certain important modifications in its earlier policy by its statement of 28th September 1951, the conclusion of which was as follows:

> "Despite the improvement in the payments positions of many members, sound gold and exchange policy of members continues to require that, to the maximum extent practicable, gold should be held in official reserves rather than go into private hoards. ...

> However, the Fund's continuous study of the situation in gold-producing and consuming countries shows that their positions vary so widely as to make it impracticable to expect all members to take uniform measures in order to achieve the objectives of the premium gold statement (of June 1947). Accordingly, while the Fund reaffirms its belief in the economic principles involved and urges the members to support them, the Fund leaves to its members the practical operating decisions involved in their implementation."

This new and more liberal ruling had the effect of opening premium markets to producers in many countries. As already mentioned, Canadian producers may elect to sell their gold at the unofficial prices in free markets, while the output of Southern Rhodesia and the Gold Coast and practically all that of Australia may now be sold on free markets, provided that payment for the gold is received in dollars. The net effect of these and other changes has been to allow gold producers in Canada and the sterling-area countries to enter the free markets of the world, where most other producers, with the important exception of the United States, were already selling a fair share of their output. Since, in addition to many minor producers, the main producing country, South Africa, which is responsible for half the world's gold output outside the U.S.S.R., had for some time sold gold in the free markets, and since the United States, which accounts for about 8 per cent. of the world's output, did not alter its policy, the effect of the Fund's new attitude has not as yet been so very great from a quantitative point of view. All the same, even assuming that Canadian premium sales will amount to not more than 1,000,000 ounces a year, or not quite a quarter of the country's current output, the new ruling opens the way for a potential expansion of the supply of free gold by about 3 million ounces, which, at the official price of $35 per fine ounce, would be worth about $105 million. There are no longer any legal hindrances to prevent a very large percentage of the world's gold output from being sold in free markets but, if the price paid for gold falls still further, the point may soon be reached when such sales are no longer profitable.

As regards the trade in gold in non-producing countries, restrictions have been relaxed in a few but by no means all countries. In Switzerland, the price ceiling of Sw.fcs 4,970 per kilogramme fine (and Sw.fcs 30.50 for the old 20-franc coin — the "Vreneli") was removed as from 15th December 1951, so that, from then onwards, dealings could take place at premium prices; and it became known that, from the end of April 1952, special licences would not be required, for the time being, for transit dealings in gold. There had, however, already been an active Swiss market for transit gold, and other gold dealings have not been greatly stimulated by the change in the regulations. Private importers have to pay a tax collected at the frontier at the rate of about 6 per cent. on gold bars and 4 per cent. on gold coins, while internal sales of gold, whether in bars or in coins, to private persons are subject to the 4 per cent. turnover tax.



On the other hand, there is reported to have been a considerable contraction in 1951 in the volume of licences granted by the Bank of England for the export of semi-manufactured and fully manufactured gold; and in April 1952 Mexico (which is a free-gold-market country) imposed a tax on the export of gold. Also in April, Egypt made the import of gold subject to permission from the exchange control authorities in order to arrest the flight of capital in this form. Ceylon had already tightened up its gold licensing system in 1951 for the same reason.

However difficult it is to arrive at anything like reliable estimates for the amount of hoarded gold, the figure of $10 to 11 milliard often mentioned as a probable world total may perhaps be taken as an approximate indication of the order of magnitude.*

In the hundred years that have passed since the discovery of deposits in California and in Australia (in 1848 and 1851 respectively) the world output of gold, reckoned at $35 per fine ounce and excluding production in the U.S.S.R. after 1940, has been equivalent to some $52 milliard. Gold to the amount of about $36 milliard now lies in official reserves outside the U.S.S.R., and perhaps an amount of $1 milliard had been absorbed into Russian reserves by 1935, the last date for which indications were given. Of the remaining $15 milliard, it is certain that well over $4 milliard has been used commercially; on the other hand, it must be remembered that there was some $2 milliard of monetary gold already in existence in 1850, together with a certain amount of gold hoarded in India and elsewhere, and it may be presumed that some Russian gold has been sold outside the U.S.S.R.

* An estimate of $11 milliard as the total amount of gold hoarded would seem to have been first put forward in Pick's World Currency Report towards the end of 1951.

during the last decade. Thus the estimate that gold hoards come to $10 to 11 milliard seems reasonable; but some of this gold is actually used for monetary purposes, viz. as a means of payment (in the Middle East and elsewhere).

Estimates of the amounts hoarded in individual countries are generally more uncertain than the figure for the whole world. Most investigators agree that the Orient accounts for a large share of the total. The International Monetary Fund has estimated that Chinese hoards alone absorbed about $100 million annually during the period 1946 to 1948 — but after that the influx stopped. China would thus account for over half of the net hoarding which took place in those three years and, in general, it would seem that perhaps one-half of the world's hoards must lie in the Far East. When account is also taken of the evidence of hoarding in the Middle East and of the probability that there has also been some hoarding in Latin America and Africa, it appears that the total amount lying in hoards in Europe at the end of 1951 cannot be much in excess of $4 milliard (of which hardly more than $1 milliard can have been accumulated since the war). It is generally agreed that, among the countries of Europe, France holds the largest share, French gold hoards having been variously estimated at between $2 and 4 milliard. In all probability, the true figure is nearer the lower than the higher limit.

Hoarding is bad, both because it is a sign of lack of confidence in the national currency and because a decrease in savings in monetary form makes it more difficult — and can even make it impossible — to operate a country's money and capital markets effectively; and, so long as these markets are not functioning properly, a steady flow of investment from domestic resources cannot be maintained. Hoarding also deprives the monetary authorities of means of payment badly needed as reserves for use in international settlements. Obviously, the best way to eliminate the tendency to hoard is to bring about a state of monetary stability and general good order, so that private individuals and others will no longer wish to hold an asset such as gold, which for most of them produces no dividend. There is, of course, the fear that there might be war (in which case durable assets which are easily portable would come in handy); but the importance of such apprehensions should not be overrated, since they seem to be less potent as an inducement to hoarding than fears in connection with the future value of the currency. It should be added, however, that, since the two influences sometimes go together, it is not always easy to distinguish with certainty which is the stronger. For instance, the free-market price for gold has been steadily declining since February 1951; after rising from $40 to 44 an ounce in January, when the United Nations' forces were suffering reverses in Korea and inflation dominated world commodity markets, it was down to $40 again by midsummer and had sunk to less than $39 by the end of the year. And in April 1952, at $37½, it was only slightly higher than in June 1950. While it is always difficult to tell to what extent there has been an abatement of

Gold reserves of central banks and governments

(including holdings of international institutions).

Reporting countries or institutions	End of 1938	1945	1947	1949	1950	1951	Gain (+) or loss (-) during 1951
	in millions of U.S. dollars						
European countries							
Italy	193	24	58	256	258	335	+ 77
Portugal	86	433 (1)	310	178	192	264	+ 72
Sweden	321	482	105	70	90	152	+ 62
Belgium	772	733	597	698	587	621	+ 34
Germany (western)	29 (2)	0	0	0	0	28	+ 28
France	2,761 (3)	1,550 (3)	551 (3)	523 (4)	523 (4)	548 (4)	+ 25
Finland	26	3	0	6	12	26	+ 14
Netherlands	998	270	231	195	311	316	+ 5
Ireland	10	17	17	17	17	18	+ 1
Turkey	29	241	170	154	150	151	+ 1
Austria	88 (5)	0	5	5	5	5	0
Denmark	53	38	32	32	31	31	0
Greece	27	28	14	6	4	4	0
Iceland	1	1	1	1	1	1	0
Norway	84	80	72	51	50	50	0
Spain	525 (6)	110	111	85	61	51	— 10
Switzerland	701	1,342	1,356	1,504	1,470	1,452	— 18
United Kingdom (7)	2,877	1,980	2,020	1,350	2,900	2,200	— 700
Other countries (8)							
Canada	192	361	294	496	590	850	+ 260
Egypt	55	52	53	53	97	174	+ 77
Indonesia	80	201 (9)	180 (10)	178	208	279	+ 71
United States	14,592	20,083	22,868	24,563	22,820	22,873	+ 53
Argentina	431	1,197	322	216	216	268	+ 52
Cuba	1	191	279	299	271	311	+ 40
Australia	6	53	88	88	88	106 (11)	+ 18
Peru	20	28	20	28	31	46	+ 15
Chile	30	82	45	40	40	45	+ 5
New Zealand	23	23	23	27	29	32	+ 3
Brazil	32	354	354	317	317	317	0
India	274	274	274	247 (12)	247	247	0
Japan	164	.	206 (13)	162	128	128	0
Venezuela	54	202	215	373	373	373	0
Mexico	28	294	100	52	208	208	0
Iran	26	131	142	140	140	138	— 2
Thailand	8 (14)	86	78	118	118	113	— 5
Colombia	24	127	83	52	74	66 (15)	— 8
Union of South Africa	220	914	762	128	197	190	— 7
Uruguay	73	196	175	178	236	221	— 15
International Institutions							
European Payments Union	—	—	—	—	0	65	+ 65
International Monetary Fund	—	—	1,356	1,451	1,494	1,530	+ 36
Bank for International Settlements	14	39	30	68	167	115	— 52
Estimated world total (excluding U.S.S.R.)(16)	26,970	33,770	34,550	35,410	35,820	35,950	+ 130

(1) End of 1946. (2) Pre-war Germany.
(3) Including gold held by the Exchange Stabilisation Fund and the Caisse Centrale de la France d'Outremer; $331 million in 1938, $460 million in 1945, and $3 million in 1947.
(4) Reported holdings of the Bank of France only. (5) Beginning of March 1938. (6) April 1938.
(7) Beginning with 1945, estimates given in the Federal Reserve Bulletin.
(8) Including all countries reporting holdings larger than $30 million in 1951.
(9) March 1946. (10) March 1947. (11) September 1951.
(12) The decline in Indian gold reserves from 1947 to 1949 resulted from partition, $27 million being allotted to Pakistan.
(13) End of 1948. (14) June 1939. (15) May 1951.
(16) Federal Reserve estimates. Includes reported gold holdings, unpublished holdings of various central banks and governments, and estimated official holdings of countries from which no reports are received.

political fears, there can be no doubt that the recent declines in the price paid for gold are connected with the downward tendency of the world's raw-material prices and the active measures taken in one country after another to restore a true balance in the economy.

The East also has been affected by the change in the outlook. Rapid declines early in 1952 led to crises in the gold markets of India and Pakistan. The spot price of gold bullion in the Bombay market, after fluctuating between R. 110 and R. 120 per tola (equal to 11.6638 grammes of fine gold) from 1948 until the autumn of 1951, had fallen to R. 105 in December; and a spectacular decline from R. 104 on 22nd February 1952 to R. 95.10 on 3rd March led to the suspension of all forward trading on this market for about two weeks. Similarly the Karachi Bullion Exchange, after registering a corresponding decline, suspended all forward trading in gold on 5th March 1952.

No doubt the crisis in March represented the bursting of a speculative bubble at the end of a period during which many traders had committed themselves too heavily; but a general tendency towards a price decline had been making itself felt for over a year and appeared to be due not only to influences from abroad but also to a genuine falling-off in domestic hoarding demand, reflecting improved prospects of stability after years of inflation.

The general disruption of the Eastern gold markets reduced the turnover and the margin of profit in Tangier, Alexandria, Beirut and other centres; but even earlier in 1952 gold dealers in Beirut complained that profits from the gold-transit trade had declined to only about U.S.$0.10 per ounce, against U.S.$0.50 per ounce in the first quarter of 1951.

There have not yet been any signs that gold is coming out of hoards — but it is already an indication of progress that the demand for hoarding purposes, although it has not entirely disappeared, is at least very much less now than it was in 1951.

Movements of monetary reserves.

In 1951, owing to the large quantity of gold still finding its way into hoards, official reserves increased by only $130 million — the lowest figure for any post-war year. Of this amount the United States gained $53 million, a net amount of $77 million being left for all the other countries and international institutions. If account is taken of dollar balances (as has been done in a table on page 169) the net gain in the gold reserves and the short-term dollar balances of countries other than the United States comes to $39 million. Thus the overall changes for the year as a whole were astonishingly small. But there were very considerable changes from the first to the second half of the year, and in the relative positions of individual countries, especially those of the sterling area.

Changes in estimated official gold reserves

(excluding those of the U.S.S.R.)

Period	United States (1)	United Kingdom (2)	I.M.F. and E.P.U. (3)	Others	World total (2)
	in millions of U.S. dollars at $35 per fine ounce				
1946	+ 623	+ 450	+ 15	— 738	+ 350
1947	+ 2,162	— 410	+ 1,345	— 2,667	+ 430
1948	+ 1,531	— 415	+ 76	— 812	+ 380
1949	+ 164	— 255	+ 15	+ 556	+ 480
1950	— 1,743	+ 1,550	+ 43	+ 560	+ 410
1951	+ 53	— 700	+ 101	+ 676	+ 130
1950 1st half	— 232	+ 350	+ 9	+ 193	+ 320
2nd half	— 1,511	+ 1,200	+ 34	+ 367	+ 90
1951 1st half	— 948	+ 625	+ 24	+ 409	+ 110
2nd half	+ 1,001	— 1,325	+ 77	+ 267	+ 20
1952 1st quarter	+ 555	— 600 (4)	+ 91	+ 4	+ 50 (4)

(1) The extremes of the fluctuations in U.S. gold stocks are as follows:
end of August 1949 (peak) . . . . . . $24,771 million
„ „ July 1951 (low) . . . . $21,852 „
„ „ March 1952 (latest figure) . . . $23,428 „
(2) Estimates given in the Federal Reserve Bulletin.
(3) Includes holdings of the I.B.R.D.: $4 million in 1947, and $300,000 in 1951. The E.P.U. held $65 million at the end of 1951 and $154 million at the end of March 1952; it had held no gold prior to August 1951.
(4) Preliminary figures.

As the changes recorded in the above table show, the fluctuations in official gold reserves over the three years 1949–51 have been dominated by the flow into and out of the United States and the United Kingdom. While the net changes for the year as a whole were relatively limited in 1949 (after wide fluctuations in the course of the year), the loss of gold by the United States in 1950 found its counterpart in a gain by the United Kingdom. This relationship was maintained in the first half of 1951, while in the second half the rôles were reversed: gold was once more gained by the United States and lost by the United Kingdom.

Among the other European countries, all except France, Spain and Switzerland either added to their gold holdings or at least kept them up. For Spain and Switzerland the losses incurred were moderate ($10 million and $18 million respectively). In tables on page 166 and 169 showing gold and dollar reserves the figures for France do not reveal a loss but a gain; this corresponds to the gain shown in the returns of the Bank of France, where, however, it only tells part of the story, since substantial gold — and dollar — losses had been sustained by the Exchange Stabilisation Fund and under the item "sight funds abroad".

Dollar balances shown in the above table include private holdings as well as those of central banks and governments. A decline of about $450 million in official holdings during the year was offset by an increase of about the same magnitude in the balances held by private banks, business and individuals. As to about $130 million, this shift occurred on Canadian account, being connected with the relaxation, and later removal, of exchange controls

Estimated changes during 1951 in gold reserves and short-term dollar balances of countries other than the United States. [1]

Areas and countries	Holdings at end of 1950: Gold reserves	1950: Dollar balances	1950: Total	1951: Gold reserves	1951: Dollar balances	1951: Total	Change in totals during 1951: 1st half	2nd half	Year
	in millions of U.S. dollars								
O.E.E.C. countries other than the United Kingdom:									
Austria	5	42	47	5	57	62	+ 2	+ 13	+ 15
Belgium-Luxemburg (2)	650	198	848	696	201	897	— 5	+ 53	+ 49
Denmark	31	45	76	31	45	76	— 1	+ 1	0
France (2)	543 (3)	291	834	568 (3)	331	899	+ 44	+ 20	+ 65
Germany (western)	—	222	222	28	406	434	+ 136	+ 76	+ 212
Italy	258 (4)	315	573	335 (4)	300	635	— 38	+ 102	+ 62
Netherlands (2)	335	224	559	340	184	524	— 64	+ 29	— 35
Norway	50	44	94	50	100	150	+ 17	+ 39	+ 56
Portugal (2)	207	50	257	279	48	327	+ 25	+ 45	+ 70
Sweden	90	115	205	152	71	223	+ 23	— 6	+ 18
Switzerland	1,470	553	2,023	1,452	521	1,973	— 63	+ 13	— 50
Turkey	150	14	164	151	14	165	— 2	+ 3	+ 1
Other O.E.E.C. countries (5)	487	242	729	410	138	548	— 35	— 145	— 181
Total	4,276	2,355	6,631	4,497	2,416	6,913	+ 39	+ 243	+ 282
Rest of continental Europe (6)	475	97	572	462	83	545	— 23	— 4	— 27
Sterling area									
United Kingdom	2,900 (7)	657	3,557	2,200 (7)	642	2,842	+ 588	—1,303	— 715
U.K. dependencies	—	120	120	—	97	97	— 25	+ 1	— 23
South Africa	197	44	241	190	7	197	— 14	— 30	— 44
Rest of sterling area (8)	406	97	503	436	161	597	+ 47	+ 47	+ 94
Total	3,503	918	4,421	2,826	907	3,733	+ 596	—1,285	— 688
Canada	590	1,398	1,988	850	1,304	2,154	— 6	+ 172	+ 166
Latin America	1,870	1,585	3,455	1,955	1,387	3,342	+ 200	— 312	— 113
Asia	695	1,174	1,869	777	1,385	2,162	+ 65	+ 228	+ 293
All others	101	100	201	178	150	328	+ 68	+ 58	+ 127
Grand total	11,510	7,627	19,137	11,545	7,631	19,176	+ 939	— 900	+ 39

Source: Federal Reserve Bulletin, March 1952.

(1) Dollar holdings represent official and private balances reported by banks in the United States and include holdings of U.S. Government securities with original maturities of up to 20 months.
(2) Including dependencies. (3) Gold reserves of the Bank of France and French dependencies only.
(4) Gold reserves of the Bank of Italy ($222 million) plus gold earmarked for special purposes.
(5) Includes holdings of the Bank for International Settlements and the European Payments Union, gold to be distributed by the Tripartite Commission for Restitution of Monetary Gold, and unpublished gold reserves of O.E.E.C. countries.
(6) Excludes gold reserves of, but includes dollar balances held by, the U.S.S.R.
(7) Estimated gold holdings of the British Exchange Equalisation Account, based on holdings of gold, U.S. and Canadian dollars reported by the British Government.
(8) Excludes Eire and Iceland, which are included under "Other O.E.E.C. countries".

in that country. The remainder is probably to some extent a reflection of speculation against the pound sterling and the French franc in the summer and autumn.

In Latin America, too, the pattern of developments is dominated by a contrast between the first and the second half of the year. On the other hand, the non-sterling-area countries on the continent of Europe and in

Asia were able to increase their holdings of gold and their dollar balances throughout the year, and rather more in the second half than in the first.

As seen from the point of view of the United States, the reversal in the direction of the flow of gold and dollars in the middle of the year was a reflection of the extraordinary rise in the country's export surplus caused by continued heavy purchases by other countries, at a time when U.S. imports were beginning to decline from their previous record levels. Throughout 1951 the U.S. government grants and credits were made available on approximately the same scale as in 1950; but, whereas these grants and credits had more than covered the export surplus in 1950 and the first half of 1951 — and had in that way indirectly contributed to the reconstitution of monetary reserves — they were exceeded by the export surplus in the second half-year, as is shown in the table below. In attempting an exhaustive analysis of the development of the balance of payments it is necessary both to take into account the incidence of private capital movements and to indicate the importance of "residual items" (in part, at least, the result of clandestine transactions); the broad changes, however, are sufficiently brought out by a comparison between the net balance of goods and services (i.e. the result shown by the current account of the balance of payments) and the amount of official aid.

Current account of the U.S. balance of payments as compared with net U.S. Government grants and credits.

Period	Current account of U.S. balance of payments (goods and services)			Net U.S. official aid	Amount by which official aid exceeded (+) or fell short of (–) the export surplus
	Exports	Imports	Export surplus (+)		
	in millions of dollars				
1948 quarterly average . . .	4,242	2,567	+ 1,675	1,261	— 414
1949 " . . .	3,994	2,401	+ 1,593	1,492	— 101
1950 " . . .	3,606	3,032	+ 574	1,071	+ 497
1951* " . . .	5,035	3,778	+ 1,257	1,173	— 84
1950					
1st quarter	3,257	2,530	+ 727	1,105	+ 378
2nd "	3,526	2,709	+ 817	1,161	+ 344
3rd "	3,494	3,374	+ 120	902	+ 782
4th "	4,148	3,515	+ 633	1,116	+ 483
1951					
1st quarter	4,375	3,915	+ 460	1,094	+ 634
2nd "	5,283	3,938	+ 1,345	1,362	+ 17
3rd "	5,069	3,708	+ 1,361	1,158	— 203
* 4th "	5,413	3,550	+ 1,863	1,079	— 784

* Provisional figures.

The last two figures in the final column show the amounts which, in the second half of 1951, other countries had to cover mainly by drawing on their reserves. But, as has been shown in the table on page 169, not all countries were subjected to this strain: those mainly affected were France, the members of the sterling area and a number of Latin American countries.

While full information is not published with regard to France's gold and dollar reserves, sufficient data appear in the returns of the Bank of France to permit an indication of the main movements of reserves to be given, as has been done in the following table. The "sight funds abroad" held by the bank consist almost entirely of gold and convertible currencies.

France: Official gold and foreign exchange reserves. [1]

Items	End of					
	December 1950	March 1951	June 1951	September 1951	December 1951	March 1952
	in milliards of French francs					
Gold	183	183	191	191	191	200 (2)
Foreign exchange (Bank of France):						
Sight funds abroad	102	133	105	90	22	12
Credit balance in the E.P.U.	50	61	57	42	—	—
Total	152	194	162	132	22	12
Advances to the Stabilisation Fund financing:						
Advances to the Treasury (3)	49	64	65	70	70	70
Debt to the E.P.U.	—	—	—	—	— 39	—123
Other	83	74	75	70	35	.
Total	132	138	140	140	66	— (4)
Total	467	515	493	463	279	212 (4)
Of which: Gold and sight funds abroad held by the Bank of France	285	316	296	281	213	212

(1) The table is not a complete statement of the net official reserve position, since it does not include all foreign exchange liabilities of the authorities.
(2) Including Fr.fcs 9 milliard in gold lent by the Bank of France to the Stabilisation Fund.
(3) Funds placed at the disposal of the Treasury by the Stabilisation Fund against the loan of $200 million raised by the Treasury in the United States in August 1950.
(4) From 18th March 1952 onwards, the debt of the Stabilisation Fund to the E.P.U. exceeded its gold and exchange assets, so that its debt to the Bank of France was entirely repaid, and changes in its exchange position are no longer reflected in the latter's balance sheet. In view, however, of the fact that the Fund was debited with Fr.fcs 41 milliard paid to the E.P.U. on 18th March, it is likely that the net gold and foreign exchange position deteriorated by Fr.fcs 30-40 milliard more than is indicated here.

In the first quarter of 1951 France was still gaining gold and dollars; after that, however, a drain set in which became particularly heavy in the fourth quarter of the year. The losses continued up to the end of the first quarter of 1952, by which time the gold and convertible currency holdings, as indicated in the last line of the table, were only about two-thirds of what they had been a year earlier. A certain reversal of the outward movement of funds occurred in the spring of 1952.

The size of the gold and dollar holdings of the United Kingdom is published for the final day of each quarter. The data are reproduced in the following table, which also includes figures for net credit or debit balances in relation to the E.P.U.

The total holdings of gold and dollars were reduced by over one-half in nine months — from the end of June 1951 to the end of March 1952. As far as the change from net gain to net loss within the year 1951 was

United Kingdom: Official gold and foreign exchange reserves.

End of	Gold and dollar reserves		Holdings of non-dollar currencies	Credit (+) or debit (—) balances in E.P.U. units of account
	in millions of U.S. dollars	in millions of £ sterling		
1938	2,877 (1)	615 (1)	(1)	—
1945	2,476	610 (2)	8	—
1949	1,688	603 (3)	23	—
1950	3,300	1,178 (3)	51	+ 80
1951				
June	3,867	1,381 (3)	29	+ 114
December	2,335	834 (3)	14	— 166
1952				
March	1,700	607 (3)	.	— 218

(1) Gold only (valued at the market price at the end of 1938); official holdings of foreign currencies were negligible. (2) Converted at £1 = $4.03. (3) Converted at £1 = $2.80.

concerned, about one half was on account of the United Kingdom's deficit with the dollar area. In the second half of 1951, sterling-area countries had to use part of their sterling balances to obtain dollars from the pool in London. It will be seen from the following table that sterling liabilities due to sterling-area countries fell by £311 million in that half-year.

United Kingdom: Sterling liabilities.

End of	Due to non-sterling-area countries					Due to sterling-area countries	Grand total (1)
	Dollar area	Other western hemisphere countries	O.E.E.C. countries	Other non-sterling-area countries	Total		
	in millions of £ sterling						
1938	.	.	226 (2)	.	259 (2)	339 (2)	598 (2)
1945	36	164	421	613	1,234	2,454	3,688
1949	31	80	439	514	1,064	2,353	3,417
1950	79	45	395	492	1,011	2,732	3,743
1951							
June . . .	73	55	422	518	1,068	3,100	4,168
December	38	57	409	514	1,018	2,789	3,807

(1) 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 £566 million at the end of 1951.
(2) The 1938 figures are given for the following areas: British Empire (£339 million), Europe (£226 million) and the rest of the world (£33 million). Despite this difference of classification, the total relates to approximately the same items as are covered by the figures for later years.

Of the liabilities due to sterling-area countries, an amount of £964 million (or about one-third) is due to "dependent overseas territories" and the remaining £1,825 million to other sterling-area countries (viz. India, Australia, New Zealand, Ceylon, etc.).

The Latin American countries added some $400 million to their gold and dollar reserves during 1950 — largely as a result of an influx of investment capital and, in some instances (e.g. Uruguay), funds sent for safe keeping; in the latter half of the year these countries also began to benefit from the rise in the prices of coffee, wool, tin, etc. The gain continued in the first quarter of 1951, but subsequently gave place to a steady loss of reserves due partly to the fall in raw-material prices and partly to the general high level of imports which, in many instances, were substantially larger in the second half of 1951 than in the first. It was their fortunate position early in the year which had encouraged these countries to import but, by the time the goods arrived, their export situation had already taken a turn for the worse.

In France, the sterling area and Latin America a period of apparent strength was, indeed, followed almost without transition by a period of great difficulties, and this dramatic change has attracted so much attention that developments elsewhere have been somewhat overshadowed. But in the world economy a loss of reserves suffered by one group of countries generally constitutes a gain for others. Actually, it was not the United States that registered the greatest net improvement for the year 1951 as a whole, since the gain in the second half did little more than counterbalance losses in the first half, the net addition to the country's gold stock being only $53 million, while the total of net short-term liabilities showed little change. Canada gained more than that, viz. some $166 million in gold and dollar balances — the result of an inflow of capital from the United States and domestic gold production. Nearly as much — $140 million — was added to the gold and dollar reserves of Japan and $100 million to those of Indonesia, the continent of Asia adding, on balance, $293 million to its gold and dollar reserves.

As far as the continent of Europe is concerned, the abruptness of some of the changes in the surpluses and deficits vis-à-vis the European Payments Union has drawn attention to the fact that certain countries' holdings of E.P.U. units have increased but it does not seem to be generally realised that quite a number of these countries have at the same time been able to add to their holdings of gold and dollars. From an inspection of the tables on the previous pages, however, it is clear that some of the additions are fairly substantial — the most important case being that of Germany, which increased its gold and dollar holdings by $212 million. In order to form a clear idea of the overall change in these countries' reserves, account must also be taken of the shift in their position in relation to the E.P.U.

Among the countries included in the table on the following page Switzerland and the Netherlands are the only ones which lost gold and dollars during 1951, but the former country increased its holdings of E.P.U. units. Incidentally, it has such considerable gold reserves that changes of the order shown in the table are of no account.

Thus there are quite a number of countries whose reserve position not only shows no deterioration but has distinctly improved. One reason why relatively little attention has been devoted to this aspect of the developments

Estimated change in the gold reserves, dollar holdings and E.P.U. balances of various European countries.

Countries and years	Gold reserves	Dollar balances (including private holdings)	E.P.U. balances	Total
	in millions of U.S. dollars			
Belgium-Luxemburg Economic Union: (1)				
End of 1950	650	198	—	848
„ „ 1951	696	201	304	1,201
Change	+ 46	+ 3	+ 304	+ 353
Germany (western):				
End of 1950	—	222	— 192	30
„ „ 1951	28	406	0	434
Change	+ 28	+ 184	+ 192	+ 404
Italy:				
End of 1950	258	315	— 17	556
„ „ 1951	335	300	134	769
Change	+ 77	— 15	+ 151	+ 213
Netherlands: (1)				
End of 1950	335	224	— 66	493
„ „ 1951	340	184	— 66	458
Change	+ 5	— 40	— 0	— 35
Portugal: (1)				
End of 1950	207	50	22	279
„ „ 1951	279	48	54	381
Change	+ 72	— 2	+ 32	+ 102
Sweden:				
End of 1950	90	115	—	205
„ „ 1951	152	71	84	307
Change	+ 62	— 44	+ 84	+ 102
Switzerland:				
End of 1950	1,470	553	—	2,023
„ „ 1951	1,452	521	89	2,062
Change	— 18	— 32	+ 89	+ 39
Denmark:				
End of 1950	31	45	— 34	42
„ „ 1951	31	45	— 46	30
Change	0	0	— 12	— 12
Norway:				
End of 1950	50	44	—	94
„ „ 1951	50	100	— 12 (2)	138
Change	0	+ 56	— 12	+ 44

(1) Including dependencies. (2) Including initial credit balances as loan.

in 1951 is that, towards the end of that year and early in 1952, some of the countries had to expend part of the gold and dollars which they had collected earlier in the year, and this made them rather apprehensive, especially as — except in one or two instances — their total monetary reserves were still definitely on the short side. The following table shows how many months' commodity imports the gold and dollar holdings of individual countries would pay for at the end of 1951 as compared with the position in 1938.

Commodity imports compared with gold and dollar holdings.

Countries	Average monthly imports during 1951	Gold and dollar holdings at the end of 1951	Number of months' imports covered by gold and dollar holdings	
	In millions of dollars		*in 1951*	*in 1938*
Belgium-Luxemburg	211	770	*3.7*	*12.7*
Denmark	84	76	*0.9*	*2.1*
Finland	56	53	*1.0*	*3.1*
France	383	832	*2.2*	*26.8*
Greece	33	50	*1.5*	*2.7*
Netherlands	210	465	*2.2*	*16.7*
Norway	73	150	*2.1*	*4.1*
Portugal	27	305	*11.1*	*10.1*
Sweden	148	223	*1.5*	*9.6*
Switzerland	113	1,973	*17.4*	*30.1*
United Kingdom	913	2,842	*3.1*	*8.8*
United States	914	22,873	*25.0*	*90.1*

For the majority of countries the reserve position is much tenser now than it was before the war, so that every difficulty in the balance of payments is apt to cause a crisis.

Both for countries in the sterling area and for countries outside it, there are many transfer relationships in which sterling balances can be used as an effective medium for international settlements and these balances are thus eligible for inclusion in the monetary reserves of the countries concerned. In a way, surpluses with the European Payments Union have taken the place of the bilateral clearing balances which, in the first years after the war, helped to eke out monetary reserves. But the facilities thus provided by the European Payments Union are generally in the form of central-bank credits, while the system of private international credits is not yet functioning adequately — especially as far as equilibrating credits are concerned. There are thus many tasks which must be taken in hand, and in all these the rebuilding of reserves is of strategic importance, since only adequate reserves can keep confidence from flagging when difficulties arise — as they are bound to do.

