WORLD ECONOMIC REPORT 1949-50

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FOREWORD

World Economic Report, 1949-50 is the first comprehensive review of world economic conditions to be published by the United Nations since June 1949, when *World Economic Report, 1948* appeared. These reports are issued in response to General Assembly resolution 118 (II), in which the Secretary-General was requested to prepare annual factual surveys and analyses of world economic conditions and trends. Like the earlier publications, the present report is intended to meet the requirements of the Economic and Social Council and other organs of the United Nations for an appraisal of the world economic situation as a prerequisite for recommendations in the economic field, as well as to serve the needs of the general public. In its preliminary form, the report was made available in February 1951 to the twelfth session of the Economic and Social Council and to Members of the United Nations.

The present report is devoted to an analysis of major developments in domestic economic conditions and international economic relations during 1949 and the first half of 1950, with some preliminary comments on tendencies since mid-1950. Detailed analyses of economic trends in 1950 in Asia and the Far East, in Europe and in Latin America will become available during 1951 in the annual surveys prepared by the secretariats of the respective United Nations regional economic commissions. In addition, brief reviews of economic conditions in Africa and the Middle East are issued as supplements to this report.

The report is divided into three parts. Part I is, in general, confined to the study of domestic economic trends from the beginning of 1949 to the middle of 1950. It is divided into six chapters dealing with several types of countries or groups of countries. Part II of the report contains analyses of changes in the volume and direction of international trade (chapter 7) and of recent trends in international financial settlements (chapter 8). Part III is devoted to a discussion of two special problems: the factors underlying the persistent dollar deficits in a large part of the world prior to 1949 (chapter 9) and the relationship between the currency devaluations of 1949 and subsequent developments in international trade (chapter 10). The Statistical Appendix, which contains tables that supplement the text, begins on page 199 and is followed by a chronology of the more important international economic events of the period under review.

The report was prepared by the Division of Economic Stability and Development in the Department of Economic Affairs of the United Nations, with substantial assistance by the Statistical Office of the United Nations, which collected most of the basic statistical data and prepared many of the tables. Some of the statistical material was obtained from the specialized agencies, notably the International Monetary Fund, the International Bank for Reconstruction and Development and the Food and Agriculture Organization of the United Nations. The chronology was drawn up by the secretariat of the Economic and Social Council. The chart in the introduction was prepared for printing by the Presentation Unit of the United Nations Publishing Division.

EXPLANATION OF SYMBOLS

The following symbols have been used in the tables throughout the report: two dots (.) indicate that data are not available; a dash (–) indicates that the amount is nil or negligible; a blank indicates that the item is not applicable; a full stop (.) is used to indicate decimals; a comma (,) is used to distinguish thousands and millions; a slash (/) indicates the crop year; the use of a hyphen (-) between dates representing years, e.g., 1934-38, normally signifies an annual average for the calendar years involved; "to" between the years indicates the full period, e.g., 1947 to 1949 means 1947 to 1949, inclusive.

References to "dollars" indicate United States dollars unless otherwise specified. Details and percentages in tables do not necessarily add to totals, because of rounding.

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INTRODUCTION

The economic problems that confront the world in 1951 centre on the threat of inflation and of impending shortages of goods. These problems are at the opposite pole from those with which the world appeared to be faced two years earlier. During the intervening period, both the volume of goods produced and the volume of international trade rose to new heights, but not without serious economic difficulties in a number of countries.

In general, economic developments during the years 1949 and 1950 can be divided into three phases. The first phase, which began late in 1948 and ended during the second half of 1949, was characterized by a recession in the United States, a consequent reduction in its imports from the rest of the world and some intensification of the balance of payments difficulties of many countries. The second phase ended in the middle of 1950; it comprised the economic recovery of the United States and an alleviation of the balance of payments difficulties of the rest of the world. The third phase, which began in the middle of 1950, reflects the economic impact of events in Korea; it is, thus far, characterized by rising prices of raw materials and increasing living costs, the reintroduction of comprehensive economic controls and the reorientation of productive facilities towards the production of armaments in a large part of the world. Although the present report deals mainly with the first two phases, covering the period from the beginning of 1949 to the middle of 1950, it provides perspective for a review of the economic problems which are current in 1951.

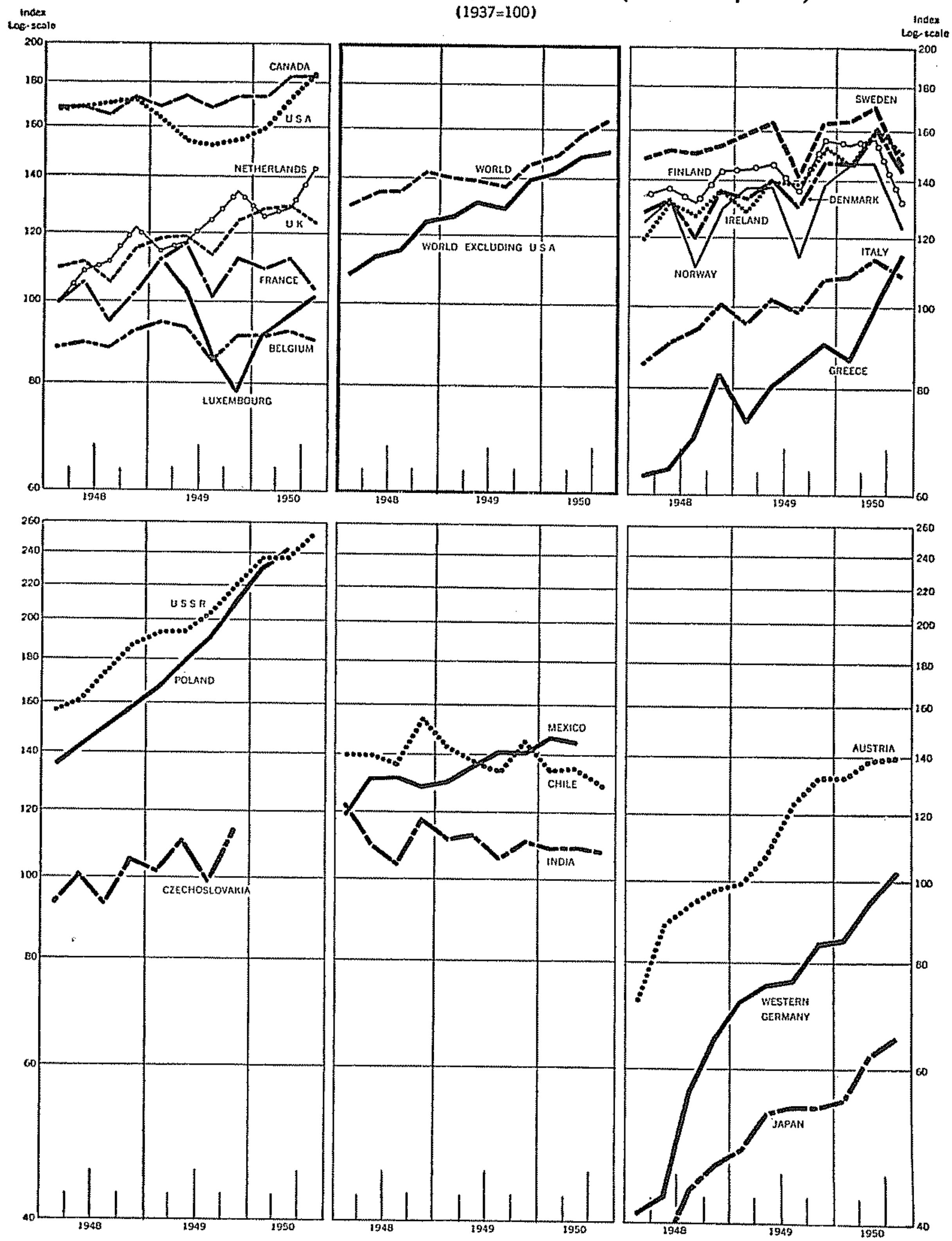
Starting with the first quarter of 1949, the combined effects of a drop in industrial production in the United States and a tendency towards levelling off in such production in a number of other countries were reflected in a decline in the world's total output of industrial goods for the first time since the end of the war. The period of declining investment in the United States, mainly in inventories, which accompanied the satiation of much of the demand that had been pent up since the war, resulted in a recession that began late in 1948 and lasted for about a year. This recession, apart from its domestic economic consequences, brought about a fall in the value of United States imports, with adverse effects on the balance of payments of many countries. The inflationary pressures of earlier post-war years had subsided in nearly all parts of the world and in a few countries had given way to problems of rising unemployment. Prices in international markets, especially of food and of raw materials, fell in terms of dollars, and the fall reacted on the real incomes of countries exporting such products.

The difficulties in production and international trade characteristic of the period from 1946 to 1948 were thus succeeded during 1949 by new problems which affected both the domestic economies of a number of countries and the structure of their international transactions. Widespread adverse movements in the dollar balances of payments gave rise to the imposition of new import restrictions and to a wave of currency devaluations in September and October of 1949.

The economic recession in the United States was shortlived; recovery began in the second half of 1949, and economic activity continued upwards from then on. The output of mining and manufacturing industries of the world as a whole excluding the United States, having sagged briefly for the first time since the end of the war, rose again during the fourth quarter of 1949 and continued to rise throughout 1950. During the second quarter of 1950 the level of such production in the world as a whole exceeded the average for 1948 by about 12 per cent. The volume of unemployment none the less continued to rise in a number of countries owing both to increasing output per worker and to the growing size of the available labour supply. World dollar prices, notably of primary commodities, turned upwards again in response to higher demand in the industrialized countries, particularly in the United States. By the middle of 1950 the problem of

INDUSTRIAL PRODUCTION, 1948 to 1950 (First three quarters)[a]

(1937=100)



[a] For figures and notes see appendix table I. Indices of mining and manufacturing production.

international economic disequilibrium had receded in importance as many of the soft currency countries were able to reduce or eliminate their current account deficits with the dollar area or even to add to their gold and dollar reserves.

During the period of eighteen months from the beginning of 1949 to the middle of 1950, as a whole, the world's total output of industrial goods was on a higher average level than in the preceding years. The rise in the level was widespread and, as is shown in the accompanying chart, was typical of both private enterprise economies and planned socialist economies, of countries which had been spared the ravages of war as well as of war-devastated countries, including those still under military occupation. In some countries production rose well above the pre-war level, while others merely made up for losses suffered as a result of the war and fell far short of attaining their pre-war per capita output. In general, the under-developed countries made the slowest progress, and some of them even appear to have retrogressed.

As a result of favourable crops in 1948, the available supply of food rose during 1949; in particular, the food situation in certain of the food deficit countries improved, notably in Europe. World crops were somewhat smaller in 1949 than in the previous year, owing partly to a reduction in the output of North America, which was confronted with accumulating surpluses. However, meat and dairy production rose almost everywhere, and the level of the world's total agricultural output during these two years remained somewhat above that immediately preceding the war; production per head was, however, still below the pre-war level.

The increased availability of supplies in 1949 was reflected in material declines in the prices of primary products, and to a lesser extent, of manufactures, and either in a drop, or in a cessation of the rise, in living costs. The effects on living costs depended largely on the circumstances under which prices had climbed upward during the preceding period of scarcity. Where inflationary pressures had been contained by strict and comprehensive control measures, the upward pressure on prices was reduced as the supply of goods expanded and rations were increased; where prices had previously been allowed to rise, the upward movement was either slowed down or reversed; and where existing control systems provided for one set of prices for goods purchased within a rationing scheme and another for similar goods bought in the free market, there occurred relatively large price declines in the free market

Table 1. Value and Quantum of Exports of World[a] and of World Excluding the United States, Pre-war and 1946 to 1950 (Three quarters)

Period	Value: World (millions of United States dollars)	Value: World, excluding United States (millions of United States dollars)	Quantum index: World (1948=100)	Quantum index: World, excluding United States (1948=100)
Annual total:				
1937	24,200	20,900	101	117
1938	21,300	18,200	97	112
1946	32,500	23,000	80	75
1947	47,800	32,600	96	86
1948	53,900	41,400	100	100
1949	54,900	43,000	109	111
Quarterly averages:				
1949:				
First quarter	14,400	11,100	107	107
Second quarter	14,400	11,100	109	108
Third quarter	13,300	10,600	103	106
Fourth quarter	12,700	10,100	114	120
1950:				
First quarter	12,500	10,100	112	120
Second quarter	12,900	10,400	114	121
Third quarter	14,000	11,600	119	129

Source: Statistical Office of the United Nations.

[a] Based on calculations covering an estimated 96.6 per cent of total world exports in 1948.

The rise in the world output of goods was accompanied by a further growth in the volume of international trade both in 1949 and in 1950 (see table 1). At the same time, the geographic distribution of international trade underwent important changes. The increase in output permitted the war-devastated economies of western Europe to reduce the abnormally high imports from North America which had characterized the earlier post-war years, when North America was the most important source of supply for scarce commodities. Simultaneously, as the effects of war-time destruction were overcome, the western European countries were able to expand their trade with one another and with other countries which had previously been compelled to turn to North America for goods not obtainable elsewhere. While the trade between eastern and western European countries remained, mainly for non-economic reasons, stagnant far below pre-war levels, the trade among the eastern European countries increased considerably, except, again, where non-economic factors intervened. In 1949, many under-developed countries were compelled to curtail imports drastically—and thereby in some cases to reduce their levels of economic activity—because their holdings of gold, dollars or other foreign currencies had dwindled while their commercial debts had accumulated. The continuation of these restrictions on imports in the first half of 1950, together with increased exports of primary products to the United States as recovery proceeded in that country, resulted in the establishment of trade surpluses with the United States by Latin America and the oversea sterling countries.

These changes in the distribution of world trade were thus accompanied by a widespread reduction or elimination of the dollar deficits which had been the most conspicuous sign of international economic disequilibrium in the earlier post-war years. After a temporary setback in 1949 the world's deficit with the United States on merchandise trade and services declined steadily and reached, during the first half of 1950, an average which was less than two-fifths of the deficit a year earlier.

The outbreak of the conflict in Korea in the middle of 1950 immediately introduced an atmosphere of impending inflation in a number of countries, particularly in the United States. Speculative activity and anticipatory buying began even before rearmament programmes were initiated during the second half of the year. While the extent to which these programmes manifested themselves in actual expenditures during 1950 remained relatively limited, the rise in the prices of all types of goods, especially of primary products, began to exert a profound influence both upon national economies and upon international economic relations. Governments which during 1949 had been interested in measures designed to cope with accumulating surpluses of primary products began to examine problems arising out of impending shortages.

With respect to the domestic economic impact of the events following upon the Korean conflict, two aspects may be distinguished. The first is the initial speculative or anticipatory activity, which affected particularly the international market prices of primary industrial materials. The more fundamental change is likely to result from the considerable increase in rearmament expenditures and the consequences which they impose.

In the United States, where the economic effect of the events in Korea was most immediate and marked, serious inflationary pressures have been generated, and restrictions on investments and on the use of strategic materials, as well as controls on prices and wages, have already been imposed. The *Economic Report of the President* of the United States to the Congress and the report of the Council of Economic Advisers indicate that, while total output was expected to increase in 1951 by 7 per cent, or about $20,000 million, military expenditures were expected to rise more sharply and to increase from the present annual rate of $20,000 million to between $45,000 million and $55,000 million by the end of the year. In addition, investment in facilities for rearmament production was anticipated on a large scale. As a result, it was anticipated that civilian construction and other forms of normal investment would be reduced. It was also expected that total civilian consumption, not merely in the sphere of durable goods directly affected by production limitations, would be reduced.

In the other countries participating in rearmament, notably in western Europe, inflationary pressures are also bound to be serious. Although total production in most of these countries is substantially above pre-war levels, civilian consumption is generally not much higher and in some cases is even below pre-war levels. The preempting of industrial materials for armament production and military stockpiling has already resulted in some cutback in civilian output. With increased armament output, such cutbacks will no doubt become more severe and more widespread, and may impair the export capacities of the countries concerned at the same time that rising costs of imported raw materials tend to cause a deterioration in their terms of trade and their balance of payments position.

With respect to under-developed countries, the expanded rearmament efforts provide ready export markets for the disposal of increased quantities of their primary products at relatively high prices. At the same time, however, these countries are likely to be confronted with grave economic problems. Their improved export position would, unless associated with an increased supply of imported goods, exert serious domestic inflationary pressures. They may, also, find it difficult to convert increased receipts from exports into supplies that will permit them to attain higher standards of living, overcome inflation and promote their economic development. Limitations on the supplies of civilian goods in many of the industrialized countries may reduce the opportunities available to the under-developed countries of obtaining the capital goods essential for increased production and for economic development. Appropriate and timely measures are needed if the aspirations of many under-developed countries are not to be discouraged and if their imports of capital goods are to expand at least as rapidly as their ability to pay for them with expanded exports.

The high volume of United States demand for imports associated with rising production levels and government stockpiling of raw materials, as well as anticipatory and speculative buying, together with the controls on imports from the dollar area imposed earlier by soft currency countries, and continued foreign financial assistance by the United States at a high level, led in the second half of 1950 to an increase in the rate at which other countries accumulated gold and dollar assets. In the case of the sterling area, the dollar resources of which had been seriously depleted by September 1949, the improvement in its gold and dollar position made it possible to suspend aid to the United Kingdom under the European Recovery Program from the beginning of 1951.

The question arises as to whether the past international economic disequilibrium is likely to reemerge when the rate of expenditure for rearmament is reduced. An examination of the factors that contributed to the dollar gap in the past indicates that there were two distinct elements in the persistent current deficits of a large part of the world with the dollar area and the dependence of many countries on special loans and grants, primarily from the United States.

One group of factors, brought into being by the destruction of productive facilities during the war, was largely of a temporary character. These factors have, by and large, run their course. By the end of 1949, much of the war damage had been repaired. Western Germany and, to some extent, Japan had again begun to emerge as exporters of manufactured goods, and the bumper crops of 1948 had eased the food situation. The rising levels of production had made possible a reorientation of trade and payments in a manner which reduced the dependence of the deficit countries on supplies from the dollar area.

The second group of factors is of a long-term character. There appears on the one hand to have been a tendency on the part of the United States and Canada to become more self-sufficient with respect to certain raw materials as well as certain manufactured products. The supply of dollars made available to the world through the imports of the United States and Canada thus increased less rapidly than the national incomes of these two countries. Simultaneously, the demand for goods payable in dollars on the part of a number of countries that instituted programmes of economic development has tended to grow and to exceed their current dollar earnings, even though economic development has progressed only slowly in most of these countries.

It seems likely that these long-term factors with roots that reach into the pre-war period are likely to persist. In view of the levels of investment, employment and income which many countries have decided to maintain as a matter of national policy, their demand for foreign goods appears likely to continue to exceed their ability to pay for them out of current earnings. These tendencies towards import surpluses were masked during the second half of 1950 by the exceptional United States demand for imported commodities at high prices; they are likely to re-emerge when the level of rearmament activities declines, and when many countries, especially under-developed countries, continue in their efforts to narrow the tremendous difference between their own levels of income and those of the highly developed countries.

A measure of the problem that confronts the under-developed countries in their attempts to narrow the difference between their own standards of living and those of the developed countries is afforded by the available data concerning per capita income in various parts of the world. It is estimated, as shown in table 2, that, in 1949, about one-third of the world's population disposed of less than 5 per cent of the total world income and probably had a per capita income of under $50 a year. Some two-thirds of the world's population disposed of only 15 per cent of world income and probably had an average annual per capita income of under $200. Available figures indicate that income at present is less evenly distributed among the countries of the world than

Table 2. Distribution of Income among Seventy Countries, 1949

Average per capita income	*Number of countries*		*Population*		*National income*	
	Cumulative total	*Per cent of total*	*Cumulative total (millions)*	*Per cent of total*	*Cumulative total (millions of United States dollars)*	*Per cent of total*
Under $50	12	17	650.9	31	18,632	4
Under $200	40	57	1,381.1	66	74,962	15
Under $600	62	89	1,841.1	89	226,293	44
Under $900	69	99	1,930.7	93	296,270	58
Under $1,500	70	100	2,079.9	100	513,101	100

Source: United Nations, *Statistical Papers,* Series E, No. 1, October 1950.

during the period immediately preceding the war. Despite their present relatively primitive technological level and limited capital resources, the under-developed countries are faced with the task of attaining a rate of economic development very much more rapid than is characteristic of the industrially more developed countries. Without measures commensurate with that task the difference in standards of living is bound to increase, rather than decrease, even if the problem of growing populations is left out of account. The existence of the latter problem, of course, calls for even more vigorous national and international measures for promoting the development of under-developed areas.

The economic development of the under-developed countries remains the most important single long-run economic problem confronting the world. Its solution calls for a rapid expansion of the world economy. Such an expansion could, if appropriately oriented, provide the goods and services needed to raise the living standards of two-thirds of the world's population, as well as the possibility of achieving without undue strain the economic adjustments that will be required in all parts of the world.

Part I

MAJOR NATIONAL ECONOMIC CHANGES

INTRODUCTORY NOTE

This part of the *Report* is intended to show, for certain countries, changes during the period under review in the gross national product and in its major components, the causes of these changes and their effects upon the rate of employment and unemployment; and how the changes were reflected in the distribution of the real income of the countries concerned and in the increase or relaxation of inflationary pressures. Wherever the data permit, the movement of the following major components of the gross national product are analysed: (*a*) gross private investment; (*b*) government expenditure on goods and services; (*c*) the net balance of exports and imports; and (*d*) personal consumption. No attempt is made to consider developments with respect to individual industries or commodities, or economic events not bearing directly on changes in the major components of the gross national product; details of this character are abundantly available in national publications and in the annual regional economic surveys prepared by the secretariats of the regional economic commissions of the United Nations.

Countries have, in general, been grouped by reference to trends characteristic of the entire group under discussion. In several instances, however, this approach proved unwieldy, and separate sections or chapters are therefore devoted to individual countries. Thus, chapter 1, which deals with economically developed private enterprise economies, is subdivided into two sections, the first concerned with the United States and the second with countries in western Europe and in the British Commonwealth. Chapter 2 covers the centrally planned economies of eastern Europe and chapter 3 a group of selected countries in Latin America and the Far East. Chapter 4 deals with western and with eastern Germany and chapters 5 and 6 are devoted to Japan and China, respectively.

Chapter 1

ECONOMICALLY DEVELOPED PRIVATE ENTERPRISE ECONOMIES

A. United States of America

A separate section in this chapter has been devoted to economic developments in the United States in 1949 and the first half of 1950 because of the importance of the United States among the private enterprise economies, because of the influence of its level of economic activity upon world trade and because economic developments in the United States are not surveyed by any of the existing regional economic commissions of the United Nations.

Changes in the Gross National Product

During the period 1946 to 1948, effective demand was sufficient to absorb production at existing capacity, which had been considerably expanded as compared with pre-war capacity. All of the four major components of the gross national product, namely, business investment in plant, equipment and inventories, government expenditure on goods and services, export surplus and personal consumption, were substantially above pre-war levels. The physical volume of the gross national product averaged 40 per cent above 1940, and personal consumption was 37 per cent higher.[1]

The high level of effective demand during this period was, however, partially dependent on temporary post-war factors which especially affected the levels of domestic private investment, the export surplus and personal consumption. Investment in construction and equipment had been pushed upwards, not only by the current levels and rates of increase in economic activity and income, but also by the backlog of demand accumulated during the war. The United States export surplus during this period reflected both the abnormal post-war foreign demand for goods for reconstruction purposes and the war-time devastation of other sources of supply. Most of this export surplus was financed through liquidation of gold stocks and foreign exchange reserves by importing countries and through extensive United States foreign grants and loans. Finally, personal consumption was high in relation to the disposable income of individuals, owing to the existence of a considerable pent-up demand for consumer goods, which was supported by war-time accumulated liquid assets.

It was the weakening of these special post-war supports which led to a recession during the first half of 1949; in fact, this process had already begun by the end of 1948. The most important element in these developments was the considerable fall in the ratio of personal consumption to disposal income of individuals in the second half of 1948. This fall was due to the growing satiation of the pent-up demand for many durable goods[2] and to the depletion of previously accumulated liquid savings of a large part of the population in the lower income brackets. This depletion had been accelerated by the upward trend in prices that followed the elimination of price and rationing controls in 1946. Despite some offsetting factors (especially the decline in the budget surplus), the resulting demand in the second half of 1948 was insufficient to absorb fully the volume of goods being produced, and there was

[1] See United States Department of Commerce, *Survey of Current Business*, January 1951 (Washington, D.C.). The volume of per capita consumption was about 26 per cent above that of 1940.

[2] Automobiles were a notable exception, however, and the sales of automobiles rose substantially in 1949 when the supply increased.

accordingly a substantial accumulation of inventories which was, at least in part, involuntary. Such inventory accumulation could not have been expected to continue in 1949; not only did the accumulation cease in the first half of 1949, but a significant liquidation of inventories actually took place.

The change from accumulation in the second half of 1948 to liquidation in the first half of 1949 represented a decline of $10,000 million in business investment in inventories. The importance of this decline may be judged from the fact that it was significantly larger than the total volume of residential construction in 1948, which was then at a post-war peak. This change occurred simultaneously with a fall in private investment in plant and equipment and with a temporary decline in residential construction. Since the decline in private investment was only partially offset in the first half of 1949 by a rise in the export surplus[3] and in government expenditure on goods and services,[4] there was a drop in the sum of these three non-consumption components of the gross national product which amounted to 6 per cent in real terms (see table 3).[5]

Other things being equal, such a drop in these components leads to a decline in incomes. In considering the effect on income available for consumption, however, account must also be taken of the fact that such income may be reduced by increases in net government revenue[6] and augmented by increases in government transfer payments to individuals. Thus, in evaluating the influence of income-generating factors on consumption, it is necessary to substitute the budget

[3] The rise in the export surplus was due partially to a decline in imports associated with the decline in economic activity and with efforts to reduce the volume of business inventories; it was due also to an increase in exports, which had been facilitated by an increase in United States grants to the importing countries.

[4] All references to government expenditures in this section exclude unilateral transfers abroad; these transfers are added instead to net foreign investment to obtain the export surplus.

[5] In the pages that follow, estimates of changes in the real volume of income or expenditure relate to measurement in terms of dollars of constant consumer purchasing power, i.e., components of the gross national product are expressed in terms of "real consumption equivalents". The deflation of the gross national product by the index of consumer prices gives a reasonable approximation of the post-war changes in the physical volume of the gross national product.

[6] Tax revenue minus subsidies plus current surplus of government enterprises.

Table 3. Gross National Product, by Major Components, in the United States, 1948 to 1950 (First half)

(Seasonally adjusted; annual rates)

Item	1948 First half	1948 Second half	1949 First half	1949 Second half	1950 First half
Thousand millions of current dollars:					
Total non-consumption components	77.0	86.3	79.2	74.3	83.2
Gross private domestic investment	40.0	46.2	34.4	31.6	44.8
Residential non-farm construction	8.6	8.6	7.7	8.9	11.8
Other private construction and producers' durable equipment	28.0	30.1	29.3	27.7	29.6
Increase in inventories	3.4	7.5	—2.5	—5.0	3.4
Export surplus[a]	7.0	5.2	7.1	4.4	2.6
Adjusted government expenditure on goods and services[b]	30.0	34.9	37.7	38.3	36.0
Consumption	175.7	179.2	177.9	179.8	184.2
Gross national product	252.7	265.5	257.0	254.1	267.4
Thousand millions of 1948 dollars:					
Total non-consumption components	77.9	85.3	79.9	75.4	84.9
Consumption	177.8	177.1	179.5	182.5	188.0
Gross national product	255.7	262.4	259.4	257.9	272.8

Source: United States Department of Commerce, *Survey of Current Business* (Washington, D.C.); *Construction and Construction Materials,* Statistical Supplement, May 1950 (Washington, D.C.).

[a] Net foreign investment plus government unilateral transfers to foreign countries.

[b] Total government expenditure on goods and services less unilateral transfers to foreign countries.

Table 4. Gross Private Domestic Investment, Export Surplus, Adjusted Budget Deficit and Consumption in the United States, 1948 to 1950 (First half)

(Seasonally adjusted; annual rates)

Item	1948 First half	1948 Second half	1949 First half	1949 Second half	1950 First half
Thousand millions of current dollars:					
Gross private domestic investment, export surplus and adjusted budget deficit	32.6	41.4	39.7	34.2	42.4
Gross private domestic investment	40.0	46.2	34.4	31.6	44.8
Export surplus[a]	7.0	5.2	7.1	4.4	2.6
Adjusted budget deficit:					
Adjusted government expenditure on goods and services[b]	30.0	34.9	37.7	38.3	36.0
Less net government revenues[c]	59.8	59.6	55.5	56.6	63.1
Plus transfer payments and net interest paid by the government	15.4	14.7	16.0	16.5	22.2
Equals adjusted budget deficit	—14.4	—10.0	—1.8	—1.8	—4.9
Thousand millions of 1948 dollars:					
Gross private domestic investment, export surplus and adjusted budget deficit	33.0	40.9	40.1	34.7	43.3
Consumption	177.8	177.1	179.5	182.5	188.0

Source: United States Department of Commerce, *Survey of Current Business.*

[a] Net foreign investment plus government unilateral transfers to foreign countries.

[b] Total government expenditure on goods and services less unilateral transfers to foreign countries.

[c] Tax revenues net of the item "subsidies less current surplus of government enterprises" in the *Survey of Current Business.*

deficit for government expenditure on goods and services and hence to consider the changes in the sum of private investment, the export-import balance and the budget deficit. In the first half of 1949, net government revenue fell below the level of the preceding half year, partly, at least, as a result of the recession,[7] and government transfer payments rose, largely because of the increase in unemployment insurance payments associated with the declining levels of employment. Consequently, the sum of private investment, export surplus and budget deficit fell only slightly in real terms (see table 4). This minor decline failed to depress the level of personal consumption, which in fact rose somewhat in real terms (see tables 4 and 5). Since the level of personal consumption weighs heavily in the gross national product, the latter fell by only about one per cent in real terms (see table 3).

[7] The reduction in revenue was the result partly of the recession and partly of the 1948 reduction in income tax rates, the effect of which was not fully reflected until 1949.

Table 5. Ratio of Consumption to Disposable Income[a] of Individuals in the United States, 1948 to 1950 (First half)

(Seasonally adjusted)

Item	1948 First half	1948 Second half	1949 First half	1949 Second half	1950 First half
Total consumption	97.1	94.3	94.6	98.1	93.1
Non-durable goods and services	84.5	82.2	82.6	84.5	79.7
Durable goods	12.5	12.1	12.1	13.6	13.4

Source: United States Department of Commerce, *Survey of Current Business.*

[a] Statistical discrepancy added to disposable income estimates of United States Department of Commerce.

This decline in the gross national product was largely confined to the manufacturing, mining and transportation industries. The manufacturing industries bore the brunt of the drastic change from inventory accumulation to inventory liquidation; the decline in their average level of activity from the second half of 1948 to the first half of 1949 was about 6 per cent. Transportation and mining declined with the change in manufacturing output (see table 6).

Table 6. Indices of Physical Production of Goods and Transportation Services in the United States,[a] 1949 and 1950 (First half)

(1948 = 100)

Item	1949 First half	1949 Second half	1950 First half
Total production of goods	—95.1—		
Agricultural production	—99.3—		
Non-agricultural production	96.4	92.7	102.6
Industrial production	94.3	88.5	98.4
Minerals	92.3	81.3	89.0
Durable manufactures	95.1	84.0	97.8
Non-durable manufactures	94.3	96.0	102.3
Construction	103.2	110.2	123.6
Electric and gas utilities	102.5	101.6	110.7
Transportation services	94.3	87.6	94.3

Source: *Economic Report of the President,* January 1951 (Washington, D.C.).

[a] All half-year data seasonally adjusted, except for electric and gas utilities, for which satisfactory adjustment factor is not available.

In the second half of 1949, the average level of economic activity, as measured by the real value of the gross national product, was only slightly below that of the preceding half year. Inventory liquidation proceeded at an increased rate, but part of the decline in inventories was involuntary during this period since it was associated with a major strike in the steel industry. While the decline in business investment in plant and equipment also continued, there was a sharp upturn in residential construction, owing in part to the reduction in the cost of new housing but mainly to the easing of the terms of down payments, the reduction in interest rates and other credit policies which were furthered by the liberalization of the National Housing Act.

In contrast with the first half of 1949, when the decline in private domestic investment was partly offset by a rise in the export surplus, declining private investment in the second half year was reinforced by a severe drop in the export surplus.[8] In view of the Federal Government's attempt to reduce the budget deficit, there was only a slight rise in total government expenditure, which was due entirely to the continued increase in state and local spending.

In the absence of any significant changes in government revenues or transfer payments, this primary net reduction in expenditure on goods and services would normally have been expected to produce a decline in personal consumption through its effect on incomes. However, personal consumption actually rose during the second half of 1949. This cannot be attributed to changes in the distribution of income, since there was no significant change in the relative share of labour. Several factors, however, appear to have contributed to higher spending in relation to disposable income (see table 5). In the first place, as is evident from the experience of 1930 to 1938, there is usually some time lag in the adjustment of consumption to the first decline in income at the beginning of a recession. Even though this cannot explain the rise in consumption, it may account for the failure of consumption to fall immediately after the initial decline in income. Secondly, there was a rapid increase in the production of automobiles, for which a considerable pent-up demand still existed, as well as an increase in the sale of television sets following the reduction in prices. Such purchases were made possible in part by liberal terms of instalment credit and in part by the fact that a portion of past personal savings had been earmarked for this purpose. Finally, it seems likely that many veterans anticipated their 1950 insurance dividends by increasing their expenditures in the fourth quarter of 1949.

The increased level of personal consumption was almost sufficient to counterbalance the drop in the sum of the non-consumption components, and accordingly the gross national product during the second half of 1949 was only slightly below the level of the previous half year. Although in-

[8] This drop reflected principally a sharp decline in exports, which resulted from the imposition of additional import restrictions by many importing countries, following the aggravated balance of payment difficulties which they experienced in the first half of 1949.

dustrial production declined by a further 6 per cent, at least part of the decline is ascribable to major strikes in industry which, of course, affected the index of industrial production much more than that of the total gross national product.

In the first half of 1950, economic activity rose considerably over the level of the preceding half year and in fact reached a new post-war peak. However, while the gross national product in the first half of 1950 was considerably above the 1948 level, the index of industrial production—which neither includes construction activity nor reflects the level of activity in public utilities, in trade and in other services—still remained somewhat below that of 1948.[9]

As may be seen from table 3 the rise in the gross national product was accounted for by an increase in private investment, mainly reflecting a change from liquidation to accumulation of inventories, and by a rise in personal consumption; the two other components, namely, export surplus and government expenditure on goods and services, fell.[10]

Several factors which contributed to the increase in private investment in the first half of 1950 were already evident in the second half of 1949. The first, and perhaps most important, was the boom in residential building, which had developed in 1949 mainly under the influence of liberalized credit policies for housing. This boom gained momentum in the first half of 1950. In addition, it may have led to increased investment in related industries during the first half of 1950 by influencing investment decisions during the second half of 1949. The fact that the excessive inventories accumulated in the second half of 1948 had already been reduced by the end of 1949 was a second contributing factor; indeed some of the liquidation of inventories in the second half of 1949 may have been involuntary since it probably reflected the effects of strikes in the steel industry. Finally, the rise in personal consumption expenditures, particularly for automobiles and television, from the first to the second half of 1949 may have had a favourable effect on business decisions to invest both in plant and equipment and in inventories.[11]

The effect upon incomes of the increased volume of investment was reinforced by large disbursements of veterans' insurance dividends during this period, but this was partly counterbalanced by a rise in government revenues, which resulted largely from the increase in economic activity. On balance, there was a considerable rise in the sum of private investment, export surplus and budget deficit. The response of consumption to this increase was, however, relatively small. In this period—as in the second half of 1949—the failure of consumption to change commensurately with income cannot be attributed to a change in the distribution of income, since there was no shift from other incomes to profits. The sharp decline in the ratio of consumption to disposable income may reflect the fact that this ratio, as has already been noted, had been abnormally high in the second half of 1949; and, in addition, it is probable that a part of the veterans' dividends served to settle debts incurred for large expenditures in the preceding period, in anticipation of the dividends, or was used to finance veterans' purchases of houses.

It is evident from the foregoing analysis that in the first half of 1950 effective demand was sufficient to absorb the peak post-war volume of production without any involuntary accumulation of inventories. It is therefore of interest to compare this period with the preceding peak period in the second half of 1948 when such accumulation of inventories did take place even though the volume of production was significantly lower. As may be seen from table 3, the non-consumption components of the gross national product were roughly at the same level in real terms in both periods. This resulted from the boom in residential building associated with the liberalization of the National Housing Act and from the rise in government expenditure, which together were sufficient to offset a considerable reduction of investment in inventories and a fall in the export surplus. Consumption, on the other hand, was

[9] In the second half of 1950, however, industrial production averaged about 10 per cent above the 1948 level.

[10] Apart from the influence of developments in the rest of the world on United States exports (see chapter 7), the recovery in the United States contributed to an increase in imports.

[11] The volume of investment in plant and equipment in the first half of 1950 proved to be substantially in excess of the original planned expenditures as reported to the Department of Commerce and the Securities and Exchange Commission.

considerably higher in the first half of 1950 than in the second half of 1948. This rise was the net result of a number of factors. There was a considerable increase in transfer payments between the two periods, largely because of the veterans' insurance dividends distributed in the first half of 1950 and the rise in unemployment insurance payments. The latter was due to the fact that, although national output was higher, unemployment was also above the level of the second half of 1948 as a result of the increase in output per man and the rise in the labour force. The rise in transfers was only partially offset by an increase in government revenues, so that the sum of private investment, export surplus and the budget deficit was considerably higher in the first half of 1950. Although a significant part of the veterans' insurance dividends which contributed to this rise was not spent in the first half of 1950, the volume of consumption nevertheless rose substantially owing to the greater availability of automobiles, the expansion of the television industry and the furnishing of the large number of new houses which had been built in the meantime.

Distribution of Real Income

The slight decline in the real gross national product in 1949 was associated with stability in the real value of total wages and salaries, a moderate decline in corporate profits (after inventory valuation adjustment and after corporate tax liabilities) and a very sharp reduction in farm income (see table 7).

The decline in real farm income in 1949 reflected primarily the reduced average level of farm prices, which resulted from the increase in farm supplies following the record harvest of 1948, at a time when non-farm money incomes were declining slightly. The fall in prices would have been even greater but for the large-scale acquisition of stocks by the Federal Government under its farm price support programme.

The stability of the real value of total wages and salaries reflected mainly the redistribution of

Table 7. Gross National Product and Major Income Shares in the United States, 1948 to 1950 (First half)

(Seasonally adjusted; annual rates)

Item	*1948*		*1949*		*1950*
	First half	*Second half*	*First half*	*Second half*	*First half*
Thousand millions of current dollars:					
Gross national product	252.7	265.5	257.0	254.1	267.4
Wages and salaries	128.7	135.5	132.6	131.5	135.1
Farm income	17.6	17.6	14.3	12.5	12.3
Corporate profits after inventory valuation adjustment:[a]					
Before taxes	30.1	33.6	29.6	30.1	31.6
After taxes	17.3	20.5	19.1	19.4	16.7
Thousand millions of 1948 dollars:[b]					
Gross national product	255.8	262.4	259.3	258.0	272.9
Wages and salaries	130.3	133.9	133.8	133.5	137.9
Farm income	17.8	17.4	14.4	12.7	12.6
Corporate profits after inventory valuation adjustment:					
Before taxes	30.5	33.2	29.9	30.6	32.2
After taxes	17.5	20.3	19.3	19.7	17.0

Source: United States Department of Commerce: *Survey of Current Business.*

[a] Corporate profits before inventory valuation adjustment and before taxes in successive half years from first half of 1948 to first half of 1950 were as follows (in thousand millions of current dollars): 33.6, 34.2, 27.4, 27.9 and 33.3.

[b] Deflated by index of prices of consumer goods and services.

Table 8. Indices of Prices in the United States, 1948 to 1950 (First half)

(1948 = 100)

Item	1948 First half	1948 Second half	1949 First half	1949 Second half	1950 First half
Wholesale prices:					
All commodities	99.2	100.9	95.4	92.4	93.2
Farm products	101.1	99.0	90.7	85.2	85.2
Foods	98.8	101.2	91.1	89.2	87.9
Commodities other than farm products and foods	98.5	101.4	99.1	96.1	97.2
Consumer prices:					
All items	98.8	101.2	99.1	98.5	98.0
Food	99.1	100.9	96.4	95.7	94.2
Non-food[a]	98.6	101.4	101.0	100.5	100.7

Source: United States Department of Labor, Bureau of Labor Statistics.

[a] Derived from indices of consumer prices and of food prices.

income from farmers to wage and salary earners through the fall of food prices (see table 8). Since, as will be seen below, there was some reduction in employment and average hours worked per week, it is evident that there was some increase in real average hourly earnings. This increase consisted partly of a rise in hourly money earnings and partly of a decline in consumer prices. In the manufacturing industries, real average hourly earnings rose by about 4 per cent from the second half of 1948 to the second half of 1949.

From the second half of 1949 to the first half of 1950, the rise in the gross national product was accompanied by an increase of 3 per cent in the real value of total wages and salaries. This was accounted for in part by an increase in average hourly earnings and in part by a rise in average hours worked per week, while the level of employment remained about the same. Real farm income continued virtually constant. The level of farm prices, averaged over the entire period, was likewise constant, but while prices had been falling during the preceding half year, they were rising in the course of the first half of 1950. Corporate profits, adjusted for inventory valuation, fell significantly on an after-tax basis, although they were higher on a before-tax basis.[12]

[12] The increase in tax liabilities in relation to profits after inventory valuation adjustment was due in part to a retroactive increase in tax rates and in part to the change from losses on business inventories in the second half of 1949 to inventory profits in the first half of 1950. The data represent profits after inventory valuation adjustment, but taxes are paid on profits before such adjustment.

Employment and Unemployment

Although the decline in the total volume of the gross national product in 1949 was slight in real terms, it was associated with a substantial rise in unemployment, which reflected both a decrease in employment and a rise in the labour force. As may be seen from table 9, the number of unemployed rose from 1.9 million, or 3 per cent of the civilian labour force, in the second half of 1948 to 3.6 million, or 5.7 per cent, in the second half of 1949;[13] in terms of the labour force available for hire,[14] the unemployment percentages would be approximately one-fourth higher. In addition to the decline in numbers employed, there was also a reduction of about 2 per cent in average hours worked per week in non-agricultural industries.[15]

[13] Owing to the influence of seasonal factors in all components of the labour force, comparisons are appropriate only for corresponding periods of each year.

[14] Civilian labour force less self-employment.

[15] The United States Bureau of the Census estimated that the number of persons involuntarily working short hours because of general economic factors rather than personal reasons increased from 1.5 million in 1948 to 2.5 million in 1949.

Table 9. Labour Force, Employment, Unemployment and Average Weekly Hours in the United States, 1948 to 1950 (First half)

(In millions of persons)

Item	1948 First half	1948 Second half	1949 First half	1949 Second half	1950 First half
Total labour force, including armed forces	61.8	63.7	62.7	64.4	63.8
Armed forces	1.2	1.4	1.5	1.4	1.3
Civilian labour force	60.5	62.4	61.2	63.0	62.4
Civilian employment	58.3	60.4	58.1	59.4	58.6
Agriculture	7.6	8.4	7.9	8.1	7.2
Non-agricultural industries	50.8	52.1	50.1	51.2	51.3
Unemployment	2.2	1.9	3.2	3.6	3.9
Average weekly hours:[a]					
Agriculture	49.1	50.8	48.1	49.9	47.6
Non-agricultural industries	42.0	41.1	41.6	40.3	41.2

Source: United States Department of Commerce, *Current Population Reports, Labor Force.*

[a] Arithmetic average of monthly averages.

In the first half of 1950, average unemployment rose to 3.9 million, or 6.2 per cent of the civilian labour force, despite the fact that the gross national product was at its post-war peak. In order to evaluate this situation, the first half of 1950 may be compared with the corresponding period of 1948, when economic activity was also at a high level and unemployment was much lower. The real value of the gross national product increased by about 7 per cent between these two periods, while civilian employment rose only slightly as a result of increased productivity. Agricultural employment, in fact, fell, while non-agricultural employment rose by only one per cent in the face of a decline of about 2 per cent in average hours worked per week. The increase in the civilian labour force of 1.9 million was thus reflected in an increase in unemployment of 1.7 million. It is evident, therefore, that the increase in productivity and in the labour force would have required a larger rise in the gross national product than actually took place, in order to keep unemployment from rising.[10]

[10] In the second half of 1950, when the gross national product increased further, average unemployment fell to 2.4 million, or 3.8 per cent of the civilian labour force.

B. Continental Western Europe, the United Kingdom, Canada and Australia

This section deals with major economic developments in 1949 and the first half of 1950 in the following economically developed private enterprise economies: Australia, Belgium, Canada, Denmark, France, Italy, the Netherlands, Norway, Sweden and the United Kingdom. Although these countries are scattered over three widely separated continents, and the structures of their individual economies differ in many important respects, they nevertheless have a number of significant features in common. They are all private enterprise economies with a fairly high degree of industrialization, though of course the degree varies considerably from country to country. Since they are all also relatively open economies, their economic activity is to a considerable extent affected by developments in international trade.

Production and Employment Situation

The increases which took place in industrial production from 1948 to 1949 in general represented a continuation of the upward movement that followed the end of the war. In Italy, however, where there had been a recession during the winter of 1947 and early 1948, the rise in produc-

Table 10. Indices of Industrial Production in Continental Western Europe, the United Kingdom and Canada,[a] 1937 and 1947 to 1950 (First half)

(1948 = 100)

Country	1937	1947	1949	1949 First half	1950 First half
Belgium	109	93	102	105	102
Canada	60	97	102	102	106
Denmark	78	90	107	106	120
France[b c]	98	88	109	112	109
Italy	101[d]	96	106	104	117
Netherlands	88	83	111	106	116
Norway	80	92	106	110	117
Sweden	67	94	104	107	111
United Kingdom[b]	92	89	107	106	115

Source: United Nations, *Monthly Bulletin of Statistics;* France: Institut national de la statistique et des études économiques, *Bulletin mensuel de statistique*.

[a] Data for Australia not available.
[b] Including building.
[c] Excluding food manufacturing.
[d] Relates to the year 1938.

tion from 1948 to 1949 represented recovery from the earlier recession level. Production continued to rise in the first half of 1950, except in Belgium and France (see table 10).[17]

While the rates of increase in industrial production from 1948 to 1949 were generally lower than from 1947 to 1948, they rose once again in a number of countries from the first half of 1949 to the first half of 1950.

Industrial employment (see table 11) failed to keep pace with industrial production; in some instances it remained stable or even declined while production rose, thus reflecting the effects of improvement in industrial productivity.[18]

The level of industrial production in the first half of 1950 was significantly higher than in the pre-war peak year 1937 in all countries except Belgium, where output was 6 per cent below that of 1937. In France and Italy the increases were between 10 and 20 per cent, in the United Kingdom, the Netherlands and Norway, between 25 and 50 per cent and in Canada, Denmark and Sweden in excess of 50 per cent.

