

**BANK FOR
INTERNATIONAL SETTLEMENTS**

TWENTY-SIXTH ANNUAL REPORT

1st APRIL 1955 — 31st MARCH 1956

BASLE

11th June 1956

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TWENTY-SIXTH ANNUAL REPORT

submitted to the
ANNUAL GENERAL MEETING
of the
BANK FOR INTERNATIONAL SETTLEMENTS

held at
Basle on 11th June 1956.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the twenty-sixth financial year, which began on 1st April 1955 and ended on 31st March 1956. The results of the year's business operations are set out in detail in Chapter IX, together with a general review of the current activities of the Bank and an analysis of the balance sheet as at 31st March 1956.

The financial year closed with a surplus of 11,642,683 gold francs, of which 74,125 gold francs has been transferred to the provision for exceptional costs of administration and 5,500,000 gold francs to the provision for contingencies. The net profit for the year thus amounts to 6,068,558 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 9,752,390 gold francs available.

The Board of Directors recommends that the present General Meeting should declare a dividend of 24.50 gold francs per share, payable in Swiss francs in the amount of 35 Swiss francs per share, involving the distribution of 4,900,000 gold francs, and that the balance of 4,852,390 gold francs should be carried forward.

The surplus for the previous financial year, ended 31st March 1955, was 9,356,517 gold francs, of which 1,657,063 gold francs was utilised to write down the value of the Bank's buildings to one gold franc, 184,295 gold francs was transferred to the provision for exceptional costs of administration and 2,900,000 gold francs to the provision for contingencies. After the allocation of 5 per cent. to the Legal Reserve Fund and the inclusion of the balance brought forward, the amount available was 8,187,260 gold francs.

The dividend declared at the last Annual General Meeting was 21 gold francs per share, payable in the amount of 30 Swiss francs, involving the distribution of 4,200,000 gold francs, and the balance carried forward was 3,987,260 gold francs.

The surplus for the financial year just closed is thus nearly 2,300,000 gold francs more than that for the previous year. As last year, the amount paid to the Bank under the Arrangement dated 9th January 1953 with the Federal Republic of Germany in respect of interest on the funds invested by the Bank in Germany in execution of the Hague Agreements of 1930 was about 4 million gold francs.

The following table shows the development of the Bank's active resources during the last four years.

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

Date	Resources			Utilisation		
	Deposits	The Bank's own funds *	Total	Actual gold and investments in gold	Credits and investments in currencies	Total
in millions of gold francs						
1952 31st March	741	201	942	513	429	942
1953 " "	1,056	206	1,262	721	541	1,262
1954 " "	1,230	213	1,443	651	792	1,443
1955 " "	1,432	218	1,650	680	970	1,650
1956 " "	1,463	225	1,688	777	911	1,688

* Including reserve for minor liabilities.

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

The Bank has continued to act as Agent for the Organisation for European Economic Co-operation in respect of the European Payments Union and has furthermore agreed to act as Agent for the same Organisation in connection with the European Monetary Agreement when this Agreement comes into force upon the termination of the European Payments Union, as is more fully explained in Chapter VIII.

In relation to the High Authority of the European Coal and Steel Community, the Bank, as already mentioned in last year's Annual Report, has assumed certain technical functions connected with the execution of the agreement for a loan of \$100 million which the High Authority has concluded with the U.S. Government, and similar functions have also been assumed in connection with certain further loans of the High Authority, as is more fully explained in Chapter IX, section 3.

Moreover, the Bank has again this year been able to co-operate, in the financial field, with other international institutions in addition to those mentioned above, in particular the International Bank for Reconstruction and Development and the International Monetary Fund.

* * *

For most countries of the world 1955 was a year of remarkable achievement, as is shown by the new record levels attained in production and trade, in employment and standards of living. But in the circumstances the very speed at which progress took place was a source of difficulty. Several countries have been faced with sizable deficits in the balance of payments and nearly everywhere efforts have had to be made to moderate the boom. Action has usually been taken with great promptitude — a fact which in itself should be considered as one of the achievements of the year.

In western Europe the increase in the total output of goods and services (as measured by the rise in the gross national product at constant prices) amounted to 5 per cent. both in 1953 and 1954, and in 1955 the rate of expansion rose to approximately 6 per cent. In the United States the recession that had begun towards the middle of 1953 was overcome by the end of the following year, with the result that, calculated at constant prices, the gross national product, which had declined by about 2 per cent. from 1953 to 1954, rose again in 1955 by over 6 per cent. The outstanding element influencing the world economy in 1955 was the quickening of the already lively tempo of economic activity in western Europe as a result of strong impulses emanating from the United States.

It is a notable fact that in recent years industrial output, which shows greater fluctuations in the course of the business cycle than does the gross national product, has expanded more steadily in western Europe than

Estimated annual change in gross national product and in industrial production.

Areas	1952	1953	1954	1955
	Percentage change over preceding year			
Gross national product (at constant prices)				
Western Europe	+ 2	+ 5	+ 5	+ 6
United States	+ 3½	+ 4½	- 2	+ 6
Other countries ¹	+ 3½	+ 4	+ 4	+ 5
Total¹	+ 3	+ 4½	+ 1	+ 6
Industrial production²				
Western Europe	+ 1	+ 5	+ 10	+ 9
United States	+ 3	+ 8	- 7	+ 11
Other countries ¹	+ 0	+ 13	+ 7	+ 5
Total¹	+ 2	+ 7½	+ 0	+ 10

¹ Excluding Albania, Bulgaria, China, Czechoslovakia, eastern Germany, Hungary, North Korea, Poland, Roumania and the U.S.S.R. ² Including mining but not construction.

in the United States. In 1955, in a boom of unusual intensity and range, several western European countries increased their industrial output by 10 per cent. or more. Such high rates of growth are exceptional and are unlikely to be sustained over a protracted period. Indeed, at the end of 1955 and the beginning of 1956 there were certain signs of a slowing-down of the expansion to a more normal rate. For one thing, more and more countries are coming to the end of their resources, especially of manpower, and they will therefore be dependent in future, except in so far as they succeed in raising productivity, on the natural increase in the working population and on such limited immigration as may still occur now that only a very few countries on either side of the Atlantic have any surplus labour.

It is worth noting that in this new labour situation public opinion in a number of countries has already become more amenable to the idea of increased freedom of movement for workers. Arrangements have been made, for instance, between the northern countries — Denmark, Finland, Norway and Sweden — not only to abolish all passport requirements for their citizens travelling from one country to another but also to admit workers from any of these countries to most kinds of occupations without a special permit. In other parts of Europe, too, the use of foreign labour is increasing, this being most conspicuous in Belgium, western Germany and Switzerland; in the last-mentioned country foreign workers represented by the beginning of 1956 more than 10 per cent. of the total labour force.

The growth of industrial capacity is, of course, of fundamental importance for a further expansion of output — it has indeed been the leading factor in the economic transformation of the world for almost two hundred years. But in any all-round, well-balanced expansion the non-industrial branches of activity (e.g. housing, transportation and agriculture) must, obviously, also be brought into line and full advantage must be taken, too, of the opportunities for foreign trade. It has been a significant characteristic of the post-war economic development in quite a large number of countries that, in spite of the impressive industrial expansion, other spheres of activity have not been neglected.

In 1955 the real gross national product of the western European countries was about 45 per cent. above the pre-war level, as compared with an increase in population of 15 per cent. — which gives an indication of the improvement in output per head. The rise in industrial production over the same period was approximately 70 per cent. This figure does not include building, which is estimated to have risen by 80 per cent.; if house-building alone is considered, the increase is nearer 100 per cent.

In eleven western European countries taken as a group, the total number of dwellings completed in 1955 was about 50 per cent. greater than in 1951 but only 3 per cent. greater than in 1954, as may be seen from the following table. While a substantial increase was achieved in some countries (notably France and Italy) in which the figures had previously been relatively low, there was a distinct slowing-down in building activity

House-building in eleven European countries and the United States.

Countries	Number of dwellings completed in					
	1946-50 annual average (partly estimated)	1951	1952	1953	1954	1955 pre- liminary
	In thousands					
Austria	28	31	39	38	41	46
Belgium	27	35	33	39	45	45
Denmark	17	22	19	21	23	24
France	41	77	84	115	162	208
Germany (western)	185	410	443	518	543	541
Italy	43	93	116	149	177	220
Netherlands	32	65	57	63	71	61
Norway	16	21	33	35	35	32
Sweden	50	40	45	52	58	56
Switzerland	22	29	28	29	36	40
United Kingdom	168	202	248	327	354	324
Total for eleven countries	629	1,025	1,145	1,386	1,545	1,597
Index: 1951 = 100	61	100	112	135	151	156
United States:						
non-farm dwellings started	975	1,090	1,125	1,105	1,220	1,330
Index: 1951 = 100	89	100	103	101	112	122

in most of the others. The high rate at which building had quite often been carried on in the immediately preceding years had, of course, reduced the housing shortage (though it is only too frequently artificially prolonged by rent control), so that the authorities felt able in many cases — but not in all — to extend the restrictive credit policy to the building sector, which makes such heavy demands on manpower and other resources. Given the high levels already reached in house-building, the checking of further expansion in this sector will, in several countries, help to make for a more balanced growth of the economy. In Denmark, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom there are now more rooms available per person than ever before in these countries' history.

In the United States, where housing did not suffer any war damage, the number of houses completed was 9 per cent. higher in 1955 than it had been in the previous year, but over the post-war period as a whole the expansion has been less marked than in western Europe; and early in 1956 there was a certain slackening in building starts for residential purposes, partly because of a tightening of the terms for mortgage credit and partly because there is no longer any exceptionally wide gap in that country between the number of dwellings needed and the available supply.

Another important element in satisfying consumer demand is an adequate supply of agricultural products.

In North America, i.e. mainly Canada and the United States, the volume of agricultural output has remained more or less stable during the post-war years at a level about 40 per cent. above the pre-war figure.

In western Europe, the performance of the agricultural community has in some respects been even more remarkable: agricultural output, which at the end of the war stood at rather less than three-quarters of the pre-war level, is now about one-quarter above that level.

Estimated annual increase in agricultural production.

Areas	Crop years				Total percentage increase in relation to pre-war level
	1951-52	1952-53	1953-54	1954-55	
	Percentage change over preceding year				
Western Europe	+ 4½	0	+ 6	+ 1½	+ 24
North America	+ 3	+ 8	0	- 4½	+ 41
Other countries*	+ 2	+ 4½	+ 2½	0	+ 19
Total*	+ 2½	+ 5	+ 2½	- 1	+ 27

* Excluding Albania, Bulgaria, China, Czechoslovakia, eastern Germany, Hungary, North Korea, Poland, Roumania and the U.S.S.R.

Thanks to modern methods, it has been possible to reduce the element of uncertainty in harvest results and thus to achieve a more even trend of agricultural output.

In Canada, however, there occurred in 1954 one of the nowadays rather rare cases of crop failure due to unfavourable weather. But in spite of this setback North America's stocks of wheat and some other agricultural commodities continued to grow in 1955.

In western Europe and North America more calories, and especially more foodstuffs with a high protein content, are now available per head of the population than ever before. In western Europe the increase in population has been more than matched by an expansion in output of agricultural produce — which is a more favourable development than had been expected.

In some Latin American countries, too, an expansion in food production has made it possible to improve the feeding standards of the population, and the same is true of Australia, New Zealand and South Africa. In a number of other countries statistically included in the western world (e.g. India, Burma, Indonesia, Egypt, the Philippines and Japan) agricultural output has also risen, in some cases to a remarkable extent, but as a rule the increase has been barely sufficient to prevent a decline in the amount available per head to below the pre-war level.*

* The difficulty with which the industrially under-developed countries are faced in the matter of food production is not that the agricultural output per unit of cultivated area is seriously low. On the contrary, in many cases it is already very high — for instance, the Egyptian peasant manages to extract from an acre of agricultural land the equivalent of twice the output per acre in Denmark (as is brought out by Professor N. Koestner in the Economic Bulletin of the National Bank of Egypt, Vol. VI, No. 3, 1953). Compared with Egypt and China, however, the technically well-developed Danish agricultural sector is not really hampered by shortage of productive land, and the same obviously applies — with very much greater force — to North America. At the same time the surplus food produced in, say, North America or the Argentine is difficult to sell, because the poorer countries have not the effective purchasing power needed to buy it at the prevailing prices, or, in other words, are not yet in a position to produce sufficient goods at competitive prices which they could offer in exchange for the food they would like to obtain.

Agricultural products are still an important item in foreign trade, though the considerable post-war increase in western Europe's own production of foodstuffs has led to a reduction in the volume of its agricultural imports as compared with the pre-1939 period. The international exchange of other commodities, and also of services, has undergone a quite remarkable expansion in the post-war period. A most important development has been the rapid growth in shipments of oil, but trade in many other kinds of goods has also been expanding, with the result that in 1955 the volume of the western world's foreign trade was some 60 per cent. greater than it had been before the war.

Annual increase in world trade.
Volume of exports.

Areas	1953	1954	1955 ¹
	Percentage change in relation to preceding year		
Continental western Europe	+ 12	+ 14	+ 12
Sterling area	+ 4	+ 3	+ 9
North America	+ 3	- 3	+ 3
Total world trade² . . .	+ 6	+ 5	+ 8

¹ Preliminary.

² Excluding the trade of Albania, Bulgaria, China, Czechoslovakia, eastern Germany, Hungary, North Korea, Poland, Roumania and the U.S.S.R.

It might be added that the expansion in the volume of world trade is also borne out by the figures for world shipping tonnage actually employed.

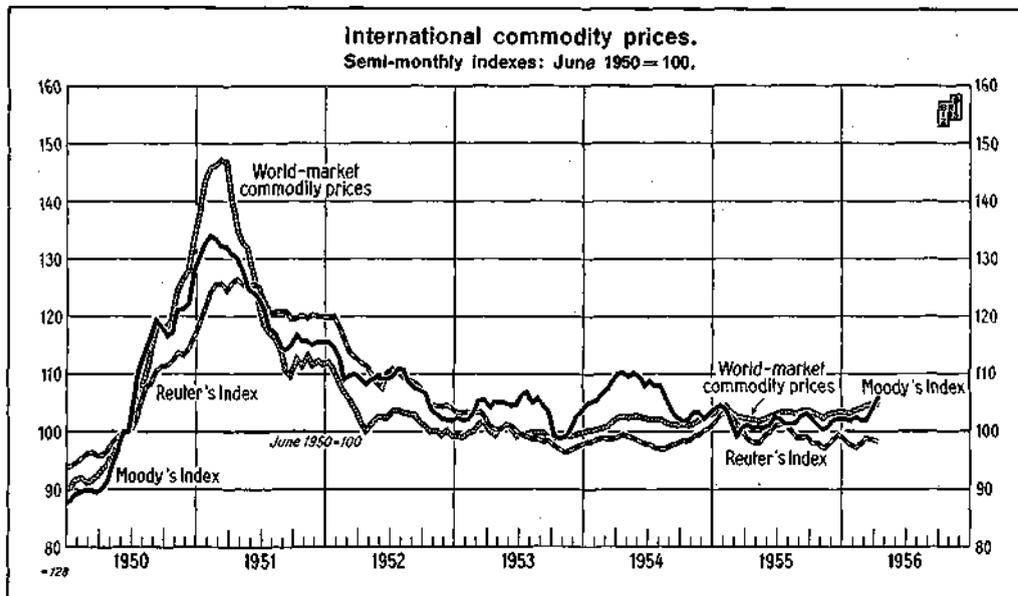
Invisible trade has also been growing. Tourist traffic is everywhere on the increase: as a result of the rise in earnings and the extension of paid holidays, the tourist trade is becoming an important service item in national economies as well as in the balance of payments. In 1955 the expenditure of American visitors in other countries amounted to more than \$1 milliard, which is equivalent to about one-tenth of the total value of U.S. imports. Generally speaking, services of all kinds (except domestic service) are gaining in importance now that standards of living are rising; and in most countries of the western world the supply of services has on the whole been as well catered for over the last ten years as production in other branches.

It is thus possible to conclude that in the economies of the western world an all-round expansion has taken place in conjunction with the increasing liberation of market forces.

* * *

Such a violent disturbance of economic life as that caused by a world war does, of course, interrupt for a time any resumption of a regular business cycle of the kind which was characteristic of the relatively peaceful pre-1914 period. Looking back over the years which have passed since the end of the war in 1945, one finds that in the first half of that period the business trend in most countries of the western world was conditioned not so much by the usual cyclical influences as by the extraordinary task of reconstruction, consisting mainly in the replacement of

dwellings, plant and equipment destroyed or damaged during the war years, and, in general, by the intense demand for goods and services which had been more or less unobtainable during the war itself. The strength of this demand was partly due to the fact that the methods adopted for financing the war had left the private economy in many countries in a state of excessive liquidity in relation to the existing level of prices. But these forces gradually spent themselves and by the first half of 1950 a new equilibrium was in sight. This process of normalisation was, however, brusquely interrupted by the outbreak of the Korean conflict in the summer of 1950. Again the business trend came to be mainly determined by extraneous forces, the most important of which was the increase in government expenditure for armament purposes. After it had been found possible, partly thanks to the adoption of flexible monetary policies, to arrest — and even to reverse — the upward movement of prices, there followed a period of four years in which the general level of wholesale prices on the world markets remained remarkably stable and in which as a result the more normal forces of economic life were able to come into their own again.



Indeed, the upswing in business which got under way in western Europe in the course of 1953 and about a year later in the United States seems to have conformed very much to the classical pattern of a business boom, having been characterised, in particular, by more intensive financing activity and a cumulative increase in fixed-capital investment and the production of other durable goods.

One of the main objects of the extensive examination undertaken by economists in a number of countries of the statistical data for the pre-1914 and inter-war periods has been to discover what are the recurrent features of the business cycle. In the study "Prosperity and Depression" (first

published in 1937) made for the League of Nations by Professor Gottfried Haberler the conclusion is reached that there are — probably without exception — two features that can be observed in every cycle. These are:

- (i) in the first place, a high degree of parallelism between production and monetary demand — which is almost self-evident, since in the upswing all the goods produced are sold without difficulty, while in the downswing production begins to lag as demand declines;
- (ii) in the second place, wide fluctuations in the rate of production of capital goods, especially fixed capital equipment.¹ This is a feature which was emphasised by Gustav Cassel and Arthur Spiethoff well before 1914 and has been confirmed by later experience. In the upswing of the business cycle there is not only an increase in production of capital goods but generally also an increase in the output of consumer goods, although this is proportionately less great.²

It is consistent with these observations that in the United States the year 1955 and the early months of 1956 witnessed an increasingly rapid expansion in the volume of gross private domestic investment. An increase in residential (non-farm) construction had already begun in the spring of 1954 and it continued well into the following year. The total of fixed business investment — which is obtained by adding the amount of new construction for other than residential (non-farm) purposes, i.e. the amount spent on building factories, commercial premises, etc., to the value of the output of producers' durable equipment (machinery, etc.) — rose by no less than 15 per cent. from the fourth quarter of 1954 to the corresponding quarter of the following year, while in the same period the total of personal consumption, although considerable in absolute figures, increased by 7 per cent. Thus there gradually developed the typical situation in which a rise in demand for investment goods creates the need for larger supplies of steel, cement, etc. and thus for further investment in fixed capital, mainly for the extension of production of these basic materials.

Though a comparison of the figures for the two full years 1954 and 1955 (see the table on the next page) does not reveal such a striking contrast in the trend of capital investment as does that of the figures for the fourth quarters of the two years, it is illuminating in other ways, showing, in particular, the net reduction which has occurred in the last two years in government purchases of goods and services.

The recovery in the U.S. gross national product in 1955 after its decline in 1954 appears to have been a cyclical upswing brought about in part by the rising demand of a growing population and the very profitable utilisation

¹ The production of certain other kinds of capital goods, particularly dwelling-houses, is subject to fluctuations which do not always correspond to those of the ordinary business cycle.

² To draw attention to the recurrent features of the business cycle does not, of course, imply unawareness of the many individual traits which such cycles have been observed to display in the past.

United States:
Gross national product and expenditure at constant prices.

Items	1952	1953	1954	1955	Percentage change from 1954 to 1955
	In milliards of dollars at 1955 prices				
Expenditure on personal consumption	223.4	233.4	237.3	252.3	+ 6.3
Government purchases of goods and services	81.4	89.6	79.7	75.9	- 4.8
Gross fixed private domestic investment					
New residential (non-farm) construction . .	11.6	12.2	13.9	16.6	+ 19.4
Other new construction	13.8	14.5	14.7	15.8	+ 7.5
Producers' durable equipment	24.3	25.3	22.9	23.6	+ 3.9
Net change in business inventories . .	2.6	1.2	- 3.1	3.2	.
Net foreign investment	0.3	- 1.9	- 0.1	- 0.4	.
Gross national product .	357.5	374.3	365.4	387.2	+ 6.0

of technical innovations. The turn in the trend occurred, moreover, under propitious monetary conditions which permitted an expansion in the volume of credit.

In the western European economies the task of reconstruction, although it cannot be said to have been fully completed during the first five years of the post-war period, was after that no longer the principal factor influencing economic events. Once the Korea crisis had been overcome, therefore, economic developments took a more normal course. By 1953 it was possible to discern signs of the beginning of what might be termed a cyclical upswing in the volume of output of producers' durable equipment and in the construction of business premises and plant, after the decline which had occurred from 1951 to 1952. This may be seen from the table on the next page, which is based on an interesting compilation of data appearing in the Seventh Report of the O.E.E.C.

In the course of the general recovery from 1952 to 1953 private consumption in the O.E.E.C. countries rose by 5 per cent., while total fixed-capital formation increased by as much as 8½ per cent. — or, if residential construction is left out of account, since it may be said to have been largely dependent on official financing, by 7 per cent. — an increase which was in part the reflection of the continued strong demand for European goods in other continents. It has, indeed, been a characteristic of the whole post-war period that there has been no real slackening of demand on world markets — a state of affairs which, with the exception of only a few types of products, in particular certain agricultural commodities, has made it possible for countries with goods for export to dispose of them without difficulty.

In explaining the fluctuations in business activity which took place following the outbreak of the Korean conflict it is necessary to make full allowance for the influence exerted by monetary policy. Reference has

**O.E.E.C. countries: Aggregate gross national product
and expenditure at constant prices.**

Items	1951	1952	1953	1954	1955	Percentage change from 1954 to 1955
	in milliards of U.S. dollars at 1951 prices and exchange rates					
1. Private consumption	109.3	112.0	117.6	123.2	130.7	+ 6.1
2. Public consumption	23.5	26.2	26.9	27.0	27.4	+ 1.5
3. Gross domestic fixed-capital formation						
Residential construction	5.4	6.1	7.0	8.0	8.3	+ 3.8
Other construction	7.1	7.0	7.6	8.0	9.0	+ 12.5
Producers' durable equipment.	13.8	13.5	14.3	15.5	17.1	+ 10.3
Sub-total	26.3	26.6	28.9	31.5	34.4	+ 9.2
4. Increase in stocks	4.8	2.1	1.8	2.3	2.9	+ 31.8
5. Exports of goods and services	24.0	24.3	26.0	29.0	31.2	+ 7.6
Less: Imports of goods and services	25.5	25.6	27.2	29.8	32.5	+ 9.1
Gross national product at market prices	162.4	165.6	174.0	183.2	194.1	+ 5.9

Note: This is the first time that the O.E.E.C. annual report has given figures for aggregate gross domestic fixed-capital formation in the member countries. It is specially noted in the report that the values in national currencies as converted into dollars at 1951 exchange rates probably substantially understate the real magnitude of the European gross national product, as compared with the national product and expenditure of the United States.

already been made (on page 8) to the stricter monetary policies pursued in the period from the autumn of 1950 to the first half of 1952, which helped to bring down prices from the peaks they had reached in the spring of 1951, so that in the following year they settled down again some 10 per cent. above the pre-Korea level. Once this down-turn had started it became possible to reintroduce easier monetary policies, and official discount rates were reduced in a number of countries. The demand for credit became on the whole more normal; and the fact that the gold and dollar reserves were on the increase in almost every western European country, together with the price stability that had been achieved, helped to strengthen monetary confidence and stimulate the flow of savings. This happened at a time when there were still ample opportunities for investment and when the rate of economic expansion was therefore essentially dependent upon the volume of genuine savings at the disposal of each individual country. It was particularly fortunate that there was a growth in savings, since this was also the time when Marshall aid receipts were coming to an end.

O.E.E.C. countries: Gross and net savings and national product.

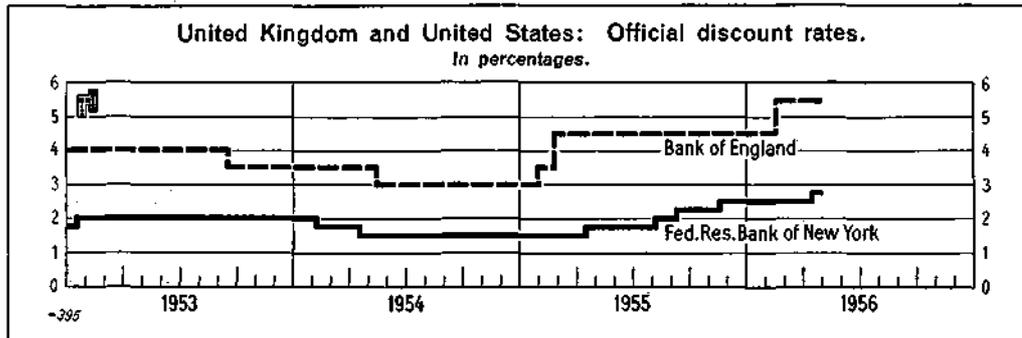
Year	Gross national product	Net national product	Gross savings	Net savings	Gross savings as percentage of gross national product	Net savings as percentage of net national product
	in milliards of U.S. dollars at current market prices					
1954	201	182	40	21	20	12
1955	215	196	45	25	21	13

The economic expansion in the western European countries was so vigorous that it continued unabated in 1954 notwithstanding the simultaneous recession in the United States and Canada. In some of the European countries, however, there arose the danger that the rate of expansion would place too heavy a burden on their resources and thus cause a deficit in the balance of payments. The Scandinavian countries soon encountered difficulties. The first among them to take corrective measures was Denmark; in the summer of 1954 the official discount rate was raised from $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent., an example which was followed by Sweden, which increased its rate from $2\frac{3}{4}$ to $3\frac{3}{4}$ per cent. in the spring of the following year; at the same time certain other measures — mainly of a fiscal nature — were taken by these countries. None of the countries faced with balance-of-payments difficulties limited their action to making changes in interest rates, but if attention is concentrated for the moment on this aspect alone it is found that early in 1955 the Bank of England raised its rate in two stages, first from 3 to $3\frac{1}{2}$ per cent. and then to $4\frac{1}{2}$ per cent., and that at about the same time the Bank of Norway increased its discount rate from $2\frac{1}{2}$ to $3\frac{1}{2}$ per cent., this being the first change in the official discount rate of that country since the beginning of 1946. In May 1955 the Austrian National Bank, partly in view of the new situation created by the restoration of the country's independence, raised its discount rate from $3\frac{1}{2}$ to $4\frac{1}{2}$ per cent. (a step which was followed by a further increase to 5 per cent. in November of the same year). Mainly owing to balance-of-payments difficulties the Central Bank of Turkey raised its discount rate from 3 to $4\frac{1}{2}$ per cent. in June 1955, after having left it unchanged since February 1951, when it was lowered from 4 to 3 per cent. Overseas, Canada and New Zealand, likewise beset by balance-of-payments difficulties, have also increased their official discount rates. These various changes in discount rates are indicative, in particular, of the timing of the monetary action in the different countries, but the scope of the measures taken was in fact much broader.

The internal problems facing these various countries were reflected in the decline in their monetary reserves, which in itself added to the effectiveness of their credit policy. For when amounts in the national currency were paid in to the monetary authorities for the purpose of acquiring the foreign exchange needed to pay for an increased amount of imports, this tended to bring about a contraction in the volume of credit; and steps could then be taken to keep credit conditions tight and so to prevent the effects of such a contraction from being nullified through a fresh extension of credit in response to private or public demand.

In the period under review, however, it was not only in the countries which were confronted with balance-of-payments difficulties that monetary measures were taken. As the boom became more intense on both sides of the Atlantic, even those countries which had a surplus in their balance of payments (e.g. Belgium, western Germany, the Netherlands and Switzerland) thought it advisable to take action to moderate the

upward swing. In the United States, too, the authorities introduced a mild change in the degree of credit ease late in 1954, while in the following period of continued boom a variety of steps were taken, including the raising of the Federal Reserve discount rate to $2\frac{3}{4}$ per cent. in April 1956 — the fifth increase in that rate within a year.



In western Germany, notwithstanding the continuous surpluses in the balance of payments, interest rates were increased and other measures taken to restrict credit. Thus the Bank deutscher Länder raised its discount rate from 3 to $3\frac{1}{2}$ per cent. in August 1955, this step being accompanied by a stiffening of the minimum reserve requirements for the commercial banks and other credit institutions; market rates, however, continued to rise and in order to keep in line with them the Bank deutscher Länder raised its discount rate once more in March 1956, this time from $3\frac{1}{2}$ to $4\frac{1}{2}$ per cent., and yet again in May 1956, to $5\frac{1}{2}$ per cent. In August 1955, mainly as a precautionary signal, the National Bank of Belgium raised its discount rate from $2\frac{3}{4}$ to 3 per cent., and in February 1956 the Nederlandsche Bank increased its rate from $2\frac{1}{2}$ to 3 per cent., this measure being intended, inter alia, to serve as a warning against too rapid a rise in prices, wages, etc.

Although during the period under review conditions in the various countries, and also the measures taken to deal with them, differed considerably, it is nevertheless possible to enumerate certain aims of economic and financial policy which were common to the majority of countries:

- (i) In the first place, they were anxious to ensure the stability of the purchasing power of their respective currencies. In a few countries in which prices were still on the low side in 1953-54 (owing, in certain cases, to the after-effects of the 1949 devaluations) some belated price increases were almost bound to occur during the boom; but, as far as the average level of world-market prices is concerned, the more restrictive credit policies generally introduced in 1955 have certainly helped to maintain the relatively high degree of monetary stability which is reflected by various indexes of sensitive commodity prices. Moreover, it was partly in order to keep down the level of internal prices by exposing domestic producers to greater foreign competition that steps were taken by a number of countries to raise the degree of their trade liberalisation.

- (ii) In the second place, the authorities wished to prevent the boom from becoming so intense as to make it likely that it would be followed by a sharp setback. For this reason special measures were taken to discourage speculative excesses, especially in the use of credit. As was pointed out in the Economic Report of the President of the United States, which was submitted to Congress in January 1956, prompt and resolute action "to contain undue expansion requires courage and a willingness to focus on the less apparent and the longer-term interests of the economy". But the Report recognises that measures of monetary and fiscal restraint are never accepted without protest:

"To each participant in the economic process a shortage of credit may appear as a restriction on his own opportunities. But the basic shortage under conditions of high prosperity is on the side of physical resources, not on the side of money or credit. If credit on easy terms were available to everyone at a time when the economy is already working close to capacity, the consequence would be a scramble for limited resources and a cumulative bidding-up of prices. If taxes were simultaneously reduced, this inflationary process would only be speeded up. A government that sought to prolong prosperity by such devices would be taking a road that all too often has ended in disaster."

- (iii) In the third place, the authorities have all along aimed at attaining these two goals without impairing the dynamic forces of the economy, as has been shown by the very form their action has taken:

(a) In the field of foreign trade, there has been no resort to quantitative import restrictions. Thus, even though the balance of payments of several countries showed a considerable deterioration in 1955, no member of the O.E.E.C. went back on the percentage of trade liberalisation already attained. On the contrary, at a meeting of the Ministerial Council of the O.E.E.C. in February 1956 a directive was given to the Organisation to continue its work of reducing the field of application of import quotas. It is now widely realised that the danger of retaliation has to be reckoned with and — even more important — that quantitative import restrictions do not attack the causes of balance-of-payments difficulties. If domestic demand remains at too high a level, cuts in imports are certain to cause the excess purchasing power to be used for the acquisition of domestic goods, thus leaving less goods available for export, so that there will continue to be a deficit in the balance of payments. To quote from a speech made by Sir Edward Boyle, the Economic Secretary to the Treasury, in the House of Commons on 21st February 1956:

"Import controls cannot in any case be a substitute for internal measures when one has inflation due to excess of total demand. If one were to reimpose import controls in order to give relief to our balance of payments, it would become more important and not less important to balance those controls by disinflationary measures at home."

(b) In the domestic field, too, governments have sought to avoid direct controls, and have preferred measures of a general character. Administrative control over investment is notoriously difficult to operate efficiently, and there has been a growing tendency to allow business men to do their own planning, the authorities confining themselves to controlling, by means of monetary and fiscal policy, the overall credit situation, in addition, of course, to

managing their own business and financing activities. There have been signs during the past year that governments are now more prepared to act in this way, instead of attempting to exercise direct control over the private economy. A policy of credit restraint naturally also causes some difficulties for business men but, as has been proved by the experience of western Germany and some other countries, increased interest rates are in no way an insuperable obstacle to the attainment of a high level of investment. In view of the dependence of investment activity on the volume of genuine savings available, especially at a time of brisk business, an increase in interest rates, by encouraging an expansion in the flow of savings — mainly through maintaining confidence in the currency — will, over a period of years, often enable a larger amount of investment to be carried out than would otherwise be the case.

An important factor in this connection has been that those countries which were the first after the war to apply flexible monetary policies seemed to derive great benefit therefrom, having been able not only to rid themselves of bottlenecks and distortions but also to achieve a relatively stable price level. These were telling examples that served to reinforce the more theoretical arguments in favour of a break with the monetary practices which had been inherited from the depression in the 1930s and from the war. The effects of restrictive monetary and fiscal policies will not, of course, always be pleasant, but the result is likely to be a better orientation and balancing of production than would be achieved by alternative methods of intervention, which are frequently based on other than economic considerations. Even those sectors which are forced thereby to curtail their investments are likely, by the very fact of this limitation, to be spared the difficulties — resulting from an excessively one-sided expansion — which have often arisen when no brake has been put on the provision of credit. The return to a market economy has brought so many advantages in the way of simplification, orderly business conditions and freedom of choice in the fields in which the law of supply and demand has been allowed to operate that the authorities naturally hesitate to go back on liberalisation, in the widest sense of the term.

The policies pursued by the various countries will be judged by whether they succeed in preventing an excessive expansion of credit, both in the private and the public sector, while still allowing the unhindered development of investment financed by genuine savings. In the countries of western Europe, for which foreign trade is of great importance, much attention is paid to the very close connection between internal and external economic developments, and the policies which are adopted in order to arrest a rise in domestic prices may also be expected to help to restore equilibrium in the balance of payments. In the United States there is, from a purely domestic point of view, less need for concern about balance-of-payments equilibrium than is the case in Europe. But in America the potential repercussions of domestic events on other countries are being increasingly recognised and taken into account in the framing of policies. Furthermore, the absence of large and stable markets abroad and the recurrence of balance-of-payments crises in other countries may complicate the task of maintaining

stability in the United States itself. For the rest of the world, the success achieved by the United States in evening out cyclical and other fluctuations at home and in expanding external trade is a matter of the greatest moment.

The 1953-54 recession in the United States was very mild in character, one of its most prominent features being a sizable shift from net inventory accumulation to net liquidation. While there was a reduction in Federal defence outlays, consumer expenditure was well maintained, and fixed capital investment declined by only a small amount. The high rate of investment in the face of weakening aggregate demand may be taken as partial evidence that business firms, far from losing confidence because of temporary adverse tendencies, have been increasingly acting upon long-term plans based on the expectation of a buoyant growth trend in the U.S. economy. Moreover, the ensuing recovery was facilitated by a combination of other favourable circumstances, such as the uninterrupted expansion in western Europe, the continued strong demand for housing throughout the United States and a belated upward adjustment of stock-exchange values, bringing them more into line with money values, which had been inflated at an earlier stage.

Measures of general policy also contributed effectively to the speedy recovery. While in some sectors progressive rationalisation at practically unchanged wage rates helped to reduce production costs, consumer expenditure was sustained by the action of the "built-in stabilisers",* reinforced by a reduction in personal taxation. At the same time the easier monetary policy, by making credit more readily available at a lower cost, provided a stimulus not only to investment — particularly in the field of housing — but also to expenditure by local authorities and to private spending on durable consumer goods, purchases of which are nowadays to a large extent financed by instalment credit.

United States:
Gross private expenditure on durable goods.

Items	1954	1955	Percentage change
	in milliards of dollars		
Durable goods used by consumers			
Consumer durables (motor-cars, refrigerators, etc.)	29.3	35.3	+ 20.5
Investment in non-farm housing	13.5	16.6	+ 23.0
Total	42.8	51.9	+ 21.3
Durable goods used by producers			
Investment in producers' durable equipment	22.3	23.8	+ 6.7
Investment in construction (non-residential)	14.3	15.8	+ 10.5
Total	36.6	39.6	+ 8.2
Grand total	79.4	91.5	+ 15.2

* See the Twenty-fifth Annual Report, pp. 14 and 15.

The demand for durable goods used by consumers, in the widest sense of the term (i.e. including houses as well as motor-cars, refrigerators, etc.), amounted in 1955 to \$51.9 milliard, compared with the total of \$39.6 milliard representing gross fixed business investment in the form of purchases of producers' durable equipment and non-residential construction (mainly factories and business premises). The more detailed figures in the table on the preceding page illustrate the relative importance of these various categories of demand and show the changes that occurred between 1954 and 1955.

During 1955 new credit played, in varying degrees, an important part in the financing of each of the categories of expenditure shown in the table. An impression of the significance of consumer instalment credit may be gained from the fact that in 1955 new consumer credit extended totalled \$37.2 milliard and repayments \$31.7 milliard, the resultant net increase of \$5.4 milliard raising the total outstanding by 24 per cent. to \$27.9 milliard by the end of the year. As for expenditure on residential housing, by far the greater part of it was financed in 1955 by new credit, as is indicated by the increase in the outstanding amount of mortgage credit in respect of one-to-four-family (non-farm) houses by \$12.7 milliard, or 17 per cent., to a total of \$88.4 milliard. New non-residential construction, on the other hand, tends to be financed to a much smaller extent by mortgage loans, depending instead more upon internal financing and the raising of capital by security issues. Accommodation from credit institutions is also of relatively minor importance in the financing of gross investment in producers' durable equipment, which is customarily covered to a great extent by depreciation allowances and profits retained out of current income.

Account has also to be taken of other factors which may affect financing requirements. In the United States an additional amount of new credit totalling \$16.3 milliard was required by corporate industry in 1955 as a result of a large expansion of accounts receivable, the need for a sizable addition to liquid working capital and the major shift from net inventory liquidation to net accumulation. According to the annual report for 1955 of the Federal Reserve Bank of New York, the total volume of capital and credit financing in that year amounted to \$37.0 milliard, compared with \$25.9 milliard in 1954 and \$27.4 milliard in 1953 (see table on the next page). If to this sum are added the total internal funds employed by corporate industry — in 1955 depreciation allowances and undistributed profits amounted to \$24.0 milliard — the resulting figure (over \$60 milliard) gives a very rough impression of the order of magnitude of the total additional financial resources needed in 1955 by industry for investment and by the public for purchases of durable consumer goods, including houses.*

* This total also includes the net new finance required by state and local authorities, which in 1955 totalled \$5.1 milliard. The aggregate expenditure of state and local authorities — which amounted to some \$30 milliard by 1955 — has steadily risen throughout the post-war period, largely as a result of the pressing need for new highways, schools, and hospitals.

United States: New capital and credit financing.

Items	1953	1954	1955
	In billions of dollars		
Loans by commercial banks	3.4	3.0	12.0
Mortgage credit	9.9	12.5	16.4
Other financing	14.1	10.4	6.6
Total new capital and credit financing	27.4	25.9	37.0

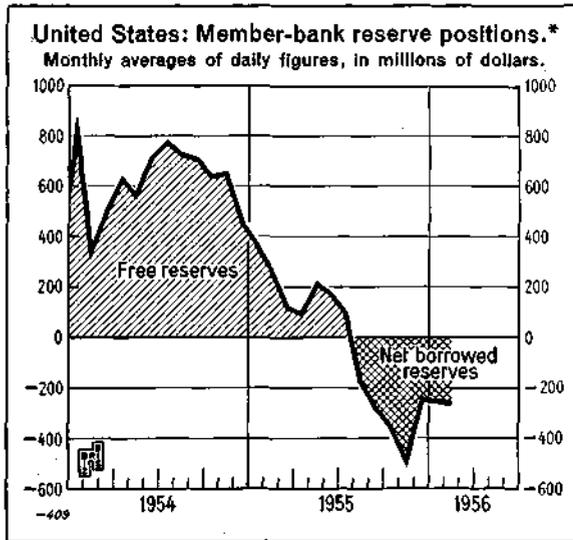
It will be seen from the above table that the large increase in new capital and credit financing in 1955 was due in part to the growth in the volume of new mortgage credit — reflecting to some extent a continued upward trend in the flow of savings through life-insurance companies and other specialised financial institutions — but even more to the very substantial expansion in the volume of new bank credit. In this connection, the rôle of the monetary authorities (in the words of the annual report of the Federal Reserve Bank of New York) was “to permit the credit expansion required for economic recovery and growth, while at the same time forestalling excessive expansion. As the year progressed, a gradually evolving policy of restraint was made effective by so conducting open-market operations that a large part of member-bank demand for reserve funds was met through borrowing from Federal Reserve Banks. Reinforcing this policy of restraint, Reserve Bank discount rates were raised in successive steps from 1½ to 2½ per cent.”

**United States:
Federal Reserve Banks — Selected assets and liabilities.**

End of month	Assets				Total assets or liabilities	Liabilities		
	Gold certificates*	Cash	Discounts and advances	U.S. Government securities		Federal Reserve notes	Deposits	
							member-bank reserves	other
in millions of dollars								
1953 June . . .	21,286	477	64	24,746	50,243	25,831	19,561	835
December	21,354	586	28	25,916	52,315	26,558	20,160	1,262
1954 June . . .	21,239	503	37	25,037	50,759	25,588	19,011	1,798
December	21,033	614	143	24,932	50,872	26,253	18,876	1,495
1955 June . . .	20,994	512	128	23,607	49,666	25,868	18,066	1,202
December	21,009	685	108	24,785	52,340	26,921	19,005	1,350
1956 March . .	21,036	681	672	23,636	50,822	26,098	18,799	1,511

* Including redemption fund for Federal Reserve notes.

The Federal Reserve System's open-market operations, besides involving alternate injections and withdrawals of reserve funds to offset seasonal or other temporary strains or relaxations, had the effect of gradually bringing pressure to bear upon the reserve positions of the commercial banks. While such transactions resulted in a net decline during 1955 of only \$147 million in the System's holdings of government securities, this small figure does not fully reflect the fundamental importance of the part played by open-market



* Excess reserves minus borrowing from Federal Reserve Banks.

system (consisting of excess reserves less borrowing from the Federal), which in 1954 had amounted to an average of \$626 million, disappeared entirely in the course of 1955; in fact, during the second half of the year average borrowing exceeded average excess reserves by \$246 million.

It is the recognised practice of the commercial banks in the United States to avoid continuous borrowing from the Federal Reserve System, and the System itself, not wishing to have its funds permanently involved in financing the credit operations of individual banks, encourages this custom. This fact, together with the restraint imposed by open-market policy, left the banks with little alternative, if they wished to expand their lending operations, but to sell securities (mainly government paper) to non-bank investors. Since the demand for bank loans at the relatively favourable rates of interest was very strong, the banks did in fact dispose of large amounts of their security holdings, making net sales of \$7 milliard, in contrast to their net purchases of some \$7.2 milliard during 1954.

Thanks to these sales of securities, the net extension of bank credit, as measured by the total of bank loans and investments, came to only \$5 milliard in 1955, which is less than one-half of what it had been in

operations in tightening the reins of credit control as the economy moved during the year towards capacity levels of output. For, against this background of a relatively rigid reserve base, the strong demand for new bank credit and the increased flow of currency into circulation impelled the banks to sell large amounts of their security holdings and to enlarge their borrowings through the "discount window". Thus, while the total reserve balances held by member banks remained relatively stable, the so-called free reserves of the banking

U.S. commercial banks: Change in earning assets and deposits.

Year	Loans	Investments in securities	Total loans and investments	Demand deposits (adjusted)	Time deposits
	in milliards of dollars				
1952	+ 6.4	+ 2.6	+ 9.0	+ 3.3	+ 2.9
1953	+ 3.4	+ 0.6	+ 4.0	+ 0.9	+ 3.0
1954	+ 3.0	+ 7.2	+ 10.2	+ 4.1	+ 3.2
1955	+ 12.0	- 7.0	+ 5.0	+ 3.4	+ 1.5

the previous year. And the money supply — i.e. demand deposits (adjusted) plus notes and coins outside the banks — rose by \$3.8 milliard, or 2.8 per cent. from the end of 1954 to the end of 1955, compared with a growth of 8.2 per cent. in the gross national product from the fourth quarter of 1954 to the fourth quarter of 1955.

The greater part of the securities sold by the commercial banks were bought not by financial institutions (insurance companies, savings banks, etc.) but by other non-bank investors — mainly business firms and individuals. While personal saving declined somewhat between 1954 and 1955, corporate business firms are reported to have added substantially to their holdings of government securities. Since part of the purchases were made from already existing balances, in addition to the part financed out of current earnings, they led to a more active use of previously idle funds. This development is confirmed by the substantial increase during the year in the rapidity with which money changed hands, as evidenced by the 6 per cent. rise from 1954 to 1955 in the rate of turnover of demand deposits in reporting cities other than New York.

While a certain significance attaches to the fact that the banks' sales of securities in 1955 activated previously idle balances, it must, on the other hand, be noted that the funds used for the purchase of these securities were thenceforth tied up and, moreover, that these sales were of such a nature as to keep down the increase in the money supply — and this, when it is remembered that the process of activation tends to become self-limiting, is in itself important. The sales not only brought about a decline in the quotations for government securities, which made the banks less willing to go on selling, but, combined with the granting of loans, they also led to a reduction in the banks' liquidity. The banks had increasingly to turn to the Federal Reserve for accommodation, which helped to strengthen the influence of the System over the credit volume. This, together with the banks' reluctance to sell additional securities, meant that they had to exercise more restraint in their granting of fresh credit (see also Chapter II).

While general measures of credit policy have occupied a strategic position in the efforts made in the United States to moderate the boom, other methods have also been employed.

- (i) The budget for the year July 1955 to June 1956 promises to register a small cash surplus, a result which has been facilitated by the postponement of certain tax reductions that had been scheduled to take effect already on 1st April 1955. But as far as the public-debt structure was concerned, the maturity distribution of outstanding marketable debt did not change appreciably during the calendar year 1955.
- (ii) The use of credit for the purchase of stock-exchange securities was restrained by the Federal Reserve authorities by means of an increase in the cash-margin requirements in respect of loans for such purchases from 50 to 60 per cent. in January 1955 and a further increase to 70 per cent. in the following April.

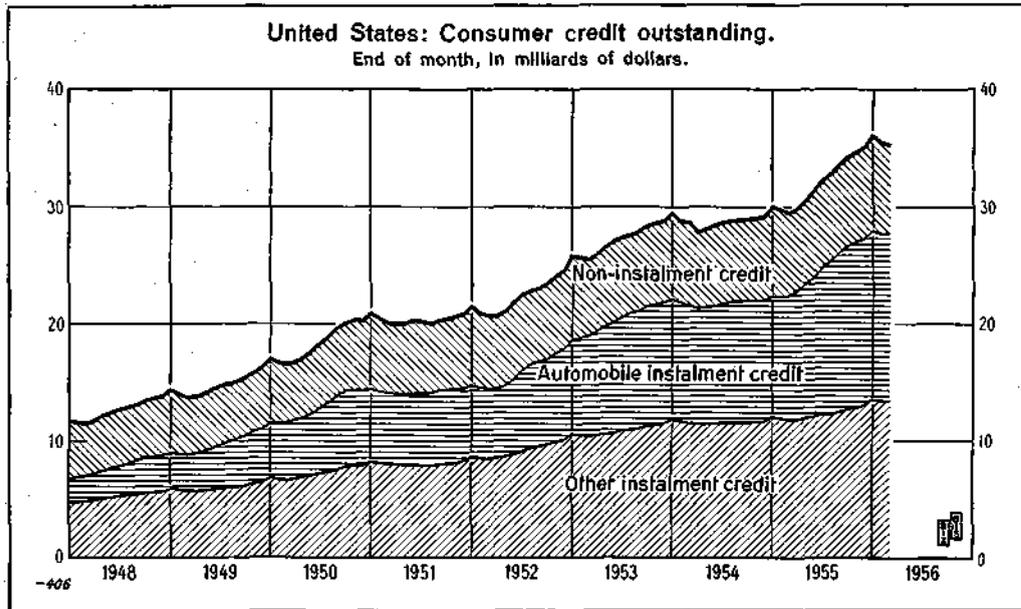
- (iii) In the field of housing credit, the official agencies concerned took several measures during 1955 which together had the effect of slightly shortening the maximum maturity of mortgage loans and increasing the required down-payments. Owing, however, to a steady decline in the number of housing starts during the year, the authorities somewhat relaxed the terms again early in 1956.*
- (iv) Finally, the stockpiling programme was adjusted during the year, within limits permitted by the law, in order to avoid putting a strain on the markets, one of the measures taken being the diversion to industrial use of certain quantities of copper and some other metals under contract for delivery to the government.

Moral suasion also played a rôle. During 1955 savings institutions not only obtained large advances from Federal Home Loan Banks but also resorted increasingly to the practice of supplementing their supply of funds by the "warehousing" of mortgages with commercial banks — an arrangement which, because it tended to bring short-term credit into long-term financing, was actively discouraged by the Federal Reserve authorities. As was pointed out by Mr Allan Sproul, the President of the Federal Reserve Bank of New York, commercial bank credit can serve a useful purpose in interim financing of home construction, and in helping to moderate seasonal differences between the flow of mortgages and the flow of savings. It should not be a source of longer-term mortgage financing, except for the investment of savings deposits.

Moral suasion was exerted, too, in regard to consumer instalment credit. Although in 1955 many lenders in this field began to stiffen their terms, maturities and down-payments generally remained very liberal compared with those of previous years. The increase in the volume of instalment credit was very rapid in 1955 and no less than three-fifths of the total outstanding seems to have been obtained directly or indirectly from commercial banks. Concern has been felt not so much about the actual level reached as about the effects of variations in the volume of this form of credit. It is feared, in particular, that acceleration and deceleration in the growth of consumer instalment credit may accentuate economic instability by causing marked swings in production and employment in the durable-consumer-goods industries. The powers of the Board of Governors of the Federal Reserve System to exercise control over the terms of consumer credit lapsed in 1952, but the President's Economic Report of January 1956 contains a recommendation that Congress should study the advisability of restoring the authorities' powers.

A pertinent argument in the discussion of this question has been that a general credit squeeze, in order to have an effect on such a profitable and safe activity as the granting of instalment credit, might have to be made more stringent than would be necessary if special powers of control were available. In particular, the impact of a general credit squeeze falls disproportionately upon the commercial banks, while leaving specialised consumer-financing institutions greater scope for unchecked action. The regulation of instalment credit is no doubt administratively troublesome and it tends unavoidably to discriminate against certain types of expenditure, but there is the overriding consideration that, for

* At the end of 1955, the amount of mortgage debt outstanding reached a total of \$130 milliard, of which only \$9.1 milliard was in respect of farm properties and \$120.9 milliard in respect of other properties. At the end of 1945, the total mortgage debt was \$35.5 milliard; it had risen to \$72.8 milliard by the end of 1950 and to \$130 milliard, as just mentioned, by the end of 1955. At that date the government-underwritten debt in respect of one-to-four-family houses amounted to \$38.9 milliard. Annual contractual and voluntary repayments of mortgage debt on such houses totalled \$15 milliard in 1955.



the proper functioning of a free economy, much depends upon the effectiveness of monetary policy, particularly in crucial sectors — such as the building industry, the stock exchange and the durable-consumer-goods trades — which cannot easily be reached through general credit controls.

During 1955, in the absence of such regulatory powers, the Administration and the Federal Reserve held consultations with institutions operating in the field of consumer credit at which they emphasised the need for greater moderation in the present boom. While in the early months of 1956 it seemed at one time that a certain slackening of business was imminent, by the month of March a fresh buoyancy was observable in several — though not all — sectors. There were in particular renewed strong demands for credit, especially in connection with business investments, and this development was accompanied by a stiffening of market rates.*

In assessing the impact of the measures adopted in the United States during the past year, it is worth noting first of all that the growth in the money supply, as already mentioned, was limited to 2.8 per cent. despite a much larger rise in the gross national product. This restraint undoubtedly contributed to the stability of the overall level of commodity prices which has characterised the present boom period, although it is true that this stability has been the net result of divergent trends, since a rise in industrial commodity prices was counterbalanced by a decline in the prices of agricultural products. From December 1954 to December 1955 industrial commodity prices increased by about 4 per cent., the greater part of the rise having taken place, however, in the second half of

* According to a joint survey made by the Department of Commerce and the Securities and Exchange Commission, the results of which became available in March 1956, business outlay for plant and equipment in the sector covered by the survey will amount in 1956 to \$34.9 milliard, which is 22 per cent. above the previous record level of \$28.7 milliard reached in 1955.

the year. This increase — reflecting the strength of the boom on both sides of the Atlantic — has not affected the cost of living, which has been remarkably stable since the middle of 1952.

United States:
Average hourly earnings of workers
in manufacturing industries.*

Month	Gross	Excluding overtime
	in dollars	
1953 June	1.77	1.70
September	1.79	1.73
December	1.80	1.74
1954 March	1.79	1.75
June	1.81	1.76
September	1.81	1.76
December	1.83	1.77
1955 March	1.85	1.79
June	1.87	1.80
September	1.90	1.83
December	1.93	1.85
1956 January	1.93	1.86
February	1.93	1.86
March	1.95	.

Moreover, since the first half of 1953, when activity reached its previous peak, average hourly earnings (excluding overtime) do not seem to have risen any faster than productivity per man-hour. Nor can

* In gross hourly earnings are included earnings on work in excess of 40 hours a week, which is paid at 1½ times the straight time rates. To meet the need for data on straight time earnings (which approximately correspond to what are called in several countries the "wage rates") allowance has been made in the figures in the last column of the table for overtime pay, but not for other premium payments, e.g. those for holiday work and late shift work and special rates other than overtime rates. The changes during 1954 in these other premium payments were not of such importance as to invalidate the general picture of essential wage-rate stability up to the late autumn of that year. During 1955 there was a marked increase in wage rates and also in "fringe benefits" but in the winter of 1955-56 relative stability of wage rates seems to have again been achieved at a new level.

it be said that monetary and fiscal restraints have impeded the growth of the economy, since industrial production continued to rise uninterruptedly until the end of 1955, when a slackening in the demand for motor-cars led to a certain levelling-off of output. Strains in the labour market did not at any time become as pronounced as those which occurred in some areas of western Europe, and unemployment, although low, remained above the level to which it had fallen in 1953. Finally, stock-exchange quotations rose to new record heights; there were some declines in late 1955 and early 1956, but these were followed by fresh increases, generally under the influence of favourable reports from business firms.*

In the first quarter of 1956 the total loans of member banks of the Federal Reserve System increased by about \$1,200 million, as compared with only \$450 million in the corresponding quarter of the previous year. While sales of motor-cars and agricultural machinery were still sluggish and some doubts were entertained with regard to the trend of consumer buying, it was thought, in view of the renewed expansion of bank credit and the continued increase in investment expenditure, that expansionary tendencies were again gathering force. As a precautionary signal intended to restrain further bank lending, the Federal Reserve Banks on 13th April 1956 increased their rediscount rate by ¼ per cent. to 2¾ per cent.

* It should be added that market quotations have fluctuated considerably in recent months and that in May 1956 they declined rather sharply, so that by the end of that month they were down to approximately the same average level as in December 1955.

The Chairman of the Board of Governors of the Federal Reserve System, Mr William McC. Martin, Jr., has described the policy pursued by the system in recent months as "leaning against the wind", pointing out, however, that it is sometimes not at all easy to tell from which direction the wind is blowing. But up to the present the measures taken and the success achieved have unquestionably contributed to a further strengthening of confidence in the stability of the U.S. economy and in that way have laid a firmer basis for economic and financial co-operation between the United States and other countries.

The close interdependence between the Canadian economy and that of the United States naturally gives rise to special problems from time to time. Because of this intimate relationship, the trend of economic development in Canada is usually more or less the same as that in the United States, and often the economic policies adopted in the two countries have much in common. In Canada, after a mild recession in 1953-54, output in most sectors rebounded to capacity levels, the gross national product rising approximately 10 per cent. above the level of the preceding year. This high rate of expansion was, however, accompanied by a considerable increase in the credit volume and also by a deterioration in the current account of the balance of payments. Between the end of March 1955 and the end of March 1956 the loans of the chartered banks increased by more than 25 per cent., and after the middle of 1955 this rise in lending was accompanied, as in the United States, by large sales of bank-held securities. Canada's current-account deficit increased from Can.\$431 million in 1954 to Can.\$665 million in 1955, this being mainly the result of a more rapid rise in imports than in exports in the second half of 1955. Owing, however, to a heavy net inflow of capital, Canada's official holdings of gold and U.S. dollars declined by only Can.\$42 million in 1955, after having increased by Can.\$124 million in 1954.

Thus the circumstances in which Canada resorted to a policy of credit restraint were more akin to those in some European countries which took the same step, in that the tightening of credit was intended not only to moderate the internal boom but also to overcome balance-of-payments difficulties. As early as February 1955 the Bank of Canada had announced that its discount rate would thereafter be applied more flexibly than in the past. In the following fifteen months the rate was raised in four stages from the 1½ per cent. at which it stood at the outset to 3 per cent. in April 1956. In addition, an arrangement was concluded between the Bank of Canada and the chartered banks whereby these banks undertook to try to maintain from June 1955 onwards, on a daily average basis, a minimum ratio of 15 per cent. between their liquid assets (cash, day-to-day loans and Treasury bills) and their deposits. The chartered banks also agreed, at the request of the Bank of Canada, to discontinue most forms of "term" lending, the banks having got increasingly into the habit of making business loans extending beyond the term of ordinary loans and also of taking up a certain amount of securities directly from issuers (in contrast to the more normal Canadian bank practice of buying publicly-issued securities in the market).

As in the United States, however, the primary instrument of monetary management has been the central bank's open-market operations, although, in

contrast to what is done in the United States, the Bank of Canada deals not only in Treasury bills but also in marketable government bonds of all maturities.

Although it is still too early to assess the effects of the monetary measures taken in the latter part of 1955 and early in 1956, it would appear that residential mortgage financing has become more difficult and that consumer credit is being particularly affected — which will make the markets for some durable consumer goods less buoyant than they otherwise would have been. Moreover, municipal governments have begun to find it harder to obtain finance. At the same time there has been some improvement on foreign account. While the trade figures are as yet inconclusive, the official gold and U.S. dollar reserves dropped by only Can.\$36 million during the first four months of 1956, compared with a decline of Can.\$71 million in the corresponding period of 1955. Wholesale prices have continued to edge upwards, but the index of consumer prices has not risen for over four years.

In 1955 Canada, with a population of 15½ million, imported Can.\$3,452 million's worth of goods from the United States and Can.\$1,260 million's worth from the rest of the world. In the same year the United States, with a population of 165½ million, imported \$2,652 million's worth of goods from Canada and \$8,730 million's worth from the rest of the world. These figures give some idea of the commercial relations between the two countries and between them and the rest of the world. But Canada's economy is expanding at a more rapid rate than that of the United States and is thus gaining in relative importance.

A rising level of business activity in the United States can usually be expected to lead to an increase in the country's foreign trade. That this has been the case in the present boom is evidenced by the fact that total U.S. imports rose from \$10.3 milliard in 1954 to \$11.5 milliard in 1955, or by 11½ per cent. Commercial exports (i.e. excluding military transfers of supplies and equipment) also rose by 11½ per cent., or from \$12.7 milliard in 1954 to \$14.2 milliard in 1955. Accordingly, the U.S. surplus on trade account increased somewhat, from \$2.4 to 2.7 milliard. Over one-half of the rise in commercial exports was accounted for by larger shipments of industrial raw materials (one important item being coal) and of certain semi-manufactured and manufactured products (notably steel, machinery and motor-cars) to western Europe, reflecting in the main the increased demand of that area for goods needed to sustain its intense investment boom.

In the following statement of the current account of the U.S. balance of payments, private remittances, pension payments to residents abroad, etc. are classed, as is the custom in European statistics, as items of invisible trade.

While the United States increased its trade surplus in relation to all areas by \$290 million, its deficit in respect of invisible items rose by \$160 million, so that the surplus on current account was increased by only \$130 million. Among the invisible items there was an increase of as much as \$200 million in the net income from U.S. investments abroad, but this was more than offset by larger net payments for transportation and

United States: Current account of the balance of payments.

Items	Western Europe and dependencies		Other areas		All areas	
	1954	1955	1954	1955	1954	1955
round figures, in millions of dollars						
Net military transfers under grants balanced by corresponding exports of goods and services (excluded from the following data) . .	2,310	1,570	820	580	3,130	2,150
Commercial exports of merchandise	3,970	4,810	8,740	9,370	12,710	14,180
Commercial imports of merchandise	2,870	3,340	7,440	8,150	10,300	11,490
Balance of trade	+ 1,100	+ 1,470	+ 1,300	+ 1,220	+ 2,400	+ 2,690
Invisible items (net)						
Transportation	+ 80	- 10	+ 170	+ 150	+ 220	+ 140
Travel	- 350	- 410	- 70	- 80	- 420	- 490
Income from investments	+ 300	+ 310	+ 1,450	+ 1,640	+ 1,750	+ 1,950
Military expenditure	- 1,560	- 1,760	- 860	- 810	- 2,420	- 2,570
Private remittances, pensions, etc.	- 290	- 310	- 290	- 290	- 580	- 600
Other items	+ 100	+ 60	+ 260	+ 270	+ 360	+ 320
Balance of invisible items	- 1,750	- 2,120	+ 660	+ 880	- 1,090	- 1,250
Balance on current account	- 650	- 650	+ 1,960	+ 2,100	+ 1,310	+ 1,440

travel (making together a change of \$150 million) and for military expenditure (which also rose by \$150 million).

The United States' net payments on invisible account mainly arise in relation to western Europe and its dependencies, as may be seen from the above table. It is interesting to note that, according to the U.S. balance-of-payments estimates, "Western Europe and dependencies" had in 1955, as in the previous year, a surplus of about \$650 million on current account with the United States.

U.S. military expenditure abroad — which totalled \$2.6 milliard in 1954 and \$2.8 milliard in 1955 — comprises direct outlay in connection with the maintenance of U.S. forces abroad and off-shore purchases of military supplies and equipment, both for U.S. use and for transfer under military-aid programmes. In the countries in which U.S. forces are stationed or off-shore orders are placed the payments made usually lead to additional spending, mainly on consumer goods but also to some extent for investment purposes. In either case such spending is likely to result in a certain increase in the imports of the countries concerned and — directly or indirectly — in the exports of the United States. Thus, in so far as a distinction can be made between the effects of different categories of U.S. expenditure abroad, it seems likely that the growth of direct military expenditure abroad will to some extent find a counterpart in an increase in the exports, and also in the trade surplus, of the United States (except in so far as the general economic policies of the beneficiary countries are specifically designed to bring about an increase in their gold and dollar reserves).

It is also of interest to examine the effects on international transfers of changes in certain items in the U.S. capital account, the net balance of which has in recent years more than offset the United States' surpluses on the current account of the balance of payments.

United States: Movement of U.S. capital (including grants-in-aid).

Items	Western Europe and dependencies		Other areas		All areas	
	1954	1955	1954	1955	1954	1955
round figures, in millions of dollars						
Government grants (economic aid)	+ 1,000	+ 790	+ 580	+ 1,030	+ 1,560	+ 1,830
Outflow of U.S. funds						
Government account						
Long and short-term loans . . .	+ 130	+ 290	+ 280	+ 420	+ 410	+ 710
Less: repayments (—)	— 340	— 260	— 170	— 180	— 510	— 420
Total net government outflow	— 210	+ 40	+ 120	+ 260	— 90	+ 290
Private account						
Direct investments	+ 30	+ 110	+ 730	+ 580	+ 760	+ 690
Other outflow	+ 170	+ 10	+ 820	+ 450	+ 980	+ 460
Less: redemptions (—)	— 10	— 20	— 110	— 190	— 120	— 200
Total net private outflow . . .	+ 190	+ 100	+ 1,440	+ 840	+ 1,620	+ 950
Total outflow of funds	— 20	+ 140	+ 1,550	+ 1,100	+ 1,530	+ 1,240
Total movement of U.S. capital and grants-in-aid	+ 980	+ 940	+ 2,130	+ 2,130	+ 3,110	+ 3,070

Note: Total long-term debt repayments received by the United States amounted in each of the two years 1954 and 1955 to over \$600 million, of which about one-half represented repayments by western Europe, principally in respect of debts due to the U.S. Government. Interest and dividends received by the United States are, of course, shown on the current account of the balance of payments. As far as western Europe is concerned, the interest paid in respect of debts to the U.S. Government came to about \$200 million in 1955 — a charge which under the contractual obligations already incurred will increase gradually over the next ten years.

The net outflow of private funds from the United States fell by nearly \$700 million from 1954 to 1955, the greatest decline having been in the outflow of short-term funds. This reduction is to be explained partly by a diminution in the credit needs of other countries and partly by a certain hesitancy displayed by U.S. investors in relation to foreign markets, an attitude which in turn was due to some extent to the increasingly stringent policy of credit restraint pursued in the United States. The decline in the net outward movement of private funds was, however, almost entirely compensated for by an increase in the amount of the government's grants and loans, so that the net total of the capital resources made available in dollars to other countries reached almost the same figure in 1955 as in 1954, having amounted in both years to about \$3.1 milliard. Since the surplus on the current account of the U.S. balance of payments was estimated at \$1.3 milliard in 1954 and \$1.4 milliard in 1955, the net dollar amounts accruing to other countries in the form of both short and long-term assets (account being taken of errors and omissions) came to \$1.8 milliard in 1954 and \$1.5 milliard in 1955. Apart from the fairly limited volume of foreign long-term direct investment in the United States, the net amounts received by other countries

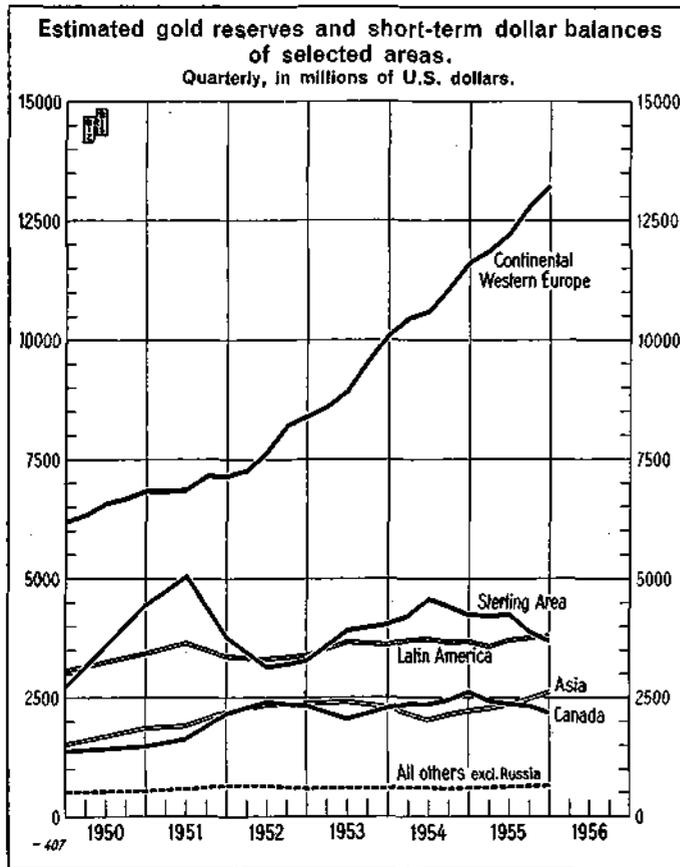
in respect of transactions with the United States, together with net dollar gains from other sources, went to increase their gold and dollar holdings, which are estimated to have grown (if acquisitions of U.S. government bonds and notes are included) by \$2.2 milliard in 1954 and \$1.8 milliard in 1955.

In so far as capital funds obtained from the United States — be it through direct or through portfolio investment — are used for investment purposes in the countries concerned, it can be assumed that there will be a growth in both the expenditure and the imports of these countries and that, as in the case of the U.S. military expenditure mentioned above, the employment of these funds will also lead — directly or indirectly — to an increase in U.S. exports. It is therefore not surprising to find that quite a considerable part of the outflow of such funds from the United States has as its counterpart a U.S. export surplus.

In other words — to look at the process now from the point of view of the recipient countries — when the counterpart funds derived from the various forms of aid granted by the United States are used by these countries for the purpose of defraying additional current or capital expenditure, such dollar amounts as have been made available will probably be needed mainly to pay for extra imports. To that extent they will not lead to an increase in the gold and foreign exchange reserves. Before such an increase can occur there must be a sufficient margin of extra savings available in the receiving country to serve as a counterpart to the additions to the monetary reserves. In this connection it may be recalled that, as early as in the 1920s, provision was made in the reconstruction plans worked out by the Financial Committee of the League of Nations that, when financial assistance was obtained from abroad, part of the funds should not be used for current expenditure or investment but should be handed over to the central bank in order to ensure that there would be an increase in the gold and foreign exchange reserves of the country concerned. Indeed, it was clearly realised that no increase in the reserves could take place unless there was a restriction of expenditure, i.e. an effective saving of funds, which would not be employed for ordinary investment but would form a counterpart to the particular kind of investment represented by an increase in monetary reserves.

How can the foregoing observations be related to the manner in which increases have taken place over recent years in the gold and dollar reserves of a number of countries of western Europe?

The gold and short-term dollar holdings of countries other than the United States — which are of course affected by transactions not only with the United States but also with other areas — rose by \$11.3 milliard, or nearly two-thirds, to a total of \$29.8 milliard during the six years from the end of 1949 to the end of 1955. As may be seen from the graph, the largest part of the total increase accrued to the continental countries of western Europe — whose receipts accounted for slightly over 60 per cent.



of the total gain during this period — while the reserves of the sterling area showed large swings and registered little net increase. Despite the considerable increase in continental holdings, however, the movements in the reserves of the different countries displayed markedly divergent trends (for further details see Chapter VI).

The receipt of economic aid has in a number of countries been accompanied by a repayment of debt — if not directly out of the counterpart funds of the aid itself, then from budget surpluses (it being difficult, in practice, to draw any sharp distinction between

these two kinds of resources). In several countries — the Netherlands, for instance, and, more recently, France (see Chapter II) — debt redemption has involved the repayment of funds to the central bank, thus contributing directly to a domestic-savings counterpart to the increase in these countries' gold and foreign exchange reserves. Much the same effect has been produced whenever the government has built up balances with the central bank, as has been the case most conspicuously in western Germany, especially since 1952.

But there has also been another way in which savings have become available and have up to a point served as a counterpart to increases in gold and foreign exchange holdings. For genuine saving may take place, when the price level is stable, in the form of a non-inflationary increase in the amount of means of payment — notes and demand deposits — held by the public. Such an increase will normally occur as a result of a real expansion in the gross national product but it may also be required when, for exceptional reasons, the money supply has fallen below the level which may be regarded as normal in relation to national expenditure. In France, for example, the ratio between the total money supply and the gross national product was only 29 per cent. in 1952, compared with 44 per cent. before the war (see tables at the end of Chapter VII). Once the level of French

commodity prices had become relatively stable, which was the case from 1952 onwards, and production had begun to expand appreciably, the general public (including business firms) added rather rapidly to its holdings of notes and demand deposits. By 1955 not only had the gross national product increased but the money supply had risen to 37 per cent. of the gross national product — reflecting a gradual return to previous payment habits, with the public holding more cash, which could thus provide a counterpart in savings to the growth in the monetary reserves. In western Germany the money supply, which had been cut by the monetary reform of 1948 and was subsequently affected by the devaluation of 1949, has more than doubled in absolute amount, more cash having been needed not only for these reasons but also owing to the increase in the national product. Together with the budget surpluses already mentioned, the non-inflationary increase which occurred in the cash holdings of the German public does much to explain how western Germany has been able to increase its gold and foreign exchange reserves from only a nominal amount at the end of 1950 to the equivalent of over \$3 milliard at the beginning of 1956. Under somewhat different circumstances, a phenomenon similar to that described above has also occurred in the case of Italy, where in 1955 the money supply corresponded to 32 per cent. of the increased national product, compared with 28 per cent. in 1948.

To the extent, on the other hand, to which the funds accruing through economic aid, budget surpluses or increases in the money supply are used for domestic investment — e.g. the financing of large housing programmes — there is a corresponding diminution in the amount of unappropriated savings which can serve as a backing for increases in the gold and foreign exchange reserves. In a number of countries, however, in addition to France and western Germany, such savings have not all been employed for consumption or investment, so that a part at least has remained uncommitted and has thus been available for strengthening the monetary reserves.

In the United Kingdom, the use of counterpart and other funds for the retirement of debt was, under conditions of strict government budgeting, one of the factors responsible for the increase in the monetary reserves up to the middle of 1954. The money supply, however, as may be seen from the tables in Chapter VII, was on the high side even after the devaluation, having corresponded at the end of 1949 to no less than 41 per cent. of the gross national product, compared with 28 per cent. in 1938, so that the U.K. authorities have had to make every effort to prevent the supply of money from rising commensurately with the growth in the country's gross national product. In this respect the policy pursued has been notably successful: by 1955 the money supply, as a proportion of the gross national product, had declined to 30 per cent. Indeed, it is striking to note — although account must be taken of different rates of economic growth — that from the end of 1949 to the end of 1955 the increase in the money supply of the United Kingdom was barely 10 per cent., compared with over 100 per cent. in the case of France and western

Germany. Nevertheless, the fact that the United Kingdom's stock of money was at first excessively large has meant that the "savings" which certain other countries have acquired in conjunction with the rise of their money supply to a more normal level have been almost entirely lacking. This particular circumstance helps to explain why there has not been in recent years so great a proportionate growth in the British gold and dollar reserves as in those of a number of other countries.