* * *

1951 was a year in which the flow of gold into hoards was on a record scale. It was also a year in which gold prices in the free markets were relatively moderate, largely because supplies were more easily obtainable. Another moderating influence was a revival of confidence in several currencies and this factor grew in importance, month by month, during the first part of 1952. It is an object lesson for all and sundry that, if supplies of gold are allowed to move freely and if confidence in the national currencies is restored, these two factors are capable of putting an end to gold hoarding, United States net gold transactions with foreign countries.(1)

Countries	1950	1951 1st quarter	1951 2nd quarter	1951 3rd quarter	1951 4th quarter	1951 Total
	in millions of dollars at $35 per ounce					
Argentina	.	— 49.9	.	.	.	— 49.9
Belgian Congo	— 3.0	— 8.0	.	.	.	— 8.0
Belgium	— 55.0	— 12.3(2)	2.0	.	.	— 10.3
Canada	— 100.0	.	— 10.0	.	.	— 10.0
Chile	.	— 5.0	.	.1	.1	— 4.8
China (nationalist)	— 3.9	.	.	.	.	.
Colombia	— 10.0	14.0	.	3.5	.	17.5
Cuba	28.2	.	.	— 20.0	.	— 20.0
Denmark	.	— 13.4	— 2.1	— 4.2	.	— 19.7
Dominican Republic	.	— 2.0	— 2.0	.	— 4.0	— 8.0
Ecuador	1.5	— 3.5	.	.	.	— 3.5
Egypt	— 44.8	— 20.0	— 25.0	— 31.0	.	— 76.0
Fiji Islands	3.5	2.2	.3	1.1	.	3.6
Finland	.	.	.	— 2.8	— 2.0	— 4.8
France	— 84.8	— 91.7	.	.	71.6	— 20.1
Greece	— 14.4	— 6.2	.	.	— 4.1	— 10.3
Indonesia	— 30.0	— 20.0	.	.	— 25.0	— 45.0
Lebanon	.	— 1.1	.	— 4.3	.	— 5.4
Mexico	— 118.2	— 124.4	64.1	.	.	— 60.3
Netherlands	— 79.8	— 4.5	.	.	.	— 4.5
Norway	— 4.0	.	.	.	.	.
Peru	— 3.0	— 15.0	.	.	.	— 15.0
Philippines	.	1.6	1.0	.3	.6	3.5
Poland	11.9	.	.	.	.	.
Portugal	— 15.0	— 10.0	— 15.0	— 5.0	— 5.0	— 34.9
Salvador	— 6.0	.	— 3.0	.	.	— 3.0
Saudi Arabia	— 3.3	— .8	.	.	.	— .8
South Africa	13.1	.	12.7	20.3	19.2	52.1
Sweden	— 23.0	— 15.0	.	— 17.0	.	— 32.0
Switzerland	— 38.0	— 15.0	.	.	.	— 15.0
Switzerland (B.I.S.)	— 65.2	— 24.8	— 9.1	3.5	.	— 30.4
Turkey	4.5	.	.	.	.	.
Syria	— 2.2	— .7	— 3.8	— 1.1	— .7	— 6.3
United Kingdom	— 1,020.0	— 400.0	— 80.0	320.0	629.9	469.9
Uruguay	— 64.8	— 50.9	15.0	28.0	30.0	22.1
Vatican	— 2.5	.	.	.	5.0	5.0
Venezuela	.	.	— .9	.	.	— 0.9
All others	2.8	— .1	.1	.	.1	.1
Total	— 1,725.2	— 876.3	— 55.5	291.4	715.7	75.2

(1) Negative figures represent net sales by the United States; positive figures, net purchases.
(2) Belgium, in the first quarter of 1951, purchased $15.6 million and sold $3.3 million.

after all attempts at suppression by means of prohibitions and controls had failed.

While important steps have been taken, in the period since the outbreak of the conflict in Korea, to improve the monetary situation, it is hardly necessary to add that, as far as the reconstitution of an international monetary standard is concerned, most of the work remains to be done and that, once done, the maintenance of what has been achieved will call for incessant vigilance. It can never be sufficiently emphasised that in the century before 1914, when as a result of many efforts the gold standard was gradually establishing itself as the monetary system of the world, the countries which one after the other linked their currencies to gold at a fixed parity took that step only as their economies became more or less adjusted to a suitable set of exchange rates; moreover, in that century, the value of gold itself, as measured by its relation to prices, had also found the "natural" level determined for it by the growth of production, the development of the credit system, etc. These two circumstances may be considered as being, to some extent, prerequisites for such a system. When the attempt was made to restore the gold standard in the first half of the inter-war period, neither of these conditions could be said to have been sufficiently fulfilled, and it was only towards the end of the 1930s that equilibrium came into sight again — to be violently upset by the outbreak of the second world war.

Now, once more, the work of restoring an international standard has to be undertaken in real earnest — and the searching question that has to be asked is whether the monetary relations which are now being established will have sufficiently firm foundations to withstand shocks — for, as always, shocks are bound to come.

The public has had so many bitter experiences in monetary matters that, in all probability, nothing but the clear evidence of actual facts (though perhaps not the same set of facts in every country) will serve to renew its reliance in the strength of its national currency. But, in this connection, it may well be recalled that, after all, the practical use of bank-notes and bank credit as means of payment presupposes that some confidence is felt in the whole monetary structure. Because of its effect in strengthening this confidence, the decline which occurred in the market price of gold was, for some countries, although not for all, of great help on the way to monetary stability.

VII. Money, Interest Rates and Credit.

The Introduction and Chapter II of this Report have already shown how in country after country the authorities have returned in the last two years to a more traditional monetary policy, and some of the reasons have been given for a change which at the end of the war would have seemed to many people inconceivable. Briefly, it may be said that this change has not been prompted by theoretical or academic considerations, but by the growing evidence that the wartime methods of control — whatever may have been their merits in an emergency — have failed, in the face of returning peace-time conditions, to stop the rise in prices and to put right the balance of payments.

In the more heavily taxed countries (such as the United Kingdom, France and the Netherlands, where about 40 per cent. of national income is absorbed by fiscal and social charges, while in the United States the corresponding percentage is about 30), it was considered neither politically practicable nor economically advisable to increase rates of taxation to the extent which would have been necessary in order to cover rearmament expenditure and achieve, at the same time, an overall surplus in the budget. For these countries the best hope of gaining effective control of inflationary forces lay in the application of a more energetic monetary policy — and such a policy was, indeed, adopted in the course of 1951.

Even the United States, which is rather less heavily burdened by taxation, and where the budget has continued to be balanced, found it necessary to discontinue the practice of rigidly supporting government bond prices. In his reply to the questions put by the Congressional Sub-Committee on General Credit Control and Debt Management, the Chairman of the Board of Governors of the Federal Reserve System stated in March 1952:

> "On balance, the System, through its support of Government security prices, accentuated post-war inflationary pressures . . . More flexible credit and monetary policies, applied through the discount and open-market mechanism within the framework of an orderly Government securities market, have demonstrated their effectiveness since they were undertaken in March of 1951."

From the table on the following page it may appear that the net increases in the discount rates of central banks from the end of 1949 to the spring of 1952 have not been very great. In judging their importance it should be noted:

(i) that in some countries, e.g. Belgium and Finland, higher rates have been applied at times of exceptional pressure during the period since the end of 1949;

(ii) that the effective short-term market rates were previously much lower than the official discount rate but have now been brought closer towards it;

Discount rates of central banks.

Central bank of	Discount rates at the end of 1929	1938	1947	1948	1949	1950	1951	March 1952	Change from Dec. 1949 to March 1952
Switzerland	3½	1½	1½	1½	1½	1½	1½	1½	.
United States (1)	4½	1	1	1½	1½	1¾	1¾	1¾	+ ¼
Canada	.	2½	1½	1½	1½	2	2	2	+ ½
Czechoslovakia	5	3	2½	2½	2½	2½	2½	2½	.
Norway	5	3½	2½	2½	2½	2½	2½	2½	.
Portugal	8	4½	2½	2½	2½	2½	2½	2½	.
Yugoslavia (2)	6	5	1–4	1–3	1–3	1–3	1–3	1–3	.
Sweden	5	2½	2½	2½	2½	3	3	3	+ ½
Turkey	.	4	4	4	4	4	3 (3)	3	— 1
Belgium	4½	2½	3½	3½	3¼	3¾	3¼ (4)	3¼	.
Bulgaria	10	6	4½	3½	3½	3½	3½	3½	.
Netherlands	4½	2	2½	2½	2½	3	4 (5)	3½ (5)	+ 1
England	5	2	2	2	2	2	2½	4 (6)	+ 2
France	3½	2½	2½	3	3	2½	4 (7)	4	+ 1
Italy	7	4½	5½	5½	4½	4	4	4	— ½
Spain	5½	4	4½	4½	4	4	4	4	.
Austria	7½	3½ (8)	3½	3½	3½	3½	5	5	+ 1½
Denmark	5	4	3½	3½	3½	5	5	5	+ 1½
Hungary	7½	4	5	5	5	5	5	5	.
Roumania	9	3½	7	5	5	5	5	5	.
Finland	7	4	5¼	7¼	5¾	7¾	5¾ (9)	5¾	.
Germany	7	4	3½	5	4	6	6	6 (10)	+ 2
Poland	8½	4½	6	6	6	6	6	6	.
Greece	9	6	10	12	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) Since the amagalmation of institutions of the public sector with the National Bank, differential rates varying according to the type of debtor have been introduced. (3) In effect since 26th February 1951.
(4) Rate for accepted bills domiciled with banks and for warrants decreased to 3½ per cent. on 5th July 1951 and to 3¼ per cent. on 13th September 1951.
(5) Rate increased to 4 per cent. on 17th April 1951 and decreased to 3½ per cent. on 22nd January 1952.
(6) In effect since 11th March 1952.
(7) Rate for discount of public and commercial bills. The rate was raised on 11th October 1951 from 2½ to 3 per cent. and on 8th November 1951 to 4 per cent. (8) End of 1937.
(9) In effect since 16th December 1951. (10) Rate lowered to 5 per cent. on 29th May 1952.

(iii) that there have been quite striking rises in the effective rates charged for loans and credits or allowed on deposits by commercial banks and other financial institutions; and

(iv) finally, that a flexible policy does not necessarily require large changes in interest rates; experience proving that (as the Chairman of the Board of Governors of the Federal Reserve System put it) "in a rich, high-savings economy with well-integrated financial markets, significant changes in the availability of credit, and hence in the volume of spending, need be accompanied by only small changes in the cost of money".

The important thing is generally not so much the increase in the rate itself as the fact that credit expansion has been, if not wholly arrested, at least slowed down, and the higher rate usually represents an indispensable element in this process. The factors at work in a modern economy being so complex, it is naturally difficult to give a strict proof of the effectiveness of monetary policy; but the number of countries in which the application of a firm credit policy has been followed by an improvement in the internal situation and in the balance of payments is by now remarkably large. It is true that the measures taken in Europe did not become fully effective as long as prices on the world markets (as influenced mainly by conditions in the United States) continued to rise; but, in the spring and summer of 1951, when there was no longer any such upward pressure exerted from outside, those countries which had adopted stricter monetary policies succeeded in arresting the rise in prices and in improving their balance of payments; the situation remained critical only in those countries which allowed credit to expand with little real hindrance.

It must, however, be stressed — as has already been done in Chapter II — that one very important reason why monetary policy has recently become more effective is that by now the greater part of the excessive supply of money created by the war has been absorbed. The best statistical evidence of this is the fall in the ratio of the supply of money to national income.

Modifications of official discount rates.

Central bank of	Discount rate per cent.	In effect since	Modifications between June 1950 and May 1952
Austria	3½	July 10, 1935	
	5	December 6, 1951	+ *1½*
Belgium	3¼	October 6, 1949	
	3¾	September 11, 1950	
	3½	July 5, 1951	
	3¼	September 13, 1951	± *0*
Bolivia	5	February 4, 1948	
	6	September 30, 1950	+ *1*
Canada.	1½	February 8, 1944	
	2	October 17, 1950	+ *½*
Denmark	3½	January 15, 1946	
	4½	July 4, 1950	
	5	November 2, 1950	+ *1½*
Finland	5¾	July 1, 1949	
	7¾	November 3, 1950	
	5¾	December 16, 1951	± *0*
France	2½	June 8, 1950	
	3	October 11, 1951	
	4	November 8, 1951	+ *1½*
Germany	4	July 14, 1949	
	6	October 27, 1950	
	5	May 29, 1952	+ *1*
Iceland	6	January 1, 1948	
	7	April 2, 1952	+ *1*
India	3	November 28, 1935	
	3½	November 15, 1951	+ *½*
Japan	5.11	July 5, 1948	
	5.84	October 1, 1951	+ *0.73*
Netherlands	2½	June 27, 1941	
	3	September 26, 1950	
	4	April 17, 1951	
	3½	January 22, 1952	+ *1*
South Africa	3½	October 13, 1949	
	4	March 27, 1952	+ *½*
Sweden	2½	February 9, 1945	
	3	December 1, 1950	+ *½*
Turkey	4	July 1, 1938	
	3	February 26, 1951	— *1*
United Kingdom . .	2	October 26, 1939	
	2½	November 8, 1951	
	4	March 11, 1952	+ *2*
United States . . .	1½	August 13, 1948	
	1¾	August 21, 1950	+ *¼*

In 1945–46 the ratio of money supply to national income was far higher than in 1938 in nine out of the eleven countries shown (the exceptions being France and Italy, where the large rise in prices had already absorbed the surplus money created during and after the war). By 1951 the ratio had been reduced to the pre-war level (or below it) in five out of these nine countries, while in Switzerland it was only 10 per cent. above the pre-war level, a difference which may be largely explained

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*	*61*
1949	91.0	156	249	*37*	*63*
1950	92.3	155	265	*35*	*58*
1951	99.1	169	296	*33*	*57*
Denmark (kroner)					
1938	0.43	1.77	6.4	*7*	*28*
1945	1.49	6.59	12.0	*12*	*55*
1948	1.56	5.35	15.9	*10*	*34*
1949	1.55	5.18	16.8	*9*	*31*
1950	1.63	5.25	19.1	*9*	*27*
1951	1.74	5.36	*21.2**	*8*	*25*
Finland (markkas)					
1938	2.3	3.9	29.7	*8*	*13*
1945	13.9	22.1	99.2	*14*	*22*
1948	27.8	44.9	306.8	*9*	*15*
1949	30.1	49.2	322.7	*9*	*15*
1950	35.0	55.7	414.7	*8*	*13*
1951	45.3	77.3	580 *	*8*	*13*
France (francs)					
1938	112	192	360	*31*	*53*
1946	732	1,349	2,618	*28*	*52*
1948	993	2,165	5,430	*18*	*40*
1949	1,301	2,704	6,544	*20*	*41*
1950	1,590	3,120	7,225	*22*	*43*
1951	1,883	3,667	9,020	*21*	*41*
Italy (lire)					
1938	22	46	117	*19*	*39*
1947	795	1,526	4,954	*16*	*31*
1948	971	1,992	5,645	*17*	*35*
1949	1,058	2,301	5,935	*18*	*39*
1950	1,176	2,571	6,370	*18*	*40*
1951	1,304	2,987	7,423	*18*	*40*
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	15.6	*19*	*45*
1951	3.04	7.29	16.9	*18*	*43*
Norway (kroner)					
1938	0.45	0.62	4.97	*9*	*12*
1946	1.87	4.36	9.37	*20*	*47*
1948	2.10	4.96	11.86	*18*	*42*
1949	2.24	4.95	12.33	*18*	*40*
1950	2.25	4.80	13.87	*16*	*35*
1951	2.56	5.56	17.05	*15*	*33*

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	1.06	2.19	10.0	*11*	*22*
1945	2.78	5.24	16.2	*17*	*32*
1948	3.11	6.11	23.1	*13*	*26*
1949	3.29	6.29	24.1	*14*	*26*
1950	3.51	6.78	25.4	*14*	*27*
1951	4.09	8.31	30.0*	*14*	*28*
Switzerland (francs)					
1938	2.0	4.8	8.7	*23*	*55*
1945	4.1	8.8	13.5	*30*	*65*
1948	4.9	10.4	17.6	*28*	*59*
1949	4.9	11.1	17.4	*28*	*64*
1950	5.0	11.4	18.1	*28*	*63*
1951	5.3	11.9	19.5	*27*	*61*
United Kingdom (pounds) (1) (2)					
1938	0.46	1.72	4.80	*10*	*36*
1946	1.38	5.20	8.31	*17*	*63*
1948	1.26	5.41	9.81	*13*	*55*
1949	1.27	5.43	10.43	*12*	*52*
1950	1.29	5.55	10.85	*12*	*51*
1951	1.36	5.65	11.28	*12*	*50*
United States (dollars) (3)					
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	216.7	*12*	*51*
1950	25.4	117.7	239.0	*11*	*49*
1951	26.3	124.5	275.8	*10*	*45*

* Estimate.

(1) National income figures on the old basis (including building repairs). The figure for 1951 is calculated by assuming that national income on the old basis rose by the same amount as national income on the new basis.

(2) If deposit accounts (time deposits) were included the ratio of money supply to the national income would be: 1938, 56%; 1946, 85%; 1951, 68%.

(3) If time deposits were included the ratio of money supply to the national income would be: 1929, 63%; 1935-39, 85%; 1946, 91%; 1951, 67%.

Note: The figures for currency and money supply are the amounts outstanding at the end of the year.

by the widespread hoarding of Swiss notes in neighbouring countries. In only three countries — Norway, Sweden and the United Kingdom — is the ratio still substantially higher than in 1938. Norway still remains the country in which the ratio has gone up the most since before the war, even though a substantial improvement has taken place since 1946. In the United Kingdom, too, the ratio was much lower in 1951 than it had been in 1946; moreover, it would seem as if the nominal national income (as influenced by movements of wages and prices) will reach a much higher figure in 1952 than in 1951, while the increase in the total supply of money would appear to have been kept down — so far, at least — to the same rate as last year.

In many countries where, during the war, the supply of money had risen by something like 50 per cent. more than the national income, the amounts of liquid funds in the hands of business men and consumers during the first post-war years were more than ample for the financing of investment or the purchase of goods which had become scarce; on the other hand, the volume of investment which could in fact be undertaken was severely restricted by the shortage of vital materials. Until at least a part of the excess money had been absorbed, the demand for fresh credits was small. In the United Kingdom, for example, bank advances were actually lower at the end of 1945 than in 1938, in spite of the rise in prices; they represented 10 per cent. of the national income in 1945, as compared with 20 per cent. in 1938. Under such circumstances, not much can be achieved by the usual methods of credit policy (see Chapter II); but, now that the most urgent tasks of reconstruction have been completed and the excess supply of money has been absorbed in most countries, business has become more dependent again on both the banking system and the capital market for the financing of any further expansion. Credit policy has thus become an effective weapon once more.

In the United States, the most important of the monetary measures taken in 1950-51 (as set out on page 17) was the abandonment of the quasi-automatic support of the bond market at fixed rates. Newly-created credit was no longer pumped into the market in order to keep quotations up; this was the essential advantage of the new policy. It was also found to have another important effect in that holders of bonds became more reluctant to sell securities at a capital loss. In the case of banks, this meant that they would not in that way mobilise funds in order to extend credits as part of current business. Moreover, in view of the actual declines registered by bond prices and, above all, the uncertainty as to their future movements, the banks could no longer consider government securities as liquid assets practically equivalent to cash; consequently, the banks' effective liquidity was considerably reduced.

It had been feared in some circles that any fall below par in the quotations of government securities might lead to massive sales and thus to

United States: Prices and yields of government bonds.

Treasury bonds	Price					Yield		
	1950	1951			1952	1950	1951	1952
	31st May	28th February	30th March	31st May	31st January	31st May	28th February	31st January
Bank-eligible								
2¼% 1956-59	104.0	102.0	100.1	100.1	99.3	1.56	1.84	2.26
2½% 1967-72	105.1	102.3	101.0	99.1	97.0	2.13	2.28	2.69
Bank-restricted								
2¼% 1959-62	101.2	100.2	98.3	96.3	97.1	2.05	2.17	2.53
2½% December 1967-72	101.2	100.2	99.0	97.0	96.2	2.39	2.45	2.70

United States: Member-bank reserves and related factors.

Items	Change between April 1950 and March 1951	Change between April 1951 and March 1952	Amount outstanding at end of March 1952
	in milliards of dollars		
Factors influencing reserves:			
Reserve-Bank operations			
(1) U.S. Government securities	+ 5.3	— 0.4	22.5(1)
(2) Other forms of credit	+ 0.8	— 0.5	0.8
Monetary gold stock	— 2.4	+ 1.5	23.3(2)
Treasury operations (3)	— 0.0	+ 1.1	3.3
Note circulation, increase (—)	— 0.1	— 1.4	— 28.5
Deposits and other factors, increase (—)	— 0.2	+ 0.4	— 1.7
Total	+ 3.4	+ 0.7	19.7
Reserve balances			
Total	+ 3.4	+ 0.7	19.7
Required	+ 3.2	+ 0.9	19.2
Excess	+ 0.1	— 0.2	0.5

(1) Securities held by Federal Reserve Banks.
(2) Gold held by U.S. Treasury.
(3) Excludes security operations; includes Treasury currency outstanding minus Treasury cash holdings and Treasury deposits with Federal Reserve Banks.

United States: Credit to the private economy.(1)

Items	Changes between April 1950 and March 1951	Changes between April 1951 and March 1952	Total at end of March 1952
	in milliards of dollars		
Loans of weekly-reporting banks to:			
Industry and commerce	+ 5.4	+ 2.2	21.4
Real estate	+ 0.9	+ 0.3	5.7
Others	+ 1.6	— 0.4	8.2
Total (net)(2)	+ 7.8	+ 2.0	34.7
Credits of the whole banking system			
Loans (net)	+ 12.1	+ 5.2	67.7
Securities	+ 1.6	+ 1.5	16.4(3)
Total	+ 13.7	+ 6.7	84.1
Total consumer credit(4)	+ 3.1	+ 0.2	19.6

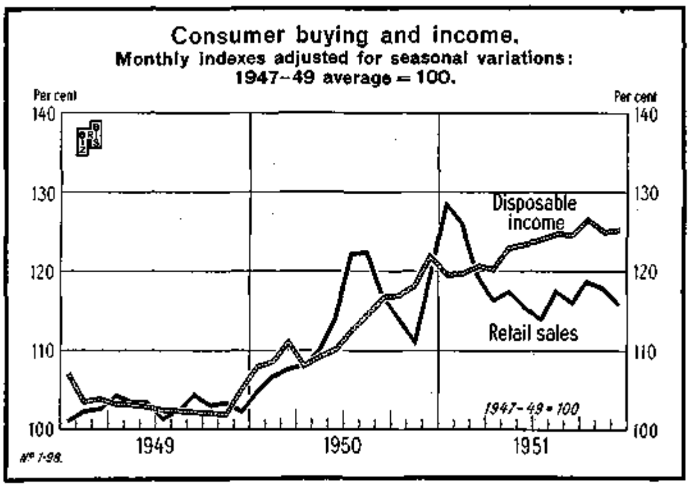
(1) Including the banks' holdings of securities of States and municipalities, but not U.S. Government securities.
(2) Net total (i.e. after deduction of valuation reserves).
(3) Excluding holdings of U.S. Government securities, which totalled $96.1 milliard at the end of March 1952.
(4) Granted partly by the banking system and partly by other agencies.

"disorderly markets", but these fears have proved to have been unfounded. In the United Kingdom, the banks and the public have seen very considerable fluctuations in bond prices in the past and are more or less prepared for them. In the United States, the market is more sensitive and financial institutions probably possess smaller hidden reserves; but the adjustments required were much more limited, since the quotations of medium and long-term bonds did not decline by more than 4 to 8 per cent.

The liquidity position of the banks came under pressure in the spring of 1951 not only because they could no longer consider their bond holdings as liquid assets, but also because their reserve balances ceased to rise at the same rate as in the preceding months.

While net purchases of government securities added $5.3 milliard to the member-bank reserves in the period April 1950 to March 1951 and there was a total net increase in these reserves of $3.4 milliard, despite the contracting influence of gold losses, the following twelve-month period saw a net sale of securities totalling $0.4 milliard and a net addition to the reserves of only \$0.7 milliard, despite a gold inflow of \$1.5 milliard.

On the supply side, the banks themselves became less inclined to extend further credit, owing both to their tighter liquidity position and to the influence exerted by the Voluntary Credit Restraint movement. On the other hand, the demand for credit was damped down by the rise in interest rates, the selective controls on real-estate and consumer credit and the reluctance to accumulate still further stocks once prices began to show a declining tendency.



Source: Data from the U.S. Department of Commerce given by the Federal Reserve Bank of New York.

Between April 1950 and March 1951 the loans of the whole banking system to the economy increased by 24 per cent., whereas in the following twelve-month period the rise was limited to 8 per cent. The supply of money, however, grew by \$6.9 milliard in 1951, as compared with an increase of \$6.5 milliard in 1950. In 1950 the large expansion of business credit had been partly offset by the outflow of gold (\$1.7 milliard) and by a fall in the banking system's holdings of government securities (\$3.9 milliard); during 1951, on the other hand, there was a small inflow of gold (see page 168) and the banking system's holdings of government securities rose by \$1.2 milliard.

In 1951 the capital market absorbed \$6.1 milliard of issues by corporations, as against \$4.3 milliard in the preceding year, and also \$3.5 milliard of issues by States, municipalities and Federal agencies (\$3.8 milliard in 1950). From 1st May 1952 somewhat more attractive terms were offered for government savings bonds; in particular, the yield of the bonds during the earlier years of their life was improved.

In the early months of 1952 the volume of investment was fully as large as in the preceding year, if not larger, but the lull in the demand for certain consumer goods (textiles, as well as items which were mainly bought on instalment terms, such as household articles and even automobiles) lasted rather longer than had been expected and, in these circumstances, it began to be asked whether restrictions were necessary any longer. In accordance with a request from the President of the United States, the financing of State, municipal and public bodies was removed from the control of the Voluntary Credit Restraint Committees on 28th March 1952, and in May the system of voluntary credit restraint was abandoned altogether. Early in April, the Board of Governors of the Federal Reserve System had exempted all products selling for less than \$100 from instalment-credit regulation and in May the system of regulation was suspended completely, it being stated by the Federal Reserve Board that, owing to the improved supply of controlled items, credit curbs were felt to be unnecessary for the present, although stand-by powers must be retained.

In Canada, inflationary pressure has been caused not only by the world-wide boom and the rearmament programme but also by intensive investment in oil, iron ore and non-ferrous metals (new natural resources having recently been discovered). The pressure was, however, kept in check by a combination of monetary and fiscal measures.

(i) There was a genuine budget surplus of $252 million in 1950 and $512 million in 1951, despite the increase in expenditure.

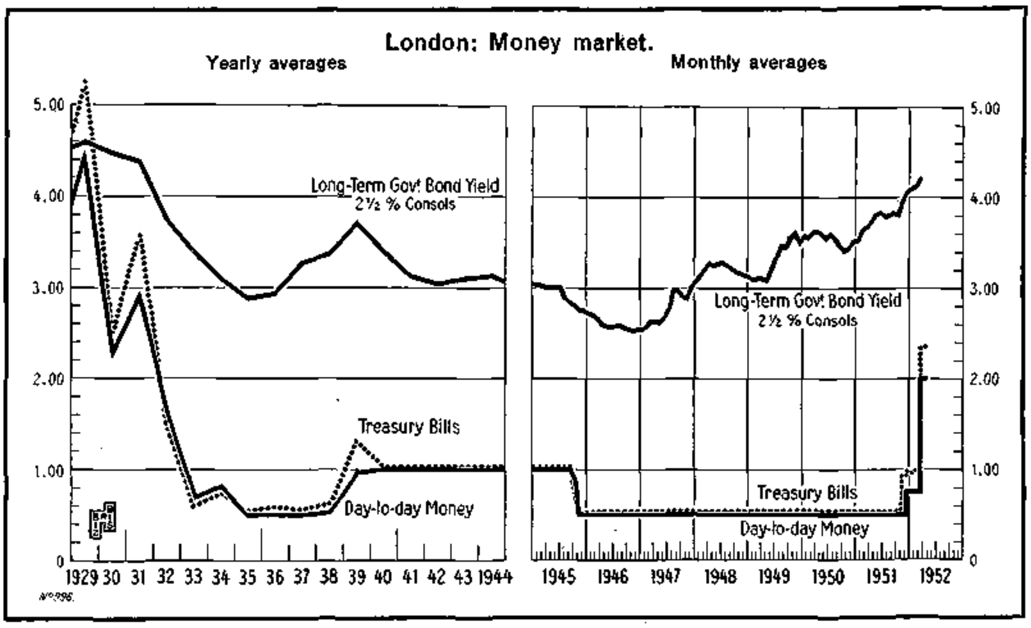
(ii) Bank rate was raised from 1½ to 2 per cent. in October 1950.

(iii) While the Bank of Canada continued to intervene from time to time in the security market, the yield of 15-year government bonds was, for instance, allowed to rise from an average of 2.57 per cent. in 1947 to 2.99 per cent, by the end of 1950 and up to 3.57 per cent. in March 1952.

(iv) Restrictions were imposed in the course of 1950 on consumer credit in particular.

While the Canadian supply of money rose by 10 per cent. during 1950, there was no increase in 1951, this stability being mainly due to a sharp check to the expansion of business credit, which went up by only 3 per cent. during the year. Towards the end of 1951 a surplus developed again on the current account of the balance of payments and, as the flexible rate of the Canadian dollar began to be quoted above par in the early months of 1952, the authorities saw fit to remove restrictions imposed on consumer credit, thus adding Canada to the list of countries which are ready to modify their monetary policy pretty speedily according to the changing circumstances.

While the two leading dollar countries — the United States and Canada — thus saw fit to relax their credit restrictions in the spring of 1952, the two European countries which have the largest currency areas — France and the United Kingdom — had to take the opposite course.



The main credit measures taken in the United Kingdom in the late autumn of 1951 and in the first few months of 1952 have already been described in the Introduction (page 27), where it was pointed out that long-term rates had already been rising for some years in response to the conditions of supply and demand in the market, so that the new departure represented by the increase in bank rate from 2 to 2½ per cent. in November 1951 and from 2½ to 4 per cent. in March 1952 really meant that the short-term market was brought more into line with the long-term market. To the information already given, a few points may be added:

(i) Appropriate increases were made in the rates charged in various other parts of the credit structure. Thus the rates charged by the Public Works Loan Board for loans to local authorities were raised in November 1951 by ½ per cent. for 5 to 15-year loans and by ¾ per cent. for longer-term loans; and a further increase of ½ to ¾ per cent. was made in February 1952.

(ii) The clearing banks increased the rate paid on time deposits from ½ to ¾ per cent. in November 1951 and from ¾ to 2 per cent. in March 1952. They also raised the charges for advances, especially advances to larger borrowers, who are usually charged a rate ½ to 1 per cent. above bank rate.

(iii) In the security market, there was a considerable fall in the prices of both government and private bonds and ordinary shares.

United Kingdom:
Changes in interest rates and yields.

Items	31st October 1951	30th April 1952
1. **Bank of England rates**		
Bank rate	2.0	4.0
Bank of England loans against Treasury bills	—	3.5
2. **Market rates**		
3-month Treasury bills	0.52	2.31
3-month bank bills	1.0	3.0
3-month fine trade bills	2.12	4.5
3. **Bank deposit rates**	0.5	2.0
4. **Public Works Loan Board**		
Less than 5 years	2.0	2.75
5 to 15 years	2.5	3.75
More than 15 years	3.0	4.25
5. **Government securities***		
Exchequer 2½% 1955	1.78	3.17
War bonds 2½% 1954-56	1.58	3.10
Savings bonds 2½% 1964-67	3.39	3.98
Consols 2½%	3.87	4.18
War loan 3½%	4.08	4.50

* Yields calculated to earliest redemption date when above par, to latest date when below. For consols and war loan, flat yields.

Recently, the major change has been the rise in short-term rates; in comparison, the rise in long-term yields has been less pronounced, partly because long-term rates had already risen considerably in previous years. How large the fall in the prices of government securities has been since 1947, the time when cheap money was abandoned, may be seen from the following table.

It cannot be said that the increase in interest rates has been due to any real shortage of money, since at the end of 1951 the supply of money still represented 50 per cent. of the national income, as compared with 36 per cent. in 1938; but it does reflect the fact that the supply of money has become less abundant since 1946, and that current savings are inadequate in relation to the very considerable requirements of the country itself and of the outer sterling area. One of the major handicaps to recovery in the United Kingdom was the excessive creation of money during the war and in 1946–47 and it is, therefore, of importance that the increase in deposits has slowed down and that the banks' holdings of what have been

United Kingdom: Government securities.

Items	Price		Yield*	
	20th November 1946	25th April 1952	20th November 1946	25th April 1952
2½% Consols	99 3/16	60 3/8	2.53	4.15
4% Consols	117 1/2	89 1/4	2.21	4.52
3½% War loan	107 7/8	78	2.09	4.46
3% Savings bonds 1965–75	111 5/16	82 3/4	2.30	4.20
2½% Savings bonds 1964–67	104 5/16	83 3/4	2.21	3.94
2½% War bonds 1954–56	105	97 9/16	1.90	3.10

* For 2½% consols, flat yields. For 4% consols and War loan, yield to earliest redemption date when above par, otherwise flat yield. For other securities, yield to earliest redemption date when above par, to latest redemption date when below par.

called "public-sector assets" (a term used by the Midland Bank in its surveys of monetary policy to indicate direct and indirect financing of the government) have actually fallen. It should be stated, however, that these assets do not include credits to nationalised industries, since these appear under "advances", along with ordinary business credits.

London clearing banks.

End of	Liabilities	"Public-sector assets"*					Advances
	Net deposits	Money at call and short notice	Bills	Treasury deposit receipts	Investments	Total	
	in millions of £ sterling						
1946	5,438	432	610	1,560	1,427	4,029	980
1947	5,682	480	793	1,288	1,483	4,044	1,206
1948	5,914	485	741	1,397	1,478	4,101	1,378
1949	5,964	571	1,109	793	1,512	3,985	1,523
1950	6,100	592	1,408	456	1,528	3,984	1,644
1951	6,036	598	972	102	1,965	3,637	1,931
Change from:							
end of 1946 to end of 1948	+ 476	+ 53	+ 131	— 163	+ 51	+ 72	+ 398
end of 1948 to end of 1951	+ 122	+ 113	+ 231	— 1,295	+ 487	— 464	+ 553

* These include a certain amount of commercial bills and investments other than government securities; while these items are not very large, they have been growing in recent years, so that the table somewhat understates the real fall in "public-sector assets".