Agricultural production increased in all countries from 1947/48 to 1949/50. The rise was most prominent in the European countries which had suffered from considerable war-time devastation. The increase in output was, however, not continuous in all countries; there were setbacks as a result of poor harvests in 1948/49 in Australia and in 1949/50 in Canada, Sweden and the United Kingdom (see table 12). The rise in agricultural

Table 11. Indices of Number of Wage Earners Employed in Manufacturing in Continental Western Europe, the United Kingdom, Canada and Australia, 1947 to 1950 (First half)

(1948 = 100)

Country	1947	1949	1949 First half	1950 First half
Australia[a b]	96	101	102	105
Belgium[c]	93	94	97	89
Canada[a]	97	100	99	98
Denmark[d]	93	105	104	112
France[a d e]	96	102	101	103
Italy	102	99	99	97
Netherlands	91	105	104	108
Norway[f]	93	104	103	105
Sweden[f]	99	101	101[g]	101[g]
United Kingdom[a h]	98	102	102	104

Source: United Nations, *Monthly Bulletin of Statistics* and *Economic Bulletin for Europe*. France: Institut national de la statistique et des études économiques, *Bulletin mensuel de statistique*, supplement.

[a] Including salaried employees.
[b] Including public utilities.
[c] Including coal-mining, quarrying and water supply.
[d] Index of hours worked.
[e] Including building.
[f] Including mining.
[g] Average of first five months.
[h] June 1948 = 100. Series excludes Northern Ireland. Beginning June 1948, series refers to estimated numbers of workers insured under the National Insurance Act.

[17] In the second half of 1950 production increased significantly in both Belgium and France as compared with the corresponding period of 1949.

[18] In France, the index of employment in manufacturing increased slightly between the first half of 1949 and the first half of 1950, while the index of industrial production fell. However, the apparent decline in productivity reflects the fact that the fall in production was associated with major strikes whereas the employment index covers persons on strike.

Table 12. Indices of Agricultural Production in Continental Western Europe, the United Kingdom, Canada and Australia, 1948/49 and 1949/50[a]

(1947/48 = 100)

Country	1948/49	1949/50
Australia	99	105
Belgium	107	130
Canada	111	107
Denmark	108	130
France	124	124
Italy	109	115
Netherlands	118	133
Norway	110	116
Sweden	110	109
United Kingdom	115	112

Source: Food and Agriculture Organization of the United Nations.

[a] Statistics relate to crop year from 1 July to 30 June.

supplies was of far-reaching importance, especially in European countries, in that it permitted increases in real personal consumption and contributed towards the abatement of inflationary pressures.

The levels reached in agricultural production in 1949/50 were significantly above the pre-war years 1934-38 except in France, where agricultural production was below pre-war, and in Italy, where it was only slightly higher.

The increases in industrial production from 1948 to 1949, combined with the changes in agricultural production and in the rest of the economy, led to an increase in the real gross national product in all countries (see table 13). The real gross national product continued to rise in the first half of 1950, with the possible exception of Belgium and France, where it may have remained approximately stable.

Despite the rise in gross national product, unemployment increased in 1949 except in Australia and Norway[19] (see table 14). The increases were small in Sweden and the United Kingdom, but even in these countries there was a considerable easing of labour shortages. In Canada, Denmark, France and the Netherlands the increases in unemployment in 1949 were more significant, and in Belgium the rise in unemployment was of considerable proportions even though the gross national product increased over the 1948 level. The rise in Belgian unemployment reflected, in part, a rise in the available labour force and, in part, an increase in average output per man, as may be seen from the fact that the index of industrial production in 1949 was about 2 per cent above

[19] The relevant data are not available for Italy.

Table 13. Indices of Industrial Production and Real Value of Gross National Product in Continental Western Europe, the United Kingdom, Canada and Australia, 1949

(1948 = 100)

Country	Industrial production	Real gross national product[a]
Australia	..	106[b]
Belgium	102	104
Canada	102	102
Denmark	107	106
France	109[c]	106
Italy	106	101
Netherlands	111	106
Norway	106	104
Sweden	104	104
United Kingdom	107[d]	105

Source: Industrial production: United Nations, *Monthly Bulletin of Statistics;* France: Institut national de la statistique et des études économiques, *Bulletin mensuel de statistique.*

Data for real gross national product: Australia: Commonwealth Bureau of Census and Statistics, *National Income and Expenditure, 1949-1950;* Belgium: *Bulletin de l'Institut de recherches économiques et sociales,* May 1950; Ministère des Affaires économiques et des classes moyennes, *L'Economie belge en 1949;* Ministry of Finance, *Budget des recettes et des dépenses, Exposés généraux et Appendices;* Statistical Office of the United Nations; Canada: Dominion Bureau of Statistics, *National Accounts, Income and Expenditure,* 1942-1949; Denmark: *Danmarks Nationalbudget, 1950;* France: Commissariat général du Plan de modernisation et d'équipement, Commission du Bilan, with subsequent corrections communicated by the Commissariat; Italy: Istituto centrale di statistica, *Annali di statistica,* Serie VIII, vol. III, *Studi sul reddito nazionale; Conto riassuntivo del Tesoro;* Netherlands: Central Bureau of Statistics, *Statistical Bulletin, General Survey,* 11 August 1950; Norway: Department of Commerce *Nasjonalbudsjettet 1950* (Oslo); Sweden: United Nations, "Implementation of Full Employment Policies, 1950-51" (document E/CN.1/81); United Kingdom: *National Income and Expenditure of the United Kingdom, 1946-1949,* (Cmd 7933).

[a] Deflated by over-all indices of prices of consumption goods and services; where such indices were not available, the cost of living index was used. If each of the components of the gross national product had been divided by its respective price index, the result would have been much the same, except for Australia, where the increase in real gross national product from 1948 to 1949 would have amounted to 3 per cent if exports and imports had been deflated by their respective price indices.

[b] Figures relate to 12 months ending 30 June of year stated.

[c] Including building but excluding food manufacturing.

[d] Including building.

that of 1948, while the index of industrial employment was 6 per cent below (see tables 10 and 11).

In the first half of 1950 unemployment was somewhat lower than in the first half of 1949 in Australia, Denmark, Italy and Sweden, and was higher in the remaining countries, but the increases were negligible in Norway and in the United Kingdom. The rise in unemployment generally occurred in the face of significant increases in gross national product and reflected the fact that the increases in the level of economic activity were insufficient to absorb all of the labour force that was becoming available both as a result of population growth and as a result of reductions in labour requirements per unit of output.

Unemployment existed on a large scale only in Belgium[20] and in Italy, but while in Belgium it emerged only in the latter part of 1948, in Italy it was of long standing. Even before the war Italy had a considerable volume of disguised unemployment in agriculture; in addition, from

[20] In the second half of 1950 unemployment was substantially lower than in the corresponding period of 1949, but was still considerable.

Table 14. Unemployment in Continental Western Europe, the United Kingdom, Canada and Australia, 1948 to 1950 (First half)

Country	*1948*		*1949*		*1950*
	First half	*Second half*	*First half*	*Second half*	*First half*
Thousands of unemployed:					
Australia[a]	4.0	1.3	1.9	1.3[b]	1.7
Belgium[c]	64.5	99.1	167.2	181.0	186.2
Canada[d e]	119.0	86.5	151.0	115.5	211.5
Denmark[f]	55.6	47.6	63.3	54.8	60.0
France[g]	12.2	21.3	36.2	43.3	57.7
Italy	. .	. .	1,776.3	1,569.1	1,673.4
Netherlands	45.3	39.6	65.9	58.7	88.3
Norway	12.3	5.8	9.3	6.1	10.9
Sweden[h]	27.6	23.9	29.7	22.8	27.2
United Kingdom	328.3	334.4[i]	360.8	315.1	365.2
As percentage of employees (both employed and unemployed):					
Australia[j]	0.2	0.1	0.1	0.1[b]	0.7
Belgium[k]	3.4	5.1	8.4	9.0	9.3
Canada[l e]	3.5	2.5	4.3	3.2	5.9
Denmark	. .	. .	. .	. .	
France[l m]	0.1	0.3	0.4	0.5	
Italy			. .	. .	
Netherlands	. .	. .	. .	. .	. .
Norway[n]	1.8	0.8	1.3	0.8	1.4
Sweden[o]	3.0	2.5	3.1	2.3	2.8
United Kingdom[l]	1.5	1.5[i]	1.7	1.5	1.6

Source: United Nations, *Monthly Bulletin of Statistics*; International Labour Organisation, *International Labour Review* (Geneva); Australia: *Monthly Review of Business Statistics*; Belgium: Institut national de statistique, *Bulletin de statistique*; Canada: *Labour Force Bulletin*; France: Commissariat général du Plan de modernisation et d'équipement.

[a] Recipients of unemployment benefits only.

[b] Fourth quarter only; coal strike in third quarter.

[c] Totally unemployed only.

[d] Based on quarterly sample surveys of the labour force.

[e] Excluding Newfoundland.

[f] Unemployed registered with trade union unemployment insurance funds.

[g] Recipients of relief from public relief funds.

[h] Unemployed registered with reporting trade unions.

[i] With introduction of National Insurance Act in July 1948, coverage of series has been broadened and thus the degree of comparability between data prior to and after July 1948 has been slightly reduced.

[j] Related to the sum of unemployed and total hired civilian employed, excluding rural workers and domestic servants.

[k] Percentage of totally unemployed to total insured workers.

[l] Related to the sum of total hired civilian employed and unemployed.

[m] In calculating the percentage, January and July figures for total hired civilian labour force represent the first half and the second half of the year.

[n] Percentage related to total number of persons covered by unemployment insurance.

[o] Related to total members of trade unions covered.

200,000 to 300,000 persons had been enrolled in the fascist militia. In the post-war period, large-scale visible unemployment emerged because, on the one hand, the volume of industrial employment did not rise above the pre-war level while, on the other hand, the militia was disbanded, many members of the armed forces who were demobilized failed to return to the land and the labour force had meanwhile grown substantially. Although this unemployment existed side by side with unused productive capacity in many industries, it is likely that a substantial addition to existing productive capacity would be needed to absorb all of the unemployed effectively.

Gross National Product and Inflationary Pressures

This analysis of changes in the gross national product from 1948 to the first half of 1950 is based on a consideration of the changes in the four broad components of the gross national product: private investment, the balance of exports and imports of goods and services, government expenditure on goods and services, and personal consumption. These components are expressed in constant prices by dividing their money values by the over-all indices of prices of consumption goods and services.[21] While this procedure yields only an approximate measure of the gross national product in real terms,[22] it is in general sufficient for the analysis that follows. Where it was clear that the separate deflation of each component by a more appropriate price index would yield significantly different results an alternative variant was employed. In view of the varying degree of reliability of the data for different countries, only the direction and not the magnitude of the changes in the components is given in the tables.

Changes from 1948 to 1949

Private investment rose in a number of the countries under consideration; in the countries in which it fell, the decline was not very significant and was apparently due largely to a reduction of investment in inventories. The continuation of a high level of investment in fixed capital was favoured by high business profits, by the anticipation of further expansion of markets, by the still unfinished process of reconstruction and of re-equipment and modernization postponed by the war and by the gradual disappearance of bottlenecks in the supply of investment goods. There was also a considerable backlog of demand for housing.

The balance of exports and imports in 1949 as compared with 1948 also rose in the majority of the countries, mainly on account of the improvement of the merchandise trade balance with the non-dollar area.[23]

Government expenditure on goods and services in most countries increased as well, largely because of continued expansion in public investment and also, in a number of countries, because of larger military expenditure. In the United Kingdom the increase in expenditure on health insurance[24] was an important factor.

On balance, the real value of the sum of the above three non-consumption components of the gross national product (i.e., private investment, the balance of exports and imports, and government expenditure on goods and services) increased or remained roughly constant in all countries except Canada, where it registered a small decline (see table 15).

A rise in non-consumption expenditures tends, of course, to add to private incomes and therefore to generate an increase in demand for consumption goods and services. Private incomes available for personal consumption are, however, also re-

[21] Where an over-all index was not available, the cost of living index was used. In the period under review the difference in the movements of the two series is not likely to have been significant.

[22] Thus the concept which is employed amounts to a "consumption equivalent of gross national product". The same concept was used in the preceding section.

[23] For a discussion of factors bearing on changes in the volume of international trade, the direction of trade and the methods by which it was financed, see part II of this report.

[24] In United Kingdom national income accounts, this item is treated as public expenditure on goods and services rather than as a transfer payment.

Table 15. Analysis of Changes in Gross National Product, in Real Terms, in Continental Western Europe, the United Kingdom, Canada and Australia, from 1948 to 1949

(Sign indicates direction of change)

Item	*Australia*[a]	*Belgium*	*Canada*	*Denmark*	*France*	*Italy*	*Nether-lands*	*Norway*	*Sweden*	*United Kingdom*
(*1*) Gross domestic private investment	—	—	—	+	—	—	+	+	—	+[b]
(*2*) Balance of exports and imports[c]	+	+	—	—	+	+	+	—	+	+
(*3*) Government expenditure on goods and services[c]	+	+	+	+	+	0	—	+	+	+[d]
(*4*) Total non-consumption components	+	+	—	+	+	0	+	0	+	+
(*5*) Government revenue minus transfer payments	+		—	0	+		+	0	+	+
(*6*) Gross domestic private investment, balance of exports and imports, and budget deficit (*4*) — (*5*)	+		+	+	+		+	0	+	+
(*7*) Personal consumption	+		+	+	+	+	—	+	+	+
(*8*) Gross national product (*4*) + (*7*)	+	+	+	+	+	+	+	+	+	+

Source: See source of data for real gross national product in table 13.

[a] Data for fiscal years ending 30 June.

[b] Including public investment.

[c] For France and the United Kingdom, government expenditures abroad are excluded from government expenditures on goods and services, and corresponding adjustments have been made in the balance of exports and imports.

[d] Including national health service.

duced by increases in net government revenues[25] and augmented by government transfer payments to individuals. In analysing the demand for consumption goods and services, it is necessary therefore to substitute budget deficits for government expenditures on goods and services and thus to consider the changes in the sum of private investment, the export-import balance and the budget deficit. Net government revenue minus transfer payments rose, in all countries except Canada,[26] where it fell owing to a substantial reduction in income tax rates. The net result was such as to leave the sum of private investment, the export-import balance and the budget deficit unchanged or higher in all instances. Thus these primary changes in income tended to maintain or increase consumer demand.

Other factors, however, also affected the level of consumption. In the group of economies which in 1948 still had comprehensive rationing and price controls—the United Kingdom, the Scandinavian countries, the Netherlands and Australia—these factors differed from those affecting the economies of Belgium, France, Italy and Canada, which by 1948 no longer had any important domestic controls.

In the first group of economies, the most important additional factors affecting the level of consumption were (*a*) the reduction in pent-up demand which had been supported by liquid savings accumulated during the war and (*b*) the improvement in supply conditions for scarce consumption goods. The abnormal demand for consumption goods in this group of countries was still an important factor in 1948. During the war years the demand for semi-durable and durable commodities remained unsatisfied while liquid savings accumulated.[27] The pent-up demand was satisfied only at a slow rate in the immediate post-war years because of a continued shortage of goods, but in 1949 the reduction in such pressure became apparent.

While the weakening of pent-up demand in 1949 tended to reduce the level of consumption, the improvement in the supply of essential commodities tended to raise it. This was especially

[25] Tax revenues plus net earnings of government enterprises less subsidies.

[26] See table 15.

[27] Only in the Netherlands was a substantial part of these savings eliminated by monetary reform immediately after the war.

true in the case of food, where increased supplies led either to derationing or to an increase in rations and the elimination of scarcities at controlled prices. Although the main effect of this change was a relative shift in consumption from non-essential to essential commodities previously in scarce supply, it may also in many instances have resulted in a tendency to increase total consumption in relation to income.

The net effect of the primary changes in income, reduction of pent-up demand and improvement in the supply position was to increase consumption in all countries[28] except the Netherlands, where it fell significantly.[29] In Norway and in Australia, the rise in consumption was considerable in relation to the change in income. In these countries the over-all inflationary pressures were still very high in 1948; consequently the improvement in the supply position, which permitted derationing and the elimination of shortages at controlled prices, was the predominant factor.

With respect to the countries in the second group of economies which no longer had controls in 1948, personal consumption increased somewhat in France, Italy and Canada.[30] In the last two countries the rise in consumption was in line with the primary change in incomes. The data are inadequate for determining whether this was also true in Italy. In none of these countries does the reduction of pent-up demand appear to have been an important factor in affecting the level of consumption in 1949, since such demand was probably largely eliminated prior to that year. In France and Italy an important factor in the elimination of pent-up demand was the fact that liquid savings accumulated during the war were depreciated by inflation in the immediate post-war years. The increase in consumption in all three countries was made possible by improved supply conditions, especially in food.

Although consumption decreased in some countries, and the sum of the non-consumption components fell in others, the gross national product rose in all these countries (see table 15). Table 16 shows the indices of consumption in 1949 in relation to 1948, together with the indices of the

[28] The increase in the United Kingdom was small, partly because the benefits under national health insurance are included, not in consumption, but in government expenditure on goods and services, while private expenditure on health, included in "personal consumption", tended to diminish.

[29] In the Netherlands an additional factor which affected consumption unfavourably was the redistribution of income from wages to profits as a result of decontrol in 1949.

[30] Conclusive data on personal consumption are not available for Belgium.

Table 16. Indices of Real Gross National Product and Real Personal Consumption in Continental Western Europe, the United Kingdom, Canada and Australia, 1949

Country	*Gross national product*[a] (1948 = 100)	*Personal consumption*[a] (1948 = 100)	*Personal consumption*[b] *Aggregate* (1938 = 100)	*Personal consumption*[b] *Per capita* (1938 = 100)
Australia	106	105	145[c]	129[c]
Canada	102	103	178[d]	150[d]
Denmark	106	104	117	104
France	106	101	98	97
Italy	101	102	. .	. .
Netherlands	106	97	112	98
Norway	104	107	113	103
Sweden	104	101	129[d]	117[d]
United Kingdom	105	102	105[e]	99[e]

Source: See source of data for real gross national product in table 13.

[a] Deflated by over-all indices of prices of consumption goods and services; where such indices were not available, the cost of living index was used. If each of the components of the gross national product had been divided by its respective price index, the result would have been much the same, except for Australia, where the increase in real gross national product from 1948 to 1949 would have amounted to about 3 per cent if exports and imports had been deflated by their respective price indices.

[b] Estimates of the United Nations Economic Commission for Europe, except for Australia, Canada and Sweden.

[c] Cost of living index was used for deflation; figures relate to fiscal years ending 30 June.

[d] Deflated by the over-all index of prices of consumption goods and services.

[e] Excluding public expenditure on health services, which are included in government expenditure on goods and services rather than in personal consumption.

Table 17. Rationing in Continental Western Europe, the United Kingdom and Australia, 1948 and 1950

Commodity	*Rationing in the middle of 1948*						*Rationing at the beginning of 1950*					
	Australia	*Denmark*	*Netherlands*	*Norway*	*Sweden*	*United Kingdom*	*Australia*	*Denmark*	*Netherlands*	*Norway*	*Sweden*	*United Kingdom*
Bread		x	x	x	x	x						
Wheat products		x	x	x	x							
Meat	x[a]	x	x	x	x	x				x		x
Fats and oils	x	x	x	x	x	x	x	x		x		x
Cheese			x	x		x				x		x
Milk			x[a]	x		x						
Eggs			x	x		x						x
Sugar	x	x	x	x	x	x		x		x		x
Confectionery			x	x		x				x		x
Tea	x	x	x			x	x					x
Coffee		x	x	x	x			x	x	x	x	
Cocoa		x		x						x		
Tobacco		x	x									
Soap		x	x	x	x	x						x
Fuels		x	x	x		x		x	x	x		x
Gasoline	x[b]			x	x	x						x
Textiles, clothing	x[a]	x	x	x		x				x[c]		
Footwear		x		x		x						

Source: Australia: Commonwealth Bureau of Census and Statistics, *Official Year Book*, 1946-1947 (Canberra, June 1949) and *Australian News Summary;* Denmark: Statistiske Departement, *Statistisk Aarbog*, 1948 and 1949; Danish Information Office, *News from Denmark;* Netherlands: De Nederlandsche Bank, *Report*, 1948; *The Economist* (London, 12 November 1949); Norway: *Norges Handels-og Sjöfarts-tidende* (Oslo); Sweden: Kommerskollegium, *Kommersiella Meddelanden;* United Kingdom: British Information Service.

[a] Rationing abolished in June 1948.
[b] Rationing abolished in June 1949, reinstated in November 1949 and abolished again in February 1950.
[c] Rationing of textiles was less comprehensive than previously.

real gross national product. It also shows the indices of consumption in 1949, both on an aggregate and on a per capita basis, in relation to 1938. Consumption per capita was still slightly below the pre-war level in France, the Netherlands and the United Kingdom, above pre-war in Norway and Denmark and considerably higher in Sweden, Australia and Canada.

Increases in the real gross national product and in consumption were, in general, accompanied by a subsiding of inflationary pressures. It is, again, convenient to consider separately the group of economies which still had comprehensive rationing and price controls in the middle of 1948 (the United Kingdom, the Scandinavian countries, the Netherlands and Australia) and the second group of economies, which no longer had such controls in mid-1948 (Belgium, France, Italy and Canada).

In the first group of countries, inflationary pressures subsided because of the reduction in pent-up demand and the increased supply of essential consumption goods, with the result that a number of commodities could be derationed without reductions in real wages. Table 17 indicates the progress of derationing in these countries. By the beginning of 1950 rationing was still an important factor only in the United Kingdom and Norway, and, to a lesser extent, in Denmark. Price controls were still maintained in many of these countries, but they were much less rigid than before, and shortages of price-controlled goods were disappearing. Thus, where price controls were maintained, prices on the whole were not significantly below the levels which would equilibrate demand and supply.

Except in the Netherlands, derationing and the elimination of scarcities at controlled prices were not accompanied by any significant shift in the relative distribution of income from wages to profits. Since consumption and real private income generally increased somewhat, the real value of total labour income also rose in about the same proportion. Employment increased only slightly, and real wage rates in general were either maintained or increased to a slight extent. Broadly speaking, the maintenance of real wages or their increase despite decontrol was a reflection of increased productivity and improved food supply. In the Netherlands, where the distribution of income was adversely affected by decontrol, real wages fell somewhat.

Prices rose only to a small extent in this group of countries, except in Australia, where both prices and wages continued the upward trend which prevailed in 1948 when controlled prices were being increased (see table 18).

The countries of the second group, with the exception of France, show approximate price stabilization[31] (see table 18), accompanied by moderate advances in real hourly earnings in industry (see table 19). In France, there was a slowing down of price increases while real hourly earnings in industry in 1949 averaged the same as in 1948 and declined slightly from the first to the second half of the year.

[31] In Italy, inflation had already been arrested in the second half of 1947 in the course of a recession which lasted until about the middle of 1948.

Table 18. Indices of Cost of Living and Food Prices in Continental Western Europe, the United Kingdom, Canada and Australia, 1948 and 1949

(1948 = 100)

Country and item	*1948* First half	*1948* Second half	*1949* Full year	*1949* First half	*1949* Second half
Australia:					
Cost of living	98	102	109	107	112
Food	96	104	111	109	112
Denmark:					
Cost of living	99	101	101	102	101
Food	99	100	101	100	101
Netherlands:					
Cost of living	99	101	106	106	106
Food	98	102	109	110	109
Norway:					
Cost of living	101	99	100	100	101
Food	102	98	99	98	100
Sweden:					
Cost of living[a]	99	101	102	102	102
Food	99	101	101	101	101
United Kingdom:					
Cost of living	99	100	103	102	104
Food	101	100	106	102	109
Belgium:					
Cost of living[b]	99	101	97	98	96
Food	99	102	95	96	94
Canada:					
Cost of living	98	102	104	103	105
Food	96	104	104	103	105
France:					
Consumer prices[c]	95	104	116	113	118
Food[c]	98	102	104	101	108
Italy:					
Cost of living	100	100	101	103	100
Food	101	99	100	102	97

Source: United Nations, *Monthly Bulletin of Statistics;* France: Commissariat général du Plan de modernisation et d'équipement; Sweden: Kommerskollegium, *Kommersiella Meddelanden.*

[a] Index weighted by total consumption in the country.
[b] Retail prices, excluding rent.
[c] Derived from national income statistics.

Table 19. Indices of Real Hourly Earnings[a] in Continental Western Europe, the United Kingdom, Canada and Australia, 1948 and 1949

(1948 = 100)

Country	1948 First half	1948 Second half	1949 Full year	1949 First half	1949 Second half
Australia[b]	99	101	101	101	101
Denmark[c]	99	102	105	103	106
Netherlands[d]	100	100	97	97	97
Norway[e]	98	103	105	104	106
Sweden	100	100	102	102	102
United Kingdom[f]	99[g]	101[h]	.	101[g]	.
Belgium[i]	99	101	106	106	107
Canada[f]	99	101	104	104	104
France[j]	101	99	100	101	99
Italy[k]	97	103	103	100	105

Source: United Nations, *Monthly Bulletin of Statistics;* Belgium: *Bulletin de l'Institut de recherches économiques et sociales;* France: Commissariat général du Plan de modernisation et d'équipement; Institut national de la statistique et des études économiques, *Bulletin mensuel de statistique;* Italy: Istituto centrale di statistica, *Bollettino mensile di statistica.*

[a] Hourly earnings deflated by cost of living index shown in table 18.

[b] Rates for adult males in manufacturing, mining, construction, transportation, commerce and services.

[c] Earnings in manufacturing, construction, transportation, commerce and services.

[d] Rates for male workers in manufacturing, mining and construction.

[e] Earnings for male workers in manufacturing, mining, building and construction.

[f] Earnings in manufacturing.

[g] April.

[h] October.

[i] Rates in manufacturing and transportation inclusive of family allowances.

[j] Hourly earnings of male and female workers in manufacturing and mining published by the Ministry of Labour.

[k] Rates for male workers in manufacturing, mining and construction, inclusive of family allowances.

Changes from first half of 1949 to first half of 1950

The developments in the group of economies which still had rationing and price control in 1948—the United Kingdom, the Scandinavian countries, the Netherlands and Australia—show a considerable degree of similarity and, again, will be analysed separately. The parallelism of developments in this group is largely based on the following two factors: (*a*) all of these countries depreciated their currencies by 30 per cent in relation to the dollar in the autumn of 1949; and (*b*) these countries, as has already been stated, gradually decontrolled in the course of 1949.

In the first half of 1950 private investment and government expenditure on goods and services rose in real terms,[32] as compared with the first half of 1949. These increases were only partially offset by the deterioration of the balance of exports and imports of goods and services in most countries.[33] The volume of personal consumption also increased, except in the Netherlands, although in some instances the rise was relatively small. In the Netherlands, consumption remained at about the same level. The gross national product thus increased in all countries of this group.

To a considerable extent, the rise in private investment was due to an increase in investment in inventories as a result of anticipation of price increases after devaluation. To a minor degree such anticipation may also have contributed to the maintenance or the increase of investment in fixed capital. Investment in these economies was favourably affected by the fact that the post-war demand, especially in housing, was not yet fully satisfied, and that industrial production continued to increase.

The balance of merchandise exports and imports (deflated by over-all indices of consumer prices) deteriorated in all countries, since the

[32] As in the preceding section, all quantities in real values were obtained by deflating the money values by indices of prices of consumption goods and services.

[33] Data on invisibles for the first half of 1950 are not available for the Netherlands and Australia, but it appears unlikely that the changes in invisibles would alter the position of these countries significantly.

effects of the unfavourable change in the terms of trade resulting from devaluation were not counter-balanced by increases in the balance of export and import quanta.[34] In the United Kingdom, despite the deterioration of the balance of merchandise trade, the balance of exports and imports of goods and services improved somewhat as a result of a rise in receipts from invisibles.

The sum of private investment plus the export-import balance plus the budget deficit rose in all instances in real terms during the first half of 1950, as compared with the corresponding period of the previous year. In the Scandinavian countries the volume of personal consumption increased in line with this primary increase in incomes, but in the United Kingdom and Australia the rise was relatively small, and in the Netherlands consumption remained almost stable. The situation in the latter three countries was due to a shift in the distribution of income from wages and salaries to profits and farmers' incomes, which resulted from decontrol and from the rise in export prices in home currencies after devaluation.[35]

The relative change in the distribution of income tended, of course, to reduce real wage rates from the first half of 1949 to the first half of 1950. Moreover, since devaluation increased the prices of imported goods significantly, both because imports from the dollar area became more expensive in inverse proportion to the devaluation and because export prices of soft currency countries rose somewhat,[36] while money wages in most instances increased relatively little, there was an additional downward pressure on real wages.[37]

[34] The direction of trade and the methods used in financing it are discussed in detail in part II of this report.

[35] The rise in import prices resulting from devaluation is also likely to affect the distribution of income. Indeed, if prices of finished goods are established by percentage markups over prime costs, absolute profit margins rise in relation to wage costs when prices of imported raw materials rise.

[36] In some instances there may also have been increases in the domestic prices of commodities whose export prices had been raised in terms of home currency as a result of devaluation.

[37] The rise in import prices was not offset by subsidies except in Sweden and the Netherlands; on the contrary, in some instances subsidies were reduced.

Table 20. Indices of Prices and Wages in Continental Western Europe, the United Kingdom, Canada and Australia, 1950 (First half)

(First half 1949 = 100)

Country	*Export prices*	*Import prices*	*Cost of living*	*Real hourly earnings*
Australia	130	.	109	99[a]
Denmark	103	110	102	. .
Netherlands	102	108	108	97[b]
Norway	95	111	103	. .
Sweden	98	108	100[c]	104[d]
United Kingdom	105	112	103	100[e]
Belgium	84	94	97[f]	105[g]
Canada	100	105	102	102[e]
France	105	111	110[h]	95
Italy	92	92	95	113[i]

Source: United Nations, *Monthly Bulletin of Statistics* and International Monetary Fund, *International Financial Statistics*.

Belgium: *Bulletin de l'Institut de recherches économiques et sociales;* France: Commissariat général du Plan de modernisation et d'équipement; Institut national de la statistique et des études économiques; Italy: Istituto centrale di statistica: *Bollettino mensile di statistica;* Sweden: Kungl Socialstyrelsen, *Sociala Meddelanden*.

[a] Rates for adult males in manufacturing, mining, construction, transportation, commerce and services.

[b] Rates for male workers in manufacturing, mining and construction.

[c] Cost of living index weighted by total consumption.

[d] Earnings in manufacturing and mining.

[e] Earnings in manufacturing.

[f] Retail prices excluding rent.

[g] Earnings in manufacturing and transportation inclusive of family allowances.

[h] Consumer price index derived from national income statistics and adjusted by index of family consumption prices.

[i] Earnings for male workers in manufacturing, mining and construction; including family allowances.

Advances in productivity and improvements in food supplies were, however, important counteracting factors.

On the whole, real wages either remained unchanged or fell moderately in the first half of 1950 compared with the first half of 1949. There were generally only rather small changes in the cost of living and in money wages. In the Netherlands and in Australia, however, both the cost of living and wages increased significantly, with the latter lagging somewhat behind (see table 20).

Since the second group of countries, i.e., Canada, Italy, Belgium and France, had practically no controls in 1948, they did not experience any of the repercussions that follow decontrol; their devaluation in relation to the dollar was smaller than for the first groups,[38] and their currencies appreciated in relation to the currencies of the first group. The economic changes which they experienced from the first half of 1949 to the first half of 1950 were so diverse as to require separate description.

In Canada, private investment increased slightly, and there was also some rise in government expenditure on goods and services. The balance of exports and imports showed a minor decrease. There was, moreover, some fall in the amount of revenue retained by the Government after deduction of subsidies and transfer payments. Thus the sum of private investment, the export-import balance and the budget deficit increased. Personal consumption rose in line with the additional demand thus generated, and gross national product and industrial production therefore also showed advances. The rise in productivity and the improvement in the supply of food resulted in a small increase in real wages.

In Italy, there was a rise in private and public investment, especially in residential building. The balance of exports and imports improved to some extent as a result of an increase in merchandise exports and of receipts from pilgrims. The increased consumer demand thus generated could be met because of a considerable improvement in agricultural supplies, especially of food. The gross national product increased significantly in the first half of 1950 when compared with the first half of 1949. The improvement in the food supply position, the reduction of import prices resulting from appreciation of the Italian currency in relation to other soft currencies and the considerable rise in industrial productivity contributed to a substantial increase in real wages.

In Belgium, private investment increased because of a rise in residential building, which was stimulated by government subsidies, and apparently also because of a shift from liquidation of inventories in the first half of 1949 to stable or even increasing inventories in the first half of 1950. Government expenditure on goods and services also increased somewhat. The balance of exports and imports deteriorated, primarily because of the considerable adverse change in terms of trade; but even with the elimination of this adverse change, the balance of the quantum of exports and of imports still showed a drop, owing to a greater rise in the volume of imports than in the volume of exports. The sum of private investment, government expenditure on goods and services and the balance of the quantum of exports and of imports was most likely maintained and may even have increased. The same appears to be true of the volume of consumption[39] and thus of the gross national product.[40]

The improvement in food supplies and the increase in productivity were reflected in a decline in the cost of living and in an increase in real wages. It should be noted in this connexion that import prices did not rise, but even fell slightly, because the depreciation of the Belgian franc in relation to the dollar was more than offset by its appreciation in relation to the soft currencies.

[38] The devaluation in relation to the dollar amounted to 8 per cent in Italy, 10 per cent in Canada, 12 per cent in Belgium and 22 per cent in France.

[39] As a result of a considerable deterioration in the terms of trade, the incomes generated by the sum of the non-consumption components in fact fell considerably because the balance of the values of exports and imports showed a much greater reduction than the balance of the quanta. However, since the change in the terms of trade resulted to a great extent from a considerable cut in steel export prices, the resulting fall in incomes involved mainly a reduction in profits, and it therefore probably had little effect on consumption.

[40] Owing to the fact that the separate deflation of imports and exports in this case yields significantly different results from those obtained by deflating all components of the gross national product by an index of consumer prices, it is the former variant which is employed here.

In France, it appears that private investment in fixed capital in the first half of 1950 was smaller than in the corresponding period of 1949.[41] On the other hand, there were offsetting or perhaps even more than offsetting increases in the balance of exports and imports and in government expenditure on goods and services. Consumption apparently diminished slightly, and the gross national product seems to have remained at approximately the same level. There was a rather substantial increase in consumer prices owing in part to the rise in import prices. Its effect was only partly counterbalanced by an increase in money wages so that real wages fell significantly as compared with the first half of 1949.

[41] It is difficult to determine to what extent this may have been due to the strikes in the steel industry and to what extent to a decline in demand for investment.

Chapter 2

CENTRALLY PLANNED ECONOMIES OF EASTERN EUROPE

Changes in Production, Consumption and Real Earnings

In the planned economies of eastern Europe, industrial production continued to increase in 1949 and in the first half of 1950. The rates of increase are shown in table 21. These are generally lower than the rates of increase from 1947 to 1948, chiefly because the part played by the rehabilitation of damaged plant and equipment in the increase in industrial production was much smaller in 1949 and 1950 than in 1948, and the same rate of increase in output required much greater investment in new plant and equipment than before.

Table 21. Indices of Industrial Production in Eastern European Countries, 1949 and 1950 (First half)

Country	*1949 (1948 = 100)*	*1950 First half (First half 1949 = 100)*
Bulgaria	130	123
Czechoslovakia	116	114
Hungary	142	141
Poland	123	125
Romania	140	135[a]
USSR	120	122
Yugoslavia	112	..

Source: Reports on the execution of national economic plans and other official publications.

[a] Second quarter of 1950 compared with second quarter of 1949.

The notable differences among the rates of increase in various eastern European countries are accounted for by differences in the starting levels and in the degree of recovery previously achieved by the individual countries. While in Czechoslovakia, which suffered much less from war damage than most other countries, the rehabilitation of existing plant and equipment was achieved at an earlier date, in Poland reconstruction played an important role even in 1949, and in the Union of Soviet Socialist Republics the territory occupied by the Germans during the war was rehabilitated only in the second half of 1949. In all countries in this group the rate of increase was generally higher in the output of heavy industry than of light industry—reflecting the stress on heavy industry in government plans.

The increase in industrial production was associated with a substantial rise in both employment and productivity. The rise in industrial employment, indicated in table 22, involved a continued flow of the farm population to industry as well as an increase in the proportion of women employed in industry. The relatively high level of unemployment which existed in Hungary until 1949 as a result of inadequate productive facilities was reported as practically eliminated in 1949.

The increase in industrial production in 1949 was accompanied by an increase in agricultural output, except in Yugoslavia.[1] The output of

[1] The decline in agricultural output in Yugoslavia in 1949 was minor, but in 1950 there was a drastic reduction in the harvest as a result of drought.

Table 22. Indices of Industrial Employment in Eastern European Countries, 1949 and 1950 (Second quarter)

Country	*1949 (1948 = 100)*	*1950 Second quarter (Second quarter 1949 = 100)*
Bulgaria	..	114
Czechoslovakia	105	..
Hungary	120[a]	115
Poland	116	..
Romania	123[b]	118
USSR	105[b]	108

Source: Reports on the execution of national economic plans and other official publications; second quarter of 1950: United Nations, *Economic Bulletin for Europe*, vol. 2, No. 2.

[a] First half of 1949 in relation to first half of 1948.

[b] Total wage and salary earners.

grains increased 9 per cent in the Union of Soviet Socialist Republics, 5 per cent in Poland and 16 per cent in Czechoslovakia. There was also a considerable increase in the output of livestock products and of crops for industrial use. The rise in agricultural output in 1949 was accounted for by favourable weather conditions and by the increase in acreage, the supply of fertilizers and the availability of tractors and other farm machinery.

The increase in industrial and agricultural output resulted in a substantial rise in the supply of consumer goods. In Poland and the Union of Soviet Socialist Republics, for which over-all data are available on the volume of sales of food and of industrial consumption goods, the increase was of the order of 20 per cent between 1948 and 1949.[2] The improvement in the supply of consumer goods was the primary factor in the increases in real wages in all countries under review and in the gradual derationing in Czechoslovakia and Hungary.

A contributing factor in these developments was the introduction of measures to restrict private demand. In all the countries (except the USSR) a significant share of income was derived from private enterprises, and the pressure of demand upon supply was reduced in 1949 through a reduction of such income by a variety of measures. These included control of private profit margins, higher rates and stricter measures of taxation and the continuing replacement of private industry and trade by co-operatives and government shops.

To the extent to which rationing still existed in 1949 in some countries (Czechoslovakia, Hungary and Yugoslavia), other measures, such as the use of additional supplies to introduce or extend free sales of consumer goods in government stores, also contributed to a decrease in the pressure of demand. The dual system of prices in government trade served to divert to government stores, from black markets and free farm markets, a part of the income of higher paid workers, salaried employees, professionals, farmers and traders, thereby reducing private profits and the effect of such profits on over-all demand.

In the Union of Soviet Socialist Republics, the prices of consumer goods in government stores were considerably reduced in the first quarter of 1949; this price reduction was followed by a decline in prices in co-operative stores and collective farm markets.[3] Together with some rise in money wages, these price reductions resulted in a 12 per cent increase in real wages, compared with 1948. In the first quarter of 1950 the retail prices of consumer goods in government stores were again reduced—by 21 per cent on the average.

Poland was the only country in eastern Europe in which retail prices increased in 1949; the cost of living index rose 4 per cent from 1948 to 1949. The increase for labour employed in the government sector was much higher than is indicated by the cost of living index based on prices of non-rationed goods, because of the abolition of rations which had previously been distributed at prices very much below non-ration levels. The effect of derationing on real wages was, however, compensated by corresponding wage increases. In addition, a readjustment of the wages of lower paid employees took place in the beginning of 1949 and resulted in a substantial increase in money wage rates.

A considerable rise in investment was the major factor in the increase in the pressure of demand upon available supplies of consumption goods. This pressure was chiefly concentrated on meat, the demand for which had increased in relation to other consumer goods, as compared with pre-war levels, because of a more equal distribution of income. Priority purchases of meat were introduced in 1949, and prices of meat were increased in the beginning of 1950.[4] The effect of

[2] In the Union of Soviet Socialist Republics, this estimate relates to the volume of sales in government stores and co-operatives, but is roughly representative of the increase in total sales because it is unlikely that any significant change occurred in the ratio of sales by government and co-operative stores to sales in collective farm markets.

[3] The collective farms are required to deliver assigned quotas of farm products to the Government, but are permitted to sell the remainder of the output to trade co-operatives and in local markets at free market prices. Goods produced on individual holdings of members of collective farms are also sold in local markets.

[4] Textile prices were also raised, but this increase was designed to restrain the consumption of goods involving the use of foreign raw materials in order to conserve scarce foreign exchange.

this increase on the cost of living was offset by an increase in wages and salaries.

Inflationary pressures continued into 1950, and in October 1950 the Government undertook a monetary reform which involved the cancellation of two-thirds of the purchasing power of the notes in circulation. The reform was brought about by the exchange of old zloty notes for new zlotys at the rate of 100 to 1, while prices, wages, taxes and other legal transactions were revalued at the rate of 100 to 3. Savings bank deposits and, up to a certain limit, other bank deposits were also revalued at 100 to 3.

In Czechoslovakia, the introduction of free sales in government stores at prices considerably above ration prices was followed during the second half of 1949 by repeated reductions in such prices. After the 1949/50 harvest, bread, flour, pastry and potatoes were released from rationing. The price of bread remained unchanged while prices of flour and potatoes were increased, but the increases were compensated by a rise in family allowances. The rise in real wages was essentially due to the sharp cuts in prices of non-rationed consumer goods during the second part of 1949 and in 1950.

In Hungary, the free sales of consumer goods were extended, and the scope of rationing was gradually reduced during 1949. At the end of the year, rationing of bread was abolished, and only flour remained rationed.[5]

In Yugoslavia, strict rationing was retained in 1948 and 1949 at relatively constant prices, but the prices on the free markets fell, and free sales in government stores were extended. However, in 1950 the situation deteriorated under the impact of a sharp decline in the harvest; consequently, free sales were reduced and rations curtailed.

[5] At the end of 1950 partial rationing of meat, fats, sugar and potatoes was introduced in Hungary.

The Economic Plans

During the period under review most of the eastern European countries completed their first post-war plans for reconstruction and embarked upon new long-term plans of economic development. Bulgaria, Czechoslovakia, Hungary and Poland started new five-year or six-year plans; in 1950 the Union of Soviet Socialist Republics entered the last year of its post-war plan; and the five-year plan of Yugoslavia was scheduled for completion in 1951. Romania, which in 1949 and 1950 operated on the basis of one-year plans, prepared a five-year plan to begin in 1951.

Except in the case of Czechoslovakia and Yugoslavia, the post-war plans were reported fulfilled, often ahead of schedule, and the original aims were exceeded. In Czechoslovakia the sharp fall in agricultural output in 1947 prevented the attainment of the targets for consumption, but the over-all industrial aims were achieved. In Yugoslavia the disruption of economic relations with other eastern European countries resulted in a scaling-down of the original plans.

The attainment of the planned targets resulted in considerable increases in industrial production as compared with the pre-war level (see table 23). In considering these figures, account should be taken of the fact that both Bulgaria and Yugoslavia had very little industry before the war; their high rates of increase therefore involve relatively small increments, measured in absolute terms. In the case of Poland, it should be noted that, before the war, the present territory of Poland had a much greater industrial potential than did the pre-war territory of Poland. This factor, which would tend to exaggerate the rate of growth based on pre-war Poland's production level was, how-

Table 23. Indices of Industrial Production in Eastern European Countries, 1949 Compared with Pre-war

(Base year = 100)

Country	*Base year*	*Index*
Bulgaria	1938	227
Czechoslovakia	1937	127
Hungary	1938	153
Poland	1938	177
USSR	1940	141
Yugoslavia	1939	288

Source: Figures from reports on fulfilment of plans in various countries; based on changes in gross value of output in constant prices or on changes in current value deflated by price indices.

ever, partly offset by war devastation of plant and equipment in the newly acquired territories. The rise in the index of the Union of Soviet Socialist Republics is also partly affected by the change in its territory but because of its volume of production, this factor is of minor importance.

The post-war increase in agricultural production was generally merely sufficient to eliminate the effects of war devastation. Farm output in 1949 was, in general, roughly at the pre-war level; in Czechoslovakia and Poland it was below pre-war levels on an aggregate basis but above pre-war on a per capita basis, owing to the sharp reduction in population.

The scope of central economic planning and of centralized economic direction has been expanded considerably since 1948 in the eastern European countries (aside from the USSR). This expansion has been associated with far-reaching structural changes. By the end of 1949 virtually all industrial production, foreign trade, wholesale trade and banking, and a considerable proportion of retail trade, had been nationalized.

The private sector of the economy which remained outside the range of direct planning included a relatively high but declining part of retail trade, handicrafts and agriculture. The agricultural co-operatives and government farms, which in the Union of Soviet Socialist Republics are the dominant form of agricultural production, represented only a very small proportion of output in the other eastern European countries, with the exception of Yugoslavia and Bulgaria where their share was of some importance. In the non-governmental sectors, planning consisted chiefly in setting up tentative targets, and the implementation of plans depended largely on indirect inducements. This was especially true of agriculture, where output was fostered and directed by price policies, including subsidies, and, in countries which had a system of compulsory deliveries at fixed prices, by free market sales of surpluses left after the fulfilment of quotas. The assurance that all agricultural surpluses would be purchased by government or co-operative agencies was an important factor in inducing farmers to expand their output.

The relative share of private non-planned investment in the total was sharply curtailed during this period, and the major part of total investment was financed by the budget revenue derived from the profits of the nationalized enterprises and from taxation.

Table 24 shows the targets of the new plans introduced in four of the eastern European countries during 1949 and 1950.

Table 24. Targets of Economic Plans Introduced in Four Eastern European Countries in 1949 and 1950

(In percentages)

Item	Bulgaria 1949 to 1953	Czechoslovakia 1949 to 1953	Hungary 1950 to 1954	Poland 1950 to 1955
Total percentage increase from last pre-plan year to end of plan:				
National income	85	48	63	112
Industrial production	119	57	86	158
Agricultural production	57	37	42	50
Industrial employment	38	18	..	60[a]
Industrial productivity	62	32	50	66
Per capita consumption	[b]	35	35	50–60
Yearly rate of increase:				
National income	13.1	8.2	10.3	13.4
Industrial production	17.0	9.4	13.2	17.1
Agricultural production	9.4	6.5	7.3	7.0
Industrial productivity	10.1	5.8	8.4	8.8

Source: National economic plans.

[a] Non-agricultural employment.

[b] Planned increase in per capita consumption: bread grains 18 per cent, meat 27 per cent, and fats 67 per cent; shoes 36 per cent.

The average yearly rate of increase in industrial production under the new plans will be lower than during the last year of the previous plans for reconstruction. In Poland the rate of increase, which was 23 per cent in 1949, is designed to average 17 per cent per year during the six-year plan for 1950 to 1955. The increase in Czechoslovakia, which in 1948 was 18 per cent, is scheduled to average 9.4 per cent per year during the five-year plan for 1949 to 1953. In industry, considerable stress is laid on investment goods industries, in particular, heavy metallurgy and engineering. In all plans the targets for industry substantially exceed the percentage increases in agriculture, and the relative share of agriculture in the national income is expected to be reduced considerably at the end of the plan periods. In agricultural output the emphasis is on animal production and on crops grown for industry, which are to be expanded at a much higher rate than grain output. All plans provide for large increases in per capita consumption.

The fulfilment of the plans for investment and consumption assumes a considerable increase in productivity and industrial employment. Since the completion of the post-war plans resulted not only in the elimination of industrial unemployment but in labour shortages, especially of skilled workers, the implementation of the new plans involves increased employment of women and further shifts of the agricultural population to industry. Such shifts are planned not only in countries with a high proportion of agricultural population but even in Czechoslovakia which is predominantly industrial.