A comparison of the cost-and-price levels, and of the money volume, in the various countries just after the war, during which their economies had developed on distinctly individual lines, reveals that there was a serious lack of balance between them at that time. While the 1949 devaluations brought about an improvement in this respect, it was in no way a decisive one. In the international monetary mechanism there are, however, certain equilibrating forces which operate through movements of net balances from one market to another, these movements being reflected in corresponding changes in the monetary reserves and the money supply. In recent years there have been substantial movements of this nature, which have certainly contributed to the attainment of greater international equilibrium, particularly in the case of countries in which the volume of money had at first been on the low side. In this process of adjustment the burden has fallen not only on gold but also on various other means of settlement which have been available — e.g. the dollars received in respect of U.S. aid and also the credit element in the European Payments Union. The strain to which the often meagre gold reserves would otherwise have been exposed has thus been considerably mitigated and the process of adjustment greatly facilitated.*

In western Europe great attention is paid not only by the authorities but also by the general public to the movements of the gold and foreign exchange reserves and to the resulting changes in the internal liquidity position of the individual markets. In the early post-war period an increase in monetary reserves was called for in the case of nearly all European countries, owing to the heavy losses of gold and dollars suffered by them during and after the war. As may be seen from the graph on page 29, monetary reserves have in fact been generally strengthened since then and may now be said to be adequate in a certain number of countries, which are therefore finding it possible to relax their foreign exchange restrictions and are able to shape their own internal policies with greater freedom than hitherto.

In some countries, however, the building-up of monetary reserves is still a primary objective. For most of these countries it has been a matter

* As far as the European Payments Union is concerned, it was feared for a time that this arrangement would have the effect of turning western Europe into a more or less closed area. But the O.E.E.C., of which the Union is a part, has gradually shed those of its features which were characteristic of an exclusive regional organisation and has in that way tended to become an integral part of the world economic system.

for considerable concern that in 1955, a year which was characterised by such a high level of world demand for goods and services, they did not succeed in increasing the volume of their exports sufficiently to strengthen their monetary reserves in addition to eliminating their balance-of-payments deficits.

The very fact that world demand has remained strong and that even during the present boom the general level of international commodity prices has not fluctuated greatly (with the result that there have been only minor changes in the terms of trade) has done more than anything else to make it clear to the individual countries that their balance-of-payments difficulties have been due to the lack of balance in their internal economic and financial situation and that the first thing they must do in order to overcome these difficulties is to take steps to establish a better relationship than hitherto between their available resources and the amount spent on consumption and investment. It is true that certain countries may have special difficulties to contend with and that some may have every justification for raising capital abroad for investment purposes, but even in these cases the action taken must be made to fit into the framework of a policy based on the guiding principle that the external value of a currency is essentially a reflection of the degree of balance achieved in the internal financial position of the economy.

II. The Scope of Monetary Policy.

It has often been said that it is easier to restrain a boom by measures of monetary policy than to administer a really effective stimulus to an economy which is in the midst of a depression. But, however this may be, it is generally the immediate tasks that appear the most difficult — and the task now facing those responsible for anti-cyclical policy is that of moderating the present boom. It is always a problem to decide when and how vigorously to intervene, and the general economic situation is, moreover, bound to be complicated in each case by political factors and by the more or less unpredictable swings which occur from time to time in business and consumer attitudes. Yet, looking back, it is already possible to affirm that, even if the results to date have not always been as favourable as the authorities had hoped, the widespread recourse to monetary action during the present boom has had a useful restraining influence and has in more than one case helped to bring about a much-needed improvement in the balance-of-payments position.

The countries with a deficit in their balance of payments have naturally had a most urgent reason for taking steps to rectify their position. In framing their policies the authorities have generally been supported by public opinion, which has come to attach considerable importance to changes in monetary reserves, an increase being regarded as a sign of healthy conditions and thus of sound policies, while a decline is taken as evidence to the contrary. The swings in public opinion are, of course, often based on insufficient knowledge, but they are not without importance. There has undoubtedly been growing concern recently in many countries about the rise in prices, especially in so far as it affects the cost of living, and there has consequently also been an increasing willingness to accept whatever measures are necessary to fight inflationary tendencies. This state of mind has given the authorities a chance to take more determined measures than previously; and the fact that employment has remained at a high level even in those countries in which interest rates have risen steeply has lessened the fear that stiffer monetary policies might lead to widespread unemployment.

Though it is important to examine the steps taken to moderate the boom in those countries which have had no deficit in their balance of payments, it seems useful to begin with the countries in which such deficits have in fact arisen.

In the first place it is necessary to review in some detail developments in the United Kingdom, for not only have the measures taken there in recent years been of the utmost importance for that country itself but also, owing to the widespread use of sterling in international settlements and the prominent part played by the United Kingdom in world trade, the evolution of the British economy has naturally been followed with interest throughout the world.

Early in 1954 there began in the United Kingdom an investment boom greater than any experienced since the end of the war. In consequence, the country's metallurgical industries, which were already being kept very busy, not least by a large volume of armament orders, were subjected in 1955 to considerable additional pressure as a result of (i) a rise in the rate of domestic investment, which was naturally accompanied by increased orders for machinery and other metal products; (ii) a marked increase in demand for consumer durables — motor-cars, refrigerators, etc.; and (iii) a growth of over 7 per cent. in the volume of exports, two-thirds of which was accounted for by metal and engineering products.

The greatest expansion, and the highest degree of strain, thus occurred in the metal-working and metal-using industries, which were responsible for nearly two-thirds of the total increase in industrial output during 1955. Fixed investment in industrial plant and machinery (including vehicles and ships) rose by 14 per cent., compared with a rate of increase of over 7 per cent. in fixed investment generally. It is not surprising, therefore, to find that the relatively large increase of 15 per cent. in the value of total imports in 1955 was for the most part due to the rapid growth of activity in the metal-goods industries, about one-third of it being accounted for by a rise in imports of metals and metal products* and another 16 per cent. by larger imports of coal and oil.

Nor is it surprising that the output of manufacturing industry rose in 1955 by 7 per cent., or about twice as fast as the gross national product, which is estimated to have increased, in real terms, by $3\frac{1}{2}$ per cent. to a total (at market prices) of £18,900 million. While there was a slight fall, in real terms, in the current expenditure of public authorities on goods and services, consumers' real expenditure is estimated to have risen in 1955 by about 3 per cent., or somewhat less than in the two previous years. Despite a $7\frac{1}{2}$ per cent. fall in new housing construction, the total of investment in fixed assets rose, as indicated above, by over 7 per cent., one reason for this having been an increase of 12 per cent. in investment in industrial and commercial building. Moreover, additions to stocks and work in progress amounted to over £200 million, whereas there had been no increment of this kind in the preceding year. As a result there emerged a lack of balance between total domestic output and total demand, with imports rising to a greater extent than exports; this, together with a decline in the net income from invisible items, led to a deficit of £103 million on the current account of the balance of payments.

Among the invisible items in the balance of payments, the net income from shipping was reduced by £30 million as a result of an increase in the amount of foreign tonnage employed and the diversion of British shipping from carrying for foreign countries to carrying for the United Kingdom — and this at a time when tramp-shipping rates were rising. Another significant element was the decline in net oil receipts (included under the heading "Other items"), which was in particular due to specially heavy payments in respect of royalties and taxation to some countries in the Middle East on account of larger production and new agreements.

The total deterioration in the current account of the balance of payments from 1954 to 1955 amounted to £308 million, of which £57 million was in relation to the sterling area and the remaining £251 million in relation to the non-sterling

* Steel imports rose from 0.5 million tons to a total of 1.9 million tons, notwithstanding an increase in British crude-steel production from 18.8 million tons in 1954 to 20.1 million tons in 1955 (see also Chapter III).

United Kingdom: Current account of the balance of payments.

Items	1952	1953	1954	1955
	in millions of £ sterling			
Visible trade (f.o.b.)				
Exports, including re-exports	2,827	2,670	2,817	3,061
Imports	2,944	2,867	3,009	3,413
Balance of visible trade	- 117	- 217	- 192	- 352
Invisible items (net)				
Shipping	+ 110	+ 131	+ 150	+ 120
Interest, dividends and profits	+ 91	+ 73	+ 73	+ 59
Travel	- 3	- 1	- 6	- 12
Government transactions	- 172	- 158	- 174	- 181
Other items	+ 217	+ 247	+ 304	+ 219
Balance of invisible items	+ 243	+ 292	+ 347	+ 205
Total current balance				
Excluding defence aid	+ 126	+ 75	+ 155	- 147
Defence aid	+ 121	+ 102	+ 50	+ 44
Including defence aid	+ 247	+ 177	+ 205	- 103

Note: In addition to U.S. defence aid, which is shown separately in the table above, mention may be made of certain other special dollar receipts. U.S. and Canadian forces' expenditure in the United Kingdom, which was estimated at £65 million in 1954 and was provisionally estimated at £75 million in 1955, is included in the table under government and "other" invisible transactions. Also included to some extent in these two categories of invisibles, but for the two years in question mainly under merchandise exports, are U.S. Government off-shore purchases, which amounted to £43 million in 1955 and £37 million in 1954.

area (since nearly all the increased imports of steel and coal had to be obtained from non-sterling-area countries, particularly the United States). The overseas sterling area itself had an overall deficit of £78 million in 1955, compared with one of £108 million in the previous year.

Whereas up to the end of 1954 there had each year been a substantial amount of net investment by the United Kingdom in the overseas sterling area, in 1955 this virtually ceased; much long-term investment continued, but it was apparently offset by a movement of funds — largely short-term — to the United Kingdom. Lacking net receipts on investment account from the United Kingdom, the countries of the overseas sterling area, in order to cover their current deficits, drew on their sterling balances to the extent of £74 million.

Sterling area: Current account of the balance of payments.*

Items	1953	1954	1955
	in millions of £ sterling		
United Kingdom			
Balance with			
Rest of the sterling area	+ 156	+ 272	+ 215
All other countries	+ 21	- 67	- 318
Total	+ 177	+ 205	- 103
Rest of the sterling area			
Balance with			
United Kingdom	- 156	- 272	- 215
All other countries	+ 290	+ 164	+ 137
Total	+ 134	- 108	- 78
Balance of sterling area with all other countries	+ 311	+ 97	- 181

* Including defence aid.

The sterling balances of other countries (including the United Kingdom's debit balance in E.P.U.) were drawn down by the somewhat larger amount of £92 million, so that the total of the sterling balances was reduced by £166 million (see Chapter VI). The United Kingdom had to cover this reduction and, in addition, its own deficit of £103 million on the current account of the balance of payments. The total liability of £269 million was met to the extent of £40 million by a net inflow of capital (allowance being made for errors and omissions) and as to the remaining £229 million by a draft on the gold and dollar reserves.

The current deficit in the balance of payments and the consequent decline in the monetary reserves were the external signs of the growing strain placed on the country's internal resources. This strain was felt particularly in the labour market, as is borne out by the fact that in 1955 total civil employment rose by 277,000 and unemployment fell to an average of 232,000, equivalent to 1 per cent. of the labour force. Whereas in both 1953 and 1954 output per man-year in manufacturing industry is estimated to have risen at about the same rate as annual earnings per employee, in 1955 it appears to have increased by 4 per cent., while earnings rose by 8 per cent. The consequence was a considerable rise in labour costs per unit of output. Raw-material prices, which had shown a downward trend in the two preceding years, also began to increase. During the year the index of prices of finished manufactured goods rose, on an average, by 3 per cent., which suggests that industry raised its prices to an extent corresponding approximately to the increase in its costs.

A balance-of-payments deficit had already developed towards the close of 1954, and this, together with the fall in the reserves, created a situation which made it necessary for the authorities, as was explained by the Chancellor of the Exchequer in the House of Commons in February 1955, to take "steps to moderate excessive internal demand". Various measures were thus adopted early in 1955, as mentioned in last year's Annual Report (pages 37-38), including the raising of Bank rate from 3 to 4½ per cent. and the reimposition of restrictions on hire-purchase.

Under the impact of these measures, the economic outlook appeared in the spring to be taking a turn for the better. In the financial year 1954-55, which was just ending, the surplus "above the line" amounted to £433 million. In the new budget, submitted in April 1955, the standard rate of income tax was reduced from 9s. to 8s. 6d. in the pound, the net cost during the financial year of this reduction and of certain minor tax concessions introduced at the same time being estimated at £134 million.

While the budget for 1955-56 thus involved certain risks as regards the amount which might be spent, its main object was to provide fresh incentives to production and saving by slightly reducing the burden of direct taxation. In fact, owing to an increase in revenue and a certain reduction in expenditure, the "above-the-line" surplus for 1955-56 came to £397 million — almost as much as in the previous financial year — and net "below-the-line" expenditure, which includes loans made by the central government to local authorities, went up from £501 million in 1954-55 to £538 million in 1955-56. This meant that the overall budget deficit, which had amounted to £68 million in 1954-55, rose in 1955-56 to £141 million. The increase may not seem considerable in itself, but, together with the capital requirements of the nationalised industries, the combined public and private demand for funds soon imposed a considerable strain on the money and capital markets.

The nature of the difficulties which arose in the credit field in the course of the year becomes apparent from an analysis of the following table, which shows the development of the main assets and liabilities of the London clearing banks during 1954 and 1955.

United Kingdom:
Changes in selected items from the returns of the London clearing banks,
in the money supply and in the banks' liquidity ratio.

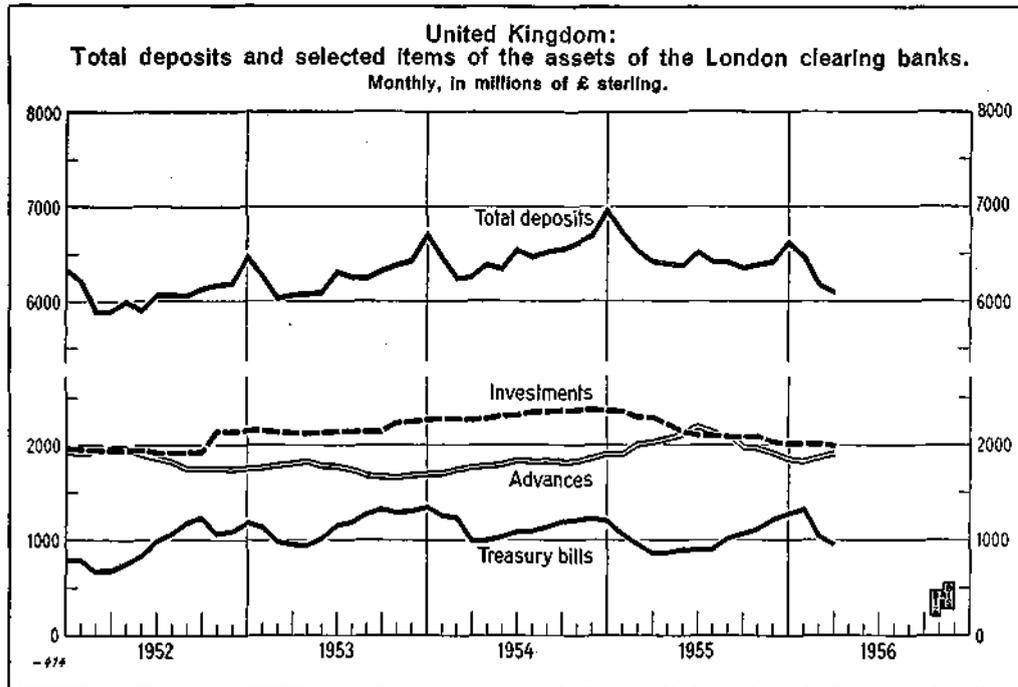
Items	1954			1955		
	1st half	2nd half	whole year	1st half	2nd half	whole year
In millions of £ sterling						
London clearing banks						
Treasury bills	- 258	+ 119	- 139	- 309	+ 381	+ 72
Cash and money at call	- 57	+ 83	+ 26	- 103	+ 105	+ 2
Investments	+ 36	+ 42	+ 78	- 254	- 93	- 337
Total	- 279	+ 244	- 35	- 666	+ 403	- 263
Advances	+ 130	+ 60	+ 190	+ 289	- 335	- 46
Bills other than Treasury bills	+ 11	+ 24	+ 35	- 9	+ 23	+ 15
Total	+ 141	+ 84	+ 225	+ 281	- 312	- 31
Grand total	- 138	+ 328	+ 190	- 385	+ 91	- 294
Changes in net deposits	- 136	+ 324	+ 188	- 386	+ 89	- 297
Changes in the money supply (i.e. in the total of sight deposits [net] and the currency circulation)	- 70	+ 263	+ 193	- 237	+ 218	- 19
	1953 December	1954 June	1954 December	1955 June	1955 December	
	In percentages					
Liquidity ratio*	36.7	33.0	34.3	30.1	37.4	

* The liquidity ratio represents the proportion of the banks' liquid assets (i.e. cash, call money and Treasury and other bills) to total deposits. There is no statutory provision prescribing any minimum ratio but the banks are reluctant to let it fall below 30 per cent. By mid-April 1956 the ratio had been reduced to 33.4 per cent.

In the first half of 1955 the liquidity of banks was under pressure as a result not only of the large inflow of revenue to the Exchequer in the first quarter of the year but also of the measures taken by the monetary authorities, which, inter alia, caused funds to be attracted from deposits at the banks to investments in relatively high-yielding Treasury bills and short-dated government bonds. Furthermore, advances continued to grow rapidly, about one-third of the increase during the first half of the year going to nationalised industries, which borrow at Bank rate. To make room for this increase, the banks reduced their investments (nearly all in government bonds) by no less than £254 million. It should be borne in mind that, as in the United States (see page 20), the funds used by those who purchased these investments probably consisted to a large extent of deposits which had been relatively inactive, whereas the new advances granted by the banks were likely, as a rule, to be used almost immediately for actual payments. Although, in view of the fall in the banks' investments, the unprecedentedly large rise of £289 million in advances during the first half of 1955 did not result in a corresponding creation of new money, it undoubtedly led to a quickening of the active demand for resources of various kinds. By the end of June 1955 the liquidity ratio of the banks had been brought down to 30.1 per cent., and total deposits and the money supply had at the same time contracted to a distinctly greater extent than usual.

Being anxious to prevent further strain on the available resources in a period when the banks would again be in a position to mobilise fresh funds by disposing of their holdings of short-term government paper, the government asked in July

1955, through the intermediary of the Bank of England, for "a positive and significant reduction in bank advances". In the second half of the year, thanks to the cumulative effect of the measures taken earlier, to the response of the banks to the July request and to a clearer realisation by the public that the credit squeeze must be enforced, the amount of advances was reduced by £335 million, about half of which represented repayments by nationalised industries, while in the same half-year the banks reduced their investments by a further £83 million. Over the year 1955 as a whole the total of advances and investments was brought down by nearly £400 million — a not inconsiderable achievement.

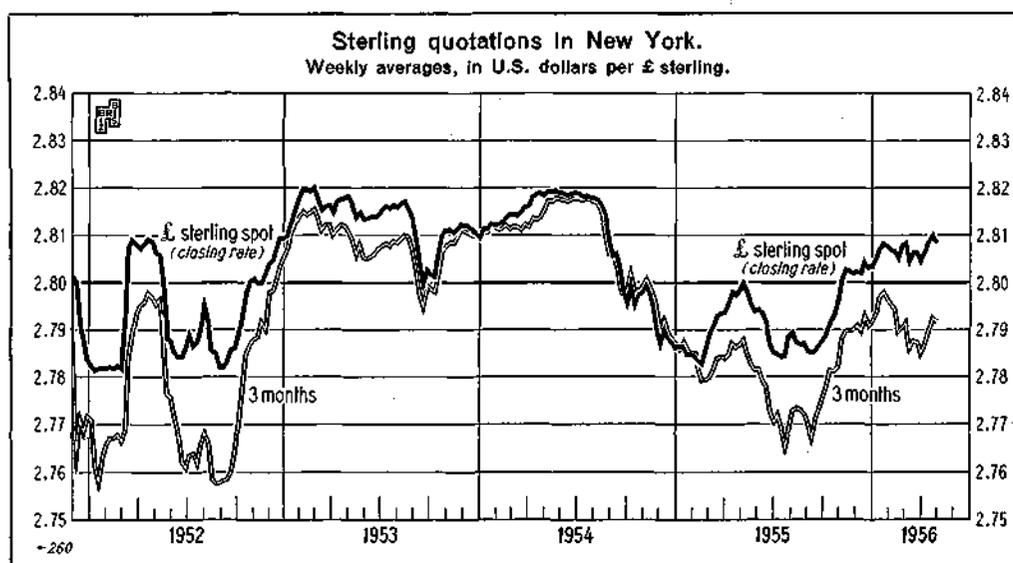


This reduction in the banks' assets took place in a year in which expenditure in the United Kingdom on gross fixed investment and on investment in stocks (apart from stock appreciation) by persons, companies and nationalised industries rose by almost £600 million. The largest single increase in saving was made by the central government, whose surplus on current account in the calendar year rose by some £230 million. Personal savings also rose somewhat; they are estimated to have amounted to some £950 million, representing the same proportion of disposable income, i.e. between 7 and 8 per cent., as they have every year since 1952. There was no increase, however, in saving by companies (in the form of undistributed profits and of tax and dividend reserves) on a scale sufficient to match the increase in their home investment. Their recourse to the market through the placing of new issues was in fact greater than in 1954, but the net result for the year was a substantial growth in their investment expenditure in relation to the finance available and thus a considerable fall in the amount of funds at their disposal for the acquisition of financial assets.

Thus there gradually developed a strain on the capital market. Indeed, from the summer onwards it began to be felt that the absorptive capacity of this market was declining, in that it was being found increasingly difficult to place new issues of fixed-interest-bearing securities. It was undoubtedly believed by investors that a further increase in Bank rate was to be expected

and this belief — together with the continued sales of securities by the banks and some movement of funds into equities — eventually led to a situation in which the gilt-edged market was unable to absorb anything like the normal amount of new long-term securities. The nationalised industries had been relying on short-term credits from the banks to cover their financial requirements for long-term investment; but this state of affairs could obviously not continue for long — indeed, funding operations to repay advances already granted had by then become necessary. When, however, the nationalised industries attempted to raise money for this purpose by launching long-term issues, the securities in question, although government-guaranteed, found very few buyers in the market proper and were taken up mainly by the government departments, which in their turn had to dispose of Treasury bills in order to obtain the funds needed to finance their purchases. Moreover, bills had to be issued in order to help meet part of the expenditure “below the line”, consisting to a large extent of drafts by local authorities on the Public Works Loan Board for the financing of housing; and at the same time the Treasury’s receipts from Tax Reserve Certificates, National Savings Certificates and Defence Bonds were substantially smaller than in 1954.*

An important factor in the situation was the sharp decline in the quotations for government securities. The “Financial Times” Index of Fixed-interest Securities (1928 = 100) fell from 115.63 at the beginning of the year to 106.28 at the end of June 1955. There is no doubt that this decline was accentuated by the large-scale sales of investments by the banks. By the summer of 1955 quotations had in fact been driven down to a level at which the banks could no longer afford to continue their sales and, with liquidity ratios at about the traditional minimum of 30 per cent., the further expansion of advances at the expense of investments had to come virtually to an end.



* Very large amounts of bills would have had to be issued and sold to the market had it not been for the sterling received by the monetary authorities as counterpart to the fall in gold and dollar reserves. But although the fall in reserves kept down the total of Treasury bills in the market as a whole, the net effect of external payments upon the total of bills held by the domestic banking system was less great. For the fall in sterling balances (to the extent of £166 million, see Chapter VI) meant that the owners of these balances — for example, colonial governments, currency boards, overseas and foreign commercial banks operating in London — reduced their holdings of Treasury bills, leaving them, in effect, to be held by the domestic banking system.

The internal situation, in addition to its adverse effect on the balance of payments, also gave rise during the summer to a lack of confidence in sterling on the foreign exchange markets, which was accentuated by the railway and dock strikes and by rumours that the authorities were in favour of allowing a wider margin of fluctuation for the pound against other currencies. In the circumstances there was obviously a need for government action to rectify the situation. In order to allay doubts about the government's foreign exchange policy the Chancellor of the Exchequer, Mr R. A. Butler, took the opportunity offered by the Annual Meeting of the International Monetary Fund, which was held in September in Istanbul, to reiterate an earlier statement he had made in the House of Commons on 26th July 1955 that the government's policy with regard to the exchange value of the pound sterling had been, and would continue to be, the maintenance of an exchange parity of \$2.80, both in existing circumstances and when sterling was convertible.

The Governor of the Bank of England, Mr C. F. Cobbold, speaking at a dinner given by the Lord Mayor to the bankers and merchants of the City of London on 4th October 1955, said that "in the past year the continuing high level of expenditure and borrowing on government and other public account has hampered the effective working of a tight credit policy".

Later in the same month the unusual step was taken of introducing a supplementary budget, accompanied by certain other changes of policy, the most important of these being an alteration in the conditions on which local authorities could obtain loans. They were asked not only to reduce their capital expenditure but also to turn to the market instead of to the Exchequer for such funds as they needed to borrow. Applicants for funds from the Public Works Loan Board were to be put on enquiry as to their ability to borrow elsewhere on their own credit; and it was laid down that those authorities which were still allowed to borrow from the Board would have to pay a rate reflecting not government credit, as in the past, but the credit of local authorities of good standing in the market. The main impact of these changes was felt in the local authorities' housing policy, which, moreover, was also affected by a reduction in the government subsidy on local-authority house-building for general purposes.

The chief features of the supplementary budget itself were increases in certain rates of purchase tax and the raising of the tax on distributed profits. It was explained by the Chancellor of the Exchequer that the object of the former step was not solely to check home expenditure on particular goods but also to limit consumer spending in general so as to set free resources for additional exports.

The pound is as a rule exposed to strong seasonal pressure in the autumn, and, partly for this reason, the introduction of the supplementary budget did not in fact lead to any change in the psychological attitude of other countries to sterling. Moreover, it was still believed both at home and abroad that the enforcement of credit restrictions in the private economy would not suffice to restore balance and that the government itself would have to take further action to curb its own expenditure. In particular, it was felt in many quarters that an increase in interest rates unaccompanied by other government action would have little or no effect and might even blunt the monetary weapon and render it less useful for the future.

On 16th February 1956 Bank rate was raised from $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent. and on the following day the government announced in the House of Commons a series of fresh measures: these included a further tightening of hire-purchase restrictions, the issue of revised instructions to the Capital Issues Committee and the withdrawal of the investment allowance introduced in 1954, which was a tax

allowance to industry additional to full annual depreciation allowances on plant, machinery and new industrial buildings. In the autumn supplementary budget Mr Butler had announced that the investment programmes of the nationalised industries and of the central government would be reduced; these reduced programmes were now further curtailed, those of the nationalised industries being cut by just under £50 million and those of the central government by just over £20 million. The capital programmes of local authorities were also to be further modified. Finally, a cut of £18 million was made in the bread subsidy and one of £20 million in the milk subsidy, the two latter measures — unlike the others, whose object was to reduce the volume of investment — being designed directly to affect consumer expenditure. It was considered that the total effect of the financial and fiscal measures in restraining investment was likely to be severe, but they were necessary because of the considerable growth in investment which had taken place and was still continuing and which, in addition to its general financial consequences, was (as mentioned above) seriously overloading the metallurgical industries.

In the early months of 1956 there were signs that the measures which had been adopted were beginning to take effect. As far as borrowing by the local authorities was concerned, these obtained some £120 million via capital-market institutions between November 1955 and March 1956. Capital-development programmes in many industries were being revised; but work already under way was so extensive and would have been so costly to halt that the initial result was more a slowing-down of the rate of growth of investment than any actual decrease in its volume. There was a distinct fall in the sale of durable consumer goods. Between January and mid-March, apart from many reductions in overtime working, over 1 per cent. of labour engaged in manufacturing industry had gone on to short-time working or had been dismissed as redundant — but dismissed labour was very largely reabsorbed in other industries, the number of workers on colliery books, for instance, having risen by nearly 5,000. The average monthly foreign-trade deficit in the first quarter of 1956 was £20 million smaller than in the corresponding period of the previous year. On 4th April 1956, furthermore, the rate for transferable sterling in New York rose above \$2.78, the support point for the pound on the official exchange market.

The situation had therefore improved somewhat when, on 17th April 1956, the Chancellor of the Exchequer presented his budget estimates for the financial year 1st April 1956 to 31st March 1957. These estimates put expenditure "above the line" at £4,745 million and revenue, on the basis of existing rates, at £5,190 million, thus providing for an "above-the-line" surplus of £445 million, i.e. almost enough to cover entirely the estimated "below-the-line" expenditure of £453 million. Mr Macmillan declared, however, that in making his proposals he would rather err on the side of prudence, since any heightening of inflationary pressure — indeed any delay in reducing it — might prove disastrous, while an error in the opposite direction would be far less harmful and far more easily remedied.

The Chancellor described his budget as a "savings budget". He stated that new issues of National Savings Certificates and Defence Bonds, carrying higher interest rates, were to be made, and that, in addition, the first £15 of income accruing on deposits in the Post Office Savings Bank or the Trustee Savings Bank was to be exempt from taxation. An entirely new feature of the budget was the announcement of the introduction, later in the year, of £1 Premium Bonds. These bonds will not yield interest but instead there will be drawings at intervals throughout the year, and the successful holders will receive prizes the total amount of which in any one year will be equivalent to 4 per cent. of the value of the bonds drawn. One of the most important measures — which, it was

estimated, would cost £7 million in 1956-57 and some £30 to 50 million in subsequent years — was the granting of relief from income tax and surtax to self-employed persons in respect of provisions made by them for retirement. These and other concessions were more than balanced by increases in the profits tax and the tobacco tax and by the abolition of the bread subsidy, the net effect of all the Chancellor's proposals being estimated to be an increase in the surplus "above the line" to £460 million, giving an overall surplus of £7 million.

United Kingdom: Government finances and national product.

Items	1952-53	1953-54	1954-55	1955-56	1956-57
	actual				estimate
In millions of £ sterling					
"Above the line"					
Ordinary revenue					
Inland revenue	2,451	2,340	2,541	2,539	2,680
Customs and excise	1,764	1,764	1,872	2,013	2,158
Other revenue	224	264	325	341	360
Total ordinary revenue	4,439	4,368	4,738	4,893	5,198
Ordinary expenditure					
Civil expenditure	2,280	2,235	2,204	2,347	2,461
Defence ¹	1,404	1,365	1,436	1,405	1,499
Consolidated fund services ²	667	674	665	744	778
Total ordinary expenditure	4,351	4,274	4,305	4,496	4,738
Ordinary surplus	+ 88	+ 94	+ 433	+ 397	+ 460
"Below the line"					
Loans to local authorities (net)	395	278	328	297	176
War damage	58	72	30	27	24
Other payments (net)	71	41	143	214	253
Net "below-the-line" payments	524	391	501	538	453 ³
Overall balance	- 436	- 297	- 68	- 141	+ 7
National debt at the end of the fiscal year (31st March)	26,051	26,583	26,934	27,040	
Gross national product (at market prices)	1952	1953	1954	1955	
	15,732	16,756	17,824	18,908	

¹ After deducting the sterling counterpart of U.S. aid.

² Including sinking fund amounting to £35 million in 1952-53, £38 million in 1953-54 and 1954-55 and £37 million in 1955-56 and 1956-57.

³ This total does not include the £380 million for direct Exchequer financing of the capital requirements of nationalised industries (see the text).

The Chancellor also announced that during the next two financial years the nationalised industries will not borrow either from the market or from the banks in order to meet their capital requirements. Instead they will be able to draw funds, up to a maximum of £700 million over the two years, directly from the Exchequer, as the coal industry has always done since its nationalisation. One purpose of this change is to facilitate the management of the national debt by obviating the need for frequent stock issues by the nationalised industries. In so far as stock issues are needed, they will instead be issues of government stock, both the timing and the terms of issue of which can be better chosen to suit

the conditions of the market. In addition it is expected that this year the receipts of the Exchequer from "small savings" (deposits in the Post Office Savings Bank, Savings Certificates, and Defence and Premium Bonds), which are not included in the budget revenue, will rise, thus providing finance to meet part of the requirements of the nationalised industries and reducing the need for market borrowing.*

When the borrowing of the nationalised industries — estimated at £350 million — is included "below the line", the overall deficit works out at £343 million. But against this must be set the prospective rise in Exchequer receipts from "small savings" and the fact that the Chancellor also announced that it was intended, by means of a government economy drive approved by the Cabinet, to effect a saving of £100 million in services provided for in the budget estimates for the current financial year.

Referring to proposals that had been made for an enquiry into the British banking system, the Chancellor said that, before making changes in a system which on the whole had worked well, one would need to be very certain that the changes would bring more advantages than disadvantages. "In any event, the British banking system has shown that it can combine tradition with flexibility, and that it is able and willing to conduct its business with full regard to public policy."

With regard to the gilt-edged market, an essential task is to convince investors that the market has touched bottom. By the middle of March the "Financial Times" Index of Government Securities stood at 85.43 (15th October 1926 = 100), which was almost the lowest point reached since the index was started. In April a substantial amount of government securities was issued and there were also other signs that the funding of floating debt had been resumed. But no lasting increase in quotations has as yet occurred; by the end of May the index was again back to the level at which it had stood in the middle of March.

Australia and New Zealand, which had for a long time adhered rather rigidly to the principle of cheap money, have in the last two years — first New Zealand and then Australia — adopted more flexible credit policies. Since the beginning of 1954 the foreign exchange reserves of the two countries have been declining rather rapidly. Owing, however, to a simultaneous expansion in bank credit, this decline has not led to any reduction in the money supply. The basic problem in both countries (though it is somewhat less acute in the case of New Zealand) has been to find a way of curbing both consumption and investment so as to restrain inflation.

* This arrangement is not in contradiction with the policy, pursued since the autumn of 1955, of making the local authorities obtain as much of their finance as possible from the capital market on their own credit standing. For this borrowing by local authorities is not made with the guarantee of the government or otherwise given "official" support. It therefore does not entail the risk, as did the borrowing by nationalised industries, which nominally was borrowing from the market but in fact was given "official" support, that it will lead to the sale of Treasury bills to the market in order to provide finance for supporting the security issues in question. Further, the local authorities are, it should be remembered, still able to borrow, under certain conditions, from the Public Works Loan Board, and in so far as this happens the borrowings are included in expenditure "below the line".

Australia and New Zealand: Changes in the main monetary indicators.

Items	Australia			New Zealand		
	Changes in		Amount outstanding at end of 1955	Changes in		Amount outstanding at end of 1955
	1954	1955		1954	1955	
	In millions of A£			In millions of NZ£		
Foreign assets	- 94	- 120	298	- 15	- 21	79
Commercial banks' credits to business	+ 106	+ 51	1,005	+ 29	+ 11	174
Demand deposits with banks	+ 25	+ 17	1,246	+ 21	- 0	241
Money supply	+ 44	+ 38	1,620	+ 26	+ 0	315

Between April 1954 and October 1955 the central bank of New Zealand raised its discount rate in five stages from the very low rate of 1½ per cent. which had been in force since mid-1941 to the high level of 7 per cent. Such a rate has the effect of deterring the commercial banks from "being in the red" with the central bank, as they cannot charge their customers more than the controlled rates, which work out at an average of 5 per cent.

Since the beginning of 1955 mortgage rates have been allowed to rise, by degrees, from 4½ to 5 per cent. and the yield of long-term government securities has increased from a little over 4 per cent. to over 4½ per cent. In the second half of 1955 bank advances began to decline, and this trend continued during the first quarter of 1956.

A Royal Commission has recently reviewed the monetary situation in New Zealand, and in its conclusions (presented to the House of Representatives on 9th April 1956) it stated that greater attention should be paid to stimulating saving and that full use should be made of flexible interest rates, while budgetary policy should be more restrictive, forming part of a coordinated policy to curb spending.

In Australia the central bank had already been urging the trading banks early in 1955 to restrict their advances, particularly those connected with hire-purchase transactions and long-term investments. Since, however, the reduction in the banks' liquidity resulting from the adverse balance of payments was still being largely offset by central-bank purchases of government bonds in support of a bond rate of 4½ per cent., the banks were able to continue granting additional credit.

It was not until March 1956 that the Australian authorities took steps to enforce a policy of credit restraint:

- (i) The interest rate charged by the banks on overdrafts was raised as from 1st April 1956 from 5 per cent. to an average of 5½ per cent. The banks were at liberty to charge up to 6 per cent. for hire-purchase credits and certain other types of credit (e.g. long-term credit) regarded as unsuitable for commercial banks, while rates below the 5½ per cent. average were to be reserved for new credits granted in connection with import-saving and export-promoting schemes.
- (ii) The central bank at the same time withdrew from the government-bond market, with the result that the yield of such long-term bonds rose from 4½ to 5 per cent.

During the first quarter of 1956 bank advances showed a reduction of A£34 million more than in the same quarter of the preceding year; the liquidity ratio of the trading banks has improved, and commodity prices have declined slightly. But Australia's external position has continued to deteriorate, and it is therefore too soon to judge whether or not the steps so far taken will prove sufficient.

In the northern countries tension in the foreign exchange position has led during recent years to a more resolute use of monetary policy to check excessive internal demand. In 1955 both Norway and Sweden had deficits on the current account of the balance of payments; in Denmark the previous deficit was replaced by a small surplus, but only after the reserves had sunk to a low level — they are, indeed, still in need of replenishment. Finland had a larger surplus on current account; but this country, which is not a member of the O.E.E.C., has not liberalised its imports to the same extent as most other western European countries and still has some difficult problems to solve in the field of foreign trade and payments.

**Northern countries:
Current account of the balance of payments.**

Items	Merchandise trade			Net income from Invisibles	Balance on current account
	Imports ¹	Exports	Balance		
round figures, in millions of national currency units					
Denmark (kroner)					
1953	6,460	6,300	— 160	+ 270	+ 110
1954	7,520	6,820	— 700	+ 150	— 550
1955 ²	7,600	7,500	— 100	+ 300	+ 200
Finland (markkas)					
1953	123,600	131,700	+ 8,100	+ 4,100	+ 12,200
1954	150,500	156,700	+ 6,200	+ 7,300	+ 13,500
1955	177,000	181,300	+ 4,300	+ 9,700	+ 14,000
Norway (kroner)					
1953	6,510	3,810	— 2,700	+ 1,700	— 1,000
1954	7,280	4,340	— 2,940	+ 1,860	— 1,080
1955	7,850	4,760	— 3,090	+ 2,290	— 800
Sweden (kroner)					
1953	8,170	7,660	— 510	+ 840	+ 330
1954	9,190	8,200	— 990	+ 830	— 160
1955	10,300	8,950	— 1,350	+ 980	— 370

¹ For Denmark Imports are f.o.b., for the other countries c.i.f.
² Preliminary estimates.

The tension which had begun to make itself felt in the foreign exchange position of Sweden in the autumn of 1954 continued in the following year. In spite of the measures of fiscal and credit policy taken in the spring of 1955 — including an increase in the official discount rate from 2¾ to 3¾ per cent. and the issue of a government loan at 4½ per cent. — strong expansive tendencies persisted, giving rise, inter alia, to the following effects:

- (i) The price stability which had been maintained for three years was disturbed by an increase of some 7 per cent. in wholesale prices and of 6 per cent. in the cost of living in the course of 1955, the situation having been aggravated, it should be mentioned, by an exceptionally poor harvest after the dry summer of that year.
- (ii) There emerged a current deficit of S.Kr. 370 million in the balance of payments, despite very strong demand for Swedish export goods on the world markets and a certain improvement in the country's terms of trade.

Wage rates rose by about 10 per cent. from 1954 to 1955, and the wage negotiations which took place early in 1956 resulted in the raising by another 4 per cent. of a wage level which was already the highest in Europe. With the specific object of counteracting too one-sided an increase in Swedish costs and prices, imports of goods not only from other O.E.E.C. countries but also from the dollar area have been liberalised to a considerable extent (see Chapter IV).

The budget proposals for the financial year July 1956 to June 1957, which were submitted early in 1956, provided for a substantial overall surplus, estimated, after making allowance for a certain reduction in direct taxation and a 10 per cent. increase in old-age pensions, at some S.Kr. 400 million. While it was thus made clear that the government did not intend to borrow during the coming financial year even for capital purposes, some borrowing was still required to cover expenditure in the current financial year. The government therefore issued a loan in March 1956; and by the fairly high interest rate — $4\frac{1}{2}$ per cent. — it confirmed the view that rates were likely to be maintained at about that level in support of a policy of restricting liquidity. It was realised that if balance was to be restored in the economy there would have to be a cut in public as well as private investment, including a reduction of something like 10 per cent. in housing programmes.

A further move to restrict credit was made in April 1956, when the commercial banks, at the request of the Riksbank, agreed to reduce their credits for purposes other than housing construction so as to bring them down, by the end of August 1956, to a level 5 per cent. below that at which they stood on 31st July 1955.

In Norway the deficit on the current account of the balance of payments, which had amounted in 1954 to N.Kr. 1,080 million, was reduced in 1955 to about N.Kr. 800 million, and it proved possible during the year to raise loans and obtain credits on foreign markets (for the purchase of ships, etc.) sufficient not only to cover the deficit but also to add some N.Kr. 350 million to the country's gold and foreign exchange reserves (see Chapter IV). The government's "national budget" for 1956 envisaged a reduction — to N.Kr. 320 million — in the current balance-of-payments deficit, to achieve which, it was stated, the growth in internal demand for goods and services would have to be moderated. The budget estimates for the financial year 1955-56, as originally adopted, provided for the attainment of an overall balance at a level of N.Kr. 4,471 million; there may actually be a certain deficit, but this is expected to be less than the N.Kr. 295 million appropriated for the redemption of debt. The estimates for the financial year 1956-57 are again drawn up on the basis of an overall balance, the net amount included for debt redemption being this time N.Kr. 328 million.

One important item of expenditure, however, is not included in either the current or the capital budget, namely the resources provided by the government for the state banks, representing in fact an additional charge which amounted in 1955 to N.Kr. 735 million. These banks have also been given special treatment when action has been taken to restrict credit. Thus, when the official discount rate was raised early in 1955 from $2\frac{1}{2}$ to $3\frac{1}{2}$ per cent., with corresponding interest-rate changes in other parts of the credit system, an exception was made in the case of the two most important state banks (specialising in mortgages for building purposes): they maintained their lending rates unchanged at $2\frac{1}{2}$ per cent., which meant that they continued to be wholly dependent for their further credit-granting on the provision of funds by the government. Although the government raised an amount of about N.Kr. 750 million in 1955 by the issue of new internal loans, special action was in fact taken in the autumn of 1955 to ensure that the commercial banks, savings banks and life-insurance companies would make funds available for the financing of the state banks. It was agreed between the Norges Bank and the two banking organisations, the Association of Commercial Banks and the Association of Savings Banks, not only that the amount of credit granted by the banks should not be increased in 1956 and 1957 beyond the 1955 level but also that the savings banks should contribute to the financing of the state banks by subscribing to government loans an amount corresponding to 50 per cent. of the growth in their deposits. It was further agreed between the Minister of Finance and the Association of Norwegian Life Insurance Companies that by the end of 1957 these companies should increase their aggregate holdings of state and state-guaranteed bonds by at least N.Kr. 200 million compared with their level on 1st November 1955 and that in this connection they should subscribe N.Kr. 225 million to new state loans.*

The authorities were not, however, unaware of the dangers inherent in the special position of the state banks. As early as the beginning of 1955 the government had considered the advisability of reducing to some extent the lending of the state banks, and in February 1956 the Norges Bank, in a statement on the report of a specially appointed State Banks Committee, recommended that the government and Parliament should review the state banks' activities, bearing in mind the fact that it was precisely in the sectors affected by their lending that the credit expansion was still continuing.

In Denmark, the official discount rate was increased from $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent. in June 1954, and in March and April 1955 this action was reinforced by fiscal measures, a number of taxes and duties being raised with the object of increasing the government surplus on the combined current and capital account. At about the same time the introduction of certain reforms in the government's method of subsidising house-building gave builders an incentive to keep down costs, and the rent legislation was also amended in such a way as to make conditions more normal in the housing sector.

Under the Danish fiscal system, loans granted by the government to facilitate the building of houses are not included in the regular budget but appear only in

* It was announced in connection with the agreement concluded with the Association of Savings Banks and the Association of Commercial Banks that if future developments were in line with the principles laid down no proposal would be put forward for a new law regarding minimum reserve requirements for banks; and the insurance companies were also informed that so long as the agreement entered into by them was in force no proposal would be submitted for new legislation compelling them to subscribe to public loans.

the Treasury accounts. As the government had difficulty, both in 1954 and in 1955, in raising the funds needed for this purpose on the capital market, it had recourse to borrowing directly from the National Bank, obtaining D.Kr. 300 million from it in 1954 and D.Kr. 212 million in 1955. Actually, more dwellings were finished in 1955 than in the preceding year, but housing starts were reduced, so that the number of units under construction at the end of 1955 was 16 per cent. less than at the corresponding date a year earlier. The total amount of loans made available by the government for the building of houses had been limited to D.Kr. 350 million for the fiscal year 1955-56, as against D.Kr. 500 to 600 million in the previous year.

Thanks to this reduction and to the general improvement in the public finances which followed the measures taken in the spring of 1955, the government found it necessary to borrow from the National Bank only in the first half of that year; in the second half there was no increase in the government's debt to the National Bank, although the sale of government bonds on the capital market brought in only D.Kr. 90 million, compared with D.Kr. 200 million in the first half of the year.

In May 1955 the National Bank discontinued its practice of allowing the banks rediscount facilities at a special rate of $\frac{1}{2}$ per cent., so that thereafter all discounting had to take place at the official rate of $5\frac{1}{2}$ per cent. At the same time commercial banks and savings banks were permitted to make deposits with the National Bank carrying interest at $1\frac{1}{2}$ per cent. By the end of February 1956 D.Kr. 79 million had been placed on such deposits. In the summer of 1955 the Association of Commercial Banks and the Association of Savings Banks asked their members to strengthen their liquidity by avoiding an increase in the total amount of loans granted and whenever possible to purchase newly-issued government bonds in order to reduce government borrowing from the National Bank.

In the course of 1955 the money supply increased by over 2 per cent., compared with a decline of 2 per cent. in the previous year. There was no expansion in the gross national product but wholesale prices went up by 3.2 per cent. and the cost of living by 4.7 per cent. In the spring of 1956 conflicts in the labour market gave rise to widespread strikes; when no agreement was reached between the parties concerned a law for the settlement of the dispute was passed by Parliament. This law provided for an increase in wage rates, the annual cost of which is estimated by the government at some D.Kr. 150 million, or less than 2 per cent. of the wage bill — this being, however, in addition to any increase made in the course of the semi-annual adjustment of wages on the basis of the cost-of-living index. It has been officially stated that in the resultant situation there are even less grounds than before for any relaxation of the strict monetary and fiscal policies.

Thus in the course of 1954-55 the three Scandinavian countries adopted fairly flexible monetary policies, and these policies were reinforced by action designed to lead to an overall budget surplus and efforts to avoid inflationary methods in the financing of building activity — a certain reduction in the number of housing starts being also intended to lessen the strain on the available resources of manpower and materials. It should, however, be mentioned that in Norway and Sweden the credit restrictions agreed upon between the central bank and the commercial and other banks were not made applicable to credits granted for housing construction, while in Denmark certain types of agricultural credit were exempted from the credit

restrictions. Even so, it can be said that in these countries attempts have been made to slow down the growth in domestic demand in order to curtail imports and expand exports and to weaken the forces making for cost and price increases. The authorities in all these countries have stressed that "moderation is necessary in the framing of wage and salary claims" (to quote the words used by Mr Svend Nielsen, Governor of the National Bank of Denmark, at the annual meeting of the bank in March 1956). Not only in Denmark but also in Norway — and in Finland too — there occurred explosive labour conflicts which took a considerable time to settle. The outbreak of these conflicts and the difficulties experienced in arriving at a settlement may be regarded as signs of a transition to a more stable price situation in which the annual increases in remuneration will have to be kept more closely in step with the actual rate of economic growth, as determined, inter alia, by the tempo at which the rationalisation of production can be carried out.

In 1953 Finland had a current surplus in its balance of payments estimated at FM 12.2 milliard, and this was slightly increased both in 1954 and in 1955, leading to sizable additions to the country's net foreign assets. From December 1954 until April 1956 the interest rates of the Bank of Finland were kept between a minimum of 5 and a maximum of 7½ per cent., and various other measures designed to reinforce a restrictive monetary policy were also taken during this period (for further details see Chapter VII). While in 1955 the gross national product in real terms rose by between 5 and 6 per cent., the money supply went up by as much as 15 per cent., mainly as a result of a further expansion in bank lending and increased rediscounting by the banks at the Bank of Finland. The overall budget deficit, on the other hand, was much smaller than had originally been estimated, this being largely due to the rise in revenue caused by the boom, which continued unabated.

A change which gave rise to considerable controversy was made in economic policy at the end of 1955, the controls over the prices of home-produced goods being abolished altogether, those affecting foreign trade and rents being eased and the fixing of wage rates being made a matter for negotiation between the labour-market organisations. Early in 1956, following a rise in the prices of most agricultural products, demands were made for higher wages; after a general strike lasting nineteen days a settlement was reached providing for wage increases of approximately 10 per cent., the employers being given partial compensation in the form of reductions in the amounts paid in respect of social charges and income tax together with an increase in depreciation allowances. At the same time it was announced that the government would resume control over the prices of certain Finnish products and services; and a new starting-point was agreed upon for the cost-of-living index, which serves as the basis for a sliding wage scale.

In a broadcast speech on 19th March the Governor of the Bank of Finland gave a warning that, in order to safeguard the value of the Finnish mark, money might have to be made tighter, and on 19th April the interest rates of the Bank of Finland were raised to a level of between 6½ and 8 per cent.

Some progress was achieved during the year in the liberalisation of foreign trade, so that by the end of 1955 licences were being issued automatically for about one-half of the country's imports (see Chapter IV). There was a decline in the construction of farm buildings and dwelling-houses in rural districts but an increase of almost 10 per cent. in that of factory buildings and business premises and one of 5 per cent. in the building of dwelling-houses in the towns. Although the policies designed to keep up the value of the currency had chiefly aimed at curbing investment, the real increase in private and public investment in 1955 amounted to $13\frac{1}{2}$ per cent., compared with a real increase of $5\frac{1}{2}$ per cent. in private and public consumption. The greater part of the funds used for investment, other than those provided through self-financing by business firms, was obtained from the commercial, co-operative and savings banks, whose total loans rose by FM 51.2 milliard in 1955, compared with FM 49.4 milliard in the previous year.

The continued rapid expansion of the Finnish economy has been due mainly to the effects on the country's foreign trade — the terms of trade being favourable — of the boom conditions abroad. While steps have been taken in recent years to provide for the holding of certain minimum cash balances by banks and, in general, to subject the credit system to methods of monetary control, there continues to be no capital market, imports are far from being fully liberalised, and consumer prices are in many cases still held down by subsidies — so that some of the country's defences against inflationary pressures remain rather weak.

The position of Austria has in some respects been similar to that of Finland, but, as a member of the O.E.E.C., Austria has done more to liberalise its imports and, partly as a by-product of a deficit in its current balance of payments, it has been better able to prevent any sharp increase in its money volume. As in most other European countries, the rise in production from 1954 to 1955 was greater in the basic-materials and investment-goods industries than in the consumer-goods industries, having amounted to 18 per cent. in the former case and 8 per cent. in the latter. The overall increase in the gross national product worked out at 14 per cent. on the basis of current prices, or, as wholesale prices rose on an average by $3\frac{1}{2}$ per cent., at over 10 per cent. in real terms — a record figure for Austria.

Foreign exchange earnings from the tourist trade, amounting to Sch. 2.1 milliard (= \$82 million), constituted the main credit item on invisible account, which altogether showed a surplus of \$59 million. But this was not sufficient to cover the trade deficit of \$191 million resulting from an increase of 36 per cent. in imports against one of only 14 per cent. in exports (excluding, however, certain special release deliveries to the U.S.S.R.). The balance of payments on current account consequently deteriorated from a surplus of \$68 million in 1954 to a deficit of \$132 million in 1955, the debit balance in the latter year having been covered to the extent of \$54 million by a draft on the foreign exchange reserves and, as to the remainder, by resources which, though they cannot be statistically ascertained, must certainly have consisted in part of repatriated funds, and to some extent, perhaps, of credits from abroad. While the gold and foreign exchange reserves remained considerable (having amounted to \$336 million at the end of the year), the steady deterioration in the balance of payments and, above all,

the excessive boom in the investment-goods industries and the building trade, together with the upward trend of prices (the whole development being stimulated by a general atmosphere of optimism created by the recovery of full independence), compelled Austria to take measures in the course of 1955 to check the expansion. The official discount rate was raised twice — in May from 3½ to 4½ per cent. and then again in November to 5 per cent. The qualitative and quantitative control of credit was intensified and attempts were made to curb the investment boom by cutting down public orders. The policy of credit restraint was reinforced above all by the restrictive effect of the balance-of-payments deficit and also, to a certain extent, by increased demand from the public for cash in the form of notes. Thus the credit institutions were before long forced to reduce their purchases of securities and later also to curtail their credit-granting. Whereas at the beginning of 1955 they had held net balances with the National Bank amounting to Sch. 1,764 million, by the end of the year their indebtedness vis-à-vis the National Bank exceeded their free sight balances by Sch. 648 million. Thus the authorities had succeeded in creating a situation in which the business world no longer regarded credit as being easy to obtain.

Another effect of the action taken has been that savings deposits have continued to increase, having risen in the course of 1955 from Sch. 7.5 to 10 milliard, while demand deposits (cheque accounts) fell by Sch. 598 million. As a result of the divergent movements which took place (an increase in the note circulation and a decline in demand deposits), the money supply, which had expanded by 24 per cent. in 1953 and by 25 per cent. in 1954, grew by only 1 per cent. in 1955, and in the early months of 1956 it was actually smaller than in the corresponding months of the previous year.

The foregoing development occurred despite a deterioration in the financial position of the state, an overall budget surplus of Sch. 107 million in 1953 and of Sch. 524 million in 1954 having been replaced in 1955 by an overall deficit of over Sch. 1,000 million, which was covered from existing cash balances. The budget estimates for 1956 provide, however, for a 44 per cent. cut in the total of government-financed investment.

As far as the capital market is concerned, not only has it been able to supply larger amounts of funds than in the past but also its legal structure has been improved by the entry into force of several new laws (pertaining to the revaluation of assets, the reconstruction of various financial institutions, etc.). There has also been promulgated a new National Bank Law, which has the effect of further strengthening the country's financial system. The resumption of control by Austria of assets previously in the hands of the U.S.S.R., though it has raised certain new problems which have not yet been fully solved, has involved less immediate financial outlay than was at first expected. In the field of foreign trade, the country's recovery of complete independence has resulted in the inclusion in the statistics of the whole of its trade with eastern Europe, so that this is now shown as representing not 9 per cent. of the total, as immediately before the conclusion of the State Treaty with the U.S.S.R., but something like 12 per cent. — again without counting the special release deliveries, which in 1955 amounted to Sch. 307 million in goods and services and \$2 million (= Sch. 52 million) in cash. Altogether, with foreign trade increasing more rapidly than domestic production, Austria's economy is acquiring an increasingly outward orientation, so that this country, like others much dependent on their foreign commercial relations, now needs to take greater care than ever to keep its finances on a firm basis.

In Austria's internal economy, unemployment has been reduced to well below the level of the post-war inflationary period. This is, indeed, just one

aspect of the present full employment of all available resources. Austria, like a number of other countries, is in fact now in a position in which almost any creation of new purchasing power is likely to lead to a dangerous increase in the volume of imports. In this respect the situation is clearly different from that which existed, for instance, during the depression of the 1930s, when resources were not fully employed, for then it could be assumed that a considerable part of any additional purchasing power would have the effect of increasing domestic production, so that only a fraction would be reflected in larger imports. Today the marginal propensity to import is much greater than it was then and it is therefore necessary to be doubly careful in the handling of credit policy so as to avoid an inflationary expansion of the money volume.

In 1955 western Germany had a current surplus of DM 2.9 milliard (= \$700 million) in its balance of payments and increased its gold and foreign exchange reserves by DM 1.9 milliard (= \$450 million), so that in these respects the country's situation could be described as being entirely satisfactory.

Western Germany: Balance of payments.

Items	1953	1954	1955
	in millions of Deutsche Mark		
Current account			
Merchandise trade (including transit trade)			
Exports (f.o.b.)	18,780	22,571	26,373
Imports (f.o.b.)	15,073	18,574	22,946
Balance of trade	+ 3,707	+ 3,997	+ 3,427
Invisible items			
Receipts	3,765	4,646	5,861
Expenditure	3,295	4,611	6,364
Balance of invisible items	+ 470	+ 35	- 503
Total balance on current account . . .	+ 4,177	+ 4,032	+ 2,924
Capital account			
Foreign aid	+ 265	+ 290	+ 130
Unrequited remittances	- 319	- 678	- 945
Debts and credits (net)	- 294	- 490	- 502
Balance on capital account	- 338	- 878	- 1,317
Errors and omissions	- 246	- 430	+ 314
Changes in monetary reserves	+ 3,593	+ 2,724	+ 1,921

Notes: 1. In addition to the DM 130 million of foreign aid indicated in the table above, which consisted mainly of deliveries of U.S. surplus agricultural products to west Berlin, western Germany also acquired, from expenditures arising in connection with the maintenance of American forces in Germany, special dollar receipts totalling DM 1.1 milliard in 1955, which are included under the heading "invisible items".

2. The "Unrequited remittances" shown above consist of payments made to the victims of persecution, which amounted to DM 150 million in 1954 and rose to DM 350 million in 1955, reparation deliveries and payments to Israel (DM 354 million in 1954 and DM 368 million in 1955), and payments to the European Coal and Steel Community, amounting in 1955 to DM 177 million.

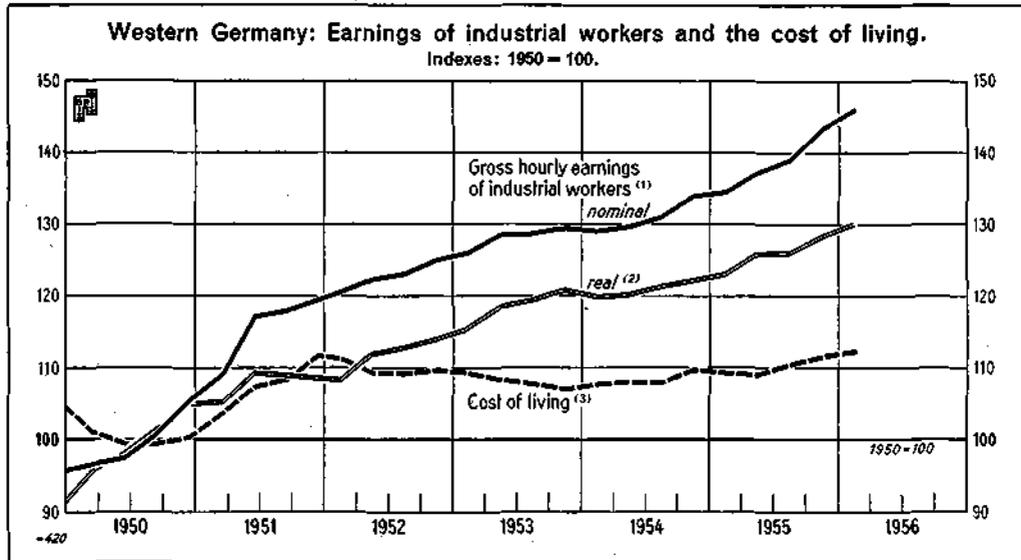
The Bank deutscher Länder was in fact able, in agreement with the Federal Government, to continue dismantling the existing exchange restrictions, and further progress was also made in the liberalisation of imports. Moreover, the budget accounts showed renewed — and one might even say exceptionally large — surpluses, owing partly to increases in revenue and partly to delays in effecting expenditure already decided upon, with the result that the total accumulated cash reserves of public authorities with the central-banking system had by the end of March 1956 reached the high level of DM 6.9 milliard.

But although neither the balance of payments nor the public finances gave any cause for concern, it began to be felt during the course of the year that the boom was becoming too intense, since it was accompanied by a marked expansion in the credit volume and a sharp rise both in wages and in certain prices. The exceptional strength of overall demand was clear from the continuous increase in order books, which throughout the whole year outstripped the growth in production, despite the fact that in 1955 the gross national product in real terms rose by 11 per cent., against 7 to 8 per cent. in each of the two preceding years. That foreign demand was still strong was evidenced by the further large increase in exports (western Germany's industries were, indeed, highly competitive and able to offer relatively short delivery dates — one reason being that they were not hampered by armament production like their main rivals in other countries). Still more important, however, was the increase in domestic demand, resulting, in particular, from the large volume of investment in fixed capital, which totalled DM 38.1 milliard, equivalent to 23.2 per cent. of the gross national product.* The most pronounced increase in investment was in the private sector, and this was helped by the fact that financing facilities were distinctly better than in earlier years, partly thanks to greater activity on the capital market.

The rapid expansion in the volume of investment resulted in a very strong demand for labour, as may be seen from the fact that in September 1955 some 975,000 more persons were employed in western Germany than in the same month of the previous year. Of these only 280,000 were accounted for by the natural increase in the working population; some 170,000 consisted of persons who had not formerly been employed in industry, especially women, who had hitherto been family workers or engaged in agriculture, while 200,000 were new arrivals and 325,000 had previously been unemployed. The tight situation in the labour market led to an increase in wage rates, which is estimated to have amounted to over 7 per cent. over the year, with the result that the total earnings of industrial workers in the last quarter of 1955 were about 13.5 per cent. higher than in the corresponding quarter of 1954.

While in the first half of 1955 the increase in productivity would seem to have kept pace with the upward movement of wages, it is estimated that in the second half of the year earnings rose by $7\frac{1}{2}$ per cent. and productivity by $5\frac{1}{2}$ per cent. This is not, however, a great disparity, and between December 1954 and December 1955 industrial prices increased, on an average, by only $2\frac{1}{2}$ per cent. In the same period the prices of agricultural products, on the other hand, determined as they mostly are by the forces operating in a protected domestic market, rose by 8 per cent., thus running counter to the trend on the world markets.

* On the other hand, there seems to have been little increase in stocks; the annual report for 1955 of the Bank deutscher Länder observes that there have been few covering purchases, such as are usual when considerable price changes are expected; they would as a rule not have been a paying proposition, since so far the price increases have worked out at less than the cost of holding bigger stocks, and the gap has been widened by the recent increases in interest rates.



¹ Including the building industry but excluding the mining and power industries.
² Gross hourly earnings divided by the cost-of-living index for consumers in the medium-income group.
³ For consumers in the medium-income group.

The rise in wages and prices, together with the increase in output, necessitated an expansion in the volume of means of payment, and the money supply went up by 10 per cent., the note circulation increasing at a more rapid rate than demand deposits. (For further details see Chapter VII.)

It began to be feared about this time that under the impact of strong expansionary forces wages would be increased to a greater extent than was justified by the improvement in productivity and that a dangerous inflationary spiral would develop if the money supply were simply allowed to expand parallel to the general increase in demand.

It was to counteract such tendencies that the Bank deutscher Länder, in the summer of 1955, began to apply a more restrictive credit policy. At first, this took the form of contractive open-market operations but subsequently, as from 4th August, the official discount rate was increased from 3 to 3½ per cent. and the minimum cash requirements of the other credit institutions were raised by 1 per cent. The note circulation continued to grow, however, and at the end of December 1955 was DM 1 milliard larger than it had been at the end of August; the first two months of 1956 brought the usual seasonal decline in the amount of notes outstanding, but by March it was already just as high as it had been at the end of December. On 7th March 1956 the official discount rate was therefore raised again, this time to 4½ per cent. But the credit expansion still continued; in March short-term credits to business firms and individuals went up by DM 466 million, as against DM 340 million in March 1955. And before long, as from 19th May 1956, the official discount rate was raised once more, to 5½ per cent.

In its annual report for 1955 the Bank deutscher Länder states that it is well aware of the unfortunate effects produced on the capital market by the introduction of a restrictive credit policy after a period during which a more plentiful supply of money had led to a distinct revival of the market. But it adds that considerations of capital-market policy must not be allowed

to deter the bank from pursuing the course of action which it has adopted for the purpose of safeguarding the national currency. It also stresses in several parts of its report that the public finances must be so managed that they do not suddenly begin to add to the inflationary pressure after having worked in the opposite direction through the budget surpluses achieved in recent years.

The Netherlands presented in 1955 a picture of an economy remaining singularly steady and well-balanced in the midst of a world boom. Wages, as determined by the tariff agreements, rose by less than 1 per cent. in the course of the year; the cost of living hardly changed at all; and wholesale prices were at the close of the year only a fraction higher than at the end of 1954.

The balance of payments showed a current surplus of Fl. 285 million, nearly all of which served as a counterpart for additional voluntary reductions of the external public debt and for an increase in short-term bank lending to foreign countries, leaving only a relatively small amount to be added to the gold and foreign exchange reserves.

As far as government finances were concerned, the central government borrowed on the capital market rather more than it needed for financing its own investment expenditure, but the slight deflationary effect that might have been expected to follow was probably neutralised by a simultaneous increase in the amount of short-term borrowing by local authorities.

In these circumstances, the Nederlandsche Bank had no objection to the commercial banks' expanding their foreign lending and investment business by some Fl. 170 million, for the money-creating effect of the balance-of-payments surplus was thereby correspondingly lessened. A different effect tended to be produced, of course, by the increase of Fl. 460 million in the commercial banks' domestic lending and investment. The domestic money supply expanded during the year by Fl. 760 million, equal to 8.6 per cent., but the Nederlandsche Bank points out in its annual report for 1955 that some creation of money was absolutely essential to meet the need for further liquid resources that went with rising incomes; since real income increased by 6 per cent. in 1955, the necessary addition to the money supply might be estimated at Fl. 400 to 500 million. As the banking system provides more than 40 per cent. of the money in circulation, it is natural that it should make a substantial contribution to the flow of new money. Indeed, if any endeavour were made to prevent this from happening — supposing it were at all possible to do so — the economy would be subjected thereby to a certain degree of deflationary pressure. To guard against too marked an expansion in credit the Nederlandsche Bank continued throughout the year to carry out open-market operations and to require the credit institutions to fulfil certain undertakings entered into in a gentleman's agreement concluded in 1954 concerning the sterilisation of cash reserves. The commercial banks were asked, moreover, to keep a close watch on the trend of their credit-granting and to do their best to curb excessive demands from trade and industry, emphasis being laid, in particular, on the importance of slowing down the expansion of credit for the financing of instalment sales and the granting of loans for capital purposes (including loans to meet permanent requirements of working capital). The banks endeavoured to comply with this request. There was, however, an appreciable increase in the

demand for credit towards the end of the year and early in 1956, and on 7th February 1956 the Nederlandsche Bank raised its discount rate from 2½ to 3 per cent.

In 1955, despite the apparent stability of the economy, pressures were in fact building up, and these became more evident in the early months of 1956. The level at which wage rates remained so steady in 1955 was that reached as a result of the agreements of October 1954; in comparison, on the other hand, with the average industrial wages earned in 1954, there was a rise of about 7 per cent. in 1955.

Under the system in force in the Netherlands, wage changes — at least as far as the general principles are concerned — are negotiated centrally, and in the winter of 1955-56 it became necessary to work out a new settlement. The government had already given its approval in September 1955 to measures for improving in 1956 what are known in the Netherlands as the secondary conditions of labour (paid holidays, etc.) to an extent equivalent to 3 per cent. of the prevailing wages. In March 1956, after prolonged negotiations, a general agreement was reached as a result of which both the average total wage per worker and the overall level of wages for 1956 as a whole are expected to show a rise of 8 to 9 per cent. in comparison with 1955. The Nederlandsche Bank states in its annual report for 1955 that, if it is assumed that owing to the increase in productivity the real national income per worker will increase in 1956 to the same extent as in 1955, i.e. by 4 to 5 per cent., and if there are no price rises, half the increase in wages will have to be offset by a reduction in the entrepreneurs' share of the national income. It is, however, difficult to tell what will happen with regard to productivity and other important economic factors, and the report goes on to stress that the Netherlands, "in view of the large increase in its population, must maintain its position even in the face of the strongest competition. This means that the least we can do is to try to keep our labour costs per unit of production stable; and even that may not in fact be enough. Nevertheless, the wage increases granted in our country during the past two years have been much larger than has been warranted by the improvement in labour productivity. Probably this was sufficiently justified by the relative advantage in the matter of production costs still enjoyed by the Netherlands in 1953. But a comparison of present conditions with those prevailing abroad affords a clear warning of the dangers of pursuing the same course in 1956."

The economy of Belgium, in contrast to that of the Netherlands, has been characterised during the post-war period by relatively high costs and prices. While this might have been a great handicap had circumstances been different, the fact that the Belgian-Luxemburg Economic Union is a large-scale exporter of steel and metal products has made it possible for the two countries of the Union to profit by the lively demand for investment goods which has persisted, with only brief interruptions, throughout the last ten years. The demand for such goods was especially strong in 1955. While the textile industries suffered from a certain lack of orders, and the home market on the whole was only moderately active, growing demand from abroad acted as a forceful stimulant to the economy. Exports increased in value by 21 per cent., while imports rose by only 12 per cent., the trade deficit thus being reduced from B.fcs 12 milliard in 1954 to B.fcs 3 milliard in 1955. Thanks also to an improvement in the net receipts from invisible items, the current balance-of-payments deficit of B.fcs 3.6 milliard incurred in 1954 was replaced last year by a surplus of B.fcs 10.5 milliard.

The surplus in the balance of payments in 1955, combined with the fact that the Belgian Government issued several loans abroad (see Chapter VII), was reflected in an increase of B.fcs 6.4 milliard in the monetary reserves, bringing them up to B.fcs 54.7 milliard at the end of the year. This increase — in a year when the national product rose by 7 per cent. — was the main reason for the rise of 5 per cent. in the money supply, which expanded during the year by B.fcs 9.1 milliard, to B.fcs 192.7 milliard. Owing to the expansion in the money supply the money market was relatively easy, and the raising of the official discount rate from 2¾ to 3 per cent. in August 1955 was primarily intended as a warning against speculative excesses. Some concern has continued to be felt, however, about the overall deficit in the government budget, since virtually the whole of the extraordinary expenditure has to be financed by borrowing.

Belgium: Government finances and national product.

Items	Calendar year				
	1952	1953	1954	1955	1956
	actual				estimates
in milliards of Belgian francs					
Ordinary expenditure	77.8	77.3	79.1	81.1	84.0
Ordinary revenue	78.6	74.6	78.1	81.9	84.0
Balance	+ 0.9	— 2.7	— 1.1	+ 0.8	—
Extraordinary expenditure (net)	16.8	15.1	13.8	15.0	12.0
Overall balance	— 15.9	— 17.8	— 14.9	— 14.2	— 12.0
Public debt (at 31st December)	286.0	281.9	297.9	311.3	.
Gross national product (at market prices)* .	429	433	449	480	.

* Unofficial estimate.

Note: The figures for the different years are not easy to compare owing to the fact that there have been certain transfers of items between the ordinary and extraordinary budget. Moreover, in 1956 the extraordinary budget no longer includes the expenditure which is to be financed by the Road Fund with the proceeds of the special loan issued in October 1955. It will therefore not be possible to ascertain until the end of the year whether the slowing-down of the increase in the public debt which took place in 1955 is continuing.

It will be seen that from the end of 1952 to the end of 1955 the public debt rose by B.fcs 45.3 milliard, or by an average amount of B.fcs 15 milliard a year. The National Bank, discussing in its annual report for 1955 the advisability of resorting, in certain circumstances, to open-market operations, explains that it "has never been in a position to sell part of its holdings of public securities on the market, because the Government and the other public authorities have already exhausted the market's potentialities. Thus the Bank has been deprived of an important means of action."

Switzerland, too, has been affected by the world-wide boom, but in that country — more, for instance, than in Belgium — there has at the same time been an internal expansion, which in 1955, as in the preceding year, was most pronounced in the building industry. One of the main reasons for this lively economic activity, in addition to the employment of foreign workers, was the plentiful supply of savings on the capital market, together with the fact that funds have been available on easy terms, reflecting to some extent the surplus in the balance of payments. In 1955 the central

government again had an overall budget surplus of somewhat over Sw.fcs 200 million, which was more than the aggregate net amount of borrowing by the cantons, while the net amount which became available for investment by the Old Age and Dependants' Insurance Fund was Sw.fcs 509 million. In these circumstances one of the main tasks of the Confederation and the National Bank was to prevent the ample supply of funds from leading to an excessively high rate of domestic business activity.

Among the steps taken to reduce the liquidity of the capital market, besides the sale during the first nine months of 1955 of Sw.fcs 75 million's worth of gold coins to the public, was the conclusion in the spring of 1955 of a gentleman's agreement with the banks whereby the latter undertook to continue to apply certain measures (e.g. to exercise restraint in accepting and paying interest on foreign funds) designed to moderate the influx of money from abroad. Moreover, eighty-nine banks agreed to hold at the National Bank certain minimum cash balances amounting altogether to some Sw.fcs 250 million. A number of private insurance companies and social-insurance institutions, including the Old Age and Dependants' Insurance Fund, also undertook to co-operate with the National Bank in this manner, with the result that an aggregate amount of over Sw.fcs 300 million was blocked at the central bank. In the spring and summer of 1955 the growth of internal liquidity was further restrained by continuous and fairly substantial long-term borrowing by other countries, and by the early autumn the market had in fact become somewhat tighter.

Suggestions had been made that the official discount rate, which had remained at $1\frac{1}{2}$ per cent. since November 1936, might be increased. It was decided, however, not to take any such step for the time being, since it was thought that a higher rate would unfavourably affect a number of controlled prices (in particular, prices of agricultural products and rents) and might possibly increase the supply of funds. As it was, the slight tension in the market had already disappeared again by the end of the year owing to a certain further inflow of funds from abroad.

Under the influence of the internal boom, imports rose rather more than exports, with the result that the current surplus in the balance of payments was reduced from Sw.fcs 1,063 million in 1954 to around Sw.fcs 700 million in 1955. This tendency continued in the first four months of 1956, when the excess of imports over exports amounted to Sw.fcs 388 million, compared with Sw.fcs 303 million in the corresponding period of the preceding year.

In Italy, too, there has not recently been any change in the official discount rate, which has remained at 4 per cent. since April 1950. But long-term interest rates have moved upwards: the average yield of government securities increased during 1955 from 6.23 to 6.60 per cent. and that of private bonds was nearly 7 per cent. This relatively high interest level is the reflection not of a low rate of saving — indeed, current net savings are estimated to have amounted in 1955 to $13\frac{1}{2}$ per cent. of the net national product — but of a rate of economic expansion far higher than any ever achieved by Italy in the inter-war period.

The Vanoni scheme, which outlines the general conditions for the raising of the level of employment and the national income, reckoned with a certain deterioration in the current account of the balance of payments during the first years of

its implementation and therefore stressed the necessity of obtaining more funds from abroad. In 1955, however, partly owing to certain delays in the full effects of the measures envisaged in the scheme and partly because of the world boom, which made possible an expansion in exports (especially of engineering products) and led to larger receipts from the tourist trade, there was actually a slight decline in the deficit of the balance of payments on current account (excluding foreign aid).