While in 1946 advances amounted to less than a quarter of the "public-sector assets", by the end of 1951 they were equal to well over 50 per cent. of these assets. And by the spring of 1952 the Treasury deposit receipts ("T.D.R.s") had been brought down to nil.

Since 1947 there have invariably been surpluses on the ordinary budgets and these have been sufficient, over the period as a whole, to cover all the outlay "below the line"; moreover, the counterpart of foreign aid has been used to repay short-term debts. There has thus been no need to create any credit to meet the government's internal requirements. A reservation should, however, be made with regard to the basic nationalised industries: these have been relatively free from credit restrictions and have at times received from the banks considerable advances. In fact, the total of advances made by banks (including banks other than the clearing banks) grew by £40 million between November 1951 and the end of February 1952 but this increase appears to have been entirely on account of public utilities (in the first place, of the nationalised electricity and gas industries). If advances to these utilities and to local governments are left out of account, the remaining advances went up by £9 million, compared with an increase of £113 million in the corresponding three-month period in the winter of 1950–51 and one of £287 million in the twelve months from the end of November 1950 to the end of November 1951.

The raising of bank rate has had an international consequence which is of special importance. Acceptances no longer cost less in London than in New York; and, as far as share yields are concerned, the average rate in the United Kingdom has risen from its former level of 4½ to 5 per cent. to about 6½ per cent., so that it now stands in a more reasonable relation to the yields of 6 to 7 per cent. which are usual in the United States and Canada. The rise in the British interest rate may perhaps have an even more important effect in checking the export of capital to the rest of the sterling area, which is unhampered by exchange controls; this export of capital amounted to £700 million during the four years 1948–51. Even though there may be good reasons for much of this investment, a capital outflow on that scale can hardly be advisable under present conditions and it is, therefore, necessary that it should be restricted to some extent by a tighter monetary policy.

One difficulty in the United Kingdom is, of course, the fact that the current and capital expenditure of the central and local authorities, together with the payments made by social insurance funds, amount to well over 40 per cent. of the national income, while net private investment by business and individuals seems to correspond to no more than 7 per cent. of the national income and is, therefore, too small an item to bear the whole brunt of the retrenchment.

A further difficulty is the scale of investment by the basic nationalised industries, which overshadows private industrial and other investments and is not readily amenable to the restraint of the new credit policy. On the capital market, the Electricity Authority borrowed £148 million in 1950 and the Gas Council £73 million in 1951, while in April 1952 the Electricity Authority borrowed a further £150 million. In contrast, issues by private British companies amounted to £108 million in 1950 and £128 million in 1951 — figures which indicate that the restriction of credit to private borrowers cannot be relied on as the sole means of restoring balance between savings and investments.

In France, the sharp rise in prices had soon absorbed the redundant supply of money left over from the war and, when confidence revived in the years 1949–50, there was, for a time, the possibility that the volume of circulating media could be increased through an expansion of credit without producing any inflationary effect. But it was inevitable that, before long, possibilities of this kind would be exhausted, and the question is whether that point was not actually reached in the winter of 1950–51, when, however, credit began to expand at a particularly rapid rate.

France: Formation of the money supply.

Items	1950 1st half	1950 2nd half	1951 1st half	1951 2nd half	1952 1st quarter
	in milliards of French francs				
Increase in money supply					
Currency	+ 99	+ 190	+ 109	+ 184	+ 37
Demand deposits	+ 26	+ 101	+ 86	+ 176	+ 5
Total	+ 125	+ 291	+ 195	+ 360	+ 42
Change in items corresponding to the increase in the money supply					
Gold and foreign exchange(¹)(²)	+ 72	+ 66	+ 10	— 219	— 67(²)
Credit to public authorities(¹)	+ 22	+ 80	+ 32	+ 166	+ 127
Credit to the economy	+ 77	+ 89	+ 162	+ 386	+ 78
Other items (net)	— 46	+ 56	— 9	+ 27	— 96(²)
Total	+ 125	+ 291	+ 195	+ 360	+ 42

(¹) The nominal changes in these items have been adjusted for the effects of (a) the revaluation of the gold stock in August 1950, involving an amount of Fr.fcs 126 milliard, of which Fr.fcs 77 milliard was used to reduce the portfolio of Treasury bonds held by the Bank of France, and (b) the funds placed at the disposal of the Treasury by the Exchange Stabilisation Fund in respect of the loan raised by the Treasury in the United States in August 1950.

(²) From 18th March 1952 onwards the Exchange Fund had entirely repaid its debt to the Bank of France, and changes in its exchange position are no longer reflected in the latter's balance sheet. In view, however, of the fact that the Fund was debited with a debt of Fr.fcs 41 milliard to the E.P.U. on 18th March, it seems likely that the net gold and exchange position deteriorated by considerably more than is shown in the table; this would explain the large size of the residual item.

It is true that until March 1951 confidence was still being strengthened by additions to the gold and foreign exchange reserves, including claims in E.P.U. units, and this was one of the factors increasing the supply of money.

In the spring of 1951 events took a less favourable turn: the trade balance showed an increased deficit, and banking credit to the community a steeper rise. The deterioration in the balance of trade continued and, when in the autumn prices and wages had been raised (see page 33), fresh credits to the economy reached higher figures and, for the first time in several years, credits extended to the Treasury were on a really substantial scale, the increase of Fr.fcs 128 milliard during the third quarter being larger than the increase for either the whole of 1949 or the whole of 1950.

It is not easy to draw a clear line of demarcation between credits to the economy and credits to the Treasury; the following table is based on the estimates of the National Council of Credit, with the addition of the funds supplied to the Treasury in respect of the American loan of August 1950.

In the course of the autumn, it became evident that the qualitative and quantitative regulations would have to be tightened up, and from October onwards the "rediscount ceilings" of the banks with the Bank of France and the "minimum reserve requirements" were enforced daily (and not, as previously, only at the end of the month). On the other hand, the total of the rediscount ceilings was raised from about Fr.fcs 290 to 500 milliard. In the same connection a number of restrictive measures were taken, as already mentioned in the Introduction to this Report (page 33).

(i) The discount rate was raised, in two stages, from 2½ to 4 per cent., rather smaller corresponding adjustments being made in other charges of the Bank of France and followed by increases in the charges of other banks.

France: Credits to public authorities.

Items	End of 1948	1949	1950	1951	March 1952
	in milliards of French francs				
Bank of France					
Advances, etc.	763	768	705	742	803
Counterpart of American loan*	—	—	49	70	70
Portfolio of public securities	110	141	123	186	228
Total for Bank of France	873	909	877	998	1,101
Other banks' portfolio of public securities	243	279	308	327	343
Postal-cheque and Treasury deposits	160	209	237	295	303
Total	1,276	1,397	1,422	1,620	1,747

* This loan was granted in U.S. dollars, but they were exchanged for French francs by the Exchange Stabilisation Fund, which continued to hold the dollar amounts abroad. The National Council of Credit states in a footnote to its 1950 report that the sum involved really represented finance for the Treasury rather than an increase in exchange reserves, but it has not made the corresponding adjustment in its statistical tables.

(ii) Sales of bills to the Bank of France under repurchase agreement ("pensions") were limited to 10 per cent. of a bank's ordinary rediscount ceiling, and, in addition to the discount rate, a special charge of 1½ per cent. was made.

(iii) The limit beyond which the preliminary authorisation of the Bank of France was required for advances to business was raised from Fr.fcs 100 to 500 million, but at the same time discounts (which represent by far the greater part of business credit in France) were included in calculating this figure. Besides introducing a check on bill financing, this measure enabled a more effective watch to be kept on the larger borrowers.

These measures soon began to show their effect, but before long a serious danger arose from the growing deficit of the Treasury, which in February 1952 was compelled to ask for a direct advance from the Bank of France. In replying to this request on 29th February, the Governor of the Bank of France stated that the Bank, by way of exception, would be willing to purchase bills up to a maximum of Fr.fcs 25 milliard from the Treasury, but, at the same time, he pointed out on behalf of the Bank, that both short and long-term reforms were urgently needed in order to preserve what remained of the country's credit position and its gold and foreign exchange reserves. And, as mentioned in the Introduction, a number of steps were, indeed, taken in the spring of 1952 when a new government had come into power.

In Italy, too, the outbreak of the conflict in Korea led to strong inflationary pressure and a loss of foreign exchange due in part to a certain flight of capital. But, when the scramble for goods began in the autumn of 1950, the Bank of Italy refused to make any large increase in its own credits in order to satisfy the new demand from importers and others. In the spring of the following year, when raw-material prices on the world markets fell, they also declined in Italy, and in the second half of 1951 there was a spectacular increase in the country's foreign exchange reserves (due in part to a renewed inflow of capital).

The acquisition of foreign exchange with funds furnished by the Bank of Italy accounted for about one half of the increase in the supply of money during 1951, the other half being due to normal expansion of credit. In 1951, as in previous years, a considerable part of the credits granted by the banking system was backed by genuine resources obtained from an increase in savings deposits, as may be seen from the following table.

Italy: Formation of the money supply.

Items	1948		1949		1950		1951	
	in milliards of lire							
Change in money supply and in savings deposits:								
Currency(1)		+ 194		+ 72		+ 131		+ 133
Demand deposits (2)		+ 271		+ 238		+ 139		+ 282
Total money supply		+ 465		+ 310		+ 270		+ 415
Savings deposits		+ 379		+ 371		+ 314		+ 247
Grand total		+ 844		+ 681		+ 584		+ 662
Change in corresponding items:								
Gold and foreign exchange		+ 163		+ 258		+ 61		+ 222
Balance of counterpart funds, increase (—)		— 53		— 135		+ 122		+ 41
Credit to the economy:								
Bank of Italy(3)	+ 9		+ 46		+ 49		— 19	
Other banks(4)	+ 346		+ 324		+ 266		+ 366	
Postal system	+ 24		+ 15		+ 30		+ 54	
Total		+ 379		+ 386		+ 345		+ 401
Credit to public authorities:								
Bank of Italy (5)	+ 76		— 2		— 78		— 60	
Other banks(6)	+ 195		+ 69		+ 70		+ 105	
Postal system	+ 137		+ 161		+ 148		+ 65	
Total		+ 408		+ 228		+ 140		+ 110
Other items (net)		— 53		— 56		— 84		— 112
Grand total		+ 844		+ 681		+ 584		+ 662

(1) Including notes, coins and bank drafts ("vaglia" and "assegni").
(2) Excluding current accounts with the postal system.
(3) Including rediscounts and advances to the banks.
(4) Including credits granted in foreign currencies (Lit. 39 milliard in 1951).
(5) Current account of the Treasury with the Bank of Italy.
(6) Including investments in Treasury bills made via the Bank of Italy.

Since 1948 the Treasury has ceased to borrow from the Bank of Italy, its overall cash deficit being fully covered by postal savings, subscriptions to Treasury bills and allocations from counterpart funds. On its current account with the Bank of Italy, the Treasury has since 1950 accumulated a credit balance; this rose to Lit. 188 milliard in February 1952, owing to the success of the special loan floated to cover the cost of relief and reconstruction in flooded areas.

The fact that the Bank of Italy has put a brake on credit expansion does not mean that the economy has been starved of the funds necessary for expansion. The increase in agricultural and industrial production (in the latter case to nearly 40 per cent. above the pre-war level by the end of March 1952) has been financed not by inflationary methods but out of genuine savings invested either through the banks or through the capital market.

Italy: Finance provided in 1948—51.

Items	1948	1949	1950	1951
	In milliards of lire			
Finance to public authorities				
Banks and postal system(¹)	408	228	140	110
Public subscriptions to government securities	113	65	98	65
Releases of counterpart funds(²)	73	56	234	241
Total	594	349	472	416
Finance to the economy				
Banks and postal system(¹)	379	386	345	401
Special credit institutions(³)	45	56	59	60
Issues on capital market:				
bonds	24	108	33	7
shares	86	90	65	80
Releases of counterpart funds	31	26	11	6
Total	565	666	513	554
Grand total	1,159	1,015	985	970

(¹) For details, see preceding table.
(²) These releases to the Treasury served largely to finance investment expenditure, including some investment in the private economy. It is not possible, however, to give separate figures for the latter.
(³) Granting mainly medium and long-term credits.

The special issue of 9-year 5 per cent. Treasury bonds made in order to finance the repair of flood damage brought in Lit. 122 milliard in fresh cash, in addition to Lit. 25 milliard of conversions of ordinary Treasury bills. As the demand for credit became less intense, the government was able, in May 1952, to reduce the interest on new issues of one-year Treasury bills from 4½ to 4 per cent., and at the same time the Bank of Italy reduced from 4¾ to 4¼ per cent. the rate paid on the deposits which the banks have to make in order to fulfil their compulsory reserve requirements.

Switzerland, like Italy, was able to refrain from raising interest rates after the outbreak of the conflict in Korea; but in Switzerland there was no

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 dollars	bills	advances	notes in circulation	sight deposits
	In millions of Swiss francs					
1949	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						
June	278	6,210	149	39	4,468	1,810
December	278	6,231	248	59	4,927	1,529

necessity for imposing drastic restrictions on the granting of bank credit; domestic savings were fully adequate for internal needs and the country's ample gold and dollar reserves had only to be reduced by about 7 per cent. to meet the requirements of foreign currency resulting from an increase in the import surplus.

The National Bank's advances and discounts rose by Sw.fcs 91 million in the twelve months following the outbreak of the conflict in Korea, but this additional amount was used almost entirely to finance the special holding of stocks by importers. There was, however, a decline of some Sw.fcs 480 million in the cash reserves of the commercial banks over the same period and the capital market became somewhat tighter, the yield on government bonds rising from a low of 2.27 to 2.93 per cent.

Switzerland: Balance sheet of fifty-two major banks.*

End of	Assets					Liabilities		
	Cash	Bills	Advances	Mortgage loans	Securities	Sight liabilities	Time and savings deposits	Certificates, etc.
	In millions of Swiss francs							
1949.	1,337	2,345	4,117	8,291	2,184	5,111	7,027	4,893
1950 June. . .	1,555	2,191	4,168	8,469	2,392	5,432	7,269	4,878
December	1,104	2,383	4,674	8,684	2,263	5,298	7,566	4,895
1951 June. . .	1,074	2,360	4,983	8,876	2,361	5,508	7,695	5,088
December	1,186	2,321	5,224	9,134	2,348	5,428	8,028	5,243

* Includes the cantonal banks, eighteen commercial banks and seven savings banks.

The credits granted by the banks, especially those provided in the form of advances, increased substantially in 1951. Certain steps were taken, not primarily for reasons of safeguarding the liquidity of the banks, but rather in order to lessen the intensity of the domestic boom, especially in the building trade. Under a so-called "gentleman's agreement" concluded between the National Bank, on the one hand, and the banks and other institutional investors, on the other, loan-financing of the construction of blocks of flats or houses was to be limited to 70 per cent. of the cost; at the same time, public authorities were asked to reduce their building programmes or to spread them over a longer period than had previously been planned. In addition, the Confederation, in October 1951, adopted a scheme by which business firms were to be encouraged to build up "crisis reserves". If firms invested part of their profits in government securities pending their use for investment in a possible recession, the Federal tax on that part of their profits would be refunded when the reserves were eventually used.

In Austria, on the other hand, there has been an almost continuous inflationary rise in prices since the end of the war, and in the course of 1951 it became evident that a point had been reached at which confidence in the schilling was seriously threatened, for, in that year, prices rose much faster than the supply of money (indicating an increase in the velocity of circulation). Savings deposits showed hardly any increase over the year; in December they stood at Sch. 2,275 million, which was considerably less than the pre-war figure, although prices were 7 to 8 times as high as before the war.

Austria: Money supply and savings deposits.

End of	Money supply: Notes in circulation	Money supply: Sight deposits (excluding National Bank)	Money supply: Total	Savings deposits
	in millions of schillings			
1937	944	947	1,891	2,450
1948	5,635	4,783	10,418	1,272
1949	5,721	5,988	11,709	1,670
1950	6,349	7,271	13,620	2,198
1951	8,032	8,899	16,931	2,275
1952 March	8,222	8,990	17,212	2,729

In *1951, credits granted by* the banks to the economy rose by Sch. 4,513 million (or 42 per cent.), of which as much as Sch. 2,716 million (i.e. more than half the increase) was rediscounted with the National Bank. Two-thirds of this rediscounting, however, involving an amount of Sch. 1,800 million, represented the transmission of counterpart funds to business firms via the banking system. Purely commercial credits grew by Sch. 2,706 million, and of this amount Sch.900 million was rediscounted with the National Bank.

Austrian National Bank: Selected items from the balance sheet.(1)

End of	Assets: Gold and foreign exchange	Assets: Commercial bills	Assets: Treasury bills	Liabilities: Deposits of public authorities: free	Liabilities: Deposits of public authorities: blocked(2)	Liabilities: Note circulation	Liabilities: Free deposits of other banks
	in millions of schillings						
1949. . . .	194	154	2,089	1,222	1,145	5,721	454
1950. . . .	500	809	1,949	988	1,841	6,349	429
1951. . . .	634	1,710	2,210	581	1,469	8,032	539
1952 March	764	1,341	2,257	293	1,696	8,222	313

(1) Under the system adopted for the use of E.R.P. aid in Austria, releases of counterpart funds are used to write down the claim of the bank on the state; at the same time, the bank raises its "ceiling" for rediscounting reconstruction credits by a corresponding amount. Changes in these two items, both of which are excluded from the above table, roughly offset each other. (2) *Including counterpart funds not yet utilised.*

In the spring of 1951 the authorities had made two agreements with the commercial banks, providing for severer qualitative credit restriction and also for the observance of certain liquidity ratios. In October 1951 a further agreement was concluded, according to which the increase in credits was to be limited to 70 per cent. of the increase in deposits; but the restriction was not to apply to credits for financing reconstruction, exports or the harvest. The agreement was followed by discussions regarding the rediscounting facilities for the various banks; and on 6th December 1951 the National Bank raised its discount rate from 3½ to 5 per cent. It is true that reconstruction credits and some other special forms of credit were still advanced at the old, lower, rates but, with this exception, there was a general increase in the rates charged, the charge for ordinary bank credits, including commissions, amounting to 9½ to 10 per cent. *On 1st January 1952 the banks* also raised interest rates on deposits, making especially large increases (of from 2 to 4½ per cent.) in the rates for longer-term deposits.

Action has also been taken in other fields: a voluntary lowering of prices was agreed upon in the autumn (see Chapter III) and budgetary appropriations for investments were reduced or, in some cases, blocked until resources became available (see Chapter VIII). The effect of the more recent measures cannot yet be judged, but the changes in credit policy were made in the latter part of 1951, and the data now available regarding the amount of credit granted, the movements of prices and the acquisition of foreign exchange since that time indicate that the action taken has already had a considerable effect.

Reference has been made in the Introduction (page 7) to the credit measures taken by western Germany in the autumn of 1950 and the spring of 1951 and to the success of these and the other measures in bringing about, within a short time, a current surplus in the balance of payments.

Germany: Monthly changes in credits granted to the economy and to public authorities.

Period	Credits granted to the economy by commercial banks: short-term credits(1): gross credits	import-licence deposits	net credits (after deduction of import deposits)	medium and long-term credits	total(2)	Credits granted to public authorities by: commercial banks	the central-banking system(3)
	monthly rate of change, in millions of DM						
1949	+ 394	+ 2	+ 392	+ 117	+ 509	+ 53	+ 28
1950							
1st half	+ 238	— 4	+ 242	+ 240	+ 482	+ 59	+ 134
July-October	+ 439	+ 33	+ 406	+ 340	+ 746	+ 8	— 2
November-December	+ 330	+ 145	+ 185	+ 352	+ 537	— 16	— 1
1951							
January-February	+ 275	+ 106	+ 169	+ 245	+ 414	+ 43	— 31
March-April	— 486	— 178	— 308	+ 349	+ 41	+ 61	— 162
May-June	+ 151	+ 251	— 100	+ 238	+ 138	+ 74	+ 211
July-August	+ 218	+ 32	+ 186	+ 226	+ 412	+ 153	+ 2
September-October	+ 203	— 389	+ 592	+ 220	+ 812	+ 236	— 382
November-December	+ 627	— 32	+ 659	+ 275	+ 934	— 56	+ 167
1952							
January-February	+ 491	— 1	+ 492	+ 176	+ 668	+ 79	— 271
Total amount of credit outstanding on 29th February 1952 (in millions of DM)	16,011	—	16,011	8,832	24,843	2,605	644

(1) As a guide to the real scale on which short-term credits were extended, the net figures are preferable to the gross figures, since the deposits for import licences, which were reintroduced in the autumn of 1950 and again dispensed with in the autumn of 1951, were financed by the importers mainly by means of additional short-term credits, which they obtained from the banks. The table thus shows, in addition to the gross amount, the amount of credits remaining after deduction of the increase in import-licence deposits, this being a closer approximation to the actual amount of credit used for ordinary business purposes.

(2) In addition, credits (mostly based on allocations of counterpart funds) have been granted on a considerable scale by the "Reconstruction Loan Corporation"; but since their rate of growth has been fairly regular, the inclusion of these credits would not make much difference to the changes in trend shown above.

(3) Including a very small amount of credits granted to the economy.

Since German output has been rising at a rapid rate (the index for industrial production showing an increase of 20 per cent. from 1950 to 1951), it was only to be expected that the credit volume would expand — and this should be borne in mind when considering the significance of the slowing-down of credit expansion in the spring and summer of 1951.

In the four months (July to October) after the outbreak of the conflict in Korea, short-term credits were rising at the rapid rate of over DM 400 million a month and total banking credits to the economy at a rate of nearly DM 750 million a month. Mainly thanks to the restrictions imposed, this rate of increase was gradually reduced to only DM 41 million a month in March-April 1951. Since then the net rate at which credits are granted to the economy has increased again, and with the change to a surplus in the balance of payments, the Bank deutscher Länder acquired fairly substantial amounts of foreign exchange (including claims in E.P.U. units), which contributed to an increase in the supply of money.

Germany: Changes in the formation of the money supply.

Items	1950 1st half	1950 2nd half	1951 1st half	1951 2nd half	Amount outstanding at end of 1951
	in millions of DM				
Changes in money supply and also in time and savings deposits and other long-term funds received by banks					
Note circulation	+ 382	+ 242	+ 100	+ 1,021	8,801
Demand deposits	+ 102	+ 1,289	+ 420	+ 1,216	9,788
Total money supply . . .	+ 484	+ 1,531	+ 520	+ 2,237	18,589
Time and savings deposits and other long-term funds received by banks.	+ 2,860	+ 2,599	+ 1,815	+ 2,775	16,686
Total	+ 3,344	+ 4,130	+ 2,335	+ 5,012	35,275
Changes in:					
Gold and foreign exchange	— 508	— 625	+ 886	+ 1,176	1,592
Counterpart funds(1)	— 238	+ 104	— 75	+ 52	— 1,186
Net credits to the economy(2)	+ 3,229	+ 4,612	+ 1,407	+ 4,633	25,328(3)
Net credits to public bodies(4)	+ 946	+ 479	+ 292	— 499	— 1,502(3)
Miscellaneous	— 85	— 440	— 175	— 350	11,043
Total	+ 3,344	+ 4,130	+ 2,335	+ 5,012	35,275

(1) Increase (—) or decrease (+) in net balance of counterpart funds deposited in the central-banking system. Funds released for investment purposes are included among "other long-term funds received by banks" and the corresponding credit among "credits to the economy" and "credits to public bodies".

(2) Increase in credits to the economy granted by the commercial banks as shown in the table on page 196, plus credits granted to the economy by instalment-credit institutes, the postal savings system, the Kreditanstalt für Wiederaufbau and the Finanzierungs A.G., and by the central-banking system, minus the increase in import-licence deposits with the central-banking system.

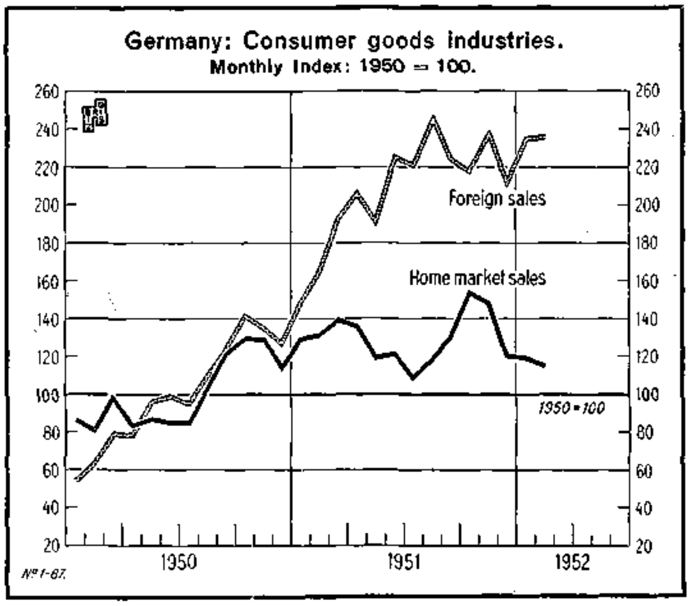
(3) A small amount of credits granted to the economy by the central-banking system is included in the absolute total of credits to public bodies. The item "credits to public bodies" is negative, because the deposits of public authorities were larger than the credits granted to them.

(4) Credits granted to public authorities by the institutes mentioned in note (2), plus coinage profits accruing to the government, minus the increase in the deposits held by public authorities, including the Allied authorities (but excluding counterpart funds).

In the second half of 1951 the volume of business credits expanded by about the same amount as in the second half of 1950, but in the second half of 1951 the budgetary position was more favourable, with the result that the total of net credits to public authorities decreased by nearly DM 500 million, while an increase in savings deposits brought an additional DM 770 million, in addition to a growth in other long-term funds.

In the early months of 1952 the credit expansion would seem to have slowed down somewhat, and Germany's balance-of-payments position remained favourable. In view of these developments, the Bank deutscher Länder decided on 28th May 1952 to reduce its discount rate from 6 to 5 per cent. and to make corresponding adjustments to other rates.

One difficulty still remaining is the absence of an effective capital market: one of the obstacles which, for some time, stood in the way of the formation of such a market was the uncertainty as to the details of the special tax designed



to share the losses and burdens resulting from the war ("Lastenausgleich"), but this obstacle has now been removed by the final adoption of the relevant bill in May 1952. Another difficulty is the legal maximum rate of 5 per cent. fixed for long-term lending. This limit need not be observed, however, by the governments of the Länder, and in May Bavaria made an issue of 8 per cent. Treasury bonds with an effective yield of about 9 per cent. — an issue which was considered highly successful, since DM 160 million was subscribed.

Belgium was the second country (after Denmark) to raise its discount rate following the outbreak of the conflict in Korea (doing so in September 1950) and was the first country to lower it again in 1951 (in July of that year). As was stated in the annual report of the National Bank of Belgium for 1951:

> "It is in fact wise not to lay down any general rule in favour of a policy either of cheap money or of dear money, but to apply them each in turn as circumstances require."

In September 1950 the discount rate was raised from 3.25 to 3.75 per cent.; when the rate was lowered again in the following year it was first of all changed to 3.50 per cent. (in July) and then to 3.25 per cent. (in September).

It was a sharp upturn in the country's foreign trade — both imports and exports — which gave rise to an extraordinarily strong demand for new credit accommodation in the autumn of 1950; as may be seen from the following table, the National Bank was obliged to increase its credits to the economy and, at the same time, draw on its gold and foreign exchange reserves in order to pay for the initial heavy import surplus (the export surplus did not reach its maximum until the autumn of 1951).

The graph shows the close correspondence between imports and business credit granted by the banking system; during the second half of 1950 both rose by about one-third; there was a further increase in both during the first three months of 1951; and both fell appreciably during the summer, only to rise once more in October. The main preoccupation of the National Bank has been to counteract any undue expansion of credit such as might endanger monetary stability; and it has done this by its interest policy and by other means (e.g. by reducing the maximum maturities that it would accept for certain import bills submitted to it for rediscounting).

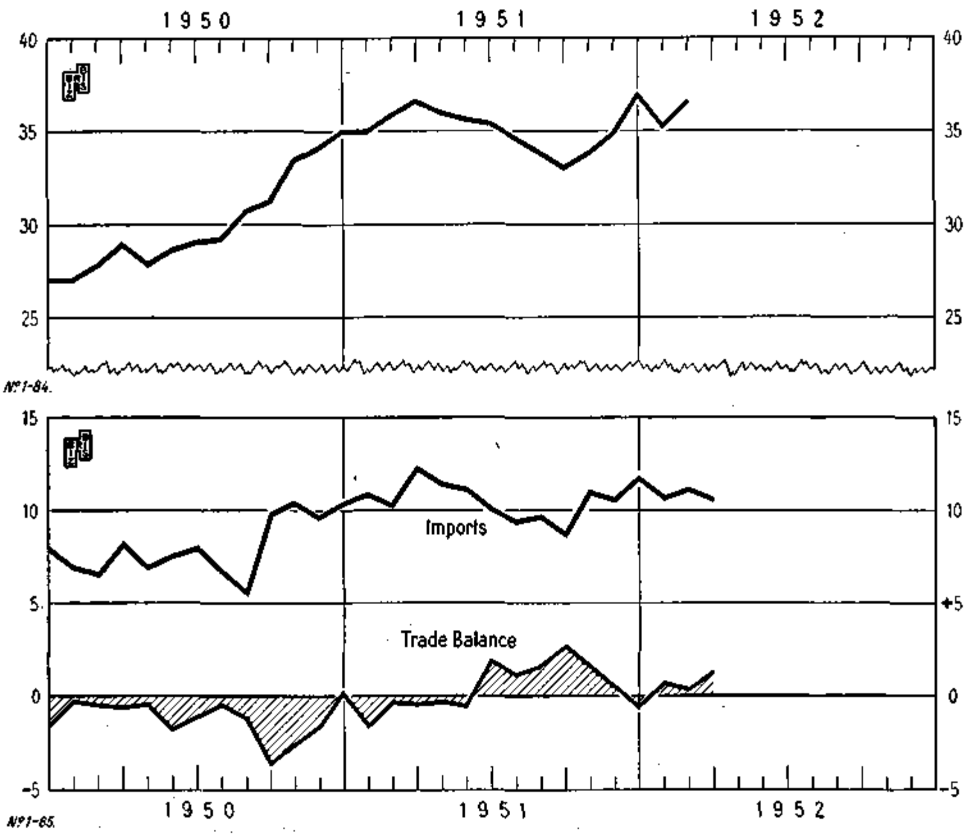
A special difficulty arose as a result of the growing surplus in relation to the European Payments Union. In order to rectify the situation, the National Bank began in the autumn of 1951 to discourage the refinancing of imports from the

National Bank of Belgium: Selected items from the balance sheet.

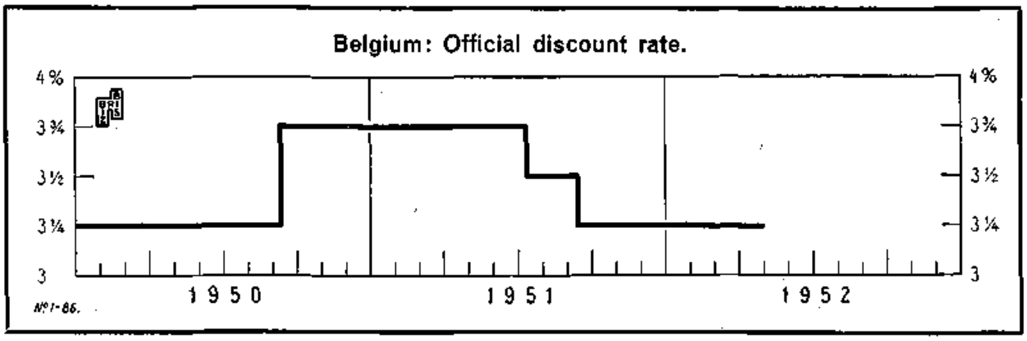
Amount at end of period	1949 December	1950 June	1950 December	1951 March	1951 December
	in milliards of Belgian francs				
Assets					
Gold and foreign exchange (net). . .	40.3	38.7	35.2 (1)	36.7	50.2
Credits granted					
(a) Credits to the state	6.3	5.0	4.1	0.6	6.5
(b) Consolidated claim on the state	35.0	34.9	34.9	34.9	34.9
(c) Credits to public bodies	3.1	3.4	4.5	2.1	1.8
(d) Credits to the economy	4.4	5.2	11.7	12.6	9.2
Total credits.	48.7	48.5	55.3	50.1	52.4
Total of assets (2)	97.9	95.3	99.7	94.5	111.7
Liabilities					
Special deposits against E.P.U. claims	—	—	—	—	5.1
Counterpart funds	0.4	0.0	0.0	0.0	1.0
Note circulation	87.9	87.3	88.6	86.0	95.0
Total of liabilities (2)	97.9	95.3	99.7	94.5	111.7

(1) In August 1950 the nominal amount of the gold reserve was raised by B.fcs 4.3 milliard, so that the real reduction in the reserves during the year exceeds the figure in the table by this amount.
(2) Including miscellaneous items.