The increase in agricultural output, despite a relative, or even absolute, decline in farm labour, assumes a considerable rise in productivity in agriculture. To achieve this, it is planned to increase the application of fertilizers and the use of tractors and farm machinery. The mechanization of agriculture is closely associated in the plans with a considerable extension of the co-operative sector.

Chapter 3

SELECTED COUNTRIES IN LATIN AMERICA AND THE FAR EAST

The group of countries whose domestic economic changes in the past two years are analysed in this section of the report includes Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Mexico, Peru, Uruguay and Venezuela in Latin America, and India, Pakistan and the Philippines in the Far East. While comprehensive national income statistics are not available for any of these countries, an attempt is made to give some general indication of the changes in their national economies in the period under review. The structure of the economies of the individual countries differs greatly, though they are predominantly agricultural in character, are exporters of primary agricultural or mineral products and, with some exceptions, are economically under-developed. The over-all economic changes which took place in these countries between 1948 and 1950 do not reveal a uniform pattern except for the fact that their levels of output tended to rise very slowly, if at all; in some of them, it appears, output has actually declined.

Agricultural and Industrial Production

Production of food grains in 1948/49[1] was larger than in 1947/48 in most of the countries discussed in this chapter. In spite of decreases in many countries in the output of cash crops,[2] such as vegetable fibres and sugar (in Cuba), total agricultural production in 1948/49 in most of the countries advanced about 5 to 10 per cent. The principal exceptions to this trend occurred in Argentina, where total agricultural output, especially the production of grain crops, declined sharply, and in Chile, Peru and India, where there was a smaller drop in production.

The changes in agricultural production in 1949/50 were more heterogeneous. Total agricultural output continued to increase in Brazil, Mexico, Uruguay and the Philippines, and to decrease in Argentina and Chile. India's total agricultural output rose, in contrast to the previous year's decline, while that of Pakistan fell, in contrast to the preceding year's rise. Details of the output of grains and other agricultural products in 1948/49 and 1949/50 are shown in table 25.

Manufacturing output in the first half of 1950 was higher than in the year 1948 in Chile, Colombia, Mexico, Venezuela and the Philippines; it was significantly lower, however, in Argentina, Bolivia, Brazil and India. The decline in production in Argentina and Bolivia was associated with severe restrictions in the import of raw materials as a result of an acute shortage of foreign exchange.

Output in the extractive industries in 1949 was lower than in 1948 in the principal mining and oil producing countries (Bolivia, Chile and Venezuela). While during the first half of 1950 the production of copper and tin (in Chile and Bolivia) continued to decline, the output of other non-ferrous metals and the production of oil (in Venezuela) were considerably higher than in the corresponding period of 1949.

A statistical summary of the available data on industrial production is given in table 26. These data are rather fragmentary, but the direction of

[1] The agricultural year relates to the period from 1 July to 30 June; most of the crops in these countries are harvested at about the turn of the calendar year. Consequently, production in 1948/49 becomes available mostly in the calendar year 1949.

[2] A notable exception, however, was the rise in the output of coffee in Brazil.

Table 25. Indices of Production of Certain Agricultural Commodities in Selected Countries of Latin America and the Far East, 1948/49 and 1949/50

(1947/48 or 1948 = 100)

Country and commodity	1948/49 or 1949	1949/50 or 1950
Argentina:		
Food grains	74	52
Meat	104	101
Wool	93	98[a]
Sunflower seed	117	69
Linseed	48	75
Bolivia:		
Food grains	105	
Brazil:		
Food grains	103	108
Sugar[b]	107	104
Coffee	110	109
Cotton	92	116
Cacao	82	108
Chile:		
Food grains	102	79
Colombia:		
Food grains	122	117
Coffee	100	94
Sugar[b]	131	158
Cuba:		
Food grains	110	82
Sugar (raw)	86	92
Tobacco	72	125
Mexico:		
Food grains	113	110
Meat	102	96
Coffee	96	107
Cotton	118	204
Henequen	105	90
Peru:		
Food grains	94	94
Sugar	99	98
Cotton	96	97
Uruguay:		
Food grains	108	94
Meat	125	..
Wool	96	108
Venezuela:		
Food grains	129	..
Coffee	148	165
India:		
Food grains	99	105
Sugar[c]	86	84
Ground-nuts	85	100
Cotton	85	96
Jute	152	188
Pakistan:		
Food grains	108	111
Cotton	91	114
Jute	84	49
Philippines:		
Food grains	106	116
Sugar (raw)	146	177
Abaca	74	66

Source: Food and Agriculture Organization of the United Nations, *Food and Agricultural Statistics*, latest available figures, except as follows: Argentina: Ministerio de Asuntos Técnicos, *Síntesis Estadística Mensual de la República Argentina*, October 1950; Brazil, 1948/49: *Anuario Estatistico do Brasil*, 1949; Uruguay: Ministerio de Ganadería y Agricultura, *Recopilación de la Estadística Agropecuaria del Uruguay* (Montevideo, 1950); India: Government of India, *Monthly Abstract of Statistics*, and, for some crops in 1949/50, also Ministry of Agriculture, *Agricultural Situation in India*.

Note: Figures for food grains include only wheat, maize and rice, except in the case of India, where all grains are included.

[a] Based on eight months, seasonally adjusted.
[b] Sugar-cane.
[c] Sugar-cane in raw sugar equivalents, including *gur*.

the changes in manufacturing and in mining in additional countries of this group can be seen in table 27.

Since agricultural and industrial output represents the major part of the gross national product of the countries under consideration, it is possible, after assigning appropriate weights to the individual sectors, to make rough estimates of the changes in the gross national product between 1948 and 1950 (see table 27). In order not to assign greater precision to these estimates than the underlying data warrant, table 27 indicates only whether the gross national product and its several components moved upward or downward.

The declines in gross national product which occurred in a number of countries were in general accompanied by a rise in industrial unemployment. In Argentina, however, where the decline in gross national product was due primarily to decreased output in agriculture, and where the small drop in industrial output was associated with a decline in average working hours, no significant unemployment appeared. In India, unemployment was particularly severe in the jute industry, where the output of the manufactured product declined because of the shortage of raw material resulting from the trade controversy with Pakistan.

Table 26. Indices of Industrial Production in Selected Countries of Latin America and the Far East, 1949 and 1950 (First half)

(1948 = 100)

Country and period		General	Extractive industries	Manufacturing industries	Employment in industry: Number employed	Employment in industry: Man-hours
Argentina:						
1949	Full year	97	97	96	99	98
1949[a]	First half	94	101	93.5	99.5	94
1950[a]	First half	95	96	94	97	93
Bolivia:						
1949	Full year		91.5[b]	85[c]		
1949	First half	. .	88[b]	. .		
1950	First half		83[b]			
Brazil:						
1949	Full year	103		. .	102	
1949	First half	108			103	
1950	First half	92			98	
Chile:						
1949	Full year	104[d]	87	104	103	102
1949	First half	102[d]	93	101		100
1950	First half	103[d]	79	102		97
Colombia:						
1949	Full year		125[e]			
1949	First half		124[e]			
1950	First half		133[e]			. .
Mexico:						
1949	Full year	107.5[f]	101	109.5	102	
1949	First half	105[f]	96	107		
1950	First half	113[f]	111	115.5		
Venezuela:						
1949	Full year		97.5[e]			
1949	First half		91.5[e]			
1950	First half		104[e]			
India:						
1949	Full year	97				. .
1949	First half	99	. .			. .
1950	First half	96		. .		. .
Philippines:						
1949	Full year		136	106		
1949	First half		. .			
1950	First half		. .	. .	. .	

Source: United Nations, *Monthly Bulletin of Statistics*, except as follows: Argentina: Dirección General del Servicio Estadístico Nacional, *Síntesis Estadística Mensual de la República Argentina* (Buenos Aires, October 1950); Brazil: Centro de Análise da Conjuntura Económica do Núcleo de Economia da Fundaçao Getúlio Vargas, *Conjuntura Económica* (Rio de Janeiro); Chile: Dirección General de Estadística, *Estadística Chilena* (Santiago); Mexico, employment figures: Secretaría de la Economía Nacional, Dirección General de Estadística, *Revista de Estadística* (Mexico, D.F.); Philippines: *Report of the Economic Survey Mission to the Philippines*, October 1950.

[a] First five months.
[b] Exports of tin.
[c] Production of textiles.
[d] Excluding mining and including building and electricity.
[e] Production of crude oil.
[f] Including mining.

Table 27. Direction of Changes in Real Gross National Product in Selected Countries of Latin America and the Far East, 1948 to 1950 (First half)

(Sign indicates direction of change)

Country	*Change from 1948 to 1949*				*Change from 1949, first half, to 1950, first half*			
	Agriculture	*Manufacturing*	*Mining*	*Total*	*Agriculture*	*Manufacturing*	*Mining*	*Total*
Argentina	—	—	—	—	—	0		—
Bolivia	+	—	—	—		—	—	
Brazil	+	+		+	+	—		0
Chile	—	+	—	—	—	0	—	—
Colombia	+	+	+	+	—	+	+	+
Cuba	—	—		—				
Mexico	+	+	+	+	+	+	+	+
Peru	—		+		0		+	
Uruguay	+				+			
Venezuela	+	+	—	+		+	+	
India	—	—		—	+	—		+
Pakistan	+				—			
Philippines	+	+	+	+	+	+	+	+

Source: United Nations Department of Economic Affairs.

Gross National Product and Inflationary Pressures[3]

Changes from 1948 to 1949

Compared with 1948, the balance of exports and imports of merchandise deteriorated in most countries, but improved slightly in the case of Mexico and Uruguay, and significantly in Colombia. Both the physical volume and the prices of exports were reduced in more than half of the countries for which data are available. This decline was generally due to a reduction in foreign demand, but in Argentina and Cuba it resulted largely from the fall in the output of cereals and sugar, respectively. Imports, with a few exceptions, were maintained at about the same level or were increased.

The changes in the export-import balances of merchandise furnish an approximation of the changes in the export-import balances of all goods and services.[4] In analysing the role of these changes in the gross national product it is necessary, however, to adjust the balances for the differential rates of exchange that exist in a number of countries and are in fact a form of duty or bounty.[5] In addition, the import figures have been adjusted by eliminating the imports of capital goods, in view of the fact that figures on total gross private investment were generally not available. Since it was not possible to estimate the changes in total investment but only in that part of investment which was produced at home, the

[3] In the computations which follow, all data relating to the gross national product are compared in real terms, by the use of the cost of living index for the deflation of money values.

[4] In the case of the Philippines, an important item in the balance of payments consists of United States disbursements in the islands, in the form of transfers and expenditures on goods and services. The changes in this item from 1948 to 1949 are accounted for in the computation of the first item (adjusted balance of exports and imports) in table 29.

[5] The foreign trade figures in national currency are recalculated in such cases at fixed rates of exchange, in order to avoid double counting of the profits of the national exchange institutes, which are usually included in the budgets of the respective countries as revenue items. A higher rate of exchange applied to some imports is equivalent to an import tax, while a lower rate is equivalent to a subsidy; the reverse is true of differential rates applied to exports.

Table 28. Foreign Trade of Selected Countries of Latin America and the Far East,[a] 1948 to 1950 (First half)

(In millions of national currencies, except when stated otherwise)

Country and currency unit	1948			1949			1949 First half			1950 First half		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
Argentina (peso)	5,542	6,190	—648	3,718	4,642	—924	1,715	2,258	—543	2,567	2,279	288
Brazil (cruzeiro)	21,697	20,984	713	20,152	20,648	—496	8,156	10,423	—2,267	9,097	7,966	1,131
Chile (peso)	1,596	1,301	295	1,437	1,475	—38	826	686	140	595	576	19
Colombia (peso)	505	589	—84	594	499	95	264	295	—31	301	286	15
Cuba[b] (peso)	710	527	183	578	451	127	281	243	38	290	238	52
Mexico (peso)	2,594	2,950	—356	3,395	3,524	—129	1,661	1,797	—136	1,463	1,864	—401
Peru[c] (sol)	1,056	1,091	—35	2,108	2,692	—584	873	1,264	—391	1,039	1,066	—27
Uruguay (United States dollar)	179	200	—21	192	185	7	92	87	5	102	90	12
Venezuela[b d] (bolívar)	3,740	2,298	1,442	3,360	2,241	1,119	1,555	1,263	292	1,830	814	966
India[e] (rupee)	4,284	4,859	—575	4,392	6,303	—1,911	1,977	3,462	—1,485	2,471	2,353	118
Philippines[b] (peso)	636	1,171	—535	508	1,137	—629	271	623	—352	284	385	—101

Source: United Nations, *Monthly Bulletin of Statistics.*

[a] Including silver bullion and specie and excluding gold bullion and specie, except when stated otherwise. Imports c.i.f., exports f.o.b., except when stated otherwise. Years are calendar years.

[b] Imports f.o.b.

[c] Including gold bullion and specie (negligible in imports).

[d] Annual export figures include petroleum valued by the "Oficina Técnica de Hidrocarburos"; comparable data not available for half-year figures.

[e] Excluding silver bullion and specie.

imports of capital goods had to be deducted from total imports of goods and services in estimating the changes in the export-import balance.[6] The unadjusted foreign trade figures for the countries under review are given in table 28. The directions of changes in the adjusted data on foreign trade are shown in line 1 of table 29.[7]

The directions of the changes in gross home-produced private investment, as estimated on the basis of available data for the consumption of steel and cement, indices of private construction and, whenever possible, also changes in inventories,[8] are given in line 2 of table 29. This item rose in half the countries shown in the table.

Between 1948 and 1949, public expenditures on goods and services increased in practically all countries under review (see line 3 in table 29). This increase was due in large part to the rise in public investment in development and other projects (e.g., in Brazil, India and the Philippines). In India, however, capital expenditures were sharply curtailed in the fourth quarter of 1949. In some countries there was also substantial government purchasing of export commodities to offset adverse conditions in the export markets. In Chile and Bolivia, the governments financed purchases of the tin and copper output of the so-called "small" mines.

[6] Since gross private investment equals home-produced private investment plus imports of capital goods, the sum of gross private investment and the export-import balance of all goods and services is equal to the sum of home-produced private investment and the export-import balance after the deduction of imports of capital goods from total imports.

[7] For India, the data have also been adjusted to take into account the landborne trade with Pakistan.

[8] Consumption of cement provides an indication of total construction activities, public as well as private, but in conjunction with the indices of private construction and public investment expenditures it may give a qualitative indication of private investment alone. The changes in inventories relate primarily to the accumulation and release of stocks of export goods, which account for a substantial part of private investment in the countries under consideration.

Table 29. Analysis of Changes in Gross National Product, in Real Terms, in Selected Countries of Latin America and the Far East,[a] from 1948 to 1949

(Sign indicates direction of change)

Item	*Argentina*	*Bolivia*	*Brazil*	*Chile*	*Colombia*	*Cuba*	*Mexico*	*Uruguay*	*India*	*Philippines*
(*1*) Adjusted balance of exports and imports	—	—	—	—	+	—	+	0	—	—
(*2*) Gross private home-produced investment	—?	—	+	0	+	—	+	+	—	+
(*3*) Government expenditure on goods and services	0	+	+	0	0	+	+	0	+	+
(*4*) Total non-consumption components	—	—	+	—	+	—	+	+	—	0
(*5*) Adjusted balance of exports and imports, gross private home-produced investment, and budget deficit	+	+	+	0	+	—	+	0	—	0
(*6*) Personal consumption	—	—	+	0	+?	0	+	+	—	+
(*7*) Gross national product (*4*)+(*6*)	—	—	+	—	+	—	+	+	—	+

Source: United Nations Department of Economic Affairs.

Note: Question mark indicates considerable margin of uncertainty as to direction of change.

[a] Pakistan, Peru and Venezuela have been omitted owing to the absence of relevant information.

Line 4 of table 29 summarizes the balance of changes in the non-consumption components of the real gross national product. In many countries the declines arising from the foreign trade sector were offset—though not always completely—by increased government expenditures, so that the effect of changes in foreign markets upon the domestic situation were counteracted by government activity.

In relating these expenditures to private income and thence to consumption, changes in the budget deficits rather than in government expenditures should be considered. There was an increase in budget deficits—or a reduction in budget surpluses—in most of the countries under review,[9] both because of increased government expenditures and because of loss of revenue owing to the drop in exports (in Argentina,[10] Bolivia and Chile).

Line 5 in table 29 gives the sum of changes in the balance of exports and imports, private investment and budget deficit. In most Latin American countries there appears to have been an increase in the sum of these items; in Chile and Uruguay the position was roughly unchanged, however, and in Cuba there was a decline. In India, consumption demand arising from this source fell, while in the Philippines it was about the same.

The changes in real private consumption are given in line 6 of table 29. These estimates were based on data relating to changes in the supply of food grains from both domestic production and imports (see table 30) and to changes in the supply of other foodstuffs and of major industrial consumption goods. In half of the countries, these movements are in the same direction as the changes in the sum of the balance of exports and imports, private investment and budget deficit (line 5 of table 29). Of these countries, Brazil, Colombia and Mexico showed an increase in consumption which was made possible by an improved food supply. In Chile consumption was unchanged. Consumption fell in India in line with the decline in the demand factors considered above; this decline occurred even though the food supply position did not deteriorate.[11] In the remaining countries the changes in consumption did not correspond to the changes in demand. In Argentina and Bolivia, owing to the inability to purchase adequate quantities of consumption goods and raw materials arising from the shortage of foreign exchange, consumption decreased despite the higher pressure of demand. In Cuba, the Philippines and Uruguay, on the other hand, the considerable improvement in the food supply, which was reflected in falling food prices, tended to sustain the level of consumption.

The movements of the gross national product in 1949, shown in the last line of table 29, reflect the net effect of the changes in the non-consumption components and in consumption. The direction of the changes in the gross national product coincides with that indicated in table 27, which is based on production data.

The changes in consumption in relation to movements in the sum of the export-import balance, private investment and budget deficit, described above, indicate that inflationary pressures increased in Argentina and Bolivia. These were associated with a decline in the gross national product, owing to the fact that consumption was

[9] Mexico was a notable exception, however, in that it shifted from a substantial budget deficit to a surplus.

[10] In Argentina, this loss of revenue was reflected in a drop in the profits of the government foreign trade monopoly (IAPI).

[11] The decline in output was somewhat more than offset by stepped-up government imports of food grains in the first three quarters of the year.

Table 30. Indices of Production and Supply of Food Grains in Selected Countries of Latin America and the Far East,[a] 1948/49

(1947/48 = 100)

Country	*Production of food grains*	*Supply of food grains*
Argentina	74	
Bolivia	105	104
Brazil	103	106
Chile	102	103
Colombia	122	117
Cuba	110	117
Mexico	113	111
Uruguay	108	
India	99	101
Philippines	106	106

Source: Publications of the Food and Agriculture Organization of the United Nations, and national statistics.

[a] Based on sum of unweighted tonnages of the food grains, wheat, maize and rice, except in India, where all grains are included. Total supply equals production plus net imports and does not allow for changes in stocks. Supply figures are not given for food surplus countries.

curtailed not as a result of a decline in demand but as a result of a deterioration in the supply position. Prices rose substantially in both countries (see table 31); in Argentina an important element in this increase was the elimination of most food subsidies in the course of the year.[12]

In Chile, while there was no change in inflationary pressures, the upward spiral of prices and wages continued. In Mexico the increase in prices was due mainly to the two substantial devaluations of its currency in mid-1948 and in mid-1949.

[12] The change in the farm price policy of the government foreign trade monopoly (IAPI) mitigated to some extent the decline in real incomes of farmers, caused by a drastic fall in grain crops. On the other hand, the elimination of food subsidies in the course of 1949 affected unfavourably the level of real wages of labour.

Table 31. Indices of Cost of Living and Food Prices in Certain Countries of Latin America and the Far East, 1948 to 1950 (First half)

(1947 = 100)

Country	*1948*			*1949*			*1950*
	Full year	*First half*	*Second half*	*Full year*	*First half*	*Second half*	*First half*
Argentina:[a]							
General	113	..	..	149			176
Food	114	..	..	149	.	..	179
Bolivia:[b]							
General	105			116			124
Food	106	..	...	113			126
Brazil:[c]							
General	110	110	110	110	110	109	114
Food	114	115	113	110	110	109	116
Chile:[d]							
General	118	113	123	140	134	147	153
Food	116	111	122	134	128	139	144
Colombia:[e]							
General	116	113	119	124	124	124	139
Food	115	112	117	119	120	118	136
Cuba:							
Food	109	110	108	94	96	92	89
Mexico:[f]							
General	106	104	108	112	110	114	116
Food	105	103	108	110	108	112	112
Peru:[g]							
General	131	128	134	151	143	158	166
Food	134	132	136	156	147	165	176
Uruguay:[h]							
General	102	101	103	107	109	104	102
Food	98	99	97	98	102	94	89
Venezuela:[i]							
Food	121	121	121	118	117	119	116
India:[j]							
General	109	103	114	110	110	110	110
Food	101	96	106	106	104	108	108
Philippines:[k]							
General	94	94	95	89	90	87	85
Food	93	92	94	86	88	85	79

Source: Statistical Office of the United Nations.
[a] Buenos Aires.
[b] La Paz.
[c] São Paulo.
[d] Santiago.
[e] Bogotá.
[f] Mexico City.
[g] Lima.
[h] Montevideo.
[i] Caracas.
[j] Bombay.
[k] Manila.

In the Philippines there was a reduction in inflationary pressure combined with an increase in the gross national product which reflected an improvement in the food supply position.[13] In Cuba the decline in the gross national product was deflationary in character. In both cases there was a significant fall in food prices from 1948 to 1949.

In India the decline in the gross national product was associated with a fall in total consumption even though the supply of food improved slightly. Prices of food as represented in the Bombay index did not show a decline because this index represents controlled prices of rationed food. There was, however, an extension of rationing to a larger part of the population.

Changes from first half of 1949 to first half of 1950

The balance of exports and imports of merchandise improved in the first half of 1950 as compared with the first half of 1949 in all countries under review, except in Chile and Mexico (see table 28). In all countries except Bolivia, Chile and Mexico there was a rise in the value of exports.[14] In most instances the increase was due to a higher quantum of exports; in some instances, to the increase in export prices, notably of wool and coffee. On the other hand, imports declined in all countries except Argentina, Mexico and Uruguay, where they increased slightly. The decline in imports continued the trend of the second half of 1949, when the tightening import restrictions during the year in most of the countries under review began to exert their effect. Improvements in export-import balances reversed the direction of changes from 1948 to 1949. The adjusted balances of exports and imports of goods and services moved in the same direction as did the unadjusted balances of exports and imports of merchandise.

Private investment in fixed capital and inventories seems to have increased from the first half of 1949 to the first half of 1950 in all countries considered here, except in Brazil, where there was a substantial drop in residential building.

In most Latin American countries government expenditures on goods and services increased. Development expenditures under the various national plans played a prominent role in this increase. Since government revenues generally failed to keep pace with increased expenditures, budget deficits rose in most of the countries under review.

Among the Far Eastern countries, India recorded a sharp decline in expenditures as a result of the fiscal retrenchment policy pursued by the Government after the autumn of 1949. In spite of a decline in revenue, the budget deficit of the first half of 1950 was substantially lower than in the corresponding period of 1949. In the Philippines, government expenditures rose substantially above 1949 and resulted in a higher budget deficit, since there was a simultaneous drop in revenue.

Despite the increase in demand for consumption goods generated by the rise in the sum of the export-import balance, private investment and budget deficit, the volume of consumption in some instances remained stable or even declined (see table 32). This was primarily due to the food supply position, but in Argentina and Bolivia, continuing difficulties in the foreign exchange position resulting from declines in exports affected all supplies dependent on imports.

As a result of the above changes, the gross national product increased in most of the countries, but declined in Argentina, Bolivia and Chile. These changes in the gross national product are shown in table 32. In Brazil, this estimate of the gross national product, based on the money value deflated by the cost of living, shows a rise, while the estimated gross national product based on production data, given in table 27, shows no change. The difference is largely accounted for by the very steep increase in the export price of coffee in relation to home prices, which raised the value of the gross national product significantly, even in terms of constant consumer prices, but was not of course reflected in the physical volume of production.

The fact that consumption did not rise in line with the increased pressure of demand in a num-

[13] The improvement from the end of the war through 1949 was not sufficient, however, to raise per capita food consumption to the pre-war level.

[14] The fall in exports from Bolivia and Chile was due to reduction in the volume of exports of tin and copper, respectively.

ber of countries resulted in increased inflationary pressures. In Latin America this was particularly true of Argentina, Bolivia and Colombia, where it was reflected in substantial increases in the cost of living (see table 31). One element in these price increases was the adjustment of foreign exchange rates, which resulted in higher import prices. In India consumption also failed to rise with the rise in effective demand, but the index of the cost of living in Bombay showed no increase. This index, however, is not sufficiently representative of the cost of living in India. A significant price development in India was the increase of 25 per cent in the wholesale prices of food other than grains.

In Brazil, the cost of living did not rise substantially, though the rise in consumption was small in relation to the rise in incomes. This is explained by the fact that most of the increase in income resulted from the steep rise in coffee export prices and accrued to coffee planters and export merchants, with the result that there was no comparable rise in the demand for mass consumption goods.

Table 32. Analysis of Changes in Gross National Product, in Real Terms, in Selected Countries of Latin America and the Far East, from 1949 (First half) to 1950 (First half)

(Sign indicates direction of change)

Item	*Argentina*	*Bolivia*	*Brazil*	*Chile*	*Colombia*	*Cuba*	*Mexico*	*Uruguay*	*India*	*Philippines*
(*1*) Total non-consumption components	+	+	+	—	+	0	0	+	+	+
(*2*) Adjusted balance of exports and imports, gross private home-produced investment, and budget deficit	+	+	+	0	+	0?	0	0	+	+
(*3*) Personal consumption	—	—	+	—	0	+	+	+	0	+
(*4*) Gross national product (*1*) + (*3*)	—	—	+	—	+	+	+	+	+	+

Source: United Nations Department of Economic Affairs.

Note: Attention is called to the inadequate statistical coverage for the first half of 1950 at the time of preparation of this report. Question mark indicates considerable margin of uncertainty as to direction of change.

General Observations

The economic changes which took place between 1948 and the first half of 1950 in the under-developed countries discussed in this section show that the levels of their economic activity continue to be dependent, to a large extent, on fluctuations in their foreign trade and in their production of food.

Although the adverse developments in foreign trade in 1949 were largely counteracted, so far as total effective demand is concerned, by an increase in government expenditures and a tightening of import controls, they nevertheless led in some instances to balance of payments difficulties which made it impossible to maintain adequate imports of consumption goods and industrial raw materials. The result in such cases was a reduction in consumption and an increase in inflationary pressures.

The influence of the food supply position made itself felt by increased inflationary pressure in some areas in 1950. It should be noted that the supply of food may under certain circumstances also influence the consumption of industrial goods. This is true, for instance, when effective demand increases, as a result of a rise in the sum of the export-import balances, private investment and budget deficit, while the supply of food remains unchanged. The increase in money labour income is then bound to raise prices of food, with the result that the real value of the higher money incomes does not increase substantially. This is especially true in under-developed countries because a large proportion of additional labour incomes in such countries is, in view of the prevailing low levels of income, likely to be spent on food. Where the benefits of higher food prices accrue principally to small farmers, their demand for industrial consumer goods rises. This is not true, however, where the prevailing agrarian systems or the agricultural marketing and credit structures are such that the benefit of the higher prices accrues only to a limited extent to the large part of the agricultural population. The latter situation is in fact characteristic of a number of the under-developed countries under discussion. In such cases, the rise in food prices merely increases the incomes of groups which are not likely to spend a considerable proportion of the increment on home-produced consumer goods. The situation is similar even when the supply of food increases but falls considerably short of the increase in effective demand. It should be added that where the primary increase in income is due to the rise in export prices and is reflected largely in profits, as was the case with Brazilian coffee in 1950, there is no material increase in consumer demand, either for food or for industrial mass consumption goods.

While the lack of productive equipment in the under-developed countries is the basic cause of the under-employment of their man-power, the trends of 1949 and 1950 show that they are also subject to the problems of industrial unemployment. Thus, during this period Bolivia, Chile, Cuba and India experienced significant industrial unemployment as a result of a weakening of effective demand or of an inadequate supply of raw materials.

Chapter 4

GERMANY

A. *Western Germany*

The industrial production of western Germany increased considerably in 1949 as compared with the level reached in the second half of 1948 after the monetary reform of June 1948 (see table 33). There was a further increase in first half of 1950 when the 1936 level of output was reached.[1]

Table 33. Indices of Industrial Production[a] in Western Germany, 1948 (Second half) to 1950 (First half)

(1936 = 100)

Period	*Total*	*Investment goods*	*Producer goods[b]*	*Consumer goods*
1948:				
Second half	71	61	91	65
1949:				
Full year	89	82	107	80
First half	85	79	104	75
Second half	92	86	110	86
1950:				
First half	102	96	119	94

Source: Statistical Office of the Combined Economic Area, *Wirtschaft und Statistik*, 1949, 1950 (Stuttgart).

[a] Exclusive of food processing, building and stimulants. The index for 1948 refers to the United Kingdom and United States zones, while the indices for 1949 and 1950 cover the French, United Kingdom and United States zones. The index for the former during the first half of 1949 was, however, approximately the same as for the latter.

[b] Including coal-mining and production of gas, electricity and chemicals.

Crop production rose substantially in 1948/49 and, again in 1949/50 (see table 34). There was also a very material improvement in the output of animal products.

Table 34. Agricultural Production in Western Zones of Germany and the Saar, 1934-38 and 1947/48 to 1949/50

(In millions of metric tons)

Crop	*1934-38*	*1947/48*	*1948/49*	*1949/50*
Bread grains	5.65	3.25	3.71	5.99
Coarse grains	4.91	2.40	3.33	4.27
Potatoes	19.98	14.55	23.72	21.00
Sugar beets[a]	0.51		0.62	0.60

Source: United Nations, *Economic Survey of Europe in 1949;* Food and Agriculture Organization of the United Nations, *Food and Agricultural Statistics*, 1949, 1950.

[a] Sugar content.

In 1949 the real gross national product was approximately at the 1936 level, but in view of the 20 per cent increase in population since 1936, it was about one-sixth below the 1936 level on a per capita basis. Table 35 shows the gross national product and its components in 1949, together with the changes in real value which

Table 35. Changes in Gross National Product in Western Germany, from 1948 (Second half) to 1949 (Second half)

(In thousand millions of deutsche marks at 1949 prices)

Item	*1949*	*Change from 1948 (second half) to 1949 (second half)[a] Annual rate*
Non-consumption components	29.0	1.4
Gross private investment	19.6	0.8
Government expenditure on goods and services	12.0	1.2
Balance of exports and imports	—2.6	—0.6
Consumption	52.8	12.2
Gross national product	81.8	13.6

Source: Statistical Office of the Combined Economic Area, *Wirtschaft und Statistik*, July 1950.

[a] Derived from data for 1949 and for 1948-49 (covering the second half of 1948 and the first half of 1949).

[1] Industrial production rose sharply in the second half of 1950 and in October was 25 per cent above the 1936 level.

occurred between the second half of 1948 and the second half of 1949.

There were minor changes in the non-consumption components of the gross national product from the second half of 1948 to the second half of 1949 which resulted in a small net increase in their sum. It appears that net governmental revenue less transfer payments increased somewhat more in this period, so that the sum of private investment, the export-import balance and the budget deficit showed a small decline. Since consumption rose substantially, there was a significant increase of consumption in relation to incomes. In view of the fact that there was no change in the distribution of income in favour of lower income groups, this rise in the consumption ratio was probably due in large part to the existence of considerable pent-up demand among the upper income groups, especially for durable goods which were not available in sufficient quantities before 1949. In these circumstances, improvement in the supply of such goods from the second half of 1948 to the second half of 1949 tended to raise consumption in relation to incomes.

From the second half of 1949 to the first half of 1950, the main factor in the continued rise in economic activity appears to have been the considerable expansion of exports, which was associated with a relatively small increase in imports. There was also some rise in investment and in government expenditure on goods and services.

The rise in output in 1949 and 1950 was accompanied by increases in real industrial wages, which reflected both a significant advance in industrial productivity and a considerable improvement in the supply of food (see table 36). The level of total employment did not change substantially until the second quarter of 1950. The increase in industrial employment was relatively much smaller than the expansion in industrial production because of a rise in productivity[2] and in working hours, and even this increase in industrial employment was offset by a fall in employment in agriculture, forestry, commerce and office work. Since there was an increase in the labour force available for hire, the level of unemployment rose substantially (see table 37), though there was still considerable unused productive capacity in many industries, which could have been utilized, given a higher level of effective demand.

Over 50 per cent of the increase in the labour force from June 1948 to June 1949 resulted from net immigration and the return of war prisoners. The remainder was accounted for by the increased entry into the labour force of young people born during the period of rising birth rates in the nineteen thirties and by the release of manpower from the black market activities and small-scale enterprises which flourished during the period of inflation. The same factors also account for the rise in the labour force from June 1949 to June 1950, though the relative importance of these factors may have differed during this period.

[2] The index of industrial output per man-hour rose from 56.6 (1936 = 100) in June 1948 to 74.4 in June 1949 in the United Kingdom and United States zones. In December 1949, in western Germany as a whole, the index was 82.7 and in May 1950, 87.5.

Table 36. Indices of Prices and Wages in United Kingdom and United States Zones of Germany, 1949 and 1950 (First half)

(September 1948 = 100)

Period	Hourly earnings	Weekly earnings	Cost of living	Real hourly earnings	Real weekly earnings
1949:					
March	108	111	105	103	106
June	112	117	100	112	117
September	113	122	97	116	126
December	114	122	98	116	124
1950:					
March	115	124	96	120	129
June	117	129	95	123	136

Source: Statistical Office of the Combined Economic Area, *Wirtschaft und Statistik*, 1949, 1950.

Table 37. **Employment, Unemployment and Labour Force in Western Germany, 1948 to 1950 (First half)**

(In millions of wage and salary earners)

Period	Number employed in industry[a]	Total number employed	Number unemployed	Hired labour force	Number of unemployed as percentage of hired labour
United Kingdom and United States zones:					
1948:					
June	2.8	12.2	0.4	12.7	3.5
September	3.0	12.2	0.8	12.9	5.9
December	3.2	12.4	0.7	13.1	5.7
1949:					
March	3.3	12.1	1.1	13.2	8.6
June	3.3	12.1	1.2	13.4	9.3
September	3.4	12.2	1.3	13.5	9.4
December		12.1	1.5	13.6	10.9
Western Germany:					
1949:					
March	3.7	13.4	1.2	14.6	8.0
June	3.7	13.5	1.3	14.8	8.7
September	3.8	13.6	1.3	14.9	8.8
December	3.8	13.6	1.6	15.1	10.3
1950:					
March	3.8	13.3	1.9	15.2	12.2
June	4.0	13.8	1.5	15.4	10.0

Source: Statistical Office of the Combined Economic Area, *Wirtschaft und Statistik,* 1949, 1950.

[a] Wage earners in establishments employing more than ten workers, exclusive of public utilities and building.

After reaching a post-war peak in the first quarter of 1950, unemployment fell sharply during the second quarter of 1950 as a result of an increase in employment. In June 1950 unemployment amounted to 1.5 million, or 10 per cent of the labour force available for hire.[3]

[3] In September 1950 unemployment fell again to 1.3 million, or 8.2 per cent of the labour force available.

B. *Eastern Germany*

Industrial production in eastern Germany rose considerably from 1948 to 1949 and, again, in the first half of 1950, when the pre-war level of output was restored, as shown by the following indices (1936=100):[1]

	Index of industrial production
1948	70
1949	85
1950 First half	106

Crop production increased substantially in 1948/49 and remained roughly unchanged in 1949/50 (see table 38).

[1] Based on data furnished by the Ministry of Planning, quoted in *Die Wirtschaft,* 15 June 1950; also *Die Wirtschaft,* 13 October 1950.

Table 38. **Agricultural Production in Eastern Germany, 1934-38 and 1947/48 to 1949/50**

(In millions of metric tons)

Crop	1934-38	1947/48	1948/49	1949/50
Bread grains	3.63	1.90	2.94	2.95
Coarse grains	2.62	1.32	1.24	1.55
Potatoes	13.63	10.40	12.41	12.50
Sugar beets[a]	0.78	0.48	0.68	0.56

Source: Food and Agriculture Organization of the United Nations, *Food and Agricultural Statistics,* 1949, 1950; United Nations, *Economic Survey of Europe in 1949.*

[a] Sugar content.

The rise in industrial and agricultural production resulted in a significant improvement in the supply of consumer goods in 1949 as compared with 1948. In 1950 there was a further increase in consumption, especially of meat and fats. The per capita consumption of these items has remained, however, far below the pre-war level.[5]

The increased availability of consumer goods was reflected in the substantial rise in aggregate retail sales which, during the first quarter of 1950, rose by 33 per cent in real terms over the corresponding quarter of 1949. While the increased volume of consumer goods was the major factor in reducing inflationary pressures in 1949 and 1950, various other measures also tended to lessen the effective demand in relation to supply.

In June 1948 a considerable part of the liquid savings accumulated during the war and post-war period was eliminated by monetary reform. However, the large gap between consumer demand arising out of current income and the supply of rationed consumer goods persisted. A substantial part of income left after purchases of rationed goods flowed to the black market and to local free markets where farmers were permitted to sell part of their produce.

At the end of 1948 free sales of consumer goods were introduced in government stores at prices close to those of the black market. The introduction of free sales without a reduction in rationed supply was made possible by a substantial increase in the volume of goods purchased by government agencies as a result of the rise in agricultural and industrial production. The introduction of free sales reduced the scope of the black market considerably and cut deeply into black market profits.

In 1949 and 1950 the improvement in the supply position resulted in substantial increases in rations and in the volume of free sales. There was a steep decline in prices of non-rationed goods in government stores and in farmers' local free markets, which had previously been at very high levels. At the same time there were increases of from 6 to 25 per cent in the prices of rationed goods, with the exception of bread, macaroni, sugar and potatoes. The net effect of these changes, combined with rising average money wages, was to raise the real earnings of wage and salary earners substantially.

The increase in industrial production was associated in 1949 and 1950 with an increase in industrial employment and in average output per man. Unemployment rose substantially after the monetary reform in the middle of 1948 and reached its peak in March 1949. However, it declined considerably during the remaining nine months of the year, and in 1950 was reported virtually eliminated.

[5] According to the five-year plan, the per capita consumption of meat will reach the 80 per cent mark in 1952, and the pre-war level will be attained only in 1955.

Until 1949 the economy of eastern Germany did not operate under a general economic plan. Short-term plans set up at various periods were limited to particular industries and represented general forecasts combined with programmes of allocation of scarce resources.

In 1948 the nationalized enterprises, representing about 60 per cent of industrial production, were unified into a single organization *(Vereinigung der Volkseigenen Betriebe)*. Similar organizations were established for nationalized trade. A short-term plan of a more comprehensive character was drawn up for the second half of 1948, and the first two-year plan was adopted for 1949 and 1950. The two-year plan, which in many respects was similar to those of the planned economies of eastern European countries, was a comprehensive integrated plan for the entire economy, and it contained definite targets for each industry.

The dual character of the economy of eastern Germany, with its large private sector in industry, trade and agriculture, was reflected in the two-year plan and in its contemplated method of implementation. While the targets for the nationalized sector were compulsory and involved detailed plans of investment, output, employment, wages and productivity for individual enterprises, the plans for private industry represented general targets for entire industries and did not involve the administrative intervention of the planning authorities in the operation of individual enterprises. The co-ordination between the nationalized and the private sectors was established through contracts between the Government and private enterprises which were based on competitive bids that took into account prices, quality and delivery dates. Thus the private sector operated within the framework of the general plan but was not subject to direct administrative controls. The private sector was, however, influenced by the government tax policy, by the allocation of raw materials and, in the case of agriculture, by compulsory deliveries of agricultural supplies.

The general goal of the original two-year plan of reconstruction was to raise industrial production in 1950 to 95 per cent of the 1936 level. In 1949, this figure was revised to 103 per cent of pre-war levels, and the revised aim was exceeded in the first half of 1950.

In August 1950, a new five-year plan was prepared for 1951 to 1955. The general targets of the plan are a 90 per cent rise in industrial production, a 60 per cent increase in the productivity of labour and a 13 per cent rise in employment. It is planned to increase money wages 20 per cent, and to reduce the cost of living 28 per cent. The five-year plan provides for a considerable increase in total per capita consumption. The planned per capita food consumption in 1955 is slightly above that of 1936 and involves a drop in the consumption of cereals and potatoes and a considerable increase in the consumption of meat and milk products compared with 1950 levels.

Chapter 5

JAPAN

In spite of the monetary reform of March 1946, strong inflationary pressures continued to be felt in Japan from 1946 to 1948, mainly because large budget deficits continued and because the supply of essential consumer goods remained at a much lower level than before the war. The rationing system was merely partial, and was effective only for some essential commodities, such as rice. Most commodities were price controlled but, in general, not rationed; some commodities were legally sold at free prices. Owing to acute shortages of goods and to ineffective controls, there was a substantial black market in commodities subject to control; black market prices were several times higher than controlled prices. Throughout the period, prices—both controlled and black market—and wages rose continuously. The weighted index of official, free and black market consumer prices increased about fourfold from the middle of 1946 to the end of 1948.

In December 1948, an economic stabilization programme was adopted; this consisted of fiscal and monetary measures, such as the balancing of the budget by decreasing government subsidies and strengthening tax collections, the restriction of bank credit and the establishment of a single exchange rate for the yen.

According to official statistics, the index of manufacturing production in 1949 increased 37 per cent over the 1948 level. The index of mining production rose 15 per cent, but residential construction declined sharply. The combined index for manufacturing production, mining and construction, which is weighted by the number of employees in the three industries in 1948, increased 26 per cent in 1949 (see table 39).

The increase in manufacturing production recorded in the official statistics is, however, likely to overstate the actual change in the physical volume of production from 1948 to 1949 because of the large-scale black market activities in industrial products which flourished in Japan during 1948. These products were probably not reflected in the official index of production for 1948. Since black market transactions in industrial products diminished considerably in 1949, the increase from 1948 to 1949 shown in the official production figures is likely to represent, to a considerable extent, the coming into the open of previously unrecorded production. It should be noted in this connexion that the index of industrial consumption of coal increased very little from 1948 to 1949;[1] accordingly, the rise in industrial production in 1949 is not likely to have been large. Since industrial employment and average hours worked declined from 1948 to 1949, such

[1] Even though some discrepancy between the two indices is normal because industrial consumption of coal changes to a lesser degree than the index of manufacturing production, the discrepancy in movement from 1948 to 1949 is unusually large. This is evident especially when the size of the discrepancy is compared with that from 1949 to the first half of 1950: from 1948 to 1949, the index of industrial consumption of coal (coal delivery to domestic industries, adjusted for changes in stocks) rose 3 per cent, and the official index of manufacturing production 37 per cent; from 1949 to the first half of 1950, the change in the former was 10 per cent and in the latter 12 per cent.

Table 39. Indices of Manufacturing, Mining and Building Production in Japan, 1949 and 1950 (First half)

(1948 = 100)

Period	*Manufacturing*	*Mining*	*Residential construction*[a]	*Total industrial production*[b]
1949 Full year	137	116	82	126
1949 First half	131	113	99	124
1950 First half	153	117	59	135

Source: Supreme Command for the Allied Powers, *Japanese Economic Statistics* (Tokyo).

[a] Average of floor area of residential units started and completed.

[b] Weighted by the number employed in 1948 in the three branches.

increased production as did take place was due entirely to increased output per worker. There was some increase in visible unemployment, but its level was still very low in relation to the labour force (see table 40).

Table 40. Employment and Unemployment in Japan, 1948 to 1950 (First half)

Period	*Index of industrial employment*[a] *(1948 = 100)*	*Visible unemployment (thousands of persons)*	*Ratio of visible unemployment to total labour force (per cent)*
1948	100	243	0.7
1949 Full year	97	382	1.0
1949 First half	96	397	1.1
1950 First half	98	448	1.2

Source: Supreme Command for the Allied Powers, *Japanese Economic Statistics.*

[a] Manufacturing, mining and construction workers.

Indices of food production from 1947/48 to 1949/50 are given in table 41. The production of all staple food crops in 1948/49 surpassed that in 1947/48; moreover, the output of fishery products increased substantially. The higher production of 1948/49, in addition to increased food imports, led to a significant improvement in the food supply during 1949. In 1949/50, the output of fishery products as well as all major crops except potatoes increased further.

Table 41. Indices of Production of Staple Foodstuffs in Japan, 1948/49 and 1949/50

(1947/48 = 100)

Item	*1948/1949*	*1949/50*
Rice	106	112
Barley and wheat	123	142
Potatoes[a]	130	123
Fishery products	115	153

Source: Japanese Ministry of Finance, *Statistical Abstract of Japanese Economy*, 1950 (Tokyo).

[a] Including white potatoes and sweet potatoes.

The increases in industrial and agricultural production from 1948 to 1949 appear to have led to a small rise in Japan's real gross national product. The changes from 1948 to 1949 in the components of the real gross national product may be summarized as follows. Government expenditure on goods and services in real terms[2] may have increased somewhat. Gross private investment in plant and equipment declined appreciably, as did residential construction, but these declines were probably offset by the sharp increase in investment in inventories. The quantum of exports rose more than that of imports, with the result that the balance improved somewhat.[3] It thus seems that the sum of the non-consumption components of the real gross national product increased slightly from 1948 to 1949. As is shown in table 42, the level of real consumption expenditure by urban families rose somewhat from 1948 to 1949. Since consumption by rural families appears to have fallen, total national consumption probably remained at about the same level.

Table 42. Indices of Consumption Expenditure of Urban Families in Japan, 1949 and 1950 (First half)

(1948 = 100)

Period	*Consumption expenditure in current prices*		*Consumption expenditure at constant prices*	
	Food	*Total*	*Food*	*Total*
1949	135	135	107	103
1949 First half	127	128	100	97
1950 First half	124	130	110	105

Source: Calculated from data in *Japanese Economic Statistics,* issued by the Supreme Command for the Allied Powers.

The stability in total consumption was the result of conflicting influences. The small increase in non-consumption expenditures from 1948 to 1949 was accompanied by a sharp increase in tax revenues and a reduction in subsidies following the fiscal reform. Thus considerable deflationary pressure was exerted. Moreover, the establishment of a single exchange rate for the yen led to a substantial increase in the yen prices of imports in relation to those of exports and, though the import balance in terms of quantum fell somewhat, the import balance in terms of yen

[2] Deflated by the index of effective consumer prices.

[3] Reliable data for the quantum and price of Japanese trade are not available. However, since foreign trade dollar prices in the main Japanese importing and exporting markets remained fairly stable from 1948 to 1949, the approximate magnitude of the changes in the quantum of Japanese imports and exports is reflected in the changes in the dollar value of trade (see table 43).

Table 43. Value of Imports, Exports and Balance of Trade of Japan, 1948 to 1950 (First half)

Item	1948	1949	1949 First half	1950 First half
In thousand millions of Japanese yen:				
Exports	52.0	169.3	82.7	116.8
Imports	60.3	284.5	93.0	166.2
Balance	—8.3	—115.2	—10.3	—49.4
In thousand millions of United States dollars:				
Exports	0.26	0.51	0.26	0.32
Imports	0.68	0.90	0.50	0.48
Balance	—0.42	—0.39	—0.24	—0.16

Source: Japanese Ministry of Finance, *Statistical Abstract of Japanese Economy,* 1950; United Nations, *Monthly Bulletin of Statistics.*

increased considerably (see table 43). This factor, which is equivalent to a reduction in bounties or an increase in duties, also contributed to a reduction in demand for consumption goods. The major factor which none the less sustained the level of consumption in 1949 was the increased food supply.