Italy: Balance of payments.

Items	1952	1953	1954	1955
	in millions of U.S. dollars			
Merchandise trade				
Imports (c.i.f.)	2,085	2,118	2,221	2,519
Exports (f.o.b.)	1,357	1,394	1,606	1,957
Balance of trade	- 728	- 724	- 615	- 661
Invisible items (net)				
Tourism	+ 77	+ 131	+ 139	+ 190
Transportation	+ 166	+ 134	+ 136	+ 157
Emigrants' remittances	+ 102	+ 119	+ 114	+ 125
Other invisible items	+ 100	+ 162	+ 111	+ 106
Total invisible items	+ 445	+ 546	+ 499	+ 578
Balance on current account				
Excluding U.S. aid	- 293	- 178	- 116	- 83
U.S. aid	+ 219	+ 133	+ 104	+ 41
Including U.S. aid	- 65	- 45	- 12	- 42
Inflow or outflow of capital (net)	- 28	- 12	+ 67	+ 151
Change in foreign exchange holdings	- 93	- 57	+ 55	+ 109

Note: U.S. off-shore procurement purchases in Italy are included in the above table under merchandise exports; in 1955 such purchases amounted to \$128.8 million, or only slightly less than the total of \$132.5 million reached in 1954. Moreover, in addition to direct U.S. defence and economic aid, which is indicated separately in the table, a further special item of dollar income, which is shown in the Italian balance of payments under the title "Other transactions of a military character", is included above under "Other invisible items". This item, which appears to include foreign exchange income arising from U.S. expenditure on joint military installations as well as that in connection with the maintenance of U.S. troops in Italy, came to \$32.7 million in 1955 and \$19.9 million in 1954.

The net inflow of foreign capital in 1955 was equivalent to \$151 million, compared with \$67 million in the previous year. As a result, the country's gold and foreign exchange holdings increased by the equivalent of \$109 million — nearly twice as much as in 1954.

The increase in the gold and foreign exchange reserves was one of the reasons (see Chapter VII) for the expansion in the money supply, which rose by 11 per cent. in 1955, compared with a growth of 9.2 per cent. in the gross national product at current prices. In real terms, the national product is estimated to have grown by 7.2 per cent., partly as a result of the recovery in agricultural production after the bad harvest of 1954; but even if agricultural output had developed normally the real increase in the national income would still have worked out at very nearly 6 per cent. Private consumption is estimated to have risen by 4.4 per cent., in real terms, and public consumption by 1.3 per cent., while the volume of investment expanded by no less than 15½ per cent.

The amount of investment financed via the state budget — estimated to have been about Lit. 500 milliard in the fiscal year 1954-55 — was well above the overall budget deficit.

Italy: Government finances.

Items	Fiscal year ending 30th June			
	1953	1954	1955	1956
	actual results			estimates
in milliards of lire				
Expenditure	2,309.6	2,325.2	2,618.5	2,725.8
Revenue	1,804.2	2,000.3	2,311.6	2,445.7
Budget deficit . . .	- 505.4	- 324.9	- 306.9	- 280.1
Treasury (cash) deficit . . .	- 377.8	- 256.6	- 236.5	.

It will be seen that the cash deficit is usually less than the budget estimate (which is based on commitments), and the likelihood is that the same will be the case in 1956.

The increase in estimated government expenditure in 1956 is due in the main to a rise of 12.8 per cent. in the average level of wages and salaries of state employees (compared with an increase of 4 to 5 per cent. in the private sector). While the number of people employed by the government has recently been reduced somewhat, other employment has increased at quite a rapid rate; in fact, during the three years 1953-55 the total employed outside the agricultural sector rose by some 850,000. This rise, together with emigration, has enabled the country to absorb the natural increase in the population of working age and at the same time to reduce the number of unemployed by about 450,000, a decline of nearly 200,000 having taken place in 1955 alone. It is estimated that the number of people annually reaching working age in Italy is gradually decreasing, and at the same time the opportunities for employment abroad have recently been more plentiful. In 1955, when the natural increase in the working population is estimated to have been about 330,000, some 175,000 emigrated; by 1967, owing to the sharp decline in the birth rate during and after the second world war, the natural increase in the working population is expected to amount to only 80,000.

In France the post-war period has in many respects been one of almost continuous growth, and that not only in the economic field but also as regards the rate of increase of the population. For several years from 1946 onwards the number of births exceeded the number of deaths by about 300,000 — the highest figure recorded since 1816; and although the increase has slowed down somewhat in the last few years, the birth rate in 1955 was still 18½ per mille, which was higher than the rate in western Germany and the United Kingdom and approximately the same as that in Italy. While the development of the social-security services (including the system of family allowances) may have been a factor contributing to the rise in the birth rate, it should be noted that the increase has taken place during a period of intense economic expansion, the gross national product having risen, for instance, in real terms, by 30 per cent. from 1949 to 1955. Since

the middle of 1952 commodity prices have remained practically stable, with the result that during the last four years the rise in money wages has also meant an improvement in real wages, which have in fact gone up by as much as 22 per cent.*

The increase in real income has led to a considerable growth in the demand for food, which has been fully matched by an expansion in agricultural output. Although this expansion has been due in part to the succession of particularly good harvests during the last few years, there has also been a distinct improvement in agricultural techniques. The textile industry, too, has benefited by an increase in demand, which it has been able to satisfy without difficulty owing to the fact that in France, as in a number of other countries, productive capacity in this sector had previously not been fully utilised. With regard to foreign trade, the liberalisation percentage was raised in the spring of 1956 to 84 per cent., but special compensatory duties — varying between 7 and 15 per cent. — were again imposed on the newly-liberalised imports; in addition, the export of certain goods has continued to be assisted by government aid either in the form of the refunding (at variable rates) of certain fiscal and social charges or, in the case of particular

France: Current account of the balance of payments.

Items	1952	1953	1954	First half	
				1954	1955
in millions of U.S. dollars					
Merchandise trade (f.o.b.)					
Imports	2,643	2,494	2,724	1,319	1,503
Exports	2,024	2,155	2,545	1,207	1,538
Balance of trade	- 619	- 339	- 179	- 112	+ 35
Invisible items (net)					
Tourism	+ 24	- 6	+ 61	+ 30	+ 30
Transport	- 165	- 101	- 75	- 43	- 63
Interest and dividends	+ 54	+ 59	+ 51	+ 24	+ 40
Government receipts	+ 132	+ 337	+ 435	+ 206	+ 222
Other invisible items	- 17	- 67	- 31	- 17	+ 12
Balance of invisible items	+ 28	+ 222	+ 441	+ 200	+ 241
Balance on current account					
Excluding U.S. aid	- 591	- 117	+ 262	+ 88	+ 276
U.S. aid ²	+ 353	+ 350	+ 507	+ 212	+ 295
Total, including U.S. aid	- 238	+ 233	+ 769	+ 300	+ 571

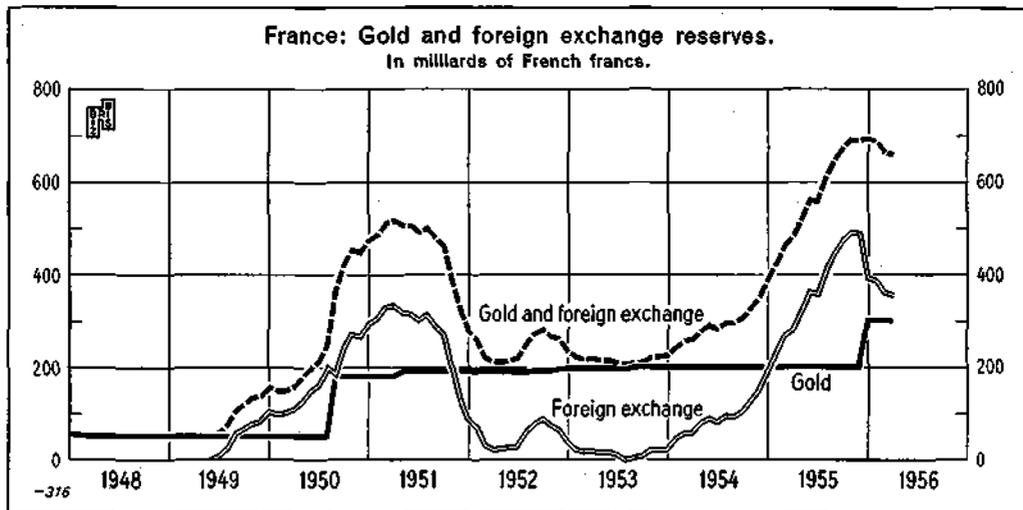
¹ Metropolitan France. ² Including special aid for Indo-China.
 Note: U.S. aid payments to France, which in 1954 and 1955 included considerable amounts of special aid for Indo-China, also include economic aid and defence aid for the promotion of military production in France. In 1955 economic aid was much smaller than in 1954, but in addition to it France has had special dollar receipts arising out of direct U.S. military expenditure (including off-shore purchases) in that country. These special dollar receipts (the countervalue of which has, of course, been received by the U.S. authorities) are included in the item "Government receipts" and account for the greater part of the marked increase in net receipts under this heading since 1952.

* The increases in money wages that have taken place in France since the middle of 1952 have been granted outside the escalator-clause system introduced by the law of 18th July 1952. The cost-of-living index taken as a basis is designed to reflect changes in the prices paid for consumer goods and services by a family in Paris. In the middle of 1952 the index stood at 142 (1949 = 100), and the "Sliding-Scale Law" provides that if at any time the index figure rises 5 per cent. above this level (i.e. to 149.1) the minimum wage rates for all workers will be automatically and proportionally increased. In the winter months there is always a seasonal upward movement of the index, and in the early months of 1956 the seasonal trend was accentuated by price rises resulting from the effects of the very cold weather, so that by March 1956 the index had risen to 148.1 — only one point below the critical level for an automatic rise in wage rates.

commodity groups, in the form of direct subsidies. As a result of a considerable expansion in French exports, especially of the products of heavy industry and of agricultural produce, equilibrium was achieved in the current account of the balance of payments in the first six months of 1955, without account being taken of receipts of economic or defence aid.

Amounts equal to the foreign-aid payments and to part of the dollar receipts from off-shore orders, etc. were in effect added to the monetary reserves, which rose in 1955 by no less than Fr.fcs 301 milliard (= \$860 million) to an amount of Fr.fcs 695 milliard (= \$2.0 milliard). The French Government was also able to repay debts abroad to the extent of some \$300 million.

In the early months of 1956, France again had relatively large deficits in the E.P.U., which were settled entirely by payments in gold and dollars. Even though these payments were partially offset by various foreign exchange receipts there resulted a certain decline in the official reserves. But there appears to have been at the same time a not inconsiderable increase in the amount of dollars and other foreign exchange held by the authorised banks, so that France's total foreign exchange holdings have presumably not varied much.



In the table on the following page concerning France's government finances, that part of the country's dollar income which is received in the form of economic aid and defence grants is included in the budget resources.

In analysing the French budget it has to be remembered that there exists a special Caisse Autonome d'Amortissement through the intermediary of which revenue from taxation (not included in the budget and therefore not shown as ordinary revenue in the table on the next page) amounting to some Fr.fcs 200 milliard annually has been spent in recent years on debt redemption. If account is taken of the redemption thus effected and if the overall budget deficit is regarded as corresponding to the increase in the public debt and in various Treasury liabilities (savings obtained from the Caisse des Dépôts et Consignations, etc.) it will be found that since 1953 the real deficit has amounted, on an average, to about Fr.fcs 550 milliard annually and has thus been well below the figures — Fr.fcs 700 to 800 milliard — shown in the budget accounts. The government has been able to use genuine savings, at any rate in 1955, to cover the deficit, and the Treasury receipts have moreover been sufficiently large both to enable some repayments to be made to the Bank of France and also to allow certain foreign debts to be redeemed.

France: Government finances and national product.

Items	1952	1953	1954	1955
	actual results			
	in milliards of French francs			
I. Revenue				
Ordinary revenue	2,737	3,020	3,118	3,271
Foreign aid	188	165	109	106
Total	2,923	3,185	3,227	3,377
II. Expenditure				
Civil expenditure	1,562	1,864	1,938	2,183
Military expenditure	1,300	1,290	1,222	1,158
Total	2,862	3,154	3,160	3,341
Capital expenditure				
Reconstruction	356	335	298	288
Loans for housing construction	51	56	70	73
Fund for economic and social development	295	298	275	295
Total expenditure	3,554	3,843	3,903	3,997
Budget balance plus capital expenditure	- 641	- 658	- 576	- 620
Special Treasury accounts	- 31	+ 6	- 88	- 42
Total deficit	- 672	- 652	- 664	- 662
Debt redemption*	- 17	+ 40	+ 183	+ 125
III. Deficit to be met by the Treasury	- 689	- 612	- 481	- 537
Covered by				
Change in the public debt	+ 597	+ 524	+ 213	+ 186
Resources of the Treasury				
Correspondents' deposits	+ 108	+ 177	+ 188	+ 317
Cash and miscellaneous	- 16	- 89	+ 80	+ 34
Government debt at 31st December	4,831	5,355	5,569	5,755
Gross national product at market prices	14,140	14,530	15,390	16,370

* Balance of debt-redemption operations effected out of revenue not included in the budget and of issues of government paper in respect of war-damage claims.

With regard to the budget for the financial year 1956, it was provided, by the law of 6th August 1955, that in principle civil and military expenditure should be the same as that for the financial year 1955. There are, however, to be various additional items of expenditure and revenue. Under the law of 17th April 1956 the amount of these additional items is to be as follows:

	In milliards of French francs
Expenditure	
National Solidarity Fund	105
Other civil expenditure	<u>14</u>
Total	119
Extraordinary expenditure in North Africa	<u>200</u>
Total additional expenditure	319
Revenue	
New taxes introduced to finance, in particular, the National Solidarity Fund	<u>122</u>
Deficit in respect of these additional items	<u>197</u>

The bill providing for the establishment of the National Solidarity Fund and the taxes needed for the financing of the Fund was passed by the Chamber of Deputies on 7th May 1956.

In 1955 the total of Treasury borrowing from the banking system amounted to Fr.fcs 6 milliard, compared with Fr.fcs 156 milliard in 1954. This borrowing was responsible to only a minor extent for the increase in the money supply, as may be seen from the following table.

France: Formation of the money supply.

Items	1952	1953	1954	1955	Amounts outstanding at end of 1955
	In milliards of French francs				
Changes in money supply					
Currency	+ 241	+ 196	+ 241	+ 327	2,910
Demand deposits	+ 240	+ 285	+ 395	+ 383	3,098
Total	+ 481	+ 471	+ 636	+ 710	6,008
Changes in corresponding items					
Gold and foreign exchange	- 43	- 11	+ 169	+ 301	695
Bank credit to public authorities	+ 213	+ 257	+ 156	+ 6	2,228
Bank credit to the economy*.	+ 366	+ 247	+ 342	+ 478	3,338
Total credits	+ 579	+ 504	+ 498	+ 484	5,566
Other items (net)	- 55	- 22	- 31	- 75	- 253
Grand total	+ 481	+ 471	+ 636	+ 710	6,008

* Including the nationalised industries.

The total of credits extended to the economy (including both private and nationalised enterprises) increased in 1955 by Fr.fcs 478 milliard, of which Fr.fcs 319 milliard consisted of short-term credits and Fr.fcs 159 milliard of medium-term credits. These latter were mostly used to finance house-building; in addition to the amount granted by the banks, a further sum of Fr.fcs 40 milliard was lent by certain specialised institutions (Crédit National, Caisse des Dépôts et Consignations, Crédit Foncier and various agricultural "caisses"). The total of medium-term credit outstanding at the end of 1955 was Fr.fcs 993 milliard, of which Fr.fcs 148 milliard had been made available by the various specialised institutions and the remaining Fr.fcs 845 milliard by the banks (including the Bank of France). Efforts are being made to increase the credit-granting of the specialised institutions so as to ensure that a greater part is played by genuine savings. New financing of industrial investment by means of medium-term credits was almost wholly covered by repayments of such credits extended in previous years.

As a result of the increase in the gold and foreign exchange holdings which occurred in 1955 considerable amounts in French francs became available to the economy. The commercial banks thus had fairly ample funds at their disposal and were able to limit the increase in their rediscounting at the Bank of France to Fr.fcs 140 milliard. No change was made in the official discount rate, which had been lowered to 3 per cent. in

December 1954. It should, however, be pointed out that a bank which applies to the Bank of France for accommodation beyond its quota has to pay 5 per cent. interest on the amount borrowed in excess of the quota.

* * *

While in the western countries economic activity has been characterised during the present boom period by a heightening of the tempo of industrial investment, concentration on investment has for many years been the normal state of affairs in the eastern European countries, particularly the U. S. S. R. More information has recently become available about economic developments in these countries.

Since the industrialisation of the Soviet Union has taken place under a series of five-year plans, it is interesting to compare the amounts of investment provided for in the different plans as now published by the U.S.S.R. authorities in terms of stable prices.

U.S.S.R.: State investments.

Plan periods		Amount for whole period	Average per year	Increase over preceding period
		In milliards of roubles at stable prices as on 1st July 1955		in percentages
First	1928 to 1932	58.0	11.6	
Second	1933 to 1937	132.5	26.5	+ 128
Third	1938 to 1940-41 . . .	131.0	37.4	+ 41
Fourth	1946 to 1950	311.0	62.2	+ 66
Fifth	1951 to 1955	594.0	118.8	+ 91
Sixth	1956 to 1960	990.0	198.0	+ 67

In the current five-year plan, covering the years 1956-60, the increase in the absolute amount to be invested is the largest ever, but the relative increase of 67 per cent. is smaller than in the case of the previous plan.

The budget figures of the U.S.S.R. given in the table on the following page are in current roubles. Investments are financed mainly through the state budget but partly also by the industrial or agricultural enterprises themselves. The investment figures in the state budget and those of the individual enterprises include expenditure on repairs and amortisation, but the amount of net, i.e. new, investment is also given.

The figure for expenditure on the national economy — Roubles 237 milliard for 1956 — represents the sum to be made available to the economy via the state budget; to this should be added a further sum of Roubles 110 milliard to be provided out of the enterprises' own funds, giving a total of Roubles 347 milliard. This is the amount of gross outlay, while net investment is put at Roubles 172.5 milliard. Outlay in the state budget on the national economy accounts for about 40 per cent. of total expenditure, and the amount allocated for heavy industry represents, in turn, about 40 per cent. of the total appropriation. There has recently been an increase in outlay for social and cultural purposes, which now accounts for as much as 28 per cent. of total budget expenditure, while the share of defence expenditure is still about 18 per cent. As a result of periodic issues of state loans, the cost of the debt service is gradually increasing. On the

U.S.S.R.: State budget.

Items	1954	1955	1956	1954	1955	1956
	in milliards of current roubles			in percentages		
Revenue						
Turnover tax	234	234	271	41	40	46
Tax on profits	93	118	108	16	20	18
Direct taxes	46	48	50	8	8	9
State loans from the public	16	30	32	3	5	5
Other revenue	184	160	132	32	27	22
Total of revenue — estimates	573	590	593	100	100	100
— actual results	559	562
Expenditure						
National economy						
Heavy industry	80	101	101	37	45	43
Light industry and trade	14	11	26	6	5	11
Agriculture and forestry	62	55	48	29	25	20
Other economic expenditure	60	55	62	28	25	26
Total for national economy	216	222	237	100	100	100
„ as percentage of grand total				38	40	42
Social and cultural	142	147	162	25	26	28
Defence	100	112	103	18	20	18
Debt service	11	12	14	2	2	2
Other expenditure	94	70	54	17	12	10
Grand total of expenditure — estimates	563	563	570	100	100	100
— actual results	554	538
Balance	+ 5	+24	+23	.	.	.

revenue side the main items are the turnover tax and the tax on profits, while direct taxes play only a minor rôle, providing not much more than do the state loans. These loans are of the lottery type; at first the amount of the prizes distributed corresponded to 4 per cent. of the principal, but it was subsequently reduced to 3 and then to 2 per cent.

On an average, two-thirds of the total amount spent on the national economy is provided through the state budget, while the remaining third comes from the enterprises' own funds. In the agricultural sector, however, the proportion of total gross investment financed via the budget is as high as four-fifths. In the case of heavy industry the proportion contributed by the state corresponds to the above-mentioned average; but in the case of light industry — and the same applies to the foodstuffs industry — only one-third of the total is furnished by the state budget, so that the enterprises themselves have to provide the greater part of the finance required.

In the other eastern European countries budgetary practice, both in general and in regard to the proportion of the resources spent on the national economy, is increasingly closely modelled on that of the U.S.S.R. Revenue thus consists principally of receipts from the turnover tax; and on the expenditure side the main items are outlay on the national economy, followed by expenditure for social and cultural purposes and, finally, defence expenditure. Outlay on the national economy accounts for 40 per cent. of total budgetary expenditure in eastern Germany, 59 per cent. in Roumania and about 55 per cent. in Bulgaria, Czechoslovakia, Hungary and Poland.

There is also a similarity in the level of expenditure for social and cultural purposes in these countries, since in all of them the amounts appropriated in the budget for such purposes account for about 25 per cent. of total expenditure. The share of defence expenditure in the total is, however, in all cases smaller than in the U.S.S.R., being around 10 per cent. in Bulgaria, Czechoslovakia, Hungary, Poland and Roumania, while in eastern Germany it is reported to be 3 per cent.

Throughout the post-war period it has been the policy of the U.S.S.R. and of the other countries in eastern Europe to bring about a gradual decline in the price level. As soon as possible after the war, cuts were made in the money volume and also, by administrative action, in a wide range of prices, and at the same time steps were taken to provide for the financing of investment out of genuine savings, either via the budget or otherwise (i.e. mainly through self-financing by the enterprises). It is not possible on the basis of the financial statistics available to follow the process in detail and it cannot be judged to what extent the policy has been successfully carried out in the individual countries, but there is no doubt about the seriousness with which the battle against inflation has generally been waged. A sharp distinction is made between short-term and long-term finance, the former being provided for working-capital purposes by the state bank, while long-term financing is carried out by other specialised institutions.

* * *

From the reviews in this chapter and in Chapter VII of conditions in the individual countries it may be seen that the official discount rate is not always a sure indication of the actual level of interest rates in a given market. Only by examining the credit system of each country as a whole, paying attention to both short and long-term rates, is it possible to gain an idea of the general pattern of rates. In this connection the data in the table on the following page may be regarded as reflecting fairly faithfully the level of rates in a number of countries towards the end of last year.

To determine the real burden borne by the borrower account should, of course, be taken not only of interest rates but also of bank charges and other terms governing loans. Not all the various charges, however, can be established with certainty, and even if they could it would still be necessary to know, before credit conditions in the various countries could be properly compared, at about what level in the scale of rates and bank charges the bulk of lending is effected.

Among the fourteen countries covered by the table it is possible to distinguish the following three groups:

- (i) In the first place, the relatively low-rate group comprising Ireland, the Netherlands, Norway, Switzerland and the United States.

The interest-rate pattern towards the end of 1955.

Items	Austria	Belgium	Denmark	Finland	France	Germany (western)	Ireland ¹	Italy	Netherlands ²	Norway	Sweden	Switzerland	United Kingdom ³	United States
Central bank														
Discount rate	5	3	5½	5-8	3	3½	3	4	2½	3½	3%	1½	4½	2½
Lombard rate	5½-6 ⁴	4%	6-6½		4%	4%	—	4	3-4	3½-4½	4½-4%	2%	—	
Commercial and other banks														
Rates paid on:														
Sight deposits	¾	½	½-3	1-1½	½-1½	¾-1¼	—	¾-3	½	—	0-½	¾	—	—
Time and savings deposits	3½-5	up to 3 ⁵	4-5	4½-6½	1½-3	2½-4	1-3½	1½-5	½-2½	up to 3	2-4	1-3½	2½-4	up to 4½
Rates charged on:														
Trade bills	6-9	4-5	5½-7	7½-9	4½-6	5½-7½	3½-4½	5½-7½	3½-4½	—	4½-6½	1½-4½	5-6	—
Lombard loans	9-11	5½-6½	6-8	8-8½	6%	8	3½	6½-8½	4-6½	5-6	4½-6½	4-5	5-7	4½
Overdrafts	—	up to 7	6½-8	8-8½	7-8	9½-10½	4½-5½	7½-9	—	—	4½-6½	5½-6	—	—
Medium-term loans	8-11	5½-8	8	7½-8½	6-8	7½-9	4-5	7½-8½	5-8	—	6-6½	3½-4½	—	4½-6
First-mortgage loans	8-9½	5½-6½	6½-7	7½-8½	8-10	6½-8	6	10	4-5	4-5	4½-4½	3%	5-5½	4½-6
Money market														
Call money	—	1½	—	—	3	3½	—	—	¾	—	—	1½-1½	2½-4½	3%
Interbank loans	—	—	—	7-8	—	—	—	—	—	—	3 ⁶	—	—	2½
3-month Treasury bills	—	1½	4¾ ⁷	—	2½	3%	—	2%	1 ⁸	—	—	—	4-4½	2%
Capital-market yields														
Long-term government bonds	—	4-5	6-7	—	5	5	4%	6%	3%	4%	4½-4½	3%	4½	3
20-year industrial bonds	6½	5	—	—	6	7-8	—	6%	3%	4½-5	—	3-4	5-5½	3½-3½

¹ Before 19th December 1955, when the official discount rate was raised to 4 per cent.
² The official discount rate was raised to 3 per cent. on 7th February 1956.
³ Bank rate was raised to 5½ per cent. on 6th February 1956.
⁴ Minimum rates.
⁵ Up to 4½ per cent. for five-year cashiers' certificates.
⁶ January 1956.
⁷ Six-month Treasury bills.
⁸ Treasury bills up to one year.

Among these countries, Switzerland has a plentiful flow of new savings, a fair amount of which is available for foreign lending, and the same is also true, generally speaking, of the United States, although in that country the need to lend abroad is less imperative than in Switzerland. In the Netherlands, too, there is a high rate of saving, and a certain number of foreign loans have already been successfully placed on the Dutch market. Ireland, through its investments in British securities, is a creditor country, but it has lately been drawing on its external assets rather than adding to them, while Norway — a debtor country — has in recent years been borrowing heavily abroad to finance domestic capital investment and has meanwhile been persistently pursuing at home a cheap-money policy, from which it departed to some extent, for the first time, in 1955.

- (ii) Next comes an intermediate group, made up of Belgium, Sweden and the United Kingdom.

The official discount rate was raised in all these countries in the course of 1955, a further increase being made in the United Kingdom in February 1956, as a result of which this country was brought closer to the high-rate group. In Sweden special treatment is accorded to the financing of house-building, whereas in Belgium and the United Kingdom market rates are applied more uniformly throughout the economy.

- (iii) Finally, there is the relatively high-rate group consisting of Austria, Denmark, Finland, France, western Germany and Italy.

As may be seen from the table, the level of long-term interest rates is very much the same in all the countries in this group, while short-term rates are less uniform. Taking a broad view of the situation, it cannot be said that the economic expansion has been unduly restrained in any of them by the relatively high level of interest rates. It is true that in Italy, and for a time also in Austria and western Germany, unemployment has been a serious problem; and it is true also that in these countries interest rates were among the highest. Of more fundamental importance, however, is the fact that in these countries the income per head of the population was still relatively low, so that they were not able for a time to achieve a rapid increase in real saving. In other words, they were suffering from a shortage of capital. The higher interest rates may thus be regarded as having been a reflection of the insufficiency of their capital resources in relation to current requirements. This situation could not be remedied by monetary manipulation, including the maintenance of low rates, for such rates would not only have encouraged borrowing but might also have discouraged saving by impairing confidence in the currency. In that way they might have been more of a hindrance than a help to investment and economic growth.

It may perhaps be observed in passing that the fact that in several countries the volume of investment has remained large despite high interest rates does not mean that an increase in these rates does nothing to help in restoring or maintaining monetary equilibrium. The necessary adjustment between the demand for and supply of funds in the market can obviously be effected just as well by increasing the flow of savings as by curtailing investment. The truth is that in these post-war years the rate of profit on new investment (or what is also called the marginal productivity of capital) has been so high that even at the increased interest rates the demand for capital has been sufficient to provide investment opportunities for all the savings available.

In each of the three groups referred to above, the general trend of central-bank policy has recently been in the direction of credit restraint and higher rates, and it is therefore of interest to consider how effective these policies have been.

Given the strong demand for finance, it is the limitation of the supply of funds, i.e. credit restraint, that has been of primary importance, while the increase in interest rates appears rather to have been a consequence of the policy of tightening the supply of credit. It follows that the effectiveness of a restrictive monetary policy must be judged less by the trend of interest rates — significant though this is — than by the consistency with which the supply of money is kept under control.* An increase in interest rates cannot be expected by itself to exert a moderating influence if at the same time the government obtains substantial amounts of funds direct from the banking system, or perhaps even from the central bank, in order to finance, for example, a large-scale housing programme. In such a case the good influence which should normally be exerted by the higher interest rates may well be counteracted by the effects of such additions as the authorities may simultaneously be making to the credit volume.

It is from this point of view that government borrowing — to cover a budget deficit, to finance nationalised industries, etc. — must be judged. Such borrowing may, it is true, bring in funds emanating from genuine savings and may in some cases, even in a boom, have no inflationary effect, provided always that other demands for capital are kept within the limits of the remaining supply of savings. Though this is not an easy condition to fulfil, it does seem to have been satisfied in some instances. In France, for example, the Treasury appears, at any rate in 1955, to have been able to borrow from genuine savings, without imposing an excessive strain on the market or unduly restricting private borrowing, the amounts needed both for its own outlay and for the various outside investments which it financed. Such a situation must, however, be regarded as exceptional; and one would normally expect the contribution of budgetary policy to a programme designed to moderate a boom to take the form of a reduction in government borrowing.

The ideal solution would have been for the governments to cut down their own expenditure, making a point, in doing so, of placing fewer orders with industry, especially the engineering industries, with a view to relieving these of part of the strain to which they had been subjected as a result of the upsurge of private investment. Such retrenchment during the boom would not only have eased the immediate pressure but would also have made it possible to accumulate a reserve of orders which could be used to provide a stimulus to business in the event of a later recession.

* It has been found in practice that there is a strong tendency for the money supply to settle down at a level which, in the light of the paying habits of each particular people, may be regarded as normal in relation to the gross national product. As a result of wartime inflations, devaluations, etc., the money supply in many countries was for a long time anything but normal, and it therefore in most cases underwent rather exceptional changes during the adjustment period. But the post-war adjustments are now not far from completed, and changes in the money supply are therefore likely henceforth to be in accordance once more with the ordinary rules.

Since few governments have in fact gone so far as to reduce their own expenditure, the more usual policy has been rather to limit the annual increase in budget appropriations and to cover not only current outlay but also a fair proportion of capital expenditure from current revenue. In western Germany the Federal Government, more by accident than by design, has accumulated large cash balances, and, although these may have helped to moderate the credit expansion and hence the intensity of the boom in that country, their very existence and the question of their future utilisation raise monetary and other problems which will not be easy to solve.

The real meaning of the term "overall surplus" in the budget accounts of a particular country must always be carefully studied, for the government not infrequently has some kind of extra-budgetary outlay to finance, such as that connected with the execution of a housing programme. Whenever extra-budgetary expenditure has to be met it naturally becomes important that proper methods of financing should be used with a view to attracting real savings and avoiding undue recourse to the credit system.

In a boom it is, of course, wholly indefensible for a government to borrow directly from the central bank, and even the placing of Treasury bills with commercial banks may generate a dangerous credit expansion. A number of countries have been confronted with these financing problems in the last few years — among them the United Kingdom. As may be seen from the review already given in this chapter (pages 41-43), the British authorities have sought a solution along the following lines:

- (i) The government has requested local authorities to do as much of their borrowing as they can on the market, in order to ensure as far as possible that they shall only employ genuine savings for their investment programmes.
- (ii) Borrowing by nationalised industries, which is in any case guaranteed by the government, is to be shown as an item of "below-the-line" expenditure and co-ordinated with other Treasury borrowing so that the methods of raising government finance can be put on a more rational footing.
- (iii) The government itself has budgeted for a surplus of current revenue over current expenditure which is expected, if certain fresh economies are carried out, to be considerably in excess of £500 million, this surplus being then available to cover the greater part of net expenditure "below the line".

In addition, certain steps have been taken to promote saving, in particular those forms of "small savings" which are lent directly to the Treasury, while the credit squeeze, supported by a Bank rate of 5½ per cent., has been continued. The policy outlined is in many ways a harsh one, designed to ensure the adoption of non-inflationary methods of financing.

Both in the United Kingdom and in other countries the housing programme is of particular importance from a monetary point of view, since in quite a number of cases one-half or more of the finance needed for the building of houses is supplied by public authorities, as may be seen from the following table.

Housing in 1955 in eleven western European countries.*

Countries	Dwellings completed, in thousands of units	Cost of dwellings completed			Investment in new dwellings as percentage of		Dwellings built with public assistance	Finance supplied by public authorities
		Total, in millions of local-currency units	Total, in millions of U.S. dollars	Per unit, in thousands of U.S. dollars	net national product, at market prices	net fixed investment		
							As a percentage of the total	
Austria	45	5,500	210	4.6	6	31	60-70	50
Belgium	45	15,500	310	6.9	3½	65	60-70	50
Denmark	25	900	130	5.2	3	17	80-90	65
France	205	630	1,800	8.8	4½	50	80-90	65
Germany	540	9,500	2,260	4.2	6½	40	45-55	30
Italy	220	700	1,120	5.1	6	39	35-45	25
Netherlands . .	60	850	220	3.7	3	34	85-95	65
Norway	30	1,550	220	7.3	7	35	70-80	45
Sweden	55	2,050	400	7.3	5	20	80-90	45
Switzerland . .	40	1,500	350	8.7	6	45	5-10	5
United Kingdom	325	630	1,760	5.4	3½	35	60-70	65

* Preliminary estimates compiled by the Bank for International Settlements (all figures rounded).

Although most of the data are preliminary, they can be said to give on the whole a correct idea of the situation.

Public funds play an important rôle in house-building not only from the purely financial point of view (that is, as a proportion of the total finance involved) but also as an element influencing the number of new dwellings constructed. The actual number of new dwellings in respect of which some degree of public assistance is given (not counting assistance in the form of fiscal privileges) is, in fact, nearly always far greater than the figures showing the amount of public financing as a proportion of total financing would lead one to suppose, since it is the almost universal practice to leave part of the financial burden to be borne by the private sector. The extraordinary stimulus given to house-building by public financing may be judged by the fact that the aggregate number of dwellings completed in 1955 in the eleven countries included in the above table amounted to approximately 1,600,000, as compared with an annual total of at most 800,000 during the 1930s. Taking into account the increase in population (the natural increase plus or minus migration flows), there is still a rather large housing shortage in Germany, France and Italy, but in all the other countries more housing accommodation is available today in relation to the population than ever before. Except in the three countries just mentioned, a slackening-off is now noticeable in the rate of expansion in house-building.

In the table given above the very high percentages in the last two columns are of considerable interest because they indicate one of the directions in which public authorities may look if they wish to check the present boom and to keep in reserve a most powerful anti-cyclical weapon against future bad times. A certain reduction in house-building would tend to increase the

flexibility of fiscal and monetary policies and consequently of the whole economy and would, in particular, act as a fairly powerful antidote to over-full employment and other inflationary influences.

Despite the number of new houses erected, there is still a strong demand for dwelling accommodation and consequently great pressure for more houses to be built, one reason for this being the maintenance of artificially low rents in most countries. From the point of view of practical politics, the authorities are faced in this connection with some very difficult problems, including that of how to restore more realistic market conditions in the whole field of housing — problems for which a solution must be found in order to avoid perpetuating a situation which may well be incompatible with the long-term preservation of monetary stability.

In the years immediately after the war, there was a tendency to regard monetary action as being of relatively little importance. Moreover, given the repressed inflation then prevailing, one aspect of which was a state of excess liquidity, it is a moot point whether the ordinary means of credit policy could have been effective at that time. Since then, however, much has happened as regards production, prices and liquidity arrangements, monetary policy has come into its own again and in many countries a fair degree of equilibrium has been achieved.

But monetary policy is not enough by itself. The public sector, which is nowadays very large, is not affected by it, and the financing of the budget, of nationalised industries and of government-sponsored schemes (such as housing programmes) can, if unwisely handled, nullify the effects of credit restraint in the private sector. If banks have to increase their holdings of Treasury bills in order to provide fresh funds for the government, this leads, as a rule, to a primary creation of money and the banks at the same time obtain an asset which can be turned into ready cash. To the extent to which these bills are used to grant new credit, any policy of general credit restraint is robbed of its effect. Such a development is thoroughly undesirable for, if inflation is to be avoided, the very fact that the banks have had to lend to the government ought to have as its corollary a reduction, and not an increase, in their lending in other directions. The safest way of eliminating these dangers is to establish conditions which will render it unnecessary to go on making fresh issues of Treasury bills — and this should be a main objective of government policy.

An increase in interest rates, while it is indispensable to a policy of credit restraint, is not the only instrument of monetary policy. It may sometimes be desirable, while more radical measures to deal with the situation are being prepared, to have recourse to some temporary solution capable of producing a more or less immediate effect in the credit sector. This was done, for instance, in the United Kingdom and Sweden, the authorities there having intensified their anti-inflation campaign by asking

the banks not only to abstain from any further extension of credit but also to make a special reduction in the volume of the advances already granted (see pages 37 and 46). The banks promised to do their best to effect the desired reduction, and have in fact succeeded to a great extent in doing so — a by no means inconsiderable achievement, since there was little possibility of unloading the credits on to the capital market, which was at a low ebb in both countries at that time.

The increase in interest rates — which was greater in the United Kingdom than in Sweden — obviously helped to reduce the amount of advances: credit restrictions which are not supported by appropriately high interest rates are liable to be circumvented in many ways (especially if any considerable amount of short-term government paper is held outside the banks; furthermore, private individuals may be induced to start lending on their own account funds which otherwise would have been deposited with banks or invested in market securities).

In western Germany the minimum cash requirements for all credit institutions were raised in September 1955; and in several other countries (notably Austria, Finland and Switzerland) arrangements have been made for the banks to hold certain minimum cash balances with the central bank. There has been discussion in a number of countries as to whether there should not be greater recourse to variations in minimum cash requirements and in liquidity ratios. But while such variations may serve a useful purpose in an emergency and particularly in those countries where the possibility of resorting to open-market operations is restricted, their disadvantages should not be minimised. Regular changes in reserve requirements interfere with the established liquidity practices of credit institutions — practices which are based on the past experience of the various groups of institutions and which differ greatly by reason of the particular nature of the business done by each group. Neither must it be forgotten that, if ratios can be changed at will, governments may come to the erroneous conclusion that there is no harm in their placing fresh issues of Treasury bills with the banks, overlooking the fact that a primary creation of credit — such as would in any case be bound to result from the banks' purchases of Treasury bills — generally has a greater and more immediate inflationary effect than the secondary extension of credit, which is probably the only kind that would be impeded by an increase in the cash ratios.

If fresh government borrowing is kept within reasonable limits, it is usually possible to bring about a sufficient limitation of the credit base by a judicious use of open-market operations; and it is becoming increasingly accepted that central banks should be empowered to undertake such operations and should have at their disposal the securities which they need to carry them out effectively. In London and New York, for instance, open-market operations have for a long time constituted the principal element in daily credit management (while, on the other hand, the minimum reserve requirements laid down for the commercial banks by the Federal Reserve authorities,

for example, have not been changed since the summer of 1954). A move in the same direction was made in May 1955 in western Germany, when an arrangement was concluded between the Federal Government and the Bank deutscher Länder giving the latter the right for one year (the period has recently been extended) to transform up to DM 2 milliard's worth of equalisation claims into securities which could be used for open-market operations. Valuable experience is being gained in this field in different centres and new techniques are being developed, the aim always being to enhance the effectiveness of a flexible monetary policy.

When the banks hold no more short-term securities than are necessary for the maintenance of a proper liquidity ratio they may be obliged, if they wish to grant further credit, to sell some of their long-term securities. This was the situation in which the London clearing banks found themselves in the first half of 1955 (see page 37), and in the United States, too, in 1955 the banks reduced their security holdings in order to be able to go on lending (see page 19). The great advantage of these sales from a monetary point of view was that they were made not to the central bank but on the market, so that the fresh lending which they made possible led to no increase in the money supply.

Experience has shown that, for a policy to be effective, prime importance should be attached to those measures which influence the whole of the economy; but it is often possible — and at times even indispensable — to back these up by employing, in particular fields, others of a more specialised nature.

An example of an activity of a fairly general character, in which nevertheless a certain degree of selective control can be exercised by the central bank, as the lender of last resort, is the rediscounting of bills. Although the "discount window" (to use an American term) should never be completely closed, neither should access to it be wholly automatic, since account should be taken of the nature of the paper offered for rediscounting and the position of the institution seeking accommodation. Thus the central bank may decide to exclude from rediscounting commercial and financial paper of the kind connected with speculative ventures. It may also take the view that an individual bank's use of rediscounting facilities should not be out of proportion to the recourse had by banks as a whole. In addition to this selective control exercised over rediscounting, it is the practice in a number of countries to fix "credit ceilings" either for groups of banks or for banks individually, the detailed arrangements varying from country to country.

More clearly selective are the measures of credit control taken in such particular fields as those connected with the financing of hire-purchase business and stock-exchange transactions and the granting of mortgages for building purposes. It seems to be increasingly agreed that the authorities should possess special powers to intervene in these fields,

developments in which are inevitably rather unstable, so that it may be imperative to exert an influence on them which can achieve its effects more directly and with less delay than is possible if one has to rely mainly on the efficacy of general credit measures (see page 21). The application of such controls naturally raises difficult technical problems and, in addition, it is not always easy for those concerned to withstand extraneous pressure of a political character. Sometimes, too, the monetary authorities are not themselves responsible for the administration of such controls. In the United Kingdom, for instance, the supervision of hire-purchase transactions is in the hands of the Board of Trade.

In order to increase the efficacy of monetary policy there are certain other desiderata relating to the structure of the economy in general and to the financial system in particular. Among these, for instance, is the existence in the various countries of a properly functioning capital market, in the absence of which, in all probability, too much financing will be channelled via the banks. For one thing, there is often in such cases a strong temptation to rely excessively on the banks not only for short-term but also for long-term financing. Even if the banks receive genuine savings from the public which enable them to grant credits for investment purposes without exerting an inflationary influence, there is an ever-present danger that a bank may suffer heavy losses and that in the panic which is likely to follow there may be large-scale withdrawals of funds. The dangers are still greater if the financing of investment is undertaken without the backing of genuine savings, for in this case it cannot fail to have inflationary effects.

Central banks which have to operate in countries where there are no capital markets know better than anyone what a handicap they are labouring under. Not only are they hindered in the carrying-out of open-market operations but even the normal unloading of the commercial banks' advances on to capital-market institutions cannot take place as it otherwise would. A capital market therefore increases the resilience of an economy and makes it more capable of adapting itself to constantly changing patterns of demand and new technical methods.

Going further afield, it might be pointed out that in these days of large economic organisations — of workers, employers and farmers — the efficacy of monetary policy depends to a great extent upon the sense of responsibility shown by both members and leaders, particularly the latter. The traditional monetary practices were mostly developed at a time when there were a considerable number of small and independent enterprises acting in keen competition with one another. They seldom agreed to take concerted action, whereas in the present large organisations such action is the order of the day. Ideally it would be desirable for these organisations to approach problems not so much with an eye to the short-term advantages to be gained but rather with an awareness of the repercussions which their actions tend to have on the economy — and indirectly on their own position — over a longer period of time. An attitude of active co-operation on their

part must, of course, be matched by greater readiness on the part of the monetary authorities to make known not only the main lines of their policy but also the reasons for the decisions taken.

As is usual in a boom, the volume of investment has recently expanded at a particularly rapid rate, but the evidence suggests that voluntary savings have also shown a tendency to increase, though not always to the same extent. While in the post-war years profits have been fairly high, so that self-financing by business firms has made a considerable contribution to the flow of savings, the yield from this source may diminish as competition becomes more intense. It is all the more important, therefore, that the flow from other sources should increase, since a plentiful supply of savings will be needed in order to sustain economic growth. Funds will be required to finance the heavy expenditure necessary for the practical application of the many new technical inventions now about to be introduced and for the satisfaction of the various new needs which are a reflection of rising standards of living — not to mention those required for the financing of investment in under-developed countries. If the requisite savings are to be forthcoming, the public must be left with sufficient income after taxation to make individual saving possible; and saving must also be made worth while, which means that people must not be deprived of the fruits of their saving either by excessive taxation or by an inflationary rise in prices. In the battle against inflation, an important contribution can be made by resolute monetary action, but such action cannot be decisive by itself; and it is therefore essential, as has been found again and again, that all the various authorities, agencies and organisations operating in this field should work together towards the one agreed goal.

III. Prices and Production.

The price situation in 1955 and the first quarter of 1956 was characterised by the same features as had already been observed in the preceding year: on the one hand, an overall stability of world-market prices, which has now lasted for well over four years; and, on the other hand, a clear divergence, which began to be apparent early in 1954, between rising prices for industrial raw materials and weakening prices for agricultural products. Owing to the increased importance of industrial materials in modern economies and to the fact that, in the eyes of a public which has become more and more price-conscious, price increases still tend to loom larger than reductions, the impression generally gained has been that the prevailing boom conditions are giving rise to new and increasingly dangerous inflationary tendencies. Fortunately such lively concern has been felt with regard to the danger of inflation that measures have in fact been taken, both in the field of public policy and in the private sector, to guard against untoward developments. Thus,

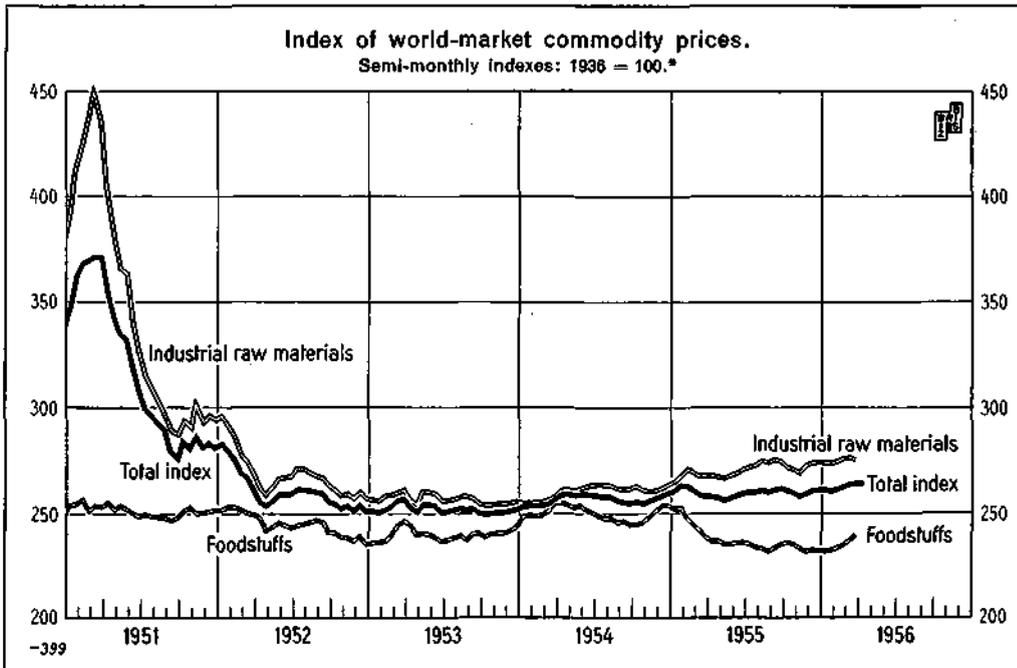
- (i) firmer monetary and fiscal policies have been adopted in a large number of countries;
- (ii) the process of liberalisation — consisting not only in the removal of remaining wartime controls in the domestic economies but also in the freeing of visible and invisible imports — has been continued; and
- (iii) production of practically all basic commodities has been vigorously expanded; producers now seem to be overcoming their fears of an impending slackening of demand — fears which for quite a time made them hesitate to increase productive capacity.

Altogether it may be said that recent years have witnessed not only a dismantling of direct controls but also the abandonment of mental attitudes which had their origin in the depression of the 1930s, since it is now realised that the unfortunate experiences of that period can by no means be regarded as providing a sure guide to the monetary and other policies to be pursued in the very different conditions of today.

* * *

The marked contrast between the trend of prices of industrial raw materials and that of agricultural prices almost disappeared for a short while in the first half of 1954, as may be seen from the following graph.

Since spring 1954, i.e. for the past two years, there has been a clearly discernible scissors-like divergence between the development of the prices of agricultural products, particularly foodstuffs, on the one hand and those of industrial raw materials on the other. Prices of industrial commodities — mainly owing to the investment boom — increased, while prices of agricultural produce — used for direct consumption — fell more than proportionately,



* This index, which is based on the quotations for eighty-nine different commodities in the markets of various countries, is regularly published by Richard Schulze, Bonn; a similar index used to be published by the Statistisches Reichsamt, Berlin.

though they staged a certain recovery in the spring of 1956. On three occasions — early in 1955, in the autumn of 1955, and early in 1956 — there was a fairly pronounced advance in industrial commodity prices, which was regarded by a number of countries as one important reason for a further tightening of credit.

If the position in March 1954 is taken as the starting-point for an analysis of the price movements in the two succeeding twelve-month periods

Index of world-market commodity prices: Changes in quotations.

Groups of commodities	March 1954 to March 1955	March 1955 to March 1956	Two years March 1954 to March 1956
	in percentages		
Rubber	+ 57.1	+ 6.0	+ 66.5
Non-ferrous metals	+ 18.0	+ 12.2	+ 32.3
Iron and steel	+ 7.8	+ 6.9	+ 15.3
Animal fats	+ 4.3	+ 0.6	+ 4.9
Coal	- 0.1	+ 3.0	+ 2.9
Vegetable oils and fats	- 12.3	+ 17.2	+ 2.8
Hides and skins	- 5.7	+ 3.0	- 2.9
Cereals	- 0.4	- 3.2	- 3.5
Meat	- 4.4	- 1.5	- 5.8
Textile fibres	- 4.5	- 1.5	- 5.9
Beverages	- 28.0	- 4.3	- 31.1
Industrial raw materials	+ 4.0	+ 2.7	+ 6.9
Foodstuffs	- 6.6	+ 0.4	- 6.2
Total index	+ 0.6	+ 2.1	+ 2.7

it is found that, with few exceptions, the commodity groups whose prices rose in the second period are the same as those which showed an upward trend in the first. The main exceptions are vegetable oils and fats, and hides and skins — in each case commodities which, though of agricultural origin, are in fairly strong demand during an industrial boom.

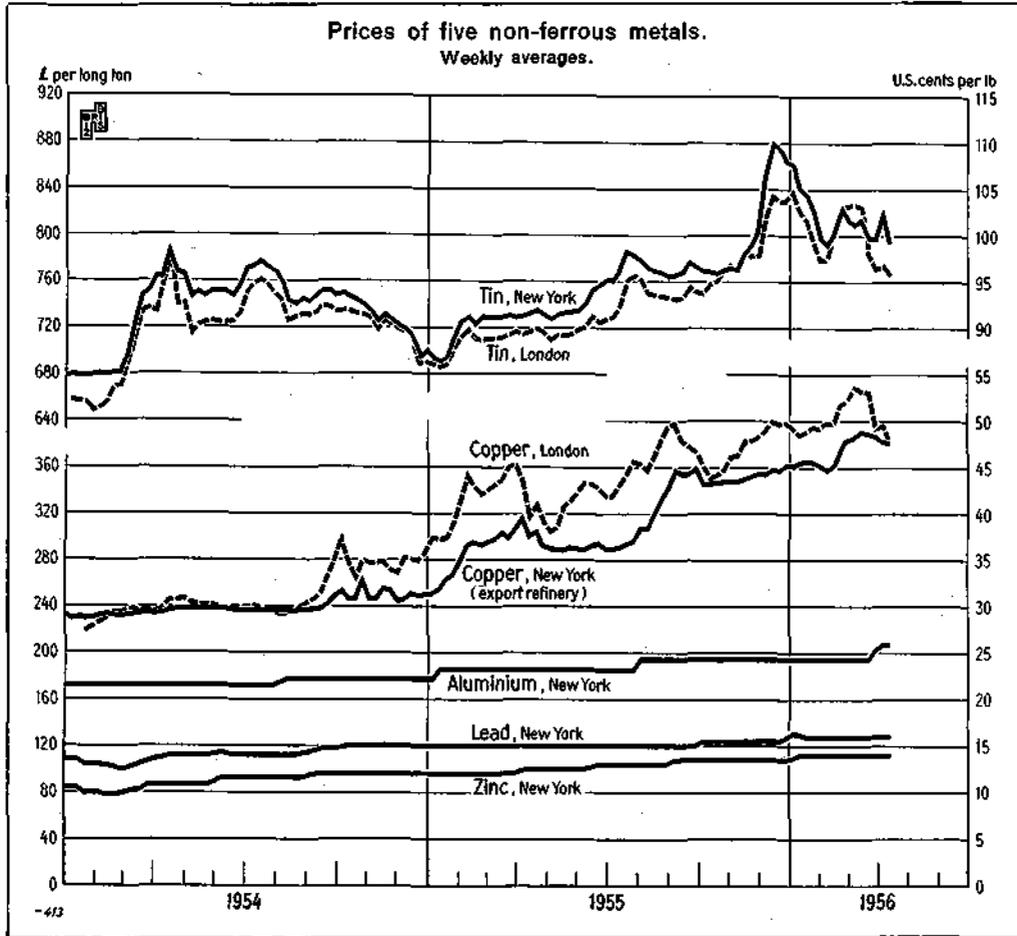
It will be seen that in most cases the changes, whether up or down, during the year ended March 1956 were less pronounced than those in the preceding twelve-month period — which indicates that prices became more stable, partly under the influence of the monetary and other measures taken.

The dominating features of the world's commodity markets in 1955-56 were the unusual strength of metal prices, including the rise of copper quotations to a new record level; the downward adjustments in the prices of beverage commodities (cocoa, coffee, etc.) following their exceptional upsurge in 1954; the extraordinarily wide fluctuations in the price of natural rubber; and the continued decline in farm prices, which was not reversed until the early months of 1956. These developments, as well as changes in the prices of other commodities, were decisively influenced by the intrinsic position of the individual markets, which proved a weightier factor during the period under review than at any time since the first half of 1950, i.e. the half-year preceding the outbreak of the conflict in Korea. As far as general influences are concerned — apart from the boom and the measures taken to moderate it — the part played by political factors has been of minor importance. President Eisenhower's illness, for instance, affected the commodity markets much less than it did the stock exchanges, and the political tension in the Middle East seems to have left these markets quite unmoved.

In analysing the price movements of the last two years it is necessary to distinguish between such increases as normally occur in the upward phase of the business cycle and certain other changes (mostly downwards) which have taken place for reasons apparently unconnected with cyclical trends. To the first category belong the rises in the prices of coal and steel, non-ferrous metals, cement and rubber, while the declines in the prices of a number of farm products and beverage commodities fall in the latter class.

The following graph shows the development of the prices of the five most important non-ferrous metals, including the exceptionally sharp rise in the price of copper, which is still the most important of the non-ferrous metals.

The price of copper in London, after reaching £400 per long ton for the first time early in September 1955, attained on 19th March 1956 the all-time record level of £437 per long ton. The latter figure is, in terms of pounds sterling, nearly ten times as high as the average price paid in 1938, when electrolytic copper averaged £45. 16s. 10d. per long ton on the London metal exchange — and this astounding price increase took place, moreover, in spite of the fact that the output of copper in 1955 was nearly 75 per cent. larger than in 1938; the high prices have themselves made many inefficient marginal mines and old refinery dumps a paying proposition again, thus helping to swell production.



As may be seen from the graph, the London copper price has in the last one and a half years regularly exceeded the quotation on the American market. Since 1954 supplies have on several occasions been affected by strikes, which in some cases have lasted for two or three months (in Rhodesia, Chile and the United States). The aggregate loss of copper in 1955 through these strikes is estimated to have amounted to about 150,000 tons. Considering that the total world output of refined copper is more than $3\frac{1}{2}$ million tons, the losses caused by the strikes are clearly of a marginal nature; but even so, together with the strength of demand and speculative influences, they have led to substantial price rises. There are now, however, some signs of a reaction against the high prices; consumption is beginning to decline in some industries and substitutes are being found which may become more than temporary. What is not shown in the graph is the fact that by the end of May 1956, the London quotation for copper was down to less than £300 per long ton — a price fall of no less than 30 per cent. within ten weeks.

The main rival of copper is aluminium, the output of which has increased more than fivefold since 1938 and has now topped the 3 million-ton mark. (In fact, as the tonnage produced is not much less than that of copper and as the specific gravity of aluminium is lower, the volume of output is now actually larger than in the case of copper.) While the American and Canadian companies have somewhat increased their prices in recent months, there has been no change in the terms quoted by aluminium producers in continental Europe. Early in 1956 the American price per kilogramme was barely 4 U.S. cents higher than the continental

European price, against a difference of 25 U.S. cents in 1953. In the United Kingdom the aluminium price rose from £163 per ton in the first half of 1955 to £189 in April 1956, when it was at a level comparable to that of continental Europe. It is interesting to note that Canada, Switzerland, the United Kingdom and the United States have about the same per-capita rate of consumption — viz. 6½ kilogrammes per year.

At the extreme opposite end of the scale, from the point of view of the trend of output, is tin, which is the only major industrial raw material of which less was consumed in 1955 than in pre-war years, one reason being that new electrolytic methods of tin-plating require very much less metal and another that during the war substitutes were developed which have proved worthy of permanent adoption. Consumption in 1955 is estimated to have amounted to 152,000 tons, compared with a mining output of 174,000 tons in the western world; the amount purchased by the U.S. Government for stockpiling purposes was, however, some 5,000 tons greater than the surplus. Uncertainties concerning future U.S. policy and whether or not an international tin agreement would be concluded made for sharp fluctuations in tin prices, which, as is shown by the graph, tended to decline in the early months of 1956.

The price of steel increased in 1955 by just under 10 per cent. in the United States, despite a rise of over 25 per cent. in output. In Europe, the price rose by 2.3 per cent. in Germany, by 15 per cent. in Belgium and by 20 per cent. in the United Kingdom (in which country it had previously been much below the

World production of crude steel.

Countries and groups of countries	1939	1951	1952	1953	1954	1955
	In millions of metric tons					
Coal and Steel Community						
Germany (western)	17.9	13.5	15.8	15.4	17.5	21.3
Belgium	2.3	5.1	5.1	4.5	5.0	5.9
France	6.2	9.8	10.9	10.0	10.6	12.6
Saar	2.6	2.6	2.8	2.7	2.8	3.2
Italy	2.3	3.1	3.5	3.5	4.2	5.4
Luxemburg	1.4	3.1	3.0	2.7	2.8	3.2
Netherlands	0.1	0.6	0.7	0.9	0.9	1.0
Total for the Community	32.8	37.8	41.8	39.7	43.8	52.6
United Kingdom	10.6	15.9	16.7	17.9	18.8	20.1
Other western European countries . .	2.7	4.5	4.8	5.2	6.0	6.9
Total for western Europe	46.1	58.2	63.3	62.8	68.6	79.6
Eastern Europe						
Czechoslovakia	1.9	3.5	3.8	4.4	4.3	4.5
Poland	1.4	2.8	3.2	3.6	4.0	4.4
Germany (eastern)	1.4	1.6	1.9	2.2	2.3	2.5
Other eastern European countries	1.0	1.9	2.1	2.3	2.3	2.8
Total for eastern Europe (excluding the U.S.S.R.)	5.7	9.8	11.0	12.5	12.9	14.2
U.S.S.R.	18.1	31.3	34.4	37.9	41.0	45.0
United States	28.8	95.4	84.5	101.3	80.1	105.7
All other countries*	11.3	15.3	18.8	20.5	20.4	22.5
World total	110	210	212	235	223	267

* The main crude-steel-producing countries included under this heading are — in the order of the size of their output in 1955 — Japan, Canada, China, Australia, India and South Africa.

average world-market price). In France it remained unchanged in 1955 but was increased by about 4 per cent. in May 1956. World steel output is now two and a half times as large as in 1938; since then production has doubled in the United Kingdom and nearly quadrupled in the United States, while Russia's output has risen to two and a half times its pre-war size and that of the countries of the Coal and Steel Community as a group by just 60 per cent.

Despite all the technical changes that have occurred in recent years, steel, with a total world output of about 270 million tons, is still (together with fuels, production of which is even greater) the most important industrial commodity. Moreover, large-scale investments are planned by nearly all steel producers, and if these projects are carried out world output will rise to about 350 million tons by 1960. In the present boom a shortage of steel might have seriously interfered with production in several economies, had it not been for the possibility of increasing steel imports, especially from the United States.

The increase in the need for fuel for the production of steel has greatly affected the demand for hard coal, the output of which, in spite of difficulties, rose to a certain extent during 1955 and is now running at a rate one-third above that of 1938.

Whereas the production of hard coal both in the European Coal and Steel Community and in the United Kingdom — and consequently in western Europe

World production of hard coal.

Countries and groups of countries	1938	1951	1952	1953	1954	1955
	In millions of metric tons					
Coal and Steel Community						
Germany (western)	137	119	124	125	128	131
Belgium	30	30	30	30	29	30
France	47	53	55	53	55	55
Saar	14	16	16	16	17	17
Italy	1.5	1	1	1	1	1
Netherlands	14	12	13	12	12	12
Total for the Community	243	231	239	237	242	246
United Kingdom	231	227	230	228	228	226
Other western European countries . .	7	13	14	15	15	17
Total for western Europe	481	471	483	480	485	489
Eastern Europe						
Poland	69	82	84	89	91	94
Czechoslovakia	18	18	20	20	22	23
Germany (eastern)	3.5	3	3	3	3	3
Other eastern European countries	1.5	2.5	3	3	4	5
Total for eastern Europe (excluding the U.S.S.R.)	90	106	110	115	120	125
U.S.S.R.	113	221	230	240	259	295
United States	356	516	455	440	375	445
All other countries*	170	206	222	225	241	246
World total	1,210	1,520	1,500	1,500	1,480	1,600

* The main coal-producing countries included under this heading are — in the order of the size of their output in 1955 — China, Japan, India, South Africa, Australia and Canada.

as a whole — has only just kept up to the pre-1939 level, the output of the U.S.S.R. has risen one and a half times and that of the other eastern European countries by about 40 per cent.

Western Europe's hard-coal output in 1955 was not sufficient to meet the requirements resulting from the industrial boom, especially those of heavy industry. For the first time in its history the United Kingdom's imports of hard coal, at 11½ million tons, nearly equalled its exports, which totalled 12 million tons; and the European Coal and Steel Community imported in 1955 a net amount of a little over 7½ million tons, as may be seen from the following table.

**European Coal and Steel Community:
Intra-Community trade in coal and coke*
and Community trade with outside countries.**

Items	1952	1953	1954	1955
	in thousands of tons			
Intra-Community exports of				
Belgium	3,110	4,234	5,165	5,954
France (and Saar)	4,597	5,330	5,315	6,624
Germany (western)	15,855	16,465	18,238	17,354
Netherlands	758	934	1,869	2,031
Italy	148	27	—	66
Total	24,468	26,990	30,587	32,229
Imports from non-Community countries (total)	22,375	13,897	14,051	23,269
Exports to non-Community countries (total)	9,793	10,374	13,501	15,532
Net imports of the Community countries	12,582	3,523	550	7,737

* Also pit-coal briquettes.

By a decision of the High Authority of the European Coal and Steel Community, Ruhr coal prices were freed from the maximum-price order as from 1st April 1956, so that coal prices, with the exception of those in Belgium, are now, in principle, free throughout the Community. Up to 1945 the price of Ruhr coal had been fixed and controlled by the coal syndicate of the Rhenish-Westphalian coal basin, which was created in the 1890s. From the end of the war onwards the price was regulated by various centralised selling agencies, the last of which was the so-called "Georg", established on 1st April 1953. Now, as a result of the High Authority's decision, pits in the Ruhr are allowed to fix their prices themselves.* The Federal Government in Bonn and the High Authority have, however, asked that price increases be restricted to an average of DM 2 per ton of hard coal and the Ruhr coal industry has promised to keep within this limit. The removal of the price ceiling came at a time when the industry needed to make up for the increase in miners' wages averaging 6 per cent. which was put into effect on 15th February 1956 and which, it was claimed, brought the producers'

* It was officially stated by the High Authority that the lifting of price control and the removal of the price ceiling for Ruhr coal was made possible only by the dissolution of the selling agency "Georg". On 1st April 1956 this powerful distributing agency was replaced by three separate selling organisations, the purpose being to eliminate the cartel-like characteristics of the "Georg" and to introduce an element of competition, the creation of which is a fundamental aim of the Treaty establishing the European Coal and Steel Community.

deficit up to DM 6.14 per ton. In addition to the above-mentioned price increase of DM 2 per ton, certain other compensatory measures were taken with a view to relieving the burden on producers, such as reductions in contributions, taxes, etc., which, it was estimated, would bring down costs by about DM 4 per ton. Coal prices were also increased in the Saar, Italy and the Netherlands. The French Government, on the other hand, being anxious to avoid an increase in prices, decided to assist in covering the annual deficit of the Charbonnages de France — at present about Fr.fcs 30 milliard — by introducing certain fiscal and other measures which would reduce the coal industry's costs by an amount corresponding to a considerable part of the deficit.

While coal has benefited from the growing demand for fuels resulting from the present boom, it is no longer the world's main source of energy. In the United States, which accounts for about one-half of the western world's industrial production, coal now provides no more than 29 per cent. of the total output of energy — compared with two-thirds in the period 1926-30 — while oil furnishes 42 per cent. and natural gas 25 per cent., only 4 per cent. being derived from water-power. As far as the atomic-energy industry is concerned, it seems likely that for years to come it will still be a net consumer of electric energy. In the greater part of western Europe, too, oil is gaining in importance, imports of crude oil in the year 1954-55 having amounted to 93 million tons, against 83 million tons in 1953-54 and 71½ million tons in 1952-53. Fortunately world production is increasing, having reached, according to preliminary estimates of the

Estimates of world production of basic commodities.

Commodities	Unit ¹	1937	1946	1950	1952	1953	1954	1955 (preliminary)	Percentage change 1955 over 1937
Aluminium ² . . .	1000 tons	493	774	1,507	2,032	2,453	2,910	3,090	+ 527
Electricity . . .	million kwh	445	645	950	1,145	1,250	1,355	1,520	+ 242
Man-made fibres	1000 tons	830	793	1,660	1,770	2,070	2,263	2,556	+ 208
Crude oils . . .	million tons	297	380	536	640	675	707	789	+ 175
Rubber, natural	1000 tons	1,230	850	1,890	1,819	1,750	1,830	1,925	+ 169
Rubber, synthetic	1000 tons	63	940	785	1,221	1,317	1,128	1,550	+ 162
Cement	million tons	81	75	135	160	180	194	212	+ 109
Nickel ³	1000 tons	115	118	148	187	204	221	240	+ 104
Brown coal . . .	million tons	251	240	350	433	451	468	510	+ 98
Steel	million tons	135	110	190	212	235	223	267	+ 97
Manganese ore	1000 tons	6,064	4,500	7,600	10,600	11,500	10,600	11,600	+ 85
Tungsten (60% WO ₃)	1000 tons	40	19	39	68	73	70	74	+ 82
Pig Iron	million tons	105	80	130	150	170	160	190	+ 75
Soya beans . . .	million tons	12	15	18	18	18	20	21	+ 67
Zinc ²	1000 tons	1,636	1,405	2,060	2,286	2,402	2,474	2,725	+ 57
Mercury	tons	4,251	5,260	4,940	5,200	5,510	6,085	6,670	+ 48
Copper ⁴	1000 tons	2,564	2,090	3,172	3,220	3,380	3,440	3,795	+ 40
Sugar	million tons	30	26	36	37	41	40	42	+ 39
Rice, rough . . .	million tons	147	142	154	186	193	191	204	+ 31
Oilseed crops ⁵	1000 tons	14,016 ⁶	12,112	16,282	17,415	17,298	18,045	18,400	+ 28
Wool, greasy . .	million lbs	3,790	3,820	4,061	4,474	4,539	4,623	4,845	+ 27
Lead ²	1000 tons	1,697	1,154	1,836	1,947	2,002	2,125	2,160	+ 24
Maize	million bushels	4,980	5,265	5,210	5,585	5,835	5,575	6,195	+ 23
Coal	million tons	1,297	1,220	1,450	1,500	1,500	1,480	1,600	+ 22
Wheat	million bushels	5,960	5,720	6,320	7,420	7,390	6,960	7,300	+ 15
Coffee, green . .	million bags	41	35	38	41	42	41	47	+ 8
Cotton	million bales	37	22	29	37	39	39	40	- 6
Tin ²	1000 tons	207	107	187	181	195	200	194	

¹ Tons are metric tons.
⁴ Refinery production.

² Smelter production.
⁵ Oil equivalent.

³ Metal content of mine production.
⁶ 1938-39 or 1939.

United Nations' Statistical Office, a level of 789 million tons in 1955, compared with 707 million tons in the previous year. On the whole, prices remained stable, except for certain rises in the case of fuel oil and lubricating oil, the demand for both of which increased to an exceptional extent.

Apart from developments in the non-ferrous-metals group, which have already been dealt with, the sharpest price movements during the period under review took place in the market for natural rubber. The London price, which at the end of April 1955 had been 26¹/₈d. per lb., had risen to 43³/₄d. by 14th September, but by the end of April 1956 it had fallen back again to 26¹/₈d., thus losing all the ground it had gained during the year, and by the end of May it was down to 22d., its lowest level since October 1954. World production of natural rubber reached an all-time record of 1,925,000 tons in 1955, exceeding consumption by about 60,000 tons. Natural rubber was, in addition, exposed to severe competition from synthetic rubber, output of which in the western world reached 1,102,000 tons in 1955. It may be added that between 1950 and 1955 total rubber production increased by about one-quarter. As may be seen from the table on the previous page, which covers a wide selection of commodities, the total output of natural and synthetic rubber, taken together, increased over one and a half times between 1937 and 1955.

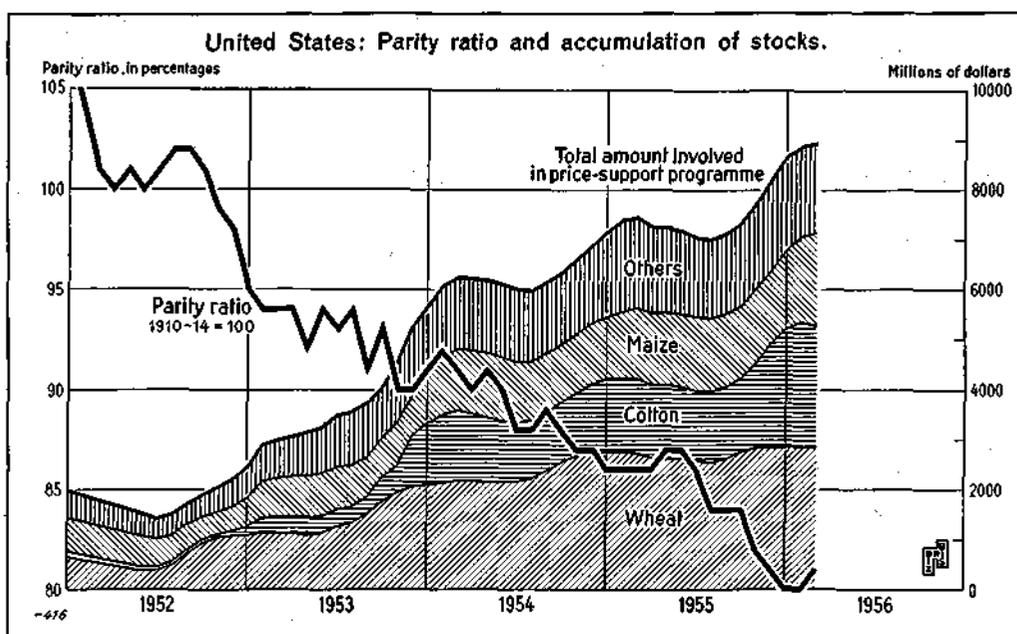
The output of basic commodities is at present greater than ever before. A powerful stimulus has no doubt been provided in some cases by rising prices, but that has not been so for all commodities. The prices for aluminium and crude oil, for instance, have been kept remarkably steady for a number of years, and yet these two commodities are among those the output of which has risen most. What producers want is not so much rising prices as the possibility of looking forward with confidence to a continued expansion of demand, and their faith in the future strength of the market seems to have increased in recent years.

It is of interest to note that of the eleven basic commodities shown in the above table as having registered the lowest percentage increase in output between 1937 and 1955 (and in one case, actually a small decline) all except three — lead, coal and tin — are of agricultural origin.

It is thus a fact that agricultural products, the output of which has risen least, are precisely the commodities whose prices have fallen the most. Cotton has had to compete with artificial fibres, and in the case of foodstuffs the demand has risen only in proportion to the growth in population, which amounted, for the world as a whole, to some 20 per cent. in the period from 1937 to 1955. The development of foodstuff prices has also been influenced by the U.S. policy of supporting the prices of certain farm products. At first the measures taken in this connection presumably had the effect of keeping prices higher than they would otherwise have been, but by stimulating output they became an obstacle to a natural adjustment, and, moreover, the accumulation of stocks soon began to weigh heavily on the markets.

The agricultural policy of the present U.S. administration aims at bringing greater flexibility into the agricultural price structure. In December 1955 the parity ratio* stood at 80, compared with 96 in December 1952. It has, however, not

* This is the ratio expressed as a percentage, on the basis 1910-14 = 100, of the prices received by U.S. agriculture to the prices paid by it.



yet been found possible to arrest the increase in agricultural stocks, which rose, in terms of value, from \$7.3 milliard at the end of March 1955 to \$8.7 milliard twelve months later.

A new scheme was put into effect in 1955 under which the United States Government sells some of its stocks of an agricultural surplus commodity (wheat, cotton, etc.) to an industrialised European country, which pays the countervalue of the deliveries in question in its national currency into a special account, treating it as a loan from the United States and paying interest on it at the rate of 3 per cent. The European recipient undertakes to re-lend the amount in question to a third, under-developed, country to finance the latter's purchases of industrial goods from the said European country.