Belgium: Business credit, imports and trade balance
(monthly, in milliards of Belgian francs).



dollar area, while easing its conditions for the rediscounting of bills in respect of imports from E.P.U. countries. Moreover, by an agreement concluded in March 1951, the National Bank had limited its liability to finance credits on account of the E.P.U. to B.fcs 10,066 million (excluding temporary advances made and repaid in the course of the same month). This limit was reached in September 1951, and the further growth of the Belgian credit on the E.P.U. account was financed partly by the Belgian Treasury and partly by the blocking of 5 per cent. of the sums received by Belgian exporters. By the end of the year these two latter methods financed B.fcs 5.1 milliard of the total Belgian claim on the E.P.U. of B.fcs 15.2 milliard. Early in 1952, since the continuance of the surplus with the E.P.U. necessitated even more drastic measures, an increase was made in the proportion of export earnings which was blocked.



The total supply of money increased by 9 per cent. in 1951, or at about the same rate as the average rise in prices (retail and wholesale taken together). The expansion in total business credit during 1951 was small (compared with the considerable expansion in the second half of the previous year) but there was a fairly substantial rise in credits granted to public authorities.

Belgium: Credits granted by the banking system.

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	34.8	43.5
1951						
March. . . .	12.6	25.0	37.6	2.7	36.3	39.0
December. .	9.2	27.6	36.8	8.4	38.9	47.3

Stock exchange prices rose in 1951 by about 35 per cent., while there was a slight fall, on balance, in the quotations of government securities.

After steps had gradually been taken to eliminate the excessive liquidity left over from the war (see page 52), the central bank of the Netherlands began to pursue a flexible credit policy: on 26th September 1950 it increased the discount rate from 2½ to 3 per cent. and in April 1951 it followed up

Notes in circulation.

Countries	End of June 1939	End of Dec. 1947	End of Dec. 1949	End of Dec. 1950	End of Dec. 1951	Dec. 1951
	In millions of national currency units					Index: June 1939 = 100
Austria	900 (1)	4,326 (2)	5,721	6,349	8,032	*893* (3)
Belgium	22,212	80,374	87,690	88,599	94,967	*428*
Denmark	446	1,641	1,627	1,709	1,817	*407*
Finland	2,200	25,162	29,606	34,383	44,774	*2,035*
France	122,611	920,831	1,278,211	1,560,561	1,841,608	*1,502*
Germany	9,115	.	7,698 (4)	8,232 (4)	9,243 (4)	*101* (5)
Greece	8,002	973,609	1,858,613	1,887,060	2,198,494	*27,473*
Iceland	12	107	184	197	198	*1,589*
Ireland	16	48	54	57	62	*381*
Italy	21,533 (6)	794,988 (6)	1,067,047 (6)	1,174,223 (6)	1,302,374 (6)	*6,048*
Netherlands	1,045	3,144	3,149	2,992	3,037	*290*
Norway	475	2,088	2,308	2,397	2,659	*560*
Portugal	2,096	8,752	8,456	8,526	9,362	*447*
Spain	13,536 (7)	26,014	27,645	31,661	36,239	*268* (8)
Sweden	1,059	2,895	3,287	3,513	4,090	*386*
Switzerland	1,729	4,383	4,566	4,664	4,927	*285*
Turkey	211	888	890	962	1,138	*540*
United Kingdom	499	1,350	1,322	1,358	1,438	*288*
Canada (9)	213	1,046	1,110	1,137	1,191	*559*
United States	6,489	27,464	26,116	26,187	27,552	*425*
Argentina	1,128	5,346	10,128	13,258	17,704	*1,569*
Bolivia	301	1,848	2,547	3,432	4,157	*1,379*
Brazil	4,803	20,399	24,045	31,205	35,317	*735*
Chile	866	4,067	5,744	7,047	8,837	*1,020*
Colombia	57	298	476	463	523	*911*
Costa Rica	28	87	109	108	114	*412*
Ecuador	64	338	357	471	450	*700*
Guatemala	8	30	36	37	39	*496*
Mexico	318	1,762	2,262	2,798	3,330	*1,046*
Paraguay (10)	12 (11)	43	89	139	231	*1,878* (12)
Peru	113	699	883	1,034	1,208	*1,067*
Salvador	15	54	65	73	82	*557*
Uruguay	91	241	297	361	350 *	*384*
Venezuela	133 (11)	606	814	798	871	*653* (12)
Egypt	21	138	166	184	201	*972*
Israel	.	.	50	73	100	.
India	1,846	12,388	11,065 (13)	11,633 (13)	11,411 (13)	*618*
Iran	893	6,905	5,984	6,737	6,479	*726*
Iraq	4	35	33	35	32	*749*
South Africa	19	66	68	76	86	*447*
Australia	48	205	240	272	324	*683*
New Zealand	16	52	59	62	69	*445*
Japan	2,490	219,142	355,312	422,063	506,385	*20,335*

* November 1951.
(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) Including India notes returnable from Pakistan.

this move by a second increase to 4 per cent. Thanks to the rehabilitation programme and to the other measures taken, equilibrium was successfully re-established (see page 12), and in January 1952 the Nederlandsche Bank decided to reduce its discount rate again from 4 to 3½ per cent. The foreign payments position continued to be satisfactory and in the following April the Bank announced the temporary suspension of the measures of credit restriction introduced early in 1951.

Long-term rates were also affected by the credit developments. In the first half of 1950 municipal and provincial loans were still yielding only just over 3 per cent. (which was about the same as the yield of government securities); after that, however, a fall in quotations caused the yield to rise to about 4 per cent. by the middle of 1951 and to 4½ per cent. in the second half of the year. A number of local authorities issued certain new types of loan carrying a rate of interest which was relatively low to begin with and would rise towards the end of the currency period (the bonds of such loans were thought to be particularly suitable for individual investors desiring a higher income in their old age).

The supply of money, after contracting considerably in 1950, expanded to an even greater extent in 1951. The main reason for the net change over the whole of 1951 is the reduction in the rate of increase of the balance of counterpart funds; but the two halves of the year really need to be considered separately.

Netherlands: Formation of the money supply.

Items	1949	1950	1951		
			1st half	2nd half	Year
	in millions of florins				
Changes in money supply and time deposits					
Currency	— 58	— 159	— 119	+ 191	+ 72
Demand deposits	+ 278	— 312	— 191	+ 330	+ 139
Total money supply	+ 220	— 471	— 310	+ 521	+ 211
Time deposits	— 4	+ 10	+ 159	+ 226	+ 385
Total	+ 216	— 461	— 151	+ 747	+ 596
Changes in corresponding assets					
Gold and foreign exchange	+ 429	+ 275	— 515	+ 738	+ 223
Balance of counterpart funds, increase (—)	— 690	— 1,375	— 320	— 186	— 506
Credit to public authorities*	+ 122	+ 267	+ 448	+ 198	+ 646
Credit to the private economy	+ 160	+ 455	+ 180	+ 57	+ 237
Release of blocked balances	+ 90	+ 94	+ 7	+ 3	+ 10
Other items (net)	+ 105	— 177	+ 49	— 63	— 14
Total	+ 216	— 461	— 151	+ 747	+ 596

* Including credits to public authorities other than the central government; these were negligible in 1949 and 1950, but amounted to Fl. 25 million in the first half of 1951 and Fl. 184 million in the second half.

In order to pay for the heavy trade deficit which had developed in the second half of 1950 and which was aggravated in the early months of 1951 by a change in the terms of payment to the disadvantage of the Netherlands, the Nederlandsche Bank had to resort to sales of gold and foreign exchange; these sales were on such a scale that they more than offset the expansion in certain other items — notably credit to public authorities. In the second half of the year the contrary was the case: the acquisition of foreign exchange outweighed every other influence and led to an expansion in the amount of money outstanding.

In January 1952, a new "Act regarding the Supervision of the Credit System" conferred upon the Nederlandsche Bank, with effect until 1955, certain powers more or less corresponding to those which it had been exercising since the war by virtue of emergency decrees. The Act does not contain any detailed regulations but it empowers the bank to control the setting-up of new credit institutions, to supervise their granting of credit in its main lines and to lay down general rules for their liquidity and solvency.

Among the northern countries, Denmark is the only one which was exposed to a deterioration in its terms of trade (see the table on page 10); and is, moreover, the country in this group which took the most energetic measures of credit policy to righten its difficult balance-of-payments position. The general lines of this policy have already been indicated on page 10. The discount rate was increased in two stages from 3½ to 5 per cent., and in March 1951 the four main political parties agreed on plans for a further increase in taxes and forced savings.

In the first half of 1951, when it was necessary to draw upon the gold and foreign exchange reserves, the supply of money declined (as in 1950); in the second half of the year, on the other hand, foreign exchange earnings became one of the main factors making for a renewed increase in the liquidity of the banking system.

Denmark: Factors influencing liquidity.

Change during period	1949	1950	1951 1st half	1951 2nd half	1951 Year
	in millions of Danish kroner				
Gold and foreign exchange position (net)	+ 297	— 306	— 84	+ 283	+ 199
Marshall aid in-payments	— 580	— 430	— 203	— 202	— 405
Import-licence deposits	—	—	— 199	— 63	— 262
Government transactions	+ 341	+ 359	+ 305	+ 239	+ 544
Other items	+ 31	+ 27	+ 63	— 13	+ 50
Total	+ 89	— 350	— 118	+ 244	+ 126

As may be seen from the above table (based on data obtained from the annual report of the National Bank of Denmark), government transactions (largely connected with repayments of debts) have consistently led to an increase in liquidity, and for 1951 as a whole this was on an even larger scale than the accumulation and use of counterpart funds (which exercised a contracting influence).

The note circulation, which had remained almost unchanged in the years 1946–49, rose in 1951 by barely 6 per cent., and the moderate increase in deposits in recent years has been entirely due to the growth of time and savings deposits. The expansion of advances has also been slowed down, advances rising by about D.Kr. 700 million in 1949 and 1950 and about D.Kr. 500 million in 1951.

The yield of irredeemable government stock rose from 4½ per cent. in July 1950 to 5.45 per cent. in September 1951, but from then onwards there was a moderate recovery in bond prices. In the autumn of 1951 certain facilities for the rediscounting of building loans were restored (as stated on page 10), but in its report for 1951 the National Bank declared that the time was not yet ripe for a general increase in liquidity.

The majority of European countries saw a deterioration in their terms of trade in 1950–51, which meant that energetic measures had to be taken and sacrifices made if large deficits in the balance of payments were to be avoided (although the impact of these difficulties was postponed somewhat in France and the United Kingdom, while stocks of imported goods were drawn upon). For Finland and Sweden, however, the Korea boom brought a very marked improvement in the terms of trade (page 10), and in the case of Norway there was, at any rate, no deterioration; moreover, the balance-of-payments position of all these countries — especially Norway — was greatly strengthened by higher income from shipping. To some extent, these countries were in the same position as some raw-material-producing countries overseas, in that they experienced a sudden increase in their income from abroad. When plenty of foreign exchange was coming in, it seemed less necessary than before to adopt a restrictive credit policy; but the doubling of the prices of major exports and of freight rates, though highly beneficial to the balance of payments in the short run, gave rise to serious inflationary tendencies which, as was pointed out by the Governor of the Norges Bank in his report for 1951, did not always receive the attention they deserved.

> "The question is what changes the financial and monetary management ought to consider as a guide in determining its policy. It has usually been the external balance. This was the predominant consideration in the period of the gold standard, and that was also the case in 1951–52 in Great Britain, the Netherlands, Denmark and France. It seems that the forewarnings which appear in the internal economy, at least in the beginning, do not arouse so much attention."

In both Norway and Sweden great reliance had been placed on price and wage freezes, aided by subsidies designed to hold down the cost of living, by budget surpluses and by direct control of investment, but with relatively little help from monetary policy. When prices began to rise after the Korea boom had intensified the impact of devaluation, it became clear that the subsidies necessary in order to keep prices at somewhere near their old level would be too costly, and fairly sharp upward adjustments had to be made in the prices of important items affecting the cost of living and also in wages.

In its balance of payments Norway had a surplus in 1951 (see Chapter IV) and was able to add N.Kr. 217 million to the (net) gold and foreign exchange reserves of the Norges Bank, but this addition was not decisive for the country's internal credit developments in that year. These must be seen against the background of the use made of Marshall aid to reduce the excessive liquidity left by the war (see Chapter II). Early in 1951 the cash reserves of the banks (including their holdings of Treasury bills, which had nearly reached vanishing-point) were reduced to a point at which their lending capacity was likely to be curtailed, with the consequence that interest rates would tend to go up. The yield of government bonds had already risen from 2.54 to 2.68 per cent. in the second half of 1950. In that situation, the authorities, in order to increase liquidity, took two measures which more than offset the contracting effect of the continued accumulations of counterpart funds:

(i) An amount of N.Kr. 510 million, representing the remainder of the deposits blocked at the Norges Bank under the monetary reform (of 1945), was released in March 1951 (see the table).

(ii) In May 1951, another amount of N.Kr. 400 million was transferred from the government "Regulation Account" to a special account to be used to provide funds for the state-owned banks. These banks, which play an active rôle in the financing of building activity, were no longer able to issue bonds at low rates and it was, therefore, decided that they should obtain funds directly from the Norges Bank.

When actually used for the granting of credits, the funds supplied in the first instance to the state-owned banks naturally tended to increase the liquidity of other banks as well. In all, the commercial banks and savings banks increased their liquid assets during 1951 from N.Kr. 989 to 1,334 million; and demand deposits, which had been falling slightly in previous years, rose in the same year from N.Kr. 2,185 million to N.Kr. 2,707 million.

Norges Bank: Selected items from the balance sheet.

End of	Assets			Liabilities				
	Gold (1)	Foreign exchange (net) (2)	Regulation account	Counter-part funds	Other government deposits	Blocked accounts	Note circulation	Deposits of Norwegian banks
	in millions of Norwegian kroner							
1947	185	567	8,094	—	3,079	847	2,088	1,309
1948	185	298	7,924	197	3,085	750	2,159	818
1949	185	73	7,114	317	1,618	580	2,308	1,324
1950	185	117	6,202	355	1,245	515	2,397	739
1951	185	334	6,202	898	952	—	2,659	1,038

(1) The gold reserve has, since 1940, been valued at a price of N.Kr. 4,960 per kilogramme. At the end of 1951, the actual price of gold corresponding to the I.M.F. parity of the krone amounted to N.Kr. 8,038 per kilogramme, so that the current value of the reserve amounted to about N.Kr. 300 million.
(2) Including "provisionally held gold", amounting to N.Kr. 57 million at the end of 1951.

By this increase in liquidity the rise in interest rates was brought to a halt, the yield of government bonds remaining at 2.78 per cent. during the second half of the year.

In the fourth quarter of 1950 it was found necessary in Sweden to end the price and wage freeze. Between September 1950 and September 1951 wholesale prices rose by over 30 per cent. and the cost of living by about 20 per cent., while prices of exports went up by about 70 per cent. and those of imports by 22 per cent.; it was thus evident that external influences (as transmitted via the existing rates of exchange) were a major cause of the price rise.

In addition to other measures taken to lessen the inflationary pressure (including levies on exports, a reduction in the scale on which building permits were issued and a tax on investments), certain changes were made in monetary policy, of which the most important were an increase in the discount rate and a temporary discontinuation of the practice of supporting the government bond market; the yield of government bonds was gradually brought up from 3 per cent. to about 3½ per cent. But the authorities then decided to limit business investment by means of a system of permits and a tax on investments, i.e. by methods which would make it possible to avoid a further increase in interest rates and thus in the cost of house-building. Indeed, the Board of the Riksbank stated in the spring of 1951 that the Bank would intervene to prevent any recurrence of the rise in interest rates of the kind which had taken place in the previous autumn. At the same time, the regulations regarding obligatory minimum cash-reserve requirements were made more stringent.

The Riksbank was faced with the following dilemma: Parliament had instructed it to prevent a further rise in interest rates but was also anxious that any undue expansion of credit should be avoided. In an attempt to solve the problem, the Riksbank proposed a law which would enable it to regulate the level of interest rates and also the issuing of bonds on the market — and this even at times when the volume of credit was being restricted. In the early months of 1952 the Riksbank came to an agreement with the commercial banks and certain other financial institutions (savings banks, insurance companies, etc.) regarding the principles to be observed in granting different kinds of credit; and in order that the banks should be able to earn a reasonable amount of profit, it was arranged that the National Debt Office should issue to them 3—5 year bonds at 2¾ to 3 per cent., in which they could invest those of their funds which, because of the credit restrictions, were lying idle in deposit accounts with the Riksbank.

But there was no great abundance of such idle funds. It is true that in the late autumn of 1951 and the first months of 1952 the liquidity position of the banks had been greatly improved by the inflow of foreign exchange resulting from the export surplus (which had even made it possible for the Riksbank to dispose of part of its bond holdings without raising yields above 3½ per cent.); but after a period of heavy tax collections in the spring the market became extraordinarily tight, especially since that was also the time when the usual seasonal import surplus had to be paid for. There were even warning voices raised against the "too sudden" imposition of restrictions on credit to industrial and commercial firms.

The two tables show how rapidly the amount of credit outstanding and the supply of money had increased during the previous two years.

Sweden: Credits to the economy. (1)

Amount at end of	Commercial credits (2)	Loans granted: Commercial banks	Loans granted: Savings banks	Loans granted: Total
	in milliards of Swedish kronor			
1948	2.8	5.1	4.4	9.5
1949	3.0	5.1	4.8	9.8
1950	3.6	5.5	5.1	10.6
1951	4.3	5.8	5.4	11.2

(1) Excluding the direct business credits granted by the Riksbank, which are relatively small.
(2) Comprising bills, advances on current account and documentary credits.

Thus commercial credits increased in 1951 by the same proportion as in 1950, i.e. about 20 per cent.

The supply of money rose by over 40 per cent. between 1947 and 1951. Fortunately, time and savings deposits also continued to rise, a considerable part of the country's genuine savings being invested via the banking system.

Sweden: Money supply and savings deposits.

Amount at end of	Note circulation	Demand deposits: Commercial banks	Demand deposits: Postal cheque system	Demand deposits: Total	Total money supply	Time and savings deposits
	in milliards of Swedish kronor					
1947	2.9	1.9	1.0	2.9	5.8	11.9
1948	3.1	1.9	1.1	3.0	6.1	12.5
1949	3.3	1.8	1.2	3.0	6.3	13.8
1950	3.5	2.0	1.3	3.3	6.8	14.5
1951	4.1	2.4	1.8	4.2	8.3	16.0
Increase during:						
1950	+ 0.2	+ 0.1	+ 0.1	+ 0.3	+ 0.5	+ 0.7
1951	+ 0.6	+ 0.5	+ 0.5	+ 1.0	+ 1.5	+ 1.5

Finland benefited even more than Sweden from the improvement in the terms of trade brought about by the overwhelming preponderance of forestry products among its exports; in the second half of 1951 advantage was taken of the opportunities which this export boom provided to get rid of virtually all rediscounting by the commercial banks with the central bank and to strengthen the monetary reserves.

From the summer of 1950 onwards the demand for credit increased greatly — and the amount of credit granted by the commercial banks rose by one-third between June 1950 and June 1951.

Finland: Bank credits and deposits.

End of month	Credits of commercial banks	Deposits: Demand deposits: Commercial banks	Deposits: Demand deposits: Savings banks	Deposits: Demand deposits: Total	Deposits: Time and savings deposits: Commercial banks	Deposits: Time and savings deposits: Savings banks and post office	Deposits: Time and savings deposits: Total
	in milliards of markkas						
1949 Dec.	57.2	23.3	2.1	25.4	31.1	47.6	78.7
1950 June	62.6	25.3	2.2	27.5	33.4	49.4	82.8
Dec.	67.4	24.5	2.2	26.7	36.6	53.6	90.2
1951 June	84.4	32.8	2.4	35.2	38.5	58.8	97.3
Sept.	82.6	32.9	2.7	35.5	41.9	62.4	104.4
Dec.	85.6	42.8	2.9	45.7	46.7	70.6	117.2

On 1st October 1950 the commercial banks raised their charges for credits by 2 per cent. and on 3rd November the Bank of Finland increased its discount rate from 5¾ to 7¾ per cent. Nevertheless, the banks' recourse to the Bank of Finland went on increasing, rediscounts reaching the record level of FM 17.3 milliard in the third week of June 1951.

In order to deal with a situation which was giving rise to increasing nervousness, it was decided in May 1951 to freeze wages and internal prices until

Bank of Finland: Selected items from the balance sheet.

End of month	Assets			Gold and foreign exchange (net)	Liabilities
	Treasury bills	Rediscounts	Other domestic bills and loans		Notes in circulation
	in milliards of markkas				
1949 December	22.0	2.4	15.8	— 4.0	29.6
1950 June	19.8	3.1	16.2	— 0.2	31.3
December	19.7	6.9	13.9	+ 0.1	34.4
1951 June	9.7	15.6	17.1	+ 4.0	39.7
September.	20.5	3.9	11.7	+ 14.3	42.3
December	8.7	0.02	12.0	+ 31.3	44.8

September (which would afford a breathing-space for the working-out of a programme) and the Bank of Finland asked that the banks should adhere to the traditional rule according to which their rediscounts were not to exceed their capital and reserves, adding that any bank which failed to bring down its rediscounts to the required level by the end of September would have to obtain permission every time it wished to grant individual credits in excess of FM 500,000.

Thanks to the large inflow of foreign exchange resulting from the export surplus and causing a considerable increase in deposits, the banks were able to comply with this request and even to reduce their rediscounts to next to nothing by the end of 1951. But they could not have done so, had they not refrained from a further expansion of their credits, despite the fact that prices rose in the third quarter of the year.

In the autumn a new government was able to put into execution a stabilisation programme including control of investments (especially building), an extension of the export levies, certain reductions in food subsidies, and the pegging of wages to a new cost-of-living index (in which changes in direct taxes and family allowances were not to be taken into account). The effect of these measures was reinforced by the collection of an increased budget revenue (which was used in part for reducing the amount of Treasury bills held by the Bank of Finland) and also by a decline in prices which first applied to imports but later to exports also. These two factors undoubtedly helped to lessen the danger, from a credit point of view, of the reduction in the official discount rate from 7¾ to 5¾ per cent., followed in January 1952 by a reduction of 2 per cent. in the charges of commercial banks. In fact, since the autumn of 1951, prices have been stabilised for the first time in nearly three years.

* * *

After nearly twenty years of frozen interest rates a decisive change has occurred in the course of the past two years; it has become the normal practice to make use once more of the well-tried instruments of monetary policy and, in particular, of changes in interest rates. True, it took the highly critical situation after the outbreak of the conflict in Korea to jerk the minds of those concerned out of the grooves of preconceived ideas — not to say deep-rooted prejudices — in which they had been caught and held. But, in face of that situation, it was suddenly realised by those who have to take the decisions that they have at their disposal very few potent instruments capable of producing a widespread effect on the whole economy and that in an emergency it would be foolish to neglect what had in the past proved a useful weapon of policy.

The essence of the experience which has been gained during the past few years may be given in the following observations:

(i) Changes in monetary policy have certainly not been the only factor influencing developments, but there would seem to be a wide measure of agreement as to the useful results which they have had. The question of what is likely to ensue is not any longer a matter of mere theory, for now the effects of monetary action can be observed and analysed in a large number of countries whose circumstances vary considerably. There can be little doubt that increases in interest rates have acted as a brake on the rise in prices and have helped to restore equilibrium in the balance of payments.

(ii) Another important lesson of experience is that higher interest rates have not had the dire consequences which had often been prophesied. Employment has continued to increase, and such difficulties as have arisen in certain industries, e.g. the textile trade, have had no connection with the general credit policy, but rather reflect the attitude of the public after an overdose of spending at high prices.

(iii) Finally, it is now evident that the increases by which the level of interest rates has been raised cannot be said to have ushered in a new era of dear money. Only in a few cases have discount rates had to be raised to more than 4 per cent. — which (in absolute terms) is not a high figure. Moreover, a recent, most interesting development has been the relaxation of qualitative credit controls in the United States and Canada and the lowering of the discount rate in Belgium, Finland, the Netherlands and Germany. Only a short time ago, when a stiffer credit policy was under discussion, it was frequently suggested that, once credit restrictions had been introduced, it would be very difficult to relax them again when the boom ended and the danger of a recession reappeared. Recent events have now shown not only that credit restrictions can be relaxed as easily as they had been imposed but also that the authorities are ready and willing to take this step as soon as a change in circumstances (for instance, an improvement in the balance of payments) permits, without waiting for the disastrous slump which has been so glibly predicted with unerring inaccuracy year after year since the war ended.

Perhaps the greatest advantage of monetary policy is the flexibility with which it can be adjusted to a sudden change in the economic trend. If there is one conclusion that may be drawn from the attempts made since the war to regulate the economy by means of direct controls on the basis of long-range forecasts and annual plans, it is not so much the fact that such forecasts have very largely proved to be wrong as the fact that they are apt to be upset by important changes of a less easily predictable and measurable character which affect the purely economic data (for instance, effects produced by the political situation) and that psychological factors operate too quickly and violently to be forestalled or counteracted by the cumbersome methods upon which reliance has been placed; only a more flexible policy, which can be altered, if necessary, several times a year, will give a chance of combining a measure of short-term stability with long-run economic progress.

Important though the achievements of monetary policy have been, attention must, however, be drawn to two weaknesses owing to which the use of credit policy has, so far, been less effective than it could have been.

In the first place, capital markets are still in an undeveloped state in far too many countries and this is beginning to prove a very great handicap now that the scale of foreign economic aid has been reduced. For inflation becomes more difficult to avoid when the banking system is not supported by a properly functioning capital market, since experience shows that business then turns to the commercial banks not only for its working-capital needs but also for long-term financing, in so far as its own resources do not suffice. But, in financing medium and long-term investments, the banks run serious risks; for even though they receive savings deposits, which are supposed to be long-term funds, it will usually be found that a very considerable proportion of those deposits is, in practice, withdrawable on demand (and may incidentally become the basis for a dangerous expansion of purchasing power). When investment is financed through the capital market, risks of this kind are avoided. A further advantage is that, when capital issues come too thick and fast, interest rates rise and entrepreneurs usually become less inclined to commit themselves by issuing long-term bonds at high rates of interest which cannot be altered before the bonds mature, preferring instead to take up bank credits on which the charge will be adjusted more or less according to changes in market conditions.

Fortunately, the importance of establishing properly functioning capital markets is nowadays being more generally realised, and in several countries changes are being contemplated or actually introduced with a view to facilitating the re-establishment of active capital markets.

In the second place, the international credit system is not yet in proper working order. It had already begun to receive some severe shocks in the 1930s, when even credits granted for purely commercial financing were blocked — not to mention all the other disappointments which were heaped on foreign investors. After the war, the application of exchange controls made the extension of credits from one market to another technically difficult in most cases. The normal methods of international financing were then partially replaced by such devices as bilateral agreements and, later on, by the European Payments Union, while foreign aid served, to a certain extent, as a means of financing movements of goods. Not always, but in many instances, the new methods had a special weakness in that they threw too large a burden on the central bank, when financing should by rights have been effected by means of resources already existing in the various markets.

Even so, the controls imposed on foreign trade and payments were not able to prevent very substantial speculative capital movements. In fact, it even seems as if, under the new régime, the fluctuations were intensified, being caused by recurrent monetary fears, which no regulations seem able to allay.

In the last analysis, a properly functioning international credit system can hardly be imagined except under conditions of convertibility. But even before full convertibility is re-established, there are several steps that can be taken to prepare the way. For instance, debtor countries have strong reasons to conclude fair settlements with regard to debts which have long been outstanding, and they and others must consider carefully what guarantees can be given to foreign capital for the future. The reintroduction of a flexible interest system is in itself an incentive to more normal movements of capital, as the experience of the past eighteen months shows. In this way, too, efforts are now being made to lay the foundations for a more healthy system of international financing, which will help to avert a recurrence of financial crises.

VIII. The State of the Public Finances.

The budgetary aspects of the situation in France, the United Kingdom and the United States have been reviewed in the Introduction as part of the general survey of the financial developments in these countries. In order to complete the picture there follows a summary of the state of the public finances in various other countries in Europe.

It must be emphasised, as has been done before in these Reports, that it is difficult to generalise in matters of public finance, for the connotation of such terms as current and capital accounts, ordinary and extraordinary budgets, varies considerably from country to country. Thus, in order to discover the main trend of developments, one is generally reduced to comparing the figures from year to year in each individual country.

(i) Almost without exception, the most recent budget figures are the highest for the post-war period, but to a very large extent, the increases reflect the upward movement shown by prices in every country since the outbreak of the conflict in Korea. As a result of the rise in prices and of the consequent rise in the nominal national income, such items in the budget as remain at more or less fixed levels in terms of national monetary units (this often applies to interest on the funded debt, for instance) have come to represent a smaller real burden; and this would seem to be one of the few ways in which real budgetary expenditure has been reduced — unfortunately not without a considerable amount of injustice.

(ii) In a number of countries special charges resulting from a war, e.g. reparation payments in the case of Finland, have now been met practically in full, and exceptional repayments of balances blocked in connection with special levies are coming to an end. On the other hand, more than a few countries have to meet increasing charges on account of foreign debt incurred since the war. Reconstruction necessitated by war damage has not been completed everywhere; and in Germany the new "share-the-burden levy" has just been voted.

(iii) Almost all budgets have to include increased social charges (for pensions, family allowances, health services, etc.) and closely associated items of expenditure such as appropriations for education have also risen in most cases.

(iv) As a rule, government budgets are also making larger provision for investments than they did before the war. In some cases, this is a consequence of nationalisation measures; in others, the main purpose has been to ensure that increased output by basic industries shall not depend exclusively upon such funds as can be obtained in lethargic capital markets. (Here it is, of course, permissible to wonder whether those markets would not have shown more activity if the governments had not imposed such heavy fiscal charges, whose dual effect has been to create inflationary pressure and to reduce the markets' intake of current savings to a feeble trickle.)

(v) In the last seven years there has been little corresponding to the very real retrenchment efforts made after the first world war. Thus in order to balance the budget — as a number of countries have succeeded in doing — it has generally been a question of obtaining increased revenue for the government, and the result has been that in many countries the burden of taxation, even before the outbreak of the conflict in Korea, was as heavy as it had been at the height of the world war.

(vi) In these circumstances, the rearmament effort which followed in the wake of Korea found the state finances in many countries already dangerously strained. But there were a number of instances in which the lag in the carrying-out of the armament programmes, together with the buoyancy of government revenue under the influence of an inflationary rise in incomes, led to an improvement in the budgetary position in 1950–51. Generally, it was not until the fiscal year 1951–52 that the budgetary difficulties associated with rearmament were reflected in the accounts (and even then the actual budget results were mostly better than the estimates). As the rearmament drive gains momentum, the burden which it entails is, however, bound to be increasingly felt and to necessitate the curtailment of other items of expenditure.

For most countries, the ratio of fiscal and social charges to the national income exceeds 30 per cent. and, when it reaches such a level, taxation is inevitably an obstacle to saving and to the attainment of greater efficiency. The fiscal system itself tends to become rigid and no longer lends itself to the adaptation necessary for meeting future emergencies. Tax formalities call for cumbersome and costly administrative machinery — both at the paying and at the receiving end — and, even in countries where respect for the fiscal proprieties is deeply rooted, the temptation to tax evasion is becoming very great.

In framing their estimates of budget revenue for the current and the coming fiscal year, most Finance Ministers have probably taken a cautious view of what it is possible to collect; they must, especially at the present juncture, take into account the possibility of a downturn in the general business trend.

The countries which, in the year after Korea, showed most resolution in introducing fresh credit measures in order to overcome their balance-of-payments difficulties were Belgium, Germany, Denmark and the Netherlands, and in none of these countries were the efforts in this direction jeopardised by deficit financing on the part of the government.

In Belgium, the government, in recent years, has budgeted for a surplus on the ordinary account but has met most of the net extraordinary expenditure out of borrowed funds (and, in 1951, out of the sum of B.fcs 4.3 milliard obtained by revaluing the gold stock in 1950). Nevertheless, the public debt has risen but little during recent years, the reason being that, up to and including the year 1951, debt incurred in connection with the monetary reform was being repaid outside the budget from the proceeds of three special taxes (on wartime profits, etc.) — no less than B.fcs 63.7 milliard of balances blocked in October 1945 having been converted into government obligations which could be used for the payment of the taxes in question. In 1949 the yield of these taxes came to B.fcs 5 milliard and in each of the years 1950 and 1951 to about B.fcs 6 milliard. The 1952 budget is the first to include receipts from these taxes: they are estimated at only B.fcs 1.2 milliard, the bulk of the revenue from this special tax liability (about B.fcs 44.5 milliard) having now been collected.