While the consumption of non-food items, in real terms, decreased, the food consumption of urban families increased 7 per cent, as is indicated in table 42; this increase was made possible by the fact that, though the prices of rationed food were raised by the withdrawal of government subsidies, food rations were increased and food prices in the free and black markets declined sharply in relation to spendable income of mass consumers. The result was that from 1948 to 1949 the average price paid by consumers for food rose, on balance, less than their spendable income.

From the first half of 1949 to the first half of 1950, manufacturing production increased 17 per cent and mining production 4 per cent, as is shown in table 39,[4] but construction continued its downward trend and dropped 40 per cent. The combined index of manufacturing, mining and construction increased about 9 per cent. Industrial employment (including employment in construction) rose only slightly, however, because of a further increase in output per man. Visible unemployment, though higher than in the first half of 1949, remained low in relation to the labour force.

The rise in industrial production, together with the increase in agricultural output in 1949/50 (see table 41), led to an increase in the real gross national product in the first half of 1950 as compared with the first half of 1949. The following changes in the components of the gross national product account for this increase. Government expenditure on goods and services increased substantially in real terms. Private investment in plant and equipment seems to have increased, mainly as a result of the release of counterpart funds towards the end of 1949. Residential construction, however, continued to decline; the accumulation of inventories was much slower and in many cases changed to liquidation. The quantum balance of exports and imports improved as a result of an increase in the volume of exports. Finally, consumption by urban families increased significantly, and this was probably true of total consumption as well.[5]

[4] The combined index of manufacturing and mining in the first half of 1950 was 14 per cent below the average for the period 1932-36.

[5] Total consumption per urban family in the first half of 1950 was, however, still about one-fourth below the level of 1934-36.

Table 44. Indices of Prices in Japan, 1949 and 1950 (First half)

(1948 = 100)

Period	Official retail prices, Tokyo	Free and black market prices, consumer goods, Tokyo	"Effective" consumer prices[a] Tokyo Food	Tokyo Total	Urban Japan Food	Urban Japan Total
1949 Full year	162	106	118	125	126	132
1949 First half	158	111	123	129	128	132
1950 First half	154	74	107	117	114	123

Source: Supreme Command for the Allied Powers, *Japanese Economic Statistics;* Bank of Japan, *Financial Statistics Monthly* (Tokyo).

[a] Average prices of individual items on official, free and black markets, weighted according to quantities purchased in such markets.

The movement of prices in 1949 and the first half of 1950 is shown in table 44. As mentioned above, official prices increased sharply from 1948 to 1949 as a result of the withdrawal of subsidies; however, free and black market prices rose very little. The discrepancy between black market and official prices thus lessened considerably. The movement of the "effective" consumer price index, which represents combined official, free and black market prices, also reflects the relative increase in cheaper rationed supplies.

From the first half of 1949 to the first half of 1950 the official price index fell somewhat, and the index of free and black market prices dropped sharply. The discrepancy between black market and official prices thus continued to fall. The relatively small drop in the "effective" price index in relation to declines in the component indices is probably due to the increase in the weight of the more expensive free market supplies as a result of the gradual decontrol of many items.

Real wages of industrial workers in large enterprises increased substantially in the course of 1949 and the first half of 1950. While other categories of workers did not fare so well as industrial workers, the average real wages of all workers also appear to have increased during this period.

Chapter 6

CHINA

Although data are fragmentary, an attempt is made in this chapter to review major economic changes in China since 1949. The first section deals with the area governed by the National Government of China, the island of Taiwan, and the second with China proper[1] and the North-eastern Provinces (Manchuria).

[1] In lieu of an entirely satisfactory expression, the term "China proper" is used to refer to the mainland of China, excluding Tibet, Sinkiang, Inner Mongolia and the North-eastern Provinces (Manchuria).

Taiwan

In the first half of 1949, hyper-inflation continued in Taiwan; the cost of living in Taipeh rose tenfold from January to June. On 15 June, a monetary reform was introduced under which the old yuan was exchanged for a new yuan at the rate of 40,000 to 1, and the official exchange rate for United States notes was fixed at five new yuan to one United States dollar. The Bank of Taiwan was authorized to buy and sell gold in the open market at a price fixed by the Bank. The selling of gold by the Bank of Taiwan was the main factor in the subsequent overcoming of hyper-inflation, because the free sale of gold offered an alternative to the hoarding of commodities for the investment of liquid funds. However, in the second half of 1949 prices continued to rise, though on a much smaller scale than in the first half; from June 1949 to February 1950 wholesale prices increased 2.4 times.

		Index of wholesale prices in Taipeh
1949	15 June	100
1950	February	242
1950	July	247
1950	September	325

Source: Hsin Sheng Sheh, *Rejuvenated Taiwan* (Taipeh, 1951); *China Economist* (Taipeh).

The rise was the result of continuing large budget deficits in the administrative and military budgets; in the second half of 1949 only about 15 per cent of total government expenditure was covered by taxation.

From February to July 1950 wholesale prices (in Taipeh) were stable. The main factors which contributed to this stabilization were as follows: The Bank of Taiwan continued to sell gold at prices which were somewhat lower than in June 1949, though commodity prices, as mentioned above, were about 2.4 times as high as in that period. The administrative budget was approximately balanced as a result of the cuts in expenditures and the increases in taxes. The import surplus rose significantly, as compared with the second half of 1949, mainly as a result of supplies granted by the United States through the Economic Cooperation Administration. Finally, the supply of rice improved, owing to an increase of 15 per cent in production from 1949 to 1950. The latter factor was reflected in the fact that, while the price of rice changed more or less proportionately to the general price level from June 1949 to February 1950, it declined about 15 per cent in the period of price stabilization from February to July 1950.

After July 1950 prices again started to rise, and by September had increased about one-third. This was, at least in part, related to the increase in the selling price of gold by the Bank of Taiwan, which reflected the rapid depletion of its stock of gold.

The increase in the production of rice in 1950, mentioned above, was achieved partly at the expense of a reduction in the acreage of sugar-cane. However, because rice has a shorter growing period than sugar-cane, the effect on the harvest of rice appeared in 1950, while the sugar crop will be affected only in 1951. In 1949 a decree substantially reducing farm tenant rents was promulgated.

Changes in the industrial production of important commodities in Taiwan in 1949 and the first half of 1950 are shown in table 45.

Table 45. Indices of Industrial Production in Taiwan, 1949 and 1950 (First half)

(1948 = 100)

Commodity	*1949*	*1950 First half*[a]
Coal	92	69
Electricity	101	119
Sugar[b]	241	232
Cotton yarn	134	197
Cotton cloth	115	166
Salt	206	163
Kerosene	93	40
Soap	150	220
Paper	89	127
Fertilizer	120	119
Cement	124	139

Source: Min Tze Sheh, *Reconstruction in Taiwan* (Taipeh, 1950).

[a] Annual rate.
[b] Figures for crop years.

China Proper and North-eastern Provinces (Manchuria)[2]

The analysis below relates to developments in China proper and in the North-eastern Provinces (Manchuria) under the administration of the Central People's Government of the People's Republic of China.

General economic trends in China proper

The major economic problem at the beginning of 1949, when the new administration came to power, was the existing hyper-inflation. A comprehensive monetary reform was not introduced, but People's Bank currency was issued in the first half of 1949 to replace the old currency in circulation. The conversion rates varied from region to region and were reported to have been determined so as to reflect the difference in the degrees of inflation among the various regions.

Other anti-inflationary measures, however, were adopted. Large inventories of the National Government and privately hoarded goods were confiscated. At the same time, considerable private hoardings were liquidated in anticipation of a more rigorous new economic policy. Having gained control over the confiscated supplies, the authorities were in a position to centralize their distribution through government trading companies and to resort to large-scale dumping, and thereby to reduce and stabilize prices when scarcity caused prices in a particular area to rise sharply. Measures were also adopted to keep the real value of savings stable in terms of millet, rice or a "parity savings unit", and thus to avoid renewed hoarding. The parity unit in use in Shanghai consists of the market prices of 1.56 catties of medium-grade rice, one foot of cloth, one ounce of ground-nut oil and one catty of coal briquettes; this is in fact a weighted cost of living index. The components of the parity savings unit vary in different cities to reflect local consumption habits, but in all cases they consist of the most essential consumer goods.

Bank loans to private industries were also converted into real terms in order to eliminate borrowing for speculation; the units used for conversion were the principal products of the particular industry concerned, or the parity unit.

There were in general no price controls for consumer goods, though profit margins were fixed and controlled. There was no attempt to regulate the demand for basic consumer goods by a comprehensive rationing system. Partial rationing of rice was adopted in certain large cities where point rations were given only to industrial workers and government employees; its general purpose was to guarantee the minimum consump-

[2] The inclusion of this economic study is of course not intended to have and should not be construed as having any implications regarding the question of representation of China in the United Nations.

tion requirements for these groups rather than to restrict demand, since purchase of additional amounts in the open market was permitted.

The liquidation of hoarded goods, and with it the centralized distribution of supplies, were major factors in bringing about an approximate stability of prices between July and October 1949. After the exhaustion of government-held stocks, there began a period of sharply rising prices because the basic inflationary pressures, which were due mainly to the low levels of supply coupled with a considerable budget deficit, made themselves felt (see table 46). Industrial production was at a low ebb owing to difficulties in getting replacements for machine parts, insufficient supplies of fuel and power and lack of raw materials. Until March 1950, as shown in table 47, the number of factories in operation in different industries in Shanghai was very small; moreover, many factories were operating below capacity. Food supplies also decreased considerably, and imports of food, which normally supplied a large proportion of the requirements of large cities, ceased completely. The yield of the summer crops[3] in 1949 varied widely among different regions, as a result of drought, flood and the spread of warfare; the total harvest (excluding that of Manchuria) was estimated at about 10 per cent below the level of the previous year.

The low level of industrial and food supplies was associated with relatively high levels of budget deficit and of private investment. It has been reported that total government revenues during this period were still only about 40 per cent of total government expenditures, which were maintained at high levels for both public investment and military purposes. Private investment also continued at a relatively high level for purposes of reconstruction and was financed by liberal bank credits.

The period of sharply rising prices lasted until March 1950; during this period, the price indices of the parity savings units in large cities rose about sevenfold, as shown in table 46. This increase was accompanied by some decline in real wages in spite of the policy of pegging money wages to the cost of living.

[3] There are generally two harvests in a year. The summer crop, which comes in September, consists mainly of rice, while the winter crop in March consists mainly of wheat and barley.

Table 46. Price indices of "Parity Savings Unit"[a] in China, 1949 and 1950 (Nine Months)

(January 1950 = 100)

Year and month	*Shanghai*	*Nanking*	*Hankow*	*Tientsin*	*Canton*[b]
1949:					
June	9		..	..	
July	19		..	..	
August	21	..	..	..	
September	20	20	21	22	
October	21	17	22	24	
November	50	43	46	67	
December	72	62	75	81	
1950:					
January	100	100	100	100	100
February	146	134	154	134	168
March	157	144	172	167	231
April	143	123	130	150	170
May	136	115	130	140	152
June	132	113	130	137	144
July	130	115	127	131	149
August	130	115	125	129	139
September	126	113	120	129	133

Source: Ta Kung Pao (Shanghai).
[a] Data for Nanking, Hankow and Tientsin sometimes based on less than a full month.
[b] Canton came under the control of the present government at the end of 1949.

Table 47. Number of Factories in Operation in Shanghai, by Industry, 1949 (Second half) and 1950 (First quarter)

(In percentage of total in existence in July 1949)

Type of factory or product	1949 July	1949 September	1949 December	1950 January to March[a]
Producing investment goods:				
Building materials	11	57	43	
Machinery	20	89	91	..
Steel refinery	41	60	87	80
Iron works	20	98	90	..
Chemicals (including dyes)	30	58	61	41
Producing consumer goods:				
Silk weaving	..	78	78	36
Cotton weaving	20	50	101	86
Wool weaving	91	93	89	41
Apparel	64	44	..	..
Towels and sheets	71	53	64	49
Knitted hosiery	40	67	60	
Machine printing and dyeing	30	80	68	30
Toothbrushes	50	80	..	..
Enamelware	55	58	60	40
Hide tanning	68	83	..	
Wheat flour mill	40	57	47	
Oil (edible) mill	87	93	81	
Cigarettes		40	91	

Source: Ta Kung Pao.

[a] The figures for January to March 1950 are published in the original as indices on the base of December 1949.

After March 1950 consumer prices declined and real wages rose. The most important single factor responsible for the decline in over-all inflationary pressures was the considerable improvement in the government budget. The budget estimate for 1950 anticipated that government revenues from taxes and profits of government enterprises would cover 81.3 per cent of government expenditures.[4] Revenues rose sharply owing to improvements in the efficiency of tax collections, increases in tax rates and rising profits of government enterprises. Moreover, as a result of a scheme for centralizing government finance, promulgated in 1950, drastic retrenchments were made in government expenditures. Of the deficit of 18.7 per cent, it was planned to finance 11.5 per cent by an increase in note issue and 7.2 per cent by an issue of long-term bonds. Since the bonds were to be sold mainly by means of government assignment to individuals and corporations, most of the receipts were in effect equivalent to an increase in taxation. In addition to the improvement in the budgetary position, bank credits for financing private investment were also restricted.[5]

A second major factor in the reduction of inflationary pressures was the improvement in the supply position of many individual consumer goods. As reflected in the industrial consumption of power, after the second quarter of 1950 industrial production in Shanghai recovered from the extremely low level of the first quarter. The production of cotton textiles in government-owned cotton mills in Shanghai[6] increased nearly 50 per cent from the first to the second quarter of 1950.[7] Food supplies also rose, since winter food crops harvested in 1950 were larger than in the corresponding period of 1949; the wheat harvest was reported about 15 per cent higher. Moreover, transportation difficulties which in the past had caused an uneven distribution of the supply of scarce consumption goods among different regions were generally eased by the restoration and improvement of railway communication in 1950. This factor, in turn, strengthened centralized distribution of supplies.

Institutional changes in China proper

The announced over-all objective of the economic policy of the new administration has been to achieve a fully planned mixed economy of government ownership and private enterprise, with government dominance in major industrial and commercial activities. Immediately after its coming to power in China proper in early 1949, the new administration took action to change the institutional framework as a first step in a gradual evolution towards a fully planned economy. During a large part of 1949, however, this action was undertaken mainly in connexion with current

[4] The distribution of individual items in central government expenditures and revenues was as follows (in percentages): expenditures: military, 38.8; investment in government enterprise, 23.9; administration, 21.4; culture, education and health, 4.1; subsidy to local governments, 2.3; and contingency fund, 9.4. Revenue: land tax (in kind), 41.4; other tax revenue, 38.9; government enterprises, 17.1; public warehouses, 2.4; and others, 0.2.

[5] This factor, together with the closing down of inefficient plants, led to some increase in visible unemployment.

[6] Production by government-owned mills amounted to about three-fifths of the total production. There were indications that production by private firms showed a similar trend.

[7] *Cf. Economic Weekly* and *Ta Kung Pao.*

economic problems arising from hyper-inflation and the continuation of military activities. It was not until early 1950, after relative economic stability had been attained in most parts of China, that planning could play a more important role in government economic policy. To implement the policy, many economic measures which had previously been introduced to meet immediate needs were consolidated or modified, and the programme of institutional reforms was further intensified and broadened.

By the end of 1950, planning was still limited since a comprehensive programme for consumption, investment, distribution and production in individual industries had not been laid down. However, the institutional framework of the Chinese economy had undergone fundamental changes.

The government-owned sector of industry has become the keystone of economic planning. Not only have public utilities and heavy industries been nationalized, but, in many instances, government operation has been extended to light industries. In the nationalized sector, production is subject to direct governmental control, planning and co-ordination. No comprehensive system of direct controls has been imposed on the production of private firms whose activities are restricted to consumption goods industries, but profit margins in private industries are fixed and controlled. Moreover, an attempt is made to absorb the private sector of industry into the planning process through such indirect measures as the placing of orders, the allocation of raw materials and the granting of bank credits on a selective basis.

A system of centralized distribution has been established through the operation of a complex of government trading companies. These companies are operated in accordance with cost accounting principles, with emphasis on profit; since March 1950 they have begun to function on a nation-wide basis through regional branches and sub-branches. In the second half of 1950 there were six companies engaged in domestic trade in foodstuffs, cotton yarn and cloth, salt, coal and building materials, local products and general merchandise. Six other companies were engaged in foreign trade in hog bristles, fats and oils, tea, mineral products, exports of local products and general imports. The main functions of these companies were (*a*) to purchase in bulk directly from producers and to build up government stocks; (*b*) to facilitate the exchange of goods between urban and rural areas and to regulate the relationship between prices of industrial and agricultural products; (*c*) to regulate supplies of essential commodities among different cities in order to avoid violent price rises due to local conditions; (*d*) to operate government retail stores which sell essential commodities at low profit margins; and (*e*) in the case of the foreign trade companies, to control the composition of imports and to monopolize major exports.

An agrarian reform plan has introduced fundamental changes in agriculture although, owing to special local conditions, the reform has not been completely carried out for the whole country. In the second half of 1950 the gradation of reforms ranged from simple rent reduction in areas of southern and south-western China, through land redistribution in areas above the Yangtze, to collectives and government-owned farms in parts of north China. In areas such as north China, which have been under the control of the present authorities for some time, there are, roughly, three major categories that make up the rural economy: (*a*) private peasant holdings worked by individual farm families; (*b*) village co-operatives based on private ownership of land but with pooling by the farmers of labour, tools and livestock on a co-operative basis; and (*c*) government-owned farms operated with hired labour.

Broadly speaking, the trend has been towards the extension of co-operatives on the basis of private ownership rather than towards government-owned farms.

Land taxes were reduced during 1950. Regulations which came into effect in the second half of 1950 stipulated that the central government's share of the summer harvest would be curtailed to 13 per cent of the principal crops, and that additional grain taxes imposed by local governments could not exceed 15 per cent of the national rate. The tax is progressive and calls for a levy of 10 per cent on the physical output of "poor peasants", 15 per cent on "middle peasants", 25 per cent on "rich peasants", 50 per cent on "landlords" and

80 per cent on "special families" whose annual farm receipts exceed 6,000 bushels of grain.

Lastly, a network of co-operatives has been established on a national basis to provide a link between government companies and organized small private farmers and handicraftsmen. There are four general types of co-operative: supply and marketing co-operatives, consumers' co-operatives, credit co-operatives and producers' co-operatives. The benefits that are offered to farmers and handicraftsmen include preferential prices on government goods, wider credit and improved marketing facilities.

DEVELOPMENTS IN NORTH-EASTERN PROVINCES (MANCHURIA)

The economic situation of Manchuria during 1949 and 1950 differed from that of China proper in many respects. Partly owing to the earlier cessation of military operations, a comprehensive system of planning had been adopted in Manchuria by 1949.

The structure of Manchuria's economy underwent a more complete change than that of China proper. First, a land redistribution programme was fully carried out, and a few experimental collective farms were set up. Second, the role of the private sector in industry was reduced to a greater extent. In the second half of 1950, the private sector comprised only small workshops which, though numerous, were confined to finishing processes; even these workshops are being rapidly amalgamated into controlled co-operatives or are being merged with government undertakings. Third, government trading companies play a dominant role by supplying, on the average, 45 per cent of the total consumer demand; in some commodities, they control the entire trade. Consumer co-operatives are more fully organized than in China proper; during the first half of 1950, they handled at least one-fourth of the total retail trade.

The economic situation in Manchuria during 1949 was more stable than in the rest of the country; price increases were much smaller than in the rest of China. Total production nearly reached the planned target. In the field of industrial production (excluding munitions), output exceeded the plan by 4.5 per cent, but agricultural production fell short by 10 per cent. Industrial employment, productivity and real wages increased considerably.

The plan for 1950 aimed at an increase of industrial production by 93 per cent and of agricultural production by 37 per cent, as compared with 1949. This would bring industrial production to 57 per cent and agricultural production to 93 per cent of the 1943 level, which was a peak in Manchurian output. Industrial production in the first half of 1950 surpassed the planned objective.

Part II

CHANGES IN INTERNATIONAL TRADE AND PAYMENTS

Chapter 7

DEVELOPMENTS IN INTERNATIONAL TRADE

The Changing Pattern of Trade

World trade in 1949 and the first half of 1950 developed against a background in which the world's production of goods continued to increase. The further expansion of industrial and agricultural production, chiefly in Europe, provided larger exportable surpluses of foodstuffs, raw materials and, particularly, manufactures and at the same time reduced abnormal post-war import requirements, especially for foodstuffs. The deferred demand for goods had been satisfied in large measure by the end of 1948, and the foreign exchange reserves which supported this exceptional demand in many under-developed countries had shrunk.

There was a significant expansion in the volume of world trade from 1948 to 1949, and from the first half of 1949 to the corresponding period of 1950.[1] Table 48 shows the movement of the quantum of exports and imports between 1948 and 1950 for the world as a whole and separately for the United States, western Europe and the rest of the world. The quantum of world exports in 1949 was 9 per cent above that of 1948, the latter being the first year since the end of the war in which world trade reached the pre-war level of 1937; in the first half of 1950 it rose to a level about 13 per cent above that of both 1948 and 1937.[2]

The increase in world trade between 1948 and the first half of 1950, however, was the net result of sharply divergent movements in the trade of the United States and the rest of the world, particularly after the middle of 1949. The volume of United States exports in 1949 was very slightly higher than during the year before, when it was twice that of 1937, while the quantum of exports of western Europe[3] was nearly 20 per cent, and that of the rest of the world about 5 per cent, higher. Although the decline in United States exports after the middle of 1949 continued in the first half of 1950, larger United States imports contributed to the continuing recovery of the volume of exports of western Europe and the rest of the world, which reached pre-war levels in the latter period.

The increase in the quantum of the trade of countries other than the United States was mostly accounted for by western Europe, as may be seen from table 48. The principal area of expansion here was in the trade of the western European countries among themselves, but there was also a substantial increase in the oversea exports of western Europe, though it was of less striking pro-

[1] The present chapter discusses the changes in the volume, value and direction of international trade and their effects on the trade balances of various countries and regions. The manner in which international settlements were made during this period is covered in the next chapter. The impact of changes in the import or export balances of different countries or areas on their domestic economic situation has already been dealt with in part I of the report.

[2] As was to be expected, the dollar value of world trade at current rates of exchange showed a sharp drop after the currency devaluations of late 1949. When the exports of devaluing countries are expressed in dollars for purposes of international comparison and summation, and the conversion from national currencies is made at prevailing rates of exchange, the values provide, of course, even less indication than normally of the real movement of trade. The analysis of trade movements and patterns in this chapter are, so far as possible, based on values of trade in constant dollar prices (usually 1948 prices) or on quantum figures when they are available.

[3] The term "western Europe", as used in this and succeeding chapters, includes, unless otherwise stated, all countries which are members of the Organisation for European Economic Co-operation (OEEC) except the territory of Trieste; see appendix table XIV for list of these countries. The term "continental western Europe" is used to designate the same group of countries exclusive of the United Kingdom, Iceland and Ireland.

portions. There was, similarly, a considerable growth in the trade among countries of eastern Europe, in sharp contrast to the stagnation of trade between eastern and western Europe. The volume of the exports of the rest of the world, which is principally a supplier of primary commodities in international trade, has also continued to rise, though at a much slower pace than that of western Europe.

The unbalance in world trade during the post-war period, which has manifested itself predominantly in the persistence of deficits in the trade of virtually all regions of the world with the United States, was reduced to a very considerable extent by developments in trade after 1948. The abnormal post-war reliance by the world on imports from the United States declined sharply as virtually all areas of the world reduced their merchandise import surpluses with the United States. The Latin American countries[4] and the oversea sterling countries even succeeded in re-establishing their traditional merchandise export surpluses with the United States. This improvement began as early as the end of 1947 and was interrupted only temporarily in the first half of 1949. While the gap between the world's imports from and exports to the United States was narrowed during the latter half of 1949, largely by the tightening of restrictions against dollar imports, the further reduction of the United States export surplus in the first half of 1950 was a consequence of some further fall in exports but, more importantly, of the rise in the value of United States imports, as may be seen from table 49.

The basic factor in the mitigation of the unbalance of the trade of the world with the United States was the rise in agricultural and industrial production, which took place not only in western Europe, but also in several countries of the Far East and, to a limited extent, in other parts of the world as well. Thus, many countries were enabled to curtail imports from the United States without reducing domestic production, consumption or investment. This increase in production provided the basis for an expansion of the exchange of goods in the world outside the United States, which was more than sufficient to offset the downward trend in trade with the United States.[5]

[4] Exclusive of Non-Self-Governing Territories.

[5] The contraction of trade between the United States and the rest of the world and the expansion of trade in the world outside the United States were broadly paralleled in the movement of trade between hard and soft currency countries. Not only was there a fall in the total exports of the countries in the hard currency group but this decline was entirely in exports to soft currency countries. In contrast, the aggregate exports of the latter countries mounted rapidly between 1948 and 1950. Most of the rise was in trade with one another, but the quantum of their exports to the hard currency countries went up as well (see appendix table II).

Table 48. Indices of Quantum of Exports and Imports of World, United States, Western Europe and Rest of World, 1948 to 1950 (First half)

(1948 = 100)

Period	World	United States	Western Europe[a] Total	Western Europe[a] Intra-trade	Rest of world
Exports:					
1948	100	100	100	100	100
1949 First half	108	111	116	114	101
1949 Second half	109	93	123	127	108
1950 First half	113	88	140	147	108
Imports:					
1948	100	100	100	100	100
1949 First half	108	96	106	114	113
1949 Second half	109	99	109	127	111
1950 First half	113	111	116	147	111

Source: World estimates from United Nations, *Summary of World Trade Statistics*; United States data from United States Department of Commerce, *Summary of Foreign Commerce* (Washington, D.C.); data for western Europe from Economic Cooperation Administration, *Recovery Guides*, No. 16 (Washington, D.C., October 1950); quantum of trade of rest of world derived as a residual on the basis of proportion of weighted value in 1948.

[a] Countries in the Organisation for European Economic Co-operation.

Western Europe as a whole, by a considerable expansion of its oversea exports succeeded during the first half of 1949 in reducing materially its import balance with areas other than the United States,[6] as table 49 shows. The reduction was more than sufficient to offset the rise in its import balance with the United States, so that its over-all deficit fell. The over-all merchandise trade deficit of the rest of the world, on the other hand, increased sharply as its export surplus with western Europe contracted while its import surplus with the United States increased. After the middle of 1949, however, a severe curtailment of imports together with increases in the prices of primary commodities, especially in 1950, led to progressive reductions in the trade deficit of the rest of the world. Those primary producing countries which did not devalue their currencies, or which devalued to a lesser extent than western Europe, profited in addition from the fall in the prices of their imports from the devaluing countries of western Europe. By the first half of 1950, the merchandise deficit of raw material and food exporting countries in their trade with the United States had been virtually eliminated, and since their export surplus with western Europe had recovered to a level not far below that of 1948, their over-all position had changed from a small deficit in 1948 to a very substantial export surplus. The shift in the terms of trade in favour of primary producers, which is discussed in detail in chapter 10, played an important role in the emergence of this export surplus.

Developments in world trade since the advent of hostilities in Korea have accelerated the trends just described. The vastly increased demand for raw materials arising from rearmament programmes and the rapid rise in the prices of such materials have contributed to a further sharp improvement in the terms of trade of exporters of primary goods and in their balances of trade with industrialized countries. The immediate effects were visible in the rapidly rising export surpluses of many under-developed countries in the third quarter of 1950. Most of these countries had continued to maintain the restrictions on imports imposed a year before when their reserves had dwindled, but some relaxation of these restrictions was probably reflected in the increase in United States exports since the low point reached in August.

The outlook for world trade in 1951 was radically altered by these developments. The under-developed countries were concerned as to whether

[6] The changes in the value of exports and imports and in the balance of trade of western Europe and the rest of the world outside the United States, with each other and hence globally, are considerably understated after the first half of 1949 with regard to changes in terms of currencies in which settlements were made when they are expressed, as in table 49, in United States dollars converted at prevailing rates of exchange.

Table 49. Balance of Trade of Western Europe[a] and Rest of World (excluding the United States) with One Another and with the United States, 1948 to 1950 (First half)

(Annual rates in millions of United States dollars at current prices, f.o.b.; minus (—) indicates import deficit)

Item	Western Europe[a]				Rest of world (excluding United States)			
	1948	1949 First half	1949 Second half	1950 First half	1948	1949 First half	1949 Second half	1950 First half
Total surplus or deficit	—5,415	—4,530	—3,825	—3,590	—220	—2,195	—495	1,305
Total exports	16,380	19,185	17,665	17,400	26,210	26,645	25,940	25,495
Total imports	21,795	23,715	21,490	20,990	26,430	28,840	26,435	24,190
Deficit with United States	—3,175	—3,700	—2,685	—2,125	—2,460	—3,025	—1,635	—160
Exports to United States	930	780	770	935	5,925	5,605	5,570	6,565
Imports from United States	4,105	4,480	3,455	3,060	8,385	8,630	7,205	6,725
Surplus or deficit with other group[b]	—2,240	—830	—1,140	—1,465	2,240	830	1,140	1,465
Exports to other group	8,535	10,260	8,885	8,235	10,775	11,090	10,025	9,700
Imports from other group	10,775	11,090	10,025	9,700	8,535	10,260	8,885	8,235
Trade within the group	6,915	8,145	8,010	8,230	9,510	9,950	10,345	9,230

Source: United Nations Department of Economic Affairs; based on appendix table XIV.

[a] Countries in the Organisation for European Economic Co-operation.

[b] Deficit of western Europe with the rest of the world, excluding the United States; for the rest of the world, the export surplus with western Europe.

Table 50. Value of United States Exports to Various Areas, by Economic Classes, 1948 to 1950 (First half)

(In millions of United States dollars at current prices, f.o.b.)

Destination	Total[a] 1948	Total[a] 1949	Total[a] 1950 First half[b]	Food, drink and tobacco 1948	Food, drink and tobacco 1949	Food, drink and tobacco 1950 First half[b]	Raw materials 1948	Raw materials 1949	Raw materials 1950 First half[b]	Manufactures 1948	Manufactures 1949	Manufactures 1950 First half[b]
Total	12,532	11,886	9,678	2,862	2,528	1,542	2,062	2,235	2,360	7,218	6,674	5,568
Canada	1,857	1,888	1,798	90	132	124	604	506	482	1,111	1,180	1,122
Latin America, major importing countries[c d]	2,779	2,296	2,036	335	274	230	190	190	178	2,178	1,760	1,564
Dollar countries[c]	1,673	1,524	1,454	261	240	212	109	120	122	1,242	1,103	1,066
Non-dollar countries[d]	1,106	772	582	74	34	18	81	70	56	936	657	502
Argentina	375	129	148	3	1		27	6	7	345	120	141
Other	731	643	434	71	33	18	54	64	49	591	537	361
Sterling area[e]	1,865	1,707	1,250	272	307	174	317	353	404	1,242	1,011	650
United Kingdom	637[f]	693[f]	488[f]	126	191	118	204	240	164	300	252	196
Oversea sterling area	1,228	1,014	762	146	116	56	113	113	240	942	759	454
Western Europe (excluding United Kingdom)	3,513[f]	3,336[f]	2,574[f]	1,566	1,262	684	645	837	796	1,147	1,132	1,004
Eastern Europe	128	109	98	19	15	12	29	47	30	66	40	48
Rest of world	2,390	2,550	1,922	580	538	318	277	302	470	1,474	1,551	1,180
Japan	323	467	392	198	244	110	74	150	238	40	47	52
Philippines	466	438	258	116	102	58	15	14	10	316	304	170

Source: United States Department of Commerce, *United States Export of Domestic and Foreign Merchandise*, Series No. FT 420 (Washington, D.C.), and *Summary of Foreign Commerce*.

[a] Total covers unspecified items not included in listed economic classes.

[b] Annual rate.

[c] Colombia, Cuba, Mexico and Venezuela. For definition of dollar countries see chapter 8, table 78.

[d] Argentina, Brazil, Chile, Peru and Uruguay.

[e] Excluding Iceland and Ireland, which are included with western Europe; for list of sterling area countries, see appendix table XIV.

[f] Including exports net of foreign aid as follows (estimated in millions): United Kingdom: 1948, $420; 1949, $183; 1950 (first half), $128; western Europe: 1948, $1,486; 1949, $838; 1950 (first half), $288.

they would in future be able, with the increasing foreign exchange resources at their disposal, to expand or even to maintain the level of their imports from the United States and the industrialized countries of western Europe, in view of the enlarged requirements of the latter countries for rearmament. In many respects, the prospective position of under-developed countries was not dissimilar to that in which they found themselves during the Second World War. The industrialized countries faced the possibility of absolute shortages of raw materials as well as the problem of assuring an equitable division of the available supply to the several importing countries. Special problems were posed for western Europe by rising prices of raw material imports, on which it is so heavily dependent, since this increase implied a deterioration in its terms of trade over and above the deterioration which arose from the currency devaluations of 1949. This involved a further expansion of exports in the face of other demands on home production.

Decline in the World's Import Surplus with the United States

The sustained recovery of trade in the post-war years prior to 1949 had, by the beginning of 1949, materially reduced the unbalance in trade between the dollar area[7] and the rest of the world. It was generally recognized however that, to the extent that the unbalance stemmed from long-term factors not associated with the dislocations resulting directly from the war,[8] it could not be eliminated merely by restoration of pre-war patterns of trade but required adjustments of a more fundamental character in the structure both of production and trade.

The emphasis of the post-war trading policy of most countries suffering from a shortage of dollars was directed in the first instance towards the expansion of their exports to the United States and the enlargement of their trade with non-dollar countries so as to reduce dependence on imports from the dollar area. Until the end of 1948 this policy showed signs of being successful, but in the first half of 1949 the gap between exports and imports widened, both because of loss of dollar earnings from exports to the United States and because of the reversal of the previous downward trend in imports from that country.

Following the imposition of severe restrictions on imports from the United States to prevent further strain on dollar reserves, dollar expenditures for imports resumed their downward course in the second half of 1949 and continued to fall in the first half of 1950. Furthermore, exports to the United States increased once again in the last quarter of 1949 and the first half of 1950, as a result of the termination of the recession in the United States and the increase in its purchases of strategic materials for government stockpiles.[9]

Since June 1950 there has been a radical improvement in the trading position of many countries with the United States, owing to the rise in the value of their exports to that country. Raw material exporters have been most favourably affected, since United States import requirements —particularly for strategic materials under the government stockpiling programme—mounted following the conflict in Korea.

Reduction in World's Imports from the United States after 1948

Continuation of the downward trend in the value of the world's imports from the United States after the post-war peak was reached at the end of 1947 has been the most important factor in the changes referred to above. Western Europe was able to curtail its imports from the United States without adversely affecting domestic consumption or current investment, primarily because of the improvement in Europe's supply position —especially in foodstuffs—but also because of the increase in supplies available from non-dollar sources. There was, in fact, an increase in the total quantum of goods imported by western European countries despite the retrenchment in imports from the United States. While under-developed countries as a whole were unable to maintain the volume of their imports from the

[7] For definition of "dollar area" as used in this and succeeding chapters, see footnotes to chapter 8, table 78; for list of countries included in the dollar area, see appendix table XIV.

[8] See chapter 9.

[9] See chapter 10 for a discussion of the part played by devaluation during this period in reducing the devaluing countries' imports from the United States and increasing their exports to that country.

United States at the level of earlier post-war years, the loss from this source was more than offset by larger supplies in the industrialized countries of western Europe.

Notwithstanding the improvement in the world supply situation, most countries were able to effect reductions in imports from the United States after the middle of 1949 only by tightening import restrictions and exchange controls.[10] Import restrictions were not eased immediately following devaluation and were generally maintained during the first half of 1950. Tables 50 and 51 show the extent and character of the reductions of various regions[11] in the value of their imports of foodstuffs, raw materials and manufactures between 1948 and the first half of 1950.[12]

[10] Chapter 10 discusses the character of these restrictions and the extent to which they were responsible for the fall in dollar imports in various countries.

[11] Unless otherwise stated, "Latin America" generally includes the Latin American republics and the Non-Self-Governing Territories; the "sterling area" and "eastern Europe" include countries listed in these areas in appendix table XIV.

[12] In contrast with those of most other areas, Canadian imports from the United States, which represented almost 15 per cent of United States exports in 1948, remained unchanged during 1949 and were reduced moderately in the first half of 1950. The latter decline was almost entirely accounted for by coal and petroleum. In the case of petroleum, there was a large increase in Canadian production, while the drop in coal imports appears to have been temporary.

Table 51. Value of United States Exports of Various Manufactures to Certain Areas, 1948 to 1950 (First half)

(Annual rates at current prices, in millions of United States dollars, f.o.b.)

Destination	Exports: *Metals and manufactures*	*Machinery*	*Passenger cars and vehicles*[a]	*Chemicals and related products*	*Textiles and manufactures*	*All other manufactures*
Total exports:						
1948	1,111	2,253	1,425	777	848	804
1949	1,109	2,341	1,176	774	661	613
1950 First half	784	1,999	1,033	706	482	564
Canada:						
1948	221	446	152	104	74	114
1949	234	370	274	112	72	118
1950 First half	198	352	286	116	64	106
Latin American dollar countries:[b]						
1948	232	405	223	108	151	123
1949	220	329	213	117	110	114
1950 First half	172	288	228	142	126	110
Other Latin American countries:[c]						
1948	158	349	250	98	40	41
1949	125	262	151	76	20	23
1950 First half	74	216	118	74	10	10
Sterling area:						
United Kingdom						
1948	65	117	20	43	19	36
1949	54	117	20	32	9	20
1950 First half	46	66	24	34	4	22
Oversea sterling area:[d]						
1948	120	253	197	89	209	74
1949	131	249	172	76	83	48
1950 First half	68	160	100	62	38	26
Western Europe (excluding United Kingdom):[d]						
1948	200	346	311	151	69	70
1949	220	452	162	157	68	73
1950 First half	146	478	152	108	70	50

Source: United States Department of Commerce, *United States Exports of Domestic and Foreign Merchandise*, Series No. FT 420 and *Summary of Foreign Commerce*.

[a] Including merchant ships.

[b] Colombia, Cuba, Mexico and Venezuela.

[c] Argentina, Brazil, Chile, Peru and Uruguay.

[d] Iceland and Ireland included in western Europe.

Between 1948 and 1949 the contraction—by nearly $500 million—of Latin American imports from the United States was the largest element in the drop in United States exports. This fall in Latin American imports was followed by a further decline of $250 million in the first half of 1950. Imports of passenger cars and vehicles, machinery and textiles, particularly, were affected; the decline in imports of machinery in the first half of 1950 was especially steep.

The value of United States exports fell between 1949 and the first half of 1950 to an even greater extent than in the preceding year (see table 52). United States exports to continental western Europe dropped by over $750 million (annual rate) between these two periods; during the latter period they were more than $900 million below the 1948 figure. Nearly the entire drop in continental western European imports from the United States during 1949 and the first half of 1950 was accounted for by foodstuffs. On the other hand, the volume of imports of manufactures in the first half of 1950 was not much lower than in the two preceding years, and raw materials imports, which

Table 52. Current Value and Indices of Unit Value and Quantum of United States Exports, by Economic Classes, 1948 to 1950 (First half)

(Annual rates at current prices, in millions of United States dollars, f.o.b.)

Item and period	*All commodities*	*Foodstuffs*	*Crude materials*	*Semi-manufactures*	*Finished manufactures*
Current value:					
1948	12,532	2,580	1,488	1,370	7,094
1949 First half	13,102	2,520	2,030	1,542	7,011
1949 Second half	10,669	1,933	1,531	1,166	6,039
1950 First half	9,662	1,351	1,872	1,052	5,386
Change in current value:					
From 1949, first half, to 1949, second half	—2,712	—630	—500	—382	—1,200
Due to:					
Price	—640	—148	—35	—111	—346
Quantum	—2,072	—482	—465	—271	—854
From 1949, second half, to 1950, first half	—852	—560	+342	—112	—522
Due to:					
Price	—277	—148	+2	—3	—128
Quantum	—575	—412	+340	—109	—394
Unit value index:					
1948	100	100	100	100	100
1949 First half	96	89	96	99	97
1949 Second half	91	83	94	90	92
1950 First half	88	74	93	90	91
Quantum index:					
1948	100	100	100	100	100
1949 First half	111	113	142	114	102
1949 Second half	93	92	110	94	90
1950 First half	88	72	135	85	84
Quantum index net of foreign aid:[a]					
1948	100	100	[b]	100[b]	100
1949 First half	100	95	[b]	105[b]	97
1949 Second half	84	110	[b]	72[b]	83
1950 First half	79	83	[b]	79[b]	76

Source: *Midyear Economic Report of the President*, July 1950 (Washington, D.C.) and United States Department of Commerce, *Foreign Commerce Weekly*, 4 September 1950 (Washington, D.C.).

[a] Derived by deducting from total the export grants reported under the following foreign aid programmes: European Recovery Program, interim aid programme for western Europe, post-UNRRA relief, Army Civilian Supply Program for Germany and Japan, aid to China by the Economic Cooperation Administration, civilian aid under the assistance programme for Greece and Turkey; however, exports under the programmes for aid to Korea and certain other programmes were not deducted owing to lack of data.

[b] Crude materials included with semi-manufactures.

in 1949 were well above 1948 levels both in value and in volume, were sustained at the 1949 level in the first half of 1950.[13]

The decline in United States exports of foodstuffs to western Europe was due primarily to smaller grain exports, the value of which fell between 1948 and the first half of 1950 by $650 million, and between 1949 and the latter period by more than $450 million (annual rates). The reduction in western Europe's imports from the United States appears to have been a consequence mainly of the recovery in agricultural production during 1948 and 1949 and of more adequate stocks of grains accumulated with the aid of large imports in the preceding years. Imports of United States wheat by France, Germany and Italy decreased from 6.3 million metric tons in 1948 to 4.3 million in 1949 and to 0.6 million tons in the first half of 1950.

The contrasting increase in western Europe's imports of raw materials from the United States between 1948 and the first half of 1950 has been almost entirely due to larger shipments of raw cotton, which in the latter period accounted for well over two-thirds of the imports of raw materials from the United States. The value of raw cotton imports in the latter period was more than twice as high as in 1948. The large increase in cotton imports and the smaller increases in imports of certain other raw materials from the United States more than offset the sharp decline in imports of petroleum and coal. Imports of coal from the United States were halved between 1948 and 1949 and virtually disappeared during the following six months, owing to the steady increase in domestic coal production in western Europe.

Important shifts occurred in the composition of western Europe's imports of manufactures from the United States during the period under review. A large reduction between 1948 and 1949 in imports of the category designated in table 51 as "passenger cars and vehicles"—chiefly merchant ships—was approximately offset by increased imports of machinery. During the first half of 1950, imports of metals and manufactures and of chemicals and related products were considerably reduced as European production and trade in these commodities increased.

The effect of the severe restrictions on imports payable in dollars imposed by the United Kingdom after the middle of 1949 was not fully apparent until the first half of 1950. In fact, the value of United Kingdom imports from the United States for 1949 as a whole was actually higher than in the preceding year, but fell by 30 per cent between 1949 and the first half of 1950. United Kingdom imports of grain from the United States increased substantially during 1949 and still further in 1950, but imports of other foodstuffs, which were also higher in 1949, returned to their previous level. Raw material imports, after increasing considerably during 1949 as a result of the virtual doubling of imports of raw cotton, fell off by one-third during the first half of 1950 when raw cotton imports declined sharply, to a level about a fourth lower than in 1948. Imports by the United Kingdom of almost all categories of manufactures from the United States declined during 1949, and in the first half of 1950 the values at annual rates were well below those of 1948.

The oversea sterling countries, which in 1949 had curtailed their imports from the United States by more than $200 million, made even more drastic reductions during the first half of 1950. A large part of this reduction was accounted for by the Union of South Africa, though it did not join in the decision of the Commonwealth members of the sterling area to cut imports from the United States to 75 per cent of the 1948 level. In the first half of 1950, the value of imports of the oversea sterling countries as a whole from the United States was at an annual rate nearly two-fifths below that of 1948. However, the reduction in imports of manufactures contrasted with an increase in the importation of raw materials, which in the first half of 1950 was at twice the rate of the two preceding years. This expansion was almost entirely accounted for by the fact that India imported United States cotton during this period at an annual rate of $133 million, owing to its commercial dispute with Pakistan, whereas only negligible quantities had previously been obtained from the United States.

Imports of foodstuffs from the United States, absorbed largely by India and the Union of South

[13] Raw material imports actually declined sharply between the first half of 1949 and the corresponding period of 1950; imports in the former period were much higher than in 1948.

Africa, were considerably smaller as a result of the virtual cessation of wheat imports. This reduction was made possible by a shift to Canada and Australia as sources of supply. Restrictions imposed by the Union of South Africa early in 1949, following a sharp fall in its gold and dollar holdings, cut the value of imports of manufactures from the United States by half during 1949; nearly all categories of manufactures were affected, especially textiles, transportation equipment and machinery. South African imports from the United States in the following half year were again cut by half; textiles and transportation equipment were most affected. The value of Indian imports of manufactures from the United States fell by more than two-fifths between 1948 and the first half of 1950; imports of textiles declined to negligible proportions, while imports of metals and manufactures, machinery and transportation equipment were also affected adversely.

The increase during 1949 in United States exports to the remaining areas of the world reflected principally the rise in exports to Japan, as shown in table 50. In the first six months of 1950, however, the value of United States exports to these areas was a fourth lower than in 1949, owing primarily to a fall in the value of exports to the Philippines by almost 40 per cent, but there was a decline in exports to other areas as well, including Japan and eastern Europe. The value of Japanese imports of foodstuffs from the United States in the first half of 1950 was less than half of the semi-annual average in the preceding year, owing to a shift from United States wheat to supplies from Argentina, Australia and Canada. In addition, larger quantities of rice were available to Japan from Burma and Thailand. A large part of the reduction in food imports from the United States, however, was offset by the increase in imports of cotton and, to a limited extent, of other raw materials. The annual rate at which raw cotton was imported by Japan in the first half of 1950 was nearly five times as large as in 1948 and twice the value of such imports in 1949. The shifts in the composition of Japan's imports from the United States reflected the changing demands of the Japanese economy under the influence of the partial recovery of its export markets, particularly for textiles.

It is apparent from the above review that though the decline in United States exports in 1949 was confined to a relatively limited number of areas, the decline during the first half of 1950 was more widespread. In the first half of 1950, exports to continental western Europe declined to an even greater extent than in 1949, while those to the oversea sterling area dropped about as much as in the preceding year. There was a further decline in exports to Latin America as a whole, and there was also a fall in exports to the United Kingdom and to the rest of the world.

Most of the reduction between 1948 and 1949 in the value of imports from the United States was accounted for by foodstuffs, passenger cars and vehicles, textiles and other consumer goods. The fall in United States exports of manufactures reflected to varying degrees restrictions on "non-essential" imports, the diversion of purchases to non-dollar sources, the satisfaction of pent-up demand and, in some cases, a policy of protecting domestic industries—all of which were associated with a more plentiful supply of such goods in domestic and international markets.

In the first half of 1950, the diminishing requirements for food imports from the United States, chiefly of western Europe but to some extent of other areas as well, was again a major factor in the large decline in United States exports. Raw material exports from the United States, on the other hand, increased further. As regards manufactures, not only was there a continuation of the downward trend in exports of non-durable and durable consumer goods, especially of textiles and passenger cars and vehicles, but exports of capital goods—metals and manufactures and machinery—were also affected. The reduction in the latter occurred in virtually all areas of the world except continental western Europe.