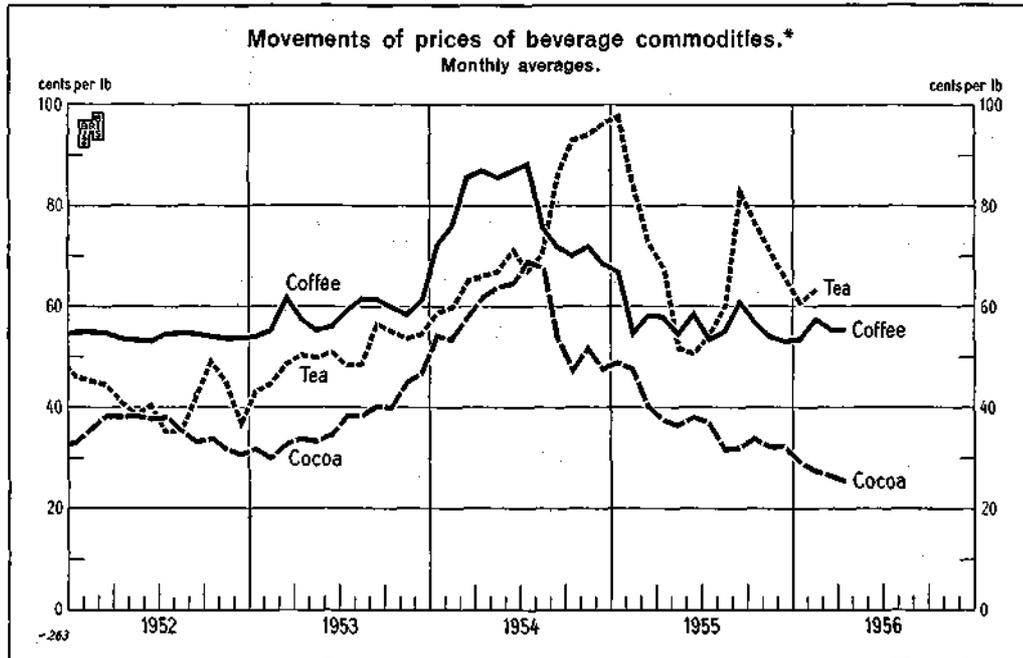
The importance of cereals and cotton, even for the agricultural community in the United States, should not, however, be overrated. No less than 55 per cent. of that country's total farm income is derived from dairy produce and livestock.

United States: Price-support programme and the agricultural parity ratio.

End of	Price-support programme of the Commodity Credit Corporation			Parity ratio (1910-14 = 100)
	Balance of loans outstanding	Price-support inventories	Total	
June 1952	364	1,073	1,437	101
December 1952	1,399	1,053	2,452	96
June 1953	1,138	2,339	3,477	93
December 1953	3,047	2,619	5,665	91
June 1954	2,337	3,668	6,005	88
December 1954	2,940	4,231	7,171	86
June 1955	2,098	4,971	7,069	86
December 1955	2,584	6,082	8,666	80
March 1956	3,079	5,653	8,732	82

A greater proportion of these products is marketed locally and this type of farming has in general remained much more profitable than the cultivation of cereals and cotton.

The group consisting of the beverage commodities (tea, coffee and cocoa) has had a chequered career since the war. Prices rose strongly for some years and reached an all-time maximum in the middle of 1954 or — in the case of tea — early in 1955.



* Spot prices in New York for Santos No. 4 coffee and Accra cocoa; auction price in London for northern Indian tea.

But soon afterwards consumer resistance set in and the boom quickly came to an end. Prices are now, broadly speaking, back where they were in 1953, and in finding their new equilibrium level they will henceforth be conditioned more than in the past by the interplay of supply and demand in a number of competitive areas.

The old-established futures market for coffee in Hamburg reopened on 5th April 1956, which was the seventieth anniversary of the foundation of the Association of Hamburg Coffee Dealers. Under a new contract the basis for quotation is Prime Santos and the basic quantity is fixed at 125 bags (= 7,350 kilogrammes net).

On 10th April 1956 futures dealings in pepper were resumed on the exchanges of Amsterdam and Rotterdam (the markets in the Netherlands for spices and similar tropical products have for many years been the most important of their kind in the world).

Finally, mention should be made of the fact that the main targets of the U.S. strategic stockpiling programme have now been virtually achieved, so that stockpiling activity is for all practical purposes almost at an end. The value of the additions made to the minimum stockpile in 1955 was \$356 million (\$266 million's worth in the first half of the year and \$90 million's worth in the second half), but about two-thirds of this consisted of transfers of commodities specially authorised by the U.S. Government which did not directly affect the

raw-material markets. In a number of cases the newly-stockpiled materials represented extra production obtained, with direct government support, from domestic sources, which may be expected to continue to swell supplies even after the earlier stockpile objectives have been fully achieved.

* * *

To turn now to conditions in the individual countries, it can be seen from the following table that in 1955 the increases in the cost of living and in wholesale prices, though more numerous than in the previous year, were, with very few exceptions, limited to less than 4 per cent.

Percentage changes in the cost of living and in wholesale prices.

Countries	Cost of living		Wholesale prices	
	1954	1955	1954	1955
In percentages				
Austria	+ 3.7	+ 0.8	+ 4.5	+ 3.7
Belgium	+ 1.3	- 0.5	- 1.2	+ 2.2
Denmark	+ 1.1	+ 4.7	± 0	+ 3.2
Finland	- 1.6	- 3.4	- 0.2	- 1.0
France	- 0.3	+ 1.1	- 1.7	- 0.1
Germany (western)	± 0	+ 1.9	+ 0.8	+ 1.6
Greece	+ 15.1	+ 5.7	+ 12.2	+ 6.7
Iceland	+ 1.3	+ 3.8		
Ireland	± 0	+ 2.4	- 1.8	+ 3.0
Italy	+ 2.7	+ 2.8	+ 0.8	+ 0.5
Netherlands	+ 4.0	+ 1.0	+ 1.5	+ 0.7
Norway	+ 4.4	+ 1.4	+ 2.0	+ 2.0
Portugal	- 0.5	- 0.3	- 4.6	- 0.2
Spain	+ 1.2	+ 4.0	+ 0.5	+ 3.9
Sweden	+ 0.8	+ 3.1	- 0.3	+ 4.0
Switzerland	+ 0.7	+ 0.9	+ 0.8	+ 0.3
United Kingdom	+ 1.8	+ 4.5	+ 0.6	+ 3.3
Canada	+ 0.6	+ 0.2	- 1.7	+ 0.9
United States	+ 0.3	- 0.3	+ 0.2	+ 0.4
Japan	+ 8.7	+ 2.9	- 0.7	- 1.8

The largest increases took place in Greece, but these may to some extent still be regarded as an after-effect of the devaluation of 1953.

There are also reasons for believing that the fairly marked increases which occurred in 1955 in Denmark and the United Kingdom still represented the last stage of the process of adjustment resulting from the devaluations of 1949. In the speech which he delivered at the Mansion House on 4th October 1955, the Governor of the Bank of England, Mr C. F. Cobbold, said that

“in 1949 sterling was overvalued. The devaluation in that year left sterling undervalued. Since then the margin of undervaluation has lessened. If in the future we were to be so foolish as to allow our costs to continue to rise

disproportionately to those of our competitors, the relative value of sterling would again come into question. But today sterling is still undervalued rather than overvalued in relation to most of the principal currencies of the world."

If a currency is undervalued it may be expected that there will be forces in operation tending to raise prices and wages — and in the circumstances the increase in nominal wages, for instance, is likely to be greater than is warranted by the improvement in productivity. There are always two dangers inherent in such an upward movement, namely:

- (i) that — as was pointed out by Mr Cobbold in the statement just quoted — the increase in costs will become too pronounced, bringing domestic costs out of line with what may be regarded as a true international equilibrium level; and
- (ii) that in judging the relationship between domestic costs and those of other economies insufficient attention will be paid to the conditions of production prevailing in precisely those countries which are the keenest competitors in foreign markets.

With regard to the second of these dangers, it must be remembered, for instance, that in Europe there are still a few low-cost countries with great competitive strength, notably western Germany and the Netherlands. Recently, however, the level of prices and wages in these two countries has been moving upwards, no doubt partly as a result of influences from abroad. In western Germany, the average earnings of industrial workers rose by 7 per cent. in 1955, while in the Netherlands, where the main increase took place early in 1956, the rise came to about 10 per cent. In its annual report the Nederlandsche Bank has given a warning of the dangers involved if wages rise more than productivity (see Chapter II, page 56). Moreover, the Bank regrets that "the substantial improvement in real wages has again been brought about without the opportunity having been taken to seek at the same time a solution to the rent problem".

In order to safeguard the competitiveness of an economy and to ensure, at the same time, that within the economy itself the trend of wages will not develop in such a way as to unleash tendencies conducive to an inflationary rise in prices, it is essential to bear in mind certain fundamental considerations.

While an improvement in real wages is a natural consequence of the continued economic expansion, it is well to remember that the rise in wages must go together with an improvement in methods of production. There will have to be rationalisation based on the principle of the substitution of machinery for labour, which has already been carried out to a great extent in the countries with the highest real wages. There are, however, three main conditions to be fulfilled before such a substitution can take place:

- (i) there is the need to acquire knowledge of the new technical methods; fortunately the most advanced countries seem willing to allow others

to benefit by their technical experience, but that by itself is not always sufficient, since each country will usually have to adjust the processes in the light of its own particular requirements;

- (ii) capital will have to be forthcoming for the acquisition of new machinery, etc., and there must therefore be a sufficient flow of savings to enable advantage to be taken of the technical innovations;
- (iii) time must be allowed for these various developments to take place, and it should therefore be realised that precipitous cost increases may be distinctly harmful.

If the few countries whose currencies may still be assumed to be undervalued have reason to be careful about permitting rises in their costs, it is all the more important that those countries in which the level of costs is already on the high side compared with conditions abroad should proceed with caution in this respect. It is a fact of great importance in this connection that the two major Anglo-Saxon countries, the United Kingdom and the United States, whose policies to a great extent determine the general trend of world-market prices, are adopting monetary and other measures designed to arrest any further inflationary increases.

As an example of the considerations influencing the authorities in a number of countries, the following extracts may be quoted from a radio address delivered by Mr Per Åsbrink, Governor of the Sveriges Riksbank, on 15th November 1955:

"A country which finds that its payments to other countries, i.e. mainly its payments for imports, are steadily mounting to higher levels than the payments which it is simultaneously receiving from other countries, i.e. mainly payments for exports, may possibly be able to shelve the problem temporarily by drawing on its foreign exchange reserves or by taking up loans abroad. But, in any case, when these expedients, too, have been tried — and in practice usually well before then — a country which has got itself into such a predicament will be forced, whether it likes it or not, to adjust its domestic economic policy to external realities. In other words, it will have to adopt a strict policy of restraint in order both to reduce the pace of economic activity and to lower the level of internal costs and prices, thus bringing about a decline in the domestic demand for goods and giving the export industry a better chance of selling its products on foreign markets."

In explaining why these questions are of such particular interest and urgency at the present time, the Governor stressed that

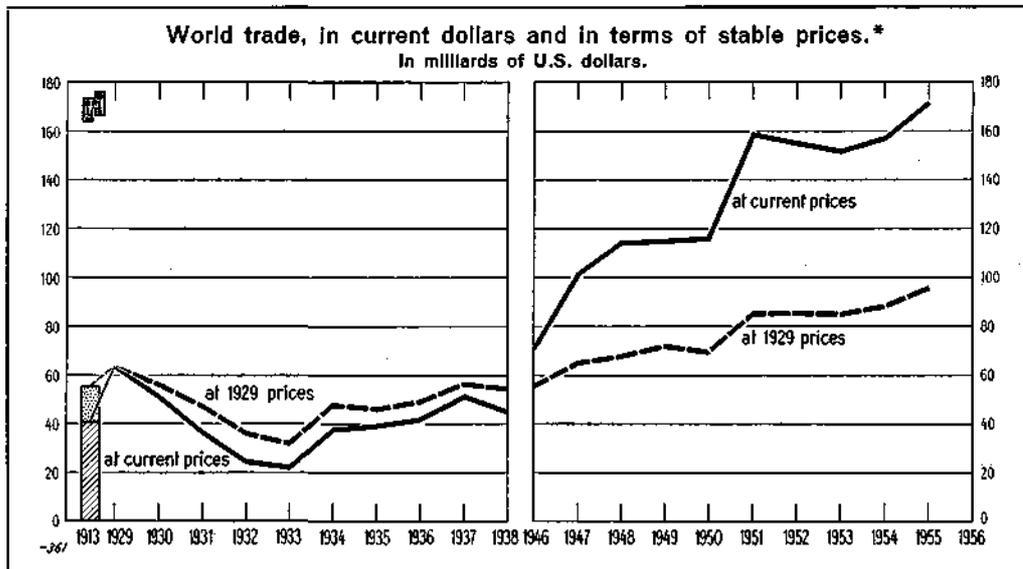
"the leading commercial and industrial countries of western Europe — that is to say, those countries whose policy in fact also plays a decisive part in determining our own possibilities of action — are at present aiming at making their currencies convertible, i.e. exchangeable into gold and dollars, as soon as possible. This means, in short, that these 'key' countries are themselves prepared to pursue in future an economic policy — and they will in fact at the same time force the rest of us to follow suit — designed to ensure that the trend of their domestic economies shall not again jeopardise their currencies. To put it even more simply, every one of these countries, and therefore also our own, will in future be even less able than before to allow itself the luxury of any kind of excessive boom in its own economy."

The Governor concluded that it would no longer be safe to assume that continued wage increases in other countries would allow a country like Sweden to evade the problem of the rôle played by wages in its own economy.

In the more highly industrialised countries there are as a rule some up-to-date enterprises whose competitiveness on foreign markets has not been adversely affected by the recent wage increases, since they have been able to rationalise their production without any very great difficulty. But there are also a number of other firms which are in this respect in a less satisfactory position and are therefore bound to regard wage increases with considerable anxiety. This is more often than not the case in the agricultural sector, in which, owing to the size of farms and for other reasons, the process of modernisation has not yet been carried far enough. These difficulties and many others show that there are no easy solutions to the problems arising in connection with wage and price policy. But one thing is certain: no true solution to these problems can be found simply by perpetuating, through protectionist measures or in other ways, old-fashioned methods of production; important branches of an economy cannot be left unrationalised with impunity. It is only by surmounting the technical and political difficulties involved and by gradually exposing their economies to the strong winds of competition that countries can put themselves in a position to participate more fully in the dynamic growth of production and raise their standards of living.

IV. Foreign Trade.

The buoyant economic activity during 1955 was accompanied by a very satisfactory expansion in the exchange of goods and services between the various nations. Preliminary statistics indicate that the volume of world trade increased from 1954 to 1955 by about 8 per cent. — rather more than the rise in the combined gross national products (see pages 3 and 7).



* Excluding trade between the eastern European countries, the U.S.S.R. and China.

In 1955 the total value of world trade (at current prices) was roughly 8½ per cent. above the peak reached in 1951, when prices were abnormally high as a result of the scramble for commodities following the outbreak of the Korean war. Prices in 1955, however, were considerably lower than those in 1951, having fallen by about 8 per cent. (as measured by the unit-value index for world trade) from 1951 to 1953 and having been relatively stable in the two succeeding years.

In terms of volume, world trade in 1955 was some 70 per cent. greater than in either 1913, 1938 or 1946. After the long period of virtual stagnation between 1913 and 1946, an expansion has set in which is having the effect of bringing the various countries of the world closer together through the exchange of goods and services. This expansion has undoubtedly been furthered by the large amount of aid given since the end of the second world war and by increased government expenditure abroad — for instance, for military purposes — but there is nevertheless reason to believe that it is not merely a temporary phenomenon. Even if the enormous post-war increase in world trade in such products as oil and timber

and many other materials is left out of account, it seems that a fundamental change is being made in the structure of various economies with a view to enabling them to play their full part in the lively interchange of goods and services which has been such a striking feature of post-war development and which may be expected to increase still further. In order to sustain this expansion governments must continue to pursue, in the field of external trade and payments, the liberal course which has been followed in an increasing number of countries in the past few years, and must, in particular, through G.A.T.T. and otherwise, concern themselves more resolutely than they have done hitherto with the question of tariff reduction.

The following table shows, in terms of current prices, the distribution of world trade between different areas.

Turnover of world trade:
Imports and exports in terms of value.

Areas	1951	1952	1953	1954	1955 ¹
	in milliards of U.S. dollars				
United Kingdom	18.5	17.4	16.9	17.2	19.3
Rest of the sterling area	25.3	23.2	21.5	22.3	24.4
Whole of the sterling area	43.8	40.6	38.4	39.5	43.7
O.E.E.C. continental countries	41.3	40.9	40.7	45.2	51.6
United States and Canada	35.2	36.1	37.0	35.2	37.8
Latin American countries	15.5	14.6	14.2	15.1	15.1
Other countries	22.1	21.6	20.9	21.8	23.5
World trade turnover ²	157.9	153.8	151.2	156.8	171.7

¹ Provisional.

² Excluding trade between the eastern European countries, the U.S.S.R. and China.

Not all regions have participated to the same extent in the upswing of trade since 1954, the greatest increase having taken place in western Europe, while in Latin America the turnover remained unchanged. The expansion of trade may in fact be said to have corresponded fairly closely to the degree of success achieved in re-establishing orderly monetary conditions and freeing imports from quantitative restrictions. The growth of foreign trade in terms of volume is illustrated in the following table by the figures for exports.

Volume of exports of different areas.

Year	Continental western Europe	United Kingdom	Total sterling area	United States and Canada	Latin America	World
	Index: 1953 = 100					
1951	93	104	96	94	96	95
1952	89	98	96	97	90	94
1953	100	100	100	100	100	100
1954	114	104	103	97	98	105
1955*	128	112	112	100	104	113

* Provisional

In the past few years there has been a gradual change in the composition of foreign trade. Whereas in the period immediately after the war the individual countries were naturally more willing to lift the restrictions on imports of raw materials and essential foodstuffs than those on manufactured products, since 1950 the greatest rise has been in trade in manufactured goods, as is shown by the following graph.



* Index based on exports of twelve countries accounting for over 80 per cent. of world trade in manufactured goods.

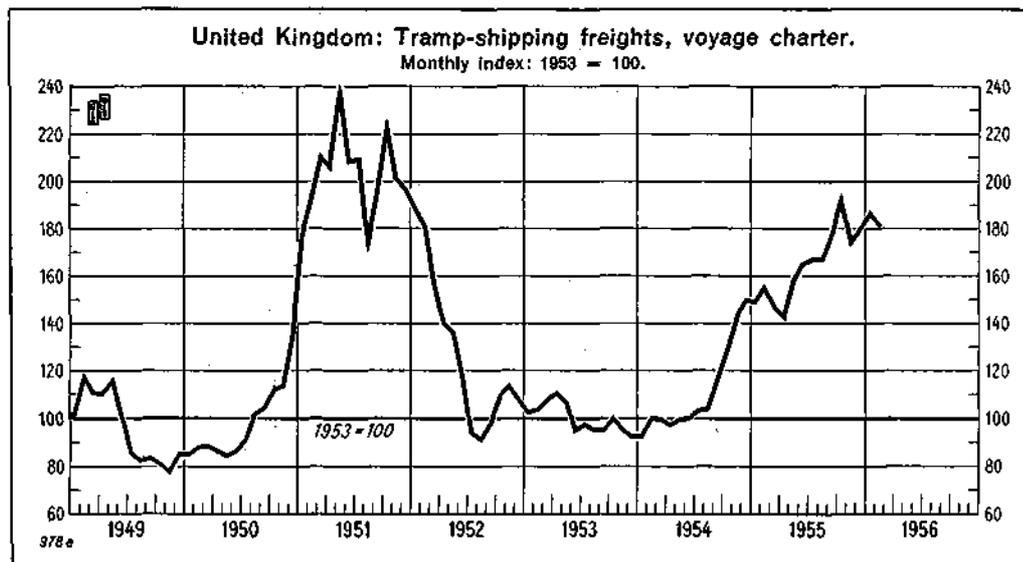
The industrial boom on both sides of the Atlantic has greatly increased the demand for fuels and raw materials and for certain semi-manufactured goods and machinery, especially as far as the metal-using and construction industries are concerned. The bulk of the additional commodities required have been traded among the countries of western Europe and between western Europe and the dollar area. Regions which produce mainly agricultural commodities have not as a rule shared in the export boom, while those producing industrial raw materials, such as non-ferrous metals or oil, have generally done very well.

In 1955 the imports of the seventeen O.E.E.C. countries from the dollar area increased by 33 per cent. over the preceding year, while their imports from other overseas areas rose by barely 6 per cent. Of the total increase in imports from all areas, 38 per cent. was accounted for by raw materials, fuels and chemicals, 16 per cent. by food, beverages and tobacco, and the remaining 46 per cent. by manufactured goods and machinery.¹ In absolute figures, the total imports of these countries from the dollar area went up by \$1,700 million, while their exports to the dollar area rose by only \$460 million. This increase in the visible trade deficit of the O.E.E.C. countries in relation to the dollar area did not, however, lead to

¹ These percentages are calculated on the basis of imports during the first nine months of the year, since figures for the whole year were not available for the different categories of goods at the time of writing.

a deterioration in the current account of their balances of payments, since the surplus on invisible account went up by a corresponding amount, thanks mainly to the rise in U.S. military expenditure in western Europe (see page 26).

Despite a continued increase in the available tonnage of sea-going ships, the expansion in the volume of trade has led to a sharp rise in freight rates since mid-1954 — especially those for the North Atlantic coal traffic.



In July 1955 the world merchant fleet for the first time exceeded 100 million tons, having increased by more than 3 per cent. since July 1954.

The total tonnage of new ships launched in 1955 amounted to 5.3 million — the highest figure for any peacetime year since 1920; tankers accounted for 2.4 million tons, i.e. 46 per cent. of the total, as against 55 per cent. in 1954. As a consequence of the expansion in the volume of trade, transit traffic through the Suez and Panama Canals increased by 11 and 12 per cent. respectively in 1955; at the same time, owing to the growth in the foreign trade of the continental European countries, the volume of shipping handled by the port of Rotterdam increased by 36 per cent., while the turnover of the German ports rose by 21 per cent., that of the port of Antwerp by 10 per cent., and that of the French ports by 9 per cent.

From the point of view of nationality, the sea-going vessels at present in use are more widely distributed than before. The number sailing under a "tax-free flag", i.e. those registered in Panama and Liberia, has been increasing from year to year; Liberia now has the fourth largest fleet in the world after the United States, the United Kingdom and Norway.

The increase in freight rates has benefited, in particular, the northern European countries. Their aggregate net income from shipping rose in 1955 by nearly 25 per cent. compared with the preceding year and actually exceeded by some 5 per cent. the peak figure reached in 1952.

Western Europe: Net freight earnings of selected countries.

Countries	1951	1952	1953	1954	1955
	in millions of U.S. dollars				
Northern countries					
Denmark	33	39	38	29	36 ¹
Finland ²	48	43	40	44	52 ¹
Norway	301	294	239	255	327
Sweden	188	208	166	169	199
Total for northern countries . .	570	584	483	497	614
United Kingdom	370	308	367	420	336
Grand total	940	892	850	917	950

¹ Estimates. ² Transportation account.

In the case of the United Kingdom, freight earnings increased from £407 million in 1954 to £457 million in 1955, but freight payments rose during the same period from £257 million to £337 million, so that net income was reduced by about one-fifth. The increase in payments was chiefly due to substantial imports of hard coal and of iron and steel from the United States. In fact, a situation has now arisen in which a number of British ships used for carrying U.S. coal make the outward journey empty, whereas formerly, when the United Kingdom was itself a large exporter of coal, it was generally possible to find cargoes overseas for the return voyage. In the case of a number of European countries there has also been an increase in one-way traffic as far as tankers are concerned.

While the northern countries have thus increased their net income from shipping, countries in other parts of Europe have benefited from a growth in tourist trade. For western Europe as a whole, total net receipts from tourism in 1955 appear to have been equivalent to more than \$500 million. The following table shows the net tourist income of seven European countries.

Western Europe: Net tourist earnings of selected countries.

Year	Austria	France ¹	Western Germany	Greece	Ireland	Italy	Switzerland
	in millions of U.S. dollars						
1951	18	77	14	.	62	75	.
1952	25	25	7	3	55	77	84
1953	53	— 6	3	16	49	131	107
1954	64	61	42	17	50	139	119
1955	62	30 ²	67	19	55	190	125

¹ Metropolitan France. ² First half of the year.

The deficit countries are, in the order of their net outlay in 1954, Sweden, the United Kingdom, Turkey, Norway, the Belgian-Luxemburg Economic Union, Iceland and Denmark, while the Netherlands and Portugal are more or less in equilibrium on tourist account.¹ The general trend of travel from north to south emerges fairly clearly from the grouping into surplus and deficit countries.

Nearly one-quarter of the tourists visiting western Europe come from other continents — mainly North America. Tourists from countries outside Europe accounted in 1954 for more than half of the total number of visitors to the United Kingdom, Portugal and Greece. In the U.S. balance of payments for 1955 gross expenditure on travel amounted to \$1,095 million, of which \$400 million was in relation to western Europe, while European visitors to the United States are estimated to have spent about \$50 million, so that western Europe had a net income of \$350 million. The corresponding figure for 1951 was only \$150 million.

* * *

The two world wars have caused great shifts in the debtor-creditor relationships between countries. The first world war led, in particular, to a deterioration in the position of France owing to losses sustained mainly in eastern Europe and to the devaluation of a number of currencies, while the United States emerged as a creditor nation. As a result of the second world war the creditor position of the United States was overwhelmingly confirmed, while the United Kingdom was not only forced, as it had been in the first war, to sell some of its foreign investments in the course of its war financing but also incurred substantial external debts.

The available statistics on the foreign assets and liabilities of the different countries do not always give a realistic picture of the position — mainly because shares and other forms of direct investment may be shown in the returns at a nominal value, little or no account being taken of such increases as may have occurred as a result of price rises or additions to hidden reserves.

Thus the estimates of the foreign investments of the United Kingdom published by the Bank of England give the “nominal capital value” of the assets in question.² At the end of 1953 the total nominal value of the overseas investments was put at £2,013 million, but the market value is certainly well in excess of this total. As far as the country's overseas liabilities are concerned, the total of the sterling balances and of the United Kingdom's

¹ See the special study by the O.E.E.C. on “Tourism in Europe”, published in January 1956.

² The securities included in the Bank of England's estimates are those issued by overseas governments and municipalities, companies registered abroad and companies registered in the United Kingdom but operating almost entirely overseas. No account is taken of other foreign assets, such as, in particular, the branches and other installations and assets of companies which operate substantially, but not “almost entirely”, overseas — a group which includes many commercial undertakings and insurance and shipping companies.

debit balance in the E.P.U. amounted at the end of 1953 to £3,900 million, to which must be added the government debt of £2,100 million expressed in foreign currencies (mainly U.S. and Canadian dollars).

If, on the other hand, the receipts and payments in respect of "interest, profits and dividends" shown in the current account of the balance of payments are considered, it is found that the United Kingdom had a net

**Main creditor and debtor countries according to their net
Income or expenditure on investment account in the balance of payments.**

Countries	1929	1938	1954
	in millions of U.S. dollars		
Creditors			
United States	+ 699	+ 385	+ 1,747
United Kingdom	+ 1,217 ¹	+ 856	+ 204
Switzerland	n.a.	n.a.	+ 118
Netherlands	+ 110 ²	+ 86	+ 78
France (franc area)	+ 113	+ 146	+ 40
Ireland	+ 26 ³	+ 31	+ 34
Sweden	+ 8	+ 26	+ 18
Belgium-Luxemburg	n.a. ³	+ 63 ⁴	+ 15
Debtors			
Venezuela	n.a.	- 59	- 465
Canada	- 258	- 241	- 296
Iraq	+ 0 ⁵	- 30 ⁶	- 189
South Africa	- 77	- 106 ⁶	- 151
Australia	- 181 ⁵	- 132 ⁶	- 143
Brazil	n.a.	n.a.	- 137
Germany	- 191	n.a.	- 117 ⁷
Indonesia	- 127	- 111	- 71
Chile	n.a.	- 45 ⁸	- 49
Japan	- 9 ⁹	+ 50 ¹⁰	- 39
Peru	n.a.	- 26	- 22
India	- 119 ⁵	- 97 ⁶	- 15 ¹¹
Argentina	- 205 ¹²	- 119	- 12
Costa Rica	n.a.	- 2	- 12
Denmark	- 17	- 16	- 11
Finland	- 10	- 3	- 11
Mexico	n.a.	- 41	- 10 ¹³
Norway	- 19	- 18	- 10
Italy	- 53	- 8	- 8

Note: The above list is not complete but covers all creditor countries of any consequence. With the exception of Italy, countries whose yearly net payments or receipts totalled less than \$10 million in 1954 have been omitted from the table. For the following countries data are available for 1954 but not for any of the pre-war years:

Further net debtor countries on the basis of the data for 1954
(in millions of U.S. dollars).

Federation of Rhodesia and Nyasaland	82	Cuba	32
Philippines	56	Israel	17
Belgian Congo	49	Ecuador	16
Iran	43	Colombia	15
Egypt	38	Panama	12
Puerto Rico	35	Liberia	11

n.a. = not available. ¹ Excluding interest on short-term assets. ² Estimate. ³ The 1929 figure, though available, has been omitted, since it includes the Belgian Congo and the amortisation of inter-allied debts. ⁴ 1937. ⁵ 1928-29. ⁶ 1938-39. ⁷ Western Germany. ⁸ Including payments in connection with the activities of mining companies, e.g. administrative expenses incurred abroad and depreciation allowances. ⁹ Including Korea and Formosa. ¹⁰ 1938. ¹¹ India and Pakistan. ¹² Including regular amortisation payments. ¹³ Excluding income from direct investments.

income amounting to £73 million in 1954 and £59 million in 1955 and is therefore still a creditor country in this respect. This is explained by the fact that British assets largely consist of comparatively high-yielding long-term claims or equity investments, whereas the liabilities are for the most part made up of liquid claims, the yield of which has been relatively low for a number of years (although it has recently been rising owing to the increase in interest rates).*

The net creditor position of the United States rose from \$1.8 milliard in 1939 to \$15.4 milliard in 1954. During this period U.S. gross investment abroad went up from \$11.4 to 42.2 milliard, while other countries increased their investments in the United States from \$9.6 to 26.8 milliard. These countries enlarged, in particular, their holdings of U.S. short-term assets, so that the United States had become a debtor on short-term account to the extent of some \$13 milliard by the end of 1954. In general, the interest rates on these short-term investments have been low and the result is that the United States has received a considerable net income from its foreign investments, amounting to \$1,750 million in 1954 and \$1,950 million in 1955. If the term "creditor nation" is taken to mean a country which has a net income from interest, profits and dividends received from abroad, the United States is in this sense (as by every other criterion) the greatest creditor nation in the world, followed at a long distance by the United Kingdom and Switzerland; other creditor countries are the Netherlands, France, Ireland, Sweden and Belgium-Luxemburg, as is shown in the table on the preceding page.

In 1929 the net income received from abroad by the four large creditor countries — the United Kingdom, the United States, France and the Netherlands — in the form of interest, profits and dividends amounted to \$2,140 million, of which nearly 60 per cent. went to the United Kingdom. As a result of the depression of the 1930s, which severely curtailed profits and led to many defaults, the investment income of these four countries was down to \$1,470 million in 1938, but the share of the United Kingdom remained unaltered. No data are available for Switzerland either for 1929 or for 1938.

In 1954 the net income of the United States, the United Kingdom, Switzerland, the Netherlands and France from investments abroad totalled \$2,190 million, of which 80 per cent. accrued to the United States and only 9 per cent. to the United Kingdom. In the case of the United States the amounts shown for foreign investment in the balance of payments and in the national-income statistics are identical, since the figures for this item included in the national income are taken from the balance-of-payments statistics. Owing to a difference in coverage this is not so for France and the United Kingdom, and the discrepancy between the two sets of statistics is sufficiently great to deserve special attention.

* See the study on "Sterling in the world today" in the Midland Bank Review for February 1956.

Net investment income as recorded in balance-of-payments
and national-income statistics.

Year	France (metropolitan)		United Kingdom	
	Balance-of-payments statistics	National-income statistics	Balance-of-payments statistics	National-income statistics
In millions of U.S. dollars				
1938	.	.	856	950
1952	54	71	255	260
1953	59	83	204	454
1954	51	89	204	622
1955	.	94	165	406

The balance-of-payments figures for France given in the above table relate only to metropolitan France, while those included in the table on page 99 refer to the whole of the French franc area, since statistics for metropolitan France alone are not available for 1929 or 1938. It is only since 1952 that separate balance-of-payments returns have been published for metropolitan France, thus making possible a comparison between the figures given therein and the data included in the national-income statistics.

The higher figures for net investment income shown in the national-income statistics are chiefly explained by the fact that they include income from the French overseas territories, whereas the balance-of-payments figures record only foreign income (i.e. income from countries outside the French franc area). Moreover, the figures in the balance-of-payments statistics take into account only actual transfers of income, whereas in the national-income returns reinvested profits are also included.

In the case of the United Kingdom the difference between the balance-of-payments statistics and the national-income figures is principally due to the fact that in the balance of payments the figures for interest, dividends and profits do not include the earnings of insurance, shipping and oil companies, whereas these are shown in the national-income returns as income from investments abroad. Except for a temporary setback in 1955 (see page 34), there has been an increase in the income of the oil companies, with the result that the gap between the two sets of figures has widened.

In the case of several of the debtor countries the inflationary rise in prices and the disinvestment which has taken place as a result of the two world wars have had the effect of considerably alleviating the real burden of their foreign indebtedness. It is noteworthy, for instance, that in terms of dollars the net amount payable by Canada, the chief recipient of private capital during more recent years, is not much larger now than it was in 1929 or 1938. Whereas in 1938 both Canada and Australia had to use some 30 per cent. of their export proceeds to make their net payments as debtor countries, by 1953-54 the percentage had declined, for the reasons just given and because of the increase in trade, to between 7 and 10 per cent.

Conversely, it is the European countries that have suffered the greatest net losses of capital income, and they are now having to make good these losses mainly by increasing their trade earnings.

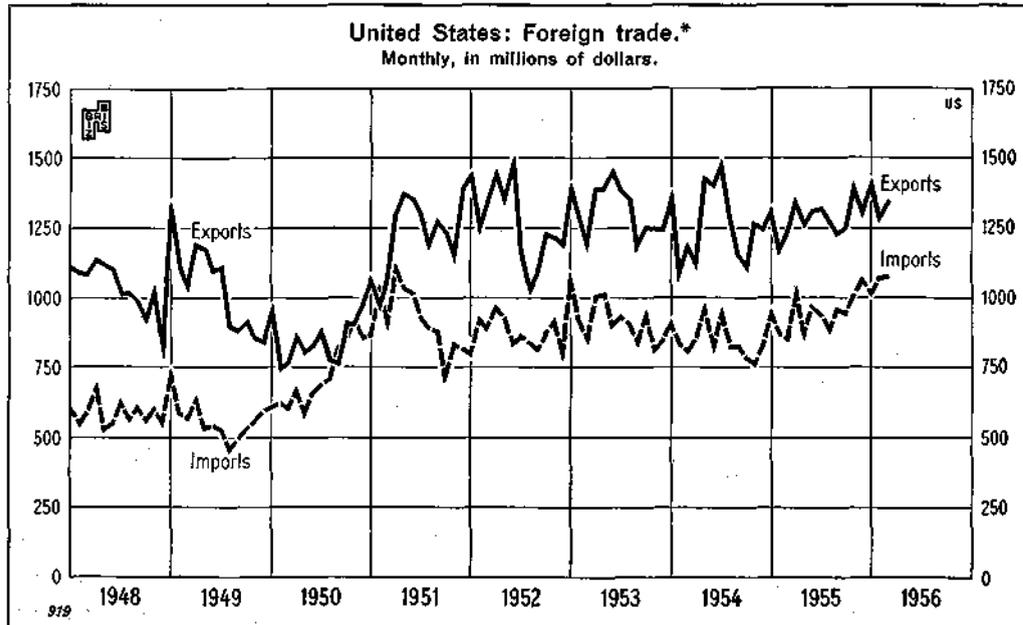
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Turning to the individual countries, the most important trading nation of the world in the post-war period has been the United States, whose exports and imports together amounted in 1955 to \$27 milliard, or 15½ per cent. of world trade turnover.

United States: Composition of foreign trade.

Commodities	Non-military exports				Imports			
	1953	1954	1955	Change 1954-55	1953	1954	1955	Change 1954-55
in millions of dollars								
Foodstuffs	1,721	1,573	1,945	+ 372	3,293	3,317	3,113	- 204
Crude and semi-manufactured products	3,049	3,718	4,204	+ 486	5,291	4,726	5,624	+ 898
Finished products	7,372	7,432	7,985	+ 553	2,194	2,196	2,597	+ 401
Total . . .	12,142	12,723	14,134	+ 1,411	10,778	10,239	11,334	+ 1,095

An analysis of the balance of payments of the United States will be found in the Introduction (page 25), where attention was drawn to the fact that imports and commercial exports both increased by 11½ per cent. between 1954 and 1955. As may be seen from the preceding table, there has in the last two years been a very marked rise in U.S. exports of crude and semi-manufactured products, but

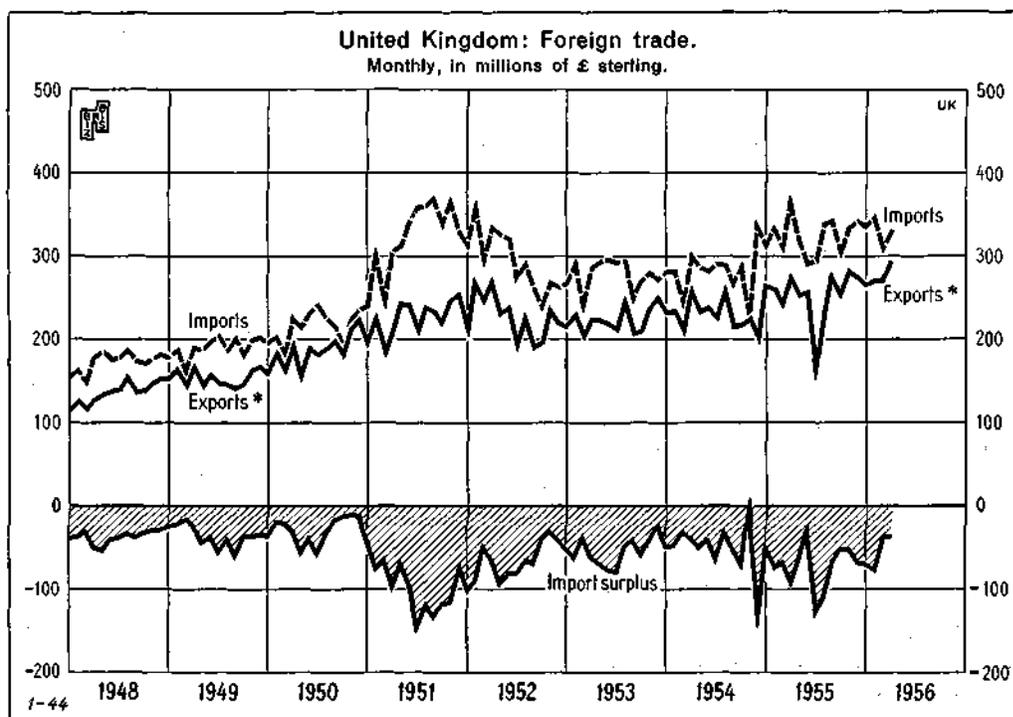


* Including shipments under the Mutual Security Program.

sales of finished products have also been going up steadily. Of the increased exports of manufactured articles, the bulk has gone to Canada, but a large quantity of machinery, in particular, has been exported to western Europe.

Imports of crude and semi-manufactured products in 1955 were nearly \$900 million larger than in 1954 — the increase being almost equally divided between the two categories. These imports showed a steady rise from quarter to quarter and in terms of volume their development was broadly in line with the upward movement in production of manufacturing industry. Imports of finished products went up by \$400 million, the greater part of the increase being accounted for by consumer goods, including some \$40 million's worth of Japanese textile goods and about \$30 million's worth of motor vehicles brought in in response to a certain demand for small-sized European cars. Imports of foodstuffs, on the other hand, fell by \$200 million, a decline which may be mainly attributed to the fall in coffee and cocoa prices late in 1954 and early in 1955.

The balance of payments of the United Kingdom has been analysed in Chapter II (see page 34). Thanks to an increase of 54 per cent. in the volume of domestic agricultural output since before the war and owing to the general policy of restraint which has been pursued, the United Kingdom's imports have risen less over the last twenty years than those of the other main trading countries. In 1955 the total volume of imports was for the first time approximately the same as in 1938, but owing to the growth in the population the per-capita volume was still 7 per cent. smaller. The volume of exports, on the other hand, was in 1955 about 75 per cent. larger than in 1938, and per head of the population it had increased by some 63 per cent. The limitation of imports and the expansion of exports have been necessary



* Including re-exports.

in order to make up for the heavy decline in net income from foreign investments and the deterioration in the terms of trade, the prices of food-stuffs and industrial raw materials, which accounted for nearly three-quarters of the United Kingdom's imports before the war, having been particularly low in the greater part of the 1930s in relation to the prices of manufactured goods.

The terms of trade, at their new level, have shown little change in the last few years; in the first quarter of 1956 both import and export prices were about 5 per cent. higher than in the corresponding period of 1954. As to the volume of trade, imports are estimated to have increased, quantitatively, by 11½ per cent. and exports by 7½ per cent. from 1954 to 1955.

The most striking feature of the distribution of the United Kingdom's trade in 1955 was the growth in both imports from and exports to the non-sterling world.

United Kingdom: Distribution of trade.

Items	Non-sterling area				Sterling area	Grand total
	Dollar area	O.E.E.C. countries and dependencies	Other countries	Total non-sterling area		
in millions of £ sterling						
Imports						
1953	634	768	437	1,840	1,504	3,343
1954	619	617	440	1,676	1,497	3,174
1955	843	955	518	2,316	1,573	3,889
Exports and re-exports						
1953	404	747	268	1,418	1,269	2,688
1954	375	776	277	1,428	1,347	2,775
1955	417	617	339	1,573	1,451	3,024
Balance						
1953	- 231	- 22	- 169	- 422	- 234	- 656
1954	- 244	- 42	- 163	- 449	- 151	- 599
1955	- 426	- 138	- 179	- 743	- 122	- 865

The steep rise in total British imports was chiefly accounted for by fuels and semi-manufactured goods. Owing to the fact that the large expansion in industrial output in 1955 was not accompanied by any real increase in domestic coal production, the United Kingdom had to import coal on an unprecedented scale: its imports in that year amounted to over 11 million tons (worth £74 million) — nearly four times as much as the previous highest figure, reached in 1954. Half of this coal came from the United States.

The demand for steel from the metal-using industries producing for the domestic and foreign markets could not be fully met by British supplies — despite the 7 per cent. rise in production — with the result that iron and steel imports in 1955 totalled £99 million, or three and a half times as much as in 1954. Two-fifths of these imports in 1955 came from the dollar area. It should be remembered that the high level of demand from all quarters for products of the engineering industry in the United Kingdom has necessitated exceptionally large supplies of steel goods. The British authorities have therefore endeavoured to restrain, by monetary and other means, the demand for goods for home consumption in order to free supplies for export.

As regards the United Kingdom's exports, sales of products of the engineering industry, including vehicles, which account for two-fifths of all exports, were £105 million, or 10.4 per cent., above their previous record level, reached in 1954. The only group of manufactured products to show a decline in exports was that of textiles, sales of which have been displaying a generally downward tendency since 1952. While the decline was no doubt partly due to Japanese competition in the Australian and some other markets, a more general factor was the reduced demand for cotton piece-goods on the part of a large number of countries.

In spite of the appreciable increase in exports of manufactured goods, the United Kingdom's share of world trade in such goods fell again during 1955. Whereas in 1954 and 1955 the total exports of manufactured goods of eleven industrial countries — together accounting for about 80 per cent. of world exports of such products — increased by an average of 10.3 and 18.4 per cent. respectively, the corresponding figures for the United Kingdom were 7.2 and 5.8 per cent. On the basis, however, of the value of exports of manufactured products per head of the population, the United Kingdom ranks very high indeed, the per-capita figure being \$130, as compared with \$96 in western Germany, \$57 in the United States and \$42 in France.

Ireland and Iceland, which both belong to the sterling area, had to contend in 1955, under different circumstances, with increasing difficulties in their balances of payments.

Ireland and Iceland: Foreign trade.

Year	Ireland			Iceland		
	Imports	Exports and re-exports	Balance	Imports	Exports	Balance
	in millions of Irish pounds			in millions of krónur		
1952	172	100	— 72	910	641	— 269
1953	183	114	— 69	1,111	706	— 405
1954	180	115	— 65	1,130	846	— 284
1955	204	110	— 94	1,264	848	— 416

While Ireland's imports rose in 1955 to a post-war high, its exports declined because of a fall in sales of fresh, chilled and frozen meat. Its balance-of-payments deficit in 1955 has been estimated at I£35 million. In an attempt to avoid a further deterioration drastic measures were taken in the spring of 1956. A special import levy ranging from 5 to 25 per cent. (imperial preference being maintained) was imposed on a wide range of consumer goods and stricter regulations concerning hire-purchase were announced. Ireland is already a high-tariff country and it is to be feared that the new levy will further increase the cost of living.

Iceland imported more coal, petroleum and feeding stuffs in 1955, while its exports remained at practically the same level as in 1954. As the dispute with the United Kingdom concerning fishing grounds remained unsettled, Iceland's trade with the countries of eastern Europe was further increased; it accounted, in fact, for over one-fifth of the country's imports and nearly 30 per cent. of its exports.

At the same time as the trade deficit increased, the net income from invisible items declined, mainly owing to the larger amount paid out in the form of wages (fishermen from the Faroe Islands, who are paid in foreign currency, have recently been employed in increasing numbers in the Icelandic fishing fleet). As in previous years, the main source of invisible income was U.S. military expenditure, which amounted to some \$12 million. Even taking this item into account, the current balance-of-payments deficit is estimated to have been equivalent to \$10 million.

In the analysis of the balance of payments of France in Chapter II (see pages 61-62) attention was drawn to the fact that a current surplus was obtained in the first half of 1955 even without counting the receipts from foreign aid and U.S. military expenditure. For the year as a whole France achieved, on merchandise account, a surplus of exports over imports, a result which was wholly due to an improvement in its trade with foreign countries, since the surplus in relation to its overseas territories continued to decline.

Metropolitan France: Foreign trade.

Items	1952	1953	1954	1955
	in milliards of French francs			
With overseas territories				
Imports	360	366	411	409
Exports	598	520	547	535
Balance	+ 238	+ 154	+ 136	+ 126
With foreign countries				
Imports	1,232	1,092	1,111	1,248
Exports	818	886	963	1,161
Balance	- 414	- 208	- 148	- 87
Total balance of trade	- 176	- 52	- 12	+ 39

There was a rise of 12 per cent. in France's imports from foreign countries, mainly owing to the increased requirements of the metallurgical industries, but exports to foreign countries went up by as much as 20 per cent. A large part of this growth in exports was accounted for by increased sales abroad of iron and steel and agricultural products — chiefly wheat and sugar, the export of which is heavily subsidised, partly in order to relieve the pressure on the home market. The cost of the export subsidy on wheat amounted in 1954-55 to Fr.fcs 28.5 milliard and that of the sugar subsidy to Fr.fcs 4.2 milliard.

While the total volume of exports rose by 12 per cent., exports of manufactured goods, though they increased in value, actually fell by 1 per cent. in volume; since the index of production in manufacturing industries (basis: 1953 = 100) rose in 1955 from 109 to 120, or by 10 per cent., it may be assumed that the increase in the output of French manufactured goods is being absorbed by the home market. Practically all French exports, with the exception of raw materials but including coal and metal products, are subsidised either by way of the repayment of fiscal and/or social charges or directly, as in the case of agricultural products. As from 1st December 1955 the rates of repayment were somewhat lowered and a further reduction was

announced in May 1956, when imports were liberalised up to 84 per cent. French imports are subject to special import dues, from which, however, most raw materials are exempt, but if manufactured products alone are considered it appears that 73 per cent. of the liberalised imports are subject to these special taxes, more than half of them at the higher rates of 11 to 15 per cent.

The foreign trade of the Benelux countries — imports and exports together — increased appreciably in volume in 1955, that of the Belgian-Luxemburg Economic Union having expanded by about 8 per cent. and that of the Netherlands by 10 per cent.; in Belgium, however, exports rose more than imports, while in the Netherlands the opposite was the case.

Benelux countries: Foreign trade.

Countries	Value			Volume		
	Imports	Exports	Balance	Imports	Exports	
	in milliards of national currency units			Index: 1953 = 100		
Belgian-Luxemburg						
Economic Union						
(francs)	1952	123	123	0	96	91
	1953	121	113	- 8	100	100
	1954	127	115	- 12	110	109
	1955	142	139	- 3	117	118
Netherlands						
(flörins)	1952	8.4	8.0	- 0.4	84	88
	1953	9.0	8.2	- 0.8	100	100
	1954	10.9	9.2	- 1.7	126	113
	1955	12.2	10.2	- 2.0	140	124

The improvement in the export trade of the Belgian-Luxemburg Economic Union should be seen against the background of certain difficulties experienced by it in 1954 as a result, inter alia, of a drop in U.S. metal imports and the all-round slackening of demand for textiles. Belgium's recovery in 1955, when it participated in the general boom, was facilitated by the fact that it had at its disposal a substantial amount of unused labour. The rise in exports was due mainly to larger sales of iron and steel products, engineering goods, fuels and glass, while sales of textiles remained at the same level as in 1954. Exports of iron and steel, which rose by B.fcs 8.7 milliard, accounted for 36 per cent. of the total increase. The rise in imports was not only less steep but also less widespread. There was a fall in the value of imports of foodstuffs and textile raw materials, but a substantial increase in purchases of ores, scrap metal and machinery and also of textile yarns and fabrics.

As in previous years, Belgium's main trading partners were the Netherlands, western Germany, France and the United States. The Netherlands took over one-fifth of Belgian exports in 1955 and provided 13 per cent. of its imports. Western Germany took 12 per cent. of exports and furnished 14 per cent. of imports, its share in Belgian trade having steadily grown during recent years.

In the Netherlands — in contrast to Belgium — imports rose more than exports. On a c.i.f. basis (as recorded in the customs statistics) imports increased by 12 per cent. from 1954 to 1955 and exports by 11 per cent.

The increase in imports is no doubt due to a certain extent to the liberalisation policy pursued. Since 1st June 1954 the Benelux countries have applied — with few exceptions — the same liberalisation list to the dollar area as to the O.E.E.C. countries, the proportion of imports freed from quotas amounting to 87 per cent. A further reason for the expansion in the Netherlands' imports is the rise in consumption resulting from a general wage increase of 7 per cent. in October 1954 and a cut in taxation of about 8 per cent. in September 1955; while another factor has been the need for more raw materials and semi-manufactured products to sustain the higher rate of production. Imports from the United States rose by Fl. 368 million, or 29 per cent., mainly on account of larger purchases of raw materials and manufactured goods, while exports to the United States fell slightly.

Netherlands: Current account of the balance of payments.

Items	Total balance			Balance in convertible currencies		
	1953	1954	1955	1953	1954	1955
in millions of florins						
Merchandise trade (f.o.b.)						
Imports	8,155	9,714	11,289	1,131	1,582	2,024
Exports	7,739	8,613	9,481	986	953	927
Balance of trade	- 417	- 1,101	- 1,808	- 145	- 629	- 1,097
Invisible items (net)						
Interest and dividends	+ 230	+ 298	+ 297	- 3	- 4	+ 1
Other invisible items*	+ 1,539	+ 1,330	+ 1,796	+ 447	+ 158	+ 518
Net total of invisible items	+ 1,769	+ 1,628	+ 2,093	+ 444	+ 154	+ 519
Total balance on current account	+ 1,352	+ 525	+ 285	+ 299	- 475	- 578

* Including emigrants' remittances and private donations, which the Nederlandsche Bank includes in the capital account.

While the trade deficit rose by Fl. 700 million, there was an appreciable increase, amounting to over Fl. 400 million, in receipts in respect of invisible items. This was due principally to larger earnings from freight.

As regards the balance in convertible currencies (mainly dollars), the deficit of Fl. 578 million in 1955 was very nearly matched by the inflow of private dollar capital amounting to Fl. 566 million. It is believed that the Dutch authorities regard their gold and foreign exchange reserves as now being more or less adequate. In 1955 these reserves increased by Fl. 20 million, against Fl. 273 million in the previous year.

The highly dynamic character of the economy of western Germany has been reflected in a continued rapid increase in the country's foreign trade, though imports have risen more than exports, with the result that the trade surplus has been reduced.

The average level of import prices rose by about 4 per cent. in 1955 as a result of higher freight rates and an increase in the prices of a few important commodities (rubber, non-ferrous metals, coal, timber, iron and steel), of which

Western Germany: Foreign trade.

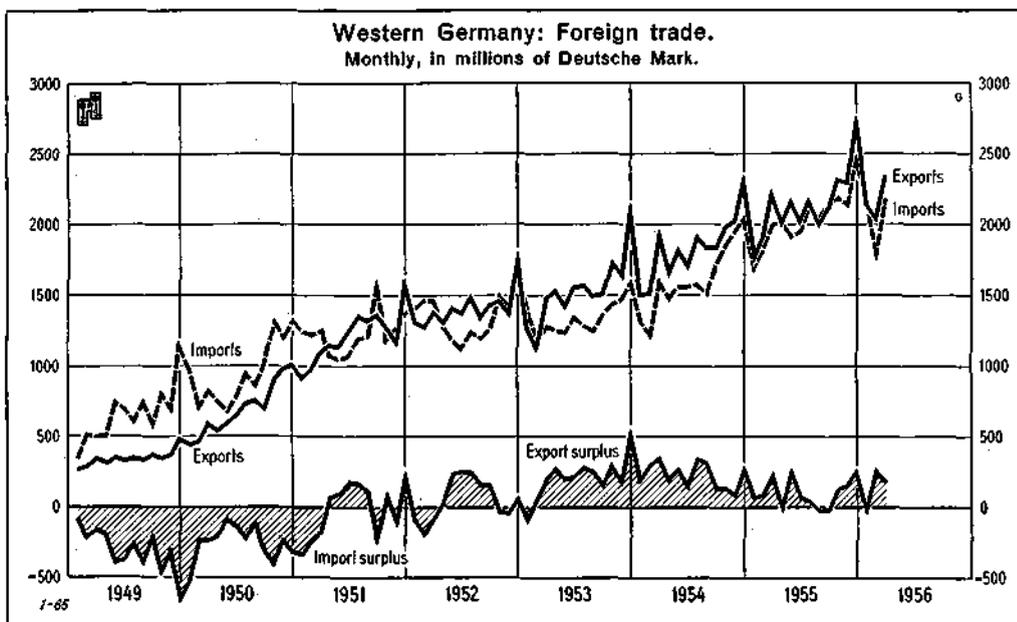
Year	Value			Year-to-year changes	
	Imports	Exports	Balance of trade	Imports	Exports
	in milliards of Deutsche Mark			as percentages of the previous year's figures	
1952	16.2	16.9	+ 0.7	+ 10	+ 16
1953	16.0	18.5	+ 2.5	- 1	+ 10
1954	19.3	22.0	+ 2.7	+ 21	+ 19
1955	24.5	25.7	+ 1.2	+ 27	+ 17

Note: In the above table exports are recorded f.o.b. and imports c.i.f. (i.e. including insurance and freight), while in the balance-of-payments table given in Chapter II (page 52) imports, too, are shown f.o.b., the net charges for insurance and freight being included among the invisible items. It is of considerable importance to make allowance for these differences when comparing the returns for 1954 and 1955 owing to the increase in freight rates and heavier expenditure on port fees in 1955. Whereas in 1954 western Germany's transportation account was more or less balanced, in 1955 there was a deficit of DM 345 million.

large quantities had to be imported. In absolute terms, imports of raw materials went up more than imports of manufactured goods. Imports of hard coal totalled 16 million tons in 1955, as against 8.4 million tons in 1954, and their value came to over DM 1 milliard. Exports of hard coal, on the other hand, amounted to 13.2 million tons in 1955 and were valued at DM 930 million.

The volume of imports expanded by more than one-fifth in 1955 and thus helped to increase the importance of western Germany as a market for other countries.

Exports rose, both in value and in volume, by about 16 per cent. in 1955. The increase of DM 3.7 milliard in their value was mainly due to larger sales of manufactured products, principally motor-cars, machinery and electrical apparatus. Since 1950 there has been a continuous increase in the export value per unit of finished product exported, this being due not to any general rise in the price level, as is clear from the index of average export values, but to a genuine shift in the pattern of exports towards more highly priced goods.



Western Germany: Balance of trade by monetary areas.¹

Areas	1952	1953	1954	1955
	in millions of Deutsche Mark			
Limited-convertibility area				
E.P.U. countries	+ 1,707	+ 2,210	+ 2,800	+ 2,532
Non-E.P.U. countries				
"Beko" ² payments-agreement countries .	+ 392	— 58	— 83	— 200
Other payments-agreement countries . .	+ 105	+ 469	— 70	+ 62
Countries without payments agreements	+ 157	+ 279	+ 465	+ 536
Convertibility area	— 1,684	— 437	— 527	— 1,841
Total balance of trade ³	+ 706	+ 2,515	+ 2,698	+ 1,244

¹ Countries have been grouped on the basis of their main method of payment in January 1956.

² "Beko"-Mark = "beschränkt konvertierbare Deutsche Mark", i.e. Deutsche Mark with limited convertibility.

³ Including territories not covered by any of the above headings. Consequently, the totals do not tally exactly with the sum of the separate items.

In the case of both imports and exports, the greatest increase in absolute value was in relation to the O.E.E.C. countries, especially those belonging to the European Coal and Steel Community. Exports to the United States rose by nearly DM 400 million, but since imports from that country increased by two and a half times as much there developed a growing trade deficit in relation to the dollar area.

Trade with the U.S.S.R. and the eastern European countries (excluding eastern Germany) expanded in the course of 1955 as regards both imports and exports but, amounting as it does to only 2 per cent. of western Germany's total trade in either case, it is still of relatively slight importance.

Western Germany's current balance-of-payments surplus (see page 52) came to about DM 4 milliard in 1953 and 1954; in 1955 it was reduced to DM 2.9 milliard, or by about one-quarter. There was a deficit of DM 345 million on transportation account (see the footnote to the table on the previous page), and net payments in respect of interest and dividends rose by about DM 100 million, western Germany's out-payments having gone up from DM 610 million in 1954 to DM 810 million in 1955, and the yield on its own investments abroad having increased by about DM 100 million.

The net amount paid in respect of donations rose from DM 388 million in 1954 to DM 815 million in 1955, mainly as a result of an increase in payments for the benefit of victims of persecution, which since November 1954 have been freely transferable to all monetary areas. On the income side, there was a marked reduction in U.S. aid, which fell from DM 290 million in 1954 to DM 130 million in 1955, this reduction corresponding to a decline in deliveries of surplus agricultural products, mainly wheat, to western Berlin. Against this, dollar receipts in respect of services rendered and supplies delivered to military agencies, including the dollar amounts exchanged into Deutsche Mark, increased from DM 979 million in 1954 to DM 1,146 million in 1955.

In contrast to current-account and unilateral payments, the net movements on capital account showed no great change in 1955 as compared with 1954. But though the net outflow of both long and short-term capital was roughly the same as in the previous year, having amounted to about DM 500 million in 1955 compared with DM 490 million in 1954, this

stability masks wide variations among the different items. While transfers under the London Debt Agreement fell from DM 666 million in 1954 to DM 517 million in 1955, the repayment of other foreign debts was speeded up, chiefly thanks to the facilities offered in September 1954 for the conversion of blocked DM accounts into liberalised capital accounts.

The reappearance in 1955 of a current deficit in the balance of payments of Austria (see Chapter II, page 50) was mainly the result of a large trade deficit, which amounted to the equivalent of \$191 million, compared with \$44 million in the previous year. The very sharp increase — of as much as 40 per cent. — in commercial imports compared with 1954 was a consequence of the intense boom. The authorities sought to moderate the boom and the accompanying rise in domestic prices by a combination of credit restraint, on the one hand, and increased liberalisation of imports, on the other. In the first quarter of 1956, the previous trend of trade was reversed, exports having increased very quickly while imports lagged behind somewhat. The import surplus in that quarter thus amounted to Sch. 866 million, against Sch. 1,367 million in the corresponding period of 1955.

Out of the total increase in imports in 1955, amounting to Sch. 6.5 milliard (= \$250 million), Sch. 1.8 milliard was accounted for by machinery and means of transport, the value of vehicle imports from western Germany having doubled as compared with 1954. At the same time the increase in the number of road vehicles in the country necessitated larger supplies of petrol, so that fuel imports rose by over Sch. 500 million. Imports of foodstuffs went up from Sch. 3.3 milliard in 1954 to Sch. 4.3 milliard in 1955 — mainly owing to increased purchases of cereals following a poor harvest in 1954.

Austria: Geographical distribution of foreign trade.

Areas	Commercial Imports			Exports		
	1953	1954	1955	1953	1954	1955
as percentages of total						
O.E.E.C. countries	71.1	78.5	74.7	67.9	69.5	70.5
Eastern Europe	13.9	11.5	10.3	13.3	11.8	10.9
United States	6.4	3.6	7.9	6.2	4.8	4.6
Rest of the world	8.6	6.4	7.1	12.6	13.9	14.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Exports benefited from the heavy demand in western Europe for raw materials and semi-manufactured and manufactured goods, the greatest relative advance having been registered by machinery and vehicles.

The increase of 70-75 per cent. in the volume of the foreign trade of Switzerland since 1949 is of special interest in that this is the only country in western Europe which has not devalued its currency since before the war.

Switzerland: Foreign trade.

Year	Value			Volume		Prices	
	Imports	Exports	Balance	Imports	Exports	Imports	Exports
	in millions of Swiss francs			Index: 1949 = 100			
1951	5,916	4,691	-1,225	144	138	110	100
1952	5,206	4,749	- 457	126	133	108	100
1953	5,071	5,165	+ 94	130	147	103	97
1954	5,592	5,272	- 320	150	154	102	96
1955	6,401	5,622	- 779	170	170	101	94
1956 1st quarter . . .	1,667	1,426	- 241	175	171	103	94

Under the impact of a strong internal boom the trade deficit increased in 1955 and the figures for the first four months of 1956 point to a continuation of the same trend. Switzerland's foreign-trade structure shows the greatest sensitivity to changes in the business cycle on the side of imports rather than exports, as may be seen from developments both in 1951 and in 1955. In the latter year more than half of the increase of Sw.fcs 800 million in imports was due to larger imports of manufactured products, while purchases of raw materials went up by Sw.fcs 300 million and imports of foodstuffs by only Sw.fcs 80 million. There are several reasons why Switzerland's imports consist primarily of manufactured products and only secondarily of raw materials. Firstly, Switzerland is a relatively small country, which, despite its very diversified economy, cannot possibly satisfy from internal sources every kind of demand. Secondly, its most important industries — those producing machinery, watches and chemicals — are more heavily dependent on imports of semi-manufactured products such as steel (which are classed as manufactured goods) than on imports of raw materials proper — a notable exception, however, being fuels. Thirdly, there is no restriction whatsoever on imports of consumer goods apart from agricultural products, so that as personal incomes rise there is an increase in imports of motor-cars, instruments and apparatuses, etc.

Leaving out of account U.S. aid, the deficit on the current account of the balance of payments of Italy was reduced from \$116 million in 1954 to \$83 million in 1955, while if the aid received is included the deficit is found to have increased from \$12 to 42 million. Thanks to a larger net inflow of foreign capital, an amount of \$109 million was added to the monetary reserves (see page 59). In terms of volume, Italian exports have risen in recent years more than imports. There has been little change in the terms of trade.

Italy: Foreign trade.

Year	Value			Volume		Prices	
	Imports	Exports	Balance	Imports	Exports	Imports	Exports
	in milliards of lire			Index: 1953 = 100			
1952	1,460	867	- 593	92	94	110	105
1953	1,513	942	- 571	100	100	100	100
1954	1,524	1,024	- 500	104	107	98	99
1955	1,691	1,161	- 530	113	124	101	102

Owing to a shortage of domestic supplies, wheat, maize, oil, oilseeds and meat had to be imported in larger quantities in 1955, so that foodstuffs represented nearly one-sixth of total imports, as compared with one-seventh in 1954. In the case of wheat and maize there had been a bad harvest in the preceding year, while in the case of oil and meat the rise in imports reflected higher standards of consumption. Agricultural techniques have improved and the output of foodstuffs has, by and large, kept up with the growth of the population and the rise in incomes and has at the same time made it possible to increase exports of foodstuffs.

The expansion in industrial output, which increased by 8 per cent., called for larger imports of ores and metal scrap, which went up by 23 per cent., while a decline in textile production led to a 10 per cent. fall in imports of raw wool and cotton.

As for exports, the largest increase, both absolute and relative, in 1955 was that registered by engineering products, which represented some 22 per cent. of all Italian exports — nearly as much as foodstuffs, which accounted for 23 per cent. Exports of petroleum products, after having expanded very rapidly over the last five or six years, fell off owing to higher domestic consumption. Despite the continuous decline in imports of textile raw materials, exports of textile products rose in 1955; they consisted, however, mainly of artificial fibres and woollen fabrics, only the latter of which are dependent on imported fibres. Two-thirds of Italy's foreign trade is carried on with other O.E.E.C. countries and their associated monetary areas.

Italy: Distribution of trade by monetary areas.

Areas	Imports			Exports		
	1953	1954	1955	1953	1954	1955
	as percentages of total					
Western hemisphere	17	15	18	14	13	14
E.P.U. area	68	67	70	66	67	65
Bilateral-agreement countries . . .	11	11	11	16	15	17
Other countries	4	7	1	4	5	4
Total	100	100	100	100	100	100

The relatively large percentage shown in the table for the bilateral-agreement countries reflects in particular an improvement in trade with the Argentine and Yugoslavia. Italy has recently joined the Hague Club for the purposes of its trade with Brazil (see Chapter V), this move being part of the present intensive campaign to develop its exports in all directions.

Five countries of southern Europe — Spain, Portugal, Greece, Turkey and Yugoslavia — are predominantly agricultural, though they are all making efforts to industrialise their economies. The main factors determining their external position are thus the quality and size of their domestic agricultural crops and the pace of their industrialisation. Apart from these common features, each country has, of course, its own particular problems.

In 1954 — the last year for which balance-of-payments figures are available — metropolitan Portugal had a current-account deficit of \$51 million, which was more than made up for by a surplus of \$86 million achieved

by the overseas territories. The rise in its imports in 1955 was mainly accounted for by larger purchases of iron and steel, crude oil, machinery and ships, reflecting an increase in investment and industrial production. As regards exports, the biggest expansion was in sales of raw and manufactured cork, tinned fish, peeled almonds and timber products.

Portugal and Spain: Foreign trade.

Year	Portugal			Spain		
	Imports	Exports	Balance	Imports	Exports	Balance
	in millions of escudos			in millions of gold pesetas *		
1952	9,968	6,811	- 3,177	1,439	1,044	- 395
1953	9,513	6,283	- 3,230	1,935	1,485	- 350
1954	10,085	7,297	- 2,788	1,704	1,256	- 448
1955	11,445	8,144	- 3,301	1,925	1,350	- 575

* Gold pesetas 3,061 = \$1.

About 60 per cent. of Portugal's imports come from the O.E.E.C. area, which also takes more than half of its exports; its trading deficit with this area in 1955 amounted to Esc. 3 milliard. While Portugal also has a slight deficit in relation to the dollar area, its surplus with its overseas territories has greatly increased in recent years.

The foreign trade of Spain (unlike that of Portugal, which has liberalised more than 90 per cent. of its imports from O.E.E.C. countries and over 50 per cent. of its dollar imports) is still strictly controlled by the government; licences have to be obtained in advance for all imports and exports and this, together with the system of multiple exchange rates, means that foreign trade is subject to a high degree of administrative control.

Spain's trade balance depends essentially on its cereal crop (i.e. ultimately on its rainfall), since this determines how much food has to be imported. Whenever in recent years the domestic harvest has had to be supplemented by heavy purchases abroad, other imports — however essential for economic development — have been curtailed in order to avoid too large a deficit.

Exports have risen in the last few years, though less than imports, there having been an increase in shipments of olive oil, oranges, pyrites and iron-ore but a decline in sales of almonds and tungsten.

From the inception of the programme of American aid to Spain in September 1953 up to the end of October 1955, the U.S. Government allocated \$170 million in economic aid, of which \$94 million had been spent by the latter date. These extra dollar resources, together with increasing receipts from the tourist trade — estimated to have amounted in 1955 to about Pesetas 6 milliard (= \$150 million) — appear to have enabled the country to achieve a balance and even to make certain additions to its gold and dollar reserves.

Foreign trade is of great importance for Greece. After the devaluation in 1953 appreciable economic progress was made, but there was a certain slowing-down in 1955, mainly because of the slump in the textile industry, which accounts for nearly 40 per cent. of the industrial output of the country.

Agricultural output was satisfactory in 1955, in spite of a disappointing olive crop, the crops of cotton and tobacco having been as much as 35 and 40 per cent. respectively above their 1954 levels (the tobacco was not, however, of very good quality, owing to bad weather conditions). Exports rose, but not sufficiently to prevent the trade deficit from increasing again to about \$200 million. Fortunately there was an improvement in 1955 in receipts from the tourist trade and in other invisible income, so that the current deficit in the balance of payments was reduced slightly, having been estimated at \$68 million, as against \$79 million in 1954. The deficit was more than covered by U.S. aid and military infra-structure receipts, which, together with an inflow of capital, enabled the gold and foreign exchange reserves to be increased by some \$60 million.

Greece and Turkey: Foreign trade.

Year	Greece			Turkey		
	Imports	Exports	Balance	Imports	Exports	Balance
In millions of U.S. dollars						
1952	347	120	- 227	556	362	- 194
1953	294	132	- 162	532	396	- 136
1954	330	152	- 178	478	335	- 143
1955	382	183	- 199	497	313	- 184

On merchandise account, Turkey has in recent years had a somewhat smaller deficit than Greece but, unlike Greece, it earns no net invisible income which can serve as an offsetting item.

The pressure of internal demand, reflecting, in particular, a high level of expenditure on road construction and also on agricultural and industrial equipment, was very strong in 1955 and, although Turkey is the only O.E.E.C. country which has not liberalised its imports at all, its total purchases abroad were 4 per cent. more than in 1954. Since exports actually fell by 7 per cent., partly owing to a sharp decline in wheat shipments following a bad harvest in 1954, the trade gap widened from \$143 million in 1954 to \$184 million in 1955. At the same time there was a shift in the distribution of trade, with smaller imports from and larger exports to E.P.U. countries. As a result the trade deficit in relation to these countries was reduced from \$85 million in 1954 to \$56 million in 1955; but that in relation to the United States went up from \$14 million to \$63 million, while a surplus of \$10 million in relation to eastern Europe was replaced by a deficit of \$23 million.

Turkey's balance-of-payments deficit on current account in the first half of 1955 amounted to \$116 million, against \$93 million in the corresponding period of 1954. U.S. aid during the half-year amounted to \$16 million and the yield of long-term loans (from the I.B.R.D. and other sources) to \$11 million; the remainder of the deficit would seem for the most part to have led to an increase in the country's short-term indebtedness.

In the case of Yugoslavia commercial imports have been supplemented on a large scale since 1951 by imports under various aid programmes, which have accordingly reduced the commercial trade deficit.

Yugoslavia: Foreign trade.

Year	Imports			Exports	Balance of trade	
	Commercial ¹	Tripartite aid ²	Total		Commercial	Total
in milliards of dinars						
1952	81.4	30.5	111.9	73.9	- 7.5	- 38.0
1953	77.4	41.2	118.6	55.8	- 21.6	- 62.8
1954	74.7	27.1	101.8	72.1	- 2.6	- 29.7
1955	98.1	34.2	132.3	77.0	- 21.1	- 55.3

¹ Including technical aid and supplies from the Red Cross.

² In 1955 this aid was provided as follows: United States Din. 32.3 milliard, United Kingdom Din. 1.2 milliard, France Din. 0.7 milliard.

The rise in the total of imports in 1955 was largely due to a bad harvest in the previous year, which necessitated large food imports amounting to Din. 36 milliard, i.e. nearly 50 per cent. more than in the previous year. Of this total Din. 23 milliard was accounted for by shipments of wheat from the United States. There was also a notable increase in imports of raw materials, mainly textile fibres, and of machinery and transport equipment.

On the export side important increases were registered by base metals, metal ores and scrap, and also by fruit, vegetables and tobacco, while exports of cereals dropped almost to nil and those of cattle and meat showed a marked decline.

In 1955 imports from the United States amounted to Din. 43 milliard, against Din. 28 milliard in the previous year, making up one-third of total imports, while those from western Germany totalled Din. 17 milliard and those from Italy Din. 13 milliard. Among the purchasers of Yugoslavia's exports the first place was held by Italy, followed by western Germany and the United States.

In the second half of 1954, following upon the re-establishment in the middle of that year of Yugoslavia's trade relations (severed since 1949) with the eastern European countries, trade agreements were concluded with several of these countries, in particular the U.S.S.R. After having still been at a very low level in 1954, Yugoslavia's imports from these countries increased eightfold in 1955 and its exports to them sixfold. The countries in question actually took 14 per cent. of Yugoslavia's total exports and supplied 7½ per cent. of its imports in 1955. The ties with the U.S.S.R. were further strengthened by the signing in September 1955 of a three-year trade agreement providing, inter alia, for the granting by the U.S.S.R. of substantial credit facilities to Yugoslavia.

The resumption of trade relations between Yugoslavia and the eastern European countries was striking in the sense that it occurred after an almost complete severance, but otherwise it may be said to be only part of a general recovery in east-west trade. Recently more information regarding this trade has been coming direct from eastern European sources; but the statistics published by the Economic Commission for Europe, from which the figures in the following table are taken, are still calculated on the basis of the trade statistics of the western European countries.

The increase which took place in 1954 in the imports of the eastern European countries, particularly the U.S.S.R., was largely due to the policy of improving consumption standards, one of the results of which was a considerable stepping-up of imports of butter and meat. In 1955 hardly any

Western Europe: Trade with eastern Europe.

Year	Imports from	Exports to*	Balance
	eastern Europe		
in millions of U.S. dollars			
1949	1,033	628	— 205
1950	803	644	— 159
1951	1,014	747	— 267
1952	995	739	— 256
1953	910	769	— 121
1954	1,034	972	— 62
1955	1,355	1,090	— 265

* Excluding reparation deliveries made by Finland to the U.S.S.R. up to 1952.

butter or meat was imported, but there was a marked rise in imports of machinery and equipment, a development which was facilitated by the western powers' relaxation in 1954 of strategic export controls. The industrial countries — France, western Germany and the United Kingdom — have thus been able to increase their exports to eastern Europe; furthermore, Iceland, Finland, Turkey and Yugoslavia have also found outlets on eastern markets for certain products which, for particular reasons, could not be easily sold to the countries of the West.