Belgium: Public finances and the national income.

Items	1949	1950	1951 (1)	1952 estimate
	in milliards of Belgian francs			
Ordinary revenue (2)	67.1	63.4	73.4	70.6
Ordinary expenditure	70.7	61.3	67.3	69.6 (3)
Balance	— 3.6	+ 2.1	+ 6.1	+ 1.0
Extraordinary expenditure (3)	15.7	12.0	18.7	19.9
Overall balance	— 19.3	— 9.9	— 12.6	— 18.9
Public debt, 31st December	252.1	248.4	254.2	.
National income	249	265	296	.

(1) Provisional figures.
(2) Excluding in 1949–51 the special taxes collected in connection with the monetary reform of 1945.
(3) Excluding the repayment of the debt incurred in connection with the monetary reform of 1945.

The Minister of Finance stated in May 1952 that revenue in 1952 might exceed the budget estimate by B.fcs 2.5 milliard but that B.fcs 1.3 milliard of additional expenditure had already been voted and the government intended to ask Parliament to approve supplementary appropriations totalling some B.fcs 3 milliard, including more than B.fcs 2 milliard for public works.

In the budget for 1952 the ordinary and extraordinary defence appropriations were increased by B.fcs 2 and 4 milliard respectively, bringing the total to B.fcs 20 milliard, i.e. nearly three times the 1950 figure and an amount corresponding to over 6 per cent. of the anticipated national income. Tax receipts were high in 1951 as a result of the prosperous state of business and also because payments totalling B.fcs 3 to 4 milliard in respect of income tax normally falling due in 1952 were made in advance, a rebate having been offered on such payments; but this meant, of course, that there would be a corresponding reduction in the amount to be collected in the following year.

In Germany, the Federal budget has been almost balanced every year since 1950: according to the Monthly Report of the Bank deutscher Länder for April 1952, the financial year 1950–51 closed with a cash deficit of about DM 600 million and the following year with one of about DM 400 million. Since

Germany: Federal Government finances and the national income.

Items	1950–51	1951–52 (1)	1952–53 (1)
	in milliards of Deutsche Mark		
Revenue	11.8	17.6	19.5
Expenditure	11.9	18.0	21.8
Balance	— 0.1	— 0.4	— 2.3
Public debt at the close of the fiscal year ending 31st March (2)	1.2	1.3	.
National income	1950: 71.7	1951: 90.1	.

(1) Forecasts of the Federal Finance Minister as of March 1952.
(2) The debt shown in the table represents only the debt incurred by the Federal Republic with the exception of DM 5.6 milliard in equalisation claims arising from the monetary reform and DM 0.6 milliard of non-interest-bearing obligations; it does not include any old German debts, since for such debts the exact liability has not yet been determined.

the government was able to draw on available cash funds and had received some repayments of credits, the Federal debt increased by only about DM 132 million from the end of March 1951 to the end of March 1952.

While the original forecast for 1952–53 anticipated a deficit of some DM 2.3 milliard, the Finance Minister estimated by the middle of May 1952 that this will be reduced to DM 1.2 milliard if, as is proposed, 40 per cent. of the yield of income tax is allotted to the central government instead of the present 27 per cent. It has been officially indicated that during 1951–52 the tax revenue collected at all levels (by the Federal, Länder and municipal authorities), including the levies for immediate assistance (the so-called "Soforthilfe"), amounted to DM 27.5 milliard, about one-fourth of the national income.

Two categories of expenditure account for over three-fourths of the Federal outlay: (i) social charges (including payments to war victims and unemployed), estimated at DM 7.3 milliard for 1951–52, and (ii) occupation costs, amounting to about DM 6.8 milliard in the same fiscal year. Under the new agreements signed on the 26th May 1952, the occupation costs will be incorporated with a contribution to the European Defence Community in the defence budget which has been fixed at DM 850 million per month up to the end of June 1953.

There are two additional fiscal charges which will have to be reckoned with in future years. In May 1952, the Bundestag approved a plan for the equalisation of war burdens, under which payments to some 18 million refugees and other persons who suffered losses during the war or in the currency reform of 1948 are to be financed by a capital levy yielding DM 2 milliard annually for thirty years. The second charge will be that resulting from the settlement of Germany's foreign indebtedness, in so far as the service is to be met out of the funds of the central government.

In contrast to what happens in many other countries, the amount of fixed capital investment financed through the central budget in Germany is small, amounting to about DM 500 million in 1951. Outside the budget, counterpart funds have been used for investment financing via special agencies, especially in the form of loans granted by the Reconstruction Loan Corporation.

In Denmark, also, an extra-budgetary use has been made of counterpart funds, which have been applied, in particular, to debt reduction (see page 50). Moreover, as in Belgium, sizable amounts of revenue (mainly representing the yield of various excise duties) have remained outside the budget accounts, a total of D.Kr. 3.9 milliard having been credited to an account in the National Bank available for amortisation of the wartime advances to the government. Even though

Denmark: Government revenue and expenditure.

Items	1949–50	1950–51	1951–52 preliminary results	1952–53 estimates
	in millions of Danish kroner			
Current revenue	2,731	2,860	3,258	3,460
Current expenditure	2,479	2,455	2,958	3,460
Balance	+ 252	+ 405	+ 300	—
Public debt at the end of the fiscal year, 31st March	9,668	8,903	.	.
National income	1949: 16.8	1950: 19.1	1951: 21.2*	.

* Preliminary estimate.

fresh amounts have been borrowed for capital expenditure, there has been a substantial net amortisation of the public debt. The balance on the Regulation Account (into which the wartime advances by the National Bank were paid) was reduced from D.Kr. 7.6 milliard at the end of 1945 to D.Kr. 3.9 milliard at the end of 1951.

Direct taxation is expected to yield about D.Kr. 170 million more in 1952-53 than in the previous fiscal year as a result of the raising of the rates of the special defence tax and of a general increase in incomes. It is estimated that defence expenditure will rise from D.Kr. 600 to 900 million (not counting the value of deliveries from the United States and of installations financed with resources from abroad). Appropriations for civil purposes are up by about D.Kr. 200 million, the higher figures being mainly accounted for by larger subsidies to bring down the rate of interest for building loans, a rise in the number of old-age pensioners, and an increase in the salaries of officials and in certain social charges to compensate for the rise in prices.

The Netherlands is another country in which counterpart funds have not been included as revenue in the budget. Such funds have recently been used to repay public debt, which has also been reduced by overall surpluses in the budget, as may be seen from the preliminary results for 1949 and 1950 shown in the table. Since in recent years the budget results have invariably been more favourable than the estimates, it is likely that the closed accounts for 1951 will also show an overall surplus.

The Netherlands: Government revenue and expenditure.

Items	1949	1950	1951	1952
	preliminary results		estimates	
	in millions of florins			
Current revenue	4,963	4,913	4,898	4,711
Current expenditure*	4,074	4,084	4,747	4,407
Current balance	+ 889	+ 829	+ 151	+ 304
Net capital expenditure	251	454	987	571
Overall balance	+ 638	+ 375	— 836	— 267
Public debt at 31st December	23,361	21,992	21,121	.
National income	14,100	15,600	16,900	.

* Including the deficit of the Agricultural Equalisation Fund.

In the period from 1947 to 1950, budget expenditure, despite rising prices, showed a tendency to remain at more or less the same level, thanks to the fact that expenses occasioned by the war and by the difficulties in Indonesia were diminishing. Furthermore, the net agricultural-subsidy payments (made via the Agricultural Equalisation Fund) were cut by nearly one-half from 1948 to 1949 (and, having been cut again in 1951, they are expected to amount to about Fl. 100 million in 1952, or less than a quarter of the amount paid out in 1948).

In 1951, however, current expenditure rose, partly as a result of an increase in the appropriations for defence, which went up from Fl. 922 million in 1950 to Fl. 1,154 million in 1951 and have been fixed at Fl. 1,241 million in 1952. In addition, certain projects of a military character are being financed via the capital budget.

It has been a common feature of the financial policy of the four countries, Belgium, Germany, Denmark and the Netherlands, that no new large additions have been made to the public debt; in fact, in two of them — Denmark and the Netherlands — the debt has been reduced, care having been taken to eliminate as much as possible of the excess liquidity remaining as a legacy from the war. Such a budget policy has, of course, been a help from a monetary point of view; but, even where heavy charges on the budget and the difficulty of securing a rapid increase in revenue have made it impossible to balance the budget, some countries have succeeded in arresting inflation by a rigorous credit policy. Italy is a case in point.

Between 1947 and 1952 commodity prices in Italy kept relatively stable, so that the budget figures for the individual years are more comparable than is the case in most other countries.

Italy: Government finances.

Fiscal year	Expenditure (1)	Revenue (excluding counterpart funds)	Use of counterpart funds	Budget deficit: counterpart funds being excluded from the revenue	Budget deficit: counterpart funds being included in the revenue	Treasury deficit	Public debt at end of fiscal year (30th June)
	in milliards of lire						
1947–48 . .	1,697	798	53	— 899	— 846	— 417	1,730
1948–49 . .	1,636	1,032	109	— 604	— 495	— 370	2,147
1949–50 . .	1,714	1,202	217	— 512	— 295	— 200	2,558
1950–51 . .	1,935	1,339	334	— 596	— 262	— 211	2,811
1951–52 (2) .	2,048	1,476	148	— 572	— 424	— 162 (3)	2,890 (4)
1952–53 (2) .	2,132	1,584	120	— 548	— 428	.	.

(1) Including investment expenditure.
(2) Latest budget estimates.
(3) Eight months.
(4) 29th February 1952.

Note: The national income has been estimated at Lit. 5,935 milliard for 1949, Lit. 6,370 milliard for 1950 and Lit. 7,423 milliard for 1951.

As may be seen from the table, good progress was made in reducing the overall budget deficit between 1948 and 1950. The lira counterpart of foreign aid has been included as budget revenue, and when foreign aid was cut by half in 1950–51 the result was an increase in the estimated budget deficit to be met out of Treasury resources; but efforts are being made to close the gap between expenditure and revenue. A fiscal reform was introduced in October 1951, under which the assessment of income-tax liability is now, for the first time, based upon reports filed regularly by the tax-payer, instead of upon estimates made by the fiscal agents. It had been feared that the change in the system might cause a temporary decline in the amount of revenue collected, but the contrary seems to have been the case.

Defence expenditure proper (without the appropriations for the military and civil police, pensions, etc.) rose from Lit. 372 milliard in 1950–51 to an estimated figure of Lit. 465 milliard for 1952–53.

It may be noted that the expenditure figures given in the table include outlays for public investments, among which are appropriations for long-term projects in connection with housing, re-afforestation and land reclamation. In the 1951–52 estimates, public investments aggregate about Lit. 500 milliard or one-fourth of total budget expenditure.

In Austria, too, the reduction in the amount of foreign aid received has necessitated retrenchment in budget expenditure, especially as regards outlay for investment. While the original budget estimates for 1952 (as voted by Parliament) foreshadowed a current deficit of Sch. 117 million and investment expenditure amounting to Sch. 914 million, the revised estimates, approved in the course of prolonged negotiations extending over the first four months of 1952, provide for a current surplus of Sch. 333 million and investments amounting to Sch. 652 million, the resulting overall deficit of Sch. 319 million being all but covered by counterpart funds, put at Sch. 300 million.

Austria: Government finances and price movements.

Items	1949	1950	1951	1952 revised estimates
	in millions of Austrian schillings			
Current revenue (1)	8,214	11,205	15,986	20,072
Current expenditure (1)	8,100	10,656	15,496	19,739
Current balance	+ 114	+ 549	+ 490	+ 333
Investment expenditure	1,425	1,626	1,500	652
Overall balance	— 1,311	— 1,077	— 1,010	— 319
financed by:				
counterpart funds	952	946	910	300
borrowing and Treasury resources	359	131	100	19
Prices (1949 = 100)(2)	100	120	160	185 (3)

(1) Including, as regards revenue, gross receipts of Federal undertakings and railways and, as regards expenditure, the current expenses of such undertakings and railways (the capital expenditure being shown under "Investment").

(2) Based on the average of index figures for wholesale prices and for the cost of living. (3) First quarter.

The measures taken early in 1952 included a reduction in food subsidies, increases in a number of taxes and in the tariffs of certain public services, including railways, and postponement of some less productive investments (such as the rebuilding of railway stations). Up to date, the Austrian budget has had to make only very small provisions for debt service and defence (occupation costs).

The existence of a state of overall balance in the public finances of Finland, Norway, Sweden and Switzerland is indicated by the slightness of the changes in the total of the public debt during recent years.

Finland: Government finances, price movements and national income.

Items	1949	1950	1951	1952(1) estimates
	in milliards of Finnish markkas			
Current revenue	111	130	183	162
Current expenditure	93	102	144	130
Current balance	+ 18	+ 28	+ 39	+ 32
Net capital expenditure (2)	23	30	41	29
Overall balance	— 5	— 2	— 2	+ 3
Public debt at 31st December	140	136	131	.
Prices (1949 = 100)(3)	100	115	150	153(4)
National income	323	415	530(1)	.

(1) Preliminary figures. (2) Excluding loans and redemptions.
(3) Based on the average of index figures for wholesale prices and the cost of living. (4) First quarter.

In Finland, budget equilibrium has been attained notwithstanding reparations deliveries at an average rate of about FM 11 milliard over the three years 1949–51.

Company taxes were increased through supplementary votes in 1950; and a further increase of the tax on incomes of over FM 1 million was approved in June 1951. The government was able to repay nearly FM 12 milliard to the Bank of Finland in 1951 and to budget for a small overall surplus in 1952.

In Norway, where the counterpart of foreign aid has been used for debt repayment, government revenue has regularly sufficed to cover not only current expenditure but also the net outlay for government investment (1949–50 was the only fiscal year since the war in which this was not the case).

Norway: Government finances and the national income.

Items	1949–50	1950–51	1951–52 estimates	1952–53 estimates
	In millions of Norwegian kroner			
Current revenue	2,727	3,092	3,231	3,725
Current expenditure	2,556	2,547	2,756	3,229
Balance	+ 171	+ 545	+ 475	+ 496
Investment expenditure	384	251	177	253
Overall balance	— 213	+ 294	+ 298	+ 243
Public debt at 31st December	5,153	4,770	4,873	.
	1949:	1950:	1951:	.
National income	12,330	13,870	17,050	.

The appropriations for the regulation of prices by means of subsidies have been reduced from N.Kr. 780 million in 1949–50 to N.Kr. 450 million in the budgets for 1951–52 and 1952–53, but a Price Regulation Fund, financed mainly from the yield of export duties on forestry products outside the budget, covers additional outlay of over N.Kr. 220 million a year for similar purposes. Among budget revenue items properly so called, the turnover tax was stepped up from 6¼ to 10 per cent. in April 1951, and this rate increase alone was calculated to bring in an extra N.Kr. 300 million per year.

In Sweden, the very rapid increase in government revenue since the fiscal year 1949–50 has been to some extent due to the raising of the rates of existing taxation and to the introduction of a few new taxes. A genuine expansion of the real national product has been a further contributory factor. But an inflationary rise in prices and incomes has also had its effect in this connection; for such a rise means, on the one hand, that amounts coming in are nominally larger and, on the other hand, that individuals and business firms have moved up into higher tax brackets. To adjust the tax burden for those whose assessments have been affected more or less accidentally, the Finance Minister, in April 1952, introduced a bill providing for some reduction in the rates of income and capital taxes, to take effect from the beginning of 1953.

In introducing the estimates for 1952–53, the Finance Minister gave as his recipe for the country's economic policy: the reinforcement of credit restrictions, combined with continued budgeting for a surplus. As one of the expedients for

Sweden:
Government finances, price movements and national income.

Items	1949–50	1950–51	1951–52 estimates	1952–53(1) estimates
	in millions of Swedish kronor			
Current revenue	4,839	5,820	8,050	8,428
Current expenditure	5,002	5,449	6,350	6,909
Current balance	— 163	+ 371	+ 1,700	+ 1,519
Net capital expenditure	264	568	1,050	841
Overall balance	— 427	— 197	+ 650	+ 678
Public debt at the end of the fiscal year, 30th June	12,073	12,421	13,198(2)	.
Prices (1949–50 = 100)(3)	100	113	133(4)	.
National income	1949: 24,100	1950: 25,400	1951: 30,000(5)	.

(1) The figure given in 1952–53 for current revenue is the revised estimate, announced early in April. The expenditure figures for that year are taken from the original budget proposals and are certainly an under-estimate, in view of the rise in civil-service salaries and the additional subsidies to be granted in connection with the increase in agricultural wages announced in March. (2) End of February 1952.
(3) Based on the average of the indexes for wholesale prices and the cost of living. (4) March 1952.
(5) Preliminary estimate.

restraining private investment without raising interest rates, a temporary 10 per cent. capital investment tax has been imposed, with effect from 1st January 1952, on investments financed out of business profits. It applies to certain allowances for depreciation of inventories and to increases in hidden reserves in the form of stocks and is expected to yield about S.Kr. 200 million a year.

As regards the export duties on forestry products, the yield for 1952–53 was originally put at S.Kr. 200 million; in the revised estimates, however, this amount has been scaled down very considerably owing to the fall in prices and the fact that the duties in question have had to be sharply reduced in the course of the first half of 1952.

Defence expenditure has been increased from S.Kr. 970 million in 1949–50 to an estimated figure of S.Kr. 1,500 million for 1952–53, but the departmental appropriation for the Ministry of Social Welfare still represents the largest single category of expenditure in the budget.

Switzerland has provided for the gradual repayment of the non-productive debt incurred during the war, and that is one of the reasons why borrowing for investment purposes in the post-war period has not led to a net increase in the Federal debt. Revenue was swollen in 1950 and 1951 by the exceptionally large customs receipts which came in during the period when goods were being imported for the stockpile, while the yield of the special defence tax, which is collected every second year, also helped to make 1950 a peak year for revenue.

Military expenditure rose from Sw.fcs 505 million in 1950 to Sw.fcs 666 million in 1951 and is expected to reach the figure of Sw.fcs 817 million in 1952. It must be remembered that in Switzerland the aggregate expenditure of the Cantons is of considerable importance and is financed almost entirely by local taxes. In 1951 it amounted to Sw.fcs 1,856 million.

Switzerland: Federal finances and national income.

Items	1949	1950	1951	1952 estimates
	in millions of Swiss francs			
Current revenue	1,695	2,035	1,812	1,860
Current expenditure	1,688	1,740	1,889	2,073
Current balance	+ 7	+ 295	— 77	— 213
Balance on capital account(¹)	— 5	— 124	+ 87	+ 127
Overall balance	+ 2	+ 171	+ 10	— 86
Public debt at 31st December(²)	7,764	7,777	7,806	.
National income	17,400	18,100	19,500	.

(¹) The capital account is credited with amounts written off and allocations from various reserve funds. Therefore it may close with a surplus of revenue over expenditure.
(²) Excluding administrative debt (on payments agreements, etc.) amounting to Sw.fcs 296 million at the end of 1951, and also excluding the special indebtedness charged to the Federal Railways.

While no data regarding prices, foreign trade and monetary reserves are available in relation to countries in eastern Europe, budget figures are regularly published by them. To an increasing extent, the structure of the state budget of the U.S.S.R. has become a standard pattern followed in the other countries, with only slight deviations according to local conditions.

As far as the budget of the U.S.S.R. is concerned it should, however, be pointed out that, whereas up to 1950 revenue and expenditure were divided into four main items, a fifth item of expenditure, comprising the service (interest and repayment) of loans issued by the government, appears in the budgets for 1951 and 1952.

Present consumer prices are several times as high as in 1940, but since 1948 prices have fallen, not risen; the growth of revenue and expenditure may thus be taken to reflect an expansion of economic activity. Total revenue in the budget increased from Roubles 423 to 468 milliard or by 10.7 per cent. from 1950 to 1951, while the national income is reported to have increased by 12 per cent. during the same period.

The turnover tax remains the chief source of revenue, but its relative importance seems to be declining somewhat, while the amount obtained from personal taxes continues to increase, and the same applies to proceeds of state loans. In May 1952 the Soviet Government issued its usual annual loan. As in earlier years, the new loan is a lottery loan with a currency period of twenty years and an "interest" charge totalling 4 per cent. The amount fixed for the issue was Roubles 30 milliard, while the sum actually subscribed is reported to have reached Roubles 36 milliard.

The new item on the expenditure side — the debt service — is put at Roubles 8.9 milliard for 1952 — an increase by over 30 per cent. since the previous year. The largest item in the budget is the expenditure for the national economy: of the Roubles 180.4 milliard appropriated under this heading, Roubles 98 milliard is for capital investments while, outside the budget, Roubles 45 milliard, derived from funds of the various enterprises themselves, etc., is also devoted to investment, the total for investments being Roubles 143 milliard. The share of defence in the budget total, though smaller than before the war, has been

State budget of the U.S.S.R.

Items	1940	1950	1951	1952 (1)
	in milliards of roubles			
Revenue				
1. Turnover tax	105.9	236.1	247.8	260.7
2. Deductions from profits	21.7	40.4	47.8	62.0
3. Personal taxes	9.4	35.8	44.3	47.4
4. State loans	11.5	31.0	37.0	42.6
5. Other sources of revenue	31.7	79.5	91.1	97.2
Total	180.2	422.8	468.0	509.9 (2)
Expenditure				
1. National economy	58.3	157.6	179.4	180.4
2. Social and cultural	40.9	116.7	118.9	124.8
3. Defence	56.8	82.9	93.9	113.8
4. Administration	6.8	13.8	14.1	14.4
5a. Loan service, etc.	11.6	42.3	6.8	8.9
5b. Other appropriations			28.2	34.6
Total	174.4	413.3	441.3	476.9
Surplus	5.8	9.5	26.7	33.0
	in percentages			
Revenue				
1. Turnover tax	*58.8*	*55.8*	*53.0*	*51.1*
2. Deductions from profits	*12.0*	*9.6*	*10.2*	*12.2*
3. Personal taxes	*5.2*	*8.5*	*9.4*	*9.3*
4. State loans	*6.4*	*7.3*	*7.9*	*8.3*
5. Other sources of revenue	*17.6*	*18.8*	*19.5*	*19.1*
Total	*100.0*	*100.0*	*100.0*	*100.0*
Expenditure				
1. National economy	*33.4*	*38.1*	*40.7*	*37.8*
2. Social and cultural	*23.4*	*28.2*	*26.9*	*26.2*
3. Defence	*32.6*	*20.1*	*21.3*	*23.9*
4. Administration	*3.9*	*3.3*	*3.2*	*3.0*
5a. Loan service, etc.	*6.7*	*10.3*	*1.5*	*1.9*
5b. Other appropriations			*6.4*	*7.2*
Total	*100.0*	*100.0*	*100.0*	*100.0*

(1) Budget estimates.
(2) As a result of the budget debate of the Supreme Soviet of the U.S.S.R., total expenditure was increased from Roubles 508.8 milliard to Roubles 509.9 milliard.

increasing in recent years, and this development has been accompanied by a relative decline in the percentage of expenditure for the national economy. Under the U.S.S.R. system, defence expenditure would seem to correspond to 16 per cent. of the national income, but comparison with western countries in this respect is vitiated by two facts: on the one hand, the national income as calculated according to Soviet methods of calculation takes account only of the output of goods (and not of services); on the other hand, the budget in the U.S.S.R. includes many items (such as the expansion of plants for armaments production) most of which, in the west, appear in the books of private enterprises.

The following table gives overall figures for the budgets of a number of eastern European countries. In some of the countries, an increase in the amount spent and collected reflects an inflationary rise in prices, while the figures for Roumania clearly reveal the change in the monetary unit dating from the currency reform early in 1951. In Bulgaria, on the other hand, the budget figures for 1952 are still expressed in old leva (since the revaluation dates only from May of this year), while for Poland the budget figures for all the years since 1949 have been recalculated from old to new zlotys.

State budgets in eastern Europe from 1949 to 1952.

Countries	1949	1950	1951	1952
	in milliards of national currency units			
Albania				
Revenue	6.4	7.8	9.5	10.3
Expenditure	5.3	7.7	9.2	10.2
Surplus	+ 1.1	+ 0.1	+ 0.3	+ 0.1
Bulgaria				
Revenue	165.7	207.3	271.79	370.1
Expenditure	152.6	198.0	267.92	343.9
Surplus	+ 13.1	+ 9.3	+ 3.87	+ 26.2
Czechoslovakia				
Revenue	89.32	131.93	166.47	324.3
Expenditure	89.28	131.56	166.20	323.5
Surplus	+ 0.04	+ 0.37	+ 0.27	+ 0.8
Hungary				
Revenue	12.84	17.54	33.2	42.6
Expenditure	12.81	17.45	33.0	42.3
Surplus	+ 0.03	+ 0.09	+ 0.2	+ 0.3
Poland				
Revenue	18.12	25.38	55.97	63.79
Expenditure	17.24	25.38	51.89	62.88
Surplus	+ 0.88	—	+ 4.08	+ 0.91
Roumania				
Revenue	272.3	399.0	24.5	32.1
Expenditure	233.4	381.3	21.7	30.6
Surplus	+ 38.9	+ 17.7	+ 2.8	+ 1.5

In Albania, the budgets for the current years are not presented until June, instead of in March, as in the U.S.S.R. and the other eastern European countries. The yield of the turnover tax accounts for 40 per cent. of the revenue.

Main items of expenditure of state budgets in eastern Europe in 1952.

Country	Year	National economy	Social and cultural measures	Defence	Administration
		in percentages			
Albania	1951	*40*	*17*	*12*	*14*
	1950	*35*	*12*	*16*	*17*
Bulgaria	1952	*53*	*23*	*12*	.
	1951	*46*	*26*	*8*	.
Czechoslovakia	1952	*67*	*18*	*7*	*6*
	1951	*52*	*29*	*9*	*10*
Hungary	1952	*62*	*19*	*14*	*5*
	1951	*40**	*17*	*12*	*6*
Poland	1952	*41*	*26*	*11*	*12*
	1951	*40*	*32*	*7*	*13*
Roumania	1952	*53*	*18*	*16*	.
	1951	*46*	*24*	*16*	*7*
U.S.S.R.	1952	*38*	*26*	*24*	*3*
	1951	*41*	*27*	*21*	*3*

* Capital investments only.

In Bulgaria, 72 per cent. of the revenue is derived from the purchase tax and from profits of state enterprises (the amount obtained from the latter being probably of minor importance). As may be seen from the table, 53 per cent. of the budget expenditure is for the development of the national economy.

In Czechoslovakia the budget for 1949 was the first one to be drawn up after the introduction of the present Five-Year Plan, but it was still framed according to the old pattern, most of the investment expenditure being left outside the budget. Since 1949 the layout has gradually been adapted to the U.S.S.R. model. As regards the treatment of investments, the alignment is now complete; on the other hand, both revenue and expenditure in the Czechoslovak budget are still subdivided under the old main headings — with the result that the percentage shares for the various items are not strictly comparable with those in the budgets of the other eastern European countries.

Czechoslovakia:
Budget estimates for 1952.

Items	Revenue	Expenditure
	in milliards of korunas	
Economic activity	262.3	217.5
Cultural and social services	9.3	58.8
Defence	0.8	22.5
Administration	52.0	20.1
State debt	—	4.7
Total . . .	324.3	323.5

The main source of revenue accounted for under "economic activity" is the so-called "general tax", which corresponds to the turnover tax in the other eastern European countries. This has become the largest of all the revenue items. Direct taxation is expected to yield only 6.2 per cent. of the total revenue. Out of the Kčs 217 milliard representing the estimate for "economic activity" on the expenditure side, the sum of Kčs 92 milliard is appropriated for capital investments; most of it is for expansion of industrial production.

In Hungary, the results of the budget for 1952 are reported to have been 10 per cent. above the original estimates. For 1952 an amount equal to the yield of the turnover tax — Frt 26 milliard — is appropriated as expenditure for the national economy. This may perhaps be taken as being more or less the normal practice.

In Poland, Zl. 26 milliard, or 40 per cent. of the expenditure, is for the development of the national economy, Zl. 19 milliard being appropriated for new capital investment, while Zl. 7 milliard is to go to improvement of existing industrial plant and a further expansion of trade and of the communications system. On the revenue side, the proceeds of internal loans are presented in the same way as in the U.S.S.R. budget. The amount of the 1951 loan was fixed at Zl. 1.2 milliard but actual subscriptions are reported to have reached Zl. 1.6 milliard.

In Roumania, it is estimated that about one-half of the revenue is obtained from the turnover tax while the expenditure for the national economy is given as 52.6 per cent. The budgets for 1950 and 1951 included an item called "international obligations", which accounts for about 4 per cent. of total expenditure and consists of reparation payments to the U.S.S.R.

Finally, it may be mentioned that the details of the 1952 budget for Yugoslavia are not yet available; totals published show a deficit which corresponds to about 20 per cent. of the budget expenditure and is stated to be equal to about 6 per cent. of the national income.

Yugoslavia: Government revenue and expenditure.

Items	1949	1950	1951	1952
	in milliards of dinars			
Revenue	169.5	165.7	172.66	225.4
Expenditure	155.5	173.7	172.66	282.2
Balance	+ 14.0	— 8.0	—	— 56.8

It should be added that the budgets of the constituent states, the so-called "Republican budgets", together add up to about one and a half times as much as the central budget, so that in 1952 the total of central and Republican budgets would amount to about Din. 550 milliard on the revenue side.

* * *

In the budgets of most of the eastern European countries appropriations for defence expenditure have been increased, while (as has been shown to be the case in the U.S.S.R.) the share of budget resources devoted to other activities, and particularly to investments, has been reduced somewhat. That "everything cannot be done at once" is true all the world over — whatever the economic system may be.

The addition of fresh expenditure to budgets already heavily burdened has meant that a great effort has been needed to avoid a relapse into inflationary financing: a large number of the countries in western Europe have covered not only their current but also their capital expenditure by means of current revenue and have thus had no reason to increase their public debt. There are, however, others which have found it necessary to borrow; but it would seem that both in Italy and in France the amounts which have had to be borrowed in recent years have been appreciably less than the outlay for investment. Since production has continued to expand, the figures for national income as calculated in real terms have risen, but the rise in prices has made the increase in national income in nominal terms even greater, and one of the results has been an improvement in the ratio between the total of public debts and the national income. But the difficulty of the whole situation lies in the very high level of taxation and of other burdens imposed on enterprises and individuals. In most countries the fiscal and other charges cannot be increased without injury to the national economy.

As rearmament expenditure has been rising while public finances are in a strained position, the additional expenditure in one field has called for retrenchment in others, and, in particular, measures have had to be taken to curtail civil investment, not only where financed by public funds but also in the private sector. This curtailment has had to be carried out against a background of sharp reductions in foreign economic aid, and the necessary decisions have been all the more difficult to take since a reduction in the volume of investment may lead to great delays in the completion of works already begun and even, in a few countries, to a certain amount of unemployment. It is only fair to add that, under such conditions, to step up armament expenditure to the level planned for the different countries, and to do this on the basis of internal resources alone, is, from a practical point of view, often a well-nigh impossible proposition — indeed it presupposes the receipt of a certain amount of foreign aid, as originally contemplated.

One cannot held feeling gratified by the fact that the increased expenditure occasioned directly and indirectly by the outbreak of the conflict in Korea has not prevented the various countries from coping so successfully with the problem of inflation that downward, not upward, price trends have recently characterised a number of commodity markets; although there has not been any considerable fall in the cost of living, the fact that still larger burdens have not been placed on the consumer is in itself an achievement — but one which has been possible only because the increase in budget expenditure has been financed from tax revenue and genuine savings rather than by recourse to the creation of credit.

The test may become a sterner one, however, as tax receipts cease to be so far ahead of budget estimates and as the actual rate of defence spending catches up with budget plans. It is not a reassuring state of affairs when governments have to appropriate for their own use as much as one-third of the national income, or even more. The contraction in the market for consumer goods, which has been such a peculiar feature of the economies of many countries since the spring of 1951, must be regarded as being, to a large extent, a reaction after the over-buying which took place in the hectic days of the winter of 1950-51. But, even so, spending would probably not have been on such a moderate scale if there had been a genuine balancing of budget accounts. The lull in consumer spending may not last for long and it would in any case be quite premature to use it as an argument in favour of bringing about an expansion of purchasing power by the adoption of a less determined budget policy. In so far as any relief is required in the liquidity situation, it is much safer to relax some of the credit restrictions which have been imposed — and that, indeed, is what has been done in a number of countries, once it has been felt that their situations have improved sufficiently to warrant such relaxations.

IX. European Payments Union.

The European Payments Union has now been in operation for nearly two years and, in recent months, the governments concerned have been studying the measures necessary for its continuation after 30th June 1952.

This date also marks the end of the four years of the Marshall Plan envisaged when the plan began in 1948, and it is relevant to enquire to what extent the American aid spent to increase production and promote viability in Europe has achieved its objectives and brought nearer the time when the general convertibility of European currencies can be contemplated.