Although the fall in the value of United States exports was due partly to price declines, less than a fourth of the drop between the first and second halves of 1949 was attributable to this factor, and not more than a third of the further decline in the first half of 1950 was due to lower prices. The reduction in the volume of exports was the more important factor even in the case of foodstuffs, export prices of which fell most steeply.

These changes in the composition of United States exports between 1948 and the first half of 1950 reduced the share of foodstuffs in the total value of exports from a fifth to less than a sixth, raised the share of raw materials and semi-manufactures and left that of finished manufactures relatively constant.[14]

Fluctuations in United States imports between 1948 and 1950

Although the curtailment of imports from the United States was the chief factor in the reduction of the world's import surplus with the United States between 1948 and 1950, the fluctuations in the imports of the United States from the rest of the world during this period also significantly affected the dollar position of certain areas. The adverse effect of the fall in the volume and value of United States imports in the second and third quarters of 1949 on the dollar position of the sterling area and western Europe was an important factor in the decision of these areas to tighten restrictions on imports from the dollar area. On the other hand, the rise in the volume and value of the imports of the United States during 1950 contributed more to the marked increase in the gold and dollar reserves of the rest of the world—especially after the middle of the year—than the further decline in United States exports.

The impact of the fluctuations in United States imports on the dollar earnings of various countries and areas varied—depending chiefly on whether their exports to the United States consisted primarily of foodstuffs, of raw materials or of manufactures. United States imports of these classes of goods were quite differently affected by the business recession in 1949, by the recovery in the first half of 1950 and by the additional import requirements of the programme for expanding the production of military goods, which was initiated in the third quarter of 1950.

As has been pointed out earlier in this report, the temporary recession in the United States was characterized by a fall in industrial production associated with liquidation of inventories, but not by any significant decline in real gross national product. Owing to the great sensitivity of the demand for imports of raw materials to fluctuations in the level of industrial production, imports of crude materials and semi-manufactures were most adversely affected by the contraction of manufacturing activity during the second and third quarters of 1949; however, they also gained to the greatest extent from the subsequent recovery of production in the last quarter of 1949 and the first half of 1950. In addition, raw material imports were influenced by changes in the level of purchases of strategic materials for government stockpiles during this period.[15]

Since expenditures for personal consumption continued to rise during 1949 and 1950, imports of foodstuffs were relatively unaffected by the recession. However, United States imports of

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[14] See appendix table III for distribution, by value, of United States exports by economic classes, inclusive and exclusive of exports under foreign aid programmes.

[15] It is not possible to measure the direct effect on imports of specific commodities of the United States Government's stockpiling of strategic materials during 1949 and 1950 since information is not available as to the value of total imports of stockpiled items during 1949 and 1950. Some indications may, however, be obtained both from the appropriations and from the value of goods on hand or under contract. Appropriated funds or authority to obligate for this programme for purchases at home and abroad amounted to $275 million for the fiscal years 1947 and 1948, $825 million for 1949, $475 million (net) for 1950 and $733 million for 1951; it was stated that it was planned to obligate the total amount of $2,300 million by the end of the fiscal year 1951. The importance of the programme to exporters of certain primary commodities may also be gauged from the magnitude of the stated objectives of the programme on 30 June 1950, namely, the accumulation of a stockpile from both domestic and foreign sources aggregating $4,000 million.

The limited information available on the major commodities being stockpiled entirely or in large part by way of imports (a list published by the United States Munitions Board in its report to Congress includes more than 80 items) suggests that rubber, tin and copper represent the most important commodities in terms of dollar value and that other major commodities include lead, chrome, zinc and aluminium. Crude rubber imports were expected to average 70,000 tons monthly during 1951; of this, probably well over half is to be stockpiled, and the price of this commodity has risen sharply. The target for the tin stockpile has been estimated as 250,000 tons, of which about 60,000 tons had been accumulated by the middle of 1950. Government stockpiling of copper increased from 175,000 tons in 1948 to 190,000 tons in 1950 and is likely to be substantially higher in 1951. Lead imports for stockpiling averaged 16,000 tons in the year ended 30 June 1950, when a cutback was announced. Imports of zinc under the programme were resumed in the second quarter of 1950 at the rate of 8,000 tons monthly, after a lapse of a year in such purchases. In the fiscal year 1950, purchases of all commodities amounted to $400 million, of which about three-fourths represented materials of foreign origin.

finished manufactures,[10] which represent a relatively small share of its total imports, contracted during the recession to an even greater extent than raw materials but expanded after its termination to a somewhat lesser degree. This fall in imports of manufactures is explained partly by the marginal character of many of the imported commodities—the temporarily high demand for automobiles, for example, was reduced sharply when domestic scarcities disappeared—partly by the fact that inventories were being liquidated rather than accumulated during 1949 and, finally, by the postponement of imports in anticipation of currency devaluations. The expansion of the volume of imports of manufactures in 1950 appears to have been largely a consequence of the rise in United States economic activity and of devaluation, which tended to reduce the dollar prices of many imported manufactures.

As is indicated in table 53, countries which were predominantly suppliers of foodstuffs to the United States generally suffered little or no loss of dollar earnings in 1949, since reductions stemming from price declines were approximately offset by larger quantities exported to the United States. The value of United States coffee imports, which account for a large share of the imports of foodstuffs, was maintained during the first nine months of 1949 and increased substantially in the final quarter of that year, as well as in the first half of 1950, because of the rise in prices. Among the remaining commodities listed in table 53 only cocoa, an important "dollar earner" of the sterling area, showed any substantial decline in import value.

Among raw materials, wool, rubber and jute—all important dollar earning exports of the sterling area—were together responsible for well over half of the total net decline, between the third quarter of 1948 and the corresponding period of 1949, in the value of raw material imports of the United States specified in table 53. The quantity of wool imports in the latter period was about 45 per cent below that of the same period in 1948, and crude rubber imports fell by a fourth during this period. Among other commodities the imports of which fell sharply during the course of 1949 were sawmill products, paper base stocks, copper (black blister especially), aluminium scrap and alloys, and chrome and chromite.

The sharp increase in the value of United States imports of raw materials and semi-manufactures in the first half of 1950 also stemmed for the most part from the increased volume of goods imported. Prices of most raw materials were not very different from those of the corresponding period of 1949, though they increased moderately towards the middle of 1950 and advanced sharply after the beginning of hostilities in Korea. The value of wool exports to the United States in the first half of 1950 was nearly 10 per cent above that of the first half of 1948 and double that of the same period in 1949. The value of crude rubber imports, which had declined drastically in the preceding year, rose in the first half of 1950 to a level more than 10 per cent above that of 1948. United States imports of a number of the commodities which had fallen most sharply during 1949 in value and volume were by the first half of 1950 in many cases above 1948 levels. Furthermore, imports such as petroleum, newsprint and tin, the value and volume of which had been maintained during 1949, registered further gains in total value during the first half of 1950 in spite of lower prices.

Finished manufactures were most adversely affected by the contraction of United States imports in the middle of 1949; the value of such imports fell about a fourth between the third quarter of 1948 and the corresponding quarter of 1949. In the first half of 1950 they had recovered to a level about 10 per cent higher than in the same period in 1948. In the third quarter of 1949 the dollar value of United States imports of agricultural machinery and implements was nearly a fifth below, and imports of vehicles and parts more than two-thirds below, the same quarter in 1948, and the dollar value of United States imports of cotton and wool manufactures also fell sharply. For the most part, these declines reflected reductions in quantity rather than in prices. In the first half of 1950 the dollar value of United States

[10] Official United States trade statistics include as finished manufactures a number of commodities, such as newsprint, which are not usually classified in this category and which represent a large proportion of the total imports reported as finished manufactures. A few important commodities of this type have been excluded from this category for purposes of the discussion in this section. See appendix table IV for value and quantum of United States imports, by economic classes, according to United States trade statistics.

Table 53. Value of Principal Commodity Imports of the United States and Changes Due to Quantity and Price, 1948 to 1950 (First half)

(Quarterly rates in current prices, in millions of United States dollars, f.o.b.)

Commodity	Value in current prices: 1948 First half	1948 Third quarter	1949 First half	1949 Third quarter	1950 First half	Change from third quarter of 1948 to same period of 1949: Net change	Change due to Quantity	Change due to Price	Change from first half of 1948 to same period of 1950: Net change	Change due to Quantity	Change due to Price
Foodstuffs (and tobacco):											
Coffee	177.0	142.0	186.3	179.9	220.9	+ 37.9	+ 23.7	+ 14.2	+ 43.9	— 43.0	+ 86.9
Sugar (cane)	77.5	96.0	105.1	102.8	92.9	+ 6.8	–	+ 6.8	+ 15.4	+ 14.5	+ 0.9
Vegetables, fruits and nuts	57.0	48.0	52.6	44.8	53.8	— 3.2	..	..	— 3.2	..	..
Cocoa	58.0	38.0	40.2	21.4	43.5	— 16.6	+ 4.1	— 20.7	— 14.5	+ 11.8	— 26.3
Whiskey	13.8	14.1	14.1	15.9	15.9	+ 1.8	+ 0.5	+ 1.3	+ 2.1	–	+ 2.1
Tobacco, unmanufactured	19.6	20.2	18.7	19.8	18.7	— 0.4	+ 2.4	— 2.8	— 0.9	+ 2.4	— 3.3
Total (excluding vegetables, fruits and nuts)	345.9	310.3	364.4	339.8	391.9	+ 29.5	+ 30.7	— 1.2	+ 46.0	— 14.3	+ 60.3
Raw materials and semi-manufactures:											
Petroleum, crude	62.6	70.8	85.5	81.2	91.8	+ 10.4	+ 10.7	— 0.3	+ 29.2	+ 31.0	— 1.8
Petroleum, fuel and residual	31.0	28.9	27.5	26.4	45.5	— 2.5	+ 12.9	— 15.4	+ 14.5	+ 30.0	— 15.5
Crude rubber	66.9	73.7	65.3	45.4	74.5	— 28.3	— 17.0	— 11.3	+ 7.6	+ 10.5	— 2.9
Copper ingots	23.8	28.9	36.0	20.7	31.8	— 8.2	— 1.6	— 6.6	+ 8.0	+ 12.9	— 4.9
Copper, unrefined (black blister)	18.2	13.0	11.9	13.1	15.7	+ 0.1	+ 2.0	— 1.9	— 2.5	+ 1.5	— 4.0
Tin bars, blocks, pigs, etc.	22.5	24.0	32.9	36.4	35.8	+ 12.4	+ 11.7	+ 0.7	+ 13.3	+ 21.1	— 7.8
Lead pigs, bars and scrap	12.7	27.9	24.9	15.0	21.0	— 12.9	— 8.3	— 4.6	+ 8.3	+ 14.4	— 6.1
Nickel pigs, ingots and shot	11.9	12.3	15.1	13.1	14.6	+ 0.8	— 1.2	+ 2.0	+ 2.7	+ 0.3	+ 2.4
Aluminium, metal, scrap and alloys	6.3	11.8	9.6	3.5	13.9	— 8.3	— 8.4	+ 0.1	+ 7.6	+ 6.3	+ 1.3
Manganese ore	6.2	5.1	5.8	6.5	10.0	+ 1.4	–	+ 1.4	+ 3.8	+ 0.8	+ 3.0
Chrome or chromite	7.6	9.7	5.4	9.1	5.0	— 0.6	— 0.1	— 0.5	— 2.6	— 1.8	— 0.8
Steel mill products	4.5	10.7	25.4	6.1	14.1	— 4.6	..	..	+ 9.6	..	..
Wool, unmanufactured	89.3	74.3	48.2	55.1	97.0	— 19.2	— 33.4	+ 14.2	+ 7.7	— 11.8	+ 19.5
Wool, semi-manufactured	5.4	7.0	4.6	6.9	7.9	— 0.1	+ 2.0	— 2.1	+ 2.5	+ 2.9	— 0.4
Jute, unmanufactured, and burlap	40.0	40.4	38.7	21.0	26.7	— 19.4	— 19.6	+ 0.2	— 13.3	— 7.1	— 6.2
Paper base stocks	84.4	80.4	53.1	44.3	62.7	— 36.1	..	..	— 21.7	..	..
Newsprint, standard	98.2	103.5	113.9	107.5	110.6	+ 4.0	–	+ 4.0	+ 12.4	+ 13.5	— 1.1
Sawmill products	35.6	45.3	24.8	26.4	51.3	— 18.9	— 14.8	— 4.1	+ 15.7	+ 13.0	+ 2.7
Total (excluding paper base stocks and steel mill products)	538.2	576.6	550.1	487.3	653.1	— 89.3	— 65.1	— 24.2	+114.9	+137.5	— 22.6
Finished manufactures:											
Agricultural machinery and implements	19.9	18.9	27.4	15.4	23.3	— 3.5	..	..	+ 3.4	..	..
Vehicles and parts	10.7	12.0	6.2	3.5	6.2	— 8.5	..	..	— 4.5	..	..
Other machinery (excluding electrical)	4.2	4.9	5.5	7.5	7.5	+ 2.6	..	..	+ 3.3	..	..
Cotton manufactures	10.4	11.5	11.2	9.1	14.7	— 2.4	..	..	+ 4.3	..	..
Wool manufactures	12.1	17.0	10.5	13.0	13.8	— 4.0	..	..	+ 1.7	..	..
Diamonds, cut but unset	13.7	16.6	7.9	13.3	12.9	— 3.3	..	..	— 0.8	..	..
Total	71.0	80.9	68.7	61.8	78.4	— 19.1	..	..	+ 7.4	..	..

Source: United States Department of Commerce, *Summary of Foreign Commerce.* Increase or decrease in current value due to changes in volume computed by applying constant prices in base period to physical quantities in later period.

imports of most commodities in this category, with the notable exception of automobiles, appeared to have regained or somewhat exceeded their 1948 levels despite the reduction in dollar prices following devaluation.

As table 54 shows, the fall in the value of United States imports during the second and third quarters of 1949 was especially severe in the case of exports from the sterling area and from western Europe but was of moderate proportions in other regions of the world. The dollar value of exports from the sterling area to the United States in the third quarter of 1949 was more than a third below the annual rate of 1948. The exports of continental western Europe to the United States deteriorated to a lesser, but none the less serious, degree. The level of Canadian and Latin American exports to the United States was, as a whole, maintained during 1949, though temporary reductions in the exports of individual countries in Latin America occurred during the course of the year. The large increase in the value of United States imports of raw materials since the second quarter of 1950 has chiefly affected Latin America and the oversea sterling area.

The explanation of the variations in the impact of fluctuations in United States imports on various areas between 1948 and 1950 is to be found in the commodity composition of their trade with the United States. The United Kingdom's exports to the United States, which are heavily weighted by manufactures—in particular, agricultural

Table 54. Value of United States Imports from Various Areas, 1948 to 1950 (First half)

(Quarterly rates in current prices, in millions of United States dollars, f.o.b.)

Country	*1948*	*1949*				*1950*
		First quarter	*Second quarter*	*Third quarter*	*Fourth quarter*	*First half*
Total	1,781	1,790	1,601	1,478	1,758	1,908
Canada[a]	398	380	382	348	442	441
Latin American countries[b]	588	626	548	530	599	640
Argentina	45	30	19	17	31	52
Brazil	128	120	113	128	191	134
Chile	45	53	47	30	23	37
Colombia	59	60	49	65	68	61
Cuba	94	110	109	96	72	97
Venezuela	67	66	67	69	77	79
Other countries	150	187	144	125	137	180
Sterling area	345	343	283	232	297	335
Australia	33	31	31	13	23	35
India	66	66	62	48	63	61
New Zealand	8	3	6	8	7	15
Union of South Africa	34	29	21	27	39	29
United Kingdom	72	68	44	52	63	63
Rest of sterling area	132	146	119	84	102	132
Western Europe (excluding sterling area countries)	150	156	120	113	142	154
Belgium-Luxembourg	26	37	19	17	22	29
Denmark	2	1	1	1	3	3
France	18	18	13	14	16	20
Italy	23	20	15	16	20	21
Netherlands	11	12	15	16	16	13
Norway	8	13	9	4	6	9
Portugal	5	4	3	3	4	4
Sweden	23	12	12	14	17	18
Switzerland	26	24	21	21	27	22
Western Germany	8	15	12	7	11	15
Eastern Europe	39	25	25	29	31	33
Rest of world	261	260	243	226	247	305

Source: United States Department of Commerce, *Foreign Commerce Weekly*, 5 September 1949 and 6 March 1950 and *International Trade Statistics*, August 1950 (Washington, D.C.); Economic Cooperation Administration, *Recovery Guides*, No. 16, October 1950.

[a] Including Newfoundland.

[b] Excluding Non-Self-Governing Territories.

machinery, vehicles and textiles—dropped sharply during the course of 1949 but recovered to more than 85 per cent of their 1948 value in the first half of 1950, when the increase in quantities exported to the United States to some extent offset price reductions from devaluation. Dollar earnings from the exports of Australia, New Zealand and the Union of South Africa were especially affected by fluctuations in the volume and price of their wool exports to the United States. This volume had fallen during the third quarter of 1949 to only two-fifths of that in 1948, but it exceeded the rate of the latter year by a sixth during the first six months of 1950. The loss in dollar earnings during 1949 from Malayan exports of crude rubber—the volume of which fell 30 per cent between 1948 and the third quarter of 1949 —was especially severe. Despite a moderate recovery in volume and a considerable rise in price, the value of these exports in the first half of 1950 (at annual rates) was only 75 per cent of that of 1948. The level of Malayan tin exports, on the other hand, was maintained during 1949 and increased substantially in the first half of 1950. The value of United States cocoa imports from the sterling area in the first half of 1950 was also somewhat above 1948, after a drop of two-thirds in the third quarter of 1949.

Among the continental western European countries, Sweden experienced the largest decline in its exports to the United States during 1949, mainly on account of reduced exports of wood-pulp and newsprint. Exports of textiles, diamonds and, especially, steel-mill products from Belgium-Luxembourg were among the important United States imports considerably affected by developments during 1949 and 1950; several other countries also suffered marked reductions in their exports to the United States. On the other hand, the value of United States imports from Germany and the Netherlands actually increased during 1949. Continental western Europe as a whole appears to have been less severely affected by the United States recession than the United Kingdom, in respect of exports to the United States. In the first six months of 1950 the total value of continental western Europe's exports to the United States was somewhat in excess of the semi-annual rate of 1948.

Latin American exports to the United States in 1949 were not significantly below their 1948 value and were considerably higher in the first half of 1950. Their exports to the United States in the final quarter of 1949 rose sharply from the moderately lower levels to which they had declined in the second and third quarters of the year, and in the first half of 1950 were nearly 10 per cent above the level prevailing in 1948. Individual countries in the area—notably Chile—experienced temporary difficulties when the volume of United States imports and the prices of certain primary commodities dropped sharply. An important factor contributing to the large increase in Latin American exports to the United States in the first half of 1950 was the resumption of Argentine exports to the United States on a scale twice as high as in the preceding year.

United States imports from the rest of the world as a whole do not appear to have been affected significantly by developments during 1949. The increases between 1949 and 1950 appear to have been accounted for in considerable part by the larger volume of imports from Japan, and of petroleum from the Netherlands Antilles and the Middle East.

The decline in the United States export surplus

The net effect of the changes just described on the United States trade balance was to reduce the United States merchandise export surplus between 1948 and the first half of 1950 from $5,500 million to $2,100 million (at annual rates). This change was due primarily to the fall of merchandise exports by $2,900 million and only in small part to the rise of $500 million in imports by the United States. There was actually an increase of $1,100 million (at annual rates) in the United States export surplus in the first half of 1949, but it fell by $2,400 million between the first and second halves of the year, so that for 1949 as a whole the export surplus was only about $100 million below that of 1948. The increased surplus in the first half of 1949 reflected higher United States exports and lower United States imports in almost equal measure, while the reduction of the surplus in the second half of the year was due entirely to the decline of United States exports. However, the further reduction of the surplus during the first half of 1950 to $2,300 million (at annual rates) was accounted for by the increase in imports to a greater extent than by the continuing decline of United States exports.

All the major trading regions had sizable reductions in their trade deficits with the United States by the first half of 1950. Most regions had deficits in excess of 1948 in the first half of 1949; the deficits of all were smaller than those of 1948 in the second half of 1949 (at annual rates). The dominant factor in the reductions in the latter period was the fall in the value of imports of all regions from the United States.

During the first half of 1950 continuing reductions in imports from the United States by all regions—except Canada, which increased its imports from the United States—played a part in the further diminution of the trade deficits which each region showed in transactions with the United States. This was, in fact, the major element in the reduction of the deficits of the United Kingdom, continental western Europe and the Latin American non-dollar countries. In the cases of Canada and the rest of the dollar area, and of the oversea sterling area, increased exports to the United States were mainly responsible for the reduction of their deficits. In the remaining countries of the world as a group, higher exports to, and lower imports from, the United States were of approximately equal importance.

The regional pattern of United States trade balances which emerged from these changes in the first half of 1950 showed, for the first time in the post-war period, a tendency towards the re-establishment of the pre-war pattern, according to which the United States incurred trade deficits with primary producing areas. However, it seems clear that the surpluses of the oversea sterling area and of the Latin American non-dollar countries with the United States in this period were conditional on the existence of restrictions on imports from the United States, on special factors enlarging the United States import demand for raw materials and on favourable price relationships for certain primary products.

Recovery of the Trade of Western Europe

The recovery of industrial and agricultural production to pre-war levels by the end of 1948 provided the basis for a sizable expansion in the volume of western Europe's exports during 1949 and 1950, especially in intra-western European trade. Prior to 1949 the growth of trade had lagged considerably behind increases in production, primarily because exportable surpluses were limited by the requirements of reconstruction and the need for restoring normal levels of consumption. By the final quarter of 1948, however, production had reached or exceeded pre-war levels in most western European countries, while special post-war requirements had diminished to a point where the availability of supplies for export was no longer the chief limiting factor. Furthermore, owing to the rise in production and trade within western Europe, abnormal import requirements from overseas—especially for certain foodstuffs—were sharply curtailed.

As a result of a considerable rise in exports to oversea areas other than the United States, there was a sharp reduction during the first half of 1949 in western Europe's trade deficit with the rest of the world in spite of the increase in its deficit with the United States.[17] Its import surplus was again cut materially in the second half of 1949, but this was due entirely to a decline in its trade deficit with the United States; there was in fact a moderate increase in its import surplus in relation to the rest of the world, to some extent as a result of an increase in the volume of imports from overseas (excluding the United States) but very largely because of the deterioration in its terms of trade resulting from devaluation. There appears to have been no further reduction in western Europe's total trade deficit in the first half of 1950, even though its import surplus from the United States fell once again. In addition to the deterioration in its terms of trade arising from devaluation, western Europe was adversely affected by the upward movement of prices of raw materials in international markets. At the same time there was a moderate rise in the volume of

[17] See preceding section for discussion of western Europe's trade balance with the United States.

both imports from and exports to oversea countries other than the United States.

The movement of the quantum of European exports during 1949 and 1950 is shown in table 55. Despite a fall in exports to the United States, the quantum of exports of western Europe in the first half of 1949 was approximately 16 per cent greater, and in the second half of 1949 about 23 per cent higher, than the semi-annual rate in 1948. In the first half of 1950, it reached a post-war peak 40 per cent above the semi-annual rate of 1948.[18]

The principal area of expansion was in intra-western European trade, the quantum of which in the first half of 1950 was about one and one-half times as great as in 1948. The quantum of trade among the continental countries of western Europe increased to an even greater extent. The recovery of Germany's trade was the most important factor in this rise in intra-western European trade. The volume of western Europe's oversea exports also rose steadily from 1948. While exports to oversea countries other than the United States rose sharply in the first half of 1949, when exports to the United States fell, the rate of increase since the middle of 1949 has been considerably lower. More than three-fifths of the increase in oversea exports since the middle of 1949 has been in exports to the United States and the rest of the dollar area.

RISE IN INTRA-WESTERN EUROPEAN TRADE

Prior to 1949, the recovery of intra-European trade had, for several reasons, lagged behind that

[18] There were in general relatively higher increases during this period in the exports of countries where recovery of production and of pre-war markets had lagged. See appendix table V, which shows the movement in the quantum of exports of the several countries of western Europe, arranged in order of the level of their exports in 1948 relative to pre-war.

Table 55. Value and Indices of Quantum and Unit Value of Exports of Western European Countries to One Another and to Oversea Countries, 1948 to 1950 (First half)

(Values in current prices in millions of United States dollars, f.o.b.)

Item	1948 Semi-annual average	1949 First half	1949 Second half	1950 First half
Western Europe:[a]				
Value of exports	8,315	9,721	8,960	8,796
To one another	3,761	4,393	4,283	4,359
To others	4,554	5,328	4,677	4,437
Quantum index of exports	100	116	123	140
To one another	100	114	127	147
To others	100	116	120	127
Unit value index of exports[b]	100	101	88	76
Western Europe, excluding United Kingdom, Iceland and Ireland:				
Value of exports	5,003	5,992	5,821	5,738
To one another	2,153	2,557	2,581	2,693
To others	2,850	3,435	3,240	3,045
Quantum index of exports	100	119	128	149
To one another	100	119	132	162
To others	100	121	125	140
Unit value index of exports[b]	100	100	91	77
Western Europe, excluding United Kingdom, Iceland, Ireland and western Germany:				
Value of exports	4,651	5,450	5,238	4,965
To one another	1,692	1,769	1,701	1,668
To others	2,959	3,681	3,537	3,297
Quantum index of exports	100	115	114	119
To one another	100	101	102	110
To others	100	120	121	124
Unit value index of exports[b]	100	104	99	90

Source: Economic Cooperation Administration, *Recovery Guides*, No. 16, October 1950; adjusted by the United Nations Department of Economic Affairs to exclude certain countries.

[a] Including metropolitan areas of all countries in the European Recovery Program.

[b] In terms of dollars.

of exports to oversea areas. On the one hand, intra-European trade in foodstuffs, raw materials and capital goods was especially affected by the need for retaining limited supplies of such goods for domestic consumption and investment. On the other hand, the surplus of European manufactures over and above the amounts required for domestic use was directed in the first instance to oversea countries which could provide urgently needed imports of foodstuffs and raw materials. In addition, intra-European trade was depressed by the low level of production and trade of Germany and of the devastated countries of eastern Europe.

By 1949 the situation in these respects had changed materially. In addition to a greater measure of self-sufficiency in foodstuffs, western Europe had virtually eliminated its abnormal dependence on oversea imports of certain raw materials and fuels, especially coal. European manufacturing production had been further expanded, and a higher proportion of such goods was available for the European market. The demand from oversea countries for Europe's manufactures had also begun to show signs of slackening. In addition, steps had been taken towards liberalization of trade and payments[10] and towards adjustment of price relationships by means of devaluation.

The major role played by the rise in German exports and imports in the expansion of intra-western European trade during this period may be seen from table 56. German exports to and imports from western Europe together accounted for almost half of the total increase in the exports of countries of western Europe to countries within the group—in constant (1948) prices—between 1948 and the first half of 1950.

By far the larger part of the additional exports of Germany in 1949 went to France, Sweden, Italy, Belgium-Luxembourg and the Netherlands, in the order indicated; however, almost all other countries of western Europe also imported substantially larger quantities from Germany. The

[10] While it is questionable whether the liberalization of trade could have significantly influenced the level of such trade at an earlier period, it was undoubtedly effective in stimulating the expansion of trade which occurred among western European countries in the first half of 1950.

Pursuant to the agreements reached in the Organisation for European Economic Co-operation, by the end of 1949 member countries had freed the production of other members from quotas or similar import restrictions for at least 50 per cent of the previous private trade in food and feed, raw materials and manufactures. However, the effect of liberalization appears to have been limited to an important extent by a number of qualifications. Many of the more competitive products were not included in the list, imports purchased directly or indirectly by governments were not covered and relaxations were not uniformly applied and were frequently withheld from countries in a stronger competitive position. Early in 1950 the percentage reduction applicable to quantitative restrictions was raised from 50 to 60, but the effective date was postponed until a satisfactory payments scheme had come into force. Following the adoption in August 1950 of such a plan—the European Payments Union—it was decided that all member countries should be urged but not obliged to free restrictions on 75 per cent of trade in foodstuffs, raw materials and manufactured goods by February 1951.

Table 56. Share of Western Germany in Intra-Western European Trade, 1948 to 1950 (First half)

(Based on exports, in millions of United States dollars, f.o.b., in 1948 prices)

Item	*Exports*			
	Total intra-western Europe	*Western Germany to western Europe*	*Western Europe to western Germany*	*All other*
Value in 1948 prices:				
1948	3,760	315	250	3,195
1949 First half	4,290	435	450	3,405
1949 Second half	4,775	535	610	3,630
1950 First half	5,530	795	735	4,000
Increase:				
From 1948 to 1949	770	170	280	320
From 1949, first half, to 1950, first half	1,240	360	285	595
From 1948 to 1950, first half	1,770	480	485	805

Source: United Nations Department of Economic Affairs. Data in 1948 prices obtained by applying quantum indices to values in current prices; in the case of Germany, by adjusting for changes in dollar unit values.

increase in German exports in the first half of 1950 was very largely accounted for by the Netherlands and may have been of a temporary character, owing to that country's earlier accumulation of large balances in deutsche marks. However, exports to almost all other western European countries were also significantly larger—particularly exports to Italy, Sweden, Denmark, Belgium-Luxembourg and Switzerland.

Nearly all branches of industry experienced substantial increases in their exports, except the textile industry, where production had tended to lag. About a fourth of the larger volume of goods exported to both European and oversea destinations between 1948 and the first half of 1950 was accounted for by machinery, and an additional fourth by iron and steel products. This largely reflected the rapid recovery of German heavy industry. Exports of most other manufactures were increased substantially, among the more important of these being motor vehicles, semi-manufactured chemicals, optical goods and precision instruments. Exports of raw materials and fuels formed a less significant part of total exports than in earlier post-war years.

While the quantum of German imports from all sources rose between 1948 and 1949 by more than 50 per cent, the increase was almost entirely in imports from western Europe. Imports from the United States remained at the level of the year before. The extent to which western Europe replaced the United States as the source of German imports may be gauged from the following figures on exports from the United States and western Europe to western Germany (in millions of United States dollars, f.o.b., in 1948 prices at semi-annual rates):

	1948	1949	1950 First half
United States	430	438	270
Western Europe	250	530	735
Total	680	968	1,005

Most western European countries contributed to the larger volume of German imports. Between 1948 and 1949 at least half of the additional imports were provided by three countries—Belgium-Luxembourg, the Netherlands and Italy—though the percentage increase in the exports of a number of other western European countries was actually greater. The larger part of the increase in German imports in the first half of 1950 came from the Netherlands, Denmark and Sweden—the Netherlands alone being responsible for about half of the increase. United Kingdom exports to Germany in this period were nearly 75 per cent higher than the semi-annual rate in 1949.

The larger volume of goods imported by Germany during 1949 consisted primarily of foodstuffs and, to a lesser extent, of textiles and certain raw materials. Substantially larger quantities of fruits and vegetables, meat, fish and dairy products, sugar and cocoa were imported, chiefly from the Netherlands; in addition, a larger volume of fruits and vegetables was obtained from Italy and of sugar from Belgium. Textile exports from Italy and Switzerland and, especially, from Belgium accounted for a substantial share of the increased German imports.

The further increase in German imports from western Europe in the first half of 1950 was to a considerable extent in substitution of commodities previously provided by the United States: chiefly grains, meat and dairy products, and fats and oils. The large decline in German imports of United States grains during this period in part represented some lowering of requirements. Larger United Kingdom exports to Germany consisted for the most part of wool, yarn and woven and knitted products.

The growth of trade among the remaining countries of continental western Europe was of considerably smaller proportions; most of the increase in 1949 was accounted for by a larger volume of trade among the group of countries which included Denmark, France, Italy, Netherlands, Norway and Sweden. This group also experienced a moderate increase in its exports to the hard currency group—Belgium-Luxembourg, Portugal and Switzerland—in 1949 and in its imports from them in the first half of 1950.

There was a significant increase in the trade of the United Kingdom with the continent, in addition to the rise in its trade with Germany, previously noted. Exports of continental countries, other than Germany, to the United Kingdom in 1949 were about 40 per cent higher, in constant prices, than in 1948 and continued at this level in the first half of 1950. Though the United Kingdom exports to these countries during 1949 were not much higher than in 1948—exports to the group comprising Belgium-Luxembourg, Portugal and Switzerland actually declined—they increased by more than a third in the first half of 1950 so that the United Kingdom again had an export surplus with western Europe as in 1948.

Levelling off in volume of western European oversea exports after the middle of 1949

The further expansion of western Europe's oversea exports during 1949 and 1950 appears to have been rather limited when compared with the spectacular gains in intra-western European trade. The quantum of oversea exports of western Europe, excluding Germany, rose steeply in the first half of 1949 but has since increased at a more moderate rate. Although the volume of Germany's exports to oversea countries in the first half of 1950 rose to six or seven times the extremely low level of 1948, this represented a relatively small part of the total increase in western Europe's oversea exports.

Table 57 shows the exports (in 1948 prices) of several groups of western European countries to various oversea areas from 1948 to 1950. Most of the increase in western Europe's oversea exports during the period was accounted for by the Netherlands, the United Kingdom, Germany and

Table 57. Value of Western Europe's Oversea Exports[a] to Various Areas, 1948 to 1950 (First half)

(In millions of United States dollars in 1948 prices, f.o.b.)

Exporting countries	*Total*	*Destination*				
		Canada and United States	*Latin America*			*Rest of world*
			Total	*Dollar countries*	*Other countries*	
Total exports from western Europe:						
1948 Semi-annual average	4,103	636	641	167	474	2,826
1949 First half	4,608	571	609	156	453	3,428
1949 Second half	4,741	624	788	165	623	3,329
1950 First half	5,163	841	797	232	565	3,525
United Kingdom:						
1948 Semi-annual average	2,231	274	253	69	184	1,704
1949 First half	2,430	248	246	63	183	1,936
1949 Second half	2,469	282	275	54	221	1,912
1950 First half	2,607	382	276	82	194	1,949
Denmark, France, Italy, Netherlands, Norway, Sweden:						
1948 Semi-annual average	1,281	186	240	60	180	855
1949 First half	1,548	133	232	50	182	1,183
1949 Second half	1,604	156	348	66	282	1,100
1950 First half	1,776	208	341	78	263	1,217
Belgium-Luxembourg, Portugal, Switzerland:						
1948 Semi-annual average	503	125	142	36	106	236
1949 First half	478	122	114	35	79	242
1949 Second half	491	128	138	34	104	225
1950 First half	486	151	108	40	68	227
Western Germany:						
1948 Semi-annual average	28	17	3	1	2	8
1949 First half	81	28	12	6	6	41
1949 Second half	118	31	23	10	13	64
1950 First half	205	40	62	29	33	103
Austria, Greece, Turkey:						
1948 Semi-annual average	60	34	3	1	2	23
1949 First half	71	40	5	2	3	26
1949 Second half	59	27	4	1	3	28
1950 First half	89	50	10	3	7	29

Source: United Nations Department of Economic Affairs. Exports in 1948 prices obtained by using over-all dollar unit values of exports to adjust data given in current dollar values.

[a] Excluding exports to Iceland and Ireland and to eastern Europe.

especially France; the latter country was responsible for half of the total increase in continental western European exports to oversea areas. About three-fourths of the increase in French exports during 1949 consisted of exports to its colonial territories in Africa and Asia; larger shipments to Argentina and, to a lesser extent, to Egypt and Syria-Lebanon accounted for most of the balance. French exports to the same areas, especially to Argentina, also increased in the first half of 1950.

The additional oversea exports of Germany were distributed among several areas; they reflected a broad though partial recovery of its pre-war markets in Latin America, Asia (including the Middle East) and Africa. About one-third of the increase between 1948 and the first half of 1950 is explained by larger exports to Latin America; another fourth was accounted for by India, Pakistan, Indonesia and Japan and other countries of the Far East, and the remainder by Africa, the Middle East and the United States.

Most of the additional oversea exports of the United Kingdom during this period as a whole went to the sterling area countries. In the latter half of 1949 and the first half of 1950, however, the increase was mainly in exports to Canada and the United States. Except for the Netherlands, the western European countries as a whole increased their oversea exports to a far lesser extent than those referred to above. Most of the gain in the oversea exports of the Netherlands during 1949 represented larger Indonesian imports, though exports to the United States, Canada and Latin America also rose substantially.

Western Europe's oversea exports of motor vehicles and machinery registered the largest gains. On the other hand, exports of metals and manufactures in the first half of 1950 were probably below the level of the same period of the year before—the heaviest decline was in exports of such commodities to dependent oversea territories—and textile exports fell sharply to almost all areas except the United States.

WESTERN EUROPEAN IMPORTS FROM OVERSEAS

The distribution of western Europe's imports among the United States, other oversea countries and western European countries tended between 1948 and the middle of 1950 to return rapidly to a more normal pattern. Despite the continued reduction of imports from the United States after the middle of 1949, the quantum of imports of western European countries from all sources increased during 1949 and 1950, as may be seen in table 58.[20] The fall in imports of foodstuffs and raw materials from the United States was approximately offset by greater imports from other oversea sources, the increase in the total imports of western Europe being a result of the rise in intra-western European trade.

The most striking shift in the sources of western European imports occurred in the case of

[20] In general, countries whose imports were at a relatively low level in 1948—e.g., Germany, Austria, Denmark and the Netherlands—showed a larger increase in the quantum of their imports than others. Germany alone accounted for nearly one-half of the increase in continental western Europe in the first half of 1949 and just over this proportion in the second half of the year. In the first half of 1950, at least one-third of the increase was in Netherlands imports. See appendix table VI for the movement in individual countries.

Table 58. Value and Indices of Quantum and Unit Value of Imports of Western European Countries from One Another and from Overseas, 1948 to 1950 (First half)

(Current values in millions of United States dollars, c.i.f.)

Item	*1948 Semi-annual average*	*1949 First half*	*1949 Second half*	*1950 First half*
Current value	12,288	13,030	11,579	11,493
Intra-western European	3,894	4,341	4,328	4,526
Overseas and eastern Europe	8,394	8,689	7,251	6,967
Quantum index	100	106	109	116
Intra-western European	100	114	127	147
Overseas and eastern Europe	100	102	101	102
Unit dollar value index	100	100	86	81

Source: Economic Cooperation Administration, *Recovery Guides,* No. 16, October 1950.

Germany, which obtained more than half of its imports from western Europe in the first half of 1950, as compared to well under a third in 1948 (table 59). Other countries of continental western Europe also received about half of their total imports from intra-western European trade in the first half of 1950; this represented a considerable rise compared with 1948, when only about 40 per cent came from this source.

The shift in oversea imports from dollar to non-dollar sources was greatest in the case of the United Kingdom, where imports from non-dollar sources increased considerably at a time when dollar imports were sharply reduced. In addition to the significantly greater volume of goods obtained from western Europe, the United Kingdom also imported much larger amounts from the oversea sterling countries and Latin America. Germany also showed a sizable increase in its imports from oversea areas other than the United States—chiefly from Latin America[21] but from Asia and Africa as well—as its exports to these areas expanded. The aggregate volume of oversea imports of the rest of western Europe appears to have fallen owing to the reduction in imports from the United States while imports from other oversea areas remained relatively stable.

The growth of intra-western European trade and the reduction in imports from the United States were associated with important changes in the commodity composition of western Europe's imports during this period. Table 60 compares imports from various sources in the first half of 1950 with the corresponding period of 1949, with respect to foodstuffs, raw materials and manufactures, for continental western Europe and the United Kingdom. Total imports of foodstuffs by continental western Europe rose 10 per cent between these two periods, but raw material imports increased to a much smaller extent. Raw material imports, especially of raw cotton, were unusually high in the first half of 1949, however, so that there was probably a considerable increase in stocks. On the other hand, intra-European

[21] Especially from Argentina, but also to an important extent from Brazil and Uruguay.

Table 59. Value of Imports of Western European Countries from One Another and from Oversea Areas, 1948 to 1950 (First half)

(Based on exports of exporting countries in 1948 prices, f.o.b.; in millions of United States dollars)

Importing area	Total exports from Europe and overseas	Source of imports: Western European countries: Total	United Kingdom	Western Germany	Other western European countries[a]	Overseas and eastern Europe: Total	Dollar area[b]	Canada and United States	Rest of world[a]
Continental western Europe excluding western Germany:									
1948 Semi-annual average	6,474	2,616	658	267	1,691	3,858	1,599	1,444	2,259
1949 First half	6,665	2,802	662	392	1,748	3,863	1,755	1,584	2,108
1949 Second half	6,455	3,075	699	468	1,908	3,380	1,452	1,260	1,928
1950 First half	7,250	3,732	917	728	2,087	3,518	1,439	1,250	2,079
Western Germany:									
1948 Semi-annual average	842	245	50		195	597	476	437	121
1949 First half	1,130	440	48		392	690	506	480	184
1949 Second half	1,445	605	56		549	840	445	415	395
1950 First half	1,380	730	86		644	650	299	276	351
United Kingdom:									
1948 Semi-annual average	3,584	596		48	548	2,988	865	662	2,123
1949 First half	3,760	755		48	707	3,005	899	737	2,106
1949 Second half	3,980	899		66	833	3,081	868	784	2,213
1950 First half	4,015	853		53	850	3,162	650	500	2,512

Source: United Nations Department of Economic Affairs. Regional imports obtained by adjusting the data of each exporting region by the dollar unit values of its exports, except in the case of the "rest of the world". Total imports at 1948 prices of continental western Europe, western Germany and the United Kingdom obtained by applying the quantum indices of their imports in each period to the value in current prices of the world's exports to them in 1948. Exports of the rest of the world to these areas were estimated as the residual.

[a] Excluding imports from Iceland and Ireland, which are included in rest of world.

[b] For list of countries in dollar area, see appendix table XIV.

trade in manufactures was greatly expanded,[22] while the fall in imports of manufactures from the United States was relatively limited. As a consequence, the importance of manufactures in western Europe's imports in the first half of 1950 was far greater than a year earlier.

As was to be expected, the major shift in the source of western Europe's imports occurred in foodstuffs; the drastic reduction in food imports from the United States was more than offset by the rise in intra-European trade in foodstuffs and imports from oversea sources other than the United States. In the first half of 1949, continental western Europe was still obtaining more than a third of its food imports from the United States, but in the first half of 1950 this proportion had shrunk to a sixth, with a virtual halving of the volume of imports from that source. At the same time, the increase in exportable surpluses in western European countries enabled them to provide more than a fourth of their food import requirements from within western Europe as compared with only a sixth the year before. Supplies from other sources together were also about a fourth greater. The reduction in United Kingdom imports of foodstuffs from Canada and the United States was more than offset by imports from other sources, chiefly in Latin America.

The large reduction in western European imports of grains from the United States appears to have been counterbalanced for the most part by higher domestic production and, to a much smaller extent, by imports from other sources, since total imports of bread and coarse grains in the first half of 1950 were well below the level of the year before. On the other hand, western European imports of dairy and animal products—consumption of which had been rising at a relatively slow rate from depressed post-war levels—expanded sharply. Larger supplies of animal

[22] A large part of this increase consisted of trade in textiles, especially cotton textiles, intra-European trade in which was stimulated by the declining oversea demand and increasing Japanese competition in oversea markets.

Table 60. Value of Western European Imports of Food, Raw Materials and Manufactures, by Exporting Area, 1949 (First half) and 1950 (First half)

(In millions of United States dollars, c.i.f., in 1949 (first half) prices)

Source of imports	*Continental western Europe*			*United Kingdom*		
	Food, beverages, tobacco	*Raw materials*	*Manufactures*	*Food, beverages, tobacco*	*Raw materials*	*Manufactures*
Total:						
1949 First half	2,158	2,811	3,016	1,902	1,813	806
1950 First half	2,373	2,927	3,682	1,995	1,948	841
Western Europe:						
1949 First half	361	588	1,394	352	210	306
1950 First half	651	725	1,929	348	229	341
United Kingdom:						
1949 First half	31	159	493			
1950 First half	46	235	716			
United States:						
1949 First half	743	538	596	87	198	165
1950 First half	382	394	555	72	116	124
Canada:						
1949 First half	31	21	39	224	71	98
1950 First half	23	13	21	175	33	46
Rest of world:						
1949 First half	992	1,505	494	1,239	1,334	237
1950 First half	1,271	1,560	461	1,400	1,570	324

Source: United Nations Department of Economic Affairs. For method of obtaining total and regional imports in prices of the first half of 1949 see table 59; the same method was used for obtaining figures by commodity groups. Where unit value data were not available, estimates were made on other bases.

products were available from most European exporting countries—especially Denmark—as a result of continuing improvement in livestock production, so that it was possible to a great extent to replace exceptional post-war imports from the Western Hemisphere by imports from normal European suppliers. The very sharp increase in the consumption levels of fats and oils in western Europe between 1949 and 1950 was, on the other hand, largely based on a higher rate of oversea imports.

There was also some further reduction between 1948 and 1949 in the exceptional post-war dependence of western Europe on the United States for imports of a number of raw materials. Important in this connexion was the virtual cessation in the latter part of 1949 of United States exports of coal to western Europe as a result of the restoration of European self-sufficiency in this commodity. With the notable exception of raw cotton, exports of which increased somewhat, United States exports of most raw materials were lower in the first half of 1950 than a year earlier. The declines in raw material imports from the United States were more than offset in continental western Europe by the rise in trade in raw materials among the western European countries and, in the case of the United Kingdom, by increased imports of raw materials from oversea sources, particularly from sterling area countries and from Latin America.

Reduction in western Europe's import surplus

As a result of the developments in trade described above, the trade deficit of the continental countries of western Europe with the rest of the world declined in dollar terms from $4,600 million in 1948 to $3,100 million in the first half of 1950. Though both dollar and non-dollar deficits were reduced, there were differences in the magnitude and character of the reductions of these deficits and in the periods during which they occurred.

The annual rate of the deficit with the dollar area, which amounted to $3,200 million and accounted for two-thirds of the total trade deficit in 1948, was $200 million larger in the first half of 1949. However, in the second half of 1949 this deficit was reduced to $2,600 million and in the first half of 1950 to $2,100 million (annual rates). By contrast, the reduction of the entire non-dollar deficit of the region was realized in 1949, and the decline occurred at an even rate in each half of the year. During the first half of 1950 the non-dollar deficit showed a sizable increase while the dollar deficit was being reduced markedly.

The movements of trade underlying the changes in the trade balances of the United Kingdom during this period were generally similar to those of the rest of western Europe. The deficit of the United Kingdom with the dollar area showed little change in the course of 1949; the more pronounced fluctuation in the United Kingdom's trade balance with the United States was partly counterbalanced by opposite movements in trade with the rest of the dollar area. In the first half of 1950, however, the United Kingdom's trade deficit with the dollar area was reduced by $600 million and was less than half that of the preceding year (at annual rates), chiefly because of the curtailment of its dollar imports, not only from the United States, but from other countries of the dollar area as well. In addition, exports to the dollar area also rose slightly in this period.

The trade of the United Kingdom with non-dollar areas as a whole remained in fairly close balance during 1949 and the first half of 1950; the major change in balances with individual regions was a reduction in the United Kingdom export surplus with the oversea sterling countries. The traditional import surplus of the United Kingdom with the rest of western Europe re-emerged during 1949 but was replaced once again in the first half of 1950 by an export surplus. Owing to difficulties in the negotiations concerning the prices of imports from Argentina, which resulted in a considerable drop in United Kingdom imports from that source, the import surplus with the Latin American non-dollar countries was considerably lower in 1949 than in 1948 but returned to its previous level in the first half of 1950.