There has been a shift in the composition of the exports of eastern Europe from food to fuels and raw materials and also, to a certain extent, manufactured goods. The eastern European countries have furthermore begun to trade increasingly with countries outside Europe, but, even so, such transactions probably amounted in 1955 to no more than one-fifth of their total trade with the western world.

As may be seen from the above table, the trade turnover between the countries of eastern and western Europe amounted in 1955 to not quite \$2½ milliard. As regards trade between the western world and the eastern countries, including China, Outer Mongolia and North Korea, the total turnover in 1955 works out at about \$4 milliard. In the light of figures calculated by the Economic Commission for Europe, it would seem that the value of trade between the eastern countries did not amount to more than \$12 milliard in 1955. The total value of eastern trade in that year would thus appear to have been some \$16 milliard, compared with a western trade turnover of more than \$170 milliard.

In contrast to a number of other countries, Finland did not increase its trade with the eastern European countries in 1955, but its exchange of goods and services with the U.S.S.R. in particular was still maintained at a relatively high level. After the cessation in 1952 of reparation deliveries to the U.S.S.R., Soviet demand for Finnish engineering goods remained very strong, and in 1953 the U.S.S.R. became Finland's chief trading partner. Since then there has been virtually no increase in the volume of trade between the two countries, and there was in fact a certain decline in 1955, when the total turnover amounted to FM 58 milliard. Finland's trade with the western countries, on the other hand, has continued to increase, particularly in relation to the United Kingdom and western Germany, its trade turnover with these countries having amounted in 1955 to FM 79 and 32 milliard respectively.

The recent expansion of Finland's foreign trade has thus been accompanied by a change in its geographical distribution. While in 1953 the eastern countries (including China) had provided 35 per cent. of Finland's total imports and taken 31 per cent. of its exports, the corresponding figures in 1955 were 27 and 26 per cent. respectively.

Finland: Geographical distribution of foreign trade.

Countries	Imports			Exports		
	1953	1954	1955	1953	1954	1955
In milliard of Finnish markkas						
United Kingdom	19.2	28.6	35.9	29.0	35.2	43.5
Germany (western)	9.3	10.1	15.9	9.2	11.6	16.5
Other O.E.E.C. countries	35.3	44.0	48.6	31.1	39.8	43.6
U.S.S.R.	26.1	27.1	26.0	33.5	33.7	31.7
Eastern European countries	15.6	16.0	21.0	6.5	8.5	12.1
United States and Canada	6.3	7.1	9.5	9.6	9.2	10.4
Other countries	10.1	19.2	20.1	12.7	18.6	23.5
Total	121.9	152.1	177.0	131.6	156.6	181.3

As has been mentioned in Chapter II (see page 49), Finland had in 1955 a somewhat larger surplus — amounting to FM 14 milliard — on the current account of its balance of payments than in the preceding years. In the same year, however, its gold and foreign exchange reserves increased by only FM 2.6 milliard. As is pointed out in the Monthly Bulletin of the Bank of Finland for March–April 1956, the small increase in the monetary reserves during 1955 was primarily attributable to the deliberate action taken by the Bank of Finland, which attempted to reinforce its tight monetary policy by being more liberal in the granting of foreign exchange allocations for imports. The value of import licences granted was FM 196 milliard, or 27 per cent. more than in 1954, while export earnings amounted to FM 181 milliard, or 12 per cent. more than in 1954. More licences were granted than in the previous year in respect of imports still subject to quantitative restrictions, but the value of those issued for goods now included in the free list — which was introduced in July 1955 and extended twice towards the end of the year — was slightly less than it had been during the second half of 1954.

Denmark also improved its balance-of-payments position in 1955, having achieved a current surplus of some D.Kr. 200 million, compared

Denmark: Foreign trade.

Year	Value					Volume	
	Imports	Exports			Balance of trade	Imports	Exports
		Agricultural products	Manufactured goods	Total*			
in millions of Danish kroner							
1953	6,890	3,838	1,984	6,100	— 780	100	100
1954	8,034	3,946	2,313	6,550	— 1,484	121	108
1955	8,101	4,135	2,731	7,193	— 908	120	118

* Including other exports, mainly fishery products.

with a deficit of D.Kr. 550 million in the preceding year. There was little change, either in volume or value, in the total of its imports. Imports of cereals and fodder were smaller than in 1954, when they had been particularly large owing to a poor harvest in the previous year. There was also a decline, from 28,000 to 20,000, in the number of motor-cars imported, but imports of fuels and metals increased.

The total value of Denmark's exports rose by nearly 10 per cent. in 1955, thanks to an increase of 4.8 per cent. in sales of agricultural products and one of as much as 18 per cent. in sales of industrial products, which accounted for 38 per cent. of total exports.

The United Kingdom remained Denmark's main trading partner, taking 33½ per cent. of its exports and furnishing 26 per cent. of its imports. The long-term contract for butter exports to the United Kingdom, which fixed both prices and quantities, expired in September 1955. Since then sales have been free and the price of butter has risen above the level which was specified in the contract. In February 1956 the United Kingdom announced that on the expiry of its bacon contract with Denmark on 30th September 1956 a 10 per cent. duty would be imposed on imports of bacon from non-Commonwealth countries. The second place in Denmark's foreign trade is held by western Germany, which has been buying, in particular, a growing proportion of its agricultural produce; on the other hand, Danish imports from Germany have recently been declining.

There was an improvement in 1955 in the balance of payments of Norway, but its current deficit still amounted to N.Kr. 804 million. As may be seen from the following table, this deficit was more than covered by receipts on capital account, of which the largest item was credits in respect of imports of ships.

Norway: Cover of the current balance-of-payments deficit.

Items	1953	1954	1955 *
	In millions of Norwegian kroner		
Deficit on current account	- 1,005	- 1,076	- 804
Covered by			
American aid	+ 79	+ 63	+ 6
Other grants and contributions (net)	+ 30	+ 44	+ 48
Credits in respect of imports of ships	+ 214	+ 404	+ 600
Other capital movements (net)	+ 161	+ 216	+ 422
Drawings on E.P.U. (net)	+ 453	+ 134	+ 78
Total	+ 937	+ 861	+ 1,154
Changes in foreign exchange reserves			
Decreases (+) or increases (-)	+ 68	+ 215	- 350
Grand total	+ 1,005	+ 1,076	+ 804

* Preliminary estimates.

Ships were again the largest single import item in 1955, their total value having amounted to N.Kr. 1,454 million. There has been no reintroduction of quantitative restrictions on trade but, in addition to the adoption of various monetary measures, a special duty was imposed in February 1955 on new contracts for ships of over 2,500 tons, together with a 10 per cent. levy on imported cars and tractors.

There was a rise of N.Kr. 360 million in exports, owing mainly to an increase of over N.Kr. 200 million in deliveries of base metals (raw and semi-manufactured), and also, to some extent, to larger shipments of fishery products, wood pulp and paper.

Sweden's imports and exports have risen rather sharply in recent years, both in value and in volume, but imports have gone up more than exports, with the result that, despite the country's relatively favourable terms of trade, the current deficit in the balance of payments rose from S.Kr. 166 million in 1954 to S.Kr. 370 million in 1955.

Sweden: Foreign trade.

Year	Imports	Exports	Balance	Volume		Prices	
				Imports	Exports	Imports	Exports
				In milliardards of Swedish kronor			
1952	8.9	8.1	- 0.8	137	116	150	164
1953	8.2	7.7	- 0.5	137	126	137	143
1954	9.2	8.2	- 1.0	157	138	135	140
1955	10.3	8.9	- 1.4	174	145	136	146

There was a marked rise in imports of fuel and iron and steel, reflecting, on the one hand, the larger number of motor vehicles and the increased use of oil for heating purposes and, on the other hand, the intense investment boom. In the case of exports, the increase has been fairly evenly distributed among the different commodity groups. There is not much evidence that the restrictive measures taken in 1955 exerted a moderating influence on the balance of trade either in the course of that year or in the first quarter of 1956, when the import surplus amounted to S.Kr. 608 million — only S.Kr. 20 million less than in the corresponding period of 1955. It seems, however, that the credit restraint has had an effect on the movements of funds, since the combined gold and foreign exchange reserves of the Riksbank and the commercial banks were about S.Kr. 40 million larger at the end of 1955 than at the end of the previous year, in spite of the increase in the balance-of-payments deficit.

* * *

The authorities in Sweden, and those in several other countries, too, have been increasingly preoccupied with the problem of how to counteract the slow but rather persistent rise in prices which has been taking place during the past year and which, besides giving rise to widespread demands for higher wages, has tended to irritate public opinion. One of the means adopted to check the price rise has been the further liberalisation of imports. It is true that progress in this field has not been spectacular, but backsliding has been avoided and in 1955 quite a few new steps were taken along the road towards the removal of quantitative restrictions on private trade.

By the end of 1954 83 per cent. of intra-European trade had been freed through action taken under the aegis of the Organisation for European

Economic Co-operation (the O.E.E.C.). At the beginning of 1955 it was decided that in the course of the year member countries should: (i) abolish 10 per cent. of the restrictions still in force on 30th June 1954, irrespective of the level of liberalisation already reached; and (ii) raise their overall liberalisation percentage to 90 per cent. and that for each of the three categories, i.e. raw materials, food and feeding stuffs, and manufactured products, to at least 75 per cent.

The first of these aims was achieved by all member countries except Greece,* Iceland and Turkey, which are wholly exempted from complying with liberalisation requirements because of their balance-of-payments positions, and Norway, which has been exempted from the 10 per cent. obligation, also for balance-of-payments reasons.

As regards the second objective, only seven countries had achieved the prescribed 90 per cent. liberalisation by the end of 1955 and only five — western Germany, Ireland, Italy, Portugal and Sweden — had reached the minimum level of 75 per cent. for each of the three categories.

Note should also be taken of the fact that the Austrian Government announced in January 1956 that it would raise its overall liberalisation level to 90 per cent. during the first half of the year. While the Benelux countries and Switzerland have increased their overall ratio to 90 per cent., a great many of their agricultural imports are still subject to quantitative restrictions, with the result that food and feeding stuffs have been freed only to the extent of 69 and 67 per cent. respectively.

There are four countries — Denmark, France, Norway and the United Kingdom — which have not yet achieved 90 per cent. liberalisation, but they are all making gradual progress towards this goal.

By the end of 1955 the average degree of liberalisation of intra-European trade was 86 per cent., and by April 1956 this percentage had been raised to 87. In all countries raw materials have been freed to a greater extent than any other category of goods, since they are considered as essential imports and only rarely compete with domestic products. The major difficulty impeding further progress in the field of trade liberalisation is generally to be found in the protectionist agricultural policy pursued by almost all European countries. Few practical steps have so far been taken to deal with this problem, but at the end of 1954 a Ministerial Committee for Agriculture and Food was set up within the O.E.E.C. to study the aims and methods of agricultural policy in each country and to decide how the policies of individual countries could be harmonised and trade further developed.

Meanwhile considerable progress has been made in the liberalisation of invisible transactions and capital movements. Under the O.E.E.C. Council decisions of 29th June 1955, all transactions relating to invisible items, i.e. the tourist trade, insurance, royalties, interest and dividends, etc., are to be entirely liberalised unless a member country expressly notifies its

* Greece has, however, independently freed all its imports from quantitative restrictions, but it has not officially notified the O.E.E.C. and has thus not assumed any definite commitment in this respect.

inability to free a certain type of transaction. Such reservations and the reasons for maintaining them are to be examined periodically by a recently established Committee for Invisible Transactions. It was agreed at the same time that the minimum tourist allowance, previously fixed at \$100 per person per year, should be raised to \$200.

Nearly all countries have made certain reservations as regards the liberalisation of invisible items, mostly with respect to transport, ship repairs and films, and the reservations in question have been accepted by the Council, whose decision took effect as from 15th November 1955.

On 25th March 1955 the Council issued recommendations concerning the relaxation of controls over capital movements. The considerable progress which has been made in this field is reviewed in outline in Chapter V, where it has been noted that most of the remaining controls concern exports of domestically-owned capital, though, here too, the controls have been relaxed in several major respects.

In 1955 attention was increasingly focused on the liberalisation of imports from the dollar area, and the progress made as a result of specific measures taken is summarised in the following table, which was compiled by the O.E.E.C. and published in March 1956.

O.E.E.C. countries' trade with the United States and Canada:
Freed imports as a percentage of total imports on private account.

Rate of liberalisation in force on	Food and feeding stuffs	Raw materials	Manufactured products	Total
	as a percentage of 1953 imports			
30th September 1954	64	44	27	44
1st January 1956	71	55	36	54

It is not possible to compare in detail the liberalisation of intra-European trade and that of European trade with the dollar area, one reason being the difference in the basis of calculation — since import figures relate to 1948 in the first case and to 1953 in the second. Nevertheless, a rough impression of the contrast between the two may be gained from a comparison of the figures in the table on the next page.

As far as dollar imports are concerned, the highest degree of liberalisation has been attained in respect of raw materials; second come food and feeding stuffs, imports of which have in many cases been freed for the express purpose of helping to hold down the cost of living in the importing countries. On the whole, the level of liberalisation attained has been lowest in regard to manufactured products. In addition to the liberalisation measures which have been announced, there have been introduced certain administrative relaxations relating to dollar imports which raise the de facto level of liberalisation or which otherwise substantially increase the degree of practical freedom enjoyed. The effect of these relaxations, although it cannot as a rule be measured in percentages, seems to be fairly considerable in the case of a number of countries. (In western Germany,

O.E.E.C.: Liberalisation of intra-European trade and dollar imports.

Countries	Intra-European trade ¹		Dollar imports ²
	April 1955	April 1956	January 1956
in percentages			
Austria	82	89	8
Belgium-Luxemburg	88	91	87
Denmark	76	85	55
France	75	82	11
Germany (western)	90	92	68
Greece ³	97	95	99
Iceland	29	29	33
Ireland	77	90	15
Italy	100	99	24
Netherlands	93	91	87
Norway	75	75	0
Portugal	93	94	53
Sweden	91	93	64
Switzerland	92	93	98
Turkey	suspended	suspended	0
United Kingdom	84	85	56
Average, excluding Greece	84	87	54

¹ Reference year 1948 (1949 for Germany and 1952 for Austria).
³ Unofficial liberalisation.

² Reference year 1953.

for instance, licences for imports of coffee and coal, neither of which are included among the items officially liberalised, have been granted without restriction — and these two commodities represented as much as 16 per cent. of all private imports in 1953. If account were taken of the treatment accorded to these commodities the degree of de facto liberalisation of imports from the dollar area would be equivalent to 85 per cent., as against the 68 per cent. shown in the above table).

Now that considerable progress has been made in the removal of quantitative restrictions, interest is being increasingly focused on other factors which distort or hinder trade.

In January 1955 certain methods of giving aid to exporters were censured by the O.E.E.C. Council, which requested that they should be discontinued as from 1st January 1956. Although there has been some reduction in the use of these methods, the Council's decision has not yet been fully implemented.

In June 1955 the O.E.E.C. Council further adopted a resolution recommending that member and associated countries should co-operate actively within the framework of the General Agreement on Tariffs and Trade ("G.A.T.T.") with a view to reducing tariffs to the greatest possible extent; and on 29th February 1956 the Council, while recognising the importance of continuing the campaign against quantitative restrictions, reaffirmed the necessity of concentrating on the elimination of high tariffs, restrictive state trading and artificial aids to exporters.

As far as the G.A.T.T. itself is concerned, the new agreement providing for the establishment of a permanent organisation to be known as the Organisation for Trade Cooperation (O.T.C.), which was adopted at the end of a conference held in the winter of 1954-55 (the provisions of which were summarised in the Twenty-fifth Annual Report of this Bank), will enter into force when accepted by governments whose territories account for 85 per cent. of the total trade of the thirty-five contracting parties. So far (in the spring of 1956) none of the countries which signed the new agreement have ratified it, so that the original G.A.T.T. is still in force. A bill providing for the participation of the United States in the O.T.C. was submitted to Congress early in 1956 and is now under consideration.

The work of the G.A.T.T. includes, in addition to the important tariff negotiations, the discussion of a number of specific problems, an idea of which is given by the following summary of some of the principal matters dealt with at the tenth session of the Contracting Parties in the autumn of 1955:

- (a) consultation on the import restrictions still maintained in order to safeguard the balance of payments of Australia, Ceylon, New Zealand, the Federation of Rhodesia and Nyasaland and the United Kingdom;
- (b) report on the waivers granting preferential treatment to the European Coal and Steel Community, Australia, Italy and the United Kingdom and on the waiver granted to the United States in connection with Section 22 of the Agricultural Adjustment Act;
- (c) under the "hard-core" decision adopted in March 1955, Belgium and Luxemburg requested permission to maintain quantitative restrictions on imports of a number of agricultural products in order to enable them to bring conditions in their agricultural sectors into line with those prevailing in the other Benelux states; both countries have been provisionally granted their request on condition that all restrictions are eliminated by the end of 1960 in Luxemburg and by the end of 1962 in Belgium;
- (d) discussion of the special position of Japan. On 10th September 1955, Japan became the thirty-fifth contracting party to the G.A.T.T., but invoking Article XXXV of the Agreement, fourteen countries refused to grant Japan most-favoured-nation treatment. Consultations between the countries concerned are to continue and the question is to be re-examined at the 11th session of the G.A.T.T.

As far as the question of tariff reductions is concerned, a fourth multilateral tariff conference, in which twenty-two out of the thirty-five contracting parties to the G.A.T.T. participated, took place at Geneva from January to May 1956. At the end of the conference it was announced that about sixty bilateral negotiations had been completed, covering between 2,000 and 2,500 tariff items, representing imports worth some \$2.5 milliard.

It would be a mistake, however, to think that the problem of trade barriers can be solved by international conferences alone, useful though they may be; for no real progress can be made without a change of heart in the individual countries. If they continue to regard every tariff reduction as a

“concession” to other countries, without realising the benefit that they themselves derive, directly or indirectly, from a lowering of trade barriers, there will not be much hope of a continued expansion in the volume of world trade.

From this point of view great importance attaches to the signing on 21st June 1955 by President Eisenhower of the bill extending the Reciprocal Trade Agreements Act for three years. The new law permits reductions of up to 5 per cent. in the duty on most products (on the basis of the level of duty in January 1955) in each of the next three years. It further authorises the President to lower to 50 per cent. ad valorem all rates of duty that at present exceed that level. In addition, it maintains the President's powers to reject recommendations of the U.S. Tariff Commission, while at the same time giving the President new authority to impose quotas or raise tariffs on imports which threaten domestic industries that are vital to national security.

While it would be too much to say that the adoption of this bill has fulfilled all the hopes which had been entertained regarding a reduction in the U.S. tariff, it has at least reaffirmed the trend towards a continuous lowering of existing trade barriers. It may perhaps also be said that both in the United States and in a number of other countries public opinion is becoming less and less inclined to support demands for increased protection. The reason for this is not merely a fear on the part of the public that private interests may be unduly favoured but even more a growing realisation of the fact that a greater degree of interchange of goods and services between the nations is necessary for reasonable world conditions to be established. Ideas may differ as to what roads are most likely to lead to the desired goals but there can be little doubt as to the general trend of opinion in several important countries.

V. Foreign Exchanges.

During the period under review there have been no dramatic events in the field of foreign exchange. While the intense boom caused not a little strain in the balance of payments of a number of countries, there has been no real setback in the liberalisation of payments even in those countries which have experienced external difficulties. In fact, progress towards freedom of trade and payments has continued and more realistic rates of exchange have been established for some Latin American currencies.

In western Europe the process of dismantling exchange control has been carried further and has gone hand in hand with a continued — but not particularly rapid — liberalisation of trade. In matters of trade, the main liberalisation effort has shifted from the intra-European to the dollar sector and in the exchange field from current to capital transactions. There has been a further enlargement of the European arbitrage scheme, which was joined by Italy as the tenth member in August 1955.

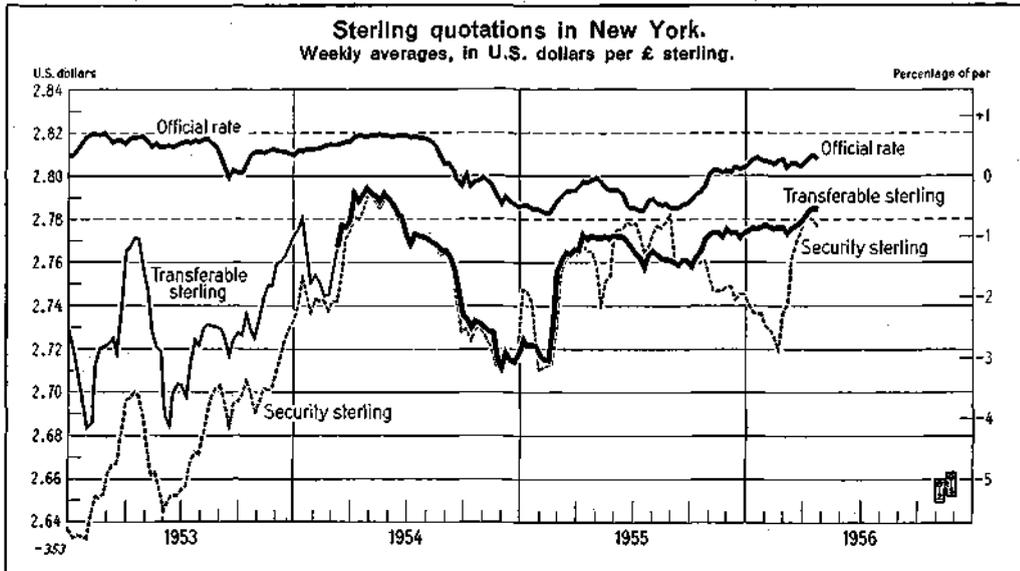
Outside Europe the most important developments have occurred in Latin America. Not only have a number of countries made radical changes in the value of their currencies (the Argentine, Chile, Nicaragua and Paraguay), while others (Brazil, Colombia, Ecuador and Uruguay) have adjusted the rates applying to certain transactions, but in some cases the alterations have been made as a part of more comprehensive programmes of economic rehabilitation.

In 1949 Pakistan was the only country in the sterling area which did not devalue its currency, but at the end of July 1955 it came into line with a devaluation of 30½ per cent. A few weeks earlier the Israeli pound was given a legally fixed parity.

* * *

Among the currencies of western Europe, the course of quotations for the pound sterling is naturally followed with great interest, and this was specially true in 1955, when certain doubts were for a time entertained with regard to the exchange position of the United Kingdom. As may be seen from the graph, quotations for the pound sterling in the official dollar market had been rather weak during the winter of 1954-55 and, after a period of recovery in the spring, continued to be below par until the autumn of 1955.

While the strain was felt also in the markets for transferable sterling, quotations never fell much below \$2.76 = £1, since the Exchange Equalisation



Account took advantage of the authority granted to it in February 1955 to intervene at its discretion in the markets on which sterling was being traded at a discount.

One of the reasons for the weakness of the pound in 1955 was the emergence of a deficit of £103 million in the current account of the balance of payments, and another was the lack of confidence which, in particular, made some foreign holders reduce their balances in London and delay the payment of their current sterling liabilities.

In connection with the discussions which took place in May and June 1955 at the O.E.E.C. concerning the procedure to be adopted when the European Payments Union is terminated, rumours began to circulate about the possibility that the United Kingdom might either adopt a floating rate of exchange or anyhow widen the distance between the upper and the lower support points for sterling, and it was believed that such a widening might, at that time, have resulted in a fall in the external value of the pound. As mentioned on page 40 of Chapter II, the authorities on several occasions denied any intention of devaluing the pound and, in particular, the Chancellor of the Exchequer stated categorically at the annual meeting of the International Monetary Fund at Istanbul in September that all discussions and rumours about impending changes in the parity of, or margins of fluctuations for, sterling were "unrealistic and irrelevant".

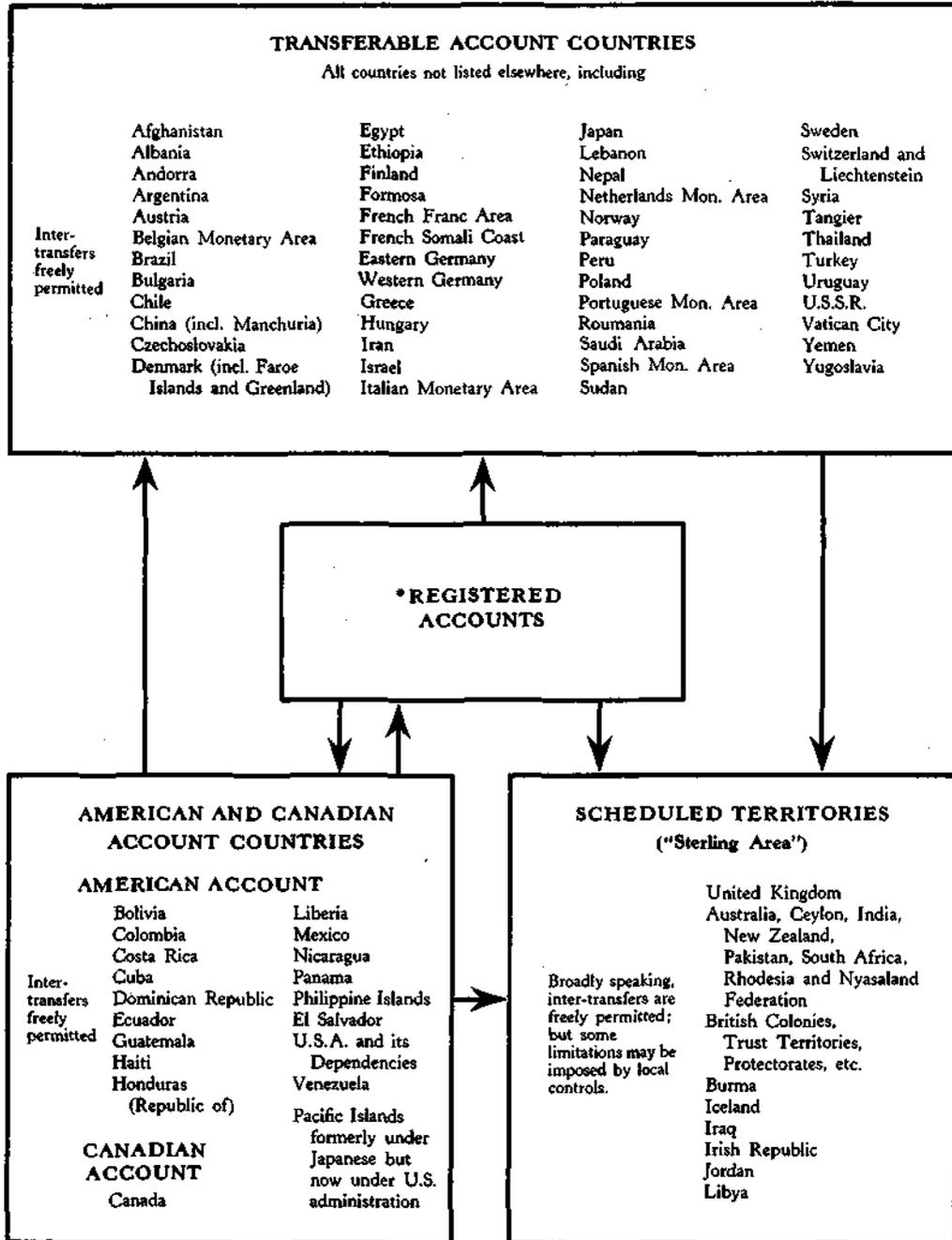
Soon after this the pound began to strengthen again, reaching \$2.79 at the beginning of October and rising above par a month later. Another factor in the situation was the presentation of the autumn budget in October 1955, followed in February 1956 by further exceptional budgetary measures and an increase from 4½ to 5½ per cent. in Bank rate.

The difficulties experienced in the foreign exchange market did not altogether prevent the taking of further steps to relax the exchange controls. Blocked sterling balances, together with sterling securities, belonging to residents outside the dollar area were made transferable to residents of the dollar area, thus making all blocked sterling and all sterling securities held by non-residents completely intertransferable.

**UNITED KINGDOM EXCHANGE CONTROL REGULATIONS
OUTLINE OF PERMISSIBLE TRANSFERS**

Amended July 1955.

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



* REGISTERED ACCOUNTS are available to residents of the Transferable Account countries and are usable in connection with transactions on the London gold market, as well as for inter-transfers and transfers as indicated, including the sale and purchase of U.S. and Canadian dollars.

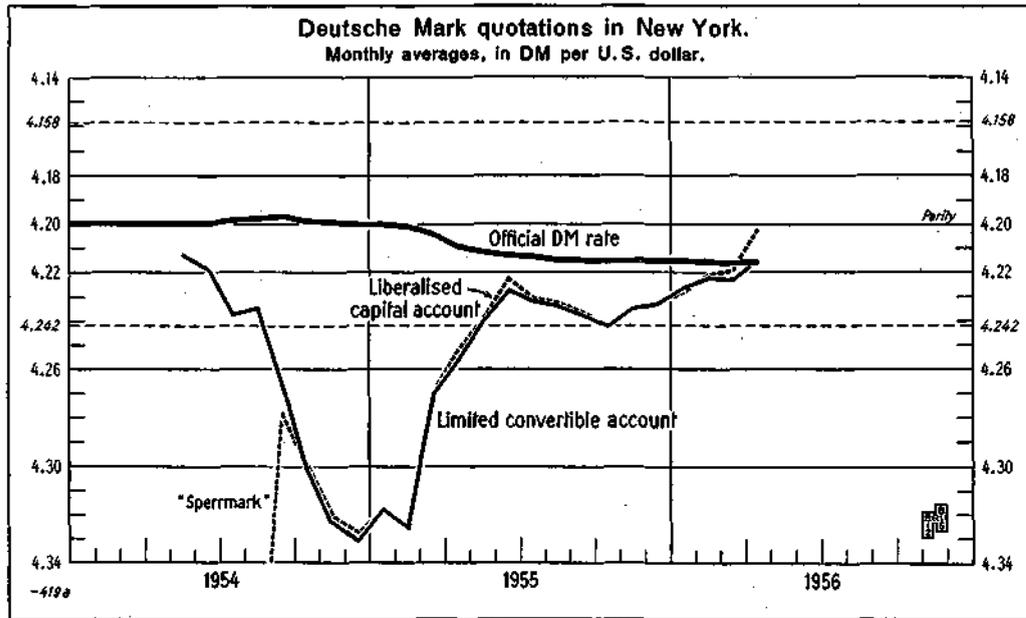
The fall in quotations for security sterling in New York during the last quarter of 1955 may be attributed partly to this change in the regulations, which made possible transfers of blocked sterling to the dollar area. The fact that in the summer of 1955 security sterling was quoted in New York at rates as high as U.S.\$2.78 is evidence that the supply was barely adequate to meet the total demand by residents of the dollar area for sterling for investment purposes.

At the same time certain other concessions were made. Holders of blocked sterling were allowed to invest in shorter-dated sterling securities, the minimum period to maturity being reduced from ten to five years. Moreover, bearer securities payable in a currency of the sterling area and owned by non-residents were allowed to be exported from the United Kingdom.

With the admission of Turkey on 1st July 1955, the Transferable Account Area has now been extended to cover all non-dollar countries outside the sterling area. The present system of sterling accounts and the transfers permitted between the different categories are shown in the accompanying table.

On the continent of Europe, the relaxation of exchange restrictions has been pushed steadily forward by a number of countries. Thus, in western Germany the continued surplus in the balance of payments has enabled and, indeed, led the authorities to make further concessions. In an attempt to moderate the external surplus and, in particular, its effects on internal liquidity, German residents have been given more freedom to hold and use foreign-currency balances. In January 1955, residents were allowed to place their foreign exchange receipts in dollars and most western European currencies on accounts in their own names for up to six months, and in November 1955 the maximum period for which authorised banks were allowed to invest their foreign-currency balances abroad was increased from three to six months. Following these measures, it was decided in May 1956 to remove altogether the obligation to surrender foreign exchange and to permit residents to make investments abroad. It is now possible, therefore, for residents in western Germany to maintain foreign exchange accounts of any size for any period of time and to acquire foreign money-market paper and quoted foreign shares and bonds, in any currency whatever. Security purchases must take place through the intermediary of, and the securities themselves must be deposited with, an authorised bank. Securities acquired with a hard currency may only be resold against payment in a hard currency.

Among other steps taken during the past year was the enlargement, in June 1955, of the scope of possible investment in western Germany by holders of liberalised capital accounts. The balances may now be used for acquiring interests (other than in the form of securities) in existing German enterprises and for the setting-up of new concerns. These types of investment are limited, for each holder, to DM 500,000 a year in any one undertaking. Portfolio investment in western Germany is of course absolutely unrestricted for holders of liberalised capital accounts. Since November 1955, certain payments from liberalised capital accounts to residents in western Germany — for example, maintenance payments based on legal obligations, donations and contributions to charities — which could previously be made only within certain limits have been free from all restrictions.



Quotations for the liberalised capital mark and the Deutsche Mark with limited convertibility¹ (the so-called "Beko"-Mark) have since the middle of 1955 been very close to the official rate.

In April 1956 the liberalised capital mark actually became more expensive than the "Beko"-Mark and the officially quoted (i.e. freely convertible) Deutsche Mark² in New York. The German authorities do not wish to add to Germany's foreign indebtedness at present and therefore the liberalised capital mark is practically the only means by which non-residents can at present make investments inside western Germany; the amount of these balances is steadily decreasing, the total having fallen from DM 544.5 million at the end of 1954 to DM 378.7 million at the end of March 1956.

In France, the regulations governing dealings in foreign securities by residents have been relaxed. Since the end of April 1955, French owners of foreign securities have been allowed freedom to carry out arbitrage operations on foreign stock exchanges; previously, the proceeds of the sale of securities abroad had to be reinvested in the same monetary area as that in which the sale took place. Later in the year, the facilities for subscription to new

¹ DM accounts with limited convertibility (i.e. beschränkt konvertierbare DM-Konten) are available to residents of any country outside western Germany. They may be credited with practically all payments by German residents that could otherwise be transferred abroad, with the proceeds of the sale of foreign currencies and with transfers from all other kinds of non-resident DM accounts. The balances, which are intertransferable, may be used for all payments in western Germany, except those which must be made in convertible currencies, and may be transferred abroad through bilateral payments agreements where these exist.

² Freely convertible DM accounts are also available to residents of any country outside western Germany. They may be credited with all sums that might otherwise be transferred abroad from western Germany in freely convertible currencies and with the proceeds of the sale of convertible currencies. These accounts, which are intertransferable, may be used for all payments to residents in western Germany, for transfer to DM accounts with limited convertibility and for the purchase of any currency whatever.

issues launched abroad by foreign companies that are already partly French-owned and whose securities are already quoted on a French stock exchange were enlarged, as it was felt that otherwise French investments abroad might suffer a relative decline. Up to November 1955, foreign exchange for such subscriptions could only be obtained by the sale of part of the subscription rights or of some other foreign securities, and the exchange so obtained, which is called "devises-titres", was not plentiful, so that quotations showed a considerable premium on official rates. Since then, however, the Office des Changes has regularly made exchange available for such subscriptions at official rates.

In February 1956 a further relaxation was introduced in that balances on free franc accounts* were made usable for the purchase of all currencies quoted on the foreign exchange market, while the franc accounts of residents in E.P.U. countries and the Argentine could be used for the purchase of all E.P.U. currencies. In addition, the proceeds of the sale of any E.P.U. currency may now be credited to an account of a resident in any E.P.U. country or the Argentine.

Important progress towards exchange freedom has been made in Belgium, where the regulations are now — with the exception of those in Switzerland — the most liberal in Europe. In May 1955 a free market in dollars was introduced, though only banks were allowed to deal; previously the free dollar quotations had been based solely on operations in securities. In the same month residents of the Belgian-Luxemburg Economic Union were allowed to buy and hold securities abroad without having to deposit them in a dossier with an authorised bank.

In July 1955 further relaxations were made whereby complete freedom was given for the import and export of Belgian or foreign bank-notes, cheques, bonds, coupons, registered shares and other securities, for the disposal of resident-owned property abroad, for dealings on the free market by residents and non-residents in Belgian and foreign securities and coupons and for a number of other transactions. Apart from payments under such bilateral agreements as still exist in relation, for instance, to Latin American and eastern European countries, there are now very few restrictions left on transactions involving foreign exchange, but there are still two different markets:

- (i) the official market in, on the one hand, American and Canadian dollars and, on the other, E.P.U. currencies, over which payments and receipts in respect of merchandise and freight transactions must pass, and on which rates are kept by the National Bank within the margins permitted by the International Monetary Fund;
- (ii) the free market, on which quotations are formed by the forces of supply and demand and on which may take place all transactions which do not have to pass over the official market.

* Free franc accounts, which may be held by residents of the dollar area and the French Somali Coast, may be credited with the proceeds of the sale of convertible currencies and with authorised payments from French residents. The balances are intertransferable and can be used to purchase convertible currencies. They may also be debited for all payments in the French franc area.

There are, however, possibilities of arbitrage between the two markets, owing to the fact that current transactions not mentioned in (i) above may be made on either of them. Rates of exchange on the two markets are almost identical.

In the Netherlands, too, further relaxations have been made in the exchange control. As regards capital transactions, dollar-area holders of florin capital accounts (the so-called "K" accounts) may, for instance, now use their balances virtually without restriction for the purchase of securities, while residents of E.P.U. countries may use their "K" accounts to purchase any securities except those denominated in U.S. or Canadian dollars or Swiss francs.

As far as residents in the Netherlands are concerned, there are two changes to be noted:

- (i) They are now fully free to purchase securities quoted on the stock exchanges in countries of the European Payments Union, provided that such securities are denominated in an E.P.U. currency or in dollars.
- (ii) They may also purchase and hold amounts expressed in the currencies of those countries which take part in the European arbitrage scheme, whether or not they have any authorised payments to make abroad. Arbitrage in these currencies is thus open to all residents and no longer confined to the authorised banks.

Developments in 1955 brought Italy's foreign exchange regulations more into line with those of a number of other European countries. With effect from 22nd August, Italy joined the European arbitrage arrangements; while at first its participation was limited to spot transactions, forward deals have also been permitted since 5th December 1955. At the same time as Italy joined the arbitrage scheme, the previous regulations under which 50 per cent. of exporters' earnings in convertible currencies and 100 per cent. of their earnings in all other currencies had to be surrendered immediately to the Italian Exchange Office were altered. Exporters may now keep for fifteen days all their earnings in convertible currencies or in the currency of any country taking part in the European arbitrage scheme and may either use them for authorised payments abroad or sell them to other residents. Thus the number of currencies quoted on the market has been increased and at the same time the full amount of Italian earnings in these currencies may now be negotiated on the market.

Already earlier in the year, i.e. from 1st April 1955, the system of non-resident accounts had been simplified. The number of different kinds of account was greatly reduced and at the same time the lira was established as a currency that could be employed for international transactions. In particular, free lira accounts, whose uses are unrestricted, were reintroduced and lira accounts of residents in E.P.U. countries were made intertransferable.

Particular interest attaches to the uses which may be made of non-resident accounts for investment and disinvestment. Under a law passed in 1948, foreigners making investments in Italy were entitled to repatriate every year, at the official

exchange rate, sums representing profits, interest and dividends up to 6 per cent. of the capital invested. In addition, the original capital could be repatriated at the official rate in two stages, 50 per cent. two years after the original investment and the remainder after a further two years. A new law on foreign investments passed in January 1956 has introduced some changes. A distinction is now made between, on the one hand, "productive" investments, which are defined as investments that will add to existing productive capacity or will create new capacity, and, on the other hand, "non-productive" (e.g. portfolio) investments.

In future all capital brought into Italy for the purpose of making productive investments, together with all profits resulting therefrom and any capital appreciation, may be repatriated at any time, without any limit as to amount, at the official rate of exchange.

As far as non-productive investments are concerned, it will be possible to repatriate every year, at the official rate of exchange, profits, interest and dividends up to 8 per cent. of the capital invested; in addition, the whole of the original capital may be repatriated at the official rate after two years. This new ruling about non-productive investments has also been made to apply to all investments made under the law of 1948, which will therefore enjoy rather more favourable treatment than before.

Since the difference between rates of exchange on the official market and those quoted in the free market for capital accounts (the so-called "Conti ordinari") has for some time been very small, it was in fact possible under the previous system for foreigners at any time to repatriate their capital in Italy and the profits thereon almost at par. The new law represents, therefore, more a theoretical than a practical change, but it may be important psychologically as an inducement to the investment of foreign capital in Italy.

Finland is not a member of the O.E.E.C. and therefore not of the E.P.U. either, and it has steered a rather independent course as regards foreign trade and payments. Two exchange rates are at present quoted — one for commercial and financial transactions and one for tourism, the latter applying to foreign visitors' purchases of markkas and to Finnish residents' purchases of foreign exchange to meet their travelling requirements. In December 1955 the premium applied to tourist transactions was reduced from 52 to 43 per cent.; the new dollar "tourist" selling rate, for instance, was changed from FM 350 to 330, compared with the official selling rate of FM 231 = \$1.

With effect from 2nd January 1956, Finland introduced margins of fluctuation for the markka vis-à-vis the currencies of Belgium, Denmark, western Germany, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom. The margins of $\frac{3}{4}$ per cent. on either side of par are equal to those in the European arbitrage scheme. At the same time Finnish authorised banks were permitted to engage in arbitrage in these currencies with each other and with foreign banks.

Yugoslavia, which is also not a member of the E.P.U., introduced considerable modifications into its foreign exchange system at the beginning of 1956. Up to that time exporting enterprises had been allowed to retain

a certain proportion of their foreign exchange earnings, which could then either be used for their import requirements or sold on the free market. The rates of exchange paid by the National Bank for that part of export proceeds which had to be surrendered, known as the "settlement rates", were roughly double the official parity rates. In addition, coefficients, varying according to the type of goods concerned, were applied to the rates of exchange for imports and exports, the object being to discourage certain imports and promote certain exports and also to equalise Yugoslav and foreign prices. After the reduction of the retention quotas from an average of 50 per cent. to an average of 10 per cent. in December 1954, the rates on the free market, which until then had been about twice the settlement rates, rose sharply and during the first half of 1955 were often as much as five times the settlement rates.

On 1st January 1956 the retention quotas were abolished altogether, so that export earnings must now be surrendered in full at the settlement rates, which continue to be applied also to the purchase of foreign exchange from the National Bank for certain more or less essential imports. It is still possible to acquire exchange on the "free" market, but the National Bank is now the only seller at what is in fact a kind of official auction (similar to that existing in Brazil). Also, from the beginning of 1956 a premium of $33\frac{1}{8}$ per cent. on what is still called the official rate — Din. 300 = \$1 — was introduced for purchases of foreign currency in Yugoslavia from tourists, diplomats, etc. This makes the effective rates for such transactions Din. 400 = \$1 and the equivalent for other currencies. A premium of 100 per cent. on the official rate has been introduced for remittances from emigrants, receipts from foreign inheritances and foreign social-security institutions, compensation payments and all sums sent to Yugoslavia as gifts or maintenance payments to individuals.

Trade and payments between countries in western and eastern Europe are governed by bilateral agreements. Almost without exception, the currency in which payments are made is that of the western partner or a third currency such as transferable sterling, and the prices agreed upon are as a rule those prevailing on world markets.

In Egypt, the special treatment previously given to certain foreign currencies was discontinued during the past year. In 1953 a system had been introduced under which Egyptian exporters receiving payments in dollars, pounds sterling or Deutsche Mark were allowed either to repurchase at official rates of exchange all or part of their export proceeds for the purpose of importing designated commodities or to sell to another importer the right to repurchase the foreign exchange at the official rate. Dealings in "import entitlements", as the rights to repurchase were called, led to the three currencies being quoted at a premium, which in August 1955 stood at 10 per cent. for sterling, 12 per cent. for Deutsche Mark and 14 per cent. for dollars.

Consequently, Egyptian exporters could quote lower prices when goods were sold against dollars, sterling or Deutsche Mark than when payments were made in other currencies, since they could sell their earnings in the three currencies in question at rates above parity. By the same token, Egyptian importers had to pay more for these currencies than for any other, and imports from the United States, the United Kingdom and western Germany thus became more expensive — which encouraged imports from other countries. The result was a building-up vis-à-vis these other countries of debit balances which could only be worked off by triangular deals in which the Egyptian pound was sometimes quoted at a substantial discount.

In August 1955 an agreement was signed between the United Kingdom and Egypt, under which the amount which Egypt could draw annually from its No. 2 (i.e. blocked) sterling account was increased from £15 to 20 million. During the following month the system of import entitlements was abolished, first for sterling and Deutsche Mark and soon after for dollars also. In this way the rates of exchange between the Egyptian pound and all other currencies were put on a uniform basis. At the same time, as a balance-of-payments measure, a tax of 7 per cent. was introduced in Egypt on all imports of commodities, with the exception of a fairly wide range of primary products, raw materials and capital goods. And in March 1956 the Egyptian Government announced that the total value of the country's imports in the current year would be reduced to 50 per cent. of the 1955 figure. While essential goods will be exempt from restrictions, the importing of many luxury goods — motor-cars, refrigerators, radios, etc. — has been totally prohibited until further notice.

With effect from 26th March 1956, margins of fluctuation of 1 per cent. on either side of parity were introduced for the Egyptian pound instead of the previous fixed buying and selling rates.

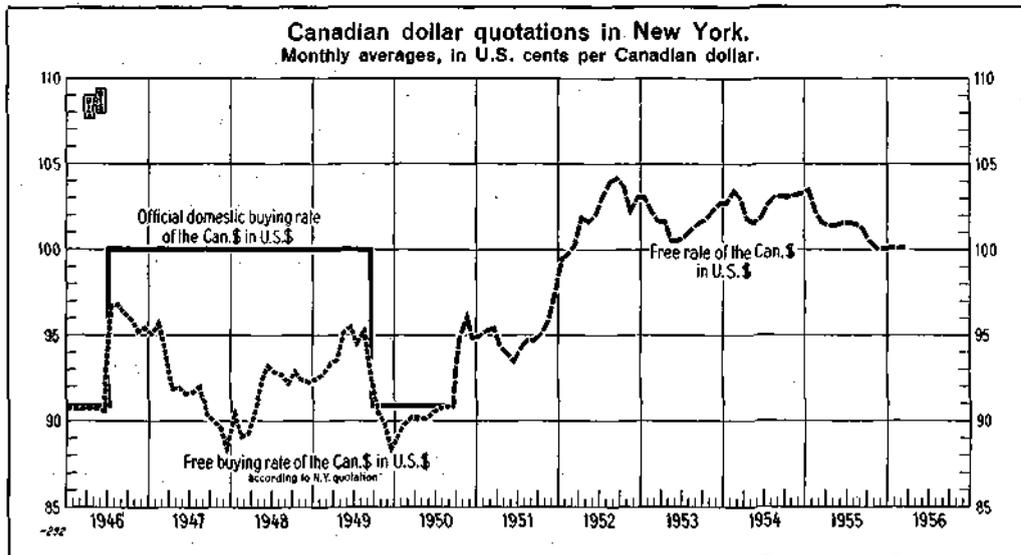
The reason why the Pakistan rupee was not devalued in the autumn of 1949 was to avoid increasing the cost of the imports required for economic development. At the time the country's main exports — jute and cotton — were in great demand and their market position was temporarily made even more favourable by the Korea boom. Since then, however, there has been a substantial decline in jute and cotton prices, and it was hoped that the devaluation of the rupee which took effect on 1st August 1955 would facilitate the sale of the country's export products. The new parity with the pound sterling is Rupees 13.333, compared with Rupees 9.264 previously.

In Indonesia, the prevailing system of multiple exchange rates has undergone several changes in recent years, and what amounts to a substantial devaluation took place during the period under review. Until July 1955 there had been, in addition to the official rate of Rupiahs 11.48 = \$1 applied to essential imports, four other selling rates, made up of the basic selling rate plus fixed surcharges, and ranging from Rupiahs 15.30 to Rupiahs 34.42 = \$1.

As a result of the imposition of additional surcharges in July 1955, goods which previously could have been imported at the official rate had to be paid for at dearer rates. Two months later the system was changed again. Imports were reclassified into four new categories — essential, semi-essential, semi-luxury and luxury — and the rates applicable to them range

from Rupiahs 17.21 to Rupiahs 57.38 = \$1. The price of exchange for essential imports is thus now 50 per cent. higher than a year ago. There has been no alteration in the single export rate of Rupiahs 11.36 = \$1, which has been in effect since February 1952. The object of the reclassification of imports and the fixing of the new rates was to restrain the entry of goods into the country and to raise additional revenue for the government.

Turning to the western hemisphere, mention should be made of the fact that on 19th October 1955, for the first time since early 1952, the Canadian dollar was at par with the U.S. dollar.

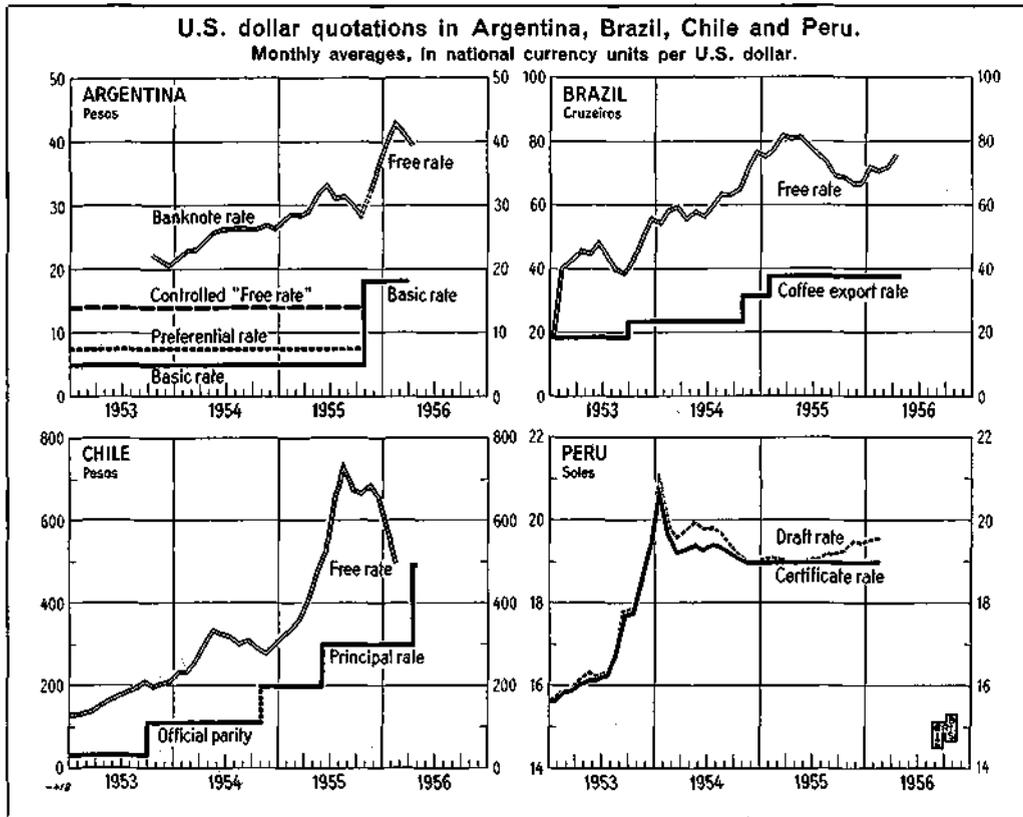


One reason for the decline in the value of the Canadian dollar was undoubtedly the increase in the country's deficit on the current account of its balance of payments from Can.\$431 million in 1954 to Can.\$665 million in 1955. (see also page 24). It is, of course, reasonable to expect a certain degree of correspondence between the net movement of capital funds and the surplus or deficit in the balance of payments, and in 1955 the current-account deficit was almost covered by a net capital inflow of Can.\$621 million, so that the country's monetary reserves fell by only Can.\$44 million. However, the inflow of capital in 1955 was much more of a short-term and therefore volatile nature than in the previous year. The net inflow from direct investment, portfolio transactions and the repayment of Canadian Government loans fell from Can.\$529 million in 1954 to Can.\$276 million in 1955, while, on the other hand, short-term capital movements, in the total of which is included the residual item on the capital side of the balance of payments, produced an inflow of Can.\$254 million in 1955, compared with only Can.\$4 million in 1954. To some extent the movements which occurred appear to have been influenced by the credit restraint in the American market, including the rise in U.S. interest rates in relation to those

in Canada during the first three quarters of the year. The interest relationship was reversed towards the end of the year, when rates in Canada began to rise.

After having reached par in October, the Canadian dollar was quoted at the end of November and early in December at a small discount. The premium soon reappeared, however, and in the middle of May 1956 it amounted to about $\frac{3}{4}$ per cent.

In no part of the world have there been so many alterations in exchange systems over the last eighteen months as in Latin America. Although at first sight the changes which occurred might appear simply to be a continuation of the steady depreciation in the value of some of the Latin American countries' currencies that has been going on for several years, there are grounds for believing that the measures recently taken in some of these countries, if persevered with and consolidated, may lead to a strengthening in their exchange positions and thus contribute to the expansion of world trade. Particular importance attaches to the steps taken in the Argentine and Brazil, the two largest countries, but the changes in Chile, which were introduced after discussions with the International Monetary Fund and with the support of a stabilisation loan similar to that obtained two years ago by Peru, are also of considerable interest.



One of the principal problems in the Argentine has been the unhealthy state of the country's foreign trade and the inadequacy of its monetary reserves. The balance-of-payments deficit for 1955 was about \$200 million; the country's short-term foreign liabilities amounted at the end of October 1955 to \$750 million and the monetary reserves to \$450 million. The report on conditions in the Argentine which was submitted by Dr Raoul Prebisch to the new government in October 1955 contained a strong recommendation that the rates of exchange between the peso and other currencies should be adjusted to a more realistic level. Accordingly, on 27th October 1955, the peso was devalued.

Previously the central bank's basic buying and selling rates had been Pesos 5 and Pesos 7.50 = \$1 respectively. In addition, there were "preferential" buying and selling rates of Pesos 7.50 and Pesos 5 = \$1, together with a "controlled free rate" of Pesos 13.95 = \$1. These rates had been established in August 1950, but what amounted to a partial devaluation had been taking place since then as a result of the shifting of particular exports from the basic to the preferential and from the preferential to the free buying rate, the latter gradually becoming also the principal import rate.

Under the new system there are two exchange markets, the official and the free, the rates in the latter now being allowed to fluctuate in accordance with demand and supply. In the official market the basic rate is Pesos 18 = \$1, applying to imports of fuel, essential raw materials, certain foods, paper and newsprint, chemical products, many iron and steel goods and some agricultural machinery. The basic rate also applies in principle to most exports, but a number of them are subject to export levies, as shown in the following table.

Argentina: Official-market export rates of exchange.

Items	Basic rate	Export levy	Effective rate
	pesos per U.S. dollar		
Grains, oilseeds and other arable farm products, extracts of quebracho and urunday	18	1.00	16.20
Meat, most dairy products, carded wool and wool tops, most pastoral by-products	18	2.70	15.30
Scoured wool	18	3.60	14.40
Greasy wool, dry and salted hides, timber, re-exports . .	18	4.50	13.50

The free-market rate applies to the proceeds of exports not included in the official market list and to certain imports, such as spices, aromatic, synthetic and vegetable essences, printed music and books, some chemicals, spare parts for bicycles and electrical generating equipment. In addition, there is a third category of imports, including spare parts for motor vehicles and for certain types of machinery and motor-cycles, to which the free rate plus a surcharge of Pesos 20 per \$1 applies. Imported motor-cars are subject to very heavy surcharges.*

Financial remittances and inward and outward movements of funds take place over the free market; this, however, does not apply to the proceeds of the

* The proceeds of the surcharges on imports and of the export levies go to a National Economic Recovery Fund to be used for the improvement of "agricultural and pastoral" production and for the temporary subsidisation of the prices of certain essential commodities, the object of the latter measure being to mitigate the effect on the cost of living of the devaluation of the peso.

realisation of property in the Argentine belonging to non-residents, which, unless they arise from operations effected after 27th October 1955 (the date of the exchange reform), are still subject to control by the central bank. Income derived from such property on or after 30th June 1955 is freely remittable.

The new free exchange market opened on 3rd November 1955, with quotations at about Pesos 30 = \$1, and by March 1956 the rate stood at about Pesos 40.

While it cannot be said that these changes have resulted in a simplification of the exchange-rate system, it has been officially stated that the export levies and the surcharges on imports are intended as temporary measures only. The Minister of Trade has also declared that the commercial policy of the government will be one of progressive liberalisation and that the greatest possible degree of multilateralism will be introduced into relations with other countries. On the initiative of the Argentine, negotiations were undertaken in Paris with certain members of the O.E.E.C. with the object of putting the Argentine's trade and payments with these countries on a multilateral basis, and at the end of May 1956 it was announced that agreement in principle had been reached with nine European countries — Austria, Belgium, France, Italy, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom — regarding the establishment of a multilateral payments system and the repayment of Argentine debts to these countries. Moreover, the Argentine Government has decided to join the International Monetary Fund and the International Bank for Reconstruction and Development.

In August 1955 Brazil, which is one of the original members of the Bretton Woods Institutions, submitted proposals for an exchange reform to the International Monetary Fund. At the beginning of October it was decided that the scheme should be laid before the Brazilian Congress before being put into effect, and so far no further action has been taken in the matter.

The existing structure of exchange rates has, however, been modified during the past year. In July 1955 and again in May 1956 some of the export rates of exchange were devalued and are now as given in the following table. The export rate for coffee has not been changed during the period under review.

Brazil: Export rates of exchange.

Items	Convertible and Hague Club* currencies	Other currencies
	cruzeiros per U.S. dollar	
Coffee	37.06	35.55
Ginned cotton, cocoa-bean paste, dried and salted hides	43.06	41.31
Ores, cocoa butter and cake, fruits, pinewood, etc.	55.00	52.77
All commodities not included in the other three categories	67.00	64.28

* Belgium, western Germany, Italy, the Netherlands and the United Kingdom.

The system whereby more favourable rates of exchange were granted for export earnings in convertible currencies and sterling was extended, following the institution of the so-called Hague Club, to include the currencies of Belgium, western Germany, the Netherlands and, from 1st May 1956, Italy.

Foreign exchange for imports continues to be made available at official auctions, imports being divided into five categories, for each of which a minimum rate, made up of the basic selling rate of Cruz. 18.82 = \$1 plus a minimum

surcharge, is fixed. The rates actually paid at auctions have increased during the past year, and in mid-April U.S. dollars for first and second-category imports cost as much as Cruz. 92 and Cruz. 130 respectively, compared with the minimum rates of Cruz. 43.82 and Cruz. 48.82 and with actual rates of Cruz. 74 and Cruz. 110 respectively a year earlier.

In addition, there is a free rate which applies to financial transactions, including transfers of profits by foreign enterprises; as can be seen from the graph on page 137, this has fluctuated somewhat during the period under review.

An important first step taken last year towards the multilateralisation of Brazil's external payments was the institution of what has come to be known as the Hague Club. Agreements were concluded in August 1955 between the Government of Brazil and those of the United Kingdom, western Germany and the Netherlands, under which trade between Brazil and the three latter countries can be conducted in the currency of any of them instead of there being a purely bilateral position between Brazil and each of the other countries. This means that, for example, Brazil's earnings in Deutsche Mark are available to pay for its imports not only from western Germany but also from the Netherlands and the United Kingdom. In November 1955 this group of countries was joined by Belgium, and Italy became a full member at the beginning of June 1956.

In February 1954 the International Monetary Fund, together with the U.S. Treasury and the Chase National Bank, provided a stabilisation loan of \$30 million for Peru; this, combined with the measures of internal restraint adopted at that time by the Peruvian Government, has led to a de facto stabilisation of the external value of the sol, as may be seen from the graph on page 137. The draft rate, which is not controlled at all by the central bank, has been almost as steady as the certificate rate, and there is no doubt that the mere existence of the stabilisation fund, which has not yet been used, has greatly reduced speculative pressure in both markets and has thus contributed to the creation of more stable conditions in the foreign exchange sector.

In connection with an exchange reform, a similar stabilisation loan of \$75 million was obtained by Chile in April 1956. Of this sum, \$35 million was provided by the International Monetary Fund under a stand-by arrangement for an initial period of one year, \$10 million by the U.S. Treasury and the remaining \$30 million by a group of American banks.

At the same time the multiple-rate system previously in force was done away with and replaced by a single fluctuating rate applicable to all authorised transactions except those connected with tourism and non-registered movements of capital, which continue to take place on the already existing free market. The new exchange market is under the supervision of the central bank, and the stabilisation fund will be used, if necessary, to prevent heavy fluctuations in the rates.

The opening rates on the new market were Pesos 490 to the dollar and Pesos 1,372 to the pound sterling. This represents a considerable devaluation compared with the previous rates, and imports have therefore

become much more expensive. The government has, however, made an arrangement with the big copper companies to buy from them \$30 million at the previous principal rate of Pesos 300 = \$1;* a sum equivalent to the difference between the amount payable at this and at the new rate will be used to subsidise temporarily the prices of a number of essential imports.

Among the remaining Latin American countries, Nicaragua changed the par value of its currency on 1st July 1955 from Cordobas 5 to Cordobas 7 = \$1. The new rate applies to all imports and to capital remittances; the rate for exports is Cordobas 6.60 and, in addition, there is a fluctuating rate, used mainly for the tourist traffic, which at the end of 1955 was quoted at Cordobas 7.60 = \$1.

In Paraguay the very complex exchange structure was considerably simplified in March 1956, when the par value was changed from Guaranies 21 to Guaranies 60 = \$1. The new parity applies to all Paraguayan exports and to imports of essential commodities. Other imports are paid for at a rate of Guaranies 85 = \$1, the declared intention being to unify the two rates in 1957. At the same time as the new rate was introduced a free market was set up for capital transactions. The rates in this market are much the same as those on the previously existing black market; at the beginning of April 1956 quotations were around Guaranies 107 = \$1.

The multiple rates that are still widely applied in Latin America often make it impossible to tell what would be an equilibrium rate of exchange for the currencies concerned. It is worth noting that when Peru and, more recently, Chile, obtained stabilisation credits through the assistance of the International Monetary Fund no par rates were fixed, since it was believed that a legally fluctuating rate backed by a special reserve fund would be the most appropriate foreign exchange system for a transitional period. For, if the rate were allowed to vary in response to supply and demand, the public would quickly show signs of apprehension if a decline in the exchange value set in and would for that reason be ready to support any measures — such as the elimination of a budget deficit, etc. — taken to strengthen the value of the currency. Such a system might, it was considered, lead to a higher degree of stability than was in fact the case when rates were fixed but inflationary practices remained uncorrected and led to repeated devaluations without any firm basis for the currency being achieved. The experience of Peru, the value of whose currency has been remarkably stable over the past two years, would seem to have furnished strong evidence in support of this point of view.

* * *

* This rate was fixed in June 1955 for so-called marginal exports and for a long list of imports. In the following months a number of other categories of exports and imports were transferred to this rate and when, in December 1955, it was also applied to the earnings of the copper companies it became more truly the principal rate than any other rate in Chile can be said to have been for a long time.

In western Europe transactions between E.P.U. countries are increasingly settled in the exchange markets at stable rates, i.e. between the margins fixed for the arbitrage group; the British authorities showed by the declarations which they made in 1955 that they had no intention of changing the parity of sterling. Similarly, the European Monetary Agreement, which will come into force when the E.P.U. is terminated, provides for the fixing of buying and selling rates between which market quotations will be free to move.

The countries in which the barriers of trade and exchange control have been most eroded in recent years are those of western Europe. The progress achieved in trade liberalisation has involved parallel relaxations in restrictions on payments, since, whenever a transaction is authorised under the existing trade regulations, the foreign means of payment are of course made available automatically. It is in their relations with one another that the countries of western Europe have gone furthest in liberalising trade and payments, but, so far as current — and even in some cases capital — transactions are concerned, progress is increasingly being made also vis-à-vis the dollar area.

In most European countries capital transactions are still more closely controlled than current payments, though the authorities have as a rule begun to administer the regulations more liberally than they did only a few years ago. In Switzerland and Belgium residents are able to make whatever capital transactions they like, and a wide measure of freedom has been introduced in some other countries as well.

There has also been in recent years a considerable relaxation of the restrictions on the use of balances held by non-residents in western European currencies. In this connection all the countries concerned still make a distinction between the dollar area and the rest of the world and in most cases also, among the non-dollar countries, between those in the E.P.U. and the others, but these differences are becoming increasingly blurred. Often, too, a distinction is made between current and capital accounts and, while the degree of freedom allowed to holders of capital accounts varies from country to country, in most countries the regulations are steadily being made more liberal.

These achievements, while still falling short of the ultimate aim of convertibility, represent a revolutionary change from the situation as it was in the immediate post-war period, with its network of import controls, bilateral agreements and multiple exchange rates. Certain points emerge from the experience gained in recent years:

- (i) The idea of allowing freedom for current transactions only, while continuing to exercise strict control over capital movements, is becoming more and more obsolete. It has been found that once current payments are liberalised to any significant extent there is no longer that close scrutiny of every transaction upon which a strict classification and control of capital transactions — if such is indeed possible — depends.

The facts of the situation have, as they usually do, proved stronger than the neat but unrealistic distinctions that can be made on paper.

- (ii) The process of liberalising trade and payments has acquired a momentum of its own. Within a single country, once this process has reached a certain point, the remaining restrictions are — and are seen to be — less and less effective. Moreover, what happens in one country has its repercussions elsewhere. Thus the liberalisation of trade and the multilateralisation of payments that began in Europe in a small way some years ago have now spread widely over that area and their effects are also to be seen in the new attitude being taken towards these problems in certain Latin American countries.
- (iii) In more than one country a stage has now been reached at which the remaining restrictions on foreign exchange transactions are so marginal that it may well be asked what purpose they serve. It seems that not infrequently controls are retained not for monetary reasons but rather in order to give protection to particular industries, and it is difficult to see why these industries should, in addition to being protected by tariffs, receive special favours when the general principle of international competition has been accepted and when some of them are in any case obliged to meet the challenge of other countries in third markets.

Now, when production and trade are generally at high levels and the opportunities for the international exchange of goods and services are expanding every year, is a good time for governments to re-examine carefully the restraints that they still impose on foreign payments and to ask themselves whether these any longer serve any useful monetary purpose. This is, in the first place, a question for each country; but the effect of liberalisation is naturally enhanced when a number of countries proceed in the same direction, as has been the case in recent years.

Official currency values - Middle of May 1956.¹

Countries	Currency	Grammes of fine gold	1 U.S. dollar	1 pound sterling	Remarks
			equals		
Europe					
Albania	Lek	—	50.—	140.—	Rates fixed on 11th July 1947.
Austria	Sch.	.0341796	26.— ²	72.80	IMF parity since 4th May 1953.
Belgium	Frano	.0177734	50.— ²	140.—	IMF parity since 22nd Sept. 1949.
Bulgaria	Lev	.130587	6.80	19.04	Rates fixed since 12th May 1952.
Czechoslovakia	Koruna	.123426	7.20	20.16	Rates fixed on 1st June 1953.
Denmark	Krone	.128660	6.90714 ²	19.34	IMF parity since 18th Sept. 1949.
Finland	Markka	.00386379	230.—	644.—	IMF parity since 1st July 1951.
France	Franc	—	350.— ²	980.—	No IMF parity fixed.
Germany (eastern)	D.Mark	.399902	2.222	6.22	Rates fixed on 29th October 1953.
Germany (western)	D.Mark	.211588	4.20 ²	11.76	IMF parity since 30th Jan. 1953.
Greece	Drachma	—	30.— ²	84.—	Official rates since 1st May 1954.
Hungary	Forint	.0757002	11.74	32.87	Official rates since 1st Aug. 1946.
Iceland	Króna	.0545676	16.2957 ²	45.60	IMF parity since 20th March 1950.
Ireland	Pound	2.48828	.357143	1.—	Rate fixed on 16th Sept. 1949.
Italy	Lira	—	624.87 ²	1,755.88	No IMF parity fixed.
Luxemburg	Franc	.0177734	50.— ²	140.—	IMF parity since 22nd Sept. 1949.
Netherlands	Gulder	.233861	3.80 ²	10.64	IMF parity since 21st Sept. 1949.
Norway	Krone	.124414	7.14296 ²	20.—	IMF parity since 18th Sept. 1949.
Poland	Zloty	.222168	4.—	11.20	Rates fixed on 28th Oct. 1950.
Portugal	Eseudo	—	28.75 ²	80.50	Rates fixed on 21st Sept. 1949.
Roumania	Leu	.148112	6.—	16.80	Rates fixed on 1st February 1954.
Spain	Peseta	—	11.095	31.16	Official rates since 3rd April 1940.
Sweden	Krona	.171783	5.17321 ²	14.465	IMF parity since 5th Nov. 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	.00298224	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 IMF parity fixed.
Mexico	Peso	.0710937	12.50	35.—	IMF parity since 19th April 1954.
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	.177734	5.—	14.—	IMF parity since 9th Apr. 1954.

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 (except Iceland \$1 = 16.29).

³ Market rates in the middle of May 1956 were U.S.\$1 = Can.\$ 0.992 and £1 = Can.\$ 2.7776.

Official currency values — Middle of May 1956 (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	.126953	7.—	19.60	IMF parity since 1st July 1955.
Panama	Balboa	.888671	1.—	2.80	IMF parity since 18th Dec. 1946.
South America					
Argentina	Peso	—	18.—	50.51	Official rate since 27th Oct. 1955.
Bolivia	Boliviano	.00467722	190.—	532.—	IMF parity since 14th May 1953.
Brazil	Cruzeiro	.0480363	18.50	51.80	IMF parity since 14th July 1948.
Chile	Peso	.00807883	110.—	308.—	IMF parity since 2nd Oct. 1953.
Colombia	Peso	.455733	1.94998	5.459944	IMF parity since 17th Dec. 1948.
Ecuador	Sucre	.0592447	15.—	42.—	IMF parity since 1st Dec. 1950.
Paraguay	Guarani	.0148112	60.—	168.—	IMF parity since 1st March 1956.
Uruguay	Peso	—	1.519-2.10	4.25-5.88	Official basic buying and essential selling rates since 15th Sept. 1955.
Venezuela	Bolivar	.265275	3.35	9.36	IMF parity since 18th April 1947.
Africa					
Belgian Congo	Franc	.0177734	50.—	140.—	IMF parity since 22nd Sept. 1949.
Egypt	Pound	2.55187	.348242	.975078	IMF parity since 18th Sept. 1949.
Ethiopia	Dollar	.357690	2.48447	6.956516	IMF parity since 18th Dec. 1946.
Liberia	Dollar	.888671	1.—	2.80	Parity with the U.S. dollar since 1st January 1944.
Union of South Africa	Pound	2.48828	.357143	1.—	IMF parity since 18th Sept. 1949.
Asia					
Burma	Kyat	.186621	4.7619	13½	IMF parity since 7th August 1953.
Ceylon	Rupae	.186621	4.7619	13½	IMF parity since 16th January 1952.
China	Yen Min Piao	—	2.46	6.893	Official rate since 1st March 1955.
India ¹	Rupae	.186621	4.7619	13½	IMF parity since 22nd Sept. 1949.
Indonesia	Rupiah	—	11.42	31.80	Official basic rates since July 1955.
Iran	Rial	.0275557	32.25	90.30	IMF parity since 18th Dec. 1946.
Iraq	Dinar	2.48828	.357143	1.—	IMF parity since 20th Sept. 1949.
Israel	Pound	—	1.90	5.04	Official rate since 1st July 1955.
Japan	Yen	.00246853	360.—	1,008.—	IMF parity since 11th May 1953.
Jordan	Dinar	2.48828	.357143	1.—	IMF parity since 2nd Oct. 1953.
Korea	Hwan	—	500.—	1,400.—	Official rate since 15th Aug. 1955.
Lebanon	Pound	.405512	2.19148	6.136144	IMF parity since 29th July 1947.
Pakistan	Rupae	.186621	4.7619	13½	IMF parity since 31st July 1955.
Philippines	Peso	.444335	2.—	5.80	IMF parity since 18th Dec. 1946.
Syria	Pound	.405512	2.19148	6.136144	IMF parity since 29th July 1947.
Thailand	Baht	.0444335	20.—	56.—	Official rate since 18th March 1955.
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 Portuguese possessions in India.

VI. Gold Production and Monetary Reserves.

In 1955 the annual gold production of the western world rose for the second consecutive year by over 1 million ounces, to a total of 27.5 million ounces, equivalent to \$965 million (valued at \$35 per ounce). If to this total is added an estimate of the net amount sold by the U.S.S.R. in the West — believed to have been about \$75 million in 1955 — it can be said that the value of the new gold coming on to the world markets last year exceeded \$1,000 million for the first time since 1940.

Virtually the whole of the increase in gold production during the year was accounted for by South Africa, whose output rose by 10 per cent. to 14.6 million ounces, thus surpassing this country's previous record of 14.4 million ounces in 1941.

The amount of gold added to the stocks of central banks and governments (including international institutions) in 1955 — at \$630 million — was almost the same as in the previous year, when the figure was \$640 million. Some 40 per cent. of the available supplies of new gold (including the quantities received from the U.S.S.R.) was therefore employed for industrial and artistic purposes or went into private hoards. While there was probably a certain, though not very large, increase in the amount taken by the arts and crafts, it is known that there was a considerable decline in private hoarding in western Europe — and it can therefore only be concluded that more gold found its way to the Middle and Far East. However, in the latter areas gold is being increasingly used as an active means of payment, so that one should not regard the entire flow as having been diverted from monetary uses.

The United States' stock of monetary gold fell by \$40 million in 1955 and amounted at the end of the year to \$21.8 milliard, this figure representing about 57 per cent. of the total gold reserves of the western world. Since the United States' share of the total gold stock was as much as 70 per cent. in 1948, it will be seen that considerable progress has been made during recent years in the redistribution of the world's holdings of monetary gold.