Of the total American aid, certain amounts were passed on by recipient countries in the form of grants or "drawing rights" in their own currency (part of the counterpart funds) totalling $1,380 million* during the twenty-one months of the intra-European payments schemes; a further net amount of $418 million in dollars was given in support of the European Payments Union during the twenty-one months to March 1952, as shown in the table.

United States aid, direct or indirect, for intra-European payments, 1948 to 1952.

Form of aid for intra-European payments	Intra-European Payments Schemes (21 months)		European Payments Union (21 months)	
	1948-49 (1)	1949-50	1950-51	1951-52 (2)
	financial years ending 30th June			
	in millions of dollars			
1. Aid given to European countries and utilised directly or indirectly for intra-European payments:				
(a) indirect aid (counterpart funds in national currencies)	677	703	(— 78) (3)	(— 11) (4)
(b) direct aid (in dollars)	—	—	37 (5)	109 (5)
2. Direct contribution to intra-European payments (in dollars)	—	—	350 (6)	11 (4)
Totals	677	703	309	109
	1,380		418	

Note: The total of the four columns, $1,798 million, consists of aid of different kinds. As far as the indirect aid was concerned, the original recipients of the aid received mostly American goods and passed on their domestically-produced goods to the final recipients.

(1) Nine months, October 1948 to June 1949. (2) Nine months, July 1951 to March 1952.

(3) Conditional aid of $201 million allotted to Belgium, Sweden and the United Kingdom, less grants by the Union of $279 million to Austria, Greece, Iceland, the Netherlands and Norway.

(4) Reclassification due to Sweden's renouncement of conditional aid.

(5) Special Resources paid in dollars on behalf of Austria, Greece, Iceland and Turkey.

(6) The $350 million obligated by the U.S. Government on the formation of the Union.

The contrast between the two periods, each of twenty-one months, is even more striking than appears from the table. Under the payments schemes of 1948-49 and 1949-50, the $1,380 million of drawing rights, corresponding

* For convenience, the dollar sign ($) is used throughout this chapter, whether the operation referred to was made in U.S. dollars (or gold), in E.P.U. units of account or, as in this case, in national currencies.

to an equivalent amount of conditional aid, covered about one-third of the $4,000 million of gross intra-European deficits during the twenty-one months (the remainder being met by gold movements, new bilateral credit and the drawing-down of bilateral balances — only two per cent. being "compensated").

During the twenty-one months of the European Payments Union up to March 1952, the gross deficits were considerably larger — at $6,600 million; this amount was fully covered, three-quarters by the "compensations" alone, and the balance mainly through the gold and credit operations of the Union (see below). And, at the end of the twenty-one-month period, the $272 million capital of the Union was intact, while its total gold and dollar holding was $339 million.

The formation of the Union, its constitution and practical working during the early months were described in detail in the twenty-first Annual Report, pages 222–238, to which readers are referred. The present review deals with changes in the structure of the Union and with its operations up to March 1952.

A. Changes in the structure of the Union.

Since the creation of the Union various changes have been made in the initial balances and the quotas, the new technique of Special Resources has been introduced and special arrangements have been made for certain debtors and creditors.

1. Initial balances for 1950–51.

On the creation of the Union initial debit balances were allotted by the U.S. Government to Belgium, Sweden and the United Kingdom, the "prospective creditors" in the Union, against the allotment of "conditional aid"; thus these three countries received dollar aid and allotted an equivalent amount of their national currencies as a grant to the Union, to be used to cover their intra-European net surpluses before utilisation of their quotas. While the $150 million allotted to the United Kingdom remained unchanged, the conditional aid to Belgium was reduced by $14,675,000 and Sweden renounced $11,395,000, so that the effective total of the three grants to the Union was reduced by $26,070,000, from $215,250,000 to $189,180,000.

Initial credit balances to cover deficits in the Union were allotted by the U.S. Government as grants to Austria, Greece, Iceland, the Netherlands and Norway and, in addition, as loans by the Union, to Norway and Turkey (Turkey retrospectively in May 1951). In so far as these allotments were made as grants by the Union, they were in the nature of the drawing rights under the intra-European payments schemes.

As all these initial debit and credit balances were allotted only for the year 1950–51, they no longer play an active part in the operations of the Union. But the excess of grants by the Union to the debtors over the grants to the Union from the creditors fell as a direct loss on the capital (see page 242).

2. Special Resources for 1951–52.

This was the novelty introduced in the second year of the Union. It was decided that the technique of grants in the form of initial balances should not be retained after June 1951. An improved method of giving American aid to the persistent debtors was found in the "Special Resources", having the advantage for the Union that the dollars were allotted by the U.S. Government not to the prospective creditors, to be passed on as a grant to the Union but, on behalf of the debtors, directly to the Union itself — and this has since done much to strengthen the dollar position of the Union.

Under Article 9 of the Agreement for the Establishment of a European Payments Union a procedure was laid down whereby the so-called "existing resources", corresponding to the unfunded bilateral debts outstanding on the payments agreements accounts at the end of June 1950, could be utilised to cover deficits in the Union. By an addition to Article 9, a similar procedure was created for the use of Special Resources in dollars which were allocated by the U.S. Government to Austria, Greece, Iceland and Turkey to be utilised month by month by the Agent on their behalf to cover net deficits up to one hundred per cent. in U.S. dollars. A procedure similar to that for the existing resources was decided upon in order to make the payments non-reversible, i.e. not subject to the cumulative principle; in other words, if Greece, for example, had a net surplus in any month, it did not receive back the dollars paid in on its behalf as Special Resources (which remained with the Union) but temporarily granted credit to the Union within its quota (which remained unblocked on the creditor side). Although not fully formulated until July 1951, the special-resources procedure was made retroactive with effect from April 1951 in order to cover amounts in dollars which had been supplied by the U.S. Government to Austria, Greece and Iceland to cover their net deficits since that time. The procedure was kept flexible, the allotments of Special Resources being made by the U.S. Government only for comparatively short periods (in the first place, for the quarter July to September 1951 and, later, for a few months at a time).

3. Quotas.

The quotas mark the limits for each country of its cumulative accounting surplus or deficit which may be dealt with normally through the Union by credit or gold payments (without resort to special arrangements).

There has been no general revision of the quotas but two changes were made at the end of the first year, with effect from the operations in respect of July 1951:

the German quota was increased from $320 to 500 million, and
the Netherlands quota was increased from $330 to 355 million.

These modifications were not due to any consideration of the position of these countries in the Union at that time but were made in order to rectify the amounts fixed when the Union was formed, which were based on calculations that had subsequently become unrealistic.

A change of an entirely different nature was made early in the month of March 1952 when the debtor position of France was acute. With effect from the operations on account of February 1952 (i.e. around the middle of March) the French quota was temporarily increased from $520 to 620 million until the operations for May 1952, by the insertion of a supplementary gold-free tranche of $100 million between the third and fourth normal tranches. In the operations for June 1952 the quota will revert to $520 million. This contribution by the Union towards meeting the French exchange crisis at that time was in the nature of a special arrangement (see below); it meant that an immediate gold payment of $60 million from France to the Union was postponed for four months.

The quotas of Austria and Greece as debtors have been blocked since the creation of the Union while that of Iceland was blocked from April to September 1951, these countries being in receipt of grants (in the form of initial balances and, later, of Special Resources).

No changes have been made in the gold-credit ratios except that resulting indirectly from the additional tranche granted to France in the operations for February 1952 and also from a special provision in the case of Norway, whose first (gold-free) tranche as a creditor was increased and the second tranche decreased by $10 million (because the irreversible initial credit balance as loan was equivalent in effect to an extra gold-free tranche of $10 million on the debtor side).

4. Special arrangements for debtors and creditors.

There have been only two special arrangements made for debtor countries apart from the allocation of initial credit balances and Special Resources.

When Germany exceeded its quota in November 1950 a special arrangement for $180 million was made, the Union granting a credit of $120 million concurrently with gold payments of $60 million by Germany (for details see the twenty-first Annual Report).

As mentioned under "quotas" above, a special arrangement was made for France early in the month of March 1952 in the form of a supplementary gold-free tranche of $100 million; this arrangement was in effect a special temporary credit granted by the Union to France within the quota.

In the case of certain creditors who exceeded, or threatened to exceed, their quotas, viz. Belgium, Italy, Portugal and Sweden, a number of special arrangements have proved necessary.

(A decision of the Council of O.E.E.C. at the time when the Agreement was signed foresaw the possibility of Switzerland's exceeding its quota on a fifty-fifty basis of credit granted by Switzerland and gold payments by the Union; up to the present, however, Switzerland has remained inside its quota.)

The first country to exceed its quota as a creditor was Belgium in August 1951, and the following table summarises the various arrangements which have been made to cover the period up to March 1952.

The first arrangement, for August-September 1951, was on a fifty-fifty basis; the second arrangement, for October-December 1951, was for a lump-sum payment of $80 million in gold and the balance in credit granted by Belgium; the third arrangement, for January-March 1952, was for a lump sum of $60 million in gold and the balance in credit. A fourth arrangement has been made for April-June 1952 on the basis of a lump sum of $80 million in gold.

Cover of Belgium's surpluses with the Union: July 1950 to March 1952.

Type of arrangement	Credit granted by Belgium	Gold payments to Belgium	Totals
	in millions of units of account		
Initial debit balance as grant	—	29.4(1)	29.4
Quota	201.3	129.3	330.6
Special arrangements:			
First (Aug.-Sept. 1951)	40.1	40.1	80.1
Second (Oct.-Dec. 1951)	99.9	80.0	179.9
Third (Jan.-March 1952)	82.6	60.0	142.6
Totals	423.9	338.8(2)	762.7(3)

(1) Covered by conditional aid of $ 29.4 million allocated by the U.S. Government.
(2) The balance of $309.4 million (above the amount of conditional aid) was paid by the Union.
(3) This is $15.8 million in excess of Belgium's cumulative net surplus of $746.8 million owing to Belgium's use of existing resources to cover deficits in the early months of the Union.

Portugal first exceeded its quota in September 1951 and the table shows how the surpluses have been covered. The first arrangement was for $25 million on a fifty-fifty basis. The second arrangement was for a total of $30 million in three equal tranches, the gold payments decreasing from 50 to 40 and 30 per cent. respectively (with an average of 40 per cent.) and the balance being settled in credit; $17.1 million of this arrangement was still not utilised after the operations for March 1952.

Cover of Portugal's surpluses with the Union: July 1950 to March 1952.

Type of arrangement	Credit granted by Portugal	Gold payments to Portugal	Totals
	in millions of units of account		
Quota	42.0	28.0	70.0
Special arrangements:			
First (fifty-fifty)	12.5	12.5	25.0
Second (sixty-forty)	6.8	6.2	12.9
Totals	61.3	46.7	107.9

Italy exceeded its quota in November 1951 and a special arrangement was made for a further $100 million on a fifty-fifty basis of gold and credit; up to March 1952, $46.4 million of this arrangement had been utilised.

Cover of Italy's surpluses with the Union: July 1950 to March 1952.

Type of arrangement	Credit granted by Italy	Gold payments to Italy	Totals
	in millions of units of account		
Quota	123.0	82.0	205.0
Special arrangement (fifty-fifty)	23.2	23.2	46.4
Totals	146.2	105.2	251.4*

* This is $42.5 million in excess of Italy's cumulative net surplus of $208.9 million, the difference being due to Italy's use of existing resources to cover deficits in the first quarter of 1951.

Sweden ran up large surpluses with the Union towards the end of 1951 and, as any surplus above the quota was expected to be of a temporary nature, Sweden agreed to grant one hundred per cent. credit to the Union for the period from January to March 1952; this arrangement was not utilised as Sweden did not, in fact, exceed its quota during this period.

Before dealing with the operations, it is useful to mention the cumulative principle, which is of fundamental importance for the working of the Union. Briefly, when a deficit follows a surplus or vice versa, this principle requires "a corresponding reversal of the previous operations in the opposite order before a new operation is effected", to quote the Directives; this reversibility of the operations applies to all credit and gold movements within the quotas and to the special arrangements for debtors and creditors, but not to existing resources and Special Resources nor, any longer, to initial balances (allotted for 1950-51).

B. The operations of the Union.

Full statistics are published by the Organisation for European Economic Co-operation in Paris and a rich commentary is generally released in member countries, so that information on the operations of the Union is available in great detail.

In the practical working of the Union there are two phases which should be distinguished:

1. the "compensations" (due to the monthly offsetting operations and the reversals of net positions), and

2. the settlement operations on the final net positions.

1. Compensation mechanism.

The compensation mechanism itself consists of two quite separate elements:

(a) the monthly offsetting resulting from the operations carried out, on the instructions of the Agent, in the books of the central banks, with the effect of reducing the bilateral balances accumulated during each month to zero; and

(b) the reversals of net positions, inside the Union, in application of the cumulative principle.

The next table shows month by month the effect of both of these forms of compensation on the gross surpluses (and deficits).

The first column gives the gross surpluses (there being, of course, an equal amount of gross deficits) as calculated on the basis of the reports from the central banks — this is the raw material which is put through the

E.P.U.: Compensation mechanism — monthly working, July 1950 to March 1952.

Month	Gross surpluses (and deficits) monthly	Compensations monthly			Net surpluses (and deficits)	
		Offsetting operations	Reversals of net positions	Total compen-sations	monthly	cumu-lative
	in millions of units of account					
1950						
July	193	114	—	114	79	*79*
August	200	93	18	111	89	*168*
September	263	90	31	121	142	*310*
October	371	125	27	152	220	*530*
November	270	132	22	154	116	*646*
December	274	154	28	182	93	*739*
1951						
January	251	113	22	135	116	*854*
February	293	127	5	132	161	*1,016*
March	222	123	30	153	69	*1,085*
April	225	76	96	172	52	*1,137*
May	270	130	141	271	— 1	*1,136*
June	340	172	200	372	— 32	*1,104*
July	355	131	272	404	— 48	*1,055*
August	350	118	305	423	— 73	*983*
September	380	112	394	506	— 126	*857*
October	546	124	358	482	64	*921*
November	402	159	90	249	153	*1,075*
December	361	125	63	188	173	*1,247*
1952						
January	418	151	64	215	203	*1,450*
February	369	160	16	176	193	*1,643*
March	285	163	12	175	111	*1,754*
Totals	6,640	2,694	2,192	4,886	1,754	

Note: The net surpluses and deficits shown in this table are those calculated before interest payable to or by the Union has been debited or credited, as the case may be, to the debtor or creditor countries concerned. The debiting and crediting of interest may cause an increase or a decrease in the amount to be settled through the Union, as the positions of countries in the Union develop; this factor caused an increase of $6–7 million to be settled through the Union in June 1951, but by March 1952 this was changed to a decrease of $3 million (from $1,754 million to $1,751 million).

machine each month. The next three columns show the compensations: the amount resulting from the offsetting operations made in national currencies by the central banks (on ninety-six different accounts), the reversals of the net positions inside the Union and the sum of these two amounts, giving in all the total amount compensated monthly. The next column shows the remaining monthly net surpluses (and deficits), which are smaller than the amounts as published each month, since the reversals have already been taken into account.

The growth of the gross (bilateral) surpluses (and deficits) from around $200 million in the early months of the Union to over $500 million in October 1951, and their subsequent decline, are noteworthy; these are the (net) amounts accumulated each month in national currencies on the books of member central banks — the turnover of all receipts and payments on these books is, of course, many times greater.

The compensations by bilateral offsetting have not fluctuated very considerably from their average of *$128 million over the twenty-one months.* More variable have been the reversals of the net positions: there was a low point of $5 million in February 1951 (meaning that, at that time, nearly all members were continuing their previous development in the same direction) — and this was at the height of the German crisis; the reversals grew from that point, as Germany began to have surpluses while France started to have deficits (from April) and also the United Kingdom (from May); the reversals of net positions reached a high point of nearly $400 million in September 1951, when the total compensations exceeded $500 million on the month.

It will be noted that from May to September 1951 the net monthly positions remaining for settlement after the compensations were a minus amount; this means that the reversals of old positions were greater than the development of new positions, so that the cumulative figure in the last column of the table declined. But, around October 1951, when both the British and French had become net debtors and Germany a net creditor of the Union, the cumulative positions rose again rapidly — to the high level of March 1952.

Over the twenty-one months, the total gross positions exceeded $6,600 million, of which nearly $4,900 million, some three-quarters, was compensated, leaving an amount of $1,750 million, "undigested" by the compensations, to be dealt with by the settlement mechanism of the Union.

(Of the total compensations in the twenty-one months amounting to nearly $4,900 million, almost two-thirds were due to four countries: United Kingdom 1,200 million, Germany 770 million, the Netherlands 600 million and France 530 million.)

2. Settlement mechanism.

The table on the following page shows the working of the settlement mechanism through time, viz. from July 1950 to March 1952.

For both creditors and debtors the table shows the "operational impact" of the ante-quota settlements; these cause the difference between the cumulative net positions and the cumulative accounting positions (only the latter being settled by credit and gold within the Union). The ante-quota settlements are now all irreversible, that is to say they are not subject to the cumulative principle. The operational impact of these items changes, however, with the positions of member countries.

The use of existing resources provokes a transfer of a deficit from one country to another. Actually, a gross amount of $116 million of existing resources has been used, of which $100 million was in sterling. So long as the United Kingdom was a creditor and the users of existing resources were debtors, this reduced the net surpluses and deficits to be settled within the Union; but when the United Kingdom became a debtor and certain users of existing resources became creditors then the item "existing resources"

E.P.U.: Settlement mechanism — cumulative amounts, July 1950 to March 1952.

SURPLUSES

Accounting period	Cumulative net surpluses (including interest)	Effect of ante-quota settlements: Existing resources	Effect of ante-quota settlements: Initial debit balances (grants to Union)	Cumulative accounting surpluses	Settlement of cumulative accounting surpluses: Within Quotas: Credit	Within Quotas: Gold	Outside Quotas: Credit	Outside Quotas: Gold
	in millions of units of account							
CREDITORS								
1950								
July–Sept. .	310	18	85	207	164	43	—	—
October . .	530	31	164	335	302	33	—	—
November .	646	24	158	464	402	62	—	—
December .	740	31	172	537	436	101	—	—
1951								
January . .	856	48	194	614	482	132	—	—
February . .	1,017	68	194	755	574	181	—	—
March . . .	1,086	71	194	821	619	202	—	—
April	1,138	71	194	873	644	229	—	—
May	1,137	71	194	872	645	227	—	—
June	1,111	59	179	872	649	224	—	—
July	1,062	28	179	854	664	190	—	—
August . . .	989	28	179	781	557	213	6	6
September .	863	13	58	792	489	221	41	41
October . .	922	— 74	51	945	516	287	57	84
November .	1,075	— 74	51	1,099	540	311	125	122
December .	1,247	— 86	51	1,282	617	345	171	149
1952								
January . .	1,447	— 86	9	1,524	744	390	209	180
February . .	1,640	— 86	9	1,716	834	434	243	205
March . . .	1,751	— 86	9	1,827	870	470	265	222

DEFICITS

Accounting period	Cumulative net deficits (including interest)	Effect of ante-quota settlements: Existing resources	Initial credit balances: Grants from Union	Initial credit balances: Loans from Union	Special Resources (dollars)	Cumulative accounting deficits	Settlement of cumulative accounting deficits: Within Quotas: Credit	Within Quotas: Gold	Outside Quotas: Credit	Outside Quotas: Gold
	in millions of units of account									
DEBTORS										
1950										
July–Sept. .	310	18	92	—	—	200	169	31	—	—
October . .	530	31	121	—	—	378	274	104	—	—
November .	646	24	153	—	—	468	309	155	—	4
December .	740	31	192	1	—	516	337	143	24	12
1951										
January . .	856	48	216	10	—	582	368	135	53	26
February . .	1,017	68	243	10	—	695	418	140	91	46
March . . .	1,086	71	257	10	—	748	447	173	80	48
April	1,138	71	266	10	7	785	518	178	50	38
May	1,137	71	275	35	11	745	539	194	—	11
June	1,110	59	279	35	37	700	512	174	—	14
July	1,061	28	258	35	77	663	532	117	—	14
August . . .	989	28	258	35	83	584	470	97	—	17
September .	863	13	137	35	86	591	504	61	—	27
October . .	921	— 74	129	35	111	720	631	70	—	19
November .	1,074	— 74	129	35	125	859	721	121	—	17
December .	1,247	— 86	129	35	130	1,039	808	209	—	21
1952										
January . .	1,447	— 86	99	35	135	1,264	895	339	—	30
February . .	1,640	— 86	99	35	139	1,453	1,009	401	—	43
March . . .	1,751	— 86	99	35	146	1,556	1,033	470	—	52

Note: The cumulative net surpluses and deficits in the first column have been taken from the last column of the previous table and adjusted for the small amounts of interest payments. Adjustments have also been made to the cumulative accounting deficits from April to June 1951 in order to take account of the retroactive reclassification of dollars paid on behalf of certain debtors as Special Resources.

appeared (from October 1951 onwards) as negative, that is, their use has increased the amount of the settlements made within the Union itself.

Changes in the positions of member countries have had a similar effect on the operational impact of the initial balances allotted as grants. The effective amount of the initial debit balances of the prospective creditors was \$189 million; and the total of the initial credit balances by grants allocated to the prospective debtors was \$279 million. When the United Kingdom became a debtor, and the Netherlands (with an initial credit balance by grant of \$30 million) became a creditor, there was a shift of \$180 million in the operational impact of the initial balances, so that the effect of the debtor balances was reduced to \$9 million and the creditor balances as grants to \$99 million, as shown in the table.

As a consequence of the changes which were thus produced (by the operational impact of existing resources and initial balances), the cumulative accounting surpluses exceeded the cumulative net surpluses by \$77 million in March 1952 (so that, with the "constellation" of quotas at that time, the effect of the ante-quota settlements was to reduce the total effect of the compensations and increase the settlements within and above the creditors' quotas by a similar amount).

But the operational impact of the Special Resources has remained unchanged and the \$146 million provided by the U.S. Government up to March 1952 went directly to decrease the total of the cumulative accounting deficits (which were lower than the cumulative net deficits by \$194 million, the net effect of existing resources, initial balances and Special Resources).

The cumulative accounting surpluses and deficits are the totals for creditors and debtors of the amounts settled through the Union by credit and gold payments (whether inside or outside the quotas).

The settlements to creditors outside the quotas are the result of the special arrangements made with Belgium, Italy and Portugal. The settlements to debtors outside the quotas, as shown in the table, reflect from November 1950 to April 1951 the effect of the special arrangements for Germany (the \$120 million credit being drawn to a maximum amount of \$91 million in February 1951). From March 1951 onwards, Austria and Turkey have from time to time settled deficits with the Union one hundred per cent. in dollars from their own reserves (in addition to Special Resources used); \$52 million had been received by the Union in this way up to March 1952.

The previous two tables showed the development through time of the compensation and settlement mechanisms; the table on the following page gives a cross-section of the Union after the completion of the operations for March 1952.

This table, which is similar to that published in Paris each month, shows how the amounts "undigested" by the compensations, i. e. the cumulative net surpluses and deficits of \$1,751 million up to March 1952, were settled.

E.P.U.: Cumulative positions of member countries, July 1950 to March 1952.

Member countries	Net positions cumulative surplus (+) or deficit (—) of country	Ante-quota settlements: Existing resources (net) used on (+) or by (—) country	Ante-quota settlements: Special Resources (dollars) used (—) by country	Ante-quota settlements: Initial debit (+) or credit (—) balances (1)	Covered within the Union (2): Credit received (+) or granted (—) by Union	Covered within the Union (2): Gold paid (+) or received (—) by Union	Covered within the Union (2): Total equal to accounting surplus (+) or deficit (—) of country
	in millions of units of account						
Austria	— 137	—	— 40	— 80	—	— 17	— 17
Belgium	+ 747	— 16	—	+ 29	+ 424	+ 309	+ 733
Denmark	— 5	+ 5	—	—	— 10	—	— 10
France	— 458	— 13	—	—	— 363	— 82	— 445
Germany	+ 123	— 12	—	—	+ 118	+ 18	+ 135
Greece	— 196	— 1	— 80	— 115	—	—	—
Iceland	— 8	—	— 5	— 4	+ 0	—	+ 0
Italy	+ 209	— 43	—	—	+ 146	+ 105	+ 251
Netherlands	+ 147	—	—	— 30	+ 124	+ 53	+ 177
Norway	— 68	— 0	—	— 60	— 8	—	— 8
Portugal	+ 108	—	—	—	+ 61	+ 47	+ 108
Sweden	+ 241	— 15	—	+ 10	+ 149	+ 97	+ 246
Switzerland	+ 176	—	—	—	+ 113	+ 63	+ 176
Turkey	— 130	+ 2	— 22	— 25	— 30	— 55	— 85
United Kingdom	— 747	+ 93	—	+ 150	— 622	— 368	— 990
Totals	± 1,751	± 100	— 146	+ 189 — 314	+ 1,135 — 1,033 (3)	+ 692 — 523	+ 1,827 — 1,556 (4)

(1) Including grants and loans. (2) Inside and outside quotas.
(3) As the initial credit balance loans to Norway and Turkey, totalling \$35 million, are included in the previous column, this figure is that amount lower than the \$1,068 million shown in the table on page 241, which includes all credits and loans together.
(4) The cumulative accounting deficits are lower than the cumulative accounting surpluses by the amount of \$271 million, being the net amount which debtors were able to finance before using their quotas (Special Resources, \$146 million, and the net amount of initial balances, \$125 million).

Existing resources (i.e. bilateral balances outstanding in June 1950 which have been used to cover current deficits in the Union) have, owing to the shifting positions of the countries concerned, in fact led to an increase of the net surpluses and deficits by \$86 million (cf. table on page 235); this was due chiefly to the change in the position of the United Kingdom, on which a net amount of \$93 million existing resources has been used (\$100 million of sterling resources was utilised by other countries,* while the United Kingdom itself has utilised \$7 million on Denmark). But the "existing resources" were only part of the total debts outstanding in June 1950; for a more complete statement see page 240.

* In an exchange of letters, dated 7th July 1950, the U.S. Government agreed to indemnify the U.K. Government for 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 deficit with the European Payments Union. Up to the end of December 1951 (i.e. including the operations in respect of the month of November) sterling had been used as existing resources to the equivalent of \$99.7 million, increasing the United Kingdom net deficit by this amount and occasioning an additional gold payment by the United Kingdom to the Union of \$39.9 million. The official United Kingdom balance-of-payments figures for 1951 (White Paper Cmd 8505) show that \$39.9 million had been received from the U.S. Government in this connection; early in April 1952, the Chancellor of the Exchequer stated that \$10 million had been received on this account in March 1952.

The last three columns of the table, showing the amounts covered by credit and gold, reflect the final stages of the proceedings and include settlements both inside and outside the quotas up to March 1952. In March 1952, Belgium was by far the largest creditor of the Union with an accounting surplus of $733 million, followed by Italy and Sweden, each with around $250 million; on the debtor side the United Kingdom with $990 million and France with $445 million were by far the most important.

The difference of $271 million between the total accounting surpluses and the total accounting deficits shown in the last column was due to the use of Special Resources ($146 million) and the difference ($125 million) between the initial debit and credit balances (grants and loans).

This table brings out the influence of the ante-quota settlements on the final positions of member countries in the Union; the most striking was the increase of the United Kingdom deficit from $747 to 990 million, as a result of the (net) use of existing resources ($93 million) and the initial debit balance (of $150 million).

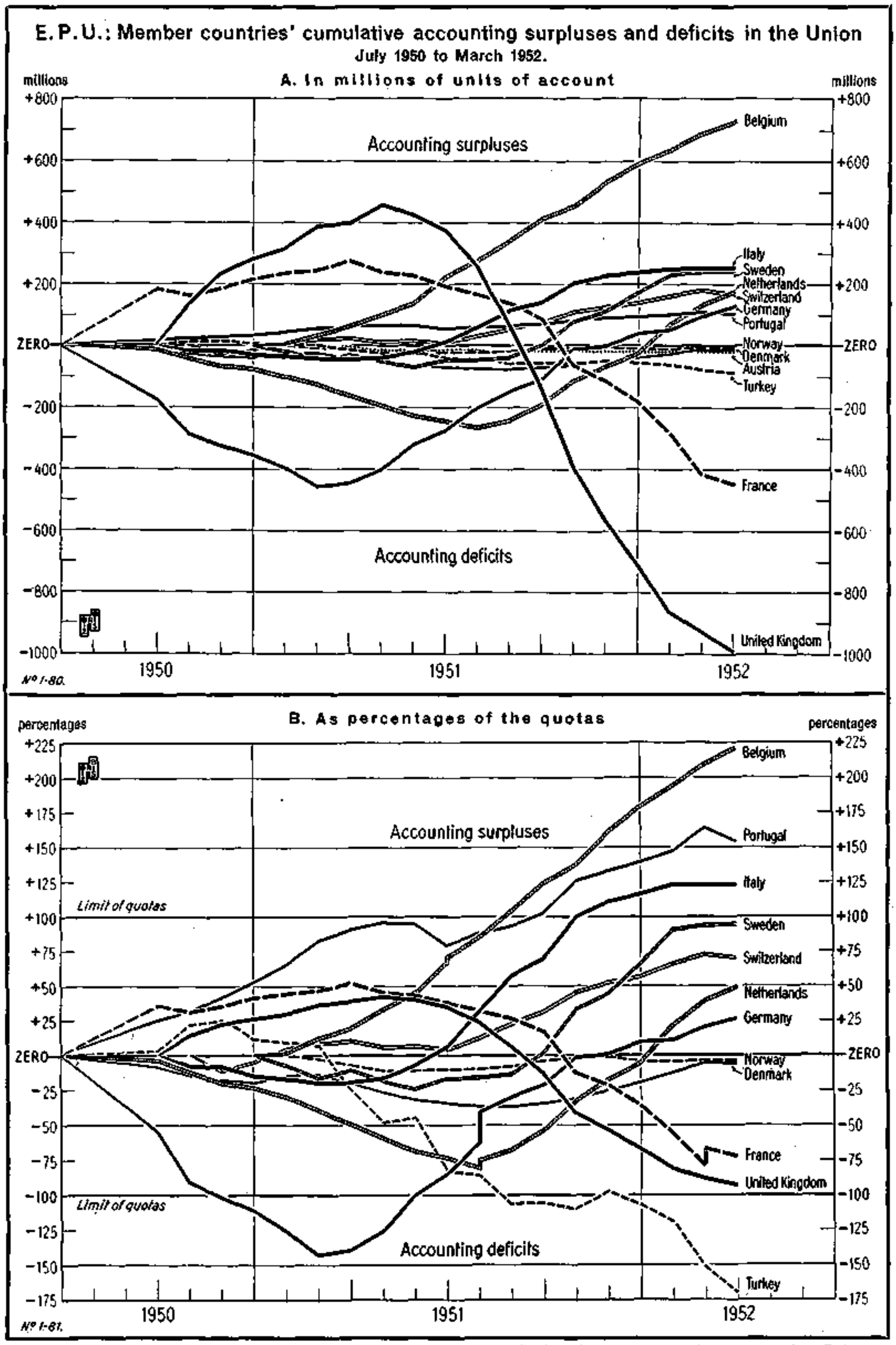
The graphs on page 239 illustrate the development of the situations of member countries through time (from the beginning of the Union in July 1950) up to the point (March 1952) where the cross-section was taken in the previous table. Only the accounting positions are considered and thus not the ante-quota settlements.

The wide fluctuations of four important countries, the United Kingdom, France, Germany and the Netherlands, are well brought out and also the fact that, except for these four countries and Belgium, the individual cumulative accounting surpluses and deficits have constantly remained within the relatively narrow range of minus $80 million and plus $250 million.

The second graph, with the cumulative accounting positions given as percentages of the quotas, shows that only two countries have been outside the limit of their quotas as debtors (Germany and Turkey), while three have been outside as creditors, and were so in March 1952 (Belgium, Portugal and Italy); further, the United Kingdom (as debtor) and Sweden (as creditor) had utilised over 90 per cent. of their quotas by March 1952.

It is convenient at this point to consider the fate of the bilateral debts outstanding on the payments agreements accounts at the end of June 1950 before the beginning of the operations of the Union. In the ninety-six bilateral relationships between member countries there were eighty-two bilateral debts, only fourteen positions being reported as nil.

Of these eighty-two debts totalling the equivalent of $861 million in June 1950, $542 million, i.e. 63 per cent., were repaid through the Union in the twenty-one months up to March 1952. Thirty-eight debts, totalling $315 million, have been repaid in full, while out of forty-four debts, totalling $546 million, partial repayments amounting to $227 million, i.e. 41 per cent., have been made.



The second graph showing the percentages has required adjustments in the curves for Belgium, Germany, the Netherlands and France in those months when adjustments were made in the quotas of those countries.

E.P.U.: Amortisation of old bilateral indebtedness through the Union, July 1950 to March 1952.