The Trade of Eastern Europe

Rising levels of production in eastern Europe during 1949 and 1950 provided the basis for a considerable enlargement of its trade. However, even more than in the case of western Europe, this expansion was concentrated in intra-regional trade. Trade between eastern Europe and the rest of the world—especially western Europe—remained stagnant at far lower than pre-war levels.

Trade between eastern Europe and the rest of the world before the war had accounted for almost nine-tenths of the total trade of eastern Europe, and trade within eastern Europe had been relatively small. In 1948, however, the latter trade accounted for almost half the total trade of the area. Owing to opposite movements in the trade of eastern Europe with the rest of the world and in the trade within the area, the proportion of trade among eastern European countries increased to over half of the total in 1949 and to an even greater extent in 1950 (table 61).

Stagnation of east-west trade

If dollar prices may be assumed to be double those prevailing before the war,[23] the volume of trade between eastern Europe and the rest of the world would have been about two-thirds of its 1938 level in both 1948 and 1949. During the first half of 1950 there were signs that this level of trade was being lowered[24] though trade agreements for the year 1950 appear generally to have envisaged the maintenance of trade at about 1949 levels.

Imports from western Europe under these agreements lagged considerably behind exports to that area because they consisted in large part of capital goods, orders for which are subject to longer delivery periods. Western Europe's deliveries to eastern Europe thus tended to rise as eastern Europe's exports levelled off or fell, with the result that earlier export surpluses of eastern with western Europe tended to disappear rapidly. In the case of sterling which eastern Europe had earned in its trade with the United Kingdom, part of the funds were used, as a result of difficulties in obtaining deliveries of capital goods, to purchase raw materials in oversea sterling countries —especially rubber, tin and wool.

The trade of the countries of eastern Europe during 1948 and 1949 is shown in table 62. During 1949 the volume of eastern European exports to western European countries remained at about

[23] The United States index of wholesale prices was 191 in 1948 and 180 in 1949 (1937 = 100).

[24] Data on the trade of ten western European countries with eastern Europe show a decline in their imports, from $900 million in 1948 to $665 million (at annual rates) in the first half of 1950. See United Nations, *Economic Bulletin for Europe*, vol. I, No. 2 and vol. II, No. 2.

Table 61. Estimated Value of Total Trade of Eastern Europe,[a] 1938, 1948 and 1949

(In millions of current United States dollars, f.o.b.)

Area	1938 Amount	1938 Per cent	1948 Amount	1948 Per cent	1949 Amount	1949 Per cent
Total exports	1,445	100	2,807	100	3,184	100
Within eastern Europe	168	12	1,264	45	1,640	52
Outside eastern Europe[b]	1,277	88	1,543	55	1,544	48
Western Europe	1,031	71	1,196	43	1,208	38
United States	80	6	112	4	82	3
Rest of world	166	11	235	8	254	8
Total imports	1,232	100	2,636	100	3,051	100
Within eastern Europe	168	14	1,264	48	1,640	54
Outside eastern Europe[b]	1,064	86	1,372	52	1,411	46
Western Europe	720	58	825	31	1,091	35
United States	150	12	137	5	81	3
Rest of world	194	16	410	16	239	8

Source: United Nations, *Economic Bulletin for Europe*, vol. 2, No. 2.

[a] Including Bulgaria, Czechoslovakia, Hungary, Romania, Poland, the Union of Soviet Socialist Republics and Yugoslavia.

[b] Including eastern Germany.

Table 62. Estimated Value of Trade of Eastern Europe with Western Europe,[a] the United States and Other Oversea Countries, 1938, 1948 and 1949

(In millions of United States dollars, f.o.b.)

Country[b]	Destination or source								
	1938			1948			1949		
	Western Europe	United States	Other countries	Western Europe	United States	Other countries	Western Europe	United States	Other countries
Eastern Europe, total:									
Exports	1,031	80	166	1,196	112	235	1,208	82	254
Imports	720	150	194	825	137	410	1,091	81	239
USSR:									
Exports	284	27	47	335	78	55	279	42	35
Imports	181	74	59	212	27	176	299	6	92
Poland:									
Exports	172	13	20	334	1	7	395	3	9
Imports	136	27	50	192	55	38	269	23	45
Czechoslovakia:									
Exports	198	26	62	311	23	129	263	18	180
Imports	135	27	55	242	30	170	264	22	75
Yugoslavia:									
Exports	102	6	5	101	5	14	124	14	9
Imports	75	8	10	100	8	16	126	21	14
Hungary:									
Exports	111	4	13	72	2	16	113	2	6
Imports	71	7	13	50	7	6	94	5	6
Romania:									
Exports	112	2	18	29	–	10	21	1	11
Imports	87	6	5	18	8	2	42	3	7
Bulgaria:									
Exports	52	2	1	14	3	4	13	2	4
Imports	35	1	2	11	2	2	15	1	–

Source: United Nations, *Economic Bulletin for Europe*, vol. 2, No. 2.

[a] Including both western and eastern Germany.
[b] In order of value of 1948 exports to western Europe.

two-fifths, and eastern European imports from western Europe at less than two-thirds, of pre-war levels. The sharp downward movement of trade between eastern Europe and western European countries, other than Germany, in the first half of 1950 was offset to a slight extent by an increase in western Germany's trade with eastern Europe.[25]

There does not appear to have been a significant change in the character of the goods exchanged between eastern and western Europe. This trade consists predominantly of exports of foodstuffs and raw materials by eastern Europe in exchange for manufactures—especially capital goods. The most important developments in this period were the decline in the export of Polish coal to France and other western European countries and the increase by western Europe of the list of items, chiefly equipment and other capital goods, which were not exportable to eastern Europe owing to their possible military value.

As can be seen from tables 61 and 62, eastern European trade with the United States has been even more severely affected. The export surplus of the Union of Soviet Socialist Republics with the United States in 1948 was reduced as exports to the United States were halved, and imports from that country shrank to negligible amounts in 1949 and 1950. This surplus had to a large extent offset the import surplus of the rest of eastern Europe with the United States in 1948 and 1949. However, the contraction of United States exports to the latter areas and the increase in imports from eastern Europe after 1948 led to the virtual disappearance of the import surplus by the first half of 1950.

[25] Especially with Hungary and Yugoslavia.

The trade of eastern Europe with the United States has been largely influenced by non-economic factors. The contraction of eastern European imports from the United States has undoubtedly reflected the extension by the United States of the list of exports prohibited for reasons of national security. The share of capital goods in United States total exports to the Union of Soviet Socialist Republics and other eastern European countries[26] fell from about a half in 1948 to a sixth in the first half of 1950. Although eastern European exports to the United States have not fallen to the same degree, the Union of Soviet Socialist Republics has in turn reduced its exports of chrome and manganese ores to the United States so that furs represent the most important item of its current exports.

In contrast to the downward movement of the trade of eastern Europe with western Europe and the United States, its trade with the rest of the world, though a relatively small proportion of the total, was fairly well maintained during 1949. Czechoslovakia and the Union of Soviet Socialist Republics accounted for the bulk of this trade.

Expansion of trade among eastern European countries

While it is possible to obtain indirect data on the trade of eastern European countries with other regions from the returns of their trading partners, the available statistical information permits only rough estimates of their trade among themselves.

The main development in the trade of eastern Europe during the period under review was the further growth of trade between the Soviet Union and the other countries of the area. The foreign trade turnover of the Union of Soviet Socialist Republics during 1949 is reported to have been more than double that of 1940. The increase is stated to have been due entirely to the growth of the Soviet Union's trade with other eastern European countries, which had come to account for two-thirds of the total volume of Soviet trade. Estimates of the trade of the Union of Soviet Socialist Republics, shown in table 63, are based on data reported by its trading partners or, where these are lacking, as in the case of eastern European countries, on estimates derived from published trade agreements and other sources.[27] It will be seen that, in spite of a drastic curtailment of Soviet trade with Yugoslavia from 1948 to 1949,[28] the dollar value, and probably the volume, of trade between the Union of Soviet Socialist Republics and the specified eastern European countries rose by about 50 per cent in 1949.

From the point of view of eastern European countries other than the Union of Soviet Socialist Republics, there was a continuation during this

[26] Bulgaria, Czechoslovakia, Hungary, Poland and Romania.

[27] United Nations, *Economic Bulletin for Europe*, vol. 2, No. 2, pages 88 and 89.

[28] Exports of the Union of Soviet Socialist Republics to Yugoslavia declined from $34 million to $5 million and imports dropped from $45 million to $9 million.

Table 63. Estimated Value of Trade of the Union of Soviet Socialist Republics[a] with Eastern Europe and Rest of World, 1938, 1948 and 1949

(In millions of United States dollars in current prices, f.o.b.)

Item	*1938*		*1948*		*1949*	
	Amount	*Per cent*	*Amount*	*Per cent*	*Amount*	*Per cent*
Exports	365	100	877	100	1,018	100
To eastern Europe[b]	7	2	409	47	662	65
To rest of world	358	98	468	53	356	35
Imports	328	100	804	100	950	100
From eastern Europe[b]	14	4	389	48	553	58
From rest of world	314	96	415	52	397	42

Source: United Nations, *Economic Bulletin for Europe*, vol. 2, No. 2, table XXI.

[a] Trade of Estonia, Latvia and Lithuania included in data for the Union of Soviet Socialist Republics in 1938.

[b] Bulgaria, Czechoslovakia, Hungary, Poland, Romania, Yugoslavia.

Table 64. Estimated Value of Trade of Six Eastern European Countries[a] with One Another, with the Union of Soviet Socialist Republics and Rest of World, 1938, 1948 and 1949

(In millions of United States dollars in current prices, f.o.b.)

Item	1938		1948		1949	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Exports	1,080	100	1,930	100	2,166	100
To one another	147	14	466	24	425	20
To USSR[b]	14	1	389	20	553	26
To rest of world	919	85	1,075	56	1,188	54
Imports	904	100	1,832	100	2,101	100
From one another	147	16	466	26	425	20
From USSR[b]	7	1	409	22	662	32
From rest of world	750	83	957	52	1,014	48

Source: United Nations, *Economic Bulletin for Europe*, vol. 2, No. 2, table XXI.

[a] Bulgaria, Czechoslovakia, Hungary, Poland, Romania, Yugoslavia.

[b] Figures for 1938 include Estonia, Latvia and Lithuania.

period of the marked shift towards increased trade with the Soviet Union and, to a lesser extent, with one another. The apparent decline in 1949 of the trade of these countries with one another, as shown in table 64, reflects the reduction in trade with Yugoslavia. However, the trade of these countries with one another, aside from Yugoslavia, appears to have continued to increase through 1949.

It is not clear whether the increased volume of trade of the smaller eastern European countries, as a group, with the Soviet Union and with one another since the war has sufficed to offset the decline in their trade with the rest of world, as compared with pre-war. By 1949, the quantum of their trade may have approached the pre-war level. The estimates for individual eastern European countries suggest that Czechoslovakia and Poland have perhaps restored and even exceeded pre-war trade levels, while Bulgaria, Hungary, Romania and Yugoslavia have not apparently reached these levels.

As can be seen from table 64, the smaller eastern European countries, taken together, do not rely as heavily on trade with other eastern European countries as does the Union of Soviet Socialist Republics. In 1949, 54 per cent of their exports were to countries outside eastern Europe and those of the Union of Soviet Socialist Republics amounted to only 35 per cent. On the import side, both the Union of Soviet Socialist Republics and the other eastern European countries obtained 40 to 50 per cent of their imports in 1949 from outside the area. As table 65 indicates, there were extensive differences among individual eastern European countries in this respect. The trade of Czechoslovakia and Poland with eastern European countries accounted for less than half of their total trade in 1949. On the other hand, Bulgaria and Romania conducted four-fifths of their trade with other eastern European countries, as against a fifth before the war.

The trade of Yugoslavia with the Union of Soviet Socialist Republics and other eastern European countries was severely contracted as a result of political difficulties in the middle of 1948. This led to a reduction in the share of Yugoslav imports from eastern Europe, from 52 per cent in 1948 to 20 per cent in 1949, and of exports to that area from 56 per cent in 1948 to 15 per cent in 1949 (table 65). There was a drop of 22 per cent in the total imports of Yugoslavia between these two years and a decline of 36 per cent in total exports. These declines occurred in the face of increases in Yugoslavia's imports from Austria, Germany and the United States and in its exports to Austria, Germany, the United Kingdom and the United States. These trends appear to have continued during the first half of 1950.

Though Finland's trade with other eastern European countries accounted for only about a fifth of its trade in 1949, a marked further growth of its trade with the Soviet Union was fore-

Table 65. Estimated Percentage Distribution of Trade of Eastern Europe with the Union of Soviet Socialist Republics, other Eastern European Countries and Rest of World, 1938, 1948 and 1949

Country and item	1938 USSR	1938 Other eastern European countries	1938 Rest of world	1948 USSR	1948 Other eastern European countries	1948 Rest of world	1949 USSR	1949 Other eastern European countries	1949 Rest of world
Destination or source									
Bulgaria:									
Exports	–	11	89	47	30	23	48	34	18
Imports	–	17	83	65	23	12	64	26	10
Czechoslovakia:									
Exports	3	17	80	16	22	62	24	19	57
Imports	2	16	83	17	21	62	29	20	51
Hungary:									
Exports	–	13	87	17	27	56	23	27	50
Imports	–	22	78	17	39	44	23	29	48
Poland:									
Exports	1	7	92	21	15	64	21	15	64
Imports	1	7	92	24	19	57	34	14	52
Romania:									
Exports	–	18	82	34	36	30	53	30	17
Imports	–	22	78	34	37	29	46	34	20
Yugoslavia:									
Exports	–	13	87	17	39	44	5	10	85
Imports	–	25	75	13	39	48	3	17	80

Source: United Nations, *Economic Bulletin for Europe*, vol. 2, No. 2, table XXI.

shadowed by the terms of two trade agreements concluded between these countries in June 1950. According to these agreements, the drop in Finnish exports to the Union of Soviet Socialist Republics during the first half of 1950 was to be reversed during the remainder of the year so as to restore Finnish trade with the Soviet Union for 1950 and 1951 nearly to 1949 levels. Subsequently, Finnish exports to the Union of Soviet Socialist Republics were to increase gradually, to a third above 1950 levels by 1955.

Eastern Germany's trade with eastern Europe has also shown rapid growth, but there are few indications of its level. According to a trade agreement, details of which were announced in April 1950, trade between eastern Germany and the Soviet Socialist Republic was to be raised in 1950 to levels 35 per cent above those of 1949. Agreements with Bulgaria and Poland provided for 500 per cent and 60 per cent increases, respectively, in trade with these countries in 1950.

The published texts of trade agreements reveal the diversity of the trade between eastern European countries and, in particular, between the Soviet Union and the other countries of the region. Under the trade agreement between eastern Germany and the Union of Soviet Socialist Republics, 85 per cent of the exports of the Union of Soviet Socialist Republics to Germany were to consist of foodstuffs and raw materials, while a similarly high proportion of eastern Germany's exports were to consist of finished manufactures like industrial equipment, precision machinery, optical instruments, porcelain and glassware, chemical products and so on. Similarly, the Finnish-Soviet trade agreement provided for an increasing proportion of Finnish exports, consisting of metal products and ships, which would account for 70 per cent of Finnish exports by 1955, and would almost entirely absorb the production of the Finnish metal industry and shipbuilding yards in that year. On the other hand, the agreement between Bulgaria and the Union of Soviet Socialist Republics apparently included provision for substantial Soviet deliveries of metals, ores and industrial and agricultural machinery in exchange for Bulgarian exports of tobacco, cement and certain metal concentrates.

The composition of trade among the smaller eastern European countries appears to reflect the established pattern of specialization among them; Czechoslovakia and eastern Germany are the main sources of manufactures traded against the primary products of other countries.

Generally, it seems likely, both from indications afforded by the trade agreements for 1950 and subsequent years and from the continuing deadlock in east-west trade, that the magnitude and relative importance of the intra-regional trade of eastern European countries will continue to grow in the period ahead. This trend has been reinforced by triangular agreements among the countries of the region; these tend to reduce the need for a close bilateral balancing of trade. On the basis of present indications, trade between eastern Europe (including the USSR) and China may be expected to increase and, in view of the deterioration of the latter's trade with western Europe and the United States, to accentuate the compartmentalizing of the trade of the East and the West.

Re-emergence of Export Surpluses of Countries Exporting Primary Commodities

Changes in the trade of the United States and of western Europe, described earlier, were reflected, on the obverse side, in the sharp decline of the trade deficit of the rest of the world, which is principally a supplier of primary commodities in international trade. After an exceptional rise in the first half of 1949, the import surplus of these countries as a group fell steeply in the last half of the year and became a substantial export surplus in the first half of 1950.[29]

This change in the trade balance was chiefly a consequence of the reduction of the trade deficit with the United States because of the drastic contraction in imports from that country; in addition, however, the value of exports to the United States rose, owing both to larger quantum and to higher prices of primary commodities. On the other hand, there was a moderate reduction between 1948 and the first half of 1950 in the export surplus with western Europe, owing to the fact that the value of imports from that area increased more than the value of exports. If the terms of trade had not moved materially in favour of the countries producing primary commodities, the reduction in their export surplus with western Europe would have been very much larger.

Following the deterioration of the trading position of the rest of the world, as a whole, with the United States in the first half of 1949—when the value of exports fell and the value of imports rose by similar amounts—there was a rapid improvement in trade balances with the United States consequent upon the tightening of restrictions against imports from that country. Despite the fact that the position of the countries producing primary commodities was greatly improved by an increase in the value of their exports to the United States in the first half of 1950, they further reduced their imports from the United States.

The trade balances of Canada and of the rest of the dollar area exclusive of the United States with western Europe moved in the opposite direction to that of most of the areas producing primary commodities. In common with the United States, Canada and the Latin American dollar countries suffered sharp reductions in their export surpluses to western Europe in the first half of 1950, owing to restrictions on dollar imports. However, the over-all balances of Canada and the rest of the dollar area were not affected significantly, because of the sharp cut in their import surpluses with the United States.[30]

Among the more important factors during this period that affected the trading position of countries which are principally exporters of primary commodities were the recovery of European production and trade, the considerable fluctuation in the United States demand for raw materials and in the prices of primary commodities in inter-

[29] See table 49.

[30] Owing to the increase in the value of their exports to the United States and, in the case of Latin America, also to the reduction of imports from the United States.

national trade, the drawing on gold and foreign exchange reserves (including sterling) accumulated during the war and the improvement in the terms of trade resulting from devaluation. The importance of these factors varied greatly among different regions and groups of countries.

Trade of the Latin American countries[31]

The recovery of western European production and trade had important repercussions on the trading position of Latin America. Western Europe's abnormally high import requirements and limited export capacity in the post-war period resulted in sizable import surpluses in its trade with Latin America. Western Europe financed its deficit to varying degrees from its gold and dollar reserves, the sale of its foreign investments in the area, offshore purchases under the European Recovery Program and credits extended by the Latin American countries themselves.

Since the improvement in western European production and exportable surpluses coincided with the drawing down of dollar reserves in some Latin American countries, western Europe found a ready market for its exports in Latin America in the latter half of 1949. At the same time, there was a sharp contraction in the volume as well as the value of European imports from Latin America during 1949. As a consequence, the large export surplus of the latter area with Europe, amounting to more than $800 million in 1948, was reduced drastically. Latin America's export surplus with western Europe was restored to a significant extent in the first six months of 1950, owing chiefly to the decline in the cost of its imports but also to the recovery in the value of its exports to that area. The latter changes were associated with the movement of the terms of trade in favour of Latin America.

In contrast with these developments in Latin America's trade with Europe, as shown in table 66, there was a drastic reduction in its trade deficit with the United States, owing to the tightening of import restrictions about the middle of 1949. This tightening was prompted mainly by the fact that the rate of imports from the United States to a number of Latin American countries in the latter part of 1948 and the early months of 1949 had caused a considerable lowering of their dollar and gold reserves. In addition, however, there may have been some fear of further declines in the proceeds of the sale of their exports to the United States on the part of a few countries which suffered a relatively limited fall in the value of their raw material exports to the United States in the second quarter of 1949. In fact, however, the value of United States imports from Latin America in 1949 was only slightly lower than in

[31] Exclusive of Non-Self-Governing Territories.

Table 66. Latin American[a] Trade Balances, 1948 to 1950 (First half)

(In millions of United States dollars in current prices)

Item	1948 Semi-annual average	1949 First half	1949 Second half	1950 First half
Total trade:				
Imports (c.i.f.)	3,052	2,765	2,560	2,365
Exports (f.o.b.)	3,302	2,767	2,808	3,015
Balance	250	2	248	650
Trade with United States:				
Imports[b] (f.o.b.)	1,604	1,490	1,248	1,247
Exports (f.o.b.)	1,244	1,205	1,188	1,281
Balance	—360	—285	—60	34
Trade with western Europe:				
Imports[b] (f.o.b.)	634	625	677	613
Exports (f.o.b.)	1,063	766	773	786
Balance	429	141	96	173

Source: United Nations Department of Economic Affairs. Based on national statistics; partly estimated.

[a] Exclusive of balances of Non-Self-Governing Territories.
[b] Based on exports to Latin America.

Table 67. Value of Exports of Latin American Countries,[a] 1948 to 1950 (First half)

(In millions of United States dollars, f.o.b.)

Item	1948 Semi-annual average	1949 First half	1949 Second half	1950 First half
In current prices:				
Total exports	3,302	2,767	2,808	3,015
In 1948 prices:				
Total exports	3,302	2,819	3,150	2,945
Total, excluding Argentina	2,490	2,301	2,490	2,160
Dollar countries	1,553	1,492	1,550	1,491
Non-dollar countries	1,748	1,327	1,600	1,454
Argentina	812	518	660	..
Brazil	586	458	596	..
Others	350	351	344	..

Source: United Nations Department of Economic Affairs. Based on national statistics; partly estimated.

[a] Exclusive of exports of Non-Self-Governing Territories.

the previous year, dropping to a low in the third quarter and recovering in the final quarter to a level less than 10 per cent lower than the peak reached in the first quarter of 1948. Latin American exports to the United States rose again in the first half of 1950, when United States industrial activity expanded, but imports from the United States were no higher than in the preceding semi-annual periods and considerably below those of the corresponding period of 1949.

The quantum of Latin America's total trade, which fell considerably in 1949, increased in the first half of 1950 but was well below the 1948 level, as tables 67 and 68 show.[32] Argentina accounted for as much as two-thirds of the decline in the value of Latin American exports between 1948 and 1949. The fall was largely in exports to

[32] For value of imports and exports of individual countries in current prices, see appendix tables VII and VIII.

Table 68. Value of Imports of Latin America[a] from the United States, Canada, the United Kingdom and Rest of Western Europe, 1948 to 1950 (First half)

(Based on exports of exporting countries; in millions of United States dollars, f.o.b., in 1948 prices)

Period	Source of imports: Canada	United States	United Kingdom	Rest of western Europe	Total
Latin America, total:					
1948 Semi-annual average	88	1,604	251	383	2,326
1949 First half	73	1,536	241	358	2,208
1949 Second half	60	1,356	270	503	2,189
1950 First half	57	1,370	268	515	2,210
Dollar countries:					
1948 Semi-annual average	60	1,049	67	93	1,269
1949 First half	55	1,076	58	88	1,277
1949 Second half	45	991	49	101	1,186
1950 First half	41	1,046	74	144	1,305
Other countries:					
1948 Semi-annual average	28	555	184	290	1,057
1949 First half	18	460	183	270	931
1949 Second half	15	365	221	402	1,003
1950 First half	16	324	194	371	905

Source: United Nations Department of Economic Affairs. Value of exports in current prices from each country to specified Latin American countries, adjusted for changes in over-all dollar export unit values of exporting countries.

[a] Exclusive of imports of Non-Self-Governing Territories.

Europe, chiefly to the United Kingdom and Italy, and was heavily concentrated in wheat, maize and wool. This sharp decline reflected the resistance of importing countries to the relatively high prices of Argentine exports, which in turn were a result both of poor harvests and of its export policy, implemented by means of dual pricing and multiple exchange rates. At the end of 1949 and in the first half of 1950, there was a substantial increase in Argentine exports. Under new trade agreements, exports of all cereals rose 50 per cent in the first half of 1950 as compared with the same period of the year before. Wool exports were also higher, but exports of meat fell somewhat.[33] In spite of the fact that exports to the United States recovered to 1948 levels, Argentina's total exports in the first half of 1950 were considerably below the level of 1948, both in value and volume, since exports to western Europe failed to return to the level of the earlier period.

Developments in the coffee trade largely explain the movement of the value of Brazilian exports during the period under review. The value of total exports in current prices rose sharply late in 1949, owing to the rise in coffee prices. The quantity of exported coffee fell 30 per cent, however, between the first half of 1949 and the first half of 1950, both because government stocks of coffee had been exhausted late in 1949 and because the output of the current crop was relatively low. None the less the value of Brazilian exports increased 30 per cent between these two periods, owing to a further rise in coffee prices; world coffee prices in the first half of 1950 were 60 per cent higher than the average for the same period a year earlier.

In addition to the developments discussed above, Latin America's exports of cotton, non-ferrous metals and nitrates, as well as sugar, were all reduced in volume between 1948 and 1949.[34] The sharp fall in Cuban exports of sugar to Europe was, next to the general decline in Argentine exports, the single most important factor in the drop in Latin American exports during this period. The volume of exports of most of these commodities reached, or rose above, 1948 levels in the first half of 1950.

Of the remaining Latin American countries, Bolivia, Chile and Venezuela were especially affected by sharp fluctuations in prices and in the United States demand for raw materials.[35] In June 1949 the gold and foreign exchange reserves of Chile were about 15 per cent higher than at the end of 1948. This largely reflected an increase of more than 10 per cent in the volume of Chilean copper exports to the United States between 1948 and the first half of 1949, while its imports rose only moderately. By the end of 1949, however, the reserves fell to a level about 20 per cent below that of December 1948, mainly as a result of a reduction from 1948 levels in the last half of 1949 of 30 per cent in the volume of copper exports to the United States and of 25 per cent in prices. Since the imports of Chile continued to rise in the second half of 1949 as the gross national income of the country was maintained, the sizable export surplus of the first half of the year was turned into a large deficit. This deficit, in turn, was eliminated entirely during the first half of 1950 as a result of the cuts in imports which were made effective early in the year. Following the outbreak of the Korean conflict, the situation was changed once more. The rise in copper prices to a new post-war record level of 24.5 cents per pound in September 1950 permitted the relaxation of the foreign exchange budget for Chilean imports.

Although the price of tin rose in the first half of 1949, the value of Bolivian exports fell, mainly because of a decline in the volume of tin shipped to the United Kingdom. Since at the same time there was an increase in imports—particularly of cotton fibres and manufactures from the United States—the export surplus of Bolivia contracted in this period, and reserves were drawn down to some degree. Although tin prices fell continuously

[33] The principal markets for the additional exports of grains were Germany, Japan and Brazil. The increased exports of wool went mainly to France and the United States, exports to the latter country being three times the quantity exported in the same period of the preceding year. Exports of meat to the United Kingdom were maintained at earlier levels despite failure to reach an agreement on prices following devaluation.

[34] For the volume of the principal commodities exported by Latin America to different areas, see appendix table IX.

[35] In 1949 copper and nitrates were responsible for about 70 per cent of the total value of Chilean exports —copper alone for 50 per cent—while petroleum accounted for about 95 per cent of the exports of Venezuela and tin for 68 per cent of those of Bolivia.

from September 1949 to February 1950, a further reduction of Bolivia's export surplus was avoided because of a rise in the volume of its tin exports and a reduction in its imports. Despite severe cuts in imports in the final quarter of 1949, Bolivia's balance of trade was little improved in the first half of 1950. The price of tin failed to share in the general rise in metal prices during this period, and the volume of tin exports fell, particularly in trade with the United States, as a result of difficulties in reaching an agreement on prices with the Reconstruction Finance Corporation.[36]

Although the value of Venezuela's exports was maintained from 1948 to the first half of 1950, there has been a reduction in its imports since the middle of 1949 owing to the decline in the level of United States investment in the petroleum industry in that country. Venezuela's petroleum exports to western Europe, most of which are trans-shipped from the Netherlands Antilles in refined form, fell off in the first half of 1949, but subsequently recovered. Although its export surplus was halved in the first six months of 1949, when exports fell off, and imports, especially machinery and metals, rose, the surplus has since increased sharply as exports have more than reached their 1948 value, while imports of machinery have continued to decline. This has not resulted in any increase in Venezuela's foreign exchange reserves over the 1948 level owing to the drastic cut in investment from United States sources since the middle of 1949.

Since mid-1950 there has been a remarkable increase in the value of Latin American exports owing to the higher United States demand for raw materials and the sharp rise in prices. These developments have led to a relaxation of restrictions on dollar imports. In the third quarter of 1950 the rise in Latin American exports of foodstuffs and raw material to the United States was a major factor in the continued reduction of the total United States export surplus and the emergence in August of a small import surplus for the first time since the end of the war.

[36] Under the terms of an agreement reached early in August, approximately half of the tin production in the first half of 1950 which remained unsold during the negotiations was to be purchased at the average July to September world market price.

Oversea sterling area

The oversea sterling area as a whole experienced a considerable deterioration in its trade balance during 1949 but emerged in the first half of 1950 with a large export surplus for the first time since the end of the war. While the deterioration in the former period stemmed from the loss in dollar earnings in exports to the United States and the sharp rise in imports from western Europe—primarily the United Kingdom—the drastic improvement in the latter period was due to the rise in the value of exports, both to the United States and western Europe, mainly on account of price changes, as well as to the severe reduction in imports from the United States.

The Union of South Africa and India accounted for most of the reductions in imports from the dollar area between 1948 and the first half of 1950. The fall in the former country's imports was responsible for virtually all of the decline for the group, including Australia, New Zealand and the Union of South Africa, shown in table 69. The corresponding reduction in the rest of the sterling area between 1948 and the first half of 1950 was much smaller, but the drop from the high point reached in the first half of 1949 to the latter period was more than a third.

The decline in the imports of the oversea sterling area from the United States, and also from Canada, was offset by larger imports from the United Kingdom. As may be seen from table 69, this rise occurred in the first half of 1949, and there has since been relatively little change in the quantum of the United Kingdom's exports to the oversea sterling countries. However, as pointed out later,[37] though the real volume of the United Kingdom's exports to the sterling area as a whole in the first half of 1950 was a little higher than in the same period of the preceding year, the United Kingdom's exports to sterling area countries, excluding India and the Union of South Africa,[38] had increased considerably. Imports from the United Kingdom by sterling area countries other than India and the Union of South Africa, of virtually all categories of manufactures, especially passenger cars and vehicles increased

[37] See chapter 10.

[38] Owing to the drastic reduction of total imports, regardless of source.

Table 69. Value of Imports of Oversea Sterling Area from Dollar Area, Western Europe and Rest of World, 1948 to 1950 (First half)

(Based on exports of exporting countries; semi-annual rates in millions of United States dollars in 1948 prices, f.o.b.)

		Source of imports					
		Dollar area			*Non-dollar area*		
Period	*Total*	*Canada*	*United States*	*Total dollar area*	*United Kingdom*	*Rest of western Europe*	*Rest of world*
Australia, New Zealand and Union of South Africa:							
1948	1,453	70	319	393	641	118	301
1949 First half	1,439	63	265	334	725	104	276
1949 Second half	1,478	59	218	282	734	113	349
1950 First half	1,418	42	155	198	786	124	310
Rest of sterling area:							
1948		69	312	406	764	172	
1949 First half		89	383	501	899	235	
1949 Second half		72	303	400	891	242	
1950 First half		47	297	367	860	216	

Source: United Nations Department of Economic Affairs. See table 68 for method of obtaining values in 1948 prices.

between 1949 and the first half of 1950—with the notable exception of textiles. Although there was a considerable contraction of textile imports from the United Kingdom, the general decline in such imports and the larger share of Japan in this trade affected the exports of the United States and western Europe to a greater extent than those of the United Kingdom.

The reduction of imports from the United States between 1948 and the first half of 1950 does not appear to have depressed the level of total imports of most oversea sterling countries. Australia, which did not reduce its imports from the United States between these periods, continued to expand its total imports throughout 1949 and the first half of 1950; the level of its imports in the latter period was nearly one-half again as high as that of 1948. However, as table 70 shows, both India and the Union of South Africa, which had had large import surpluses with the United States and the United Kingdom, cut their total imports drastically after the middle of 1949.

The increase in the volume of exports of the oversea sterling area between 1948 and 1949 was accounted for largely by Australia and New Zealand and, to a relatively minor extent, by India and the Union of South Africa. Virtually all sterling area countries, however, shared in the subsequent expansion which took place in the first half of 1950. A reduction in exports to the United States between 1948 and 1949 was more than counterbalanced by a larger volume of exports to other areas, principally the United Kingdom. During the first half of 1950, exports of the oversea sterling area rose considerably, to both the United States and Canada as well as to western Europe.

The exports of the oversea sterling area have been especially influenced by fluctuations in the demand for, and the prices of, rubber, tin and wool during the period under review. Table 71 shows the quantities of exports of these commodities to various areas between 1948 and the first half of 1950. Higher imports by the United States accounted for most of the increase in wool and tin exports between these two periods. When United States imports of wool declined in the first half of 1949, western European and other importers took advantage of the buyers' market to increase their purchases. After the middle of 1949, the United States re-entered the wool market on a larger scale, in order to replenish dwindling stocks.

The movement in exports of Malayan tin was largely determined by United States stockpiling of this commodity, which accounted for the entire increase in the volume of such exports in 1949. The demand for tin from western Europe and

Table 70. Value of Exports and Imports of Major Oversea Sterling Area Countries, 1948 to 1950 (First half)

(In millions of United States dollars; exports, f.o.b., and imports, c.i.f.; in 1948 prices)

Country	Exports: 1948 Semi-annual average	Exports: 1949 First half	Exports: 1949 Second half	Exports: 1950 First half	Imports: 1948 Semi-annual average	Imports: 1949 First half	Imports: 1949 Second half	Imports: 1950 First half
Australia	826	870	805	867	675	820	874	992
Ceylon	142	137	147	162	151	178	148	174
India	648	602	738	657	734	1,068	892	695
Malaya	406	397	408	435[a]	421	432	419	480
New Zealand	250	400	207		222	. .	. .	. .
Union of South Africa	272	271	315	358	781	714	576	485

Source: United Nations Department of Economic Affairs. Current values converted to values in 1948 prices on basis of dollar unit values or quantum indices.
[a] Estimated.

other areas has not been strong, but the fear of shortages resulting from larger United States purchases and the possibility of reduced supplies from the Far East occasioned substantially larger purchases during the first half of 1950. The fall in the United States demand for rubber in 1949 was in part counterbalanced by very much larger purchases by Europe, as in the case of wool. When the volume of United States imports rose in the first half of 1950 to the level of 1948, European imports contracted to earlier levels.

Since June 1950 sterling area exports to the United States have expanded rapidly. The dollar value of exports of Malaya and Ceylon doubled in the third quarter of 1950 as compared with the same period a year earlier. This corresponded to an increase in dollar earnings at annual rates of nearly $200 million. Prices of key dollar earning commodities of the sterling area have rocketed, owing to the intensified buying of raw materials stimulated by the drastic upward revision of United States purchases of strategic materials.

Table 71. Volume of Exports of Rubber, Tin and Wool by Major Sterling Area Exporters, 1948 to 1950 (First half)

(In thousands of metric tons)

Item	Total	Destination: United Kingdom	United States	Western Europe	Eastern Europe	Rest of world
Rubber exports of Malaya and Ceylon:						
1948 Semi-annual average	544.0	97.6	213.0	98.9	58.9	78.6
1949 First half	500.5	88.9	157.8	132.5	41.7	82.6
1949 Second half	504.8	98.6	152.3	116.5	40.0	97.4
1950 First half	521.3	104.4	196.2	102.1	40.3	78.3
Tin metal exports of Malaya:						
1948 Semi-annual average	24.0	0.08	15.0	3.1	0.5	5.2
1949 First half	26.4	0.04	19.0	1.8	1.3	4.3
1949 Second half	29.2	0.07	25.6	2.2	0.7	0.6
1950 First half	38.9	2.80	27.5	5.7	0.2	2.7
Wool exports of Australia and New Zealand (greasy basis):						
1948 First half	418.4	167.9	38.6	166.2	18.1	27.6
1948 Second half	334.1	123.2	25.6	145.1	16.7	23.5
1949 First half	448.2	183.3	25.0	170.5	34.7	34.7
1949 Second half	348.1	147.9	38.7	118.5	15.2	27.5
1950 First half	468.9	186.6	54.3	162.4	28.0	37.5

Source: Statistical bulletins of the Rubber Study Group and the International Tin Study Group; Commonwealth Economic Committee, *Wool Intelligence* (London).

Canada

There was a pronounced shift in Canada's trade with the United States and western Europe from 1948 to the first half of 1950. Apart from a moderate increase in the proportion of imports from the United Kingdom, imports during that period did not change materially in direction. However, exports to the United States, which represented about 50 per cent of total exports during the first half of 1949, rose to 64 per cent of the total during the corresponding period of 1950, while exports to the United Kingdom fell from about 24 per cent to 16 per cent of the total. Before the war, Canadian exports to the United States amounted to only a third of its total trade; most of the increase in its exports after the war went to the United States. With the contraction of exports to western Europe in the first half of 1950 and the increase in exports to the United States, Canada's trade was linked, to an even larger extent than in earlier post-war years, with the United States.

As a result of a substantial decline in the value of exports and a somewhat smaller rise in imports, Canada's merchandise surplus with the United Kingdom, which was approximately $400 million in 1949, virtually disappeared during the first half of 1950. Preliminary figures for Canada's trade with the sterling area during the third quarter of 1950 indicate that a small deficit has in fact emerged. At the same time, Canada's trade deficit with the United States, which was about $400 million in 1949, dropped by more than half during the first part of 1950. This reflected a large expansion in the value of Canada's exports to the United States—partly as a result of price increases. This movement accelerated in the third quarter of the year and resulted in an approximate balance between imports and exports.[30] During this period United States aid to Europe through offshore purchases in Canada continued on a considerable scale. Such purchases, largely for the account of the United Kingdom, amounted to $178 million in the first half of 1950 as against $417 million during the whole of 1949.

Other areas

Developments during the period under review in the trade of certain countries in the rest of the world merit special mention. Of the countries of the Far East whose trade continued to be influenced by war devastation and political difficulties, China's external trade was most affected. Although data are meagre, it seems clear that trade was considerably reduced during 1949, especially in the second half of the year. The important change in the trade of China proper with the world has, of course, been the deterioration in trade with the United States, but trade with other countries has suffered as well. On the other hand, there was a large increase in the first half of 1950 in the important entrepôt trade of Hong Kong, especially in Chinese imports. The value of Hong Kong exports to China (in the currency of the former) increased from two to three times between the first half of 1949 and the same period of 1950; the increase was considerably greater for exports to areas of China where rehabilitation had progressed most.

A pact of alliance and mutual aid in February 1950 between the Central People's Government of the People's Republic of China and the Union of Soviet Socialist Republics provided for a substantial exchange of goods in connexion with a loan extended by the latter.[40] Under this agreement, the Soviet Union was to deliver industrial installations and equipment, including electric power plants, machines, mining installations, transportation equipment and other products and materials needed for rehabilitation and development; and in turn to receive raw materials and tea in addition to gold and United States dollars for repayment of the loan.

The abnormal post-war dependence of Japan's economy on imports from the United States[41] was substantially reduced after the middle of 1949 by

[30] Although these changes may reflect temporary factors to some degree, it may be observed that the expansion of petroleum production, one of the main objects of the recent increase of foreign direct investments in Canada, is expected in the long run to reduce substantially the dependence of Canada on imports from the United States.

[40] For terms of loan, see chapter 8.

[41] See earlier section in this chapter on imports from the United States for a discussion of the reduction of Japanese imports from the United States and the sources from which they were replaced. Although Japan is primarily an exporter of manufactures, a brief discussion of its trade is included in this section as a matter of convenience.

some restoration of pre-war markets for its exports and by the replacement of United States imports. Although these developments to some extent paralleled events in Germany, the recovery of Japan's export trade was extremely limited, and exports in the first half of 1950 were only a fraction of their pre-war volume. The value of Japanese exports more than doubled between 1948 and the first half of 1950. Despite the consequent improvement in its trade balance, Japan was unable to finance through its exports more than two-thirds of its imports, even in the first half of 1950. The expansion of Japanese textile exports, which accounted for most of the increase in exports between 1948 and 1950, was an important factor in the highly competitive condition of the international market in textiles. Though of lesser importance, the tenfold increase in Japan's exports of metals and manufactures, machinery and vehicles during this period is noteworthy; to an important extent, this increase was in copper and copper products shipped to the United States in the first half of 1950.

Indonesia's trade also continued to expand during 1949 and 1950 as its production of petroleum, vegetable oils, rubber and tin recovered rapidly in spite of internal disturbances. The marked improvement in its trade balance during 1950 was due in large part, as in the case of Malaya, to the unusually heavy demand for, and upward movement in, the prices of its principal exports as well as to a sharp reduction in imports from the United States.

The Philippines experienced serious difficulties during 1949 in maintaining imports at the same level as in earlier post-war years. This resulted primarily from the decline in special post-war aid and compensation for war damage by the United States, by means of which its surplus had been largely financed. In addition, its exports were adversely affected by the fall in United States demand and the restrictions of soft currency countries against its imports. The Philippines sharply curtailed imports from the United States late in 1949 as a result of the serious depletion of foreign exchange reserves. Owing to these measures and to the recovery of exports to the United States, the Philippine import surplus was sharply reduced in the first half of 1950.

The marked trend, generally characteristic of the Far East, towards the reduction of post-war trade deficits, and in many cases, the reappearance of export surpluses, was not apparent in the Middle East in 1949. Available data suggest, however, that the import surpluses of a number of countries in the area declined in the first half of 1950. The trade deficit of the region as a whole with the United States fell by two-thirds between the first half of 1949 and the corresponding period of 1950, owing mainly to the reduction in imports from the United States, but also to the increase in exports to that country. Owing to the exclusion of petroleum data from trade reports, it is difficult to determine the net trading position of the region, which, exclusive of the petroleum trade, has continued to show large import surpluses since the end of the war. Exports of petroleum—especially to western Europe—have continued to rise at a rapid rate as production has expanded.

The rising trend in the post-war years in the imports of the dependent territories of Africa seems to have continued during 1949, but at a considerably slower pace. The import surpluses of the territories in this area, as in most other countries exporting primary goods, increased in the first half of 1949; however, they were reduced the following year, owing chiefly to the rise in the value of their exports which accompanied the heavier demand for primary commodities and the upward movement of prices.

Chapter 8

RECENT TRENDS IN INTERNATIONAL SETTLEMENTS

The movements in international trade discussed in the preceding chapter account for the principal changes in the balances of current external transactions that occurred during 1949 and the first half of 1950. The regional pattern of such balances is given in table 72, in which countries are grouped according to major trading areas.[1] The counterpart of the balances shown consists of international gold transactions, changes in foreign currency holdings and other assets and the outflow of private investments and governmental credits and grants, of which by far the most important during the period were the grants extended by the United States Government. That surpluses and deficits cannot arise unless they are financed is obvious; what is noteworthy about such balances in recent years is the fact that to a large extent they have been sustained not by private capital movements based on commercial considerations but by deliberate action on the part of governments.

The imbalance in international transactions which prevailed until recently is reflected in the size of the deficit with the United States that the rest of the world has incurred and in the fact that every trading area included in table 72 shared in this deficit. The balances of certain regions shown in the first column of the table do not, in fact, reflect fully the extent of the international imbalance during 1948 and 1949. Since every area was in deficit on current transactions with the United States during these years, it is evident that countries such as Canada, the Latin American countries and the United Kingdom, which had surpluses in their transactions with other areas than the United States, were unable thereby to earn dollars with which to finance their deficits with that country. Furthermore, irrespective of their balances with the United States, these regions had few opportunities of offsetting deficits with some areas by surpluses with others. Similar difficulties existed within several of the regions shown in table 72, particularly among countries in western Europe.

During the early post-war years the regional balances were financed to a large extent through drawings on gold and foreign exchange reserves, liquidation of private foreign investments and governmental loans or grants. By the beginning of 1948, the reserves had dwindled to such an extent and the possibility of further liquidation of foreign investments was so limited that, in the absence of a significant outflow of private capital from the United States, the maintenance of the pattern of current transactions came increasingly to rely on governmental grants by that country. Such financing was important not only in meeting the deficit of the recipient countries with the United States but also indirectly in sustaining the network of international transactions among other countries and areas. Thus a considerable part of the imports of Canada and, to some extent, of Latin America from the United States was financed by exports to Europe paid for in dollars provided under the European Recovery Program. A similar function was performed, in effect, by making part of the dollars granted to Europe under that programme conditional on the extension of financial assistance from participating European creditor countries to other participating countries with which the former had a current surplus. The effect of the drain on the resources of certain European countries resulting from the financing of export surpluses with their oversea territories and other regions through grants, credits or the repayment of outstanding liabilities—particularly the sterling balances—was also eased through such special assistance.

[1] For the definition of current transactions used in table 72, see the notes to that table.

Table 72. Balances on Current Transactions among Major Trading Areas, 1948 to 1950 (First half)

(In millions of current United States dollars)

Balance of	World total	Balance with: United States	Canada	Latin American countries[a]	United Kingdom	Rest of sterling area	Continental OEEC countries	Rest of world
United States:								
1948	6,100		400	1,100	300	500	3,000	800
1949	5,700		500	600	300	400	2,500	1,400
1950[b]	2,450		400	200	50	—200	1,500	500
Canada:								
1948	400	—400		—100	500	100	300	-
1949	250	—500		—50	400	100	200	100
1950[b]	—250	—400		—100	100	-	100	50
Latin American countries:[a]								
1948	100	—1,100	100		300	-	300	500
1949	—150	—600	50		-	-	-	400
1950[b]	300	—200	100		-	-	-	400
United Kingdom:								
1948	—300	—300	—500	—300		600	500	—300
1949	-	—300	—400	-		1,000	—50	—250
1950[b]	400	—50	—100	-		500	300	—250
Rest of sterling area:								
1948	—1,100	—500	—100	-	—600		300	—200
1949	—1,500	—400	—100	-	—1,000		200	—200
1950[b]	-	200	-	-	—500		400	—100
Continental OEEC countries:								
1948	—4,500	—3,000	—300	—300	—500	—300		—100
1949	—2,450	—2,500	—200	-	50	—200		400
1950[b]	—2,000	—1,500	—100	-	—300	—400		300
Rest of world:								
1948	—700	—800	-	—500	300	200	100	
1949	—1,850	—1,400	—100	—400	250	200	—400	
1950[b]	—900	—500	—50	—400	250	100	—300	

Source: United Nations Department of Economic Affairs.

Figures are estimates based on official balance of payments and trade statistics. Owing to the lack of precise regional subdivisions in such data, and for other reasons, the estimates furnish only general indications of the order of magnitude of the balances. A description of the nature of such estimates and the main sources of the data is given in United Nations, *Economic Survey of Europe in 1949* (Geneva, 1950), pages 269-270.

Current transactions are defined in this table to cover trade in goods and services (including investment income) and private donations, and the balance on such transactions is occasionally referred to in the present chapter as the balance on goods and services. This definition differs from that employed by the International Monetary Fund in three ways. First, government grants are not counted as a current item. Secondly, non-monetary gold transactions are excluded. The International Monetary Fund includes domestic production and consumption of gold (as well as changes in gold hoards) in the current account, while changes in official gold holdings are grouped with capital items. The difference in treatment in table 72 was considered desirable in view of the fact that, for instance, gold exported from the current production of a gold-producing country (i.e., a non-monetary transaction) may be added to the official gold reserves of the importing country, in whose accounts it would appear as a capital item according to the Fund's definition. Thirdly, in most cases the data for investment income include the reinvested earnings only of branch enterprises overseas, whereas the Fund's definition includes also the reinvested earnings of subsidiaries overseas.