Countries other than the United States added \$670 million to their gold reserves in 1955, bringing the total to \$16.2 milliard by the end of the year. In the same year these countries increased their short-term dollar holdings by another \$660 million to \$13.6 milliard. These short-term dollar holdings represent bank balances held in the United States and other short-term assets with an original maturity of one year or less. Furthermore, according to information which has now been made available, foreign holdings of U.S. Government notes and bonds with an original currency period of over one year increased in 1955 by \$530 million to a total of \$1,630 million. At the end of the year, therefore, the total of the gold reserves and the

aforementioned kinds of dollar holdings of countries other than the United States came to \$31.4 milliard. The increase was, however, very unevenly distributed. The main recipients of the additional reserves were the continental countries of western Europe, whose aggregate gold and dollar holdings rose by as much as \$1,680 million, while those of the sterling area decreased by \$460 million (approximately \$250 million of which, however, appears to have been recovered in the first five months of 1956). The gold and dollar reserves of Canada declined by \$100 million, a drop of \$505 million in short-term dollar holdings being largely offset by increases of \$345 million in holdings of U.S. Government bonds and notes and of \$60 million in gold holdings. The reserves held in Asia, on the other hand, rose by some \$400 million — approximately two-thirds of this amount representing an increase in the holdings of Japan and Indonesia.

Production of gold.

South Africa's gold production, which reached a peak of 14.4 million ounces in 1941, not only declined less than that in most other areas during the war but also recovered more decisively in the immediate post-war period. Subsequently, from 1950 to 1955, South Africa's production rose by fully 25 per cent., accounting for practically the whole of the known increase in world production (excluding that of the U.S.S.R.) during that period, while the output of other areas remained more or less unchanged — the increases which took place in some countries having offset declines in others.

The exceptionally large increase in South Africa's gold output in recent years has been partly due to the greater possibilities of mechanisation offered by its mines compared with those elsewhere, the abundant supply of relatively cheap labour and the development of highly specialised techniques in the country's large-scale mining operations. But of far greater importance than all these factors has been the development of new mines, for the Union of South Africa has for many years been the only country in which major new gold deposits have been discovered. More recently an additional stimulus of potential importance has been provided by the joint production of uranium and gold.

The gold output of the Orange Free State, in which most of the newly-developed mines are located, rose from 1.1 million fine ounces in 1954 to 2.2 million in 1955, the latter amount representing 15 per cent. of the Union's total gold production. During the last three years output has also been increasing — although less spectacularly — in the Witwatersrand area, where most of South Africa's older mines are situated; this increase has been due partly to the mining of richer grades of ore and partly to the additions to output resulting from the operations of certain new mines.

The volume of ore milled in South Africa increased in 1955 by almost 6 per cent. to a total of 66.0 million tons. Average working profits per ton of ore milled also went up, since a further rise in average working costs was more than offset by an increase in the average yield of gold from each ton of ore processed. It should be noted that the Orange Free State mines, whose working costs and average yields are as a rule considerably higher than those of the older mines, have recently been having a greater effect than previously on the overall average results shown in the table on the following page. The further rise in average costs in 1955 was also due to increases in the total wage bill and a rise in the cost of materials and power.

World gold production
(excluding the U.S.S.R.).

Countries	1929	1940	1950	1951	1952	1953	1954	1955
	Weight, in thousands of fine ounces							
Union of South Africa . . .	10,412	14,046	11,664	11,516	11,819	11,941	13,237	14,601
Canada	1,928	5,333	4,441	4,393	4,472	4,056	4,366	4,545
United States	2,059	4,870	2,375	1,996	1,938	1,990	1,867	1,891
Australia	426	1,644	870	896	980	1,075	1,118	1,049
British West Africa	208	939	689	699	691	731	797	687
Southern Rhodesia	562	833	511	487	487	501	536	525
Philippines	163	1,121	334	394	469	480	416	419
Mexico	652	863	408	393	459	483	397	383
Colombia	137	632	379	431	422	437	377	391
Belgian Congo	173	559	339	352	369	371	365	375
Japan	335	867	156	189	228	258	301	289
Nicaragua ¹	12	163	230	251	255	259	293	230
India	364	289	197	226	253	223	241	211
Peru	121	281	148	158	135	140	147	145*
Chile	26	343	192	175	177	131	125	125*
Brazil ²	107	150	131	136	137	116	120	113
Sweden	35	209	79	70	66	88	110	100*
New Guinea	36	295	80	94	127	121	86	85*
Fiji	—	111	103	96	78	77	72	70
New Zealand	120	186	77	75	59	39	42	40*
Total listed	17,876	33,754	23,403	23,027	23,831	23,517	24,933	26,264
Other countries ³	624	3,246	1,297	973	1,169	1,183	1,167	1,236
Estimated world total ⁴ . .	18,500	37,000	24,700	24,000	24,800 ^r	24,700 ^r	26,100 ^r	27,500
Value of estimated world total, at \$35 per fine ounce . . .	Value, in millions of U.S. dollars							
	650 ⁴	1,295	965	940	970 ^r	965 ^r	915 ^r	965

¹ Exports, representing about 90 per cent. of total.

² Excluding alluvial gold production, which is small.

³ Excluding the U.S.S.R. and associated areas.

⁴ At the official price of \$20.67 per fine ounce then

in effect, the value of world gold production in 1929 works out at \$362 million.

* Estimated or provisional figure.

^r Revised figure.

South African gold mines: Operating statistics.

Year	Yield per ton milled		Working costs	Working profits	Ore milled	Total working profits	Taxes	Dividends
	In dwt ¹	in value						
1938	4.349	31s. 0d.	19s. 3d.	11s. 9d.	53.8	31.9	13.7	17.2
1940	4.196	35s. 5d.	20s. 8d.	14s. 9d.	64.5	47.5	24.0	20.4
1945	3.997	34s. 7d.	23s. 9d.	10s. 10d.	58.9	31.9	16.5	12.5
1950	3.759	46s. 11d.	29s. 7d.	17s. 4d.	59.5	51.5	22.5	24.7
1954	4.068	50s. 11d.	38s. 8d.	12s. 3d.	62.4	38.2 ²	14.3	19.1
1955	4.274	53s. 10d.	40s. 5d.	13s. 5d.	66.0	44.5 ²	16.9	22.4

¹ One dwt (pennyweight) is one-twentieth of an ounce, equal to 1.555 grammes. At \$35 per ounce, one dwt of gold is worth \$1.75.

² Excluding estimated profits from uranium production, which increased from SA£3.1 million in 1954 to SA£17.6 million in 1955.

The large increase in South Africa's output of gold would not have been possible had it not been for the rise between 1953 and 1955 in the mining industry's supply of native labour by 12½ per cent. to a total of 327,000 workers. The rate of increase in the labour supply appears to have slowed down in the course of 1955 and difficulty in recruiting new workers may in the future prove to be an obstacle to further rises in output. Electric-power supplies, although not a limiting factor in 1955 as in earlier years, need to be increased if higher levels of output are to be attained. On the other hand, in his budget speech in March 1956 the Minister of Finance proposed that certain minor concessions should be accorded to operators in the form of the restoration of the gold-mining tax formula in effect before 1951 and the extension of the privileges granted in the case of "ultra-deep" mines in respect of the writing-off of capital for tax purposes.

Profits earned from the extraction of uranium in the South African mines rose in 1955 to slightly over SA£17 million, equivalent to nearly two-fifths of the total working profits obtained through gold production. Although it is not known on what basis uranium profits are calculated, there is no doubt that the extraction of uranium has had a favourable effect on the overall profits of the gold-mining industry. According to recent information, however, uranium extraction has had relatively little influence to date on the mining of marginal gold ores, owing to the fact that the uranium produced so far has been derived principally from the slimes of ores well within the range of profitability on the basis of gold extraction alone.

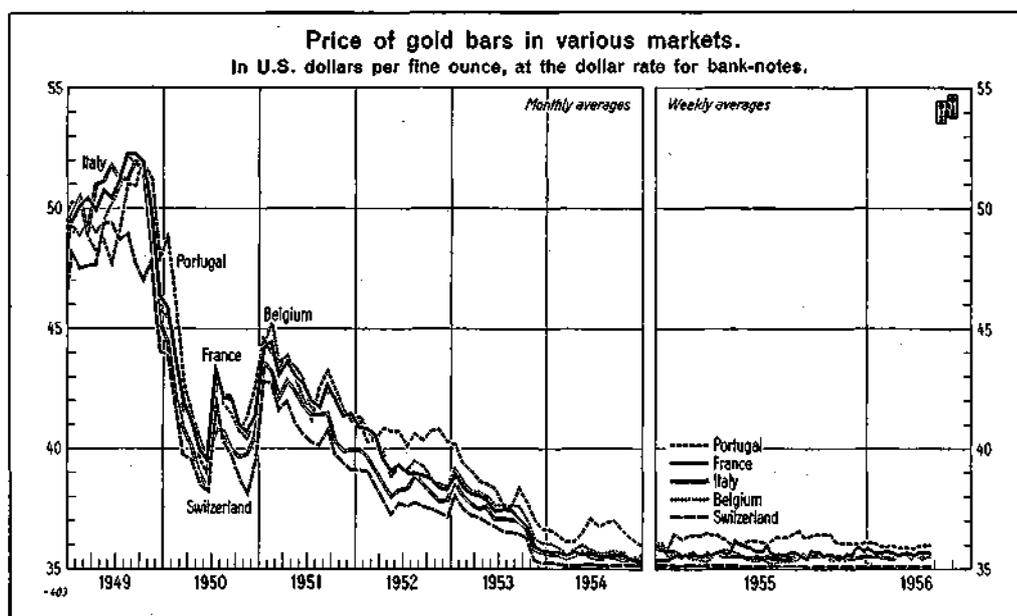
In Canada, after South Africa the second largest producer of gold in the western world, output also rose to a new post-war peak in 1955, being only about 15 per cent. below the record level attained in 1941. The upward trend of costs persisted, however, during 1955 and early 1956, and in April 1956 it was announced that the country's emergency subsidy programme would be continued until the end of 1958.

Though gold production in the United States increased slightly in 1955, the generally even trend of recent years continued. Indeed, of the five major gold-producing countries, only the United States has a volume of output roughly the same as in 1929, while in all the others production has very considerably increased in comparison with the 1929 level. Australia's gold output declined somewhat in 1955, interrupting the marked upward trend which had been in progress since 1950, and that of British West Africa, another important producer, also suffered a setback. In other areas the changes were not sufficiently great to affect total world production to any noticeable extent.

It is perhaps somewhat surprising that gold output is continuing to increase at such a relatively high rate, despite the decline of the free-market prices of gold to a level close to the official price of \$35 an ounce. As already mentioned, the opening of new mines has been a major contributory factor, and a certain rôle has also been played by the joint production of gold (as happened in the past in the case of silver) with other metals, including, recently, uranium, while a good deal of the increase is no doubt accounted for by improved techniques of extraction.

Gold markets and hoarding.

The following graph shows how in the course of 1953 the free-market price of gold fell to a level not far from the official price and how thereafter for two and a half years relatively stable prices have been quoted for gold bars in the various markets.



The decline in the market price of gold was due not only to an expansion in the supply of gold, attributable in part to the increasing freedom given to producers to sell their gold in the free markets, but also to a weakening of demand, which was clearly connected with the growth of monetary confidence as inflationary tendencies were curbed and the general level of commodity prices acquired greater stability. Once the price of bar gold had fallen to about \$35 an ounce in the free markets, the foundation was laid for the reopening of the London market, which took place in March 1954, whereupon this market itself became an influence making for the maintenance of a highly stable dollar price for gold in the international free markets, especially as the Bank of England showed great readiness to adjust supplies in accordance with variations in demand.

Estimates of "disappeared gold".

Items ¹	1947	1948	1949	1950	1951	1952	1953	1954	1955
	in millions of U.S. dollars								
Gold production . .	770	805	840	865	840	870	865	915	965
Sales by the U.S.S.R.	30	—	—	—	—	—	75	75	75
Less: increase in official gold reserves	-430	-380	-480	-430	-140	-320	-420	-640	-630
"Disappeared gold"	370	425	360	435	700	550	520	350	410
Accounted for by									
Industrial uses . .	120	170	200	180	140	180	170	190	210
Private hoarding ²	250	255	160	255	560	370	350	160	200

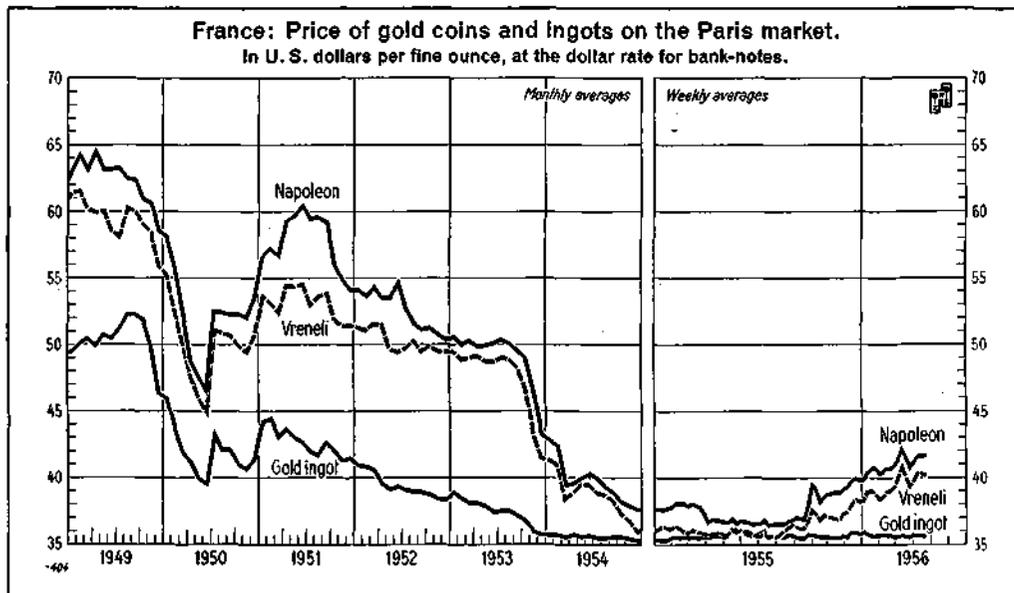
¹ The figures for gold production and for changes in official gold reserves exclude the U.S.S.R.

² This is a residual figure.

Note: The figures given above for sales of gold by the U.S.S.R. are based on unofficial reports; if the amount actually sold was in fact greater or smaller than the amount indicated, the estimate for private hoarding would have to be changed accordingly.

While no firm estimate can be given of the total amount of gold absorbed by arts and crafts, it is usually possible to arrive at a rough idea of the magnitude of the increase or decrease in this use of gold. There would appear to have been a fairly appreciable rise in the amount absorbed in 1954 and 1955, which may be attributed partly to increased purchases by the public of gold jewellery, watches, etc. owing to the large rise in incomes in most countries and partly to the fact that some industrial users had to pay less for their supplies of gold than in previous years.

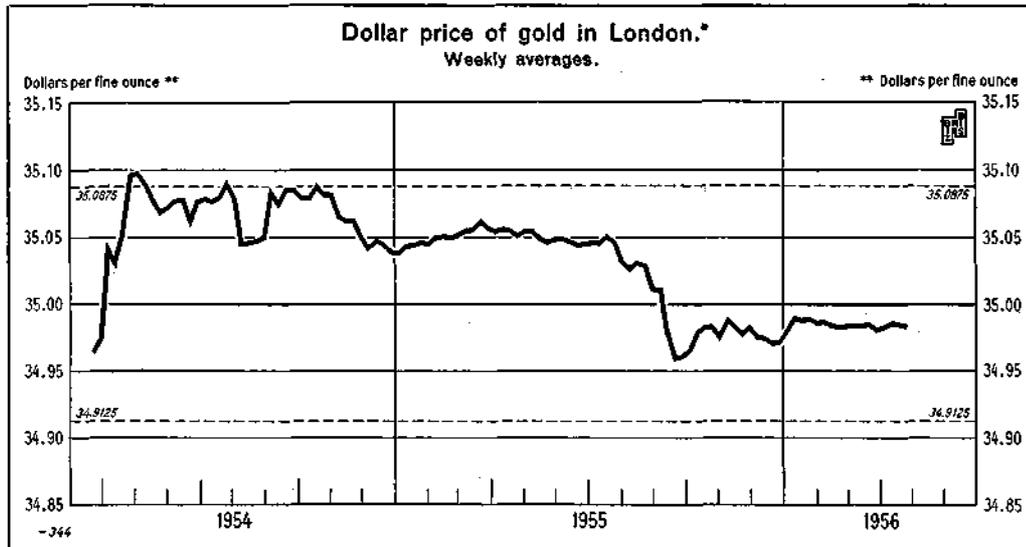
As may be seen from the table on the previous page, there was a moderate increase in estimated private hoarding of gold in 1955 compared with 1954. Much of the gold in question went, however, as has already been mentioned, to the Middle and Far East, a part of it having been used as a means of payment, i.e. for monetary purposes. In western Europe, on the other hand, the net private demand for gold fell to a very low figure in 1955 — indeed, there may even have been some net dishoarding. On the French internal market the price of bar gold was sufficiently high at certain times during 1955 and early in 1956 to cause some illegal movements of gold from abroad, but this inflow appears to have been more than offset by the Bank of France's net purchases of privately-held gold during the year.



In the matter of gold hoarding, people are strongly influenced by experiences remembered and it seems probable that events in recent years have led to a certain change in attitude as regards the utility of gold as a hedge against inflation. In France, for example, those who bought gold in late 1948 and early 1949 at the high price of around Fr.fcs 750,000 per kilogramme have experienced large capital losses through the fall in the price of gold, which has generally stood at less than Fr.fcs 450,000 since

late 1953. Nor does this take into account the loss of interest, at the rate of 5 per cent. or more, which could have been earned in the intervening years if French securities had been purchased.

That the demand for gold both for private and for monetary purposes was, in relation to supply, less strong in 1955 than in previous years is indicated by the relatively low prices prevailing on the gold market in London.



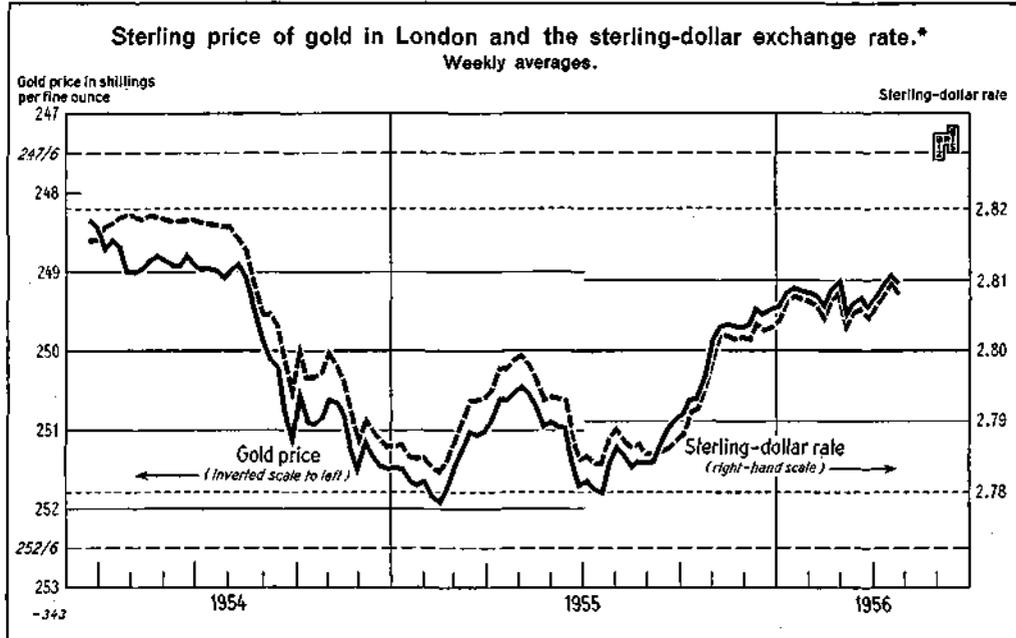
The London gold market is essentially a dollar market, since gold may be bought only against dollars, American or Canadian Account sterling, or registered sterling. The London price of gold, expressed in dollars, has tended to reflect clearly the changes in world supply and demand. During the first seven months of 1955, the dollar price of gold in London fluctuated around the level of \$35.05 per ounce. From the point of view of buyers this price — leaving out of account transportation, insurance and handling charges — compared favourably with the price of \$35.0875 at which the Federal Reserve Bank of New York, on behalf of the U.S. Treasury, sells gold,¹ while for sellers the London price was even more favourable compared with the effective New York purchasing price of \$34.9125 per ounce.²

From late July 1955 onwards the dollar price of gold in London declined rather steadily and by mid-September it had fallen to below \$35 an ounce for the first time since the reopening of the London market in March 1954. This was not unconnected with the increase in interest rates on the New York market, which made it much more profitable to hold short-term dollar assets than before. Moreover, there was in the autumn a slight deterioration in the payments position of some countries vis-à-vis the United States, which may also have temporarily reduced the

¹ In contrast to the conditions prevailing on the London market, the U.S. authorities are prepared to sell gold only to central banks and governments. For a fuller description of the nature and functioning of the London market see the Twenty-fifth Annual Report, pp. 131-135.

² Samuel Montagu & Co. Ltd. estimated in their annual report for 1955 that some 85 per cent. of the fresh gold supplies coming on to the international markets is now marketed in London.

demand for gold. At the same time, however, there came into play a technical factor which had the effect of preventing the dollar price of gold in London from falling appreciably below \$35 an ounce. In the European Payments Union the individual countries have the right to settle deficits either in dollars or in gold valued at \$35 an ounce, and certain countries found it advantageous to acquire in London the amounts of gold needed for such settlements as soon as the price fell below the parity figure.



* Gold price and middle sterling-dollar rate at the time of the daily gold "fixing".

The sterling price of gold in London is of particular significance to the sterling-area producers of gold, whose receipts from sales in London are mainly in terms of sterling. For them the fact that the sterling rate was, on the whole, weaker in terms of the dollar in 1955 than in 1954 had the effect of raising the average sterling revenue per ounce of gold marketed in London to a level above that of the preceding year, but the growing strength of sterling in the early months of 1956 has tended to reverse this position.

Most of the restrictions on private gold transactions have recently been removed in two important markets.

On 1st January 1956, full freedom for trading in gold was restored in the Belgian-Luxemburg Economic Union, the only reservation being that the foreign exchange used for importing gold from abroad must be obtained on the free market. This lifting of the restrictions was regarded as a further step in the direction of restoring to residents freedom to conduct transactions of all kinds, but it is not expected to lead to any large-scale turnover of gold on private account.

In Canada, restrictions on private gold transactions were removed in March 1956, thus enabling both residents and non-residents to purchase gold either for export or for retention within the country. This change did not,

however, greatly affect marketing arrangements, since Canadian gold producers still have to sell their current output to the Bank of Canada if they wish to qualify for subsidies under the Emergency Gold Mining Assistance Act. There is little likelihood that any of the large number of subsidised producers will elect to sell gold on the free market unless the premium on gold sold privately rises above that received in the form of the government subsidy. There may conceivably be some demand from U.S. residents, who, not being permitted to hold gold in the United States, may wish to take advantage of the opportunity of having gold in safe-keeping in Canada. It is also thought possible that some sales may be made on private account to the Far East, but before this can happen Canadian quotations will have to be able to compete with the London prices. The bulk of newly-mined gold will therefore probably continue to flow into official hands, to be sold in part to foreign buyers — in practice, to central banks or official institutions.

Finally, reference should be made to the sales of gold coins (already mentioned on page 58) by the Swiss National Bank on the market in Switzerland, the principal object of which was to absorb some of the excess liquidity which has characterised the Swiss market in recent years. Gold coins for the equivalent of Sw.fcs 75 million were sold in the first nine months of 1955. When the sales were discontinued as from 1st October 1955, the general liquidity position had for various reasons become somewhat tighter. During the period of unrestricted selling by the National Bank, substantial amounts of the Swiss coins were smuggled into neighbouring countries, where the premium on gold coins is still fairly high.

Movements of monetary reserves.

The table on the following page shows the gold reserves of central banks and governments, including those of international institutions, whose holdings, which amounted to \$2,273 million at the end of 1955, are by no means negligible.

Since the beginning of 1950 the continental countries of western Europe have increased their gold reserves from \$4,075 million to \$7,535 million, representing an annual average increase of about \$575 million. The most significant increases in 1955 were those recorded by western Germany, France, Belgium, Switzerland and the Netherlands. In all, the gains made by the countries of continental Europe during that year exceeded \$900 million.

In sharp contrast, the United Kingdom is estimated to have reduced its holdings of gold by \$500 million in 1955. Nevertheless, the country's total gold holdings, standing at \$2,050 million at the end of 1955, were still \$700 million larger than at the beginning of 1950.

In the remaining countries (i.e. other than the United States, the U.S.S.R. and the countries of western Europe and the sterling area) gold reserves in 1955 showed a net increase of only \$75 million — an amount which made little impact on the general gold situation. Canada and Mexico

Gold reserves of central banks and governments
(Including International Institutions).

Reporting countries or institutions	End of							Change during 1955
	1938	1945	1950	1952	1953	1954	1955	
In millions of U.S. dollars								
European countries								
Germany (western)	29 ¹	0	0	140	326	626	920	+ 294
France	2,757	1,550	523 ²	573 ²	576 ²	576 ²	861 ²	+ 285
Belgium	780	733	587	706	776	778	929	+ 151
Switzerland	701	1,342	1,470	1,411	1,459	1,513	1,597	+ 84
Netherlands	998	270	311	544	737	796	865	+ 69
Sweden	321	482	90	184	218	265	276	+ 11
Italy	193	24	256	346	346	346	352	+ 6
Austria	68 ³	0	50	52	47	56	61	+ 5
Finland	26	3	12	26	26	31	35	+ 4
Denmark	53	38	31	31	31	31	31	0
Greece	27	28	2	10	10	11	11	0
Iceland	1	1	1	1	1	1	1	0
Ireland	10	17	17	18	18	18	18	0
Norway	84	80	50	50	52	45	45	0
Spain	525 ⁴	110	61	61	54	56	56	0
Turkey	29	241	150	143	143	144	144	0
Portugal	66	433 ⁵	192	286	361	429	428	- 1
United Kingdom ⁶	2,877	1,980	2,900	1,500	2,300	2,550	2,050	- 500
Other countries								
Mexico	29	294	208	144	158	62	142	+ 80
Canada	192	361	590	896	996	1,080	1,141	+ 61
Union of South Africa	220	914	197	170	176	199	212	+ 13
Lebanon	—	2	20	31	35	63	74	+ 11
Pakistan	—	—	27	38	38	38	48	+ 10
Chile	30	62	40	42	42	42	44	+ 2
Japan	230	119 ⁷	128	128	130	126	128	+ 2
Belgian Congo	6	16 ⁸	23	65	66	115	116	+ 1
Brazil	32	354	317	317	321	322	323	+ 1
Argentina	431	1,197	216	298	371	371	371	0
Australia	8	53	88	112	117	138	138 ⁹	0
Ecuador	3	21	19	23	23	23	23	0
Egypt	55	53	97	174	174	174	174	0
Guatemala	7	29	27	27	27	27	27	0
India	274	274	247	247	247	247	247	0
Indonesia	80	201 ¹⁰	209	235	145	81	81	0
Iran	26	131	140	138	137	138	138	0
New Zealand	23	23	29	33	33	33	33	0
Peru	20	28	31	46	36	35	35	0
Venezuela	54	202	373	373	373	403	403	0
El Salvador	7	13	23	29	29	29	28	- 1
Thailand	—	66	118	113	113	113	112	- 1
Bolivia	3	22	23	21	21	3	0	- 3
Uruguay	73	195	236	207	227	227	216	- 11
United States	14,592	20,083	22,820	23,252	22,091	21,793	21,753	- 40
Cuba	1	191	271	214	166	166	136	- 50
International Institutions								
European Payments Union	—	—	—	158	153	153	248	+ 95
International Monetary Fund	—	—	1,494	1,692	1,702	1,740	1,808	+ 68
Bank for International Settlements	14	39	167	196	193	196	217	+ 21
Total listed above	25,993	32,315	34,881	35,481	35,861	36,429	37,086	+ 667
Other (excl. U.S.S.R.)	427	1,455	949	809	849	921	884	- 37
Estimated world total (excl. U.S.S.R.)¹¹	26,420	33,770	35,830	36,290	36,710	37,350	37,980	+ 630

¹ Pre-war Germany. ² Reported holdings of the Bank of France only. ³ Beginning of March 1938. ⁴ April 1938.
⁵ End of 1946. ⁶ Beginning with 1945 estimates of the U.S. Treasury and the Board of Governors of the
Federal Reserve System. ⁷ September 1945. ⁸ June 1945. ⁹ September 1955. ¹⁰ March 1946.
¹¹ I.M.F. estimate for 1938, and Federal Reserve estimates for later years. Includes reported gold holdings,
unpublished holdings of various central banks and governments, and estimated official holdings of
countries from which no reports are received.

increased their gold holdings by \$60 million and \$80 million respectively, the latter addition making good the greater part of the decline in Mexico's holdings in 1954. The most notable loss of gold reserves — \$50 million — was that sustained by Cuba.

In 1955 the gold reserves of international institutions increased by some \$185 million. The main change was a rise of \$95 million in the holdings of the European Payments Union, which, as has already been explained on page 153, partly reflected a fairly considerable increase in the use of gold instead of dollars for the settlement of deficits. Furthermore, the holdings of the International Monetary Fund increased by almost \$70 million, mainly as a result of net repurchases of domestic currencies by countries which had previously borrowed from the Fund.

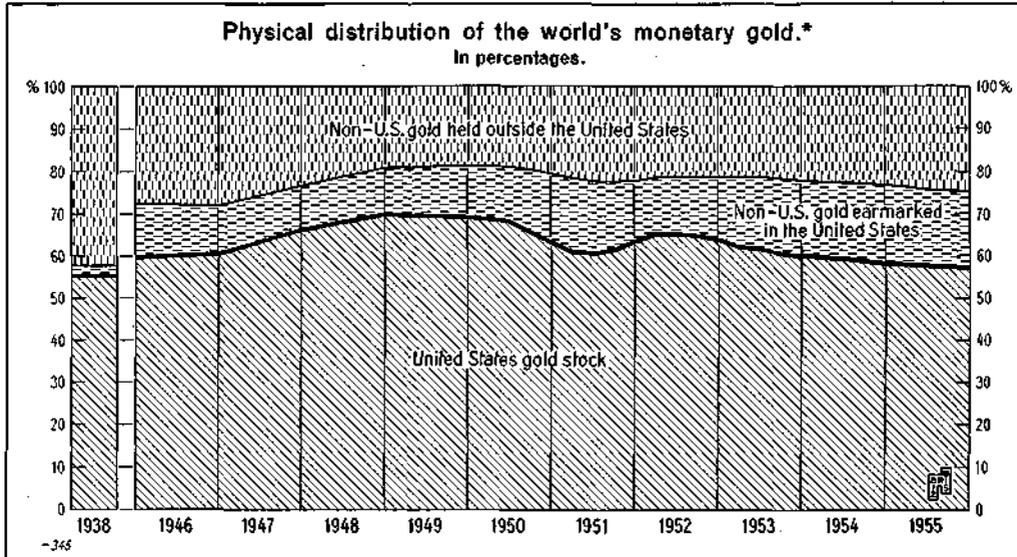
It is of some interest in this connection to consider the actual location of the gold reserves of central banks and governments.

Every year since 1949, with the sole exception of 1952, countries other than the United States have added to the net total of their gold holdings, and until 1953 they left the greater part of their newly-acquired gold under earmark in the United States. But following the sharp decline at the end of 1953 in the amount of newly-mined gold going into private hoards and the reopening in 1954 of the London gold market, a number of countries began to acquire the bulk of their new gold via London. As may be seen from the following table, over 70 per cent. of the net increase in the gold reserves of countries other than the United States during the past two years has consisted of gold added to stocks actually held outside the United States. Hence there have recently been notable changes not only in the ownership but also in the physical distribution of gold. The same trend appears to have continued during the first quarter of 1956.

Changes in official gold stocks of countries other than the United States.*

Year	Changes in earmarked gold in the United States	Changes in supplies held outside the United States			Changes in total supplies of countries other than the United States
		Net imports from (+) and exports to (-) the United States	Increase (+) from other sources	Total	
in millions of U.S. dollars					
1946	- 470	- 310	+ 510	+ 200	- 270
1947	- 210	- 1,870	+ 350	- 1,520	- 1,730
1948	+ 160	- 1,680	+ 370	- 1,310	- 1,150
1949	+ 500	- 690	+ 510	- 180	+ 320
1950	+ 1,350	+ 370	+ 430	+ 800	+ 2,150
1951	- 620	+ 550	+ 180	+ 710	+ 90
1952	+ 300	- 680	+ 310	- 370	- 70
1953	+ 1,170	- 0	+ 420	+ 420	+ 1,590
1954	+ 330	- 20	+ 630	+ 610	+ 940
1955	+ 130	- 100	+ 640	+ 540	+ 670

* Including international institutions but excluding the U.S.S.R.



* Including International institutions but excluding the U.S.S.R.

As regards the question of ownership, the United States still holds rather more than one-half of the total monetary gold stock of the western world. Its holdings, at \$21.8 milliard, are equal in value to almost two years' merchandise imports. Even though other countries' short-term dollar holdings have risen considerably in recent years, having attained a figure of \$13.6 milliard at the end of 1955, the gold stock of the United States still exceeds the country's total short-term liabilities by some 60 per cent. — a position which must be regarded as unusually favourable for a country with a major international money market and a currency in which is held an important part of the rest of the world's monetary reserves.

If account is taken both of gold and of short-term dollar holdings, countries other than the United States (including international institutions) are found to have possessed altogether an amount of \$29.8 milliard at the end of 1955. The following table, which is based on data given in the Federal Reserve Bulletin for March 1956, shows the amount of gold and short-term dollars held by individual countries or areas at the end of 1954 and 1955 and the total change during the year.

It will be seen from the table that there are considerable variations from country to country in the relative proportions of gold and dollars in the total reserves. Of the total holdings of Austria, for instance, over four-fifths consisted of dollar assets at the end of 1955, whereas such assets constituted less than 15 per cent. of the holdings of the Belgian-Luxemburg Economic Union. Tradition and convenience seem to play a rôle in determining the composition of these holdings, but other factors, such as considerations of earning power, also have an influence. If there is a persistent increase in the monetary reserves of a country, as has been the case with western Germany in recent years, it is not surprising that a fair proportion of the increase should be converted into gold. Moreover, whenever foreign holders of U.S.

**Gold reserves and short-term dollar balances
of countries other than the United States¹**
(including international institutions).

Estimated changes during 1955.

Areas and countries	Holdings at end of 1954			Holdings at end of 1955			Change in total during 1955
	Gold reserves	Short-term dollars	Total	Gold reserves	Short-term dollars	Total	
In millions of U.S. dollars							
Western Europe other than the United Kingdom							
Austria	56	273	329	61	263	324	— 5
Belgium-Luxemburg ²	891	148	1,039	1,046	151	1,197	+ 158
Denmark	31	71	102	31	60	91	— 11
Finland	31	41	72	35	49	84	+ 12
France ²	596 ³	732	1,328	681 ³	1,105	1,986	+ 658
Germany (western)	626	1,373	1,999	920	1,454	2,374	+ 375
Greece	11	113	124	11	174	185	+ 61
Italy	346	579	925	346	785	1,131	+ 206
Netherlands ²	820	298	1,118	889	211	1,100	— 18
Norway	45	103	148	45	79	124	— 24
Portugal ²	458	102	560	460	140	600	+ 40
Spain ²	116	72	188	116	105	221	+ 33
Sweden	265	141	406	276	153	429	+ 23
Switzerland	1,513	672	2,185	1,597	751	2,348	+ 163
Turkey	144	8	152	144	9	153	+ 1
Other western European holdings ⁴	616	331	947	677	180	857	— 90
Total	6,565	5,057	11,622	7,535	5,669	13,204	+1,582
Other continental European countries⁵	290	19	309	289	19	308	— 1
Sterling area							
United Kingdom ⁴	2,550	640	3,190	2,050	543	2,593	— 597
U.K. dependencies	—	103	103	—	88	88	— 15
Australia	138	48	186	138	75	213	+ 27
India	247	87	334	247	73	320	— 14
South Africa	199	33	232	212	53	265	+ 33
Rest of sterling area ⁷	106	89	195	116	104	220	+ 25
Total	3,240	1,000	4,240	2,763	936	3,699	— 541
Canada	1,080	1,536	2,616	1,141	1,031	2,172	— 444
Latin America	1,835	1,838	3,673	1,853	1,936	3,789	+ 116
Asia	631	1,592	2,223	650	1,963	2,613	+ 390
All other countries	178	111	289	178	145	323	+ 34
Total for all countries	13,819	11,153	24,972	14,409	11,699	26,108	+1,136
International institutions⁸	1,740	1,770	3,510	1,808	1,881	3,689	+ 179
Grand total	15,559	12,923	28,482	16,217	13,580	29,797	+1,315

¹ Short-term dollar balances — which represent official and private holdings reported by selected banks in the United States and include deposits, U.S. Treasury bills and certain other short-term assets — have been recalculated by the Federal Reserve authorities to exclude U.S. Government bonds and notes maturing within 20 months of the date of purchase. The latter and other foreign holdings of U.S. Government bonds and notes, which are now reported separately in the Federal Reserve Bulletin, do not appear in the above table but are summarized in the table on page 159.

² Including dependencies.

³ Gold reserves of the Bank of France and French dependencies only. The figure for the end of 1955 reflects the publication by France of certain previously unpublished French gold reserves, which are included for earlier dates in "Other western European holdings".

⁴ 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 western European countries.

⁵ Excludes gold reserves of, but includes dollar balances held by, the U.S.S.R.

⁶ Holdings of gold and U.S. dollars based on figures as reported by the British Government.

⁷ Excludes Ireland and Iceland, which are included under "Other western European holdings".

⁸ Includes the International Bank for Reconstruction and Development, the International Monetary Fund, the United Nations and other international organizations. Excludes the Bank for International Settlements and the European Payments Union, which are included under "Other western European holdings".

Source: Based mainly on the Federal Reserve Bulletin, March 1956.

dollars consider that their dollar holdings in the form of deposits are sufficient for current requirements, they tend to divert part of any further dollar funds received into short-term earning assets, and even into medium-term securities, in order to obtain an interest return on their holdings.

No figures are available showing for individual countries the breakdown of short-term dollar assets into official and private holdings, but the Federal Reserve statistics do give overall data for these two types of holdings. Of the total short-term dollar holdings of other countries (including international institutions) at the end of 1955, the official holdings of government institutions accounted for some 51 per cent., privately-held balances for 35 per cent. and holdings of international institutions for about 14 per cent. Almost \$7 milliard of the total of \$13.6 milliard consisted of bank deposits, while the remainder represented holdings of various types of earning assets, mainly Treasury bills.

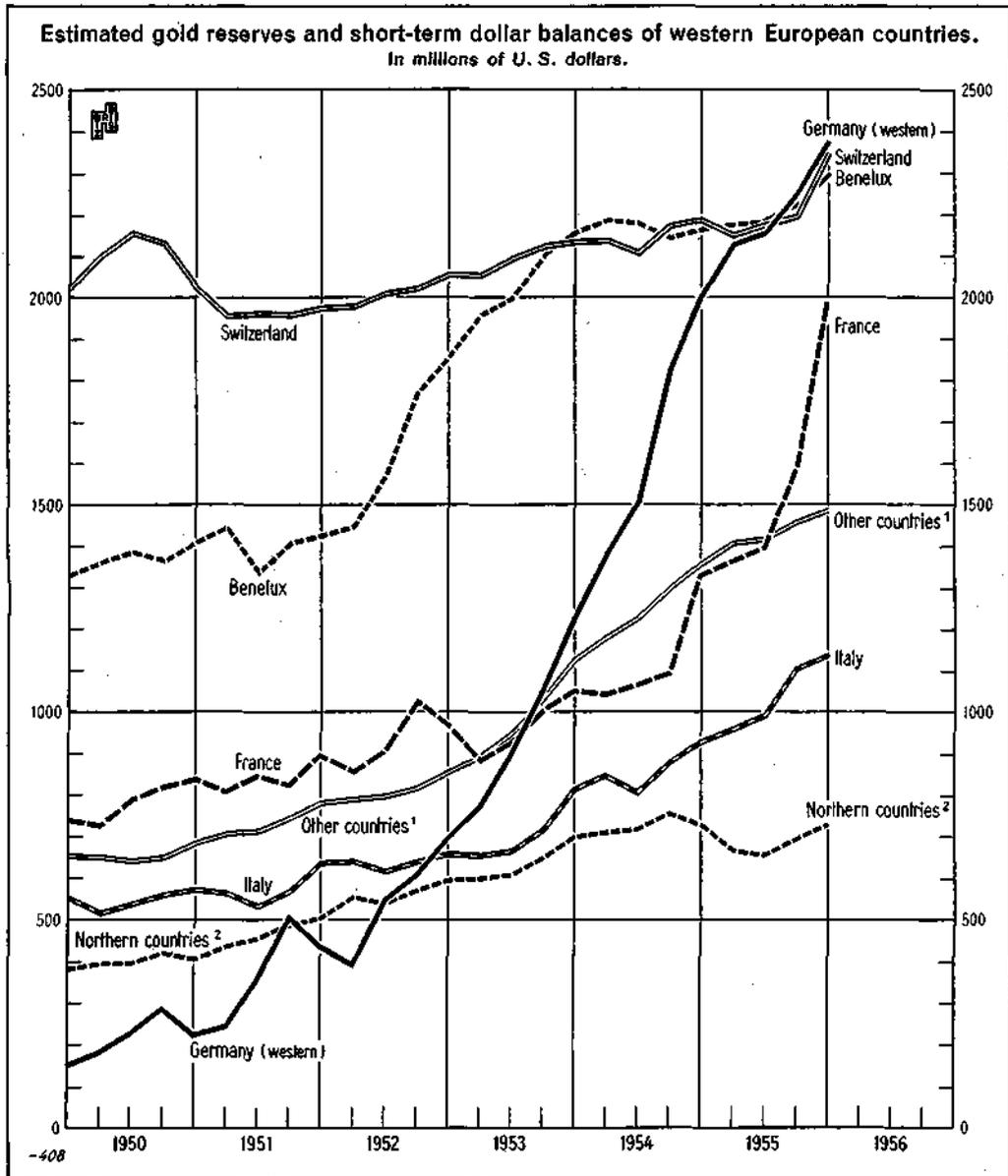
As shown in the above table, the total gold and short-term dollar holdings of countries other than the United States increased by \$1,315 million in 1955, or by \$903 million less than in 1954. If, however, account is also taken of other countries' holdings of U.S. Government bonds and notes, which have an original maturity of more than one year and about which information was given for the first time in the Federal Reserve Bulletin of March 1956, the gold and dollars gained by countries other than the United States are found to have amounted to \$1,845 million in 1955, or only \$381 million less than in 1954.

Gold reserves and dollar holdings
of countries other than the United States.

Items	End of		
	1953	1954	1955
	in milliards of U. S. dollars		
Gold reserves	14.6	15.6	16.2
Short-term dollar assets	11.7	12.9	13.6
U.S. Government bonds and notes	1.1	1.1	1.6
Total	27.4	29.6	31.4
Change	+ 2.2	+ 1.8	

The most remarkable feature of the pattern of gold and dollar gains over recent years has been the large share of the total accounted for by countries of continental western Europe, which together have more than doubled their holdings during the six-year period covered by the graph on the next page.

The gains over the six years from the end of 1949 to the end of 1955 have been fairly widely distributed. By far the greatest increase was recorded by western Germany, but in the case of that country the rise started from a level which was virtually negligible. France and Italy have shown very significant gains, particularly since the beginning of 1953. The increase recorded by Switzerland has been modest over the last six years, but its



¹ Austria, Greece, Portugal, Spain and Turkey. ² Denmark, Finland, Norway and Sweden.

total holdings were initially much larger than those of any other country on the continent, even disregarding differences in population. The reserves of the Benelux countries, after rising sharply during 1952 and 1953, have shown little further gain, but they are generally considered to be adequate for most contingencies, including further moves towards convertibility. The northern countries, on the other hand, have not as a group added very much to their gold and dollar holdings over the period covered by the graph. They have, however, paid increasing attention to the need for improving their external position and a number of measures of a monetary and fiscal character have been taken to this end (see page 45 et seq.).

For the first quarter of 1956 preliminary data indicate that the short-term dollar holdings of countries other than the United States (including international institutions) increased by \$750 million to about \$14.4 milliard. Western Europe accounted for almost \$400 million of this gain, while Canada's holdings increased by nearly \$150 million and those of Latin America by about \$115 million.

Information about gold movements is still fragmentary but the available data suggest that the United States was, on balance, a very small net purchaser of gold. Since it may be assumed that other countries continued to acquire gold from other sources at a rate not much below that of the preceding year, the aggregate gold holdings of these countries (including international institutions) probably rose by at least \$125 million during the first quarter of 1956. The combined gold and short-term dollar holdings thus seem to have risen in this quarter by almost \$900 million, which is a rate of increase well above that of recent quarters.

Owing to the considerable increase in multilateral settlements over recent years it is important, in examining the changes in the gold and dollar reserves of individual countries, to take account of other payments relations than those directly with the dollar area. As far as the western European countries are concerned, it has been necessary, in particular, to take into account the gold and dollar settlements within the European Payments Union. In the following table, the E.P.U. gold and dollar settlements of each country are subtracted from the same country's total gold and dollar transactions in order to give an idea, by the residual, of the change in reserves on account of all other transactions, i.e. mainly those with the dollar area itself.

The table on the following page shows that over one-half of the total gold and short-term dollar gains of western Germany, the Netherlands and Switzerland in the years 1953-55 arose directly out of their surpluses within the E.P.U. In the case of France, Italy and Portugal, on the other hand, deficits in the Union have reduced net gains of gold and dollars from other sources, while Denmark, Norway and Turkey have had to make payments in respect of E.P.U. deficits which have more than offset gold and dollar gains on other account. The relatively large size of the net E.P.U. payments of the different countries reflects in part the special settlements negotiated in connection with the renewal of the Union in July 1954 and in part the 1955 increase, from 50 to 75 per cent., in the proportion of the net deficits which must be settled in gold or dollars. The net surpluses and deficits on ordinary account are the result not only of normal commercial transactions but also of other dollar payments within the Union (e.g. as a counterpart to transactions settled by means of transferable sterling). This is only one facet of the evolution which is bringing the O.E.E.C. countries ever nearer to full partnership in a world-wide multilateral payments system.

While the quotations for transferable sterling kept relatively close to the official parity almost throughout 1955 (see page 127) and sterling continued to be used as a trading currency to as great an extent as before, there was a reduction in the total amount of the sterling balances both of the rest of the sterling area and of the non-sterling-area countries.

The reason why the sterling-area countries drew down their balances was that they had payments to make in their ordinary daily business which they could not meet from other sources, more particularly since in 1955 there was no

Changes in gold and dollar holdings of E.P.U. member countries.

Countries	Net changes in gold and dollar holdings through				Total net changes in gold and dollar holdings ⁴
	E.P.U. settlements ¹			Transactions with dollar and other areas ²	
	Ordinary	Special ²	Total		
in millions of U. S. dollars					
Austria 1953	+ 37	—	+ 37	+ 58	+ 95
1954	+ 17	+ 15	+ 32	+ 59	+ 91
1955	- 49	+ 5	- 44	+ 39	- 5
Belgium-Luxemburg ⁵ . 1953	- 20	—	- 20	+ 83	+ 63
1954	- 8	+ 79	+ 71	- 130	- 59
1955	+ 100	+ 43	+ 143	+ 15	+ 158
Denmark 1953	- 14	—	- 14	+ 40	+ 26
1954	- 51	- 18	- 69	+ 44	- 25
1955	- 17	- 10	- 27	+ 16	- 11
France ⁵ 1953	- 257	—	- 257	+ 339	+ 82
1954	- 84	- 69	- 153	+ 432	+ 279
1955	+ 150	- 155	- 5	+ 663	+ 658
Germany (western) . . 1953	+ 172	—	+ 172	+ 362	+ 534
1954	+ 239	+ 153	+ 392	+ 382	+ 774
1955	+ 191	+ 85	+ 276	+ 99	+ 375
Greece 1953	- 2	—	- 2	+ 57	+ 55
1954	- 55	—	- 55	+ 67	+ 12
1955	+ 45	—	+ 45	+ 16	+ 61
Italy 1953	- 80	—	- 80	+ 237	+ 157
1954	- 113	- 43	- 156	+ 269	+ 113
1955	- 98	- 15	- 113	+ 319	+ 206
Netherlands ⁵ 1953	+ 40	—	+ 40	+ 200	+ 240
1954	- 5	+ 47	+ 42	+ 21	+ 63
1955	+ 44	+ 35	+ 79	- 97	- 18
Norway 1953	- 21	—	- 21	+ 32	+ 11
1954	- 33	- 15	- 48	+ 25	- 23
1955	- 22	- 6	- 28	+ 4	- 24
Portugal ⁵ 1953	- 8	—	- 8	+ 103	+ 95
1954	- 14	+ 10	- 4	+ 95	+ 91
1955	- 37	+ 2	- 35	+ 75	+ 40
Sweden 1953	+ 6	—	+ 6	+ 54	+ 60
1954	- 50	+ 35	- 15	+ 86	+ 71
1955	- 11	+ 13	+ 2	+ 21	+ 23
Switzerland 1953	+ 69	—	+ 69	+ 11	+ 80
1954	+ 55	+ 45	+ 100	- 48	+ 52
1955	- 24	+ 29	+ 5	+ 158	+ 163
Turkey 1953	+ 2	—	+ 2	+ 4	+ 6
1954	- 72	—	- 72	+ 67	- 5
1955	- 47	—	- 47	+ 48	+ 1
United Kingdom ⁵ . . 1953	+ 115	—	+ 115	+ 571	+ 686
1954	+ 89	- 110	- 21	+ 197	+ 176
1955	- 170	- 25	- 195	- 417	- 612
Totals 1953	+ 39 ⁶	—	+ 39	+ 2,152	+ 2,190
1954	- 87 ⁶	+ 130	+ 43	+ 1,567	+ 1,610
1955	+ 53 ⁶	—	+ 53	+ 962	+ 1,015

¹ The settlements effected during the calendar year are in respect of the period November to November.
² The special gold and dollar settlements during 1954 and 1955 consist principally of settlements arising in connection with the renewal of the E.P.U. as from 1st July 1954. Included in these settlements are \$130 million in gold and dollars received by creditor countries from the Union's own reserves, and also the transfers resulting from bilateral repayments and amortisation instalments (see Chapter VIII).
³ Including international organisations other than the E.P.U. Calculated as a residual.
⁴ Reported gold and short-term U.S. dollar balances only (see table, page 158).
⁵ Including monetary areas.
⁶ The operation of the settlement mechanism of the Union results in unequal net receipts and payments.

United Kingdom: Sterling balances.*

End of	Non-sterling-area countries					Sterling-area countries			Grand total
	Dollar area	Other western hemisphere countries	O.E.E.C. countries	Others	Total	British colonies	Others	Total	
in millions of £ sterling									
1945	34	163	412	623	1,232	454	2,008	2,462	3,694
1948	19	135	370	531	1,055	556	1,809	2,365	3,420
1949	31	80	439	514	1,064	582	1,771	2,353	3,417
1950	79	45	395	492	1,011	735	1,999	2,734	3,745
1951	38	57	409	514	1,018	928	1,863	2,791	3,809
1952	34	6	320	394	754	1,032	1,647	2,679	3,433
1953	62	40	304	366	772	1,099	1,832	2,931	3,703
1954	97	8	324	427	856	1,223	1,823	3,046	3,902
1955	59	9	290	413	770	1,281	1,691	2,972	3,742

* Excluding the sterling balances held by non-territorial organisations (mainly the International Monetary Fund), which amounted to £469 million at the end of 1955.

net investment by the United Kingdom in the group of sterling-area countries as a whole. As regards the non-sterling-area countries, the motive would seem to have been of a somewhat different character: the doubts entertained in some quarters from time to time in the course of 1955 regarding the strength of sterling led certain of these holders to dispose of part of their sterling assets and to postpone payments which had to be made to the United Kingdom. By the end of 1955 the total holdings of non-sterling-area countries were down to £770 million, which must be very nearly the minimum amount required for transactions in the case of a currency so widely used as an international means of payment. The total of the sterling balances outstanding at the same date was £3,742 million (= \$10.5 milliard); these represent part of the working balances and also of the monetary reserves of the countries concerned and are thus an important element in the world's payments system.

* * *

As regards the adequacy of monetary reserves, no single criterion is decisive, since ultimately the value of a currency depends not so much on the magnitude of the accumulated reserves as on the determination with which it is upheld in a period of strain. One of the essential tasks of reserves is to enable a country to "buy time" so that proper measures can be taken and become effective. Since an important consideration in this connection is the volume of foreign trade to be financed, it is relevant to examine the size of the reserves in relation to the value of the foreign trade, and particularly of the imports, of each individual country.

In relative terms, the northern countries have the smallest reserves — a fact that has considerably influenced their policies in the last few years, since they felt that their monetary reserves were in need of being strengthened.

Commodity Imports compared with gold and dollar holdings.

Countries	Average monthly imports			Gold and short-term dollar holdings			Number of months' imports covered by gold and dollar holdings		
	in millions of U.S. dollars						1953	1954	1955
	1953	1954	1955	1953	1954	1955			
Austria	45	54	74	238	329	324	5.2	6.0	4.4
Belgium-Luxemburg	202	212	235	906	878	1,035	4.5	4.1	4.4
Denmark	83	97	98	127	102	91	1.5	1.1	0.9
Finland	44	55	64	64	72	84	1.4	1.3	1.3
France	347	362	394	1,005	1,291	1,942	2.9	3.6	4.9
Western Germany .	317	363	485	1,225	1,999	2,374	3.9	5.2	4.9
Greece	24	27	32	112	124	185	4.6	4.5	5.8
Italy	200	200	225	812	925	1,131	4.1	4.6	5.0
Netherlands	194	234	267	980	1,045	1,030	5.0	4.5	3.9
Norway	76	95	91	171	148	124	2.3	1.7	1.4
Portugal	27	29	33	433	520	560	15.7	17.8	16.9
Sweden	131	147	166	335	406	429	2.6	2.8	2.6
Switzerland	99	109	124	2,133	2,185	2,348	21.6	20.7	18.9
United Kingdom . .	780	788	907	3,009	3,190	2,593	3.9	4.0	2.9
United States* . . .	898	853	944	22,091	21,793	21,753	24.6	25.6	23.0

* Ratios based on gold holdings only.

The increase in the value of foreign trade, and thus also of imports, has in a number of cases led, as may be seen from the above table, to a reduction in the number of months' imports covered by the gold and dollar reserves — and this reduction has, of course, been more pronounced when combined with a loss of reserves, as in the case of the United Kingdom. It is of interest to note that at the present rate of expansion of the world economy the increase in the aggregate gold and dollar reserves of central banks and governments has not quite been able to keep pace with the increase in the value of world trade.

In assessing the adequacy of reserves, it is a matter of great importance whether the country in question has at its disposal sources of credit or foreign assets other than those included in the monetary reserves and whether these assets can be readily mobilised in case of need. There is no simple formula by which the relative importance of these various factors can be appraised; moreover the strength of a currency will largely depend, as it has always done, not so much on the availability of reserves as on the way in which the country in question is known to have coped with its difficulties in the past.

While each country must itself take whatever internal measures are necessary to maintain the value of its currency, it may, during a crucial period, derive considerable benefit from external assistance. There is no doubt, for instance, that in the post-war years the foreign aid received from the United States has played an important part in the process of re-establishing the world's monetary system. Useful service has, moreover, been rendered by the credits granted and received within the European Payments Union, which came into being in connection with Marshall aid; the total of such credits was, however, never very large and, except in the first two years,

has remained at more or less the same level. Under the proposed arrangements for a European Fund, which will come into operation when the E.P.U. is terminated, similar assistance will be available in a somewhat different form, the total amount involved being \$600 million. In a wider geographical context, account must also be taken of the facilities available through the International Monetary Fund and, in a more general way, through the International Bank for Reconstruction and Development.

In recent years individual countries, while not denying the advantages of being able to call upon international institutions, especially in a period of emergency, have tended to try to build up their own monetary reserves, which, whatever the circumstances, will have to serve as the first line of defence in the safeguarding of their currency values. Disappointments and setbacks have not been lacking, but perhaps the strongest ground for confidence lies in the fact that in an increasing number of countries a fairly high degree of monetary equilibrium, in both the domestic and external sectors, seems now to have been reached. It is therefore possible that in the near future there will be somewhat less strain than in the recent past and that certain key countries will be able to build up their reserves to the point necessary to provide them with a satisfactory margin of safety.

VII. Money and Credit.

Looking back over the post-war period, it is clear that the progressive return to flexible monetary policies has now brought to an end the era of rigid credit conditions which dated back to the depression of the 1930s. But it was not until 1955, when it became evident that the economic trend in the United States had taken a decisive upward turn and that the boom prevailing in Europe would not only continue but would also be supported by expansion elsewhere, that monetary policy on both sides of the Atlantic — and in other parts of the world as well — began to display a sufficiently high degree of active flexibility to prove that an obstinate adherence to cheap money as a matter of principle was truly a thing of the past. The measures adopted in 1955 and the early months of 1956 were taken in the clear knowledge that they were necessary to help to prevent inflationary pressures from gathering strength in the present conditions of full employment of labour, of plant and equipment and of all available savings.

While changes in official discount rates have been the most obvious signs of modifications in credit policy, they have been supplemented by a series of other measures, including open-market operations, changes in (or the introduction of) cash-reserve requirements, the fixing of general credit ceilings, the restriction of certain types of credit, the issuing of recommendations by the authorities to credit institutions, etc. It has furthermore been found necessary in the majority of countries to reinforce the credit policy by budgetary measures designed to check demand for consumption and investment purposes and to stimulate saving.

The table on the next page shows the changes in official discount rates introduced between the outbreak of the Korean war in the summer of 1950 and the first week of June 1956.

During the period of nearly six years covered by the table western Germany and the United States have each changed their official discount rates nine times, while Austria has made eight changes and the United Kingdom seven. Since the beginning of 1955 alterations have been particularly frequent. In this short time the Federal Reserve System has made five increases — each of $\frac{1}{4}$ per cent. — in its discount rate, amounting to $1\frac{1}{4}$ per cent. in all, western Germany and the United Kingdom have both raised their rates three times, altogether by $2\frac{1}{2}$ per cent., and New Zealand's rate has been put up by 3 per cent. to 7 per cent. Similar or higher rates are in force in Greece (9 per cent.), Iceland (7 per cent.) and Finland (minimum $6\frac{1}{2}$ per cent.). The discount rate of the Swiss National Bank, on the other hand, has remained at $1\frac{1}{2}$ per cent. since November 1936 and is therefore still the lowest applied by any central bank.

Such changes as occurred in 1955 in the ratio between the money supply and the gross national product, though slight, for the most

Changes in official discount rates since July 1950.*

Country and date of change	Official discount rate	Country and date of change	Official discount rate	Country and date of change	Official discount rate
	in %		in %		in %
Austria		Finland		New Zealand	
10th July 1935	3½	1st July 1949	5%	26th July 1941	1½
8th December 1951	5	3rd November 1950	7%	13th April 1954	3½
3rd July 1952	6	16th December 1951	5%	26th November 1954	4
22nd January 1953	5½	1st December 1954	5	1st July 1955	5
26th March 1953	5	19th April 1956	6½	5th September 1955	6
24th September 1953	4			19th October 1955	7
3rd June 1954	3½	France		Norway	
20th May 1955	4½	8th June 1950	2½	9th January 1946	2½
17th November 1955	5	11th October 1951	3	14th February 1955	3½
		8th November 1951	4		
Belgium		17th September 1953	3½	South Africa	
8th October 1949	3¼	4th February 1954	3¼	13th October 1949	3½
11th September 1950	3¼	2nd December 1954	3	27th March 1952	4
5th July 1951	3½			29th September 1955	4½
13th September 1951	3¼	Western Germany		Spain	
18th December 1952	3	14th July 1949	4	22nd March 1949	4
29th October 1953	2¼	27th October 1950	6	1st July 1954	3%
4th August 1955	3	29th May 1952	5		
		21st August 1952	4½	Sweden	
Bolivia		8th January 1953	4	9th February 1945	2½
4th February 1948	5	11th June 1953	3½	1st December 1950	3
30th August 1950	6	20th May 1954	3	20th November 1953	2½
		4th August 1955	3½	19th April 1955	3%
		8th March 1956	4¼		
		19th May 1956	5%	Turkey	
Brazil				1st July 1938	4
2nd February 1945	6	Greece		26th February 1951	3
14th October 1954	8	12th July 1948	12	28th June 1955	4½
16th May 1955	6	1st January 1954	10	6th June 1956	6
		1st January 1955	9		
Canada				United Kingdom	
8th February 1944	1½	Iceland		26th October 1939	2
17th October 1950	2	1st January 1948	6	8th November 1951	2½
15th February 1955	1½	2nd April 1952	7	11th March 1952	4
6th August 1955	2			17th September 1953	3½
13th October 1955	2¼	India		13th May 1954	3
19th November 1955	2¼	28th November 1935	3	27th January 1955	3½
5th April 1956	3	15th November 1951	3½	24th February 1955	4¼
				16th February 1956	5½
Ceylon		Ireland		United States	
28th August 1950	2½	23rd November 1943	2¼	13th August 1948	1¼
23rd July 1953	3	25th March 1952	3½	21st August 1950	1¼
11th June 1954	2½	25th May 1954	3	16th January 1953	2
		19th December 1955	4	5th February 1954	1¼
Chile		26th May 1956	5	16th April 1954	1¼
13th June 1935	6			15th April 1955	1¼
28th March 1951	8	Japan		5th August 1955	2
		5th July 1948	5.11	9th September 1955	2¼
Costa Rica		1st October 1951	5.84	18th November 1955	2¼
1st February 1950	4	10th August 1955	7.30	13th April 1956	2%
1st April 1954	5				
		Netherlands			
Denmark		27th June 1941	2½		
15th January 1946	3½	26th September 1950	3		
4th July 1950	4½	17th April 1951	4		
2nd November 1950	5	22nd January 1952	3½		
23rd September 1953	4½	1st August 1952	3		
23rd June 1954	5½	7th April 1953	2½		
		7th February 1956	3		

* The last discount rate in force prior to July 1950 is also shown.

part evidenced the application of monetary restraint (see the tables at the end of this chapter). It is of interest to note that in many countries this ratio has returned to more or less the pre-war level. The only marked exceptions to this trend are to be found in Italy and Norway, where the ratio is now much higher than before the war. In the case of Italy the higher ratio is very likely a result of the rapid change that has taken place in the country's economic structure, which has led to increased holdings of money, especially in the form of demand deposits; as for Norway, it seems that a considerable part of the funds which before the war were held in the form of time deposits have for technical reasons been transferred to sight accounts.

Since the devaluations of 1949 the increase in the money supply has varied considerably from country to country, as is shown in the following table.

Changes in the money supply.

Countries	1950	1951	1952	1953	1954	1955	Overall change 1950-55
	in percentages						
Austria	+ 13	+ 19	+ 8	+ 24	+ 25	+ 1	+ 128
Belgium	- 0	+ 8	+ 4	+ 3	+ 2	+ 5	+ 24
Denmark	+ 0	+ 2	+ 6	+ 6	- 2	+ 2	+ 15
Finland	+ 13	+ 39	- 9	+ 6	+ 7	+ 15	+ 86
France	+ 15	+ 18	+ 13	+ 11	+ 14	+ 13	+ 120
Germany (western)	+ 14	+ 18	+ 11	+ 10	+ 13	+ 10	+ 105
Italy	+ 11	+ 16	+ 15	+ 9	+ 4	+ 11	+ 86
Netherlands	- 6	+ 3	+ 10	+ 6	+ 6	+ 9	+ 31
Norway	- 2	+ 12	+ 5	+ 4	+ 4	- 1	+ 22
Sweden	+ 6	+ 19	+ 4	+ 4	+ 2	+ 0	+ 40
Switzerland	+ 3	+ 4	+ 3	+ 4	+ 3	+ 3	+ 23
Turkey	+ 20	+ 13	+ 26	+ 25	+ 9	.	.
United Kingdom	+ 2	+ 1	+ 0	+ 3	+ 3	- 0	+ 10
United States	+ 6	+ 6	+ 4	+ 1	+ 3	+ 3	+ 24
Canada	+ 10	- 0	+ 7	- 1	+ 6	+ 6	+ 31

In the United Kingdom the money supply did not increase at all in 1955 and in the United States it rose by only 2.8 per cent. — which, particularly in view of the prevailing boom conditions, is indicative of the effectiveness of the measures taken in the two main Anglo-Saxon countries to prevent excessive monetary expansion.

It is true that in a number of cases, as may be seen from the following table, the credit policies pursued might not appear to have had any immediate influence on the level of domestic prices* or on the balances of payments.

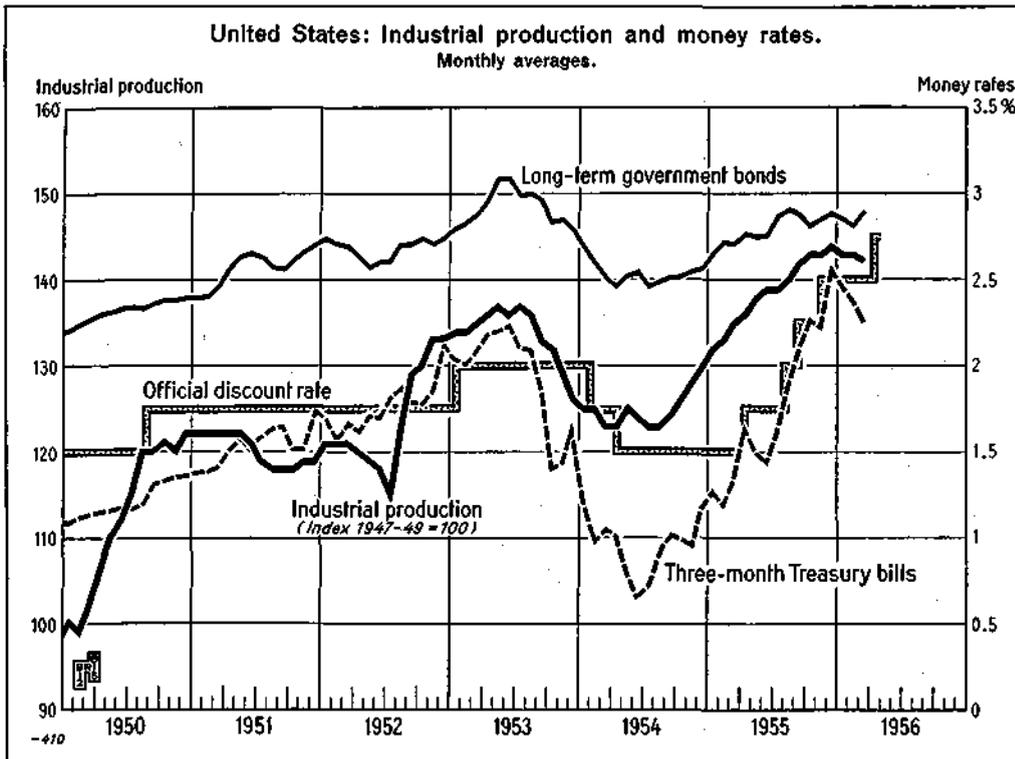
* The effects of the restrictive credit policies on world-market prices seem to have made themselves felt rather rapidly (see page 8).

Changes in the money supply, prices
and the balance of current payments in 1955.

Countries	Money supply	Average of wholesale prices and the cost of living	Balance of payments on current account
	in percentages		
United Kingdom	- 0	+ 3.9	deficit
Sweden	+ 0	+ 3.6	"
Austria	+ 1	+ 2.3	"
Germany	+ 10	+ 1.8	surplus
France	+ 13	+ 0.5	"
Finland	+ 15	- 2.2	"

In time, however, the limitation of the growth of the money supply increasingly tends to make its effects felt both on the level of domestic prices in the countries concerned and on their external position, since in the end the value of money, like that of every commodity, is bound to be determined by its relative scarcity.

In the Introduction a general review has been given of recent developments in the field of credit in the United States. It has been shown how the monetary authorities in that country have changed over from the policy of cheap and easy money pursued in 1954 to one of increasingly rigorous restraint, culminating in April 1956 in an increase in the



official discount rates to 2¾ per cent. (actually two Federal Reserve banks raised their rates to 3 per cent.). As may be seen from the graph on the preceding page, the movements of interest rates, as influenced by credit policy, were closely related to the changes in the tempo of economic activity.

In addition to the increases in the official discount rates, the U.S. authorities carried out open-market operations designed to exert a steady pressure on the economy without, however, impairing the dynamic forces at work, with the result that by mid-November 1955 the amount borrowed by the member banks from the Federal Reserve banks exceeded the total of their excess reserves by nearly \$600 million.

The direct cause of the reduction in the banks' liquidity was the large increase in their loans, even though this was offset to the extent of about two-thirds by a decline in their holdings of securities.

United States: Loans and Investments of commercial banks.

Items	Change in			Amount outstanding at the end of 1955
	1953	1954	1955	
In milliards of dollars*				
Loans to				
Business	- 0.7	- 0.3	+ 6.4	33.2
Real estate	+ 1.0	+ 1.7	+ 2.4	20.8
Consumers	+ 1.5	- 0.2	+ 2.0	12.7
Others	+ 1.6	+ 1.8	+ 1.3	17.0
Total loans	+ 3.4	+ 2.9	+ 12.0	82.6
Investments in securities (mainly government)	+ 0.6	+ 7.2	- 7.0	78.3
Total loans and investments	+ 4.1	+ 10.2	+ 5.0	160.9

* Totals may not add up because of rounding and the deduction of valuation reserves.

After declining for two successive years, commercial loans expanded considerably in 1955, being needed by business to finance additions to commodity stocks and work in progress, by purchasers of real estate, and by consumers for their increased buying of durable goods. Since the banks sold \$7 milliard of securities, largely to enterprises and individuals, the increase in both time and sight deposits held with the banks was smaller than in 1954, notwithstanding the large volume of loans granted by them. As the banks' liquidity diminished, the market for "Federal funds" (i.e. the market on which the excess reserves of member banks are dealt in) became narrower, so that, especially in the autumn, the rates quoted repeatedly rose to the level of the official discount rate, as did also the rate for three-month Treasury bills.

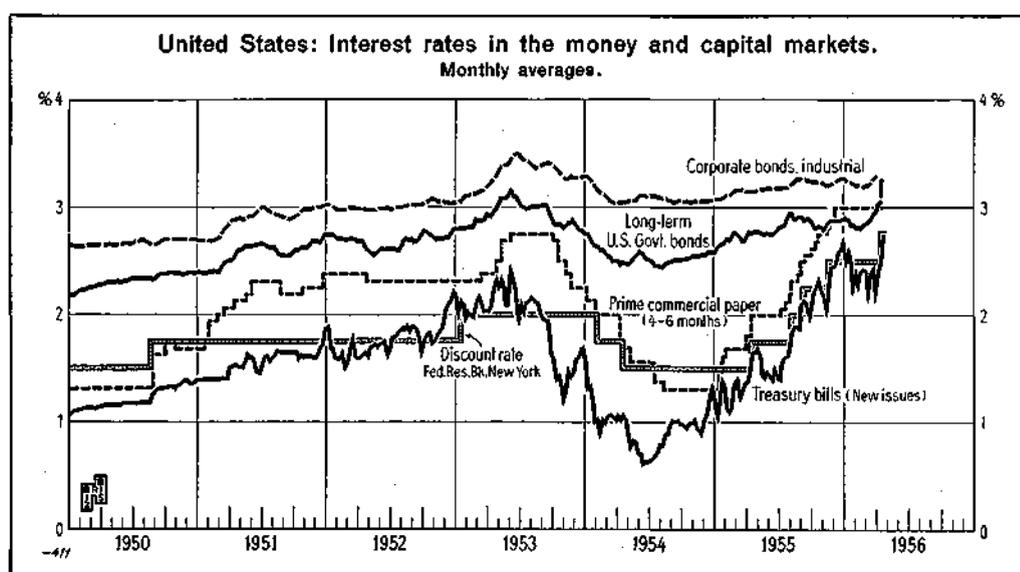
Despite the massive sales of government securities by the banks, capital-market yields remained more stable than money-market rates, one important reason for this being that the U.S. Government refrained in 1955 from increasing the amount of debt which had to be taken up by the public. There was, it is true, a rise of \$2 milliard in the public debt, but the whole of this was absorbed by government agencies and trust funds.

In the course of 1955 there was an impressive narrowing between the rates not only for government paper but also for private paper. While the rate for prime commercial paper (four to six months) rose from 1.31 per cent. to 2.99 per cent. between December 1954 and December 1955, the average yield of corporate bonds only moved up from 3.13 per cent. to 3.33 per cent.

United States: Interest rates in the money and capital markets.

Averages in	Federal Reserve Bank discount rate (New York)	Federal Funds	U.S. Government securities			Short-term commercial paper		Average yield of	
			3-month bills, new issues	9 to 12 month issues	Bonds, 12 years and over	Prime commercial paper 4 to 6 months	Prime bankers' acceptances	corporate bonds	common industrial stock
in percentages									
1952 4th quarter	1.75	1.64	1.92	1.92	2.73	2.31	1.75	3.20	5.32
1953 4th "	2.00	1.17	1.49	1.62	2.82	2.37	1.88	3.41	5.56
1954 4th "	1.50	0.78	1.04	1.02	2.55	1.31	1.25	3.13	4.27
1955 1st "	1.50	1.13	1.28	1.42	2.69	1.61	1.36	3.18	4.14
2nd "	1.50-1.75	1.32	1.51	1.71	2.76	1.97	1.48	3.22	3.93
3rd "	1.75-2.25	1.81	1.86	2.05	2.89	2.33	1.75	3.28	3.72
4th "	2.25-2.50	2.28	2.35	2.34	2.85	2.83	2.28	3.31	3.95
1956 1st "	2.50	2.38	2.38	2.44	2.86	3.00	2.40	3.29	3.90

In 1955, in contrast to 1954, an exceptionally large volume of external funds was required by non-financial corporations (i.e. mainly industrial and commercial firms), even though they had greater internal resources at their disposal.



The total amount of funds utilized in 1955 by the non-financial corporations was \$40 milliard, or twice as much as in the previous year. Retained profits and depreciation allowances supplied 26 per cent. more in 1955 than in 1954, but the most remarkable increase was that in the total of external funds, which rose from \$1.2 milliard in 1954 to \$15.6 milliard in 1955. About 70 per cent. of the available funds was used for investment in fixed assets and inventories, while the remainder was needed to finance an increase in trade receivables (i.e. the amount by which credit granted to customers exceeds that received from suppliers) and to build up larger cash reserves and other liquid assets.

United States:
Sources and uses of funds obtained by non-financial corporations.