Total of bilateral debts reported as at 30th June 1950 861

Repayments by quarters	through amortisation and repayments	through utilisation of existing resources*	Total repayments
	in millions of units of account		
1950 July–September	65	20	85
October–December	79	32	111
1951 January–March	39	43	82
April–June	41	—	41
July–September	82	—	82
October–December	30	21	51
1952 January–March	90	—	90
Total repayments	426	116*	542

Total of debts still outstanding at 31st March 1952 319

Member countries	Amounts received by member country	Amounts paid by member country	Net amount received (+) or paid (—) by member country
	in millions of units of account		
Austria	2	5	— 3
Belgium	79	—	+ 79
Denmark	10	32	— 22
France	155	52	+ 103
Germany	41	140	— 99
Greece	1	5	— 4
Iceland	0	1	— 1
Italy	55	2	+ 52
Netherlands	92	37	+ 55
Norway	0	24	— 24
Portugal	2	2	+ 0
Sweden	34	12	+ 22
Switzerland	20	29	— 9
Turkey	1	12	— 11
United Kingdom	50	191	— 141
Totals	542	542	± 312

* The $116 million for total existing resources used is a gross amount. As some countries have both used existing resources in other currencies to cover deficits and had existing resources in their own currency used by other countries, the net total is reduced to $100 million (see table on page 237). A further aspect of existing resources is given in the table on page 235; the "minus" $86 million represents the "operational impact", i.e. it takes into account the changes in positions of member countries (from creditor to debtor and vice versa) since the existing resources were used.

Of the $319 million still outstanding, $183 million is in sterling and the remainder in various other currencies; for some of these debts there are no provisions for automatic repayment through the Union (e.g. some countries prefer to retain their sterling holdings) and for others the repayment is arranged to take place over a fairly lengthy period (e.g. Denmark's debt to the United Kingdom).

The second part of the table shows the effect of the repayments and receipts on the individual countries. All the debt repayments have been made by debiting the monthly position of the repaying country in the Union and crediting the receiving country. Until recently the operational impact was actually to reduce the amounts to be settled within the Union (the largest repayments being made by countries which were creditors in the Union). As at the end of March 1952, the operational impact was to increase the settlements in the Union (enlarging the net debtor and net creditor positions) by the relatively small amount of $73 million.

An audited balance sheet of the European Payments Union was published after the conclusion of the operations in respect of June 1951 and a Statement of Account in a similar form is published monthly.

E.P.U.: Summary of Statement of Account, July 1950 to March 1952.

After operations for accounting period	Assets			Total of Statement (4)	Liabilities		
	Liquid resources (1)	Grants not yet received (2)	Credits granted (3)		Capital (5)	Grants not yet given (6)	Credits received (7)
	in millions of units of account						
Opening	350	215	—	565	286	279	—
1950							
July–September	338	130	169	638	286	187	164
October	420	51	274	746	286	158	302
November	448	57	309	814	286	126	402
December	404	43	362	810	286	87	436
1951							
January	379	21	431	831	286	63	482
February	355	21	520	895	286	36	574
March	370	21	537	928	286	22	619
April	345	21	578	944	286	13	644
May	340	21	574	935	286	4	645
June	352	21	547	920	272	—	649
July	368	—	567	935	272	—	664
August	329	—	505	834	272	—	563
September	262	—	539	801	272	—	530
October	179	—	666	845	272	—	573
November	180	—	756	937	272	—	665
December	217	—	843	1,060	272	—	788
1952							
January	295	—	930	1,225	272	—	953
February	306	—	1,044	1,349	272	—	1,078
March	339	—	1,068	1,407	272	—	1,135

(1) U.S. dollars to the amount of $350 million (from January 1952, $361.4 million) plus gold and dollars received from net debtors plus interest received on U.S. Treasury bills and minus gold and dollars paid to net creditors.
(2) Initial debit balances not utilised on the respective dates.
(3) Including loans to Norway and Turkey (on account of initial credit balances) and the special credit to Germany.
(4) Including a small item representing the difference between interest received and interest paid by the Union, not including interest accrued.
(5) See text.
(6) Initial credit balances as grants not utilised on the respective dates.
(7) Including credits received under Article 13(b) of the Agreement (outside the quotas).

The capital of the Union was originally \$286.25 million, being equivalent to the \$350 million obligated by the U.S. Government less \$63.75 million, the difference between the initial debit and credit balances allotted as grants. In June 1951, this difference was increased by \$14,675,000 owing to the adjustment of Belgium's initial debit balance, and the capital was consequently reduced to \$271,575,000. When Sweden renounced American aid amounting to \$11,395,000 in January 1952, this again increased the difference to be taken into account; but an equivalent amount was obligated by the U.S. Government to the Union (bringing the total amounts obligated up to \$361,395,000) so that, in this case, there was no change in the capital, which remains at \$271,575,000.

With the disappearance of the grants in the form of initial balances after the first year of the Union, the balance sheet has become even more simple: the assets consist of liquid resources (U.S. dollars plus gold earmarked in New York and London) and credits granted by the Union to the net debtors; the liabilities consist of the capital (as explained above) and the credits received by the Union from the net creditors. It follows that the amount of the liquid resources in excess of the capital varies directly with the excess of credit received over credit granted by the Union.

The increase of the balance-sheet total to the record of over \$1,400 million, after the operations for March 1952, shows how extended was the Union at that time.

Although, in practice, account must be taken of initial balances, Special Resources, etc., yet a simple theoretical example dealing only with the quotas is illustrative. With quotas totalling around 4,000 million, the greatest possible utilisation would be 2,000 million (an equal amount of debtor and creditor quotas); with this full utilisation, 60 per cent. would be granted and received in credit, viz. 1,200 million, while the dollar holding would be intact. Thus the total of the balance sheet could not exceed \$1,560 million, if all countries remained inside their quotas.

But it would be unrealistic to imagine a full and even use of all the quotas — it is probable that inside the quotas not more than, say, two-thirds or three-quarters could be effectively utilised, in which case the maximum credit received and given might be \$900–1,000 million. The fact that total credit received by the Union in March 1952 was \$1,135 million is evidence that some quotas must have been exceeded (and, indeed, of this credit, \$870 million was inside and \$265 million outside the quotas of the creditors, see table on page 235).

The varying "constellations" of the quotas have, in fact, been of great importance for the working of the Union. With the theoretical 2,000–2,000 division of debtors and creditors mentioned above, the aggregate tranche would be 400 million (one-fifth of 2,000) and the maximum gold loss for the Union, which would occur at the end of the third tranche, would be \$160 million (the debtors paying in zero, 80 million and 160 million on the three tranches respectively and the Union paying to creditors zero, 200 million and 200 million respectively, according to the gold-credit ratios for the three tranches).

But, in fact, the United Kingdom, with a quota exceeding 1,000 million, was a creditor during the first year of the Union's life and, as the other countries divided fairly evenly into creditors and debtors, the actual distribution of total quotas was approximately 2,500 million for the countries which were currently creditors and 1,500 million for the current debtors. With this constellation the effective amount which could be used was the lower of the two, viz. 1,500 million — five tranches for the debtors and only three for the creditors. With the full and even utilisation of this amount, \$600 million in gold would be paid in by the debtors and only \$500 million paid out to the creditors, so the Union would thus stand to gain up to \$100 million. This was the favourable constellation under which the Union operated during the first year and is one of the main reasons for the ease of the technical working and the "intact" \$350 million dollar reserves in June 1951.

But, in September 1951, the United Kingdom became a debtor of the Union and the creditor-debtor constellation changed abruptly from approximately 2,500–1,500 million in August to 1,100–2,900 million in October 1951. With the effective use of 1,100 million, only \$100 million would be paid in by the debtors (with aggregate gold-free tranches of 580 million) while \$440 million would be paid out to the creditors, if all countries remained within their quotas — with a possible dollar loss to the Union of \$340 million. Such a constellation could hardly be permanent and already Belgium and Portugal had been pushed outside their quotas as creditors. Nevertheless, the dollar reserves of the Union fell below \$180 million in October 1951 (compared with \$420 million in October 1950) — and considerable concern was felt as to the obviously narrow margin on which the Union was working.

Things righted themselves in later months, particularly when Germany and the Netherlands became creditors and, by January 1952, the "ideal" constellation of 2,000–2,000 million was more nearly reached than ever before. But operations within the quotas were no longer the whole story, for three creditors had exceeded their quotas and other factors were such that the complete exhaustion of the dollar and gold assets of the Union remained a possibility and a constant preoccupation of the Managing Board.

The current affairs of the Union are dealt with by the Managing Board, which held twenty-one sessions between October 1950 and March 1952. The main business transacted may be considered under four headings: technical questions, country studies and recommendations, safeguarding the dollar assets of the Union, and reports of a general nature.

The technical questions which have been considered covered a wide field, including the detailed working of the special arrangements for debtor and creditor countries, the investment of dollar balances resulting from the net in-payments of members, conditions for payments in bar gold and the fixing of the value date for the operations (generally the tenth working-day of the month).

From the beginning of the Union interest rates were fixed (in the Directives) at 2 per cent. per annum for creditors, and with a sliding scale for debtors rising from 2 per cent. for the first year to 2¼ per cent. for the second year and 2½ per cent. for periods exceeding two years.* In the first

* Special rates have been fixed in three cases: Germany paid 2¾ per cent. per annum on the special credit opened by the Union in 1950; France pays 2½ per cent. on the extra tranche of its quota granted early in March 1952; and Belgium receives 2¼ per cent. on all credit granted above the quota.

half-year, to December 1950, the equivalent of $1.3 million was received and $1.5 million was paid in interest on credits granted by and to the Union, resulting in a loss of $204,000; the Board, which has a mandate to consider interest rates every six months, maintained the rates unchanged and, in the first half of 1951, the Union received $5.1 million and paid $5.6 million, sustaining a further loss of $464,000. The Board then decided to raise interest rates for debtors by an overall ¼ per cent. per annum and, in the second half of 1951, receiving $6.8 million and paying $6.2 million, the Union made a profit of $630,000, which all but offset the previous losses. In addition, investments of dollars in U.S. Treasury bills, particularly during the second half of 1950, produced $262,000, so that there was altogether (including interest paid and received by the Union) a small profit of $224,000.

The Managing Board has, over the eighteen months, made a thorough study of the positions of nearly all the member countries of the Union, generally with the aid of delegations of experts from the countries concerned. As a result of these studies, reports have been made to the Council recommending, in a number of cases, special arrangements which have resulted in the changes in the structure of the Union indicated in the earlier paragraphs of this chapter.

The Board has also commented on the various reports made by special restricted committees dealing with the liberalisation of trade and will be in close liaison with the new Steering Board for Trade, set up as a result of the decision of the Ministerial Council on 29th March 1952. Indeed, it is important to remember that the position of member countries of the Union is the concern, not only of the Managing Board, but of all the main committees of O.E.E.C., especially the Joint Committee on Trade and Payments and the Economic Committee — the final decisions being taken by the Council of the Organisation.

The Board is responsible for the management of the fund including the assets in dollars deriving from the amounts obligated by the U.S. Government, from amounts paid in as Special Resources on behalf of certain debtors and from the net in-payments by member countries. The smooth working during the first year of the operations of the Union gave rise to no particular problem in this connection but, during the second year, disquiet concerning the adequacy of the dollar reserve was constantly felt, especially from the autumn of 1951 onwards.

The Board has prepared some general reports, two of which have been widely circulated: the first Annual Report of the Managing Board up to June 1951 (published in August 1951) and the Report on the Operations of the Union after June 1952 (made to the Council of Ministers in March 1952).

The second of these two reports deals with the measures necessary to prolong the operations of the Union beyond the current period to June 1952.

* * *

E.P.U.: Trade balances and payments balances of monetary areas of member countries, quarterly figures in millions of dollars.

1. Visible trade balances.

Member countries	1949				1950				1951				Totals 1949 to 1951
	Jan.–March	April–June	July–Sept.	Oct.–Dec.	Jan.–March	April–June	July–Sept.	Oct.–Dec.	Jan.–March	April–June	July–Sept.	Oct.–Dec.	
Austria	— 15	— 20	— 27	— 25	— 24	— 14	— 4	— 1	— 24	— 22	— 8	— 24	— 207
Belgium-Luxemburg	+ 50	+104	+ 73	— 3	+ 33	+ 5	— 17	— 16	+ 36	+ 81	+145	+139	+ 629
Denmark	— 18	— 2	+ 25	+ 25	— 28	— 18	— 19	— 9	— 11	— 37	— 33	+ 11	— 113
France	— 32	+ 2	— 41	— 42	— 26	+ 20	+ 76	+109	+ 61	— 67	—180	—164	— 283
Germany	+ 28	— 6	— 5	— 81	—113	— 27	— 75	—151	— 93	+193	+133	+191	— 7
Greece	— 25	— 19	— 38	— 28	— 34	— 49	— 52	— 38	— 33	— 45	— 47	— 35	— 441
Italy	— 2	+ 19	+ 27	+ 41	— 7	+ 10	+ 43	+ 44	— 9	— 16	+ 55	+ 23	+ 228
Netherlands	— 17	— 23	— 34	— 77	— 12	— 56	+ 9	+ 3	— 27	— 38	+ 65	+108	— 98
Norway	— 57	— 67	— 67	— 64	— 74	— 59	— 25	— 39	— 48	— 57	— 30	— 42	— 629
Portugal	— 32	— 35	— 24	— 20	— 16	— 27	— 10	— 4	— 3	— 12	— 9	— 15	— 206
Sweden	— 25	+ 15	+ 18	+ 17	— 2	— 5	— 10	— 12	— 68	— 6	+ 24	+ 74	+ 23
Switzerland	— 21	— 4	+ 4	— 4	— 11	— 12	— 45	— 40	— 75	— 73	— 40	— 43	— 362
Turkey	— 3	— 14	— 20	+ 25	+ 20	— 12	— 24	+ 25	+ 2	— 44	— 43	— 22	— 110
United Kingdom	+ 82	— 30	—118	+ 24	+158	+ 71	+ 64	+102	+127	+ 11	—215	—287	— 12
Net totals	— 87	— 80	—228	—212	—134	—172	— 89	— 26	—164	—130	—183	— 87	—1,590

2. Payments balances.

Austria	— 34	— 33	— 13	— 27	— 30	— 17	— 8	— 29	— 45	— 22	— 15	— 11	— 285
Belgium-Luxemburg	+ 64	+118	+ 99	— 4	+ 78	+106	— 3	+ 9	+ 83	+146	+188	+178	+1,063
Denmark	— 6	+ 16	+ 18	+ 12	— 14	— 22	— 19	— 22	— 1	— 28	— 1	+ 36	— 30
France	— 57	— 38	+147	+ 3	— 10	+ 77	+191	+ 28	+ 58	— 77	—108	—286	— 73
Germany	+ 46	+ 18	+ 38	—116	—130	+ 61	—177	—181	— 89	+176	+167	+150	— 38
Greece	— 23	— 39	— 41	— 29	— 16	— 56	— 43	— 29	— 22	— 47	— 20	— 27	— 392
Italy	+ 73	+ 82	+ 90	— 2	+ 5	— 3	+ 2	— 33	— 53	+ 54	+130	+ 95	+ 440
Netherlands	—108	— 33	+ 10	+ 10	— 61	— 66	— 40	— 65	— 85	— 77	+ 50	+169	— 296
Norway	— 24	— 22	— 25	— 38	— 36	— 21	— 11	— 40	— 23	— 6	+ 12	— 1	— 235
Portugal	— 36	— 28	+ 8	+ 2	— 3	— 13	+ 19	+ 20	+ 27	— 5	+ 12	+ 26	+ 28
Sweden	+ 1	+ 18	+ 55	+ 40	— 1	— 15	+ 8	— 22	— 30	— 14	+ 68	+169	+ 277
Switzerland	+ 20	+ 45	+ 23	+ 6	+ 12	— 12	— 28	— 44	+ 39	— 16	+ 66	+ 65	+ 175
Turkey	+ 8	— 7	— 5	+ 22	— 5	— 98	+ 1	+ 6	— 18	— 53	— 34	+ 0	— 183
United Kingdom	+ 76	— 96	—405	+121	+211	+ 78	+109	+404	+158	— 32	—515	—562	— 452

3. Payments in excess of (+) or less than (—) trade balances.

Austria	— 19	— 13	+ 14	— 2	— 6	— 3	— 4	— 29	— 22	+ 0	— 7	+ 13	— 78
Belgium-Luxemburg	+ 14	+ 15	+ 26	— 2	+ 45	+100	+ 14	+ 25	+ 48	+ 66	+ 43	+ 39	+ 434
Denmark	+ 12	+ 18	— 7	— 13	+ 15	— 4	— 0	— 14	+ 10	+ 9	+ 32	+ 26	+ 82
France	— 25	— 41	+188	+ 45	+ 15	+ 57	+115	— 81	— 2	— 11	+ 72	—122	+ 211
Germany	+ 18	+ 24	+ 43	— 35	— 17	+ 89	—102	— 30	+ 4	— 18	+ 34	— 41	— 31
Greece	+ 2	— 21	— 3	— 1	+ 18	— 7	+ 9	+ 8	+ 11	— 2	+ 27	+ 8	+ 49
Italy	+ 75	+ 63	+ 63	— 43	+ 12	— 14	— 41	— 77	— 44	+ 70	+ 75	+ 72	+ 212
Netherlands	— 91	— 10	+ 44	+ 87	— 49	— 11	— 49	— 69	— 58	— 39	— 15	+ 62	— 198
Norway	+ 33	+ 45	+ 42	+ 26	+ 38	+ 38	+ 14	— 1	+ 25	+ 51	+ 42	+ 41	+ 394
Portugal	— 4	+ 8	+ 32	+ 22	+ 12	+ 15	+ 29	+ 24	+ 29	+ 7	+ 21	+ 41	+ 235
Sweden	+ 26	+ 3	+ 37	+ 23	+ 0	— 10	+ 18	— 10	+ 38	— 8	+ 44	+ 94	+ 254
Switzerland	+ 41	+ 48	+ 19	+ 9	+ 23	+ 0	+ 17	— 5	+114	+ 57	+106	+107	+ 538
Turkey	+ 11	+ 6	+ 15	— 3	— 26	— 86	+ 25	— 18	— 20	— 9	+ 9	+ 22	— 72
United Kingdom	— 6	— 66	—287	+ 98	+ 53	+ 7	+ 46	+302	+ 31	— 44	—300	—275	— 440
Net totals	+ 87	+ 80	+228	+212	+134	+172	+ 89	+ 26	+164	+130	+183	+ 87	+1,590

Note: The visible trade figures are taken from the monthly statistical bulletin of O.E.E.C. and the payments figures from the Agent's reports; the payments statistics are, of course, the calculated surpluses and deficits excluding the Agent's operations (drawing rights etc.).

The figures for Belgium, France, the Netherlands, Portugal and the United Kingdom apply to the whole "monetary areas" of those countries.

A general review of the operations during the first twenty-one months of the Union reveals that the fluctuations in the positions of a number of the member countries have been considerable and sometimes very sharp.

The table on preceding page shows the visible trade between the monetary areas of member countries (as given by the customs statistics), their intra-European payments, as reflected in the Union, and the difference between the trade and payments statistics. This summary table can be split up to show the monthly inter-relationships of the various countries individually and in considerable detail.

It is evident that the third section of this table, "payments in excess of, or less than, trade balances" is a mixed bag of errors and omissions, time-lags and various invisible items, including, in particular, capital movements; nevertheless, each line of the table is comparable with itself and changes in the trends are not without significance. Graphs based on monthly figures for member countries showing each other country separately have provided

E.P.U.: Gold and dollar turnover.
Payments and receipts of member countries to and from the Union gross and net (including special resources and amounts above quotas)
July 1950 to March 1952.

Member countries	Country as cumulative creditor: Gross amounts received	Country as cumulative creditor: Gross amounts paid back	Country as cumulative creditor: Net amounts	Country as cumulative debtor: Gross amounts paid	Country as cumulative debtor: Gross amounts received back	Country as cumulative debtor: Net amounts	Net amount paid to (—) or received from (+) the Union	Turnover
	in millions of units of account							
Austria	—	—	—	57	—	57	— 57	57
Belgium	309	—	309	—	—	—	+ 309	309
Denmark	—	—	—	7	7	—	—	13
France	95	95	—	82	—	82	— 82	273
Germany	18	—	18	174	174	—	+ 18	365
Greece	—	—	—	80	—	80	— 80	80
Iceland	—	—	—	5	0	5	— 5	5
Italy	105	0	105	—	—	—	+ 105	105
Netherlands	53	—	53	75	75	—	+ 53	203
Norway	—	—	—	—	—	—	—	—
Portugal	53	6	47	—	—	—	+ 47	59
Sweden	97	—	97	3	3	—	+ 97	102
Switzerland	66	3	63	27	27	—	+ 63	123
Turkey	1	1	—	84	7	77	— 77	94
United Kingdom	119	119	—	368	—	368	— 368	607
Gross totals	917	225	692	961	292	669	+ 23	2,396
Current cumulative creditors and debtors (March 1952)	701	9	692	682	14	669	+ 23	

Note: The total turnover as shown excludes drawings on the U.S. Treasury and also sundry adjustments (e.g. repayments to debtors due to the retrospective use of Special Resources). The Special Resources paid in on behalf of Iceland are included amongst the debtors' payments in the bottom line (although, in March 1952, Iceland was a small creditor of the Union).

valuable data for judging the origin of the movements, certain of which are very striking, as, for example, the considerable negative item for the United Kingdom in July–September 1949 and again in July–September and October–December 1951, when out-payments far outran the visible trade deficit.

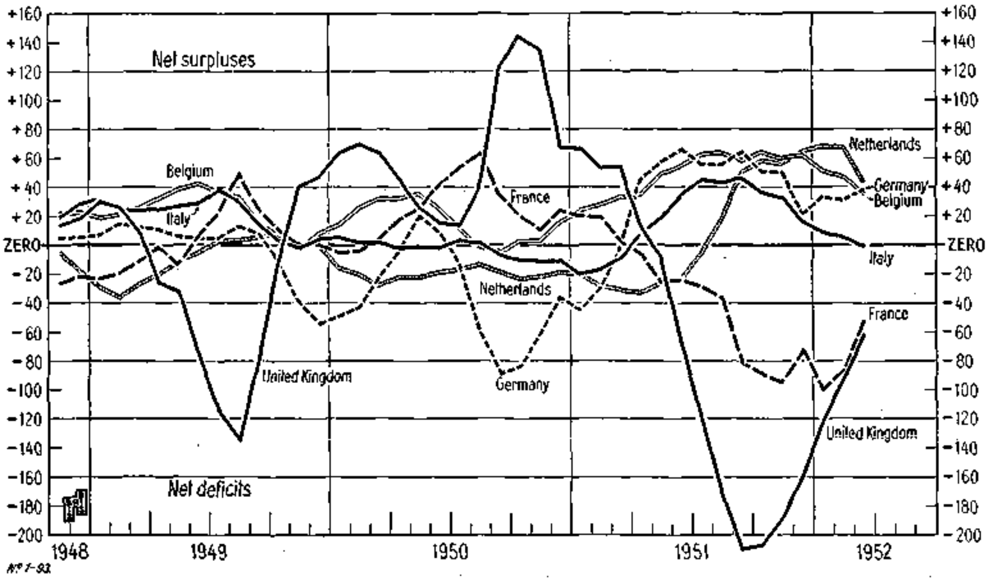
Such sharp movements naturally placed a great strain on the Union, particularly in the autumn of 1951, when the total of the dollar reserves fell for a time below $180 million — see table on page 241.

The Union's actual turnover in dollars and gold has been on a quite considerable scale: during the twenty-one months to March 1952, the total of payments by the Union to member countries and to the Union by member countries (including those resulting from the use of Special Resources) amounted to nearly $2,400 million, of which over one-third was made effectively in gold bars.

Over $600 million of the turnover was with the United Kingdom but all countries have participated except Norway which, after using its initial credit balance, has remained within its gold-free tranche.

With so large a turnover it is, perhaps, surprising that the strain on the dollar reserves of the Union has not been greater. But the Union was so constituted that dollar receipts should normally cover dollar out-payments — although there might well be a time-lag during which a temporary drain would occur, to be covered by the dollar reserve of the Union. The original calculations were somewhat upset by the allocations of initial balances and, later, by

E.P.U.: Monthly net surpluses and deficits, three-month moving averages (in millions of dollars).



Note: These curves are three-month moving averages and therefore **not** cumulative (as are the curves in the graphs on page 239); it follows, for example, that the improvement in the position of the United Kingdom since the autumn of 1951 implies a decline in the monthly deficits or, in other words, a decline in the rate of increase of the cumulative deficit.

the special arrangements made for debtors and creditors of the Union. But in the year 1951-52 the U.S. Government has made a valuable contribution to the Union by adopting the procedure of Special Resources whereby the deficits of certain debtors have been covered in dollars.

The fluctuations of the dollar assets of the Union reflect the fluctuations of the member countries. It is instructive to take a longer view than the twenty-one months of the Union. The graph shows three-month moving averages of the net surpluses and deficits of six important member countries from the end of 1948 onwards (viz. from the earliest of these calculations made for the first intra-European payments schemes).

These curves reflect the pulsating development of the intra-European balances during the past three years and bring out the relatively wide fluctuations of the United Kingdom. Except for the United Kingdom and for the downward dip of Germany in the autumn of 1950 and of France towards the end of 1951, the three-month moving averages show that the fluctuations, although numerous, have remained within a range of some $60 million on either side. (This tendency of the balances to swing around zero provides, of course, the material for the "compensations" by reversals of positions inside the Union.)

The following table shows the extent to which the quotas had been utilised up to March 1952.

E.P.U.: Utilisation of quotas as at March 1952.

Member countries	Quotas	Utilised as at March 1952(1) Amounts	Percentages
		as creditor (+) or as debtor (—)	
	in millions of units of account		*percentages*
Austria	(70)	nil	—
Belgium	331	+ 733	+ *222*
Denmark	195	— 10	— *5*
France	620	— 445	— *72*
Germany	500	+ 135	+ *27*
Greece	(45)	nil	—
Iceland	15	+ 0	+ *0*
Italy	205	+ 251	+ *123*
Netherlands	355	+ 177	+ *50*
Norway	200	— 8	— *4*
Portugal	70	+ 108	+ *154*
Sweden	260	+ 246	+ *95*
Switzerland	250	+ 176	+ *70*
Turkey	50	— 85	— *170*
United Kingdom	1,060	— 990	— *93*
Totals			*overall averages*
Creditors	1,986	+1,827	+ *92*
Debtors	2,125(2)	—1,539	— *72*

(1) Including special arrangements above quotas (but not Special Resources and initial balances).
(2) Excluding Austria and Greece, whose quotas are blocked.

While the working of the Union was facilitated, during its first year, in that the quotas were largely unused, so that the total amount of credit was available in relation to all countries, difficulties have arisen in the second year from the fact that the quotas are in some cases exhausted and in others utilised to a substantial degree, as the table shows.

Thus, during the second year of the Union, there have been a number of factors which have made its functioning more difficult: the unfavourable constellation of the quotas (mentioned on page 242) leading to extreme positions for some of the creditors with small or moderate quotas, the wide fluctuations of certain members with larger quotas, the heavier load of trade and payments to be carried by the Union with an inadequate dollar reserve and, more generally, the increase in the current dollar payments by several countries with slender monetary reserves.

Under the conditions which obtained in 1951 and the early months of 1952, it is not, perhaps, surprising that the programme of trade liberalisation, which was one of the main objectives of the Union, has been subject to setbacks: France temporarily suspended all measures of liberalisation and the United Kingdom returned from 90 per cent. to under 50 per cent. However regrettable these measures may be, it is fortunately possible to set against them the fact that some countries, which had lagged behind, have been able to reach the 75 per cent. stage, notably Germany (from 1st April 1952), the Netherlands and Norway (from 1st May 1952), and also that certain countries which are creditors in relation to the Union — particularly Belgium, Italy, Portugal and Switzerland — have taken additional measures by which the degree of liberalisation has, in some instances, been carried to nearly 100 per cent. (as is more fully explained on page 122 of Chapter IV).

Experience confirms that trade liberalisation can be put into practice and maintained only pari passu with progress in the monetary field and that its future will be dependent, in particular, upon the reconstitution of adequate monetary reserves by the European countries; neither the mechanism of the European Payments Union nor any other conventional arrangement can alter this simple fact.

But the Union has made it possible to get away from the rigidity of purely bilateral agreements and, in a large measure, also to get rid of the unfunded bilateral liabilities which had been accumulated up to the middle of 1950. Furthermore, it has helped to put the mechanism of multilateral trade into working order and pushed liberalisation to the extent compatible with existing conditions. In these ways and by its insistence on the need for internal financial stability in each of the member countries, the Union has helped to prepare the ground for the solution of those fundamental monetary problems which are of such great importance for the future of Europe.

X. Current Activities of the Bank.

1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1952, 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 at 31st March 1952 amounts to 1,010,149,260.13 Swiss gold francs, against 1,025,482,155.30 Swiss gold francs a year previously. Short-term and sight deposits have been subject to fluctuations which, at times, have been fairly wide, the balance sheet having reached its lowest figure at the end of February 1952, with a total of 895.4 million Swiss gold francs. At that time the central banks' deposits in various currencies showed an appreciable decline, reflecting the shrinkage of the dollar reserves of several central banks which made itself particularly felt early in 1952.

The volume of business handled by the Bank continued to expand during the financial year under review. As in the past, operations were effected in conformity with the monetary policy of the central banks concerned and the Bank made a point of affording them such technical assistance as might be of use to them. At the same time, a high degree of liquidity was constantly maintained.

* * *

The total of earmarked gold, not included in the Bank's balance sheet, had amounted to 231.5 million Swiss gold francs on 31st March 1951. On 31st March 1952 it stood at 233 million, a total which had been slightly exceeded in the course of the financial year and which had reached its lowest figure — 146.1 million — on 31st May 1951.

As indicated in Note 1 at the foot of the Bank's monthly statement of account, various other items are not included in the statement, viz. securities held in custody for the account of central banks and other depositors, funds held as Agent for the Organisation for European Economic Co-operation (in connection with the European Payments Union) and funds held for the service of International Loans for which the Bank is Trustee or Fiscal Agent.

Moreover, Note 3 at the foot of the monthly statement gives the amount — if any — of the bills rediscounted with the Bank's endorsement or undertaking to repurchase. On 31st March 1951 this item was entered at 1.5 million Swiss gold francs. After remaining unchanged at that level, it reached the figure of 9.2 million on 31st December 1951, fell back to 1.5 million on 31st January 1952 and made no further appearance after that date.

The general development of the Bank's monthly statement of account during the financial year under review can be outlined as follows.

The total of the first part of the Bank's statement of account rose from 1,025.5 million Swiss gold francs on 31st March 1951 to 1,096.2 million on 30th April but was back at 1,002.6 million on 31st May. After having reached 1,111.6 million — the maximum for the financial year — on 31st July, it declined steadily until 29th February 1952, by which time it had been reduced to 895.4 million. In March, a fairly substantial rise brought the total up to 1,010.1 million, i.e. about 15 million less than the initial figure for the year under review.

* * *

Assets.

The total of the item "Gold in bars and coins" had amounted to 363.8 million Swiss gold francs in the statement of account at 31st March 1951. In the following month it reached its highest figure for the financial year — 491.9 million — and then declined more or less steadily till the end of December 1951, when it stood at 350.6 million. From that point it took an upward turn and finished the financial year at 438.5 million.

There has been no close correspondence between the fluctuations in the Bank's gold holdings and the fluctuations in its deposits expressed in a weight of gold. The gold holdings are affected by various operations and

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	deposits and forward operations
	in millions of Swiss gold francs			
1951 31st March	363.8	178.6	185.2	198.3
30th April	491.9 (max.)	59.0 (min.)	432.9 (max.)	194.2
30th September	439.7	320.7 (max.)	119.0 (min.)	196.9
31st October	404.5	217.2	187.3	193.5 (min.)
31st December	350.6 (min.)	208.3	142.3	207.5
1952 29th February	386.9	218.1	168.8	252.3 (max.)
31st March	438.5	305.0	133.5	208.4

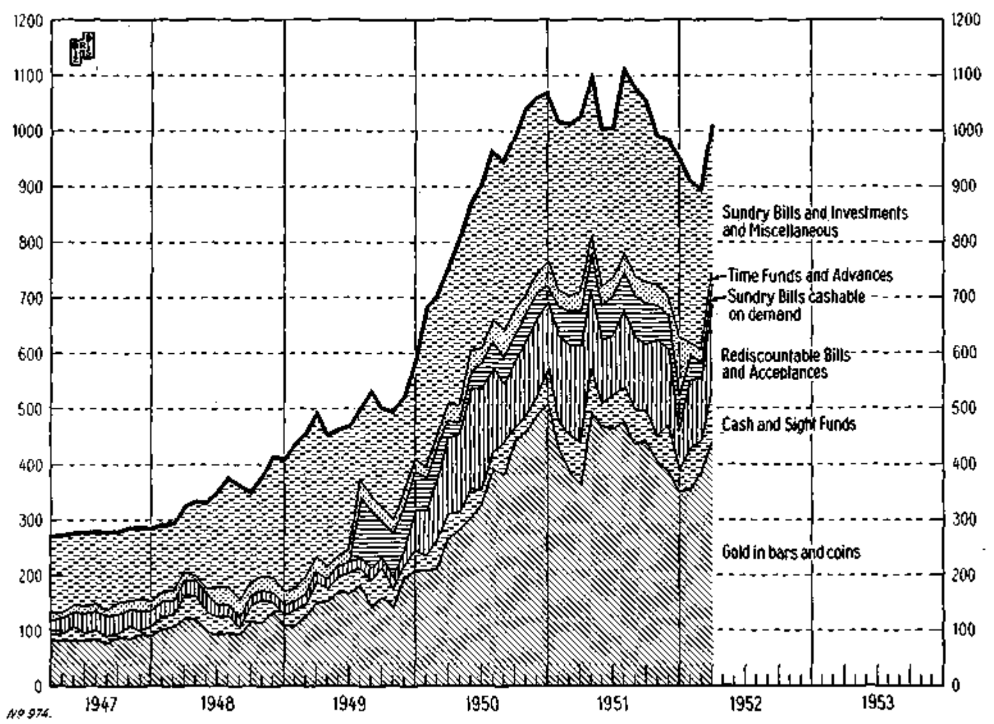
especially by swap transactions, in which spot purchases or sales are combined with simultaneous forward cover.