The balances of the regions in the first column with the other regions indicated are shown as deficits (–) or surpluses. Balances have generally been rounded to the nearest $100 million, except when such rounding would give a misleading impression. Balances below $25 million are shown as nil or negligible (–).

"Rest of sterling area" includes (i) the dependent oversea territories of the United Kingdom; (ii) other countries of the British Commonwealth, excluding Canada; and (iii) Burma, Iceland, Iraq, Ireland.

"Continental OEEC countries" include the following members of the Organisation for European Economic Co-operation: Austria, Belgium, Denmark, France, Greece, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey and western Germany. The dependent oversea territories of these countries are included in "Rest of world".

[a] Exclusive of Non-Self-Governing Territories.
[b] First half-year at annual rate.

Since a large part of the deficits with the United States resulted from the financing of the rehabilitation and reconstruction of war-devastated countries, it was to be expected that in due course the recovery of the production and trade of such countries would be accompanied by a narrowing of the "dollar gap". As the gold and dollar reserves accumulated during the war by many under-developed countries, particularly in Latin America, were drawn down to meet demands unsatisfied during the war, the imports of such countries from the United States were also bound to decline, in the absence of an expanded inflow of long-term capital from the United States or an increase in their exports to that country. As is shown in table 73, a substantial drop in the world's deficit on current transactions with the United States had already occurred in 1948. Following a temporary widening of the gap in the first half of 1949, the downward movement was resumed at an increasing rate, and the deficit dropped to $1,223 million in the first half of 1950, as compared with a half-yearly average of $5,421 million in 1947, the post-war peak. However, some of the regions shown in table 72 shared in this contraction more than others. At the same time significant changes occurred in the balances of countries other than the United States, with one another. For example, in 1950 the surplus of Canada with other regions, notably the United Kingdom, was greatly reduced, while its deficit with the United States declined. Except for the emergence of a large surplus with continental western Europe, a similar contraction occurred in the United Kingdom's balances on current transactions with various regions. To some extent these changes reduced the need for, or increased the possibility of, offsetting surpluses and deficits among the several regions, even though in the first half of 1950 only the rest of the sterling area had established a surplus in current transactions with the United States. The position of continental western Europe, however, continued to offer special difficulties because, while its deficit with the United States declined materially, its

Table 73. International Transactions of all Areas with the United States, 1946 to 1950 (First half)

(In millions of United States dollars)

Item	Half-yearly average			1949		1950
	1946	1947	1948	First half	Second half	First half
Balance on goods, services and private donations	—3,550	—5,421	—3,041	—3,532	—2,194	—1,223
Goods, services and private donations	—3,253	—4,973	—2,496	—3,052	—1,680	—712
Investment income[a]	—297	—448	—545	—480	—514	—511
Means of financing (net):						
Liquidation of gold and dollar assets	966	2,231	390	364	—362	—1,103
Dollar disbursements by:						
International Monetary Fund	–	231	101	49	50	—12
International Bank for Reconstruction and Development	–	150	88	16	22	28
United States Government sources:						
Unilateral transfers	1,144	973	2,080	2,939	2,365	2,136
Long-term and short-term loans	1,344	1,947	453	398	245	123
United States private sources:						
Long-term and short-term capital[b]	184	376	434	305	311	165
Errors and omissions	—89	—490	—506	—539	—437	—114

Source: United States Department of Commerce, *Survey of Current Business,* June and September 1950 (Washington, D.C.). In the original source the signs of the balances are reversed, showing the transactions from the point of view of the United States.

[a] Including branch profits, interest and dividends. Reinvested branch profits are included also as contra entries in the capital account. Earnings of foreign-incorporated subsidiaries not distributed as dividends are not included. According to the International Monetary Fund, the net debit of all areas with the United States on account of undistributed profits of foreign-incorporated subsidiaries during 1946 to 1949 was as follows, in millions of dollars: 1946, $160; 1947, $160; 1948, $419 (see International Monetary Fund, *Balance of Payments Yearbook,* 1948 and preliminary 1949, page 393).

[b] Excluding net purchases of obligations issued or guaranteed by the International Bank for Reconstruction and Development.

deficit with the United Kingdom and, particularly, with the rest of the sterling area grew substantially and was far from offset by surpluses in its transactions with the rest of the world.[2]

The following sections review in some detail the changes in the regional balances of the areas shown in table 72 and in the corresponding international financial transactions.

[2] The countries included in continental western Europe, referred to in table 72 as "continental OEEC countries", and those included in the rest of the sterling area are specified in the notes to table 72.

The Position of Major Trading Areas and Countries

United States

During the period under review, namely, the year 1949 and the first half of 1950, a profound change occurred, not only in current transactions but also in the role of financial transactions in the balance of payments of the United States. To facilitate study of the effect of this change on other countries, tables 73 and 74 have been arranged to show the balance of payments of the rest of the world with the United States, that is, deficits with the United States are negative entries in the tables, and surpluses with the United States are positive.

During the first half of 1949 other countries not only depended on an unprecedented volume of extraordinary financial assistance from the United States but also had to draw further on their already depleted gold and dollar assets. From the middle of 1949 the deficit with the United States on account of goods and services began to contract rapidly. In the first part of this period the change was caused chiefly by a decline in imports from the United States, initiated by the tightening of import restrictions by many countries during the third quarter of 1949 and affected also by the widespread devaluations of September of that year.[3] The preceding chapters have already indicated the extent to which the transition to a lower level of imports from the United States was also facilitated by increased supplies from other sources. More recently the gap has been narrowed, chiefly by rising exports to the United States from primary-producing countries, reflecting some expansion in quantum but mainly higher prices of raw materials and foodstuffs. During the period under review some gain was also recorded in respect of the deficit of countries with the United States on account of services, largely as the result of the improved position of western European countries on account of shipping and increased receipts from the tourist trade (see table 74).

Important changes appear to have occurred also in short-term capital movements to and from the United States during 1949 and early 1950. The information on such movements is incomplete, but there is reason to believe that the residual item in the last line of table 73, described as "errors and omissions", represents largely an unrecorded flow of private capital to the United States.[4] The flow of such funds to the United States, particularly from western Europe, which was substantial in 1947 and 1948, apparently reached a post-war peak of $496 million in the third quarter of 1949 just prior to the devaluation of currencies of September 1949. Following the devaluation, the movement appears to have been reversed in the last quarter of 1949, and in the first half of 1950 a comparatively small net payment to the United States of $114 million is entered against this residual item.

In 1949 about 95 per cent of the deficit with the United States on account of goods and services was met through loans and grants by the United States Government amounting to $5,947 million. These funds represented more than a third of the total exports of goods and services from the United States and were larger than in 1948 both absolutely and in relation to the deficit. While the deficit with the United States dropped from $3,532 million in the first half of 1949 to $1,223 million in the corresponding period of 1950, governmental financing by the United States declined much less, from $3,337 million in the first half of 1949 to $2,259 million in the first half of 1950.

[3] The relative importance of devaluation in this connexion is discussed in chapter 10.

[4] For a discussion of this point see United Nations, *Economic Survey of Europe in 1949* (Geneva, 1950), pages 124 to 126.

Table 74. Financing of International Transactions with the United States, by Regions, 1948 to 1950 (First half)

(In millions of United States dollars)

Transaction and period	*World total*	*Balances of*					
		United Kingdom	*Rest of sterling area*	*Continental OEEC countries*	*Canada*	*Latin American countries*[a]	*Rest of world*[b]
Balance on goods, services and private donations:							
1948 Half-yearly average	—3,042	—129	—227	—1,508	—219	—575	—385
1949 First half	—3,532	—160	—241	—1,518	—416	—390	—807
1949 Second half	—2,194	—117	—178	—972	—123	—251	—553
1950 First half	—1,223	—17	93	—766	—187	—80	—266
Imports from United States:							
1948 Half-yearly average	6,714	331	682	2,011	969	1,581	1,141
1949 First half	6,903	405	674	2,027	1,039	1,471	1,287
1949 Second half	5,434	320	503	1,448	891	1,234	1,038
1950 First half	5,030	236	423	1,388	926	1,233	824
Exports to United States:							
1948 Half-yearly average	3,917	202	523	401	806	1,322	663
1949 First half	3,721	179	492	388	771	1,286	605
1949 Second half	3,423	141	395	314	796	1,217	560
1950 First half	3,954	137	564	374	881	1,352	646
Balance on services and private donations:							
1948 Half-yearly average	—245	–	—68	103	—56	—316	91
1949 First half	—350	66	—59	121	—148	—205	—125
1949 Second half	—183	62	—70	162	—28	—234	—75
1950 First half	—147	82	—48	248	—142	—199	—88
United States Government donations and loans (net):							
1948 Half-yearly average	2,534	484	–	1,567	2	—18	499
1949 First half	3,337	567	45	2,076	6	34	609
1949 Second half	2,610	481	32	1,517	5	36	538
1950 First half	2,259	418	37	1,365	6	14	419
United States private capital (net):							
1948 Half-yearly average	438	13	32	48	99	165	81
1949 First half	325	10	29	—65	51	196	104
1949 Second half	311	47	53	—36	30	169	49
1950 First half	166	23	45	—7	61	–	44
Foreign gold and dollar assets (increase (—)):[c]							
1948 Half-yearly average	575	244	282	91	—233	38	153
1949 First half	409	269	105	—33	49	—82	101
1949 Second half	—290	60	49	—151	—82	—265	99
1950 First half	—1,088	—471	6	—357	—109	26	—183
Dollar transfers between foreign areas, and errors and omissions, net (payments to other areas (—)):[d]							
1948 Half-yearly average	—506	—612	—89	—198	351	389	—347
1949 First half	—539	—686	62	—460	310	242	—7
1949 Second half	—437	—471	44	—358	170	311	—133
1950 First half	—114	47	—181	—235	229	40	—14

Source: United States Department of Commerce, *Survey of Current Business*, June and September 1950. The signs have been reversed as compared with the original source to show the transactions from the point of view of the respective regions with the United States. For definition of the regions shown see table 72.

[a] Exclusive of Non-Self-Governing Territories.

[b] Including transactions of international institutions.

[c] Item differs from changes in foreign gold and dollar reserves in that it includes changes in foreign long-term dollar assets and excludes changes in official gold reserves resulting from purchases of domestically produced gold and from transactions with countries other than the United States.

[d] "World total" in first column represents balance of errors and omissions in whole account.

The trends described above were reflected in the movement of gold and dollar assets of countries other than the United States. From the beginning of 1946 to mid-1948 these countries relinquished gold reserves and dollar assets to the extent of $7,248 million to finance other transactions with the United States. After a brief cessation of this drain late in 1948 and early 1949, the expansion of the deficit in the second quarter of the year necessitated the liquidation of another $372 million of gold and dollar assets. Following the contraction of the deficit after mid-1949 a reversal set in, and during the nine months ending 30 June 1950 foreign transactions with the United States led to the accumulation by other countries of gold and dollar assets of $1,551 million, of which $648 million accrued in the second quarter of 1950. In this quarter the increase in the assets corresponded to about 55 per cent of United States governmental grants and loans. During the same quarter the increase in the gold and dollar assets of the United Kingdom (which is the guardian of such assets of the whole sterling area other than the Union of South Africa) actually exceeded the financial assistance received from the United States Government; the increase in these assets was, however, due in substantial degree to the transactions of the rest of the sterling area.

In addition, countries other than the United States added an estimated $500 million to their monetary reserves through the production of gold during the nine months' period referred to.[5] By 30 June 1950 the gold and short-term dollar holdings of such countries had reached a level of about $16,500 million as compared with $19,700 million at the end of the war (30 June 1945).[6] While substantial progress had thus been made towards reconstituting the reserve position of most countries at the end of the war, the position of individual countries varied considerably, as shown in table 75. The reserves of Canada and of a number of Latin American countries have in fact risen substantially above the pre-war level. On the other hand, the reserves of the United Kingdom, France and of most other western European countries, with the notable exception of Switzerland, have not reached the pre-war level. Furthermore, the rise in prices that occurred both during and after the war means that the purchasing power of such reserves is considerably reduced.

As was observed above, the outflow of funds from the United States has represented chiefly governmental grants and credits. In the period under review such funds took the form largely of grants under the European Recovery Program (see appendix table XII). Through this and other governmental programmes the outflow of funds to Europe reached a post-war maximum of $4,724 million in 1949. In the second half of that year a decline set in; the outflow in the first half of 1950 was $1,833 million compared with $2,686 million in the first half of 1949. The outflow of governmental funds to other areas, mainly the Far East, which was somewhat over $1,000 million in 1949, likewise declined in the first half of 1950.

The appropriation for foreign aid by the United States Government covering the year ending 30 June 1951 represents a reduction of between $1,000 million and $1,500 million in the projected rate of expenditure for that period, compared with the disbursements in the preceding year. Recent developments, however, render such a projection somewhat hazardous. In December 1950 it was announced that, in view of the disappearance of the dollar deficit of the sterling area, assistance to the United Kingdom under the European Recovery Program would be suspended after 1 January 1951. An expanded programme of stockpiling of strategic raw materials by the United States Government calls for purchases during the year

[5] This figure excludes the Union of Soviet Socialist Republics, for which data are not available. It is estimated that world production of gold in 1949 (excluding the output of the USSR) was $835 million (at $35 per ounce). This compares with annual production in the late nineteen thirties of somewhat more than $1,000 million.

[6] These figures exclude the holdings of the Union of Soviet Socialist Republics and of the International Monetary Fund, International Bank for Reconstruction and Development and other international institutions. The change in foreign gold and short-term holdings in tables 73 and 74 reflected in these figures is not directly comparable with balance of payments data showing changes in foreign gold and dollar assets arising in transactions with the United States. The difference arises from the sale to the United States, or the addition to reserves, of newly produced gold in the rest of the world. The balance of payments data also include long-term foreign assets in the United States which are excluded from official monetary reserves. Furthermore, certain countries, e.g., the United Kingdom, exclude from the statistics of their official monetary reserves dollar balances held outside governmental institutions.

Table 75. Gold Reserves and Short-Term Holdings of United States Dollars in Certain Countries[a]

(In millions of United States dollars)

Country	Period[b]				
	December 1939	December 1945	December 1948	September 1949	June 1950
United Kingdom[c]	3,885[d]	2,476	1,856	1,425	2,422
Continental OEEC countries	7,011	6,521	4,839	5,056	5,468
Belgium	890	918	753	842	768
Denmark	81	64	77	64	67
France[e]	3,272	1,860	741	690	742
Germany[f]	18	7	179	148	228
Greece	56[g]	99	27	30	45
Italy	183	94	446	542	543
Netherlands	894	552	290	328	453
Norway	138	296	130	112	117
Sweden	450	692	130	132	184
Switzerland	925	1,646	1,886[h]	1,994[h]	2,159[h]
Turkey	104[g]	293	180	174	162
Canada	493	1,876	1,176	1,277	1,340
Union of South Africa	245	920	199	127	192
Latin American countries[i]	1,069	3,776[j]	2,736	2,865[j]	3,051[j]
Argentina	531	1,274	359	389	454
Bolivia	7[g]	36	40	39	38
Brazil	76	549	441	462	441
Chile	57	149	99	101	102
Colombia	33	206	105	100	122
Costa Rica	. .	13	11	10	. .
Cuba	38	319	508	479	536
Dominican Republic	.	16	40	39[k]	47
Ecuador	7[g]	35	31	30[k]	. .
El Salvador	9[g]	22	22	28[k]	48
Guatemala	16[g]	48	46	48[k]	53
Haiti		73	38[c]		
Honduras	. .	4	4	.	. .
Mexico	86	408	189	184[f]	152[f]
Nicaragua	. .	10	7	8[k]	.
Panama[f]	34	89	72	69	69
Paraguay	.	4	3	2	. .
Peru	31	72	73	79	78
Uruguay	94[g]	208	203	230[k]	255
Venezuela	501[g]	252	445	472	486

Source: International Monetary Fund, *International Financial Statistics,* November 1950 (Washington, D.C.).

[a] Unless otherwise stated, short-term holdings of dollars include both official and private assets in the form of bank deposits, short-term commercial paper and short-term Treasury obligations. Only gold reserves held by governments and central banks are included.

[b] End of indicated period.

[c] Official holdings only, including Canadian dollars.

[d] Gold, plus official and private holdings of United States dollars at end of 1938, including gold holdings of exchange equalization account.

[e] Including gold holdings of stabilization fund in 1939 and 1945.

[f] Short-term dollar assets only.

[g] 1940.

[h] Excluding dollar holdings of Bank for International Settlements.

[i] Excluding Non-Self-Governing Territories.

[j] Total for all Latin American countries as published by Board of Governors of Federal Reserve System, Washington, D.C.

[k] End of 1949.

Table 76. Movement of United States Private Long-Term Capital, 1946 to 1949

(In millions of United States dollars)

Type of capital movement	*1946*	*1947*	*1948*	*1949*
Direct investments:[a]				
Outflow	801	941	1,334	1,417
Inflow	618	217	689	583
Net outflow	183	724	645	834
Net outflow through Bank[b]	–	243	7	20
Other long-term capital:				
Outflow	335	244	285	165
Inflow	459	401	176	219
Net outflow or inflow (—)	—124	—157	109	—54
Total net outflow	59	810	761	800

Source: United States Department of Commerce, *Survey of Current Business*, June 1950.

[a] For definition see table 73, footnote *a*.

[b] Net purchases of obligations issued or guaranteed by the International Bank for Reconstruction and Development. Actual dollar disbursements on account of loans by the Bank were $150 million in 1947, $88 million in 1948 and $38 million in 1949.

ending 30 June 1951, on the other hand, at three times the rate in the first half of 1950.

Loans represented a minor portion of the financial assistance extended by the United States Government in 1949 and were even smaller in the first half of 1950.[7] The outflow from the United States of private long-term capital of $800 million (net) in 1949, while representing an amount in dollars greater than that attained in the peak years of the 1920's, was smaller in real terms and of much less importance considered either in relation to the financing of exports of goods and services or in relation to the gross national product. As in previous post-war years, the gross outflow consisted almost entirely of direct investments; in fact, there was a small net inflow of portfolio investments in 1949, the net outflow of direct investments being $834 million (see table 76).[8] In the second half of 1949 the net outflow of direct investments was lower than in the first half. Part of the drop may have been related to delays in investment decisions as the result of the currency devaluations of September, but the decline continued during the first six months of 1950 when the long-term capital outflow was 75 per cent of the amount in the corresponding period of 1949.

In 1949, as in previous years, Latin America absorbed the bulk of capital outflow for private direct investments (see table 77), a significant portion of which was financed by reinvested earnings of existing enterprises.[9] Canada was next in importance, a fact reflecting the development of the petroleum and mining resources of that country. Although the United States Government adopted a policy of offering guarantee of the transfer of the earnings of approved new foreign

[7] The operations of the Export-Import Bank of Washington during 1949 (see appendix table XIII) resulted in net lending of only $41 million, compared with $728 million in 1947, though this figure was the result of somewhat larger disbursements to Latin America and other under-developed regions which were offset by repayments of previous loans to Europe. During 1950 the Export-Import Bank's net disbursements increased slightly, and new loans authorized in the first eight months of the year were $505 million, compared with $241 million for 1949 as a whole. A large advance of $125 million was made early in 1950 to Argentina to assist in the liquidation of outstanding dollar obligations to United States commercial creditors; it is thus not available to finance further exports from the United States. In August 1950 the Export-Import Bank extended a credit of $150 million to Mexico. On 30 September 1950 the undisbursed amount of authorized loans by the Export-Import Bank was $750 million, and its uncommitted lending capacity $526 million.

[8] In 1949 and the first half of 1950 a net inflow to the United States of $54 million and $16 million, respectively, was recorded on account of United States long-term capital. These figures exclude a small outflow of long-term capital through the International Bank for Reconstruction and Development.

[9] The data shown in table 77 include the reinvested profits of foreign branches of United States enterprises but do not include undistributed profits of foreign-incorporated subsidiaries of such enterprises. According to estimates of the United States Department of Commerce, the value of United States private direct investments abroad increased by $4,094 million during the period 1946 to 1949, of which $1,766 million represented the undistributed portion of the United States equity in the net earnings of foreign-incorporated subsidiaries.

investments in countries participating in the European Recovery Program, the outflow of long-term investments to Europe remained at a very low level during 1949. The petroleum industry continued to absorb approximately 70 per cent of all United States direct investments in the world as a whole. Investments in industries other than petroleum have reached substantial proportions in the post-war years only in Latin America; even in this region, however, such investments underwent a decline from $185 million in 1947 to $83 million in 1949.

Estimates of the regional distribution of long-term private capital exports in the first half of 1950 indicate some departure from the pattern of 1949 and the previous post-war years. While the data for direct investments are not available separately, these may be inferred from the estimates of the regional distribution of long-term capital movements as a whole. It appears that the net outflow to Latin America dropped substantially. A considerable portion of this change is probably due to the reduction in the rate of petroleum development, particularly in Venezuela. The outflow of long-term capital to western Europe, particularly the United Kingdom, France and Italy, rose substantially over previous levels, but the amounts involved remained small. There was also an increased outflow to Canada in the first part of 1950, reflecting mainly the further expansion of direct investments in mineral development. The purchase of Canadian securities in anticipation of the appreciation of the Canadian dollar may also have contributed to the expanded outflow in the first half of the year, but the bulk of this movement occurred in the third quarter.

It has already been observed that United States financial assistance to western Europe has been of importance in sustaining the imports not only of European countries but also of many other countries that incurred a deficit on goods and services with the United States. In the first half of 1949 such special assistance, together with the liquidation of European countries' gold and dollar balances (representing about a tenth of the assistance), exceeded western Europe's direct deficit on goods and services with the United States by over $1,000 million. Part of this sum was no doubt offset by unrecorded capital transfers to the United States. The bulk of the amount, however, financed imports from countries other than the United States which require payment in dollars. In 1949 about half the amount of such transactions was in the form of offshore purchases, chiefly in Canada

Table 77. Net Outflow[a] of United States Private Capital for Direct Investment, 1946 to 1949

(In millions of United States dollars)

Year and industry[b]	*World total*	*Canada*	*Latin American countries*[c]	*OEEC countries*	*Other European countries*	*OEEC dependencies*	*Rest of world*
Total:							
1946	182.4	37.9	58.5	18.0	0.8	6.1	61.1
1947	723.5	13.0	441.7	47.4	1.1	53.0	167.3
1948	645.1	37.8	321.0	48.2	5.2	68.5	164.4
1949	834.4	103.2	480.4	33.8	13.3	38.3	165.4
Petroleum industry:							
1946	170.0	12.0	103.0	7.0	—	4.0	44.0
1947	487.0	37.0	257.0	20.0	1.0	50.0	122.0
1948	486.0	44.0	205.0	38.0	2.0	61.0	136.0
1949	677.0	54.0	397.0	10.0	13.0	34.0	169.0
Other industries:							
1946	12.4	25.9	—44.5	11.0	0.8	2.1	17.1
1947	236.5	—24.0	184.7	27.4	0.1	3.0	45.3
1948	159.1	—6.2	116.0	10.2	3.2	7.5	28.4
1949	157.4	49.2	83.4	23.8	0.3	4.3	—3.6

Source: United States Department of Commerce.

[a] For definition of net outflow of capital see table 73, footnote *a*. The data include the financing of sales of ships to foreign flag operators (mainly registered in Panama) which are controlled in the United States. The amounts involved in such transactions were as follows, in millions of dollars: 1946, $14; 1947, $110; 1948, $40; 1949, $126.

[b] Division between petroleum and other industries estimated, subject to revision.

[c] Exclusive of Non-Self-Governing Territories.

and the dollar area of Latin America, financed by the United States on behalf of countries participating in the European Recovery Program.[10]

It is true that in some areas outside Europe, notably Japan, Korea and the Philippines, direct aid from the United States was the major element in settling their accounts. During the period up to the end of 1948 the same purpose was served by the liquidation of gold and dollar reserves which were in many instances accumulated during the war, particularly in Latin America. However, in the year preceding the sharp contraction of the United States export surplus which began in the middle of 1949, the bulk of the deficit incurred with the United States by non-European countries was settled by dollars indirectly supplied through the European Recovery Program. In addition, further inroads were made on the already depleted dollar reserves of the United Kingdom to meet the combined deficit of the United Kingdom and the oversea sterling area.[11] It was in response to this development that the United Kingdom in July 1949 undertook to reduce its imports payable in dollars by 25 per cent below the level of 1948, an action in which it was joined by other members of the sterling area.

All the major trading regions indicated in table 74 shared in the contraction of more than 60 per cent in the world's deficit on account of goods and services with the United States that occurred between the first half of 1949 and of 1950. The drop was from $3,797 million to $1,443 million. The outer sterling area strikingly transformed a deficit with the United States of $252 million into a surplus of $79 million. The deficits of the United Kingdom and Latin America declined substantially more than the average; the latter's deficit fell from $398 million to $85 million. The continental OEEC countries accounted for about one-third of the total reduction in the deficit, but the rate of decline in their deficit was least of the several regions considered. These changes prior to the middle of 1950 thus tended to wipe out the deficit of many countries with the United States; during the latter part of 1950 almost the only surpluses of the United States on merchandise account were with continental Europe, Japan and the Philippines.

The effect of the tendencies thus far described on the gold and dollar position of particular countries depended largely on (*a*) the extent to which they continued to receive special financial assistance from the United States, (*b*) the change in the balance of their dollar transactions with areas other than the United States, which, in turn, depended largely on the regional pattern of their balance of payments, and (*c*) the variations in the flow of private short-term capital to the United States, particularly the movements in anticipation of and following the devaluations of September 1949. Only in the case of Latin America did the movement of private (largely United States owned) short-term and long-term capital play an important part. The movement of United States capital did assume importance, however, in the Canadian balance of payments with the United States during the third quarter of 1950 (see the section on Canada which follows).

The greatest gain in gold and dollar reserves during the period under consideration was made by the United Kingdom, whose official reserves rose by $997 million in the nine months following devaluation, after falling by $431 million in the first three quarters of 1949. The increase represents the whole sterling area's gain in such reserves through transactions with the United States and other countries and through the production of gold.[12]

[10] During 1949 such purchases amounted to a half-yearly average of about $550 million. The figure for the first half of 1950 was $437 million; the decline is due partly to the policy of the United States not to authorize the purchase offshore of certain agricultural commodities, the domestic supply of which was declared to exceed domestic needs.

[11] In 1948, the Union of South Africa, while remaining a member of the sterling area, ceased to participate in the sterling area dollar pool and sold a substantial portion of its current gold production directly to the United States to finance its deficit with that country. This is reflected to a large extent in the liquidation of the outer sterling area's gold and dollar assets (amounting to $387 million in the year ending 30 June 1949), shown in table 74. The position of the Union of South Africa in relation to the sterling area's international transactions is further discussed below.

[12] The figures mentioned do not reflect the transactions of the Union of South Africa, except in so far as they resulted in gold sales by that country to the United Kingdom. Following the devaluation, only a small amount of the newly mined gold of the Union of South Africa was sold to the United States. Part of the production has been added to the South African gold reserve, while another part has been sold to the United Kingdom (against sterling) or elsewhere. The change from the position in 1948 and the early part of 1949 is reflected in the virtual disappearance of gold sales to the United States by the outer sterling area, as shown in table 74.

The financial transactions of the sterling area as a whole, including its gold and dollar account, are discussed below (see section on the United Kingdom and the sterling area). Here it may be pointed out that the reduction of the deficit of the United Kingdom with the United States contributed relatively little to the increase in the United Kingdom's gold and dollar reserve. The data in table 74 indicate that other factors were more important, particularly the cessation or possible reversal of the flow of private capital from the United Kingdom to the United States that had occurred in anticipation of the currency devaluations of 1949, the transfer of dollars to the United Kingdom from the outer sterling area that resulted from the emergence of a surplus in that area's transactions with the United States and, finally, the reduction in the amount of dollars required for settling accounts with third areas.

In summary, the relation of the sterling area as a whole to the United States in the first half of 1950 may be described as one in which, with a small current surplus on goods and services, reduced requirements of dollars for settlement with third areas, and no loss of dollars through large-scale private capital movements to the United States, the sterling area as a whole accumulated gold and dollar assets (held by the United Kingdom) slightly in excess of governmental assistance from the United States to the United Kingdom. This assistance was about 20 per cent less than in the first half of 1949.

In contrast with the United Kingdom, the continental OEEC countries had been able to accumulate gold and dollar assets in substantial amounts in the latter part of 1948[13] and to a limited extent even in the first half of 1949—reflecting the receipt of aid from the United States in excess of their deficit on commercial transactions with that country. The factors accounting for this shift are considered in a subsequent section.

The Latin American countries, after the loss of gold and dollar assets during 1945 to 1948, began to gain such assets, particularly during the second half of 1949. This movement halted abruptly, however, in the first half of 1950, despite the fact that the region's deficit with the United States on goods and services declined steadily, from $559 million in the second half of 1948 to $85 million in the first half of 1950. Two elements largely account for this situation. First, the net outflow of United States private capital to Latin America disappeared; the net outflow of United States long-term capital declined as a result of smaller direct investments and some repatriation of portfolio investments by Latin American countries, and at the same time commercial debts which had accumulated in 1949, particularly on the part of Brazil, were repaid on a large scale. Secondly, the net dollar earnings in transactions with countries other than the United States declined sharply, from $242 million in the first half of 1949 to $40 million in the corresponding period of 1950. This no doubt reflected the increased tendency towards balance in the current transactions of these countries with Europe, to which a moderate decline in offshore purchases under the European Recovery Program contributed.

As regards the countries grouped under "rest of world" in table 74, the decline in their deficit on goods and services from the first half of 1949 to the corresponding period of 1950 exceeded the reduction in United States governmental assistance. This resulted in some accumulation of gold and dollar assets. This group includes a number of countries with divergent tendencies—including Japan, the international transactions of which are discussed in a later section of this chapter.

Included in the capital transactions under the heading of "rest of world" in table 74 are the operations of the International Monetary Fund and the International Bank for Reconstruction and Development. The dollar disbursements of these institutions during 1949 and 1950 followed divergent tendencies. Sales of currencies by the Fund during 1949 were only $102 million compared with $214 million in 1948 and $468 million in 1947 (see appendix table X). In the first nine months of 1950 the Fund's operations actually resulted in net Fund purchases of gold and dollars amounting to $29 million. The lending operations of the International Bank for Recon-

[13] This is obscured in table 74 by the use of a half-yearly average for 1948. The gold and dollar assets of continental OEEC countries declined by $504 million in the first half of the year but increased by $322 million in the second half.

struction and Development, on the other hand, which had been negligible in 1948, expanded during the following eighteen months (see appendix table XI). The amount of dollar loans authorized in 1949 was $189 million, compared with $28 million in 1948. In the first nine months of 1950 further loans of $229 million were authorized, bringing the total dollar loans since the commencement of the Bank's operations to $937 million. The undisbursed balance of the Bank's dollar loans on 30 September 1950 was $328 million.

CANADA[14]

Canada's foreign transactions are conducted chiefly with the United States and Europe, and the traditional pattern of the Canadian balance of payments has involved the use of a large surplus, resulting from transactions with the United Kingdom and continental Europe, to finance a deficit with the United States. The difficulty that Europe has experienced in recent years in earning the dollars required for imports from Canada has occasionally interfered with Canadian exports to that continent, but on the whole the triangular pattern of Canada's trade has been maintained, at least until quite recently. The principal factor sustaining this pattern has been the use of a portion of United States governmental aid to Europe for offshore purchases in Canada. Thus, in 1948 about $475 million and in 1949, $400 million of such aid was used to finance European imports from Canada. Without this arrangement, not only would the Canadian export surplus to Europe have been much smaller, but Canada would not easily have been able to finance the deficit on account of goods and services with the United States, which amounted to about $400 million in 1948 and $500 million in 1949. Canada thus represents a striking case in which United States aid to Europe had indirect effects of great importance through the maintenance of trade channels that would otherwise have been blocked.

Other movements of funds likewise helped to maintain Canada's triangular trade. In the two years 1948 and 1949, exports to the United Kingdom were financed in part through drawings by that country on a loan extended by the Canadian Government.[15] At the same time the deficit on account of goods and services with the United States was offset in part by loans raised in that country by the Canadian Government and by direct United States investments in Canada (see table 77).

On balance, not only was Canadian trade sustained by the above financing operations, but the country's reserves of gold and United States dollars, after a heavy decline in the course of 1947, increased by $496 million in 1948, largely as the result of its improved balance of payments in the second half of the year. This movement slackened in the first nine months of 1949, following a rise in Canadian imports from the United States, but gathered momentum after the devaluation of the Canadian dollar by 9 per cent in September 1949. In the following twelve months the rise in reserves amounted to $805 million, of which $535 million was added during the third quarter of 1950.

During the nine months following devaluation both current transactions and the inflow of long-term capital contributed to the improvement in the Canadian payments position in relation to the United States; the import balance declined with the increase in the United States demand for Canadian goods, and there was an inflow of capital mainly for the development of Canadian mineral resources. In the third quarter of 1950 the improved position led to a large inflow of United States private capital in anticipation of the appreciation of the Canadian dollar, thus accelerating the accumulation of gold and United States dollars; during this period purchases of Canadian securities by United States interests are estimated to have reached $212 million, of which more than half occurred in September 1950.

In order to overcome possible detrimental effects on the Canadian economy of the influx of speculative capital, the Government freed the exchange rate on 30 September 1950, allowing the Canadian dollar to rise above the parity established a

[14] Unless otherwise stated, all values in this section are expressed in United States dollars.

[15] Official loans and grants extended to the United Kingdom and other countries during the period 1946 to 1949, inclusive, totalled $1,731 million, which exceeded Canada's surplus on goods and services of $1,234 million during the same period. After 1947, however, the outflow of such funds declined sharply.

year earlier.[16] It was stated on behalf of the Government that the adoption of a new fixed parity "would not necessarily be justified by fundamental conditions and might be found to require reversal or further adjustment within the not too distant future".[17] The freeing of the exchange rate was accompanied by the announcement that import restrictions, many of which had been lifted during 1950, would be further relaxed at the beginning of 1951. The general structure of exchange control, however, remained in force.

The financial developments mentioned were largely the outcome of a striking shift towards bilateralism in Canadian trade which emerged during 1950 and which has been described in the preceding chapter. Largely as the result of a decline in exports, Canada's surplus on current transactions with the United Kingdom virtually disappeared in the first half of 1950 (see table 72). At the same time, during the first half of 1950, Canada's deficit on current transactions with the United States dropped to two-thirds of the 1949 level, and in the third quarter an approximate balance between imports and exports was achieved. Offshore purchases, largely for the account of the United Kingdom, continued during 1950, though at a lower rate than previously, and contributed to the accumulation of gold and dollars.

Latin American Countries[18]

In Latin America's pre-war relationships, blurred to a certain extent during the 1930's by the tendency towards bilateral trading, triangular transactions played a considerable part. Normally, the region's tropical countries, as well as Chile, employed an export surplus with both the United States and continental Europe largely for the settlement of the yield of foreign investments. Argentina and Uruguay, on the other hand, financed an import balance with the United States through an export surplus with Europe.

In the early post-war years, when the supply of European goods was severely limited, the United States replaced Europe as the major supplier of manufactured goods in Latin America.[19] Europe incurred a large import balance with Latin America, financed in part by the use of European gold and dollar holdings, the acquisition by Latin American countries of sterling and other soft European currencies, the liquidation of investments in Latin America, particularly those of the United Kingdom in Argentina and Brazil, and the extension of credits, mainly on short term, by several countries in the region. Of importance also, particularly in 1949, was the financing of Latin American exports to Europe by the United States through offshore purchases under the European Recovery Program. The dollars thus earned in transactions with western Europe and the liquidation of gold and dollar balances accumulated during the war helped to finance large imports by Latin America from the United States, both of consumers' goods which had been unobtainable during the war and of capital goods required to maintain relatively high levels of investment.

Significant changes have occurred since 1948 in the regional pattern of Latin America's current transactions, as shown in table 72. In 1948 a deficit with the United States of over $1,000 million was accompanied by a surplus with other regions of about $1,200 million. By the first half of 1950 the deficit with the United States had

[16] The Articles of Agreement of the International Monetary Fund stipulate that member countries shall not allow their exchange rates to fluctuate more than one per cent more or less than the par value established in agreement with the Fund. After having been consulted by Canada, the Fund announced that it recognized the exigencies of the situation which led Canada to free its exchange rate and that it took note of the intention of Canada to re-establish an effective par value as soon as circumstances should warrant. At the end of October 1950 the domestic selling rate of the Canadian dollar was 1.05 Canadian dollars per United States dollar as compared with the previous parity of 1.10.

[17] The Canadian Minister of Finance, in announcing the decision to free the exchange rate on 30 September 1950, referred to the capital inflow as follows:

"An influx of funds on this tremendous scale would, if it continued, be likely to exercise an inflationary influence in Canada at a time when government policy in all fields is directed to combating inflationary developments. Moreover, the accumulation of foreign exchange under such conditions would mean that Canada was in effect incurring a substantial increase in its gross foreign debt and annual service charges without any corresponding increase in its productive resources or ability to export."

[18] Exclusive of Non-Self-Governing Territories.

[19] There was some evidence of this tendency even in the inter-war years. See chapter 9 for a discussion of this question.

shrunk to $200 million (at an annual rate), while the surplus with other regions had dropped to $500 million.[20]

The reduction in the deficit with the United States was due largely to a drop in imports from a half-yearly average of $1,581 million in 1948 to $1,233 million in the first half of 1950. Despite the dwindling of the region's gold and dollar reserves as early as 1947, the demand for imports in most countries remained strong, largely as the result of pressure generated directly or indirectly by the high level of investment. To keep the demand within the limit of available resources without a further loss of reserves, imports were curtailed by the direct controls on trade and payments introduced in many countries in 1947 and subsequently tightened. During 1949 there was also a tightening of restrictions on the transfer of income from United States investments in the region, particularly from Argentina, Brazil and Chile. As a result of these measures the previous decline in gold and short-term dollar assets was reversed in 1949 and some progress was also made towards reducing a considerable accumulation of short-term commercial debt incurred during 1948, largely by Argentina and Brazil. It has been pointed out above that despite the decline between 1945 and 1948, the gold and dollar holdings of most Latin American countries—with the marked exception of Argentina—remained well above their pre-war level, in contrast with those of western Europe.[21] Table 75 also indicates the divergence of Cuba and Venezuela from the general trend, during the period from 1945 to 1948, towards the reduction of the gold and dollar holdings of Latin American countries. This was a consequence of their favourable export position, sustained partly through offshore purchases, which enabled them to earn dollars through transactions not only with the United States but also with soft currency countries in Europe. The position of Venezuela was particularly favourable as the result of its expanded production of petroleum, much of which was sold to Europe.

Apart from a slight fall in the early part of 1949, the value of the region's exports to the United States was maintained at about the same level between 1948 and the first half of 1950 (see table 74). However, this fact obscures important differences in the export positions of individual countries within the region. Owing to the sharp rise in the price of coffee towards the end of 1949, there was a substantial increase in the value of the exports of the coffee-exporting countries, despite a substantial decline in the quantity exported. The main beneficiaries of this increase were Brazil, Colombia, Costa Rica and Nicaragua. However, Colombia gained relatively little, owing to the failure of its crop in the first half of 1950, and the favourable effect on the exchange receipts of several countries was deferred owing to sales on the basis of advance contracts.

On the other hand, several countries in the southern part of the region, notably Argentina and Chile, experienced a sharp decline in their export proceeds during 1948, the former mainly as the result of a decline in the quantum of exports, the latter as the result of a severe drop in the price of copper. As a result, their balance of payments position, already precarious, was severely strained. Argentina was in a particularly vulnerable position because of its dependence on imports from the United States and its limited dollar receipts from western European countries, to which offshore purchases under the European Recovery Program did not make a significant contribution.[22] As is shown in table 75, Argentina's gold and short-term dollar assets declined from $1,274 million at the end of 1945 to $359 million at the end of 1948.[23] After May 1948 few dollar remittances were approved, and commercial debts estimated at over $200 million accumulated in the United States. Small progress was

[20] On trade account alone Latin America had a surplus with the United States of $76 million (at an annual rate) in the first half of 1950 Most of the surplus of Latin America with the "rest of world" shown in table 72 consisted of exports of crude petroleum from Venezuela to the Netherlands Antilles for refining and export to Europe and other regions.

[21] In addition to the reserves of official institutions the figures for many countries appearing in table 75 include the holdings of private interests, which are sizable in the case of some Latin American countries.

[22] The bulk of such purchasing occurred in Chile, Cuba, Mexico and Venezuela.

[23] These data include private as well as official holdings. Argentina's official gold and foreign exchange holdings, including sterling balances, declined from $1,696 million at the end of 1946 to $809 million at the end of 1948. Part of this decline was due to the use of sterling balances for the purchase of British railways in Argentina in 1948.

made in liquidating these debts until the middle of 1950 when the Export-Import Bank of Washington granted a credit of $125 million to finance their repayment. Argentina also effected a partial devaluation of the peso against the United States dollar (but not against sterling) in October 1949 and a general devaluation in August 1950.

The drop in the price of copper during 1949, from about 24 cents to about 16 cents per pound, in conjunction with the continuation of strong inflationary pressures, created severe payments difficulties for Chile. Restrictions on imports from the United States were tightened, and early in 1950 a substantial depreciation of the exchange rate applicable to commercial transactions was effected. Similar steps were taken by Bolivia and Peru. In November 1949 Peru abolished its official rate of exchange and permitted all exports and authorized imports to be transacted at a rate left free to fluctuate according to supply and demand. The exchange system of Bolivia was modified several times, and in April 1950 the par value of the currency was changed from 42 bolivianos to 60 per United States dollar.

With the general rise in the price of primary products that gained momentum in 1950 the dollar position of most Latin American countries, including the non-tropical areas, was considerably eased. Nevertheless, while a few countries relaxed their restrictions on imports from the United States, the maintenance of balance in their payments with that country generally continued to depend on such controls. As earnings from exports increased during 1950, restrictions on the transfer of income from foreign investments were also relaxed in several countries. However, there was a concurrent improvement in the shipping and tourist accounts of the region generally, with the result that the deficit on account of services, including investment income, was reduced to $199 million in the first half of 1950 as compared with a half-yearly average of $316 million in 1948.

It has been pointed out above that Latin America has been the main area to which United States private long-term capital has been attracted during the post-war period. The net inflow of private long-term capital was almost exclusively in the form of direct investments, which amounted to $321 million in 1948 and $480 million in 1949, including the substantial reinvestment of earnings of branch enterprises.[24] In view of the concentration of such investments in mineral development, they played a significant part in the balance of payments of only a few countries in the region, notably Venezuela. With the completion of the major petroleum development project in that country, the rate of inflow of long-term capital to the region dropped sharply in the first half of 1950.[25]

Throughout the period under review the disbursement of funds from loans received by Latin American countries from the International Bank for Reconstruction and Development was relatively small, amounting to only $36 million in 1949 and about the same figure during the first nine months of 1950. However, the total of loans to Latin America authorized during 1949 and the first nine months of 1950 was over $200 million, and the rate of disbursements increased towards the end of 1950. As pointed out earlier, the operations of the Export-Import Bank in Latin America were also on a modest scale in 1948 and 1949 but increased considerably in 1950, when more than $350 million of new credits were authorized during the first nine months of the year.[26]

As shown in chapter 7, the sharp decline that occurred in 1949 in Latin America's trade surplus with western Europe resulted largely from a drop in exports. This change was accounted for mainly by the fall in Argentina's exports; in fact, the shortage of sterling in Argentina became almost as acute as the shortage of dollars, and strict controls were imposed on imports from the ster-

[24] As noted previously, these data do not include the undistributed profits of United States subsidiaries incorporated in Latin America. According to estimates of the United States Department of Commerce the total value of United States private direct investments in the Latin American countries (exclusive of Non-Self-Governing Territories) increased by $1,784 million during the period 1946 to 1949; $547 of this amount represented the reinvested earnings of subsidiaries incorporated in the countries of the region.

[25] The net outflow of United States long-term capital (including portfolio investments) to Latin America was $275 million in 1948, $450 million in 1949 and $67 million in the first half of 1950. Preliminary estimates of the United States Department of Commerce indicate, however, that the outflow increased considerably in the second half of 1950.

[26] This figure includes the credit of $125 million to Argentina which, as mentioned previously, was not available to finance additional imports.

ling area.[27] In 1949 Argentina's exports were affected by domestic factors reducing the supply of exports, and also, as pointed out in chapter 7, by the resistance of importing countries to high prices of Argentine exports. While there was a substantial expansion of Argentina's exports to continental western Europe in 1950, exports to the United Kingdom declined owing to disagreement over the price of meat. The failure of protracted negotiations between Argentina and the United Kingdom over the sterling price of meat led to the virtual suspension of meat shipments during the second half of 1950, and the issue remained unresolved at the end of the year.

Following the devaluation of sterling, Brazil's exports to the United Kingdom were also affected by disagreement over Brazil's demand for the sterling equivalent of the dollar price of coffee and other exports. Brazil's exports to other western European countries also dropped, while imports increased. At the same time a large part of Brazil's previously accumulated sterling balances had been used or set aside for the repatriation of its long-term sterling obligations pursuant to the agreement with the United Kingdom of 1947, and the residue of Brazil's sterling balances remained blocked. In consequence, during the latter part of 1950, Brazil experienced a shortage of sterling to finance current transactions and also accumulated commercial debts in the United Kingdom. A similar stringency developed in Brazil's payments with Belgium and Sweden. Despite increased dollar earnings, Brazil found it desirable to purchase £10 million in sterling from the International Monetary Fund in January 1951.[28]

During 1950 Latin America's trading relationships with western Europe began to be influenced by the expansion of production and the improved competitive position of that region following the currency devaluations of 1949. Imports from western Europe increased substantially in quantum, though not greatly in dollar value, owing to the effect of the devaluations on prices. At the same time, rising prices of raw materials and foodstuffs somewhat increased the dollar value of Latin America's exports to western Europe, particularly if comparison is made with the first half of 1949, despite a considerable drop in the quantum of exports from the level of that period. Thus the balance with western Europe on current transactions remained small, as in 1949, though the quantum of imports into Latin America was considerably higher. Towards the middle of the year—even more in the second half of 1950—the rise in the prices of Latin America's exports tended again to shift the balance in the direction of a larger surplus with western Europe, though that region's lack of means to finance such a surplus was bound to keep the balance within fairly close limits. The prospect for the short run, at any rate, was that with the settlement of outstanding issues concerning the sterling prices of Argentina's and Brazil's exports there would be a further expansion of trade on a closely balanced basis. Several agreements during 1950 between Latin American and western European countries, particularly western Germany and the United Kingdom, tended in this direction.

The shift towards a closer balance in Latin America's current transactions with western Europe between 1948 and 1950 is indicated to some extent in the decline in the receipt of dollars by Latin America from transactions with areas other than the United States, as shown in table 74.[29] Such transfers appear to have declined from $800 million in 1948 to $550 million in 1949 and to have practically disappeared in the first half of 1950. These data do not, however, reveal the full extent of the decline in the surplus on current transactions between 1948 and 1949, since in the former year a substantial part of the balance was financed by the sale of capital assets by western European countries, particularly the United Kingdom, and by the extension of credits by Latin America. The virtual disappearance of these sources of financing in 1949 was offset to some extent by the rise from $140 million in 1948 to $320 million in 1949 in offshore purchases in the region under the European Recovery Program. However, such purchases dropped to $114 mil-

[27] Most of Argentina's sterling balances had been liquidated previously, to a large extent in connexion with the purchase of the British railways in 1948.