Items	1952	1953	1954	1955 preliminary
	in milliards of dollars			
Sources of funds				
Internal				
Retained profits	6.4	6.8	6.2	9.6
Depreciation allowances	10.4	11.7	13.1	14.8
Total internal funds	16.8	18.5	19.3	24.4
External				
Capital market and mortgages	8.1	7.5	7.0	7.1
Bank loans	2.4	— 0.4	— 2.0	3.4
Other	— 0.5	2.1	— 3.8	5.1
Total external funds	10.0	9.2	1.2	15.6
Total sources of funds	26.8	27.7	20.5	40.0
Uses of funds				
Investments				
In plant and equipment (gross)	22.4	23.9	22.4	24.5
In inventories	0.9	2.6	— 2.8	3.6
Total investments	23.3	26.5	19.6	28.1
Net receivables	3.1	0.7	2.0	6.9
Cash, securities, etc.	0.4	0.5	— 1.1	5.0
Total uses of funds	26.8	27.7	20.5	40.0

In the United Kingdom the overall budget deficit went up from £68 million in the financial year 1954-55 to £141 million in 1955-56 and in addition the authorities had to find substantial amounts to cover those requirements of the nationalised industries which took the form of new issues of stock guaranteed by the Treasury. Total claims met by the capital market and by the domestic banks were also enlarged by the increased demand for finance by the private economy at a time of boom and by sales of securities, Treasury bills, etc. by overseas holders who were running down their sterling balances. The sterling accruing to the Exchange Equalisation Account from sales of foreign exchange reduced the amount which the Treasury needed to borrow from the market but, even so, the situation was characterised during most of the year by considerable tension. It is true that in the financial year 1955-56 the total amount of Treasury bills outstanding was reduced by £145 million, but the London clearing banks had to increase their holdings by £97 million, while at the same time they cut down their holdings of other government securities (which account for almost the whole of the item "Investments" in their returns) by £288 million.

In 1954-55 a decline in the public-sector assets had been more than offset by an expansion of credit to the private sector and net deposits had in fact increased by £129 million. In 1955-56 an even greater decline in the public-sector assets was accompanied by a reduction in credits extended to the private

**London clearing banks:
Changes in selected items from the monthly returns.**

12-month period from mid-March	Liabilities	Assets						
	Net deposits	Public sector				Private sector		
		Money at call and short notice	Treasury bills	Investments	Total	Advances*	Bills	Total
in millions of £ sterling								
1952-53	+ 158	- 54	+ 277	+ 187	+ 410	- 148	- 107	- 255
1953-54	+ 168	- 4	+ 40	+ 147	+ 183	- 38	+ 14	- 24
1954-55	+ 129	- 30	- 146	+ 12	- 164	+ 264	+ 33	+ 297
1955-56	- 311	- 11	+ 97	- 288	- 202	- 119	+ 7	- 112
Amount outstanding at mid-March 1956	5,828	427	946	1,993	3,366	1,905	123	2,028

* Including advances to nationalised industries.

sector, with the result that net deposits, which constitute the greater part of the money supply, fell by no less than £311 million.

Not all the various groups of bank customers were affected in the same way by the reduction in advances which was started in the middle of 1955 at the government's request (see pages 37-38). The decline in credits outstanding was due to a great extent to the repayments made by the nationalised industries out of the proceeds of long-term issues, but there was also a reduction in advances to local authorities and an even greater one in advances to the borrowers classified as "Personal and professional", "Stockbrokers" and "Other financial", which, as a group, at the end of February 1956 were down by £67 million, or about 11 per cent., compared with their level at the end of February 1955. The group "Industry and trade", on the other hand, received additional advances amounting to £49 million, almost the whole of which was accounted for by the engineering, shipbuilding and iron and steel industries.

From the summer of 1955 onwards the liquidity ratio of the banks was well above the conventional 30 per cent.; this was partly, no doubt, the result of decisions taken earlier in the year, when the ratio was within a fraction of the conventional minimum, and partly a compliance with the authorities' request.

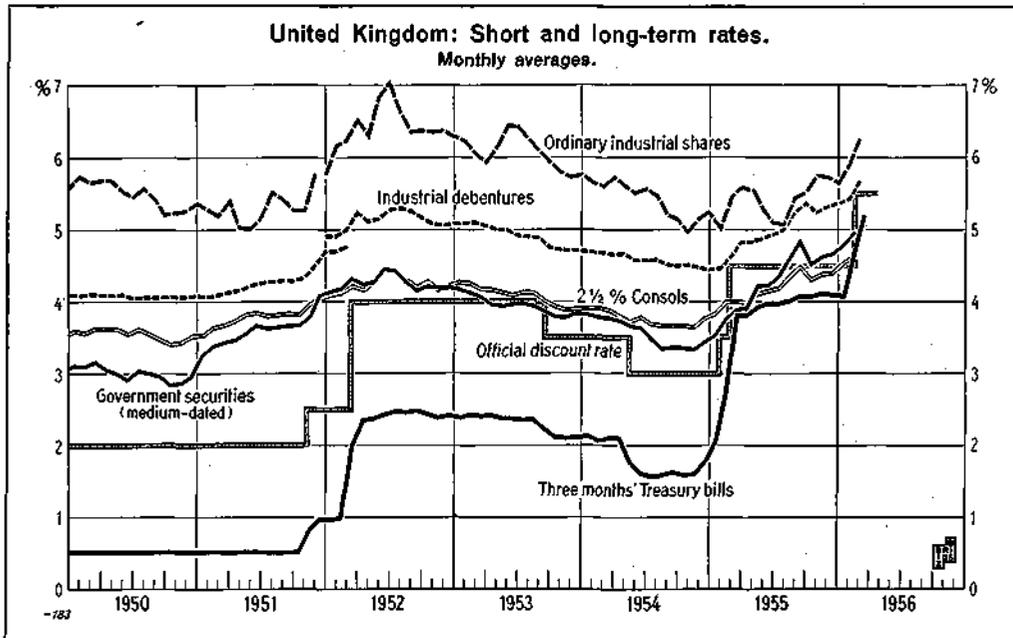
As far as the credit measures were concerned, the increase in Bank rate from 3 per cent. in January 1955 to 5½ per cent. in February 1956 was accompanied by a rise in interest rates in other parts of the credit structure. The Treasury doubled the rate on tax-reserve certificates, which is now 3 per cent. (tax-free), and the rates charged on loans granted by the Public Works Loan Board were increased in five stages, the rate on loans for a period of over fifteen years having gone up from 4 to 5½ per cent. and that on loans for up to five years from 3⅛ to 5⅝ per cent. The shorter loans are thus more expensive than the longer ones; the rates for both have now reached their highest level since the early 1920s.

Restrictions on hire-purchase credit, which had been lifted in July 1954, were reintroduced in February 1955. In July 1955 the minimum cash payment for instalment purchases of a wide range of durable consumer goods was raised from 15 to 33½ per cent.; and in February 1956 it was raised again from 33½ to 50 per cent., while the minimum cash payment for such goods as had not been affected by the previous increase was changed from 15 to 20 per cent.

The regulations concerning the scrutiny of new issues by the Capital Issues Committee were also tightened, the upper limit for exemption being lowered in March 1956 from £50,000 to £10,000.

New capital issues (excluding government issues) amounted in 1955 to £567 million, which is fully 20 per cent. more than in 1954 and also more in real terms than the average for the years 1933-38. Most of the new borrowing in 1955 was for the account of public bodies, including, in particular, the nationalised industries, the total of whose issues during the year amounted to £295 million, compared with £206 million in 1954. Even though these issues are backed by a government guarantee, a considerable proportion of the securities in question had to be taken up by government departments, which in their turn had to obtain an appreciable part of the funds needed by selling short-term government paper. It was because of this that the step was taken in April 1956 of transferring the capital requirements of the nationalised industries to the budget by including them in the "below-the-line" expenditure.

During the first quarter of 1955 interest rates converged in a remarkable fashion, in that the maximum spread between the rate earned on three-month Treasury bills and the yield of industrial debentures, which had still been as much as 3 per cent. at the end of 1954, was reduced by March 1955 to less than 1 per cent.



It is clear from the above graph that the spread remained very small throughout the period from April 1955 to April 1956.

The authorities' determination to fight inflation by general measures rather than by direct controls is evidenced by the appreciable increase in rates from 1955 to 1956. The result has been that Treasury bills and short-term bonds have become very attractive to both domestic and foreign investors. The rates shown in the last column of the table (those for the end of April 1956) already reflect the reaction of the market to the measures taken in February and to the new budget. Though the announcement of the budget proposals led to no very striking change in either direction, it would seem

United Kingdom: Interest rates and yields.

Items	End of April				
	1952	1953	1954	1955	1956
	in percentages				
Bank of England					
Bank rate	4.0	4.0	3.5	4.5	5.5
Market rates					
3-month Treasury bills	2.31	2.38	2.08	3.91	5.03
3-month bank bills	3.0	3.0	2.12	3.94	5.14
3-month fine trade bills	4-5	4-5	3-3.5	4.25-4.75	6-6.5
Bank deposit rates	2.0	2.0	1.75	2.5	3.5
Public Works Loan Board					
(over 15 years)	4.25	4.25	4.0	4.0	5.5
Government securities (yield)*					
2½% Savings Bonds 1964-67 . . .	3.98	3.62	3.34	3.83	4.93
2½% Consols	4.18	4.16	3.75	4.08	4.57
3½% War Loan	4.50	4.35	4.01	4.27	4.79

* Yields calculated to latest date for savings bonds. For consols and war loan flat yields.

that for some weeks the volume of transactions increased, and that sales to the market by the authorities in the form of new issues of government stock and of sales of securities already in departmental portfolios rose in a way that indicated a noteworthy growth in the absorptive capacity of the market. But towards the end of May there was again a distinct weakening in the quotations of gilt-edged securities.

In the comments on the table showing the formation of the money supply in France (see Chapter II, page 64) it was mentioned that in 1955 practically no new money was created on government account, the situation of the Treasury having become fairly easy as a result of the increase in liquidity connected with the substantial addition to the gold and foreign exchange reserves. There was, on the other hand, an increase of Fr.fcs 478 milliard in the total of credits extended to the economy (including both private and nationalised industries). As may be seen from the following table, the expansion of medium-term credit continued at a high rate, with the result that by the end of 1955 this form of credit was equal to one-quarter of the total of bank credit to the economy.

France: New bank credit to the economy.

Items	1952	1953	1954	1955	Amount outstanding at the end of 1955
	in milliards of French francs				
Short-term bank credit	+ 164	+ 143	+ 169	+ 319	2,493
Medium-term bank credit	+ 202	+ 104	+ 173	+ 159	845
Total	+ 366	+ 247	+ 342	+ 478	3,338
Amount refinanced at the Bank of France	+ 169	+ 54	+ 124	+ 140	1,262

In 1955 the Bank of France refinanced Fr.fcs 140 milliard of the new credit granted to the economy. In absolute figures this was more than in 1954, but in relation to the total volume of new credit extended the amount refinanced in 1955 was equal to 29 per cent., compared with 36 per cent. in the previous year. Out of the total of Fr.fcs 3,338 milliard outstanding at the end of 1955, Fr.fcs 1,262 milliard had been refinanced by the Bank of France.

The increase in monetary savings amounted in 1955 to Fr.fcs 865 milliard, i.e. 3.6 per cent. more than in the previous year. In 1955 liquid savings again exceeded those directly invested on the capital market; there was, in particular, a marked increase in the formation of savings in the form of time and savings deposits.

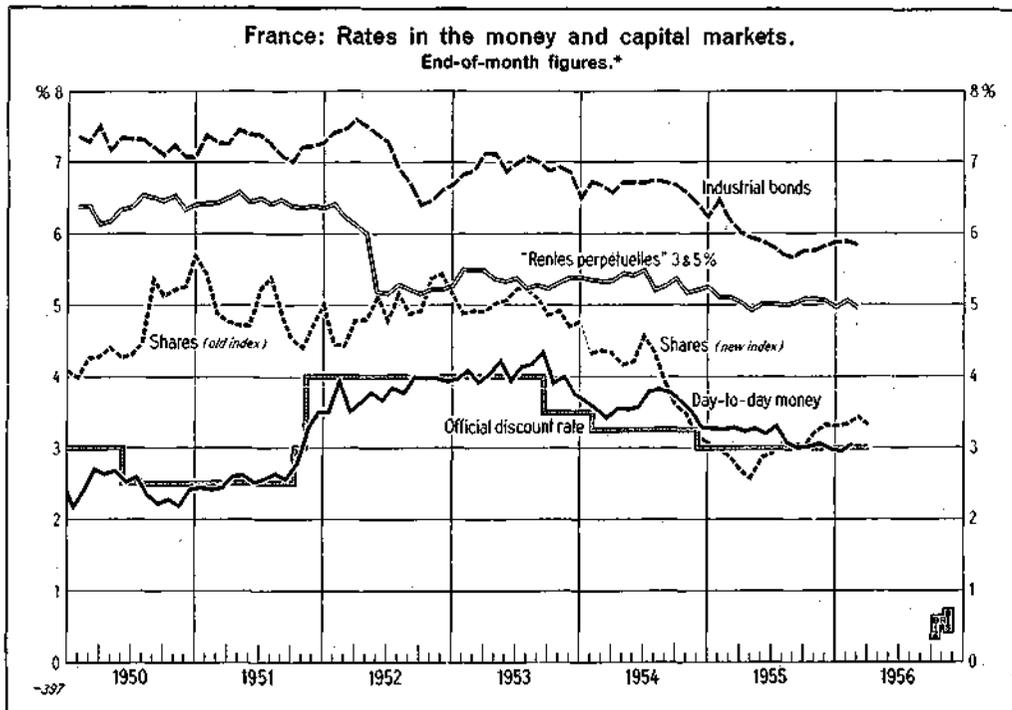
France: Formation of new savings.

Items	1951	1952	1953	1954	1955
	in milliards of French francs				
Liquid savings					
Increase in time and savings deposits . .	98	143	225	251	317
Increase in reserves of life-insurance companies	56	61	57	75	83
Short-term Treasury paper bought by the public	80	77	92	174	156
Total of liquid savings	234	281	374	500	556
Capital-market issues by					
Public authorities	19	238	93	192	162
Nationalised Industries	24	31	62	70	49
Private business	61	81	96	137	210
Total capital-market issues (gross).	104	350	251	399	421
Less: repayments and double items	51	102	51	64	112
Net total of invested savings	53	248	200	335	309
Total new savings	287	529	574	835	865

There was also quite a substantial increase in private issues on the capital market, while issues of loans by the public authorities and nationalised industries were considerably smaller than in 1954. The decline in public issues was doubtless due to the fact that the Treasury continued to absorb most of the liquid savings available either by borrowing direct from the savings banks or through its sales of Treasury paper to business firms and individuals.

The parallel expansion in savings and in the money volume has led to an all-round increase in liquidity, affecting the business community and the Treasury as well as the banks. This in turn has exerted pressure on interest rates, so that, although the official discount rate has remained unchanged, the general level of rates has undergone a slow but steady decline.

The Crédit Foncier de France, which is the government's agent for the granting of "special housing loans" (amounting in 1955 to Fr.fcs 220 milliard) and which also plays an important rôle in connection with the extension of mortgage loans generally, reduced the interest rate for such loans from 8.50 to 7.35 per cent. between the beginning of 1954 and the beginning of 1955. There have, of course, been minor variations in the



trend of interest rates; since the middle of 1955, for instance, the yield of shares has risen somewhat, but this increase must be regarded primarily as a technical reaction to the previous stock-exchange boom.

In examining the following tables concerning the money supply and the amount of funds received and credits granted by credit institutions in western Germany, it must be remembered that the figures do not relate solely to the commercial banks, as is often the case in other countries, but also include savings, mortgage and postal banks and other specialised credit institutions. The assets of commercial banks actually account for only 25 per cent. of the total assets of all the institutions which make up the credit system.

In 1955 the money supply increased by 10 per cent., compared with a growth of 10½ per cent. in the real national product. Notwithstanding the accumulation of cash reserves by the Federal Government, a deterioration in the budgetary position of the Länder, whose capital expenditure grew considerably while their tax revenue remained more or less stationary, caused the public authorities to borrow a net amount of DM 1.5 milliard from the credit institutions; but this increase may be said to have had a counterpart in the net decline in "Other items", so that it did not, in fact, influence the money supply. Much more important was the growth of DM 1.9 milliard in the gold and foreign exchange reserves. There was, however, a rise of no less than DM 12.3 milliard in credit to the private economy, which in turn was offset to the extent of DM 11.5 milliard by an increase in savings deposits and other long-term funds.

Western Germany: Formation of the money supply.

Items	1952	1953	1954	1955	Amount outstanding at the end of 1955
	in milliards of Deutsche Mark				
Changes in money supply					
Currency	+ 1.5	+ 1.1	+ 0.8	+ 1.3	14.1
Sight deposits (private)	+ 0.7	+ 1.0	+ 2.2	+ 1.4	15.0
Total	+ 2.2	+ 2.1	+ 3.0	+ 2.7	29.1
Changes in corresponding items					
Credit to public authorities (net)	- 0.6	- 0.9	- 0.3	+ 1.5	- 0.8
Credit to the private economy	+ 7.5	+ 8.8	+ 11.3	+ 12.3	66.0
Total credit	+ 6.9	+ 7.9	+ 11.0	+ 13.8	65.4
Gold and foreign exchange	+ 3.1	+ 3.5	+ 2.9	+ 1.9	12.6
Other items	- 0.5	- 0.4	+ 0.2	- 1.5	7.8
Less: increase in savings deposits and other longer-term funds	+ 9.5	+ 11.0	+ 14.1	+ 14.2	85.8
	- 7.3	- 8.9	- 11.1	- 11.5	- 58.7
Total	+ 2.2	+ 2.1	+ 3.0	+ 2.7	29.1

During the four-year period 1952-55 new bank credit extended to the private economy amounted to DM 40 milliard, while time and savings deposits and other longer-term funds received by the credit institutions totalled nearly DM 39 milliard. As the public sector had, on balance, no recourse to the banks during this period, and as the amount of credit granted in the private sector was only DM 1 milliard more than the savings received, it is not surprising that the rise in the money supply — about DM 10 milliard — was fairly closely matched by the slightly larger increase — of DM 11½ milliard — in the gold and foreign exchange reserves.

The table on the following page gives some details of the funds received and credit granted by all credit institutions.

It is apparent that, on balance, no short-term funds have been used for the granting of longer-term credits. In each of the three years 1952-54 the total volume of funds received by the credit institutions was considerably in excess of the amount of credit granted, so that the liquidity position of these institutions was improved and money-market rates tended to decline. But in 1955 the trend was reversed. Compared with 1954, new credit granted increased by DM 1.5 milliard, while the total of fresh funds received fell by about the same amount, with the result that, for the first time since 1951, the amount of new credit extended exceeded the total of new funds received.

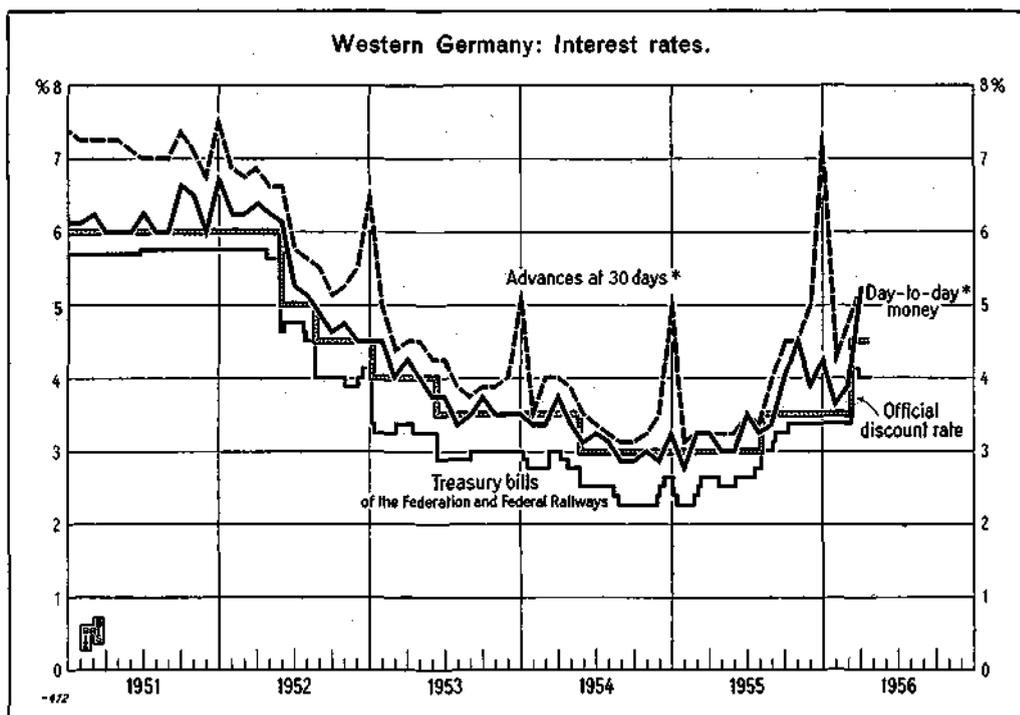
The tension thus appearing led the Bank deutscher Länder, in the course of 1955, to reverse the policy it had been following since the spring of 1952, which had been characterised by the lowering of the official discount rate, in five stages, from 6 to 3 per cent. and an easing of the minimum reserve requirements. The bank's first step in implementation of the new policy was to reduce the liquidity of the money market by means of open-market sales of Treasury bills and non-interest-bearing Treasury bonds. Both in May and June 1955 the amount sold came to over DM 200 million.

Western Germany: Funds received and credit granted by all credit institutions.*

Items	1952	1953	1954	1955	Amount outstanding at the end of 1955
	in milliards of Deutsche Mark				
Funds received					
At sight	1.3	2.4	3.7	2.6	23.7
At longer term	8.1	10.1	11.5	11.1	61.0
Total of funds received. . .	9.4	12.5	15.2	13.7	84.7
Credit granted by					
The central-bank system	- 0.6	- 0.1	- 0.1	0.3	1.0
Other credit institutions					
At short term	3.5	2.7	3.3	2.6	29.2
At medium and long term	4.6	6.8	7.7	9.9	40.8
Purchase of securities	0.4	1.1	2.1	1.7	6.4
Total for other credit institutions	8.5	10.6	13.1	14.2	76.4
Total of credit granted	7.9	10.5	13.0	14.5	77.4

* The figures given are gross amounts and consequently the amounts included in respect of the public authorities, comprising as they do both their deposits with and their borrowing from the credit system, do not correspond to the net figures given in the previous table. Moreover, the figures for funds received at sight include deposits of public authorities temporarily invested in equalisation claims.

The next step was taken on 4th August 1955, when the official discount rate was increased from 3 to 3½ per cent., and as from 1st September 1955 the minimum reserve ratio for all credit institutions was raised by 1 per cent., resulting in the sterilisation of an additional amount of over DM 450 million. The credit institutions were consequently compelled to borrow from the central-banking



* Highest rate for the month.

system; in the four months from September to December 1955 such borrowing amounted to DM 2.5 milliard and by the end of December 1955 the level of borrowing was already somewhat in excess of that of deposits; by mid-March 1956 (owing to further open-market sales by the Bank deutscher Länder) borrowing exceeded deposits by over DM 1.6 milliard.

As from 8th March 1956 the Bank deutscher Länder again raised its official discount rate — this time by 1 per cent. to 4½ per cent. But since the boom conditions still continued and the demand for credit became even stronger the official discount rate was once more increased, with effect from 19th May 1956, by 1 per cent. to 5½ per cent.

As a result of all the monetary difficulties which have arisen in connection with the two world wars, the establishment in recent years of a properly functioning capital market in western Germany has proved to be no easy matter. It is true that in each of the years 1954 and 1955 securities for an amount of somewhat over DM 5 milliard were sold in the market, but a considerable part was still purchased by the credit institutions, which in 1955 took up no less than 57 per cent. of the total of newly-issued fixed-interest-bearing securities.

Western Germany: Securities sold since the monetary reform.

Period	Government, communal and other debts	Mortgage bonds	Industrial bonds	Shares	Total
	in millions of Deutsche Mark				
1948 (second half)	2	6	10	1	19
1949	473	201	96	41	811
1950	413	211	53	51	728
1951	218	466	62	165	913
1952	799	628	130	259	1,816
1953	1,462	1,043	396	269	3,170
1954	1,661	2,239	791	453	5,144
1955	1,867	1,382	432	1,555	5,236
Total 1948-55	6,894	6,178	1,971	2,794	17,837

In 1955 the amount of mortgage bonds sold was some DM 850 million smaller than in 1954. This decline is mainly explained by the fact that the tax privileges previously granted in respect of these bonds were withdrawn as from the beginning of 1955. On the other hand, the amount of share issues in 1955 was more than three times as large as in the preceding year. It is probable that once the authorities have succeeded, by means of their present restrictive monetary policy, in overcoming what still remains of the inflation mentality, the most important condition for a steady revival of activity on the capital market will have been fulfilled.

In Italy, as in western Germany, a considerable part of current saving takes the form of bank deposits. In recent years time and savings deposits have increased about twice as much as demand deposits.

In examining the table on the following page some allowance has to be made for the fact that there was an exceptionally large increase in time deposits during 1954 — at the expense of the other types of deposits — as a result of the conclusion in

Italy: Formation of the money supply.

Items	1952	1953	1954	1955
	in milliards of lire			
Changes in money supply				
Currency	+ 114	+ 89	+ 96	+ 142
Demand deposits	+ 326	+ 215	+ 46	+ 256
Total	+ 440	+ 304	+ 142	+ 398
Changes in corresponding items				
Bank credit to the economy	+ 688	+ 679	+ 605	+ 690
Bank credit to the government	+ 291	+ 279	+ 279	+ 267
Total bank credit	+ 969	+ 958	+ 884	+ 957
Gold and foreign exchange	- 25	- 29	+ 4	+ 59
Other items	- 15	- 75	- 115	- 98
Total	+ 929	+ 854	+ 773	+ 918
Less: Increase in time and savings deposits	- 489	- 550	- 631	- 520
Grand total	+ 440	+ 304	+ 142	+ 398

that year of a new interbank agreement which accorded time deposits favourable treatment. A certain correction for the shift which thus occurred may be obtained by adding together the figures for 1954 and 1955 and taking the average for the two years.

If the figures for 1955 alone are taken, the money volume is found to have increased by over 10 per cent., which compares with a 7 per cent. growth in the real gross national product; if, however, an average is struck between the figures for 1954 and those for 1955 the increase in the money volume also works out at roughly 7 per cent. In 1955 the increase in bank credit was not exceptionally large, and Lit. 59 milliard was added to the gold and foreign exchange reserves.

Italy:
Changes in deposits with credit institutions, including the postal system.

Year	Savings deposits	Time deposits	Total savings and time deposits	Sight deposits	Total deposits
	round figures, in milliards of lire				
1952	+ 200	+ 285	+ 485	+ 385	+ 850
1953	+ 190	+ 360	+ 550	+ 295	+ 845
1954	- 165	+ 795	+ 630	+ 20	+ 650
1955	+ 90	+ 430	+ 520	+ 280	+ 800
Amount outstanding at the end of 1955	1,300	2,960	4,260	2,535	6,795

Italy's economic expansion has progressed at a fairly even rate in recent years and there has at no time been any real tightness or excessive liquidity in the money and capital markets. The authorities have not resorted to changes in the official discount rate or to alterations in the minimum reserve requirements. The official discount rate has remained at 4 per cent. and the minimum reserve ratio has been kept at 25 per cent. of total deposits; but there has been a rise in the level of long-term rates, as is illustrated by the increase in the yield on government securities from an average of 6.23 per cent. in December 1954 to one of 6.67 per cent. in March and April 1956.

The authorities have been concerned, above all, to take advantage of the close ties existing between the central bank and the other credit institutions in order to ensure the prompt correction of temporary disequilibria affecting the liquidity of the market. This task has to some extent been facilitated by the fact that the commercial banks have not been asked to grant credit to the government, whose needs are covered by the flow of savings passing, mainly through the postal system and the capital market, into government channels.

Italy: Origin of new financial resources.

Items	1952	1953	1954	1955
	In milliards of lire			
Internal sources				
Funds supplied by the banks	969	958	884	957
Funds supplied by the capital market . .	283	422	462	549
	1,252	1,380	1,366	1,506
Counterpart funds	143	74	20	20
Total	1,395	1,454	1,386	1,526
Used by				
Public sector	488	457	429	448
Private economy	907	997	957	1,078

There has been a steady expansion in the volume of savings invested on the capital market (either directly or via specialised credit institutions and life-insurance companies), so that the supply of new financial resources has been growing notwithstanding the virtual exhaustion of the funds forming a counterpart to U.S. aid.

In Switzerland, too, the banks receive large amounts in the form of time and savings deposits, as well as other long-term funds, and are thus able to finance part of the country's long-term investments. More long-term resources were obtained by the banks in 1955 than in any other post-war year,

Switzerland: Changes in the balance sheets of fifty-two major banks.

Change during	Liabilities		Assets				
	Sight liabilities	Time and savings deposits, savings bonds, etc.	Cash	Bills	Advances	Mortgage loans	Securities
round figures, in millions of Swiss francs							
1950	+ 185	+ 540	- 235	+ 40	+ 555	+ 395	+ 80
1951	+ 130	+ 810	+ 80	- 60	+ 550	+ 450	+ 85
1952	+ 150	+ 1,075	+ 75	+ 10	+ 255	+ 555	+ 120
1953	+ 315	+ 840	+ 125	+ 115	+ 125	+ 515	+ 190
1954	+ 85	+ 935	+ 40	- 270	+ 735	+ 580	+ 100
1955	+ 275	+ 1,210	+ 225	+ 50	+ 805	+ 665	- 185
Amount outstanding at the end of 1955 . .	6,250	17,330	1,650	2,225	7,140	11,450	2,570

as may be seen from the table on the preceding page, which covers fifty-two banks, comprising the five big commercial banks, the cantonal banks, the savings banks and a few local banks. In addition, the banking system, especially the cantonal and mortgage banks, received in 1955 as much as Sw.fcs 306 million from the Old Age and Dependants' Insurance Fund, which in the eight years of its existence has accumulated resources amounting to over Sw.fcs 3.5 milliard, including some Sw.fcs 500 million in 1955 alone.

At the end of December 1955 the cash holdings of the banks, at Sw.fcs 1,650 million, were larger than in the previous year, having been increased in conformity with a gentleman's agreement (already mentioned in Chapter II, page 58). At the same time, in order to obtain the necessary funds for their increased credit-granting, the banks in 1955 reduced their holdings of securities by an amount of Sw.fcs 185 million — a fact which is in itself a sign of the reduction of liquidity which began to be observable in the Swiss market at certain times of the year. Mortgage lending was particularly brisk in 1955, which was not surprising considering that the total value of the building carried out amounted to nearly Sw.fcs 4 milliard.

Under the foregoing conditions, interest rates hardened. In Zurich the rate for day-to-day money rose from $1\frac{1}{4}$ per cent. in December 1954 to $1\frac{3}{4}$ per cent. in December 1955, while the average yield of Swiss bonds, which was 2.74 in December 1954, stood at 3.04 per cent. a year later, after having been as high as 3.20 per cent. in September 1955.

The volume of business done on the Swiss capital market in 1955 may be seen from the following table.

Switzerland: Capital-market issues.

Items	1952	1953	1954	1955
	in millions of Swiss francs			
Domestic issues				
Bonds: net issues (+) or repayments (—)	+ 37.4	+ 12.3	— 59.8	+ 332.7
Shares: net issues (+) or repayments (—)	+ 41.3	+ 21.3	+ 49.6	+ 173.0
Total net domestic issues (+) or repayments (—)	+ 78.7	+ 33.6	— 10.2	+ 505.7
Foreign issues (gross)	246.4	224.5	395.4	427.3
Grand total	325.1	258.1	385.2	933.0

The change which took place in the market for domestic issues was truly impressive. Whereas in 1954 repayments exceeded new issues by Sw.fcs 10.2 million, in the following year the net amount of new borrowing was as much as Sw.fcs. 505.7 million — which was probably the main reason for the stiffening of interest rates.

With regard to foreign issues, for which only gross figures (representing the amounts borrowed without any deduction for repayments) are available, the fairly high level reached in 1954 was fully maintained in 1955. Altogether twelve foreign issues were made, including one of Sw.fcs 50 million by the International Bank for Reconstruction and Development, one by a U.S. corporation (in Texas) and one by a Canadian company.

In addition to the export of capital represented by the long-term issues shown in the table, the Swiss banks are reported to have granted about Sw.fcs 100 million

**Swiss National Bank: Changes in selected items from the balance sheet
(together with changes in the gold holdings of the Confederation).**

Year	Liabilities		Assets		Gold holdings of the Confederation
	Notes	Sight deposits	Domestic bills and advances	Gold and dollars	
in millions of Swiss francs					
1951	+ 263	- 244	+ 51	- 1	- 109
1952	+ 195	- 75	+ 4	+ 136	- 50
1953	+ 107	+ 87	- 53	+ 241	- 2
1954	+ 183	+ 151	- 39	+ 365	0
1955	+ 104	+ 298	+ 66	+ 337	0
Amount outstanding at the end of 1955	5,515	1,990	284	7,310	226

of new credit to their foreign customers. Moreover, securities were bought on foreign markets, especially in the United States, and the Federal Government granted a loan of Sw.fcs 200 million to the Italian Railways.

In spite of the increase in foreign lending the Swiss National Bank continued to augment its gold and dollar holdings.

In Austria, after three years of spectacular gains of gold and foreign exchange, the monetary reserves were reduced in 1955 by Sch. 1,400 million (= \$54 million) as a result of the balance-of-payments deficit (see page 50). In the following table the decline in the gold and foreign exchange reserves of the Austrian National Bank is shown as only Sch. 400 million, the difference between this figure and the one given above being due to the inclusion of gold holdings formerly excluded from the published returns; the change was made in September 1955, when the new legislation concerning the Austrian National Bank came into effect.

As may be seen from the table, the deposits of banks with the National Bank were reduced in 1955 by Sch. 510 million, while the National Bank's holdings of trade bills and advances increased by Sch. 1,510 million, so that the credit

Austrian National Bank: Selected items from the balance sheet.

End of	Liabilities			Assets		
	Note circulation	Deposits of banks	Deposits of public authorities and others	Gold and foreign exchange	Trade bills and advances	Treasury bills and certificates
round figures, in millions of schillings						
1950	6,350	470	2,830	500	840	1,950
1951	9,030	580	2,050	630	1,740	2,210
1952	9,050	670	2,080	2,260	1,280	1,730
1953	10,470	1,540	2,780	7,060	460	590
1954	12,250	2,660	2,240	9,670	280	100
1955	13,030	2,150	1,940	9,270	1,790	410
Changes in 1954	+ 1,780	+ 1,120	- 580	+ 2,610	- 180	- 490
„ „ 1955	+ 780	- 510	- 300	- 400	+ 1,510	+ 310

institutions had recourse to the National Bank to the extent of rather more than Sch. 2,000 million. This figure corresponds approximately to the difference between the new credit granted by all credit institutions, which amounted to Sch. 3,990 million, and the increase in deposits with the banks, which came to Sch. 1,860 million and thus financed almost one-half of the banks' fresh extension of credit.

Austria:

New deposits received and new credit granted by all credit institutions.

Period	Deposits			Credit granted (commercial)	Excess (+) of deposits over credit granted
	Sight	Savings	Total		
round figures, in millions of schillings					
1952	570	1,030	1,600	440	+ 1,160
1953	2,620	1,700	4,320	2,020	+ 2,300
1954	3,790	2,530	6,320	4,270	+ 2,050
1955	— 600	2,460	1,860	3,990	— 2,130
1955 1st quarter	240	1,120	1,360	1,600	— 240
2nd "	450	620	1,070	880	+ 190
3rd "	150	520	670	1,380	— 710
4th "	— 1,440	200	— 1,240	130	— 1,370
1956 1st "	— 610	1,100	490	980	— 490
Amount outstanding at the end of March 1956	14,670	11,100	25,770	22,880	+ 2,890

The measures taken by the Austrian authorities to moderate the boom, including an increase in the official discount rate to 5 per cent., have been described in Chapter II (see page 51). It may be added that in mid-November 1955 the Federal Ministry of Finance concluded a new agreement with the Bankers' Association (supplementing an agreement of June 1952 concerning qualitative and quantitative control). The banks agreed to call for the repayment of any credit lines utilised in excess of the agreed limits and to make within three months a 10 per cent. reduction in all current credits falling due for renewal. In addition it was decided that all new credits should be subject to strict qualitative and quantitative control. Restrictions were also placed on instalment credit, the down-payments being increased and the repayment periods shortened.

The credit institutions have thus shown their willingness to co-operate with the authorities. Early in 1956 the government, which in 1955 had borrowed from the Austrian National Bank against Treasury bills and certificates, took steps to reduce its own expenditure, especially on investment.

Credit conditions in Belgium in 1955 were determined above all by the balance-of-payments surplus and the growth of the gold and foreign exchange reserves by B.fcs 6.4 milliard, which came after a loss of B.fcs 2.1 milliard in the reserves over the two previous years. This improvement in the reserve position was the main factor responsible for the increase of B.fcs 9.1 milliard in the money supply.

Bank credit to the private economy rose somewhat less in 1955 than in 1954, but owing to the pressure of a substantial further budget deficit the volume of new credit granted to the public authorities was greater than in the previous year.

Belgium: Formation of the money supply.

Items	Change in			Amount outstanding at the end of 1955
	1953	1954	1955	
in milliards of Belgian francs				
Changes in money supply				
Currency	+ 3.9	+ 0.8	+ 4.0	110.7
Demand deposits	+ 1.9	+ 2.5	+ 5.1	82.0
Total	+ 5.8	+ 3.3	+ 9.1	192.7
Changes in corresponding items				
Bank credit to the private economy	+ 2.2	+ 3.0	+ 2.7	44.4
Bank credit to the public sector	+ 5.0	+ 1.0	+ 2.7	125.2
Total bank credit	+ 7.2	+ 4.0	+ 5.4	169.6
Gold and foreign exchange (net)	- 0.1	- 2.0	+ 6.4	54.7
Other items	+ 0.4	+ 4.1	+ 0.7	4.1
Total	+ 7.5	+ 6.1	+ 12.5	228.4
Less: increase in time and savings deposits, etc.	- 1.7	- 2.8	- 3.4	- 35.7
Grand total	+ 5.8	+ 3.3	+ 9.1	192.7

The maintenance of a considerable degree of price stability and a decline in the number of unemployed workers was reflected in an increase in the flow of time and savings deposits, which amounted in 1955 to B.fcs 3.4 milliard — double the figure for 1953.

The balance-of-payments surplus made it possible for the money market to remain highly liquid, as is evidenced, inter alia, by the fall in the National Bank's holdings of rediscounted trade bills from B.fcs 9.5 milliard at the end of 1954 to B.fcs 8.4 milliard at the end of 1955, notwithstanding a simultaneous increase from B.fcs 11.7 to 15.7 milliard in the volume of such bills held by the commercial banks.

As mentioned in Chapter II (see page 57), the National Bank has not been in a position, owing to large-scale borrowing by the government, to carry out contractive open-market operations, but in August 1955 a mild warning was given to the domestic business community in the form of an increase in the discount rate from $2\frac{3}{4}$ to 3 per cent.

There was considerable activity in the capital market in 1955. Net issues by Belgian companies amounted to over B.fcs 5 milliard (about B.fcs 1 milliard more than the year before) and consisted chiefly of issues of shares. Some substantial loans were also taken up by colonial companies but, as in the past, the bulk of the market issues was for the account of the public authorities. The central government increased its internal debt by B.fcs 11.4 milliard, one-half of this amount having been provided by the capital market. Other public authorities also borrowed at long term, bringing the net total of public issues up to B.fcs 13.7 milliard. In addition, borrowing by the Belgian Treasury abroad raised the external debt by B.fcs 2 milliard between December 1954 and December 1955.

In the Netherlands the net addition to the gold and foreign exchange reserves was smaller than in the previous year and, in contrast to the position in Belgium, it was responsible to only a minor extent for the expansion of the money volume.

Netherlands: Formation of the money supply.

Items	1952	1953	1954	1955
	in millions of florins			
Changes in money supply				
Currency	+ 136	+ 221	+ 289	+ 373
Demand deposits	+ 612	+ 304	+ 270	+ 388
Total	+ 748	+ 525	+ 559	+ 761
Changes in corresponding items				
Bank credit to public authorities	- 1,074	- 706	+ 164	+ 189
Bank credit to the private economy	+ 90	+ 273	+ 440	+ 427
Total credit	- 984	- 433	+ 604	+ 616
Gold and foreign exchange holdings	+ 1,989	+ 1,095	+ 248	+ 191
Other items (net)	- 84	- 142	- 49	+ 144
Total	+ 921	+ 520	+ 803	+ 951
Less: increase in time deposits	- 173	+ 5	- 244	- 190
Grand total	+ 748	+ 525	+ 559	+ 761

It is interesting to compare, in the above table, the figures for the increase in the gold and foreign exchange reserves with those showing the changes in the volume of credit granted to the public authorities. In each of the years 1952 and 1953, when the government repaid a considerable part of its debts to the credit institutions (almost all of which were incurred as a result of the war), substantial additions were made to the gold and foreign exchange holdings; but in 1954 and 1955, when the government began to borrow from the credit institutions, the increases in the gold and foreign exchange holdings were markedly smaller. There is clearly a close connection between the two sets of figures, the "savings" of the government in 1952 and 1953 having served as a counterpart to the increases in the monetary reserves in those years.

For some years the Dutch authorities have been pursuing a policy designed to moderate the excessive liquidity of the economy and to enable them to control the credit situation. In March 1954 Fl. 1.2 milliard's worth of relatively short-dated Treasury paper held by the banks was converted into special five-year Treasury bonds and later into longer-term Treasury certificates; at the same time an agreement was concluded with the banks whereby the latter undertook to maintain, as from 22nd March, certain minimum cash reserves with the central bank. The ratio of these cash reserves to the banks' deposits was initially fixed at 5 per cent. but in August 1954 it was increased to 10 per cent., at which level it has since remained, except for a temporary reduction to 8 per cent. early in 1955.

In the latter half of 1955 there was a certain increase in short and long-term interest rates and in February 1956 the official discount rate was raised from 2½ to 3 per cent.

The capital market was characterised throughout the year by a very high level of activity.

The amount of net capital issues, i.e. total issues less conversion operations and repayments, was nearly four times as large in 1955 as it had been in 1954. Government borrowing increased considerably and there was also a rise in foreign issues, the Dutch market resuming its rôle as a provider of capital to other countries; but even more marked was the increase in share issues by domestic enterprises.

Netherlands: Net capital-market issues.

Items	1953	1954	1955
	in millions of florins		
Bonds			
Government	437	246	712
Local authorities*	28	69	— 1
Private sector	7	— 35	122
Foreign issues	— 49	51	223
Total bonds	423	331	1,056
Shares	31	52	440
Total net issues	454	383	1,496

* Including the Bank for Municipalities.

The security holdings of institutional investors (savings banks, life-insurance companies, pension funds, etc.) rose in 1955 by Fl. 1,900 million, or more than the net total of issues, indicating that individuals and companies have been reducing their holdings. It is also reported that the total value of the Dutch securities bought by foreign investors in 1955 came to Fl. 500 million, or nearly twice as much as was raised in that year for foreign account in the Dutch capital market.

Among the northern countries the only one which had a substantial surplus on the current account of its balance of payments in 1955 was Finland (see the table on page 45). Its surplus amounted to FM 14 milliard (= \$61 million) but, owing to repayments of debt and certain other transactions, the increase in the gold and foreign exchange holdings of the Bank of Finland was limited to FM 2.4 milliard. Contrary to what had happened in the previous year, in 1955 the addition to the monetary reserves had only a minor influence on the volume of credit extended by the Bank of Finland. The main factor was the credit granted to the private economy and to the Treasury.

The amount of credit granted by the Bank of Finland in the form of the rediscounting of bills presented by the banks or of direct loans to the public and to the Treasury increased by FM 24.6 milliard in 1955, compared with a reduction of FM 9.7 milliard in the previous year. As far as the credit extended to the Treasury was concerned, it must, of course, be assumed that the full amount was intended to be spent; in the case of the credit to the private economy, however, certain measures had been taken as a result of which a considerable part of the new credit was effectively sterilised.

Firstly, early in 1955 the Bank of Finland reached an agreement with the credit institutions whereby the latter undertook to place a certain proportion of the monthly increase in their deposits (40 per cent. in the case of the large commercial banks, 30 per cent. for the small commercial banks and 25 per cent. for the savings banks and the co-operative credit societies) in a special interest-bearing cash-reserve account with the Bank of Finland. Although this was originally intended as a temporary measure to be applied between 1st February and 30th September 1955 the agreement has been twice renewed, with certain minor

Bank of Finland: Changes in the main items of the balance sheet.

Items	1953	1954	1955	Amount outstanding at the end of 1955
	In milliards of markkas			
Assets				
Credit to the banks (rediscounting)	- 9.0	+ 0.2	+ 14.2	22.6
Credit to the public	+ 1.8	- 1.7	+ 4.7	30.0
Total	- 7.2	- 1.5	+ 18.9	52.6
Credit to the Treasury (net)	- 0.4	- 8.2	+ 5.7	11.8
Total credit	- 7.6	- 9.7	+ 24.6	64.4
Gold and foreign exchange (net)	+ 6.7	+ 10.3	+ 2.4	22.8
Grand total	- 0.9	+ 0.6	+ 27.0	87.2
Liabilities				
Cash-reserve deposits	-	-	+ 6.7	6.7
Import-licence deposits	-	-	+ 6.6	6.6
Other items (net)	+ 0.2	- 2.3	+ 5.7	18.0
Total	+ 0.2	- 2.3	+ 19.0	31.3
Note circulation	- 1.1	+ 2.9	+ 8.0	55.9
Grand total	- 0.9	+ 0.6	+ 27.0	87.2

changes, and is now due to remain in force until the end of June 1956. The total amount blocked in these special cash-reserve deposits was FM 6.7 milliard at the end of 1955.

Secondly, as from 1st July 1955, a system of import-licence deposits was put into operation, whereby any importer applying for an import licence to the value of more than FM 50,000 in respect of certain commodities would have to deposit an amount equivalent to 10 per cent. of the c.i.f. value of the commodity to be imported with the Bank of Finland in a non-interest-bearing account, where it would be kept until the import licence had been fully utilised. Although it was introduced partly as a measure of foreign-trade policy, this system has also had a considerable effect in the monetary sphere — in fact by the end of 1955 a total amount of FM 6.6 milliard had been sterilised in this way.

Thirdly, certain other measures were taken during the first half of 1955 with a view to reducing the liquidity of the market and stimulating saving:

- (i) The forestry industries agreed to deposit part of their earnings with the Bank of Finland.
- (ii) Part of the annual profits of all firms was set aside (in a blocked account with the Treasury) — more or less as in Switzerland — for the purpose of creating an investment fund for use in the event of a depression.
- (iii) A system of index-tied deposit accounts was introduced in order to encourage saving on the part of those members of the public who, fearing inflationary developments, would otherwise have saved less or chosen some other way of setting aside resources for the future.

By means of the cash-reserve accounts and the import-licence deposits a total of FM 13.3 milliard had been sterilised by the end of 1955, and the forestry scheme and the investment fund sterilised a further amount of about FM 3 milliard, which is included under the heading "Other items (net)" in the above table.

The public's reaction to the sterilisation measures seems to have been an increase in its demands for credit direct from the central bank or from the other credit institutions. The latter in turn have applied to the central bank for the funds required not only to cover the excess of new credit granted over new deposits received but also to make good the loss of resources arising from the creation of cash-reserve deposits.

For direct discounts the Bank of Finland had been charging between 5 and 7½ per cent. since the beginning of December 1954, and in April 1956 this range of rates was raised to between 6½ and 8 per cent. Rediscounting has been even more expensive; the Bank of Finland has been charging as much as 11 per cent., i.e. 3 per cent. more than the maximum rate which the banks are allowed to charge their customers.

As may be seen from the previous table, the amount of notes in circulation rose by as much as FM 8 milliard in 1955, and since then there has been an increase — in March 1956 — of approximately 10 per cent. in wages, the monetary implications of which it is not possible to judge on the basis of the statistics so far available. The volume of central-bank money outstanding contracted, however, in the first four months of 1956 by a net amount of FM 2.9 milliard, FM 930 million of which was accounted for by a decline in the note circulation.

In 1955 Denmark had a surplus of D.Kr. 200 million on the current account of its balance of payments after having been faced with a deficit in the previous year. Together with certain receipts on capital account, the current surplus in 1955 was more than offset by the redemption of foreign debts, which explains why — as may be seen from the following table — there was a decrease in the net gold and foreign exchange holdings of the National Bank.

Separate figures have been given for the two halves of the years covered by the table, since it was in the second half of 1954 that the deterioration in the monetary and credit situation became most marked and in the second half of 1955 that the improvement set in. In the latter half-year the government's net draft on its account with the National Bank amounted to only D.Kr. 9 million,

Danmarks Nationalbank: Changes in the main items of the balance sheet.

Items	Change during						Amount outstanding at end of 1955
	1st half 1954	2nd half 1954	whole of 1954	1st half 1955	2nd half 1955	whole of 1955	
in millions of Danish kroner							
Liabilities							
Notes in circulation	- 118	+ 144	+ 26	- 135	+ 207	+ 72	2,217
Sight deposits	- 207	+ 129	- 78	- 33	+ 80	+ 47	441
Total	- 325	+ 273	- 52	- 168	+ 287	+ 119	2,658
Assets							
Gold and foreign exchange (net)	- 307	- 196	- 503	- 284	+ 217	- 67	- 171
Credit to the economy	- 8	+ 206	+ 198	- 135	- 14	- 149	248
Credit to the Treasury (net)	- 16	+ 279	+ 263	+ 188	+ 9	+ 197	2,489
Total	- 331	+ 289	- 42	- 231	+ 212	- 19	2,546

while central-bank credit to the economy actually fell by D.Kr. 14 million. This improvement was largely due to the measures taken in 1954 and early in 1955 (mentioned on pages 32-33 of the Twenty-fifth Annual Report).

With regard to credit policy, it may be recalled that the reduction in credit granted to the housing sector was to be achieved mainly by charging market rates (6 to 7 per cent.) for building loans instead of privilege rates (2 to 3 per cent.) and also by raising controlled rents. At the end of 1955 the Danish Treasury raised the interest rate on six-month certificates from $4\frac{1}{4}$ to $4\frac{1}{2}$ per cent., thus reducing somewhat the spread between the rates for short-term market paper and the yields on long-term government bonds. Broadly speaking, these yields rose between the end of 1954 and the end of 1955 by about $\frac{1}{4}$ per cent. to between $5\frac{2}{3}$ and 7 per cent.

While it is realised that these interest rates impose a severe handicap on investment activity, it has been stated on behalf of the National Bank that the tighter financial and credit policies, including the higher interest rates, have produced some important results, having led, especially, to an improvement in the foreign exchange position.

In 1955 Norway had a deficit of N.Kr. 800 million on the current account of the balance of payments and also a small overall budget deficit (see page 46). These deficits were, however, more than covered by foreign loans and credits, the most important of which was a loan of \$25 million from the International Bank for Reconstruction and Development. As a result, the gold and foreign exchange reserves rose by N.Kr. 125 million and in addition the government was able to repay N.Kr. 130 million to the Bank of Norway, whose accounts also showed an increase of N.Kr. 85 million in the deposits placed with it by the banks. The note circulation not only ceased to rise but actually declined by N.Kr. 15 million.

Norges Bank: Changes in the main items of the balance sheet.

Year	Assets	Liabilities		
	Net gold and foreign exchange reserves	Note circulation	Deposits	
			banks	government
round figures, in millions of Norwegian kroner				
1952	+ 180	+ 250	+ 305	- 220
1953	- 495	+ 210	- 10	- 360
1954	- 275	+ 195	- 165	- 350
1955	+ 125	- 15	+ 85	+ 130
Amount outstanding at the end of 1955 . . .	55	3,300	640	1,055

The monetary and fiscal measures taken in the first quarter of 1955 for the purpose of reducing the liquidity of the banks and of the general public and putting a brake on the investment boom have been described in the Twenty-fifth Annual Report (pages 33-34 and 168-169) and also in the present Report (page 47).

As a result of these measures credit developments in the two halves of 1955, as reflected in the accounts of the Norwegian banks, showed sharply contrasting trends. In the first half credit went on expanding rapidly and the liquidity

Norway:
Main items of the balance sheets of the commercial and savings banks.

End of	Assets				Liabilities		
	Cash and deposits with the Norges Bank	Treasury bills	Bearer bonds and shares	Loans and discounts	Demand and fixed deposits	Time deposits	Total deposits
	round figures, in millions of Norwegian kroner						
1953	1,030	350	2,470	7,495	2,910	7,260	10,170
1954	995	235	2,615	8,160	2,935	7,690	10,625
1955	950	145	2,490	8,515	3,110	7,975	11,085
Changes in:							
1st half of 1955	- 210	- 155	+ 20	+ 390	+ 180	+ 195	+ 375
2nd half of 1955	+ 265	+ 65	- 145	- 35	- 5	+ 90	+ 85
Whole year 1955	+ 55	- 90	- 125	+ 355	+ 175	+ 285	+ 460

of the banks (represented by the total of cash, deposits with the central bank and Treasury bills) declined by N.Kr. 365 million. During the second half — and especially in December — lending declined and the banks' liquidity ratios returned to more or less the same levels as in the preceding year.

One factor contributing to these changes was the success of the efforts made by the central bank to convince the credit institutions of the need to limit their lending. Continuing its policy of credit restraint, the Norges Bank in December 1955 concluded special agreements with the banks and life-insurance companies (further details of which have been given on page 47).

By the end of December 1955 there were clear signs that the credit squeeze was taking effect, this being apparent in particular from the low quotations of government bonds, the average price of which was down to less than 80 per cent. of the nominal value, making a reduction of over 12 per cent. in twelve months. In fact, the yield of the 2½ per cent. State Loan of 1946 increased during the year from 3.43 to 4.97 per cent.

The main lines of credit developments in Sweden during the three years 1953-55 may be seen from the following table.

**Sweden: Changes in the main items
of the balance sheets of the commercial banks.**

Year	Liquid assets			Loans and discounts			Deposits
	Cash	Government securities	Total	Housing	All others	Total	
	round figures, in millions of Swedish kronor						
1951	+ 260	+ 740	+ 1,000	+ 70	+ 870	+ 940	+ 1,580
1952	+ 60	- 130	- 70	+ 90	- 420	- 330	- 150
1953	- 350	+ 1,630	+ 1,280	+ 340	- 260	+ 80	+ 1,480
1954	+ 0	- 300	- 300	+ 450	+ 710	+ 1,160	+ 890
1955	+ 310	- 90	+ 220	+ 0	- 560	- 560	- 120
Amount outstanding at the end of 1955 . .	960	2,060	3,920	1,280	9,250	10,530	12,610

In 1953 the government obtained a considerable part of the funds required for the financing of its capital expenditure by issuing securities, which had to be bought by the banks, since the government's sharply increased needs for funds were not covered by long-term market issues. The banks thus came into possession of a substantial volume of liquid resources, which enabled them to extend credit on a large scale, and in the following year their loans and discounts rose by S.Kr. 1,160 million, 40 per cent. of which was for the financing of housing. But it soon became clear that, under the stimulus of the credit expansion, business activity was increasing at too rapid a tempo, and the result was a deficit in the balance of payments; in the second half of 1954 it had already become necessary to take action to moderate the rate of economic expansion, by means, inter alia, of an increase in the interest rates at which government loans were issued. Later on, in the spring of 1955, the official discount rate was raised and in the course of the year a number of other measures were taken to reduce liquidity (see Chapter II, pages 45-46). The banks were asked, first of all, to enlarge their cash holdings at the Riksbank and subsequently to reduce their lending. In response to these requests the commercial banks increased their liquid assets by S.Kr. 220 million in 1955, paying particular attention to the need to strengthen their cash position; at the same time they reduced their total loans and discounts by S.Kr. 560 million, the whole of this decline taking place in the second half of the year. As a result, deposits fell by S.Kr. 120 million over the year.

The trend of credit developments was thus reversed from 1954 to 1955. The credit squeeze appears further to have resulted in certain credits being obtained by the Swedish economy, since the gold and foreign exchange reserves of the Riksbank did not decline during 1955, notwithstanding the deficit of S.Kr. 370 million on the current account of the balance of payments in that year.

* * *

The review of developments in the field of money and credit in this chapter and in other parts of this Report enables it to be appreciated to what an extent the pursuit of flexible credit policies has nowadays become an accepted element of official action. In most European countries, i.e. in Austria, Belgium, western Germany, Ireland, the Netherlands, Turkey, the United Kingdom and the countries of the northern group — Denmark, Finland, Norway and Sweden — there has been at least one rise in the official discount rate during the last two years, and in others, e.g. Italy and Switzerland, long-term rates have moved upwards, as is evidenced by the increase in the yield on government bonds. The rigidities of the preceding period have thus been replaced by a policy characterised by a high degree of flexibility, obtained not only by changes in the interest-rate structure but also by a variety of other measures, among which pride of place is often held by open-market operations.

When asked whether a flexible monetary policy can be expected to achieve such ambitious objectives as those of moderating the boom, correcting a deficit in the balance of payments, or arresting the rise in prices, the attitude of those responsible for monetary policy seems to be somewhat as follows: the effectiveness of monetary measures should not be underrated, for it is unlikely that these goals could be properly achieved without their aid.

But it is at the same time recognised that in view of the present great importance of the public sector the measures will hardly be successful unless the authorities concerned give their full co-operation; and it should not be forgotten that the public sector covers not only the budget proper but also expenditure by local authorities and nationalised industries and outlay on government-sponsored schemes such as, for instance, housing programmes. Fortunately, governments and monetary authorities seem more and more ready to work together towards the same objectives, feeling perhaps that they cannot afford to ignore the increasingly insistent demands of public opinion for the establishment of a position in which there is no need to anticipate a constant deterioration in the purchasing power of national currencies.

There is also evidence of greater willingness on the part of the government authorities to respect the impartial judgement of the central banks and to allow them independence of action — an independence which may be likened in some respects to that of the judiciary, which, while forming part of the official structure, is not as a rule subject to the decisions of the government. To quote a statement by the President of the United States made on 25th April 1956: "the Federal Reserve Board is set up as a separate agency of government. It is not under the authority of the President, and I really personally believe it would be a mistake to make it definitely and directly responsible to the head of state."

It is not, of course, anything new for central banks to be faced with problems arising in connection with the financial needs of governments, but nowadays these problems are often more acute than they used to be owing to the wide field at present covered by the public sector. A new element has, moreover, come into play, in that the political authorities are feeling to an increasing extent that they have a responsibility for the trend of business activity and have therefore begun to take a special interest in monetary policy. The fear of depression has been at the root of the cheap-money policy. It has only gradually come to be realised that in the post-war years the strength of demand was in itself sufficient to hold depressive tendencies at bay even despite substantial rises in interest rates. But a conclusion which has perhaps been less generally drawn is that considerations of full employment need not have stood in the way of a return to flexible credit policies, as is best illustrated by the fact that countries with very high interest rates have nevertheless been able to achieve an impressive increase in employment. Indeed, it seems at the moment that technical innovations, such as automation, are regarded by many as a greater threat to full employment than are business fluctuations.

In so far as the aim has been to arrest the rise in prices, it is a fact of outstanding importance that since the introduction of more flexible monetary policies the quotations for the staple commodities dealt in on the world markets have shown a remarkable degree of overall stability. It may be possible for individual countries to stage a price trend of their own but the margin within which their prices can be allowed to move without getting

out of line with those ruling abroad will never be very great now that the leading countries are set on the attainment of overall price stability. It is because this fact is realised that some countries have recently taken much stiffer credit measures than would have been thought possible only a few years ago. The primary object must everywhere be to eradicate what remains of the inflation mentality. Once the public has become convinced that money will keep its value, it is likely to adopt a more sensible attitude towards spending and saving. Considering the great increase that has taken place in the supply of goods and services, the day when this goal can be attained may not be far off; and it should therefore be possible in time to bring interest rates down again, since flexibility must mean freedom to make changes in either direction.

Gross national product and money supply.¹

Year	Currency circulation	Total money supply	Gross national product (at market prices)	Currency circulation	Total money supply
	In milliards of national currency units			as percentage of gross national product	
Belgium (francs)					
1938	23.6	41.2	80	30	52
1948	88.5	150	339	26	44
1949	91.0	156	347	26	45
1950	92.3	156	354	26	44
1951	99.1	169	408	24	41
1952	102.0	175	429	24	41
1953	105.9	180	433	24	42
1954	106.7	184	449	24	41
1955	110.8	193	480	23	40
Denmark (kroner)					
1938	0.43	2.55	7.9	5	32
1945	1.49	8.24	14.5	10	57
1948	1.55	6.74	18.9	8	36
1949	1.55	6.45	20.2	8	32
1950	1.63	6.45	23.2	7	28
1951	1.73	6.55	25.3	7	26
1952	1.88	6.97	26.7	7	26
1953	2.03	7.41	28.6	7	26
1954	2.06	7.26	29.9	7	24
1955	2.04	7.43	31.0 ²	7	24
Finland (markkas)					
1938	2.3	3.8	36.4	6	10
1945	13.9	22.1	118.3	12	19
1948	27.8	44.9	391.8	7	11
1949	30.1	49.3	420.9	7	12
1950	35.0	55.7	531.4	7	10
1951	45.4	77.4	783.8	6	10
1952	47.0	70.4	803.9	6	9
1953	46.7	74.3	815.3	6	9
1954	49.9	79.3	892.1	6	9
1955	58.1	91.6	971.9	6	9
France (francs)					
1938	112	192	432	26	44
1946	732	1,349	3,018	24	45
1948	993	2,165	6,739	15	32
1949	1,301	2,704	8,400	15	32
1950	1,590	3,120	9,610	17	32
1951	1,893	3,678	11,860	16	31
1952	2,124	4,159	14,140	15	29
1953	2,310	4,630	14,530	16	32
1954	2,593	5,298	15,390	17	34
1955	2,910	6,008	16,370	18	37

¹ See footnote on page 188.

² Unofficial estimate.

Gross national product and money supply (contd).

Year	Currency circulation	Total money supply	Gross national product (at market prices)	Currency circulation	Total money supply
	In milliards of national currency units			as percentage of gross national product	
Germany (western) (R.Mark/D.Mark)					
1938*	8.6	30.9	100.2	9	31
1949	7.5	14.2	79.4	9	18
1950	8.1	16.2	89.8	9	18
1951	9.3	19.1	113.6	8	17
1952	10.8	21.3	126.0	9	17
1953	12.0	23.4	134.3	9	17
1954	12.8	26.4	145.5	9	18
1955	14.1	29.1	164.0	9	18
Italy (lire)					
1938	25	42	150	17	28
1947	928	1,507	6,016	15	25
1948	1,122	1,963	7,090	16	28
1949	1,194	2,236	7,608	16	29
1950	1,326	2,486	8,390	16	30
1951	1,459	2,876	9,699	15	30
1952	1,573	3,316	10,210	15	32
1953	1,658	3,615	11,093	15	33
1954	1,754	3,757	11,820	15	32
1955	1,896	4,154	12,902	15	32
Netherlands (florins)					
1938	1.05	2.54	5.9	18	43
1946	2.80	6.19	10.7	26	58
1948	3.18	7.33	15.7	20	47
1949	3.16	7.63	17.5	18	44
1950	3.01	7.16	19.4	16	37
1951	3.08	7.35	21.6	14	34
1952	3.22	8.12	22.7	14	36
1953	3.44	8.62	24.1	14	36
1954	3.73	9.17	26.1	14	35
1955	4.10	9.97	28.3	14	35
Norway (kroner)					
1938	0.45	0.62	5.86	8	11
1946	1.87	4.36	11.03	17	40
1948	2.13	4.96	14.09	15	35
1949	2.25	4.96	15.02	15	33
1950	2.31	4.84	16.65	14	29
1951	2.53	5.40	20.71	12	26
1952	2.79	5.67	22.81	12	25
1953	3.00	5.88	23.15	13	26
1954	3.19	6.11	25.22	13	24
1955	3.18	6.04	26.69	12	23

* Pre-war Germany.

Gross national product and money supply (contd).

Year	Currency circulation	Total money supply	Gross national product (at market prices)	Currency circulation	Total money supply
	in milliards of national currency units			as percentage of gross national product	
Sweden (kronor)					
1938	1.04	2.95	12.0	9	25
1945	2.79	6.54	20.5	14	32
1948	3.17	7.67	27.9	11	27
1949	3.34	7.94	29.2	11	27
1950	3.67	8.44	31.2	11	27
1951	4.15	10.08	36.4	11	26
1952	4.62	10.43	42.0	11	25
1953	4.90	10.89	43.3	11	25
1954	5.16	11.10	45.4	11	24
1955	5.17	11.10	48.2	11	23
Switzerland (francs)					
1938	2.0	4.8	10.0	20	48
1945	4.1	8.8	15.2	27	58
1948	4.9	10.4	20.2	24	51
1949	4.9	11.1	20.0	25	56
1950	5.0	11.4	21.0	24	54
1951	5.3	11.9	22.5	24	53
1952	5.5	12.3	23.5	23	52
1953	5.6	12.8	24.3	23	53
1954	5.8	13.2	25.3	23	52
1955	5.9	13.6	26.0*	23	52
United Kingdom (pounds)					
1938	0.46	1.64	5.76	8	28
1946	1.38	4.96	9.95	14	50
1948	1.25	5.13	11.83	11	43
1949	1.27	5.19	12.56	10	41
1950	1.29	5.28	13.26	10	40
1951	1.36	5.36	14.60	9	37
1952	1.45	5.38	15.73	9	34
1953	1.53	5.53	16.76	9	33
1954	1.62	5.72	17.92	9	32
1955	1.73	5.70	18.91	9	30
United States (dollars)					
1935-39	5.6	31.1	85.2	7	37
1946	26.7	110.0	209.2	13	53
1948	26.1	111.6	257.3	10	43
1949	25.4	111.2	257.3	10	43
1950	25.4	117.7	285.1	9	41
1951	26.3	124.5	328.2	8	38
1952	27.5	129.0	345.2	8	37
1953	28.1	130.5	364.5	8	36
1954	27.9	134.4	380.5	8	37
1955	28.3	138.2	387.2	7	36

* Unofficial estimate.

Note: The figures for currency circulation and total money supply are the amounts outstanding at the end of the year. The total money supply consists of the currency circulation (notes and coins) and demand deposits.

VIII. European Payments Union.

The development and working of the European Payments Union up to March 1955 have been described in previous Annual Reports. The present chapter, in continuing the story up to March 1956, deals with:

1. the prolongation of the Union after June 1955;
2. the operations up to March 1956;
3. the financial position of the Union in the spring of 1956; and
4. the new European Monetary Agreement which will come into force upon the termination of the European Payments Union.

1. Prolongation of the Union after June 1955.

On 10th June 1955, the Council of the Organisation for European Economic Co-operation decided to prolong the Union for one month on the terms and conditions then in force, it having already been agreed in principle to extend the Union for another year.

A further decision was taken by the Council on 29th July, prolonging the Union until 30th June 1956; amendments were made to the Agreement embodying provisions whereby the Union might be terminated at any time, on condition that the newly-drafted European Monetary Agreement should then come into force.

Changes in the mechanism of the Union introduced from 1st August 1955 were less extensive than those of the previous year; most important was the increase from 50 to 75 per cent. in the gold element for settlements. Not being retroactive, this did not lead to any immediate payments or receipts by the Union but, as there was to be no change in the amount of credit available to each member country, it was necessary to adjust the quotas.

E.P.U.: Changes in the gold/credit ratio.

	Gold	Credit	Quota
July 1950–June 1954 (40–60 ratio)	40	60	100
July 1954–July 1955 (50–60 ratio)	60	60	120
August 1955 onwards (75–25 ratio)	180	60	240

The credit element within the quotas has remained unaltered since the Union was formed, increases in the gold-settlement ratio entailing corresponding increases in the quotas; the present quotas are thus twice those previously in force and 2.4 times those originally fixed.

The revision of the settlement basis made it necessary to double the cumulative accounting positions so that they would be equal to four times

E.P.U.: Quotas, old and new.

Member countries	Original quotas ¹	1954-55 quotas	1955-56 quotas
	in millions of units of account		
Austria	70	84	168
Belgium ²	360	432	864
Denmark	195	234	468
France	520	624	1,248
Germany	500	600	1,200
Greece ³	45	54	108
Iceland	15	18	36
Italy	205	246	492
Netherlands	355	426	852
Norway	200	240	480
Portugal	70	84	168
Sweden	260	312	624
Switzerland	250	300	600
Turkey	50	60	120
United Kingdom	1,060	1,272	2,544
Totals	4,155	4,986	9,972

the amounts of credit used within the quotas. In the case of Turkey, the cumulative accounting position was calculated by multiplying the amount of credit by four and adding the amount of gold paid to the Union in respect of deficits outside the quota. Greece, having received no credit from the Union, had a cumulative accounting position of zero after the adjustments (see page 201).

¹ Including the adjustments made to the quotas of Germany and the Netherlands from July 1951.

² The availability of Belgium's quota as a creditor is reduced to \$330.6, 402.6 and 805.3 million respectively.

³ The quota of Greece as a debtor was blocked up to July 1955; after that date it will be unblocked on three months' notice should Greece so request.

The theoretical lending obligations of creditors, established in July 1954, remain in existence and continue to be reduced periodically as amortisation instalments under bilateral agreements concluded in 1954 are paid.

It was found necessary to establish new "rallonges" (settlement facilities beyond the quotas) for two of the creditors: Germany alone was outside its quota in July 1955 and Switzerland was then the only country which seemed likely to exceed its quota. Thus, the two creditor rallonges established for the period beginning August 1955 were for Germany, of \$350 million, and for Switzerland, of \$250 million, both on the new 75-25 basis. The rallonge for Germany is additional to the amount by which that country had exceeded its quota as at 1st August 1955 (\$950 million); thus Germany's total rallonge is \$1,300 million.

To conform with the principle of maintaining unchanged the credit element in the settlement facilities, the debtors' rallonges, like the quotas, were doubled in consequence of the revised settlement basis.

E.P.U.: Debtors' rallonges.

Member countries	Old rallonge 50-50	New rallonge 75-25
	in millions of units of account	
Denmark	18.2	36.4
France	45.5	91.0
Iceland	1.6	3.2
Italy	164.0	328.0
Norway	14.8	29.6
United Kingdom	77.5	155.0

A special credit of \$50 million, the first of its kind to be granted by the Union, was arranged for Italy; it may be used on a revolving basis with or without concurrent gold payments, as Italy desires. This credit, which is available until 30th June 1957 or the termination of the Union, whichever is earlier, can be drawn upon only after the quota and rallonge are exhausted; Italy has not yet had occasion to make use of this credit.

Note: For convenience, the dollar sign (\$) is used throughout the text in this chapter, whether the amount referred to is in U.S. dollars, gold or E.P.U. units of account.

Above the quotas and rallonges, debtors pay, as before, one hundred per cent. in gold.

In regard to special settlements, it should be mentioned that the arrangement under which France can recover gold paid to the Union to cover deficits above its quota up to June 1954 remains in force; of the original amount of \$369 million, \$173 million had been recovered by March 1956. A similar arrangement was made for Greece; the \$46 million already paid in gold in settlement of deficits outside the quota up to July 1955 was removed from the cumulative accounting position (which was thus reduced to zero) and could be recovered by Greece in so far as it had net surpluses after 1st August 1955; by March 1956 a net amount of \$40 million had been recovered in this way.

2. The operations up to March 1956.

During the sixty-nine months' life of the Union up to March 1956, the gross bilateral surpluses (which equal the gross bilateral deficits) totalled the equivalent of \$15.3 milliard in the national currencies of member countries; of this amount \$11.9 milliard, i.e. 78 per cent., had been subject to compensation in the operations of the Union, leaving \$3.4 milliard, which comprises the cumulative net surpluses (and deficits), to be dealt with by the settlement mechanism of the Union.

E.P.U.: Compensation mechanism — January 1955 to March 1956.¹

Month	Gross bilateral surpluses (and deficits)	Compensations			Net surpluses (and deficits) ²
		Bilateral offsetting	Cumulative working	Total compensations	
In millions of units of account					
Totals to December 1954 . . .	12,932	5,977	4,213	10,190	2,741
1955 January	137	48	50	98	39
February	131	58	40	98	33
March	160	69	80	149	11
April	175	79	106	184	(- 9)
May	177	95	61	156	21
June	177	84	50	134	43
July	260	122	113	235	26
August	143	56	45	101	42
September	158	46	33	78	80
October	131	39	24	63	68
November	112	47	31	78	34
December	148	62	28	90	59
1956 January	157	51	24	75	82
February	124	61	4	64	60
March	145	56	25	82	63
Totals to March 1956	15,268	6,950	4,927	11,877	3,391

¹ Earlier figures are given in the Twenty-fifth and previous Annual Reports.

² 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. The debiting and crediting of interest will cause an increase or a decrease in the amount to be settled through the Union, as the positions of countries in the Union develop; by March 1956, this factor had caused an increase of \$101 to 104 million, lifting the cumulative net surpluses and deficits from the \$3,391 million in this table to the \$3,492 to 3,495 million shown in the tables on the next page.

**E.P.U.: Settlement mechanism — cumulative surpluses and deficits,
January 1955 to March 1956.¹**

CREDITORS — cumulative surpluses.

Month	Cumulative net surpluses (including interest)	Net reduction (—) or increase (+) due to		Cumulative accounting surpluses	Settlement of cumulative accounting surpluses			
		Ante-quota settlements and adjustments ²	General adjustments ³		Credit within and outside quotas	Gold Actual payments ⁴ Adjustments ⁴		
in millions of units of account								
1955								
January . . .	2,859	— 179	— 653	2,027	1,014	1,375	— 361	
February . . .	2,892	— 192	— 663	2,037	1,019	1,385	— 366	
March . . .	2,903	— 205	— 686	2,012	1,006	1,384	— 378	
April . . .	2,894	— 221	— 689	1,984	992	1,374	— 382	
May . . .	2,911	— 230	— 697	1,965	993	1,379	— 387	
June . . .	2,968	— 229	— 714	2,025	1,012	1,408	— 396	
July . . .	2,994	— 219	— 768	2,006	1,003	1,426	— 422	
July adj. . .	2,994	— 219	+ 1,238	4,013	1,003	1,426	+ 1,584	
August . . .	3,036	— 218	+ 1,204	4,022	1,005	1,458	+ 1,558	
September . .	3,116	— 222	+ 1,168	4,061	1,015	1,515	+ 1,531	
October . . .	3,183	— 227	+ 1,147	4,104	1,026	1,562	+ 1,516	
November . . .	3,217	— 230	+ 1,108	4,095	1,024	1,585	+ 1,486	
December . . .	3,290	— 232	+ 871	3,929	982	1,688	+ 1,259	
1956								
January . . .	3,372	— 233	+ 832	3,970	993	1,749	+ 1,229	
February . . .	3,431	— 234	+ 809	4,008	1,002	1,793	+ 1,212	
March . . .	3,495	— 235	+ 775	4,034	1,009	1,840	+ 1,186	

DEBTORS — cumulative deficits.