Thus, when allowance has been made for these operations, it is only by way of exception that the Bank's net assets in gold correspond to the figure obtained by comparing the assets and commitments in gold shown in the balance sheet. In the table on the preceding page the four items which have to be taken into account in considering the Bank's gold position are compared as they stood on certain representative dates chosen so as to bring out the maximum and minimum figures for the year; at the same time, the table provides data for an assessment of the extent to which gold has been employed for operations.

The Bank's cash holdings in various currencies have, in the aggregate, remained at a fairly high level. The average balance shown under this heading in the monthly statements of account during the financial year 1951–52 exceeded 55 million Swiss gold francs, as compared with 42 million in the financial year 1950–51 and 33 million in the financial year 1949–50. The figure on 31st March 1951 was 70.6 million; on 31st December 1951 it was 28.7 million — a rather small total as compared with the average — while the highest level for the financial year, 91.2 million, was reached on the closing date, 31st March 1952.

B.I.S. — Assets.

End of month, in millions of Swiss gold francs.*



* First part of statement of account.

The Bank has, of course, to keep a substantial amount of cash in various currencies in order to be ready, at all times, to respond to requests from the central banks; in other words, it has to maintain a high degree of liquidity. As in the past, however, it is still often difficult to find, on the various markets, investments which are mobilisable at call or at very short term and also possess the other requisite qualities.

On 31st March 1952, cash held in dollars accounted for 84 per cent. of the Bank's total cash holdings in currencies, while practically the whole of the balance consisted of Swiss francs (representing 16 per cent. of the total). The corresponding figures on 31st March 1951 had been 76 per cent. and 23 per cent.

On 31st March 1952, gold and cash holdings, taken together, represented 52.4 per cent. of the total of the first part of the statement of account, as against 42.4 per cent. on 31st March 1951.

Sight funds at interest, which had begun the financial year at 4.4 million Swiss gold francs, remained at or near that level until 31st July 1951. They reached 10.5 million on 31st August and 10.6 million on 31st December before falling to their lowest figure for the year, viz. 2.1 million, on 29th February 1952. On 31st March 1952 they stood at 3.9 million.

There were marked fluctuations in the total of the rediscountable portfolio, especially as regards Treasury bills. This may be seen from the following table, which gives the minimum and maximum figures for each category.

B.I.S.: Rediscountable portfolio.

Date	Commercial bills and bankers' acceptances	Treasury bills	Total
	in millions of Swiss gold francs		
1951 31st March	46.1 (max.)	128.9	175.0 (max.)
31st October	35.4	137.9 (max.)	173.3
31st December	29.4	39.3 (min.)	68.7 (min.)
1952 29th February	27.8 (min.)	84.7	112.5
31st March	28.9	126.6	155.5

The item "Sundry bills cashable on demand" had amounted to 62.6 million Swiss gold francs on 31st March 1951, and it remained at that level or slightly above it until the end of December 1951. On 29th February 1952 the figure was down at 28.5 million. At the end of the financial year it was 35.2 million.

Up to the end of October 1951 the total of the Bank's investments at sight, comprising the various items mentioned above, remained constantly above the level of 676.5 million Swiss gold francs at which it had started the financial year. After October it declined somewhat, but it finished the year at 724.2 million Swiss gold francs, or nearly 50 million more than the total registered a year earlier.

Time funds and advances had amounted to 34 million Swiss gold francs on 31st March 1951. A gradual upward movement brought the total to 38.7 million on 30th November, and by the end of December it had jumped to the comparatively high figure of 107.8 million in consequence of substantial advances granted at very short term. There was a subsequent decline, to 23.4 million on 31st January 1952 and then to 17.9 million, the minimum for the financial year, on 31st March 1952.

On 31st March 1951 the total of sundry bills and investments had been 245.4 million Swiss gold francs. On 31st March 1952 it amounted to 198.2 million, the lowest figure for the financial year; the highest figure, 269.7 million, had been reached on 31st August 1951.

In the following table the two items "Time funds and advances" and "Sundry bills and investments" are taken together, and their composition at the beginning of the financial year may be compared with the corresponding figures at its close.

B.I.S.: Time funds and advances, and sundry bills and investments.

Period	31st March 1951	31st March 1952	Difference
	in millions of Swiss gold francs		
Not exceeding 3 months	231.8	154.1	— 77.7
Between 3 and 6 months	19.1	2.9	— 16.2
Between 6 and 9 months	0.9	6.5	+ 5.6
Between 9 and 12 months	16.1	22.2	+ 6.1
Over 1 year	11.4	30.4	+ 19.0
	279.3	216.1	— 63.2

It will be seen that there has been a certain increase in investments at more than six months. There have been wide fluctuations in the total of the investments at very short term, which make up by far the greater part of the Bank's time portfolio and fall due one after another in close succession. The Bank has made a point of seeking as much variety as is practicable in the mode and conditions of its investments, so as to be able at any moment to replace one type of investment by another.

* * *

Liabilities.

The Bank's reserves in the form of the Legal Reserve Fund and the General Reserve Fund rose from 19.9 million Swiss gold francs on 31st March 1951 to 20.2 million on 31st March 1952. As a result of the operations of the year (see below, section 4 "Financial Results"), the balance of the Profit and Loss Account, which comprises the profit for the financial year ended 31st March 1952 and the balance brought forward from the preceding year, amounted to 5.6 million Swiss gold francs on 31st March 1952 as against 5.7 million a year earlier. The amount of the item "Provision for contingencies" increased from 107.1 million Swiss gold francs on 31st March 1951 to 110.3 million on 31st March 1952. For the item "Miscellaneous" the figure was 6.7 million Swiss gold francs at the beginning of the financial year and 8.4 million at the end.

There was a slight decrease during the year in the total of the short-term and sight deposits in gold and currencies. The following table shows the trend of the items in question during the past two financial years.

B.I.S.: Short-term and sight deposits.

Items	31st March 1950		31st March 1951		31st March 1952	
	In millions of Swiss gold francs					
Gold		96.8		178.6		305.0
Currencies:						
Central banks for their own account	373.5		558.6		359.3	
Central banks for the account of others	2.4		2.4		47.8	
Other depositors	23.9		21.4		28.5	
Total in currencies		399.8		582.4		435.6
To al in gold and currencies		496.6		761.0		740.6
including:						
sight funds		132.2		234.8		417.6
short-term funds		364.4		526.2		323.0
Total		496.6		761.0		740.6

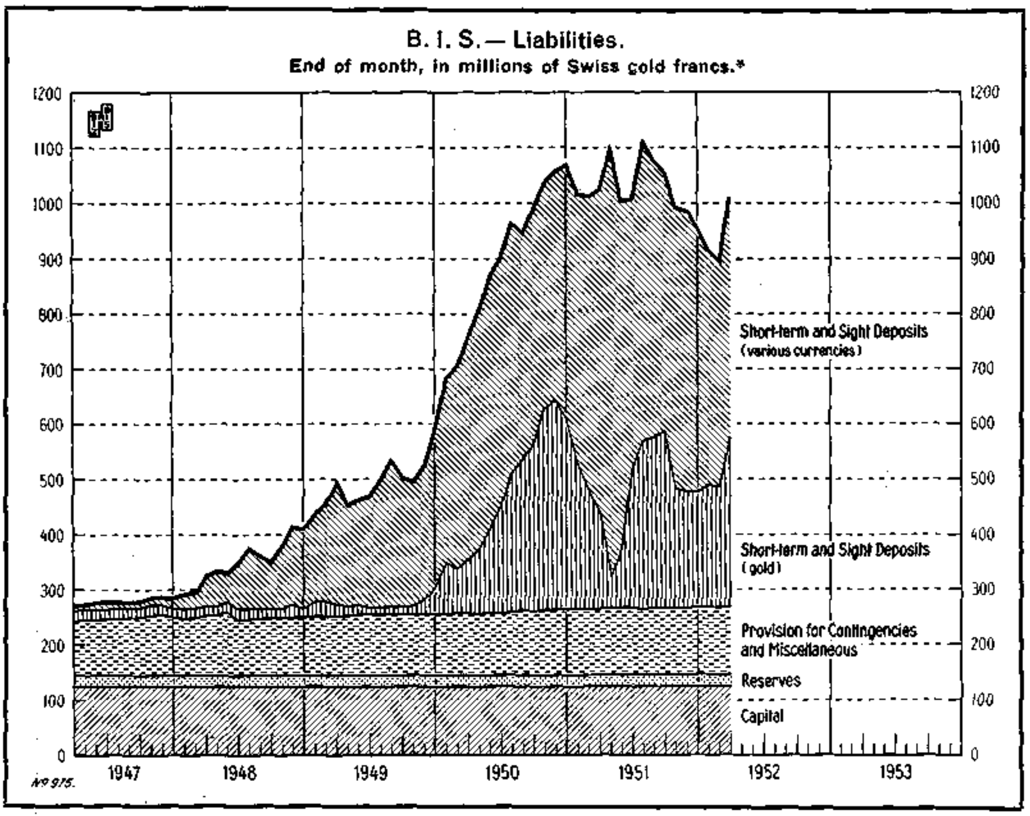
Although deposits expressed in a weight of gold registered a fresh, substantial increase, the decrease in currency deposits was even greater. Deposits in currencies of central banks for their own account declined by almost 200 million Swiss gold francs.

The following table shows the movement of deposits.

B.I.S.: Deposits in gold and in currencies.

Date	Deposits in gold	Deposits in currencies	Total
	In millions of Swiss gold francs		
1951 31st March	178.6	582.4	761.0
30th April	59.0 (min.)	772.1 (max.)	831.1
31st July	304.3	543.1	847.4 (max.)
30th September	320.7 (max.)	469.4	790.1
1952 29th February	218.1	408.8 (min.)	626.9 (min.)
31st March	305.0	435.6	740.6

The figures for deposits expressed in a weight of gold thus varied very considerably. As already indicated in the preceding Annual Report, the greater part of these deposits, and in particular those arising out of gold operations, are of a temporary nature.



* Not including liabilities connected with the execution of the Hague Agreements.

Of these deposits, those at a maximum of three months, which had totalled 38 million Swiss gold francs on 31st March 1951, fell to 6.9 million on 30th April 1951 and have remained at this level ever since.

The limits within which the total of currency deposits fluctuated have also been relatively wide, since the central banks utilise their deposits to make current payments, including the monthly settlements in connection with the European Payments Union. This is one of the reasons why, as stated above, the Bank is obliged to keep its cash balances at a comparatively high level.

A further point to be noted is the appreciable increase in sight deposits and the corresponding decrease in short-term deposits. As indicated above, almost all deposits expressed in a weight of gold were at sight. Of the total of 435.6 million Swiss gold francs to which currency deposits amounted on 31st March 1952, 119.5 million, or 27 per cent., represented deposits at sight and 316.1 million deposits at short term. On 31st March 1951, out of a total of 582.4 million Swiss gold francs, 94.2 million, or only 16 per cent., had represented deposits at sight and 488.2 million deposits at short term.

* * *

The Bank's gold operations have been carried out under the same conditions as previously, but in volume they declined slightly as compared with the financial year 1950–51. In the financial year ended 31st March 1952, the requests made by the central banks were mainly prompted by the change in their positions — which, in some cases, was extremely abrupt and far-reaching. As the movements involved were often all in the same direction, it was more difficult for the Bank to play its part in complying with these wishes. Nevertheless, they were met to a considerable extent, the Bank for International Settlements having been prepared to hold, for longish periods, more gold than it would have needed on its own account.

In many cases, the purchases, sales and exchanges of gold, effected on the basis of the official prices applied by the central banks, were made possible only by the reduction to a minimum of the Bank's own margin of remuneration.

Credits at short term have been on a relatively large scale, a certain number of the facilities extended by the Bank being connected with swap operations.

The Bank has maintained its technical co-operation with the major international monetary organisations such as the International Bank for Reconstruction and Development and the International Monetary Fund, as well as with various international organisations, and in some cases the range of this co-operation has been extended.

* * *

Second section of the balance sheet.

As in previous years, 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 can itself obtain reimbursement and transfer by Germany in currencies approved by the Bank.

* * *

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, which have been described in earlier Reports.

The Bank, as Trustee for the German Government International 5½ per cent. Loan 1930 and the Austrian Government International Loan 1930, has, however, continued to take all practicable steps within its competence to draw the attention of the parties concerned to the rights of the bondholders of these loans. In particular, it was able to reiterate before the International Conference on German External Debts during its session from February to April 1952 the rights of the bondholders of the German Government International 5½ per cent. Loan 1930.

3. The Bank as Agent for the Organisation for European Economic Co-operation (European Payments Union).

The formation and working of the European Payments Union was described in the twenty-first Annual Report of this Bank, page 222 and onwards, and the description is continued in Chapter IX of the present Report, beginning on page 227.

The Bank continued to act as Agent for the Organisation for European Economic Co-operation under the arrangements previously made. The expenses of the Bank as Agent for O.E.E.C. amounted to 563,558.14 Swiss gold francs in the twelve months to March 1952; this amount has been duly reimbursed by the Organisation (as shown in the Profit and Loss Account for the financial year ended 31st March 1952, see Annex II).

4. Financial results.

The accounts for the twenty-second financial year ended 31st March 1952 show a surplus, before making allowance for contingencies, of 6,399,601.22 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 6,088,693.31 Swiss gold francs.

The income of the Bank continues to be derived to a smaller extent than before the war from interest on investments and in a larger degree from receipts arising from various banking operations. It was, however, noted in the last Annual Report that the proportion of income derived from interest showed an upward tendency. During the financial year just closed the proportion derived from interest has again become greater. Nevertheless, the possibility still remains that the annual results may show much wider fluctuations than was previously the case.

For the purpose of the balance sheet as at 31st March 1952, 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 1952, the Board of Directors has decided that it is necessary to transfer 500,000 Swiss gold francs to the account for exceptional costs of administration and 3,200,000 Swiss gold francs to the provision for contingencies. This provision now amounts to 110,348,567.70 Swiss gold francs.

The net profit for the year, after making allowance as above for contingencies, amounts to 2,699,601.22 Swiss gold francs. After providing 5 per cent. for the Legal Reserve Fund as required by the Statutes, i.e. 134,980.06 Swiss gold francs, and after adding the balance of 2,925,822.44 Swiss gold francs brought forward from the preceding year, there is a sum of 5,490,443.60 Swiss gold francs available.

The Board of Directors recommends that from this amount the present General Meeting should declare a dividend of 12.60 Swiss gold francs per share payable in Swiss francs in the amount of 18.00 Swiss francs per share (the total sum required therefor being 2,520,000 Swiss gold francs), and should decide that the balance of 2,970,443.60 Swiss gold francs then remaining should be carried forward. The dividend declared at the last Annual General Meeting was 12.53 Swiss gold francs per share payable in the amount of 17.90 Swiss francs per share.

The accounts of the Bank and its twenty-second 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 in Annex II.

5. Changes in the Board of Directors and in Executive Officers.

The term of office as a Director of Dr M. W. Holtrop, President of the Netherlands Bank, being due to expire on 31st March 1952, the Board, at its meeting held on 10th March 1952, re-elected Dr Holtrop, under Article 28(3) of the Statutes, for a period of three years ending 31st March 1955.

In view of the expiry, in November 1951, of the term of office as a member of the Board of Professor P. Stoppani, the Governor of the Banca d'Italia reappointed Professor Stoppani as a Director for a further period of three years, under Article 28(2) of the Statutes.

In November 1951, Mr Klas Böök, Governor of the Sveriges Riksbank, tendered his resignation as a member of the Board, to become effective on

30th November 1951, owing to his return to the Swedish Foreign Service upon appointment as Minister to Canada, and in January 1952 Monsieur A. E. Janssen relinquished office as a Director, in view of his appointment as Minister of Finance in the Belgian Cabinet.

* * *

At the meeting of the Board held on 9th July 1951, the Chairman informed the Board of the impending retirement, on 31st December 1951, of Dr Raffaele Pilotti, who had held the position of Secretary General since the foundation of the Bank in 1930. During the course of his long term of office, Dr Pilotti had succeeded, in most difficult circumstances, in rendering exceptional services to the Bank, and the Board much regretted his retirement.

Dr Alberto Ferrari, who has had valuable experience both as a banker and as a member of international organisations, was appointed to succeed Dr Pilotti as Secretary General.

Conclusion.

When in the summer of 1950 the world suffered the shock of the outbreak of the conflict in Korea and there was a sharp rise in spending, at first under the impact of the immediate emergency and then in connection with the rearmament effort, it was, for a time, an open question whether the methods of financing to be employed should be those of a wartime economy — involving an inflationary increase in the supply of money and an all-round application of direct controls — or whether it would be possible to go on acting according to peacetime principles, since "rearmament is not war". Now that nearly two years have passed since the Korean conflict began, it can be said that the peacetime line of action has won the day: countries are endeavouring to meet the cost of rearmament without resorting to deficit financing; at the same time, they are trying to master the price problem by means of a flexible monetary policy, and not by relying primarily on extensive direct controls which would impinge on everyday transactions.

Not only the United States, with the immense resources at its disposal, but also practically all the western European countries are covering their current expenditure out of current revenue, and many of them are meeting the whole of their capital outlay in the same way. Considering the magnitude of the amounts involved, this is a very remarkable performance. In order to put their finances on a satisfactory basis, many countries have increased their tax collections to a point even above the wartime levels. At the same time, investments for the execution of a large number of useful projects have had to be postponed and it has been necessary to pursue a policy of retrenchment in other respects as well.

These sacrifices are being made in the confident belief that, before long, they will be more than counterbalanced by the benefits to be reaped in a free economy enjoying the advantages of increased foreign trade. For in such an economy there is more possibility of eliminating waste and, as the supply of available resources increases and they are put to more effective use, the real burden of rearmament will weigh less heavily on the nations and the fear of inflation will be banished.

But a sound budget policy is not enough; it needs to be supplemented by a rational monetary policy, and it is one of the most significant developments of the last two years that the adjustment of interest rates has come to be accepted once more as a normal instrument of monetary management which the authorities can ill afford to neglect. It is a striking fact that the countries which were among the first to switch over to a resolute but flexible monetary policy (e.g. Belgium, Italy) have all remained faithful to that policy, having found it to be to their unquestionable advantage. On the other hand, those countries which for years maintained cheap money in important sections of their markets have, one after the other, reversed their attitude, the two outstanding examples in 1951 being the change in the monetary policy of the United States and the increase in short-term rates in the United Kingdom. That the new flexible policy which the United States began to apply in the spring of 1951 has been singularly successful is, indeed, a fact of cardinal importance, since continued stability of the dollar is so essential a condition for the proper working of an international monetary system.

The methods applied by contrasting economic régimes may differ, but some of their basic needs remain the same. During the war, the countries in eastern Europe suffered from inflation just as the other belligerents did but they seem in a fair measure to have been able to attain stability under the systems which they have developed and which are characterised not only by state management of enterprise, price-fixing, etc. but also by the strict elimination of inflationary financing from their budget and investment plans, and it has thus proved possible for them to build up their capital resources and, especially as regards the U.S.S.R., to decree successive cuts in prices.

For countries with the western type of economy it would undeniably be a source of weakness if they failed to abandon their inflationary wartime methods and to restore a national and international monetary order by the means of action proper to systems of their type and particularly by the application of a flexible credit policy.

Fortunately, some considerable progress has been made in recent years in the monetary sphere. A number of countries on the continent of Europe have succeeded in getting a firm grip on the monetary situation at home and in ridding the balance of payments of an embarrassing deficit. Although they still have many difficulties to contend with, it may now be said that they are able, as well as anxious, to associate themselves with any major move towards convertibility provided that Great Britain and France take a courageous initiative in this matter. For these two countries it is, of course, essential, from their own point of view, that the efforts now being made by them to consolidate their position should not lose momentum — and this is important also from a general point of view.

Indeed, it is hoped that 1952 will see some constructive action taken towards re-establishing a monetary system which is not regional but genuinely international and which will have the full participation of the United States — a country which, by its post-war exhortations and, to a certain extent, also by its own practice, has indicated that it does not intend to retire within the confines of an increasingly closed economy.

But what, then, are the main steps to be taken and the main adjustments to be made?

In the first place, it is essential that each country should restore a proper balance in its domestic economy — which means that in relation to the supplies of goods and services at their current prices the general public and the financial institutions must not be left in possession of an excessive volume of ready cash and other liquid funds. To say that there is a close link between domestic policy and external equilibrium used to be regarded as almost a truism; but a time came when the existence of this link seemed to be forgotten or was even categorically denied. Today, however, a different attitude is in evidence and perhaps the main reason for the change is that a number of countries which had succeeded in putting their own houses in order have suddenly found that most of their balance-of-payments difficulties have disappeared as if of their own accord.

In the second place, the individual countries must be willing to submit to the adjustments which adherence to an international monetary standard and participation in a free economic system require. There will probably be a painful side to some of these adjustments but the difficulties can easily be exaggerated. In many quarters there is still a tendency to regard the removal of trade and payment restrictions as primarily a kind of concession to other countries, and this idea springs from the conviction that the system of controls may actually benefit the country concerned by helping to reduce its spending abroad and thus setting resources free for, say, internal development. But such advantages have shown themselves to be anything but permanent. Controls have not prevented the recurrence of deficits in the balance of payments, and the countries imposing them have discovered that, when their own producers and merchants are forced to buy raw materials and other commodities elsewhere than in the cheapest markets, this artificial redirection of trade proves to be a very expensive device and — since it aggravates the costs of production — a very dangerous one for great and small manufacturing nations which have to obtain much of their food from abroad. The constant bargaining with one commodity against another and the more and more Byzantine complexity of many commercial and other arrangements involve a shocking wastage of real economic resources and put a premium on the continuance of inefficiency. And who will keep more than an indispensable minimum of a currency which remains inconvertible and is hedged around with a jungle of restrictions? Indeed, there is little choice left: the mere continuance of the present system will not solve the problems of the individual countries.

Thirdly, in order to get away from the present artificial situation, it will be necessary to re-establish real exchange markets, in which foreign currencies can be bought and sold freely at single rates, for then no balances will be left over to seek transfer in other ways and thus cause a multiplicity of rates to be quoted in free, grey and black markets. The losses suffered by those who dispose of their holdings at cheap rates matter much less than the distortions and leakages to which the transactions in question give rise — not to mention the deterioration of business morality when more or less clandestine and illegal deals are taking place all the time. The world is tired of dual prices and multiple rates, of arbitrary decisions and distorted markets, and longs to return to a more simple and honest system.

It is a matter of common knowledge that the present control of foreign exchanges is not effective and that many deals take place with regard to which the authorities have general suspicions or even precise knowledge but no possibility of intervention. In free markets, it should be observed, there is a regular technique of intervention: under the régime of the gold standard, pressure was exerted at the limits represented by the gold points. It is not possible to tell in advance what the new tolerance for exchange movements should be; there are, moreover, bound to be some differences, especially in the initial period, since the appropriate margin may vary from country to country according to the degree of approach to an adjusted position attained in each particular instance.

As the various European countries are now taking the necessary steps to attain a sufficient measure of internal equilibrium, the restoration of an international monetary system is becoming a practical possibility; but the durability of such a system will depend on a number of other factors, several of which are inevitably bound up with the attitude adopted by the United States. Convertibility must necessarily require a sufficient amount of dollars and, while the first condition for this is that the countries in Europe should have goods to sell in sufficient quantities and at competitive prices, a further condition is that it should be possible to dispose of these goods in ways which will permit them to earn the dollars and other currencies they need.

European countries have in the past earned dollars in triangular trade by selling their manufactured goods to countries in Africa and Asia which were able to pay for them in dollars earned by selling raw materials to the United States. Unless these world-encircling currents of trade and payments are maintained and broadened, it will hardly be possible for any international monetary system to work smoothly.

Another equally important condition is that the United States itself shall not reverse the policy of tariff reduction which it has now been pursuing for nearly two decades but rather help to create the prerequisites for a large volume of world trade, in mindfulness of its responsibility as the world's foremost creditor nation. And, as a matter of fact, the United States has as great an interest as the rest of the world in the maintenance of relative stability in its own economy.

Even those who are willing to admit the importance and weight of these various considerations often object that a return to convertibility might endanger the volume of employment and impair the rearmament effort. But neither objection is valid. As regards the volume of employment, it is necessary to be on one's guard against drawing misleading inferences from the conditions obtaining during the recent inflationary rise in world prices and while economic aid has been available to meet foreign payments. These conditions have made it possible to pursue almost any kind of expansionist policy; but one day the countries will have to make do with their own resources and under conditions far removed from those of an extreme sellers' market. In the light of past experience it is evident that the moment will soon come when no more "forced savings" can be extracted from a public which has become sceptical about the purchasing power of the national currency and is therefore intent on speeding up its purchases, retaining only a bare minimum in ready cash. As people may even draw on their old savings in order to buy what they can lay their hands on, the amount of fresh voluntary saving will indeed be small — and if that is so what will be left to sustain a volume of productive investments? Moreover, inflation at home will lead all the more surely to deficits in the balance of payments if in other countries prices are being kept in check — and what chance will there be then of importing sufficient raw materials to ensure a steady rate of employment in the domestic economy?

As regards the rearmament effort, it is not sufficient to look only at the increase in expenditure which, for a few months, half a year or perhaps a year, might be met by inflationary methods of financing. For, quite apart from all the wastage of real resources attendant upon an inflation, there is the disorganisation it brings to monetary systems and to forms of international co-operation — not to mention the collapse of confidence and the social disturbances which characterise periods of prolonged inflation, especially in peacetime. It is therefore not to be wondered at that, both in eastern and in western Europe, such determined efforts are being made to get away from methods of inflationary financing and to uphold the tenets of an effective monetary policy, even under the present straitened circumstances.

For the countries with a western form of economy there can now be no doubt as to the goal in view: they must re-establish — and quickly — effective foreign exchange markets which will make every currency what it used to be in the past: namely, a reliable medium for saving and for the exchange of goods and services throughout the world.

Respectfully submitted,

ROGER AUBOIN

General Manager.

ANNEXES

BALANCE SHEET

IN SWISS GOLD FRANCS (UNITS OF 0.290 322 58...

ASSETS			%
I–Gold in bars and coins		438,453,217.35	43.4
II–Cash			
On hand and on current account with banks		91,161,130.42	9.0
III–Sight funds at interest		3,857,161.31	0.4
IV–Rediscountable bills and acceptances			
1. Commercial bills and bankers' acceptances	28,877,801.46		2.8
2. Treasury bills	126,583,381.21		12.5
		155,461,182.67	
V–Sundry bills cashable on demand		35,220,632.14	3.5
VI–Time funds and advances			
1. Not exceeding 3 months	16,016,169.76		1.6
2. Between 3 and 6 months	29,748.10		0.0
3. Between 9 and 12 months	1,817,668.95		0.2
		17,863,586.81	
VII–Sundry bills and investments			
1. Treasury bills			
(a) Not exceeding 3 months	95,067,137.66		9.4
(b) Over 1 year	9,091,834.—		0.9
2. Other bills and sundry investments			
(a) Not exceeding 3 months	43,059,981.—		4.3
(b) Between 3 and 6 months	2,898,141.50		0.3
(c) Between 6 and 9 months	6,457,297.41		0.6
(d) Between 9 and 12 months	20,357,021.67		2.0
(e) Over 1 year	21,281,759.29		2.1
		198,213,172.53	
VIII–Miscellaneous assets		1,627,954.18	0.2
IX–Own funds employed in execution of the Hague Agreements of 1930 for investment in Germany (see below)		68,291,222.72	6.8
		1,010,149,260.13	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 respect

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS
OF THE BANK FOR INTERNATIONAL SETTLEMENTS, BASLE.

In conformity with Article 52 of the Bank's Statutes, we have examined the books and accounts of the and explanations we have required. Subject to the value of the funds invested in Germany, we report that in true and correct view of the state of the Bank's affairs according to the best of our information and the gold franc equivalents of the currencies concerned.

ZURICH, 7th May 1952.

AS AT 31st MARCH 1952

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.—	12.4
II-Reserves			
1. Legal Reserve Fund	6,813,428.61		
2. General Reserve Fund	13,342,650.13		
		20,156,078.74	2.0
III-Short-term and sight deposits (gold)			
1. Central Banks for their own account:			
(a) Not exceeding 3 months	6,892,195.33		0.7
(b) Sight	284,538,893.52		28.2
2. Other depositors Sight	13,593,633.56		1.3
		305,024,722.41	
IV-Short-term and sight deposits (various currencies)			
1. Central Banks for their own account:			
(a) Between 3 and 6 months	3,511,729.46		0.3
(b) Not exceeding 3 months	244,108,417.11		24.2
(c) Sight	111,647,516.85		11.1
2. Central Banks for the account of others:			
(a) Not exceeding 3 months	47,591,809.69		4.7
(b) Sight	241,736.84		0.0
3. Other depositors:			
(a) Not exceeding 3 months	20,937,855.14		2.1
(b) Sight	7,585,428.45		0.7
		435,624,493.54	
V-Miscellaneous		8,369,974.08	0.8
VI-Profit and Loss Account			
1. Balance brought forward from the financial year ended 31st March 1951	2,925,822.44		
2. *Profit for the financial year ended 31st March 1952*	2,699,601.22		
		5,625,423.66	0.6
VII-Provision for contingencies		110,348,567.70	10.9
		1,010,149,260.13	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

of their claims on the Annuity Trust Account, the transfer of amounts greater than those of which the Bank can itself obtain reimbursement and transfer by Germany in currencies approved by the Bank.

NOTE III — Dividends declared prior to the date of the Balance Sheet are less than the 6 % cumulative dividends laid down by Article 53 (b) of the Statutes by Swiss gold francs 270.47 per share or in total Swiss gold francs 54,094,000.

Bank for the financial year ending 31st March 1952, and we report that we have obtained all the information *our opinion the above Balance Sheet, together with the Notes thereon, is properly drawn up so as to exhibit a* explanations given to us and as shown by the books of the Bank, as expressed in the above-described Swiss

PRICE WATERHOUSE & Co.

PROFIT AND LOSS ACCOUNT

for the financial year ended 31st March 1952

		Swiss gold francs
Net income from the use of the Bank's capital and the deposits entrusted to it (including net exchange gains)		9,730,051.93
Transfer fees		680.61
		9,730,732.54
Costs of administration:		
Board of Directors — fees and travelling expenses	185,327.34	
Executives and staff — salaries, pension contributions and travelling expenses	2,703,221.43	
Rent, insurance, heating, light and water	110,847.25	
Renewals and repairs of building and equipment	105,423.83	
Consumable office supplies, books, publications, printing	507,748.81	
Telephone, telegraph and postage	113,697.48	
Experts' fees (auditors, interpreters, etc.)	48,497.81	
Cantonal taxation	35,005.01	
Miscellaneous	84,920.50	
	3,894,689.46	
Less: Amounts recoverable for expenses as Agent of the Organisation for European Economic Co-operation (European Payments Union)	563,558.14	3,331,131.32
		6,399,601.22
The Board of Directors has decided that it is necessary to transfer		
to the account for exceptional costs of administration	500,000.—	
to the provision for contingencies	3,200,000.—	3,700,000.—
NET PROFIT for the financial year ended 31st March 1952		2,699,601.22
Transfer to the Legal Reserve Fund — 5% of 2,699,601.22		134,980.06
		2,564,621.16
Balance brought forward from the preceding year		2,925,822.44
		5,490,443.60
Dividend of Swiss gold francs 12.60 per share, as recommended by the Board of Directors to the Annual General Meeting called for 9th June 1952		2,520,000.—
Balance carried forward		2,970,443.60

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
Baron Brincard, Paris
Dr Rudolf Brinckmann, Hamburg
Cameron F. Cobbold, London
Henri Deroy, Paris
Dr M. W. Holtrop, Amsterdam
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
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
Dr Alberto Ferrari	Secretary General

Fabian A. Colenutt	Deputy Secretary
Dr Sjoerd G. Binnerts	Assistant Manager