Month	Cumulative net deficits (including interest)	Net reduction (—) or increase (+) due to			Cumulative accounting deficits	Settlement of cumulative accounting deficits			
		Ante-quota settlements and adjustments ²	General adjustments ³	Gold recoverable from Union under Art. 10 bis ⁵		Credit within and outside quotas	Gold Actual payments ⁶ on proportionate basis ⁷ 100 per cent. payments ⁷		Adjustments ⁴
in millions of units of account									
1955									
January . . .	2,858	— 365	— 196	— 345	1,952	855	760	242	+ 95
February . . .	2,891	— 378	— 207	— 328	1,979	867	777	246	+ 90
March . . .	2,902	— 391	— 229	— 301	1,980	867	788	245	+ 79
April . . .	2,893	— 407	— 232	— 291	1,963	852	781	255	+ 75
May . . .	2,910	— 416	— 240	— 282	1,972	845	789	268	+ 70
June . . .	2,966	— 425	— 258	— 261	2,023	872	823	267	+ 61
July . . .	2,991	— 415	— 311	— 234	2,031	873	854	269	+ 34
July adj. . .	2,991	— 415	+ 1,465	— 280	3,761	873	854	223	+ 1,810
August . . .	3,034	— 414	+ 1,431	— 252	3,798	883	904	228	+ 1,785
September . .	3,113	— 418	+ 1,394	— 229	3,861	898	977	228	+ 1,757
October . . .	3,181	— 423	+ 1,374	— 218	3,914	907	1,036	230	+ 1,742
November . . .	3,215	— 426	+ 1,335	— 208	3,815	906	1,063	234	+ 1,713
December . . .	3,287	— 428	+ 1,097	— 198	3,759	866	1,176	233	+ 1,485
1956									
January . . .	3,369	— 429	+ 1,058	— 200	3,798	859	1,232	251	+ 1,455
February . . .	3,429	— 430	+ 1,036	— 203	3,831	863	1,267	262	+ 1,439
March . . .	3,492	— 431	+ 1,001	— 202	3,860	859	1,315	274	+ 1,413

For footnotes see next page.

**E.P.U.: Credit movement,*
June 1954 to March 1956.**

Credit granted and received	Cumulative creditors	Cumulative debtors
	in millions of units of account	
Outstanding June 1954		
Within quotas	1,034	1,142
Outside quotas	382	—
Total credit	1,416	1,142
Repayments		
Initial repayments	232	232
Amortisation instalments	189	189
By Union	130	—
By France	130	130
Total repayments	681	551
New credit granted and received (net)	273	266
Outstanding March 1956		
Within quotas	747	797
Outside quotas	261	62
Total credit	1,009	859

* The amounts are shown gross; see footnote to table on page 209.

Since July 1954 there has been a period of relative stability, and the settlement mechanism has not been under pressure; payments under bilateral amortisation agreements and the special repayments by France through the Union to the creditors (\$80 million for January and \$50 million in December 1955) have helped to keep the total volume of credit from expanding; recently credit movements have been further slowed down by the change-over to a 75-25 basis of settlement.

In June 1954, four creditors were outside their quotas and, of the total credit granted to the Union, 27 per cent. was by way of ralonge; at the end of March 1956, although Germany was then the only creditor beyond its quota, this percentage was still as high as 26.

The Managing Board of the Union, which is now in its sixth year, has continued to meet about once a month, although additional sessions were held between March and July 1955 when the future of the Union and the drafting of the European Monetary Agreement were being dealt with. Throughout this time Dr von Mangoldt has continued to act as Chairman of the Board, which held its sixty-ninth meeting in March 1956.

The routine business of the Board includes, in addition to studies of the economic position of member countries, the examination and approbation of the Agent's monthly reports on the operations, which are then forwarded to the

Footnotes to tables on preceding page:

- ¹ Earlier figures are given in the Twenty-fifth and previous Annual Reports.
- ² and ³ These columns record the "operational impact", that is, the residual effect on the current accounts of previous ante-quota and special operations.
- ² The utilisation of existing resources, initial balances and special resources and the reduction of cumulative accounting surpluses due to the June 1952 adjustments (described in full in previous Annual Reports).
- ³ The various adjustments made to both the cumulative accounting surpluses and deficits due to the repayments of credit (bilaterally and by the Union) first made in connection with the renewal of the Union in June 1954 and, in addition, the gold adjustment shown in the last column. The changes are due to the initial repayments under new bilateral agreements, to the amortisation instalments and also to the corresponding gold adjustments. Further, the special repayments of credit by France for January and in December 1955, and the adjustments for the opening of business 1st August 1955, similarly affected this column.
- ⁴ The gold adjustment is the difference between the cumulative accounting positions and the total of actual settlements, by gold and credit, made through the Union.
- ⁵ Gold paid by France to cover deficits above the quota up to June 1954 and by Greece in 100 per cent. settlement of deficits now recoverable under Article 10 bis of the Agreement. These settlements no longer appear in the cumulative accounting deficits and a special position has been created in the accounts.
- ⁶ Gold actually paid within the quotas and ralonges (concurrently with credit granted).
- ⁷ One hundred per cent. payments above the quotas and payments made voluntarily in lieu of the receipt of credit under Article 11(d) of the Agreement.

E.P.U.: Interest rates on credit granted to and by the Union.¹

Financial years of the Union (July to June)	Interest payable by debtors to Union				Interest payable to creditors by Union	
	within quotas and ralfonges			special arrange- ments outside quotas	within quotas	outside quotas ²
	months outstanding					
	1-12	13-24	over 24	percentages		
First year (1950-51) . . .	2	2½	2½	2%	2	2
Second year (1951-52) . . .	2½	2½	2½	2%	2	2
Third year (1952-53) . . .	2½	2¾	3	2%	2½	2½
Fourth year (1953-54) . . .	2½	3	3¼	—	2½	3
Fifth year (1954-55) . . .	2½	3	3%	—	2½	3
Sixth year (1955-56) . . .	2½	3	3%	3¼ ³	2½	3

¹ The development of interest rates up to March 1955 was described in the Twenty-fifth and previous Annual Reports.

² In addition to the rates given above relating to creditors, 2½ per cent. is paid by the Union on the special credit granted by Belgium.

³ The rate applicable to any amounts drawn under the Italian special credit (see page 200); this credit remained unutilised up to March 1956.

Council of O.E.E.C. for final approval. The Board, which is responsible for the general supervision of the execution of the Agreement and, in particular, for the management and investment of the Union's liquid resources, also makes periodic reviews of the interest rates on credits granted to and by the Union; the last change in interest rates came into effect from July 1954.

The gold and dollar holdings of the Union declined slowly but steadily during 1955; this was due largely to the one hundred per cent. gold payments made to France and Greece in respect of net surpluses; there would indeed have been a greater fall but for the fact that both France

E.P.U.: Gold and dollar holdings.

After value date for operations	U.S. Treasury account ¹	Gold bars ²	U.S. dollars ³	Total
	in millions of U.S. dollars			
Opening ⁴	350	—	—	350
1950 December	307	—	97	404
1951 June	286	—	66	352
October ⁵	141	36	2	179
December	112	100	5	217
1952 June (adjusted)	123	150	76	351
December	123	153	97	373
1953 June	124	153	160	436
December	124	153	198	475
1954 June ⁶	124	153	267	544
June (adjusted)	124	153	137	414
December	124	153	146	423
1955 June	124	153	123	399
December	124	246	4	376
1956 March	124	232	53	409

¹ Amount obligated by the U.S. Government and remaining undrawn. The increase in 1953 results from the addition of a small amount due to the renunciation of conditional aid by Sweden.

² In London and/or New York. Arising from in-payments of debtor countries.

³ Available for investment in so far as total gold and dollar holdings exceeded (a) up to July 1952, the amount obligated by the U.S. Government, and (b) from August 1952, the capital of \$272 million.

⁴ 1st July 1950.

⁵ Lowest point reached.

⁶ Highest point reached.

and Portugal, when in monthly deficit, voluntarily made one hundred per cent. gold payments to the Union in preference to being granted credit, and that Turkey's deficits have also been settled fully in gold. Since January 1956, the gold and dollar holdings have again risen somewhat.

The composition of the Union's cash holdings has recently changed, gold bars now accounting for a greater proportion than was previously the case. This tendency became noticeable in August 1955, when the price of gold in the London market fell below the equivalent of \$35 per fine ounce; member countries with current deficits found it to their advantage to discharge their liabilities to the Union in gold bars rather than in U.S. dollars; the continued low price of gold has thus had a direct bearing on the composition of the Union's assets and the decline in the dollar holdings has led to a reduction of income from the Union's investments in U.S. Treasury bills.

In addition to the thirty-three bilateral repayment and amortisation agreements concluded in 1954, further agreements have since been made by Denmark with Belgium, Germany and the Netherlands. The totals covered by repayment and amortisation agreements, together with the amounts already amortised (equivalent to the credit repaid) and the amounts outstanding at 31st March 1956, are shown below.

Although the amortisation instalments are paid direct from debtor to creditor without passing through the mechanism of the Union, each payment is reflected in a parallel reduction of the credit granted to or by the Union vis-à-vis the parties concerned and, in order to keep the credit element within the accounting positions consistent, the cumulative accounting positions are adjusted accordingly (currently by four times the amount of credit repaid). Credit repaid under these agreements totalled \$421 million, or 46 per cent. of the total amount covered.

In addition to the above arrangements, two special repayments of credit have been made by France. For January 1955, France made a cash payment to the Union of \$80 million in repayment of part of the credit granted to it by the Union (as already mentioned in the Twenty-fifth Annual Report).

E.P.U.: Bilateral amortisation agreements — position as at 31st March 1956.

Creditors	Total covered	Amount received	Amount out-standing	Debtors	Total covered	Amount repaid	Amount out-standing
	In millions of units of account				in millions of units of account		
Austria	93	14	19	Denmark	112	43	69
Belgium	207	93	114	France	232	101	131
Germany	320	162	158	Iceland	5	2	3
Netherlands	131	55	78	Italy	117	64	53
Portugal	24	8	16	Norway	51	22	29
Sweden	88	39	49	United Kingdom	395	188	207
Switzerland	109	49	60				
Totals	912	421	492	Totals	912	421	492

Note: Payments due to Austria and Portugal under their various bilateral agreements have been suspended as long as these countries are debtors of the Union.

Further, in December 1955 France made a similar payment of \$50 million in gold which, following the principle established in the previous case, was distributed amongst the creditor countries in proportion to their total claims. The effect of these payments was to reduce the amounts of credit granted by the Union to France and by the creditors to the Union by equivalent amounts; thus, in December, Austria was repaid \$0.1 million, Belgium \$8.5 million, Germany \$26.7 million, the Netherlands \$8.7 million, Sweden \$0.7 million and Switzerland \$5.3 million; as the \$50 million was paid out the day it was received (22nd December 1955) the Union's liquid resources were not affected by the operation.

3. The financial position of the Union in the spring of 1956.

The table gives a cross-section of the positions of member countries in the Union after the operations for March 1956 and shows the effect of the ante-quota settlements and adjustments as well as the settlement (within and outside the quotas) of the resulting accounting positions.

The Union had four important creditors: Germany, Belgium, the Netherlands and Switzerland. Germany's total claim, at \$560 million,

E.P.U.: Cumulative positions of member countries, July 1950 to March 1956.

Member countries	Net positions cumulative surplus (+) or deficit (-) of country	Effect of ante-quota settlements and adjustments			Covered within the Union ⁴			
		Ante-quota settlements and adjustments 1	General adjustments 2	Gold recoverable (+) from Union by special settlement under Art. 10 bis 3	Credit received (+) or granted (-) by Union	Gold actually paid (+) or received (-)	Gold settlement adjustment 5	Total equal to accounting surplus (+) or deficit (-) of country
in millions of units of account								
Austria . . .	- 101	+ 125	- 27	-	{ (- 0) ⁶ - 1	{ 0 ⁶ + 10	- 13	- 3
Belgium . . .	+ 928	- 306	+ 92	-	+ 179	+ 350	+ 185	+ 714
Denmark . . .	- 207	- 5	- 176	-	- 97	- 73	- 216	- 388
France . . .	- 957	+ 102	+ 198	+ 196	{ (- 35) ⁶ - 81	{ - 35 ⁶ - 442	+ 96	- 461
Germany . . .	+ 1,745	+ 12	+ 488	-	+ 561	+ 1,034	+ 650	+ 2,245
Greece . . .	- 275	+ 269	-	+ 6	-	-	-	nil
Iceland . . .	- 27	+ 15	- 8	-	- 5	- 5	- 11	- 21
Italy	- 576	+ 43	- 207	-	- 185	- 284	- 271	- 740
Netherlands .	+ 441	+ 30	+ 201	-	+ 168	+ 248	+ 256	+ 672
Norway	- 295	+ 60	- 233	-	- 115	- 88	- 256	- 458
Portugal . . .	- 20	- 3	- 40	-	{ (- 15) ⁶ - 0	{ - 15 ⁶ - 16	- 31	- 63
Sweden	+ 66	+ 6	- 41	-	+ 8	+ 25	+ 1	+ 31
Switzerland .	+ 314	-	+ 58	-	+ 93	+ 172	+ 107	+ 372
Turkey	- 366	+ 92	- 70	-	- 30	- 244	- 70	- 344
United Kingdom .	- 677	- 243	- 462	-	- 345	- 387	- 650	- 1,382
Cumulative creditors . . .	+ 3,495	- 235	+ 775	-	+ 1,009	+ 1,840	+ 1,186	+ 4,034
debtors	- 3,492	+ 431	- 1,001	+ 202	- 659 ⁷	- 1,569	- 1,413	- 3,860
Net totals	+ 3	+ 196	- 227	+ 202	+ 150	+ 251	- 227	+ 174 ⁸

For footnotes see next page.

accounted for more than one-half of all credit granted to the Union; Belgium and the Netherlands together attained almost \$350 million, and Switzerland \$90 million. Much of this credit granted to the Union had been outstanding for several years.

Amongst the debtors, the United Kingdom, which had received \$345 million, was by far the greatest. France, largely as a result of special repayments and voluntary gold payments, had received credit for only \$81 million and was thus a smaller debtor than Denmark, Norway or Italy (the latter, with an amount of \$185 million, being the second largest).

Two additional factors which have influenced the working of the Union since its inception are not immediately noticeable from the tables. They are (a) the repayment of bilateral debts existing in June 1950, and (b) the interest paid and received on credits granted within the Union.

(a) Of the \$861 million debts unfunded on bilateral accounts between the central banks of member countries in June 1950, the amount remaining in March 1956 was only \$50 million, or 6 per cent. This amount includes a debt of \$24 million from Denmark to the United Kingdom and one of an approximately similar amount from the United Kingdom to Sweden. The amortisation and repayment of these old debts is taken into account in the monthly net positions of the countries concerned and is thus dealt with by the normal mechanism of the Union.

(b) Up to December 1955 interest paid by the Union amounted to \$128.6 million, while the amount of interest received was \$126.0 million, there being an excess of interest paid by the Union of \$2.6 million; interest is calculated half-yearly and debited or credited to the net positions of member countries in June and December.

Income earned by the Union on investments (mainly U.S. Treasury bills) amounted to \$5.9 million up to December 1955, and the net surplus on Income and Expenditure Account, after deduction of expenses, was \$2.7 million.

Germany has received the largest net amount in respect of interest on credits granted to the Union (\$36.4 million), followed by Belgium (\$28.1 million), the Netherlands (\$15.2 million) and Switzerland (\$15.1 million). The United Kingdom has paid interest amounting (net) to \$51.9 million and France \$26.8 million.

* * *

Footnotes to table on preceding page:

- ¹ Net amounts of existing resources, initial balances (grants and loans) and special resources utilised prior to June 1954 and reduction of cumulative accounting surpluses due to the June 1952 adjustments for Belgium and Portugal (after allowing for three repayments of \$10 million each by the Union on the special credit granted by Belgium).
- ² Arising from the renewal operations as at 1st July 1954, adjustments for opening of business 1st August 1955, and repayments of credit (bilaterally and by the Union) — see footnotes on page 203.
- ³ Gold paid by France to cover deficits above the quota up to June 1954 and gold paid by Greece in one hundred per cent. settlement of deficits, no longer shown in the cumulative accounting deficits and now recoverable under Article 10 bis of the Agreement.
- ⁴ Within and outside quotas.
- ⁵ The gold adjustment is the difference between the cumulative accounting positions and the total of actual settlements, by gold and credit, made through the Union.
- ⁶ Settled temporarily in gold in accordance with Article 11 (d) of the Agreement.
- ⁷ As the loans to Norway and Turkey (as initial credit balances), totalling \$35 million, are included in the ante-quota-settlement column, this figure is lower by that amount than the \$894 million shown on page 208, which covers all credits and loans.
- ⁸ The cumulative accounting deficits are lower than the cumulative accounting surpluses by \$174 million, this being the net amount by which the ante- or post-quota settlements by debtors exceeded those of creditors (special resources, \$367 million, plus the net amount of initial balances, \$125 million, the remainder of the amount still recoverable by France and Greece under Article 10 bis of the Agreement, \$202 million, the net interest paid by the Union, \$3 million, less the net adjustments for June 1952, \$296 million, and the amount shown in the column "General adjustments", \$227 million).

The next table gives quarterly figures of the Statement of Account in a simplified form. Grants by way of initial balances disappeared after the first year of the Union and since then the assets side of the statement contains only the liquid resources (gold and U.S. dollars) and the credits granted by the Union, while the capital of the Union and the credits it has received make up the liabilities.

E.P.U.: Summary of Statement of Account,
quarterly from opening (July 1950) to March 1956.

After operations for accounting period	Assets			Total of State- ment 4	Liabilities		
	Liquid resources 1	Grants not yet received 2	Credits granted 3		Capital	Grants not yet given 5	Credits received 6
In millions of units of account							
Opening	350	215	—	565	266	279	—
1950 December	404	43	362	810	266	87	436
1951 March	370	21	537	928	266	22	619
June	352	21	547	920	272	—	649
September	262	—	539	801	272	—	530
December	217	—	843	1,060	272	—	788
1952 March	339	—	1,068	1,407	272	—	1,135
June	460	—	1,024	1,484	272	—	1,211
June adj.	351	—	1,002	1,354	272	—	1,081
September	411	—	1,038	1,450	272	—	1,177
December	373	—	1,020	1,393	272	—	1,120
1953 March	393	—	1,011	1,404	272	—	1,131
June	436	—	1,011	1,447	272	—	1,172
September	450	—	1,072	1,522	272	—	1,246
December	475	—	1,186	1,641	272	—	1,368
1954 March	500	—	1,181	1,681	272	—	1,408
June	544	—	1,177	1,721	272	—	1,446
June adj.	414	—	959	1,372	272	—	1,098
September	433	—	952	1,385	272	—	1,110
December	423	—	967	1,390	272	—	1,116
1955 March	409	—	902	1,311	272	—	1,036
June	399	—	907	1,307	272	—	1,032
September	377	—	933	1,310	272	—	1,035
December	376	—	901	1,276	272	—	1,002
1956 March	409	—	894	1,303	272	—	1,029

1 U.S. dollars to the amount of \$350 million (from January 1952 to April 1953 \$361.4 million, and \$361.6 million from May 1953) plus gold and dollars received from net debtors plus discount 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 special credits (inside and outside the quotas).
 4 Including a small item representing the difference between interest received and interest paid by the Union, not including interest accrued.
 5 Initial credit balances as grants not utilised on the respective dates.
 6 Including credits received under Article 13 (b) of the Agreement (outside the quotas) and the special credit of \$50 million received from Belgium (reduced, since June 1955, to \$20 million).

The decline in all items of the statement continued fairly steadily until December 1955 when the total reached its lowest point since early in 1952. Two factors had a decisive influence: the fall in the liquid resources described on page 204 and the contraction of credit granted and received, due to the reversal of certain debtor and creditor positions and to the repayment of credit resulting from the bilateral amortisation instalments. The next table analyses changes in total credit.

**E.P.U.: Credit amortised and new credit received and granted by countries,
June 1954 to March 1956.**

1. DEBTORS.

Cumulative debtor	Total credit received June 1954 (before adjustments)	Repayments made bilaterally and to Union	New credit received for current operations	Total credit received March 1956
In millions of units of account				
Austria	—	(1)	—	1
Denmark	98	43	42	97
France	312	231	—	81
Iceland	6	2	2	5
Italy	122	64	127	185
Norway	89	22	48	115
Portugal	—	—	0	0
Turkey	30	—	—	30
United Kingdom	485	188	48	345
Totals (net)	1,142	551	266	859

2. CREDITORS.

Cumulative creditor	Total credit granted June 1954 (before adjustments)	Repayments received bilaterally and from Union	New credit granted for current operations	Total credit granted March 1956
In millions of units of account				
Austria	73	24	(— 50)	—
Belgium	217	129	90	178
Germany	604	295	253	561
Netherlands	207	91	52	168
Portugal	30	12	(— 18)	—
Sweden	105	52	(— 45)	8
Switzerland	181	79	(— 10)	93
Totals (net)	1,416	681	273	1,009

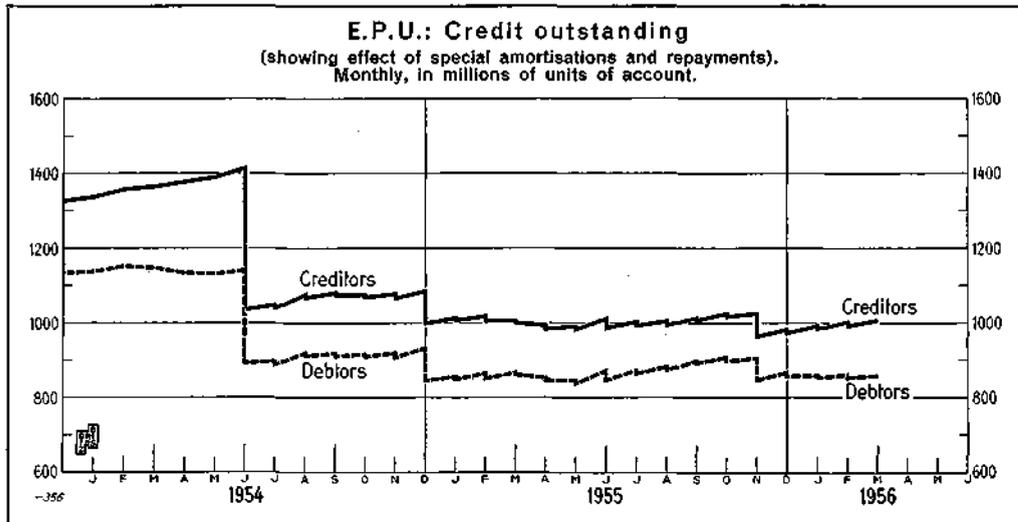
Note: The amounts are shown gross; this has importance only for Austria and Portugal, which countries, after having received repayments as creditors, became debtors of the Union in the course of the period shown. The effect on the totals is very small (less than 1 million).

Since June 1954, when the bilateral repayment and amortisation scheme was first put into effect, Italy and Norway have utilised more new credit in the current operations than has been repaid or amortised bilaterally, so that total credit has increased. The United Kingdom has repaid more old debt than the amount of new debt created; France has made large repayments and taken no new credit. Amongst the creditors, no country has granted more new credit than has been repaid bilaterally; indeed, Austria, Portugal, Sweden and Switzerland have also had credit repaid to them in the course of the current operations. Austria and Portugal have changed from creditors to small debtors and the bilateral repayments have been suspended.

Footnotes to table on the next page:

¹ These totals are smaller than those given in the table on page 208, as they include only credit outstanding at least one month and thus exclude credit newly granted or repaid on (and for some bilateral repayments before) the value date given in the first column. Also excluded are initial credit balances in the form of loans totalling \$35 million.

² Credits outstanding upon completion of June 1954 operations after the repayments and adjustments.



Note: The fall in the lines in June 1954 is due to the renewal operations; the bumps at the beginning of each succeeding month reflect the bilateral amortisation instalments, the large drops in December 1954 and November 1955 being attributable mainly to the special repayments by France. The small rise during each month results from the net new credit granted and received in the current operations.

E.P.U.: Credits granted and received — time outstanding.

On value date in respect of operations for month	Outstanding				Totals 1
	for one year and less	for one to two years	for two to three years	for over three years	
in millions of units of account					
Granted by Union to debtors					
1951 September	470	—	—	—	470
1952 September	936	40	—	—	976
1953 September	163	822	40	—	1,024
1954 June	217	118	767	29	1,131
July ²	149	88	627	38	902
September	138	131	607	40	917
1955 March	113	166	56	528	862
June	150	162	68	463	844
September	184	137	113	446	880
December	184	100	160	410	855
1956 March	155	114	161	431	862
Received by Union from creditors					
1951 September	563	—	—	—	563
1952 September	784	379	—	—	1,163
1953 September	272	658	295	—	1,226
1954 June	365	291	626	149	1,431
July ²	142	194	561	179	1,076
September	136	213	550	206	1,105
1955 March	96	206	271	472	1,044
June	123	123	214	561	1,021
September	135	93	129	665	1,023
December	100	46	186	661	992
1956 March	107	63	170	679	1,020

For footnotes see preceding page.

**E.P.U.: Utilisation of the quotas
as at March 1956.**

Member countries	Quotas	Utilised as at March 1956 ¹	
		Amounts	Per- centages of quotas
		as creditor (+) or as debtor (-)	
	In millions of units of account		per- centages
Austria	168	- 3	- 2
Belgium	805	+ 714	+ 89
Denmark	468	- 388	- 83
France	1,248	- 461	- 37
Germany	1,200	+ 2,245	+ 187
Greece	(108)	nil	-
Iceland	36	- 21	- 57
Italy	492	- 740	- 150
Netherlands	852	+ 672	+ 79
Norway	480	- 458	- 95
Portugal	168	- 63	- 37
Sweden	624	+ 31	+ 5
Switzerland	600	+ 372	+ 62
Turkey	120	- 344	- 286
United Kingdom	2,544	- 1,382	- 54
Totals			overall averages
Creditors	4,081	+ 4,034	+ 99
Debtors	5,724 ²	- 3,860	- 67

¹ Including special arrangements above quotas.
² Excluding Greece, whose quota was blocked on the debtor side.

* * *

4. The European Monetary Agreement.

The decisions taken in July 1955 when the European Payments Union was renewed for a further year were reached only after a prolonged examination of the problems which would arise on the termination of the Union.

Agreement in principle was achieved by the Ministerial Council of O.E.E.C. of 10th June 1955; the broad scope of the agreement was that the Union should be renewed until 30th June 1956, but that there should be new provisions, by virtue of which the Union could come to an end at any time at the desire of member countries whose quotas amounted to fifty per cent. or more of the total quotas, subject to the condition that a European Fund should then begin to operate. Immediately following this decision, and during the month when the Union was renewed provisionally on the old terms (July 1955), intensive negotiations and drafting took place, so that there now stand complete provisions for the creation of a new form of active European association in the field of payments.

The European Monetary Agreement was signed on 5th August 1955 and comes into force on the termination of the European Payments Union.

In March 1956, 50 per cent. of the credit granted to the Union's debtors had been outstanding for more than three years; for the creditors the proportion was 67 per cent. It may be recalled that repayments of credit, whether arising from bilateral amortisation instalments, special repayments or reversals of positions, always apply to the most recently created debt — in accordance with the cumulative principle.

In March 1956, the debtors were utilising on the average 67 per cent. of their quotas, while those of the creditors were being drawn upon to the extent of 99 per cent. If Germany, whose quota was exceeded by 87 per cent., were excluded, the average for the other creditors would be only 62 per cent. In general the settlement facilities afforded by the Union have been adequate.

**European Fund:
Contributions of members.**

Member countries	in thousands of units of account ¹
Austria ²	5,000
Belgium	30,000
Denmark ²	15,000
France	42,000
Germany	42,000
Greece ²	2,850
Iceland ²	1,000
Italy ²	15,000
Netherlands	30,000
Norway ²	15,000
Portugal	5,000
Sweden	15,000
Switzerland	21,000
Turkey ²	3,000
United Kingdom	96,575
Total	328,425

¹ All transactions between the Fund and member countries will be carried out in gold and the accounts of the Fund will be kept in units of account defined in terms of gold (equivalent to the current U.S. dollar at \$35 per fine ounce).

² Seven countries have their contributions, totalling \$56,850,000, deferred until full payment has been made of all other contributions.

The Agreement provides for the creation of a European Fund and a Multilateral System of Settlements, which will be complementary to each other and will have the general purpose of maintaining co-operation between member countries on the termination of the European Payments Union.

The particular object of the European Fund will be to provide short-term credits to help member countries to withstand temporary overall balance-of-payments difficulties which might endanger the maintenance of the level of intra-European liberalisation. Each application for credit may be made conditional on compliance with certain recommendations of O.E.E.C.; credits will bear interest at rates determined in the light of conditions prevailing at the time.

The capital of the Fund will be derived from two sources: the capital of E.P.U., consisting of \$272 million (of which \$124 million remains obligated by the U.S. Government) and \$328 million to be provided by member countries, making a total of \$600 million. The capital will be called up as required in the order shown in the following table.

European Fund: Calling-up of capital.

	From E.P.U. capital	From members' contributions	Total
	in thousands of units of account		
A. Initial transfer from E.P.U.	148,037	—	296,074
<i>To be called up as required:</i>			
B. Initial payments of members' contributions	—	148,037	
C. In equal amounts from U.S. Government and members	123,538	123,538	247,076
D. Members' deferred contributions	—	56,850	56,850
	271,575	328,425	600,000

The amount to be initially transferred from E.P.U., totalling \$148 million, is made up of \$113 million cash and the loans already made by the Union to Norway (\$10 million) and Turkey (\$25 million), which will become repayable to the Fund over fifteen years. After this initial transfer, a similar amount of \$148 million is to be drawn, as required, on member countries whose contributions are not deferred, proportionately to their total contributions. Further amounts are to be drawn, as required, on a fifty-fifty basis, from the \$124 million still obligated

on account at the U.S. Treasury and from member countries. Only when the whole of the above amounts has been drawn, in all \$543 million, will the seven countries with deferred contributions, totalling \$57 million, become liable to make in-payments. As a general rule capital will be called up whenever the liquid resources of the Fund fall below \$100 million.

The Fund will grant credits in gold. All credit will be of a non-automatic character and for a period not exceeding two years; in special cases, initial credits of one year or less may be arranged to run from the start of the Fund's operations.

The Fund also has a special function in relation to the Multilateral System; each month the bilateral claims and debts of countries within the System will be transformed into net claims and debts vis-à-vis the Fund and the cash resources of the Fund will be used so as to allow all settlements to be made on the same value date.

Under the provisions of the Multilateral System of Settlements, each member country will assume three obligations:

- (i) to establish buying and selling rates for its own currency in terms of gold, U.S. dollars, or some other currency;
- (ii) to grant interim finance to any other member, within an agreed limit; and
- (iii) to settle its net debts or accept settlement of its net claims within the System, in U.S. dollars.

Multilateral System of Settlements:
Interim finance limits
(for both creditors and debtors).

Member countries	In millions of U.S. dollars
Austria	5
Belgium	20
Denmark	12
France	32
Germany	30
Greece	7.5
Iceland	2
Italy	13
Netherlands	22
Norway	12
Portugal	5
Sweden	16
Switzerland	15
Turkey	7.5
United Kingdom	64

The member countries have declared it to be their intention that the margins beyond which they will not allow their currencies to fluctuate should be as moderate and stable as possible. Each country's buying and selling rates for the standard adopted by it must be notified to all other central banks and to the Agent.

Interim finance between operations will be granted by or to each country provided the total granted to or received by a given country and still outstanding at any time does not exceed the limits specified. Drawings of interim finance will be made direct between central banks after confirmation that the limits will not be exceeded and may, if desired, be repaid at any time before the end of the month.

- Settlements within the System will be made monthly and will provide for:
- i. Claims or debts between central banks which must be reported for settlement —
 - (a) any interim finance drawn and not repaid before the end of the month;
 - (b) any balance on an account kept under a bilateral agreement (the financial clauses of which must be approved by the O.E.E.C.);

2. Claims or debts between central banks which may be reported for settlement at the option of the holder —

- (c) any balance held in the currencies of other member countries; and
- (d) any balance arising under an ad-hoc arrangement (if duly notified).

On the basis of the figures reported monthly and the rates of exchange notified, a net position for each country will be established; interim finance will be calculated at the creditor's buying rate for U.S. dollars, balances reported voluntarily at the debtor's selling rate and balances under bilateral agreements at rates to be agreed; settlements will be made in U.S. dollars between the members and the European Fund.

* * *

The entry into force of the European Monetary Agreement is to be simultaneous with the termination of E.P.U. and all members of the Union will participate in the European Fund and the Multilateral System.

No specific duration has been written into the Agreement, but the Multilateral System is designed to remain in force for a minimum period of one year and the European Fund for a minimum period of three years, after which they may continue on conditions to be decided.

The European Monetary Agreement provides an institutional framework for continued financial co-operation when the European Payments Union terminates. Like the Union, it combines the granting of credit with a sort of "clearing". Unlike the Union, which comprises an automatic credit mechanism with compulsory clearing, the European Fund will give credit on an ad-hoc basis, generally after an examination of the debtor country's economic position, and on terms related to market conditions. And the Multilateral System provides for interim finance on a limited basis and for settlements on terms which will normally be less favourable than the markets; nevertheless, the System gives an assurance that the central banks will always be able to exchange their holdings of members' currencies against U.S. dollars or gold at pre-determined rates.

The day-to-day working of the European Fund and the Multilateral System will be under the supervision of a Board of Management, similar in character to the Managing Board of E.P.U.; the financial operations will be executed by an Agent and the Bank for International Settlements has agreed to undertake this task.

IX. Current Activities of the Bank.

1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1956, examined and certified by the auditors, is reproduced at the end of the present Report.

The presentation of the items on the assets side as at 31st March 1956 has been slightly changed, with the agreement of the auditors. The heading "Time funds, advances and deposits" has been changed to "Time deposits", and the item "Sundry bills and investments" is now entitled "Other bills and securities". Under these headings are now shown, on the one hand, the Bank's investments expressed in a weight of gold and, on the other, its investments in currencies, both classified according to term. An analysis of these investments and a comparison with those shown in the balance sheet as at 31st March 1955 will be found later on in this chapter.

The method of conversion into gold francs (units of 0.290 322 58... grammes fine gold — Article 5 of the Statutes) of the various currencies included in the balance sheet 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 on the U.S. Treasury's selling price for gold at the end of the financial year. It has been decided, with a view to facilitating the reading of the balance sheet, to round off to the nearest unit the figures included therein.

The total of the first section of the balance sheet as at 31st March 1956 amounts to 1,756,706,820 gold francs, against 1,717,962,180 gold francs a year previously. As will be made clear further on, a certain decline in currency deposits was more than offset by a fairly substantial increase in gold deposits.

The total volume of business handled by the Bank during the financial year under review was slightly greater than in the previous year; the turnover thus reached a new record level. As in the past, these operations were conducted in conformity with the monetary policy of the central banks concerned.

* * *

As stated in Note 1 at the foot of the Bank's monthly statements of account, the following items are not included in the statements, viz. earmarked gold and securities held in custody for the account of central banks and other depositors, the funds and securities held by the Bank as Agent for the Organisation for European Economic Co-operation (in connection with the European Payments Union), as Depositary under the Act of Pledge concluded with the High Authority of the European Coal and Steel Community, and as Trustee or Fiscal Agent for international loans.

As was done in the case of the balance sheet as at 31st March 1955, the amounts in question are shown at the foot of the assets column under the heading "Memorandum accounts". The figures are as follows:

B.I.S.: Memorandum accounts.

Items	31st March 1955	31st March 1956
	in millions of gold francs	
Earmarked gold	838.7	961.6
Bank balances	88.3	54.5
Bills and other securities	645.0	476.4
Total of items not included in the balance sheet	1,570.0	1,492.5

The total of the first part of the Bank's statement of account rose from 1,718 million gold francs on 31st March 1955 to 1,857.6 million on 30th April — the highest level for the year. It subsequently declined continuously until 30th September, on which date it stood at 1,643.8 million. After that it rose to 1,711.6 million on 30th November, declined again to 1,629 million on 31st December and then showed a progressive increase up to 1,756.7 million at the end of the financial year.

* * *

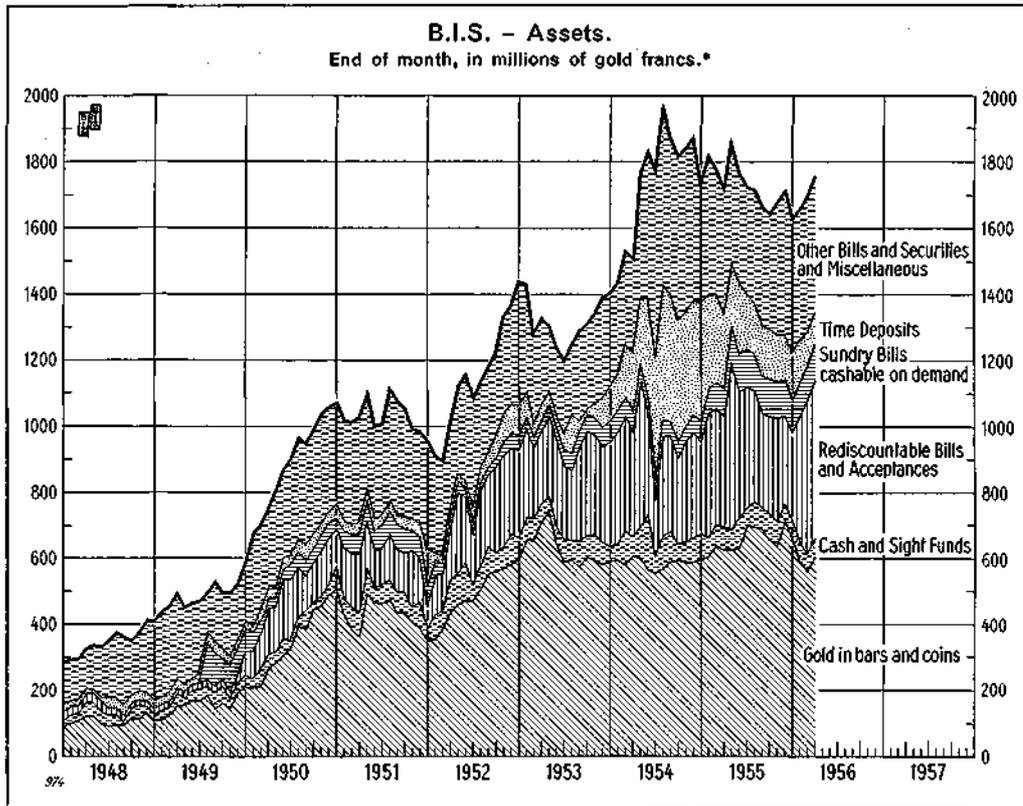
ASSETS.

The total of the item "Gold in bars and coins" amounted to 625.7 million gold francs in the statement of account as at 31st March 1955. After rising to 703.2 million on 30th June it registered various fluctuations, reaching its highest level for the financial year — 715.6 million — on 30th November; it touched its lowest point — 561 million — on 29th February 1956, and on 31st March it stood at 602.4 million.

The variations in this item in fact depend not only on the movement of the deposits expressed in a weight of gold received by the bank but also on the development of its investments in gold — shown on the assets side

B.I.S.: Gold position.

Date	Gold in bars and coins	Deposits received in a weight of gold	Net stock of gold taking account of	
			deposits only	deposits, investments and forward operations
in millions of gold francs				
1955 31st March	625.7	453.2	172.5	227.0
30th April	625.5	453.1 (min.)	172.4	219.0
30th June	703.2	453.1	250.1 (max.)	223.7
30th November	715.6 (max.)	587.9 (max.)	127.7	236.5 (max.)
1956 29th February	561.0 (min.)	485.3	75.7	196.7 (min.)
31st March	602.4	552.1	50.3 (min.)	225.0



* First part of statement of account.

under the headings "Time deposits" and "Other bills and securities" — and of its forward operations. As in the preceding year, the total of these operations fluctuated fairly widely. In the table on the previous 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.

The item "Cash on hand and on sight account with banks" did not vary very greatly. Its total, which amounted to 72.5 million gold francs on 31st March 1955, reached its highest level — 91.4 million — on 31st May and touched its lowest point — 49.5 million — on 30th June. At the end of the financial year it stood at 57 million.

The average balance shown under this heading during the financial year 1955-56 amounted to approximately 65 million gold francs, as compared with 80 million in the preceding financial year.

On 31st March 1956 cash held in dollars accounted for 91 per cent. of the Bank's total cash holdings in currencies and holdings of Swiss francs for 6 per cent. The corresponding figures on 31st March 1955 were 73 per cent. and 23 per cent. respectively.

Gold and cash holdings in currencies, taken together, represented 37.5 per cent. of the total of the first part of the statement of account on 31st March 1956, as against 40.6 per cent. on 31st March 1955.

There were quite marked fluctuations in the total of the rediscountable portfolio, although the figure for the item "Commercial bills and bankers' acceptances" remained fairly stable. The item "Treasury bills" showed substantial variations, as can be seen from the following table, which gives the maximum and minimum figures during the financial year for each category of investment.

B.I.S.: Rediscountable portfolio.

Date	Commercial bills and bankers' acceptances	Treasury bills	Total
	In millions of gold francs		
1955 31st March	41.8	290.9	332.7
30th April	43.9 (max.)	459.0 (max.)	502.9 (max.)
31st July	38.2 (min.)	298.0	336.2
31st December	41.2	227.4 (min.)	268.6 (min.)
1956 31st March	40.3	440.6	480.9

As in the preceding year, a substantial proportion of the Bank's holding of Treasury bills consisted of U.S. Treasury bills. During the year there were fairly wide fluctuations in the yield obtainable on this type of investment.

The total of the item "Sundry bills cashable on demand" amounted to 86.4 million gold francs on 31st March 1955. It subsequently remained, except at the end of December, above the 100 million mark, reaching its maximum of 115.1 million on 30th September. At the end of the financial year the figure was 106.6 million.

The total of the Bank's investments at sight, comprising the various items mentioned above, was 1,117.3 million gold francs at the beginning of the financial year. During the year it remained constantly above this level, except on 31st December, when it declined to 1,082.2 million. The highest level for the year — 1,303.2 million — was reached on 30th April. On 31st March 1956 the total of the sight investments stood at 1,246.8 million. This figure represented 71 per cent. of the total of the first part of the balance sheet, against 64.9 per cent. a year earlier.

The total of the item "Time funds, advances and deposits" in the monthly statement of account — which, as has already been mentioned, was changed to "Time deposits" in the balance sheet as at 31st March 1956 — showed considerable variations, having declined almost uninterruptedly. The figures for 31st March 1955 and 31st March 1956, at 225.5 and 98.8 million gold francs respectively, were in fact the highest and lowest of the year.

The total of the item shown in the monthly statements of account as "Sundry bills and investments" — changed, as already mentioned, to "Other bills and securities" in the balance sheet as at 31st March 1956

— fluctuated less widely. From the figure of 305.7 million gold francs at which it stood on 31st March 1955, it declined steadily until it reached 251.1 million on 30th June, subsequently rising again to 362.1 million on 30th November, and on 31st March 1956, after various ups and downs, it amounted to 341 million.

The following table, for the preparation of which the figures for the year ended 31st March 1955 have been reclassified on the basis adopted in the balance sheet for the financial year under review, affords a comparison of the gold and currency investments contained in the two above-mentioned groups of investments.

B.I.S.: Time deposits and other bills and securities.

Items	31st March 1955	31st March 1956	Difference
	In millions of gold francs		
Gold	129.9	272.4	+ 142.5
Currencies	401.3	167.3	- 234.0
Total	531.2	439.7	- 91.5

It will thus be seen that there was a considerable increase in investments in gold, the amount of which more than doubled, whereas investments in currencies declined by nearly three-fifths.

The following table shows the distribution of the above-mentioned investments from the point of view of time and compares their composition at the beginning and end of the financial year.

B.I.S.: Time deposits and other bills and securities.

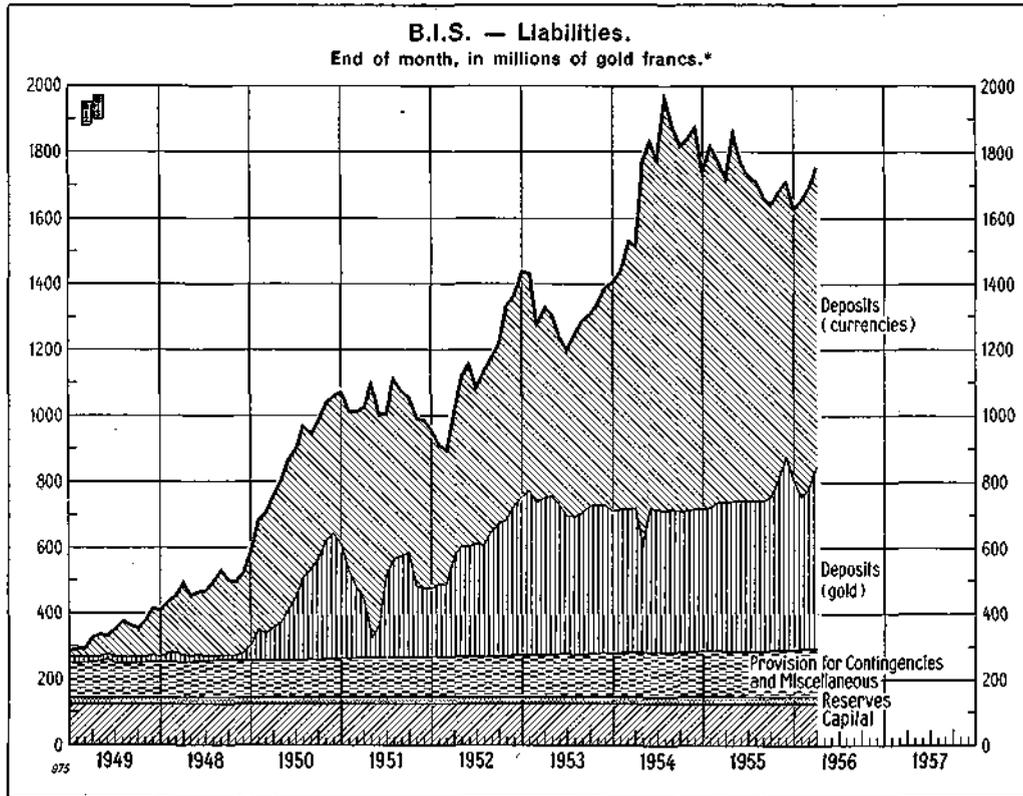
Period	31st March 1955	31st March 1956	Difference
	In millions of gold francs		
Not exceeding 3 months	377.4	255.1	- 122.3
Between 3 and 6 months	29.9	61.1	+ 32.2
Between 6 and 9 months	16.5	28.2	+ 11.7
Over 1 year	108.4	95.3	- 13.1
Total	531.2	439.7	- 91.5

Investments at not exceeding three months declined by nearly one-third, but on 31st March 1956 they still represented 58 per cent. of the total, against 71 per cent. a year earlier. The proportion of the total accounted for by investments at over one year was 22 per cent. on 31st March 1956, compared with 20 per cent. on 31st March 1955.

* * *

LIABILITIES.

The Bank's reserves in the form of the Legal Reserve Fund and the General Reserve Fund rose from 20.7 million gold francs on 31st March 1955 to 20.9 million on 31st March 1956. As a result of the operations of the year (see below, section 5, "Financial results") the balance of the Profit and Loss Account, which comprises the profit for the financial year ended 31st March 1956 and the balance brought forward from the preceding year,



* Not including liabilities connected with the execution of the Hague Agreements.

amounted to 10.1 million gold francs on 31st March 1956, against 8.4 million a year earlier. The amount of the item "Provision for Contingencies" rose from 120.9 million gold francs on 31st March 1955 to 126.4 million on 31st March 1956. For the item "Miscellaneous" the figure was 11.0 million gold francs at the beginning of the financial year and 11.2 million at the end.

The table on the next page shows the trend of short-term and sight deposits during the past two financial years.

Deposits expressed in a weight of gold thus increased during the year by 98.9 million gold francs, while currency deposits decreased by 67.7 million. The increase in deposits expressed in a weight of gold was due to the

B.I.S.: Short-term and sight deposits.

Items	31st March 1954	31st March 1955	31st March 1956
	in millions of gold francs		
Gold			
Central banks	433.8	447.7	457.3
Other depositors	5.3	5.5	94.8
Total in gold	439.1	453.2	552.1
Currencies			
Central banks	745.4	941.5	869.0
Other depositors	45.8	37.2	42.0
Total in currencies	791.2	978.7	911.0
Total in gold and currencies	1,230.3	1,431.9	1,463.1
Comprising			
Sight funds	480.9	483.1	341.8
Short-term funds	749.4	948.8	1,121.3
Total	1,230.3	1,431.9	1,463.1

rise in those entrusted to the Bank by "Other depositors", the deposits of central banks having gone up by only a very small amount. The reduction in currency deposits was due to the decline in the deposits of central banks.

The movements of deposits during the financial year are summarised in the following table; it may be added that they are in fact reflected in the movement of the aggregate of the first part of the statement of account, which has already been analysed.

B.I.S.: Deposits in gold and currencies.

Date	Deposits in gold	Deposits in currencies	Total
	in millions of gold francs		
1955 31st March	453.2	978.7	1,431.9
30th April	453.1 (min.)	1,117.6 (max.)	1,570.7 (max.)
30th November	587.9 (max.)	834.5	1,422.4
31st December	516.3	822.4 (min.)	1,338.7 (min.)
1956 31st March	552.1	911.0	1,463.1

The two preceding tables show clearly the substantial increase recorded in both short-term funds and deposits expressed in a weight of gold. The distribution of the deposits expressed in a weight of gold and in currencies is shown, according to term, in the following table.

It will be seen that the principal change in the deposits expressed in a weight of gold was a substantial reduction in sight deposits, which was, however, more than offset by an increase in deposits at not exceeding three months and a certain volume of deposits at between three and six months. With regard to the currency deposits, the main feature was a decline both

B.I.S.: Deposits in gold and currencies
(central banks and other depositors).

Period	Deposits in gold			Deposits in currencies		
	31st March 1955	31st March 1956	Difference	31st March 1955	31st March 1956	Difference
In millions of gold francs						
At sight	384.3	282.0	- 102.3	98.8	59.9	- 38.9
At not exceeding 3 months	68.9	239.1	+ 170.2	729.7	731.9	+ 2.2
Between 3 and 6 months	—	31.0	+ 31.0	46.4	41.8	- 4.6
Between 6 and 9 months	—	—	—	49.1	13.3	- 35.8
Between 9 and 12 months	—	—	—	1.4	1.4	—
Over 1 year	—	—	—	53.3	62.7	+ 9.4
Total	453.2	552.1	+ 98.9	978.7	911.0	- 67.7

in sight funds and in time funds at between six and nine months. The changes shown by the other categories of deposits were almost negligible.

* * *

The Bank's gold operations during the financial year were on a relatively large scale. A number of central banks have agreed that the gold payments resulting from the monthly settlements within the framework of the European Payments Union should be passed over their gold sight accounts in the Bank's books.

The growth in the time deposits expressed in a weight of gold received by the Bank from its correspondents and the increase in its gold investments resulted in a fairly large expansion in the volume of transactions effected by the Bank for its own account.

Changes brought about in the form of certain short-term credit facilities granted have also led the Bank to increase its swap and exchange covering operations, both in gold and in currencies.

On the other hand, the profit margins on gold transactions remained extremely small and the resulting earnings were on a very modest scale.

As in the past, the Bank has continued to keep in touch with the major international financial organisations, such as the International Bank for Reconstruction and Development and the International Monetary Fund. It has also maintained business relations with various other institutions of an international character.

* * *

SECOND SECTION OF THE BALANCE SHEET.

As in previous years, the second section of the balance sheet consists solely of the assets and liabilities connected with the execution of the Hague Agreements of 1930. The total for this section remains unchanged at 297,200,598 gold francs.

2. The Bank as Trustee and Fiscal Agent for international government loans.

According to information received, the amounts of new bonds of the German External Loan 1924 (Dawes Loan) and of the German Government International Loan 1930 (Young Loan) which have been issued by the Government of the Federal Republic of Germany in accordance with the London Agreement on German External Debts of 27th February 1953 are approximately as follows.

German External Loan 1924
(Dawes Loan).

Issue	Currency	Conversion bonds	Funding bonds
American	\$	39,124,000	7,429,000
Belgian	£	283,600	77,700
British	£	6,470,500	1,747,700
French	£	1,355,200	346,500
Swedish	S.Kr.	14,209,000	—
Swiss	£	999,000	89,700
Swiss	Sw.fcs	7,804,000	392,000

German Government International Loan 1930
(Young Loan).

Issue	Currency	Conversion bonds	Funding bonds
American	\$	49,940,000	8,092,000
Belgian	B.fcs	187,490,000	42,422,000
British	£	15,402,300	3,654,800
French	Fr.fcs	30,895,200,000	6,791,500,000
German	DM	7,391,000	210,000
Swedish	S.Kr.	86,663,000	5,407,000
Swiss	Sw.fcs	56,695,000	1,256,000

The operations for the validation and exchange of the old bonds are continuing.

During the year under review, the Bank in its capacity as Fiscal Agent of the Trustees for the Conversion and Funding Bonds of the Dawes Loan and as Trustee for the Conversion and Funding Bonds of the Young Loan received in respect of interest service a total amount equivalent to about 18.8 million gold francs for the Dawes Loan and about 41.8 million gold francs for the Young Loan. Under the terms of the London Agreement, the payment of the sinking-fund annuities is to begin only in 1958.

According to information received, the amounts of the bonds of the Austrian Government International Loan 1930 which have been assented and are in circulation are as follows:

Anglo-Dutch issue	£	897,800
Swiss issue	Sw.fcs	7,079,000

As a result of an arrangement concluded between the Austrian Government and the bondholders of the Swedish issue, all the bonds of that issue have been acquired by the Austrian Government and cancelled.

During the year under review, the Bank in its capacity as Trustee received the equivalent of about 1.4 million gold francs in respect of the interest service on the bonds assented or still to be assented. In application of the recommendations contained in the Report dated 6th December 1952 of the International Conference held in Rome for the settlement of Austrian Pre-war External Public Debts, the payment of the sinking-fund annuities is to begin only in 1959.

With regard to the coupons which matured between 1st July 1938 and 1st January 1945 inclusive, the payments provided for in the arrangements concluded with the Federal Republic of Germany have been duly effected through the intermediary of the Bank, acting in its capacity as Trustee. Under these arrangements the last coupon is to be paid, to the extent of 75 per cent. of its nominal value, on 1st July 1962.

3. The Bank as Depositary under the terms of the Act of Pledge concluded with the High Authority of the European Coal and Steel Community.

As was already stated in the Twenty-fifth Annual Report, the Bank has assumed new functions in connection with the agreement for a loan of \$100 million concluded by the High Authority of the European Coal and Steel Community, Luxemburg, with the Government of the United States of America, represented by the Export-Import Bank of Washington.

The functions assumed by the Bank have since been extended to the further loans obtained by the High Authority for the following amounts:

B.fcs	200,000,000	in Belgium
DM	50,000,000	in Germany
B.fcs	20,000,000	and
Lux.fcs	5,000,000	in Luxemburg
Fr.fcs	350,000,000	in the Saar.

All the contracts concluded up to the present time are for long-term loans redeemable over a period exceeding twenty years and bearing interest at between $3\frac{1}{2}$ and $4\frac{1}{4}$ per cent. per annum. The proceeds of these loans are being used by the High Authority to make advances to enterprises within the Community with a view to facilitating the carrying-out of their investment programmes and the building of workers' dwellings. In each operation to date there has been a correspondence between the loans to the High Authority and the advances made out of the proceeds of such loans, as regards both the rates of interest and the redemption terms.

The utilisation of the \$100 million borrowed from the Export-Import Bank was completed during the financial year. Advances were made to

forty-nine enterprises working coal and iron-ore mines in Belgium, France, Germany, Italy, Luxemburg and the Saar. The operations for the lending of funds out of the proceeds of the other loans are at present in course of execution.

The claims resulting from the High Authority's advances, together with all the rights attaching to such claims, have been pledged for the benefit of the lenders of funds to the High Authority and form a separate portfolio which the Bank has agreed to take into custody. This portfolio constitutes the common security for all loans made to the High Authority, the lenders benefiting by it pro rata and on equal terms, irrespective of the date or country of issue.

By the terms of the Indentures which it has signed for this purpose, the Bank receives in a special account the funds borrowed by the High Authority and remits them to the enterprises designated by the latter against the pledging of the claims and of the rights attaching to such claims. The securities evidencing the claims of the High Authority, in particular the notes of the debtor enterprises, are held for account of the Bank by National Agents appointed in agreement with the High Authority. The Bank further receives the amounts paid by the debtor enterprises in respect of interest and principal and also pays, out of such receipts, on behalf of the High Authority, the amounts due from the High Authority to its lenders.

4. The Bank as Agent for the Organisation for European Economic Co-operation (European Payments Union).

The formation and working of the European Payments Union has been described in previous Annual Reports of this Bank and the description is brought up to date in Chapter VIII of the present Report.

The Bank has 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 572,933 gold francs in the twelve months to March 1956; this amount has been duly reimbursed by the Organisation (as shown in the Profit and Loss Account for the financial year ended 31st March 1956).

5. Financial results.

The accounts for the twenty-sixth financial year ended 31st March 1956 show a surplus, before providing for contingencies, of 11,642,683 gold francs, the gold franc being as defined in 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 9,356,517 gold francs.

The net amount of interest, discount and commission earned was larger than in the previous year. Income received under the terms of the Arrangement

dated 9th January 1953 with the Federal Republic of Germany, at approximately 4 million gold francs, was the same as in the previous year.

Earnings from gold transactions again declined and now represent only a very small part of the Bank's income. Commission earned as Trustee was somewhat higher, while Costs of Administration showed but a modest increase.

For the purpose of the Balance Sheet as at 31st March 1956, the amounts of the assets and liabilities in currencies have been converted to the nearest gold franc 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.

From the surplus for the financial year ended 31st March 1956, the Board of Directors has decided that it is necessary to transfer 74,125 gold francs to the provision for exceptional costs of administration and 5,500,000 gold francs to the provision for contingencies. This provision now amounts to 126,448,568 gold francs.

The Net Profit for the year, after deducting the transfers referred to above, amounts to 6,068,558 gold francs. After providing 5 per cent. for the Legal Reserve Fund as required by the Statutes, i.e. 303,428 gold francs, and after adding the balance of 3,987,260 gold francs brought forward from the preceding year, there is a sum of 9,752,390 gold francs available.

The Board of Directors recommends that the present General Meeting should declare a dividend of 24.50 gold francs per share payable in Swiss francs in the amount of 35 Swiss francs per share, involving a distribution of 4,900,000 gold francs, and should decide to carry forward the balance of 4,852,390 gold francs. The dividend declared at the last Annual General Meeting was 21 gold francs per share payable in the amount of 30 Swiss francs per share.

The proposed dividend of 24.50 gold francs per share corresponds to 3.92 per cent. on the paid-up capital. As in recent years, this is less than the maximum cumulative dividend of 6 per cent. referred to in Article 53(b) of the Statutes.

The accounts of the Bank and its twenty-sixth Annual Balance Sheet have been duly audited by Messrs Price Waterhouse & Co., Zurich. A copy of the Balance Sheet, the Report of the auditors and the Profit and Loss Account will be found at the end of this Report.

6. Changes in the Board of Directors.

The term of office of Monsieur Maurice Frère, Governor of the Banque Nationale de Belgique, as Chairman of the Board and President of the Bank expired on 30th June 1955 and he was re-elected to both offices by the Board at its meeting held on 9th May 1955 for a further period

of three years ending 30th June 1958. At the same time Monsieur Roger Auboin, General Manager of the Bank, was reappointed as Alternate of the President, his term of office as Alternate to correspond to that of Monsieur Frère as President.

The term of office of Sir Otto Niemeyer as Vice-Chairman of the Board being due to expire on 8th December 1955, he was, also at the meeting held on 9th May 1955, re-elected as Vice-Chairman for a further period of three years ending 8th December 1958.

At its meeting held on 12th December 1955 the Board elected Mr Per Åsbrink, Governor of the Sveriges Riksbank, as a Director under Articles 28(3) and 29 of the Statutes for the unexpired term of office of his predecessor, Mr Mats Lemne, that is, until 31st March 1957.

In February 1956 Monsieur A.E. Janssen tendered his resignation as a member of the Board on being co-opted as a Senator of the Belgian Upper House, and in March 1956 Monsieur Frère appointed in his place under Article 28(2) of the Statutes Monsieur Jean Van Nieuwenhuysse, President of the Institut de Réécompte et de Garantie, Brussels; Monsieur Van Nieuwenhuysse's appointment is for three years ending 28th February 1959.

The ex-officio Directors, acting under the terms of Paragraph 3 of Article 28(2) of the Statutes, decided on 12th March 1956 to re-elect Dr Wilhelm Vocke and Dr Rudolf Brinckmann as Directors for a further period of three years expiring on 31st March and 31st May 1959 respectively.

The mandate as a Director of Professor Dr Paul Keller being due to expire on 31st March 1956, the Board at its meeting held on 12th March 1956 re-elected him for a further period of three years ending 31st March 1959. In April 1956, however, Professor Keller tendered his resignation as a Director in view of his forthcoming retirement from the office of President of the Direktorium of the Swiss National Bank.

At its meeting held on 14th May 1956 the Board elected Dr W. Schwegler, who had been appointed to take Professor Keller's place in the Swiss National Bank as from 1st June 1956, as a Director under Articles 28(3) and 29 of the Statutes for the unexpired term of office of Professor Keller, that is, until 31st March 1959.

In July 1955 Mr John S. Lithiby relinquished his functions as Alternate to Mr C.F. Cobbold, Governor of the Bank of England, on his retirement from the bank.

In March 1956 Monsieur Frère appointed Monsieur Cécil de Strycker, Sous-Directeur of the Banque Nationale de Belgique, as his Alternate in succession to Monsieur Van Nieuwenhuysse, whose appointment to the Board is noted above.

Conclusion.

The outstanding feature of 1955 was the superimposition of the effects of an economic boom in North America on the strong expansionary forces already at work in western Europe. The expansion was stimulated neither by the needs of reconstruction, as in earlier post-war years, nor by any increase in government expenditure, which, on the contrary, has in many countries been more or less stabilised. It was rather in the nature of an orthodox investment boom characterised by an intense demand on the part of both industry and consumers for durable goods, ranging from plant and equipment to houses, motor-cars and domestic appliances.

This development was not unaccompanied by strains, notably in the metal-using industries, and the balance of payments of some countries was also affected; but thanks to a fairly general increase in the output of industrial materials (amounting in the case of steel to 14 per cent. over the past two years), production was not really hampered by shortages, especially as the additional needs of individual countries were met by a record increase in international trade. There was, however, one genuinely scarce element — labour; while there was evidence in some countries of a greater readiness to admit workers from abroad, the general picture was, and still is, one of over-full employment. A particular danger of the present situation is that rapid increases in money wages may inflate both costs and total demand and thus cause a fresh price rise. If in such a situation the expansion of credit is allowed to proceed unrestrained, the result will be an excessive speeding-up of activity which, though it would inevitably come to an end fairly soon for lack of real resources, might well be enough to threaten the relative stability of currency values — achieved at the cost of so much effort — and to arrest the revival of savings, which is the very basis of a continuing expansion.

It has therefore been clear that everything possible must be done to moderate the boom — but in such a way as to avoid weakening the forces making for healthy economic growth. It is for this reason that the authorities have abstained from reimposing direct controls either internally or externally. The liberalisation of trade, far from having been reversed, has been extended and now covers, broadly speaking, 90 per cent. of intra-European trade and more than half of Europe's imports from North America. At the same time, restrictions on foreign payments have been further relaxed and are no longer so great an impediment as they were only a short time ago to the transfer of capital between nations. While less has been heard recently about a return to convertibility, further practical steps have been taken towards the freeing of international trade and payments.

This progress could not have been achieved had not the authorities continued to apply flexible credit policies — which under the prevailing

boom conditions has meant credit restraint, including higher interest rates. While increases in official discount rates have figured prominently among the measures taken, they have been supplemented by a number of other techniques, both general and particular, depending on the circumstances of each individual economy. Of the usefulness of these policies there can be no doubt. To take one example, the relatively high cost of credit seems to have rendered unprofitable the speculative accumulation of stocks and it is a notable fact that the overall level of sensitive commodity prices on the world markets has shown little change now for nearly four years. At one time this was largely due to a decline in the prices of agricultural products, which counterbalanced some fairly pronounced increases in the market quotations for certain industrial materials; but these increases have in several cases proved short-lived, so that the industrial sector is now partaking more fully in the overall price stability.

But it would be a mistake to think that monetary policy, useful though it is, can restore balance no matter what influences are exercised by other forces. Pre-eminent among these forces are the requirements of governments, comprising the financing of budget deficits and of nationalised industries, to which must be added officially sponsored programmes, e.g. for housing. With regard to all these activities, the governments should, in the first place, abstain from inflationary methods of financing. But usually that is not enough; if the private economy is to develop and maintain a high level of investment for productive purposes — as would certainly be advantageous for a number of countries — other claims on resources must be kept within reasonable limits, and in a great many cases this means that public expenditure should be curtailed. It is an open question whether inflation could be effectively arrested if the present high levels of government expenditure and of taxation in so many countries were to become permanent.

The measures, both monetary and fiscal, which have been taken to prevent demand from outstripping available resources need some time to exert their full effects. Meanwhile, a certain restraint on the part of powerful economic organisations is called for, both in their own and in the general interest, if the difficulties of restoring equilibrium are not to be aggravated. This is not an easy task, since the authorities will often have to take decisions which conflict with the immediate objectives of particular groups. But it will undoubtedly be made less difficult if the authorities feel that they have the support of a public opinion which realises the overriding importance of monetary stability.

Unfortunately there is still a widespread impression that prices are bound to go on rising. This inflation mentality must be extirpated. The increases in interest rates and other monetary measures recently taken are to be regarded as steps in this direction. There is more than a fair chance that, given reasonable government retrenchment, these measures will be successful, supported as they are by an impressive increase in the supply of goods and services from current production.

Demand for credit is still very strong; but it is difficult to tell how long this phase will last. The determination to hold back an excessive credit expansion is growing; and it is not impossible that a change in the business trend will set in before long. If and when it does, it is for the authorities to show a flexibility of mind sufficient to deal with the new problems which will then arise. Much has been learnt about the effects of monetary policies in recent years; for instance, increased rates of interest have been seen to be fully compatible with a growth in investment and an increase in employment. There will also be much to be learnt when the business trend changes; but there is no reason to think that these new problems cannot be mastered, especially if in the present boom speculative excesses and continuous cost increases are avoided.

Respectfully submitted,

ROGER AUBOIN

General Manager.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

AS AT 31st MARCH 1956

BALANCE SHEET

ASSETS

IN GOLD FRANCS (UNITS OF 0.290 322 58...)

		%
Gold in bars and coins	602,341,319	34.3
Cash on hand and on sight account with banks	56,973,069	3.2
Rediscountable bills and acceptances		
Commercial bills and bankers' acceptances	40,280,776	2.3
Treasury bills	<u>440,600,595</u>	25.1
	490,881,371	
Sundry bills cashable on demand	106,618,184	6.1
Time deposits		
Gold		
Not exceeding 3 months	6,442,076	0.4
Between 6 and 9 months	12,966,834	0.7
Over 1 year	25,716,350	1.5
Currencies		
Not exceeding 3 months	32,348,440	1.8
Over 1 year	<u>21,381,554</u>	1.2
	98,755,264	
Other bills and securities		
Gold		
Not exceeding 3 months	120,162,618	6.8
Between 3 and 6 months	61,112,160	3.5
Between 6 and 9 months	16,355,780	0.9
Over 1 year	30,713,638	1.7
Currencies		
Not exceeding 3 months	96,117,291	5.5
Over 1 year	<u>17,514,178</u>	1.0
	340,975,665	
Miscellaneous assets	1,870,734	0.1
Buildings and equipment	1	0.0
Own funds employed in execution of the Hague Agreements of 1930 for investment in Germany (see below)	68,291,223	3.9
	<u>1,756,706,820</u>	<u>100</u>

Execution of Hague

Funds invested in Germany (see Note 2)	
Claims on Reichsbank and Golddiskontbank; bills of Golddiskontbank and Railway Administration and bonds of Postal Administration (matured) ...	221,019,558
German Treasury bills and bonds (matured)	<u>76,181,040</u>
	<u>297,200,598</u>

MEMORANDUM ACCOUNTS

Funds, bills and other securities administered or held by the Bank for account of third parties:	
Earmarked gold	961,599,684
Bank balances	54,488,307
Bills and other securities	476,431,102

NOTE 1 — For Balance Sheet purposes, the currency amounts of the assets and liabilities have been converted into gold francs on the basis of quoted or official rates of exchange or in accordance with special agreements applicable to the respective currencies.

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 drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of above-described gold franc equivalents of the currencies concerned.

ZURICH, 11th May 1956.

AS AT 31st MARCH 1956

GRAMMES FINE GOLD — ART. 5 OF THE STATUTES)

LIABILITIES

		%
Capital		
Authorised and issued 200,000 shares, each of 2,500 gold francs	<u>500,000,000</u>	
of which 25 % paid up	125,000,000	7.1
Reserves		
Legal Reserve Fund	7,606,136	
General Reserve Fund	<u>13,342,650</u>	
	20,948,786	1.2
Deposits (gold)		
Central Banks:		
Between 3 and 6 months	31,034,769	1.8
Not exceeding 3 months	146,898,376	8.4
Sight	279,333,448	15.9
Other depositors:		
Not exceeding 3 months	92,218,711	5.2
Sight	<u>2,559,022</u>	0.1
	552,044,326	
Deposits (currencies)		
Central Banks:		
Over 1 year	62,653,623	3.6
Between 9 and 12 months	1,426,862	0.1
Between 6 and 9 months	13,322,849	0.8
Between 3 and 6 months	41,803,987	2.4
Not exceeding 3 months	694,060,214	39.5
Sight	55,708,030	3.2
Other depositors:		
Not exceeding 3 months	37,850,777	2.1
Sight	<u>4,187,090</u>	0.2
	911,013,492	
Miscellaneous		0.6
	11,195,830	
Profit and Loss Account		
Balance brought forward from the financial year ended 31st March 1955	3,987,260	
Profit for the financial year ended 31st March 1956	<u>6,068,558</u>	
	10,055,818	0.6
Provision for contingencies		7.2
	<u>126,448,568</u>	
	<u>1,756,706,820</u>	<u>100</u>

Agreements of 1930

Long-term deposits

Annuity Trust Account Deposits of Creditor Governments (see Note 3) ...	152,606,250
German Government Deposit	<u>76,303,125</u>
	228,909,375
Own funds employed in execution of the Agreements (see above)	<u>68,291,223</u>
	<u>297,200,598</u>

NOTE 2 — Under an Arrangement dated 9th January 1953 between the Government of the Federal Republic of Germany and the Bank, which forms a part of the Agreement on German External Debts of 27th February 1953, it has been agreed that the Bank will not demand prior to 1st April 1966 the reimbursement of the principal of its investments in Germany described above, including arrears of interest thereon at 31st December 1952.

NOTE 3 — The Bank has received confirmation from Governments whose deposits amount to the equivalent of gold francs 149,920,380 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.

Bank for the financial year ended 31st March 1956, and we report that we have obtained all the information our opinion the above Balance Sheet and Memorandum accounts, together with the Notes thereon, are properly our information and the explanations given to us and as shown by the books of the Bank, as expressed in the

PRICE WATERHOUSE & CO.

PROFIT AND LOSS ACCOUNT
for the financial year ended 31st March 1956

		<u>Gold francs</u>
Net income from the use of the Bank's capital and the deposits entrusted to it		15,044,018
Commission earned as Trustee, etc.		<u>619,759</u>
		15,663,777
Costs of administration:		
Board of Directors — fees and travelling expenses ...	187,618	
Executives and staff — salaries, pension contributions and travelling expenses	3,600,017	
Rent, insurance, heating, electricity	48,147	
Renewals and repairs of buildings and equipment ...	138,344	
Consumable office supplies, books, publications, printing	298,112	
Telephone, telegraph and postage	122,664	
Experts fees (auditors, interpreters, economists, etc.)	43,397	
Cantonal taxation	35,621	
Miscellaneous	<u>120,107</u>	
	4,594,027	
Less: Amounts recoverable for expenses as Agent of the Organisation for European Economic Co-operation (European Payments Union)	<u>572,933</u>	<u>4,021,094</u>
		11,642,683
<i>The Board of Directors has decided that it is necessary to transfer</i>		
to the provision for exceptional costs of administration	74,125	
to the provision for contingencies	<u>5,500,000</u>	<u>5,574,125</u>
NET PROFIT for the financial year ended 31st March 1956		6,068,558
Transfer to the Legal Reserve Fund — 5% of 6,068,558		<u>303,428</u>
		5,765,130
Balance brought forward from the preceding year		<u>3,987,260</u>
		9,752,390
Dividend of gold francs 24.50 per share, as recommended by the Board of Directors to the Annual General Meeting called for 11th June 1956		<u>4,900,000</u>
Balance carried forward		<u>4,852,390</u>

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

Dr Rudolf Brinckmann, Hamburg

Cameron F. Cobbold, London

Henri Deroy, Paris

Dr M. W. Holtrop, Amsterdam

Dr Donato Menichella, Rome

Dr W. Schwegler, Zurich

Prof. P. Stoppani, Rome

Jean Van Nieuwenhuysse, Brussels

Dr Wilhelm Vocke, Frankfurt a/M.

Per Åsbrink, Stockholm

Alternates

Sir George L. F. Bolton, London

Pierre Calvet, Paris, or

Jean Bolgert, Paris

Dr Paride Formentini, Rome

Cécil de Strycker, Brussels

EXECUTIVE OFFICERS

Roger Auboin	General Manager, Alternate of the President
Baron 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, Head of Department

Dr Sjoerd G. Binnerts	Assistant Manager
Dr H. H. Mandel	Assistant Manager
D. H. Macdonald	Assistant Manager
Georges Royot	Assistant Manager
Henri Guisan	Legal Adviser
Malcolm Parker	Administrative Sub-Manager