[28] Brazil had previously purchased 37.5 million of United States dollars from the International Monetary Fund in 1949, the only sizable purchase from the Fund by a Latin American country during 1948 to 1950.

[29] This account, as stated previously, includes "errors and omissions" in the other accounts as well as transfers of dollars from areas other than the United States.

lion in the first half of 1950 and were scheduled to decline further with the approaching termination of the programme.[30]

Since Latin America exports primary products, the supply of which is relatively inelastic, its balance of payments is highly sensitive to fluctuations in demand in industrial countries, particularly the United States. At present, therefore, conditions are favourable to the region; the tropical and the mineral producing countries in general have restored to some extent the export surplus with the United States that was a normal feature of their foreign transactions before the war. It has been pointed out above, however, that inflationary pressures, originating in the high level of investments maintained in the region in recent years in conjunction with the monetary and fiscal policies pursued, have tended to raise imports and that, at least until recently, transactions with the United States have been strained and have been maintained in balance in most countries of the region only by means of severe import restrictions.

So far as the impact of the improved dollar position of Latin America on relations with western Europe is concerned, it is necessary to distinguish the position of the tropical and the mineral producing countries from that of Argentina and Uruguay. As already observed, the exports of the former are oriented largely towards the United States and in the past such countries employed a surplus with the United States to finance a deficit on current transactions with countries in western Europe, particularly the United Kingdom. In contrast, the "normal" balance of the trade of Argentina and Uruguay with the United States is passive, and balance in their total external transactions depends to a much larger extent on their ability to dispose of their exports in Europe.

An important factor in the past relations of both groups of Latin American countries with western Europe has been the necessity of transferring to that region considerable amounts on account of interest and dividends. In the case of Argentina this transfer was rendered possible by an export balance with Europe; other Latin American countries discharged such obligations largely through their export balances with the United States. The liquidation of a considerable proportion of Europe's investments in Latin America during the early post-war years served to maintain European imports of necessities at a time when that continent had little to export in exchange. In consequence of that liquidation, Europe's income from investments has been substantially reduced, but not so Europe's requirements of Latin American products. In the circumstances, there is strong pressure on Europe to expand its exports to Latin America. In view of the continued dependence of continental western Europe on an import balance with the United States, there is in fact an additional pressure in the direction of establishing an export surplus with the tropical portion of Latin America (as well as with tropical countries elsewhere) through which to finance payments due the United States. At the end of 1950, however, Europe had not yet succeeded in earning significant amounts of dollars in transactions with Latin America despite the sharp increase in that region's dollar income; the effect of the recent rearmament programmes on Europe's export industries and on its terms of trade with primary producing countries may be adverse to the development of such a surplus. Moreover, account must be taken of the special conditions underlying the present level of demand for imports in the United States and the corresponding price relationships under which the recent Latin American export surplus with the United States has arisen. For these reasons it appears that a lasting solution to this very important problem in international commercial relationships is not yet in sight.

United Kingdom and the sterling area[31]

By 1948 the United Kingdom had made substantial progress in reducing the large deficit in its current transactions which had characterized the early post-war years. The improvement resulted

[30] The decline during the first half of 1950 of net dollar receipts by Latin America from the other areas, as shown in table 74, is considerably greater, however, than would be expected in view of the level of offshore purchases and the fact that the disbursements of the International Bank for Reconstruction and Development are included in this item. This suggests that there was an unrecorded outflow of capital from Latin America and perhaps also small dollar payments to settle deficits in current transactions with some European countries.

[31] See table 72 for definition of the sterling area. In the following discussion the phrases "rest of the sterling area" or "outer sterling area" are used interchangeably to refer to sterling area outside the United Kingdom.

largely from an expansion of the United Kingdom's exports, but also from increased earnings on account of shipping and other services and from a decline in the large governmental expenditures abroad, mainly on account of military and relief activities. Further gains were recorded in the first half of 1949, as shown in table 78, and a small surplus on goods and services emerged.

Despite this approximate balance with the world as a whole, the settlement of the United Kingdom's international accounts continued to require a large amount of special external assistance in the form of dollars. The reason for this is indicated in table 72, which shows that in 1948 the regions with which the United Kingdom had a surplus, namely the rest of the sterling area and continental western Europe, themselves incurred large dollar deficits. The United Kingdom's surplus with the rest of the sterling area therefore could not be converted into dollars but was financed instead by capital exports from the United Kingdom in the form of repayment of claims on the United Kingdom accumulated during the war—"sterling balances"—and a large outflow of governmental and private capital.

In 1949, while the United Kingdom reached approximate balance in its transactions with continental western Europe, its surplus with the rest of the sterling area increased, and a similar situation prevailed. Thus, in the first half of 1949, the United Kingdom had a surplus of £139 million with the rest of the sterling area, while at the same time the capital outflow to this region amounted to £199 million, of which the liquidation of sterling balances represented £97 million, governmental loans and grants £46 million and the outflow of private capital £56 million (see table 78).[32] As indicated in the table, the difference between the surplus on current transactions with the sterling area and the capital outflows to that region that were not reflected in sterling balances consisted of transfers of gold, dollars and sterling to finance transactions of the rest of the sterling area with regions other than the United Kingdom.

[32] While the item described as the outflow of private capital also contains the residual item in the whole account, there is a strong presumption that the major part of the residual is of a capital nature (see notes to table 78).

From the point of view of the rest of the sterling area, the financing of the United Kingdom's surplus on current transactions through capital outflows represented, of course, a net addition to the former's resources. Had the surplus been payable in dollars rather than in the manner indicated, it is doubtful whether it would have arisen, since this would have rendered necessary a corresponding reduction in the outer sterling area's imports from the dollar area or an increase in its exports to that area.

It should also be noted that the data presented in table 78 tend to obscure an important aspect of the United Kingdom's so-called "unrequited" export surplus with the outer sterling area, namely, the extent to which it was financed by drawings upon the sterling balances on the one hand, and by private capital movements on the other. This arises from the fact that the outflow of private capital consisted to a large extent of short-term capital movements to Australia and, particularly in 1948, to the Union of South Africa. The counterpart of such short-term outflows was an increase in the sterling balances of these countries. Thus the extent to which other countries in the outer sterling area, particularly India, Pakistan and Ceylon, drew upon sterling balances to finance imports from the United Kingdom is not fully revealed in table 78.

In 1948, and to a smaller extent in the first half of 1949, the United Kingdom achieved a surplus on goods and services with the continental countries in the Organisation for European Economic Co-operation, which was also to some degree "unrequited". The surplus was offset by the liquidation of sterling balances, particularly in 1948, and to some extent, especially in the first part of 1949, by loans and grants, largely in the form of sterling "drawing rights" made available by the United Kingdom through the intra-European payments scheme under the auspices of the OEEC. The payments position of the United Kingdom with respect to the other OEEC countries was also affected by the fact that it incurred deficits in 1948 and in the first part of 1949 with several countries in the region, notably Belgium and Switzerland, which required payment in dollars. The extent of the drain from this source is indicated in table 79, which shows that net payments of dollars to continental OEEC countries

Table 78. United Kingdom Balance of Payments by Regions,[a] 1948 to 1950 (First half)

(In millions of pounds sterling)

Transactions and period	*Balances with*					
	World total	*Dollar area*	*Other Western Hemi-sphere*	*Rest of sterling area*	*Conti-nental OEEC countries*	*Rest of world*[b]
Balance on goods, services and private donations:						
1948 Half-yearly average	—41	—135	—20	81	51	—17
1949 First half	32	—142	27	139	16	—8
1949 Second half	—34	—160	20	132	—25	—1
1950 First half	73	—52	—2	91	54	—18
Imports:						
1948 Half-yearly average	895	201	85	328	170	111
1949 First half	958	206	44	382	215	111
1949 Second half	1,007	234	61	370	243	99
1950 First half	1,150	202	96	455	270	127
Exports:						
1948 Half-yearly average	792	96	45	370	196	85
1949 First half	915	95	52	460	206	101
1949 Second half	903	94	52	448	212	97
1950 First half	1,042	131	54	468	287	102
Balance on services and private donations:						
1948 Half-yearly average	62	—30	20	39	25	9
1949 First half	75	—31	19	61	25	2
1949 Second half	70	—20	29	54	6	1
1950 First half	181	19	40	78	37	7
Private capital (net):[c]						
1948 Half-yearly average	—23	—5	82	—81	2	—21
1949 First half	—45	—5	11	—56	11	—6
1949 Second half	—80	50	2	—126	—2	—4
1950 First half	—27	35	1	—55	—2	—6
Official loans and grants (net):[d]						
1948 Half-yearly average	124	113	—8	35	—12	—4
1949 First half	87	159	13	—46	—35	—4
1949 Second half	112	160	3	—34	—17	–
1950 First half	106	150	–	—11	—27	—6
Changes in sterling liabilities (net):[e]						
1948 Half-yearly average	—85	–	—50	40	—58	—17
1949 First half	—119	–	—43	—97	14	7
1949 Second half	28	–	—27	72	22	—39
1950 First half	128	–	7	200	—46	—33
Changes in reserves; increase (—):						
1948 Half-yearly average	26	27	–	–	—1	–
1949 First half	45	51	–	–	—6	–
1949 Second half	—26	—48	–	–	22	–
1950 First half	—280	—262	–	–	—18	–
Transfers of funds between foreign areas (receipts from other areas (—)):						
In gold and dollars:						
1948 Half-yearly average	–	1	5	—35	24	5
1949 First half	–	—63	1	25	23	14
1949 Second half	–	—2	1	—32	19	14
1950 First half	–	129	—3	—130	—4	8
In sterling:						
1948 Half-yearly average	–	–	—8	—40	—5	53
1949 First half	–	–	—9	35	—23	—3
1949 Second half	–	–	1	—12	—19	30
1950 First half	–	–	—3	—95	43	55

Table 78 Continued

Source: United Kingdom, *Balance of Payments, 1946 to 1950* (Cmd 8065, London, October 1950). Several types of transaction which appear separately in the original source have been regrouped; minus signs indicate United Kingdom debits.

[a] For definition of "Rest of sterling area" see table 72. The definition of "Continental OEEC countries" in this table differs from that in table 72 in that the oversea dependencies of these countries are included except for transactions with the Netherlands Antilles involving dollar payments. The "Dollar area" comprises the United States, Canada, the Philippines and so-called "American account" countries in Central and South America, the residents of which, under the exchange control regulations of the United Kingdom, are free to convert sterling earned in transactions with the sterling area into dollars. Also included in the transactions of the United Kingdom with the dollar area are purchases of petroleum from United States companies operating in the Netherlands Antilles and Arabia. "Other Western Hemisphere" excludes the dependent territories of European countries in that region.

[b] Including international organizations such as the International Bank for Reconstruction and Development and the International Monetary Fund.

[c] Including the balancing item on the whole account. According to the official commentary accompanying the estimates there is a strong presumption that the bulk of this residual consists of unidentified capital movements. It is stated that the residual indicates an outflow of such capital amounting to about £50 million in 1948, a small outflow in 1949, and an inflow of nearly £50 million in the first half of 1950. These sums are entered under transactions with the dollar area.

[d] Including certain governmental transactions, such as oversea relief expenditures and colonial grants, which appear in the "current account" in the original source.

[e] Excluding liabilities to the dollar area and to international institutions; also excluding movements due to financial agreements of July 1948 with India and Pakistan and to revaluation of United Kingdom liabilities to certain countries following the devaluation of sterling in September 1949.

Table 79. Sterling Area Gold and Dollar Account, 1948 to 1950 (First half)

(In millions of United States dollars)

Item	*1948 Half-yearly average*	*1949 First half*	*1949 Second half*	*1950 First half*
Surplus or deficit (—) with dollar area[a]	—699	—806	—452	223
On United Kingdom account	—643	—629	—459	—108
Trade balance	—426	—444	—459	—198
Services[b] and private donations	—127	—127	—79	55
Other transactions[c]	—91	—58	79	35
On rest of sterling area account	—56	—177	7	331
Surplus or deficit (—) with dollar area:				
Dependent oversea territories	70	87	44	154
Other sterling area countries	—237	—348	—187	28
Gold sales to United Kingdom	111	84	150	149
Net gold and dollar payments to (—) or receipts from other countries	—156	—156	—118	—3
Other Western Hemisphere[d]	—18	—4	—3	8
OEEC countries[d]	—97	—95	—66	13
Other	—41	—57	—49	—24
Total net surplus or deficit	—855	—962	—570	220
Means of financing:				
United States donations	301	395	507	426
United States credits	191	270	24	44
Canadian credits	26	60	56	45
South African gold loan	163	–	–	–
Purchases from International Monetary Fund[e]	64	32	20	–
Change in gold and dollar reserves (increase (—))	112	205	—38	—735
Gold and dollar reserves at end of period	1,856	1,651	1,688	2,422

Source: United Kingdom, *Balance of Payments, 1946 to 1950* (Cmd 8065).

[a] For definition of dollar area see table 78.
[b] Including income from investments.
[c] Capital transactions other than "means of financing", including the residual item in the entire account.
[d] For definition, see table 78.
[e] Purchases by countries in rest of sterling area, except for $60 million purchased by the United Kingdom in 1948.

by the sterling area (presumably on the United Kingdom's account) were $194 million in 1948 and continued at almost the same rate in the first half of 1949.

The situation described above contrasts with that prevailing before the war and still more with that before the depression of the 1930's. At that time the countries which now form the outer sterling area financed their deficits with the United Kingdom through the sale of newly produced gold, principally by the Union of South Africa, and—in the case of several tropical countries, such as British Malaya and India—through an export surplus to the United States and continental Europe. The United Kingdom used the foreign exchange thus earned from the outer sterling area, and indeed from several tropical countries outside that area, to settle its deficit with the United States, Canada and continental Europe. In the post-war period the role formerly played by these receipts has been assumed in large part by extraordinary assistance from the United States.

The magnitude of the post-war "dollar gap" of the sterling area and its increase in the first part of 1949 is indicated in table 79. In 1948 and the first half of 1949 the outer sterling area incurred a substantial net dollar deficit; in fact, the deficit of the outer sterling area was larger than table 79 suggests since, following the withdrawal of the Union of South Africa from the "dollar pool" of the sterling area in October 1947, the bulk of its dollar deficit was settled by direct shipments of gold to the United States, and to this extent the Union of South Africa's dollar requirements did not affect the position of the reserves of the dollar pool.

In 1948 the transactions of the outer sterling area involved a drain of $112 million on the dollar reserves of the United Kingdom, but this was more than offset by a loan of gold by the Union of South Africa to the United Kingdom of $325 million. Since the loan was repaid in sterling in 1949, following a deterioration in the balance of the Union of South Africa's current transactions with the United Kingdom, it had the same effect as the sale of gold for sterling.[33]

During the first half of 1949 the dollar position of the sterling area became less favourable, despite the receipt of increased assistance by the United Kingdom under the European Recovery Program. The dollar transactions of the rest of the sterling area resulted in a deficit in the first half of 1949 of $177 million as compared with a half-yearly average of $56 million in 1948. The increase in the deficit was due chiefly to the balance on merchandise proper and services, and partly to the reduction in the sale of gold to the United Kingdom by the rest of the sterling area, mainly the Union of South Africa. There resulted a decline in the United Kingdom's gold and dollar reserves of $205 million in the first half of 1949, compared with a half-yearly average of $112 million in 1948. Although not shown in table 79, the drain continued at almost the same rate in the third quarter of 1949, despite the reduction in the current deficit with the dollar area following the curtailment of imports by the United Kingdom and the other members of the sterling area.[34] Speculation in anticipation of the devaluation of sterling was the major cause of this drain on assets; it reflected a postponement of inward, as well as a hastening of outward, payments due on account of goods and services and similar action in respect of orders of imports from, and deliveries of exports to, the United Kingdom and other countries in the sterling area. As previously mentioned, the flight of short-term capital, despite the existence of exchange control, probably also contributed to the drain.

The tightening of import restrictions in July 1949, which was reinforced by the devaluation of sterling in the following September, is reflected in the gold and dollar account of the first half of 1950 compared with that of the corresponding period of 1949. It may be seen from table 79 that the shift in the position of the sterling area dollar pool from a deficit on account of goods, services and private capital transactions of $962 million in

[33] The shift in the Union of South Africa's payments position with respect to the United Kingdom in 1949 resulted both from an expansion of United Kingdom exports to the Union of South Africa and a substantial decline in outward capital movements.

[34] The Union of South Africa had already sharply reduced its imports from the United States and other countries in the dollar area during the first half of 1949. This was of no direct assistance to the reserve position of the United Kingdom, however, since the Union of South Africa, as previously noted, did not participate in the dollar pool. The effect of the Union of South Africa's action was to reduce its own dollar deficit to a size which could be financed from its current gold production.

the first half of 1949 to a surplus of $220 million in the corresponding period of 1950 is accounted for about equally by the United Kingdom and the oversea sterling area. The improved position of the United Kingdom is reflected not only in its transactions with the dollar area but also in the virtual elimination of dollar payments to other countries, notably to continental western Europe. The improvement in the dollar position of the United Kingdom was due about equally to a reduction in the trade deficit with the dollar area and to a shift from a deficit of $127 million on account of various invisible transactions in the first half of 1949 to a surplus of $55 million in the first half of 1950. A substantial part of this improvement on invisibles probably reflects a reduction in the dollar expenditure of United Kingdom oil companies operating abroad, an improvement in the shipping account and increased earnings overseas of British insurance companies.[35]

The emergence in 1950 of a substantial dollar surplus on the part of the outer sterling area is the outstanding feature of the changed payments position of the sterling area. Whereas in the first half of 1949 the transactions of the oversea sterling area involved a drain of $177 million on the reserves of the dollar pool, they added $331 million to the pool in the corresponding period of 1950. This resulted not only from an improved balance with the United States and Canada but also, as indicated in table 79, from increased gold sales by the Union of South Africa to the United Kingdom.[36] It should not be overlooked, however, that the position of the oversea sterling area also changed in relation to the United Kingdom and the rest of the world, particularly continental western Europe. The most striking change in this respect is the cessation of the large-scale reduction in sterling balances that occurred in the first half of 1949 and its replacement by an increase of £200 million in such balances during the first half of 1950. Table 78 indicates that £95 million of this increase represents sterling earned by the outer sterling area in transactions with continental OEEC countries and other areas. A substantial part of the increase is accounted for by the fact that increased dollar earnings on account of exports from the outer sterling area to the United States and Canada, as well as a larger portion of that region's current gold production, were converted into sterling balances rather than used to finance imports from the United States or the United Kingdom. At the same time, the United Kingdom's surplus on current transactions with the outer sterling area dropped from £139 million in the first half of 1949 to £91 million in the corresponding period of 1950.

Since the United Kingdom's gold and dollar reserves reached a minimum in September 1949, the extent of their recovery following devaluation is not fully indicated in table 79. Between 18 September 1949 and 30 September 1950 the increase in reserves was $1,416 million. As pointed out previously, this accumulation of reserves at a rate slightly in excess of the assistance being received by the United Kingdom under the European Recovery Program led in December 1950 to the decision to suspend such aid after 1 January 1951.[37]

It has been noted that an important part of the improvement in the United Kingdom's gold and dollar position between the first half of 1949 and the first half of 1950 reflects the shift from a dollar deficit to a substantial surplus in the transactions of the rest of the sterling area. As is shown in table 79, this was due to a combination of three factors: the increased dollar surplus of the dependent oversea territories, the elimination of the large deficit of the rest of the region and the moderate increase in gold sales to the United Kingdom.

The dependent oversea territories of the United Kingdom did not draw on the sterling area dollar pool at any time during the post-war years, except briefly in 1947, but their dollar surplus, until

[35] It will be observed in table 79 that a considerable increase also occurred during the same period in the balance on service transactions with regions other than the dollar area.

[36] This change reflected in part the agreement reached between the United Kingdom and the Union of South Africa under which an agreed list of "essential" imports from the United Kingdom was to be paid for in gold regardless of the net payments position between the two countries. In August, 1950, a new agreement was reached under which the Union of South Africa undertook to sell £50 million of gold annually to the United Kingdom regardless of the size of the Union of South Africa's balance with the rest of the sterling area. This amount represents about one-third of the latter's gold production in 1950.

[37] Total allotments to the United Kingdom under the European Recovery Program were $2,694 million to 31 December 1950.

recently, was small in comparison with the pre-war period. After a setback during 1949 due to reduced exports to the United States the surplus increased rapidly, partly as the result of higher prices of rubber, tin and other exports sold against dollars. In the first half of 1950, as shown in table 79, the surplus considerably exceeded the United Kingdom's own dollar deficit, though it should be kept in mind that the size of the deficit and of the surplus of the dependent territories reflected the maintenance of strict control of imports from the dollar area. The emergence of a larger dollar surplus in the transactions of the dependent territories represents a movement towards the pre-war pattern of settlements. At the same time, it should be noted that the increase in United Kingdom liabilities to these territories in the first half of 1950, as is shown in table 80, was not much less than the sterling equivalent of their dollar surplus.

The remainder of the outer sterling area (excluding the Union of South Africa, whose transactions with the dollar area are not included in table 79), shifted from a dollar deficit of $348 million in the first half of 1949 to a surplus of $28 million in the corresponding period of 1950. This was due largely to a sharp decline in imports. An important factor contributing to the shift, however, was the emergence of a substantial surplus in Australia's transactions with the dollar area, mainly as the result of increased earnings from wool exports, the price of which had risen substantially. Australian imports from the dollar area continued to be subject to the severe restrictions imposed in common with other members of the sterling area in mid-1949. Under the mechanism of the sterling area dollar pool, therefore, Australia accumulated sterling balances roughly equivalent to its surplus with the dollar area.[38] A similar development occurred with respect to Ceylon.

Australia's recent surplus with the United States contrasts with its traditional pre-war deficit with that area. However, it should be borne in mind that severe restrictions against imports from the dollar area continued in force during the first half of 1950. The imports to be financed by the loan of $100 million received by Australia in August 1950 from the International Bank for Reconstruction and Development appear to be

[38] Table 78 indicates that Australia, together with other parts of the outer sterling area, also earned £95 million in transactions with the continental OEEC countries and with the other regions outside the Western Hemisphere. Australia's sterling balances were also increased by a continuation of the previous inflow of private capital from the United Kingdom, which was mostly of a short-term character.

Table 80. Ownership of Sterling Liabilities of the United Kingdom,[a] 1945 to 1950 (June)

(In millions of pounds sterling)

Region	*At end of period*						
	December 1945	*December 1946*	*December 1947*	*December 1948*	*June 1949*	*December 1949*	*June 1950*
Total	3,663	3,701	3,571	3,359	3,235	3,340	3,471
Non-sterling area countries	1,210	1,284	1,283	1,037	1,010	1,043[b]	974[b]
Dollar area	36	35	21	24	19	36	36
Other Western Hemisphere countries	164	213	235	135	92	80	89
OEEC countries	409	419	469	354	368	424	378
Other non-sterling area countries	601	617	558	524	531	503	471
Sterling area countries	2,453	2,417	2,288	2,322	2,225	2,297	2,497
Dependent oversea territories	446	495	502	521	533	534	580
Other sterling area countries[c]	2,007	1,922	1,786	1,801	1,692	1,763	1,917

Source: United Kingdom, *Balance of Payments, 1946 to 1950* (Cmd 8065).

[a] Sterling liabilities comprise net liabilities of banks in the United Kingdom to their offices abroad and other oversea account holders, and oversea loans to the United Kingdom Government expressed in sterling or sterling area currencies. Private holdings of securities are excluded.

[b] Including revaluation payments of £60 million in the third quarter of 1949 and £3 million in the first half of 1950 consequent on the devaluation of sterling in September 1949.

[c] Including the capital value (£162 million at end of 1949) of payments due India and Pakistan under the pension annuities schemes of 1948. These annuities were purchased with sterling balances.

excluded from the general limitation on imports from the dollar area adopted in mid-1949.[39]

As pointed out previously, the transactions of the Union of South Africa with the dollar area are not settled through the sterling area dollar pool. The transactions shown in table 79 do include, however, gold sales by that country to the United Kingdom and indicate a moderate increase in such sales in the first half of 1950 as compared with the first half of 1949.[40] As noted above, an arrangement concluded between the United Kingdom and the Union of South Africa in 1950 envisages a minimum of gold sales to the United Kingdom of £50 million annually, about one-third of the latter's current yearly output; the United Kingdom's ability to earn a larger portion of gold in transactions with the Union of South Africa—as in the pre-war period—will depend on its ability to compete with suppliers from hard currency countries.

The status of the United Kingdom's sterling liabilities at the middle of 1950 is summarized in table 80. It has already been pointed out that the level of balances held by the outer sterling area resulted from the fact that balances held by Australia and, to a smaller extent, by the Union of South Africa increased during the post-war period by more than the reduction in the balances of most other parts of the region, notably Ceylon, India and Pakistan. These three countries financed about a fifth of their total imports (including imports from the dollar area) through drawings on their sterling balances.[41] Following exceptionally large drafts on its sterling balances in the latter part of 1948 and the first half of 1949, India tightened control on imports from the sterling area as its sterling position became strained, and during the year ending 30 June 1950 no drawings were made on India's sterling balances; in fact, a small surplus emerged in current transactions with the United Kingdom. This period witnessed, therefore, the termination of the principal drain on the United Kingdom's resources in the form of "unrequited" exports.[42]

An announcement concerning the future liquidation of the sterling balances of Ceylon, India and Pakistan was made by the United Kingdom in December 1950. As part of a programme for the financing of economic development in south-east Asia—which envisaged also large-scale assistance from outside the sterling area—it was anticipated that sterling balances, amounting to about £250 million, would be released to these countries during the period 1951 to 1957. This was expected to reduce such balances to what might be considered a normal monetary reserve.[43]

The sterling balances held by non-sterling area countries have become increasingly concentrated in western Europe and the Middle East; the latter is included in table 80 among "other non-sterling countries". Arrangements for long-term settlements affecting a significant part of the sterling balances of continental OEEC countries were concluded during 1950 in connexion with the establishment of the European Payments Union. About two-thirds of the balances shown under the heading "other non-sterling countries" are held by Egypt; the permanent disposition of these holdings was the subject of negotiations during 1950. The sterling balances of Western Hemisphere countries, held mainly by Argentina and Brazil, were considerably reduced by the end of 1948, largely in connexion with the repatriation of the United Kingdom's investments in that region. In November 1950 it was announced by the United Kingdom that of the £3,471 million

[39] This applies also to the recent loans received by India from the Bank.

[40] Measured in terms of sterling, this increase would, of course, be larger than indicated, owing to the increased sterling price of gold following devaluation.

[41] See the *Colombo Plan* (Cmd 8080, London, 1950). According to this source, sterling balances of these countries, amounting to £340 million, were released to finance current transactions between 1946 and 1949. In addition, £270 million was released on capital account, including £172 million for the purchase in 1948 of pensions and annuities, the value of which is included in the balances shown in table 80.

[42] Table 78 indicates that there was also a reduction in official loans and grants by the United Kingdom to the rest of the sterling area, from £46 million in the first half of 1949 to £11 million in the first half of 1950. The latter figure corresponds to the amount of colonial grants during the period. Since the figures for private capital movements in table 78 include both long-term and short-term capital, it is difficult to determine whether there was any significant reduction in the rate of outflow of capital for long-term investment. The United Kingdom's planned investment in oil production in all oversea areas during 1949 was estimated at £90 million, of which about £40 million appears to pertain to the outer sterling area.

[43] See the *Colombo Plan* (Cmd 8080, London, 1950). According to the figures cited in this report, the sterling balances of Ceylon, India and Pakistan, which amounted to £1,169 million at the end of 1945, would be reduced to £313 million by the end of 1956.

of sterling balances outstanding on 30 June 1950 somewhat under £1,300 million was held in blocked accounts.

Continental western Europe[44]

Like the United Kingdom, most of the continental OEEC countries have succeeded in reducing their deficit with the dollar area without adverse repercussions on the levels of their economic activity. In fact, these countries as a group did not experience a significant increase in their trade deficits with the dollar area in the first half of 1949, as did the sterling area. After the middle of 1949 their imports under the European Recovery Program fell off, and there was a small increase in their exports to the United States, which led to a further reduction of the trade deficit. The trade deficit of the continental OEEC countries with the United States declined 38 per cent between the first half of 1949 and the corresponding period of 1950. The surplus with the United States on account of services continued to grow steadily. As a result, the deficit on goods and services in the first half of 1950, as shown in table 74, amounted to $766 million, or about half the figure for the corresponding period of 1949. The current deficit with Canada underwent a similar contraction, though a larger part of it was due to merchandise trade rather than services.

A few countries in this group, including Belgium and Switzerland, earned dollars through transactions with other countries outside the dollar area, particularly the United Kingdom, but the region as a whole apparently had to relinquish dollars as a result of transactions with such countries. As in the case of the United Kingdom, there appears to have been a flight of capital to the United States throughout 1948 and in the first nine months of 1949, stimulated in the third quarter by anticipation of currency devaluations.

Following the devaluations, the gold and dollar reserves of the continental OEEC countries as a group increased, notably in the first half of 1950. In part this reflects the decline of the current deficit while assistance under the European Recovery Program continued at a high level, However, as is shown in table 74, there has also been a significant reduction in the debit entry against the item representing dollar settlements with areas other than the United States and "errors and omissions" in the whole account. While a portion of this reduction—from $460 million in the first half of 1949 to $235 million in the first half of 1950—reflects a decline in the rate of offshore purchases under the European Recovery Program, it would appear that in part the change represents the diminution, and possibly some reversal, of the outflow of flight capital from Europe which preceded the devaluations. Nevertheless, the continental OEEC countries accumulated gold and dollar assets equivalent only to about a fourth of their receipts of United States assistance in the first half of 1950, whereas, as shown above, the comparable figure for the United Kingdom was much higher.

The trends of the gold and dollar holdings of individual continental OEEC countries have varied under the impact of the currency devaluations and other factors. Belgium gained reserves before the devaluations, but lost a substantial portion subsequently; Italy gained a large amount of gold and dollars before devaluation, but practically none subsequently. French losses before devaluation were balanced by subsequent gains, while Germany, which experienced moderate losses before devaluation, improved its position rapidly in the following nine months as its exports expanded. The only countries which did not regain pre-devaluation losses of gold and dollars were Denmark, Norway and Turkey. The Netherlands and Switzerland recorded a heavy accumulation of gold and dollar assets over the entire eighteen months' period, with substantial increases before and after devaluation. Some of these movements, as well as the changes in the sterling balances of the continental OEEC countries, were due to shifts in the intra-European trade and payments position discussed below.

While the continental OEEC countries have not been confronted with the problem of liquidating short-term liabilities accumulated during the war comparable with the sterling balances, several of them, notably France, have sustained a substantial outflow of funds on account of loans and grants in addition to the flight capital to which reference has been made previously. The bulk of

[44] The group is described for convenience as "continental OEEC countries". The countries included are specified in the note to table 72.

this outflow was directed to their oversea territories and associated monetary areas and represented governmental rather than private transactions. Thus, it is estimated that the French Government provided more than $500 million from 1946 to 1949 for various types of long-term investment, a large part of which was absorbed by French North Africa.[45] Substantial credits have also been extended by the Netherlands to Indonesia during the post-war period to cover its surplus on various current items with that area, including a variety of service transactions. Most of these credits were converted into grants by a general financial agreement with Indonesia in November 1949.[46] Early in 1950 the Netherlands extended a further long-term loan to Indonesia of 200 million guilders (about $53 million) which it was estimated would cover two-thirds of its surplus on current transactions with Indonesia during the subsequent six months' period. Belgium also has sustained a considerable capital outflow during recent years in the form of both governmental and private investment, mainly for developmental projects in the Congo.[47]

These capital exports, particularly those of France, imposed a considerable drain on the limited resources of the creditor countries and would hardly have been possible had there not been an inflow of funds under the European Recovery Program. In the case of France, the export surplus with its oversea territories continued at about the same level in the first half of 1950 as in 1949. The impact of the credits on the dollar position of the lending countries was particularly heavy in 1948 and 1949 when the increased resources available to oversea territories of continental OEEC countries were employed partly to finance increased imports from the dollar area.

As indicated in the preceding chapter, the sharp reduction in this region's imports from the dollar area without impairment of its economic activity was due primarily to the rise in its production and hence to the increased capacity both to supply local needs which had previously necessitated imports from overseas and to export a larger quantity of goods. However, despite the progressive narrowing of the dollar deficit and the rebuilding of the gold and dollar reserves of the continental OEEC region since the middle of 1949, there remained a degree of imbalance with the dollar area—mostly with the United States—that appeared to contain certain intractable elements. Even if allowance is made for price increases since 1939, the region's trade deficit with the United States during the first half of 1950 remained considerably above the pre-war level, and was shared by every country in the region. The quantum of continental western Europe's exports to the United States in the first half of 1950 rose sharply above that of the corresponding period of 1949, but the dollar value was only 12 per cent higher, as the result of devaluation.[48] It should also be noted that imports from the United States continue to be severely restricted in this region. The persistence of large dollar transfers during the first half of 1950 to countries other than the United States has been stressed above. An additional element to be considered is the fact that in 1951 and the following years substantial amortization payments are due the United States on account of post-war loans, particularly from France.

This situation assumes particular significance in view of the continuing difficulty encountered by the region in its multilateral trade. Even before the war, the region's current transactions with its oversea territories, except those of the Nether-

[45] See Organisation for European Economic Co-operation, *Report on International Investment* (Paris, 1950).

[46] Under the terms of this agreement Indonesia assumed full responsibility for the internal debt, post-war credits received from third countries, pre-war Netherlands loans and a small portion of post-war Netherlands credits. The bulk of Indonesia's post-war obligations to the Netherlands, amounting to 2,000 million guilders (about $525 million) was cancelled. These credits had served largely to finance various service transactions, payments of interest, dividends and amortization due Netherlands interests and, to a smaller extent, imports from the Netherlands.

[47] In 1946 Belgium contributed 2,200 million Belgian francs (about $50 million) to the Congo budget and in 1948 another 1,200 million Belgian francs (about $27 million) were allocated to a governmental development agency in the Congo.

[48] Table 57, which includes exports to the United States and Canada, indicates that the rise in quantum was about 40 per cent. The value of imports into the United States is shown in table 54. It will be observed that the data in table 74, which are derived from United States balance of payments statistics, show a slight decline in the value of exports from Continental OEEC countries to the United States over the period mentioned. This appears to be due mainly to a decline in balance of payments adjustments for unrecorded trade, mostly United States Government purchases in Europe.

lands, were not an important net source of foreign exchange. As was pointed out above, in 1948 and 1949 the transactions of these oversea territories with the dollar area resulted in a deficit and imposed a net drain on the resources of the continental OEEC countries. While there was a small surplus on account of such transactions in the first half of 1950, the future net contribution to the dollar earnings of western Europe cannot be expected to be substantial.

Since further expansion of exports from the continental OEEC region to the United States is difficult, the solution of the region's trading problem without external aid would imply the expansion of trade with regions which can supply substitutes for imports now being obtained from the dollar area or the re-establishment of a surplus with the non-dollar world which can be settled in dollars or their equivalent. The extent to which one or the other solution is feasible cannot be easily assessed, and it is likely that the nature of the solution will vary among the several countries of the region. Countries in a position to export manufactured goods in exchange for raw materials from overseas, such as Belgium, France and Germany, may be expected to seek markets increasingly in Latin America and other underdeveloped regions, including part of the outer sterling area. A part of the recent expansion of the trade of western Germany and France, for example, has reflected this tendency. Other European countries, whose export markets are more restricted in scope, are inevitably bound more closely to traditional European markets. A case in point is Denmark, which is highly dependent on the sale of bacon, butter and eggs to the United Kingdom and other European markets. The commercial link with the United Kingdom was the primary reason for the devaluation of Danish currency to the same extent as sterling in September 1949. This action, however, contributed to the rise in the price (in local currency) of raw materials and other necessities imported from the United States, Latin America and the outer sterling area, at the same time that the proceeds of exports to the United Kingdom, largely dependent on contractually fixed prices, did not increase correspondingly.[40] In fact Denmark's export surplus with the United Kingdom was replaced by a deficit after the devaluation.

Of particular significance in connexion with possible adjustments in the pattern of the region's trade are its transactions with the United Kingdom. Before the war continental western Europe was able to finance a large part of its current transactions with the rest of the world, including the dollar area, through a trade surplus with the United Kingdom (which was close to $400 million in 1938); but recently this region has incurred a deficit with the United Kingdom, which exceeded $100 million in the first half of 1950. It will be recalled that while in the first half of 1949 several continental OEEC countries, notably Belgium and Switzerland, earned substantial amounts of gold in their transactions with the United Kingdom, in the corresponding period of 1950, on the contrary, the United Kingdom earned a small amount of gold from these countries. While the situation described may be temporary, and the United Kingdom's surplus may decline or disappear with the further expansion of western Germany's exports to European countries, the prospect of a return to a European surplus in trade with the United Kingdom appears more remote. The capacity of the United Kingdom to finance a deficit with continental western Europe depends, in the long run, on its ability to earn foreign exchange in transactions with other regions. This has been rendered particularly difficult by the severe reduction in the United Kingdom's income from foreign investments (especially when measured in terms of current prices) as well as by the large sterling liabilities outstanding. The exports of continental Europe are thus perforce becoming oriented towards other continents. So far they appear to have done this in competition with the United States; but if the trend should continue, the effect would also be felt by the United Kingdom, which has traditionally disposed of a large proportion of its exports in non-European markets.

[40] Thus, Denmark's trade deficit in the first half of 1950 was about as large as in the full years 1948 and 1949. The sharp rise in the cost of living after devaluation led to wage adjustments. Pressure on the balance of payments from wage increases and other inflationary forces grew during the first part of 1950 and led in August 1950 to a tightening of Danish import restrictions. Efforts to find alternative markets for Danish exports in continental Europe, particularly in Germany and Italy, were also intensified.

Intra-European settlements

The foregoing discussion, bearing largely on payments between western Europe and other continents, may be supplemented by information covering intra-European settlements, which have attracted increased attention since the recent establishment of the European Payments Union.

It will be recalled that before the war Germany had an export surplus with the rest of continental Europe, while the United Kingdom was a net importer from the continent, including Germany. With Germany temporarily eliminated as the chief supplier of manufactured goods, the United Kingdom partly assumed this role and, after establishing a large export balance during the period of relief operations in 1946, maintained a moderate surplus with continental Europe during 1947 and 1948. After a setback during 1949, prior to devaluation, the emergence of a substantial export balance in the United Kingdom's favour in 1950 marked a further deviation from the pre-war pattern. Belgium, Sweden and Switzerland, having emerged from the war in a relatively strong economic position, became the leading creditors during the early post-war period. Thus, some countries in the region approached a balance or even a small surplus on goods and services with the rest of the world, though continuing to incur a deficit with the dollar area. Others—such as Austria, Denmark, Greece, Norway and western Germany—continued to have a deficit in such transactions generally, a situation which, except in the case of Germany before 1950, resulted to a considerable extent from trade deficits with other European countries.

In view of the breakdown of multilateral trade and the almost complete discontinuation of long-term capital movements among European countries, the extent to which an imbalance in payments could be sustained through intra-European financing alone was limited. By 1948 the credits extended by European countries under various bilateral payments agreements had largely become exhausted. Apart from investments by several countries in their oversea territories and associated monetary areas, to which attention has been called above, there was little export of long-term capital—only Switzerland permitted a relatively free outflow of capital.[50]

In these circumstances, with a view to avoiding close bilateral balancing of trade within Europe, it was decided to utilize a portion of the dollar funds supplied through the European Recovery Program to finance deficits in trade between various participating countries. An agreement concluded among these countries in October 1948 provided that dollar funds should be made available to countries that were creditors on intra-European account on condition that such countries extended equivalent grants—so-called "drawing rights"—to participating intra-European debtor countries. Thus, the intra-European debtor countries were to receive a combination of dollar aid and drawing rights with which to cover their total balance of payments deficit. The intra-European creditors, on the other hand, were to be paid in dollars for their surpluses with countries within the region. Under the agreement of October 1948 the drawing rights were available only to finance deficits with the country granting them; under the subsequent scheme for the year ending 30 June 1950 this bilateral feature was partly modified by the provision that deficit countries might use 25 per cent of their drawing rights to meet a deficit with any European creditor.[51]

During the period covered by the payments agreements described above, substantial changes occurred in the balances arising in intra-European transactions. Among the factors causing these changes were national differences in the degree of inflation or deflation, speculative transactions in anticipation of devaluation and devaluation itself, the relaxation of import restrictions and finally, the improvement in the supply and export position, particularly of western Germany.

During 1948 intra-European payments, as is shown in table 81, were characterized by a large

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[50] It has been estimated that from the end of the war to January 1950 Swiss banks granted long-term credits of $133 million, of which $106 million was extended to France. In addition Netherlands and Belgian public authorities floated long-term securities in Switzerland amounting to $57 million. See Organisation for European Economic Co-operation, *Report on International Investment* (Paris, 1950).

[51] Because Belgium's intra-European surplus was expected to exceed its estimated deficit with the dollar area, under the second agreement Belgium granted both drawing rights of $113 million and special long-term credits of $88 million to France, the Netherlands and the United Kingdom, its main debtors. Furthermore, somewhat more than 50 per cent of the drawing rights granted by Belgium were made multilateral.

surplus in favour of the United Kingdom, financed through drawings by the European countries on their accumulated sterling balances; by the strong creditor position of Belgium and Switzerland; and by the large deficit of France, financed to a considerable extent through drawing rights. Western Germany, though its European trade was small, also emerged with a surplus as the result of severe restrictions on imports from other European countries.

In 1949 significant changes occurred prior to devaluation. Belgium and Switzerland strengthened their creditor position, but the United Kingdom incurred a large deficit during the second and third quarters of the year, as the result of increased imports and a decline in exports, perhaps partly in anticipation of devaluation. In the second half of the year France became a net creditor owing to a sharp rise in exports.

Further changes occurred after the devaluations in 1949, which appear to have reflected in considerable measure changes in the supply position of the different countries and various short-run factors. The previously persistent credit balance of Belgium was greatly reduced, while that of Switzerland was eliminated and transformed into a deficit. The balance of the United Kingdom became active as the result of larger exports. It should be observed that the balance attributed to the United Kingdom in table 81 includes the trade surplus of the United Kingdom's oversea dependencies and certain other parts of the sterling area with other OEEC countries, which rose substantially in the first half of 1950 as the result of the increased prices of their exports of raw materials. France, after a temporary setback in the first quarter of 1950, re-established the creditor balance held during the latter part of 1949. Germany's exports rose rapidly, but its imports rose even more following the relaxation of import restrictions, so that a substantial deficit emerged. In view of the shifts, particularly in the position of the United Kingdom and Germany, it is not surprising that the actual pattern of intra-European balances deviated from that anticipated

Table 81. Net Surpluses and Deficits of OEEC Countries with One Another,[a] 1948 to 1950 (First half)

(In millions of current United States dollars)

Country	Total October 1948 to June 1950	1948 October to December	1949 January to March	1949 April to June	1949 July to 18 September	1949 19 September to December	1950 January to March	1950 April to June
Austria	—158.4	—3.7	—34.3	—33.3	—11.1	—29.0	—30.1	—16.9
Belgium-Luxembourg	526.0	64.8	64.6	118.3	99.8	—5.2	78.1	105.6
Denmark	—28.3	—32.8	—5.6	15.7	13.0	16.8	—13.5	—21.9
France	43.2	—77.8	—57.4	—38.4	142.0	7.9	—10.4	77.3
Greece	—232.1	—26.5	—23.4	—39.3	—33.2	—37.3	—16.0	—56.4
Italy	305.3	60.2	73.0	82.4	83.2	4.6	5.2	—3.3
Netherlands	—261.7	—13.9	—107.7	—33.2	6.0	14.9	—61.3	—66.5
Norway	—226.8	—62.1	—23.9	—21.8	—24.5	—38.1	—35.8	—20.6
Portugal	—104.4	—34.6	—36.4	—27.9	9.9	0.7	—3.5	—12.6
Sweden	149.1	51.1	0.8	18.0	50.6	44.4	—1.2	—14.6
Switzerland	108.4	14.5	20.0	44.6	61.6	—32.4	12.1	—12.0
Turkey	—79.0	5.2	8.3	—7.4	—2.9	20.5	—5.3	—97.4
United Kingdom	27.5	41.3	75.9	—95.4	—425.9	142.6	211.2	77.8
Western Germany	—68.8	14.2	46.1	17.7	31.6	—110.4	—129.5	61.5
Total of net surpluses and net deficits	1,159.5	251.4	288.7	296.7	497.6	252.4	306.6	322.2

Source: Organisation for European Economic Co-operation, *Statistical Study of the Working of the Agreements for Intra-European Payments and Compensations* (Paris, 9 November 1950).

[a] Figures are based on the returns submitted by central banks to the Bank for International Settlements for compensation purposes and indicate the change in net credits or liabilities of each central bank towards the others. They include some capital transactions as well as balances on goods and services. The figures do not include drawing rights under the intra-European Payments Agreement and credits under the European Payments Union. The balances of each country include the transactions of the whole of its monetary area. Thus, Iceland, Ireland and other countries in the sterling area are included with the United Kingdom.

when the drawing rights were established under the payments agreement of 1949-50.[52]

In September 1950 a new and substantially different agreement on intra-European settlements was concluded by the countries participating in the European Recovery Program. The agreement took into account the large expansion in intra-European trade that had occurred in 1949 and the first part of 1950 and the relative stabilization of the internal financial situation in western European countries; it was designed to stimulate further extension of trade on a multilateral basis and thus to overcome the essentially bilateral and inflexible character of the previous arrangements.

The agreement of September 1950 established a European Payments Union (EPU), the members of which are committed to periodic settlement within the group of all balances (in excess of established quotas) in western European currencies that arise through current transactions among members. Thus each country will be able to apply surpluses with some countries to offset deficits with others and will be concerned only with its balance with the EPU as a whole. The arrangement does not eliminate national exchange controls. An important feature is the inclusion of the oversea areas, including the entire sterling area, in which currencies of the members circulate freely. Thus members are able to finance imports of raw materials and foodstuffs from the outer sterling area through surpluses with other areas of the union or through the credit facilities the union affords.

The European Payments Union establishes a system for extending limited credits to offset deficits. Each member country in deficit with the union is entitled to a credit up to 60 per cent of a quota determined by the relative size of the country's external (current) transactions in 1949; conversely, creditor countries are committed to finance a surplus with the union up to 60 per cent of quotas. Balances not settled in this way are to be paid in gold or United States dollars. A further degree of convertibility into gold or dollars is established by the provision that credits received in excess of 20 per cent of a country's quota are to be matched by partial payment in gold and dollars, the proportion increasing with the credits received. A similar but more steeply graduated scale is provided for gold and dollar payments by the EPU to creditor countries. To finance possible gold and dollar payments in excess of receipts from debtors, the union has been provided with working capital of $350 million in United States dollars from funds available under the European Recovery Program.

Both the size and the conditions of use of the union's credit facilities indicate that they are intended to cover short-term requirements. The present agreement extends only to 30 June 1952 and stipulates that net credits outstanding on that date are to be repaid normally within three years. However, provision is also made for the possibility of financing intra-European balances beyond the scope of EPU credit facilities through a system similar to that of the drawing rights and conditional aid under the pre-existing scheme. Thus, Belgium, Sweden and the United Kingdom, which were regarded as the major potential creditors, have assumed so-called starting debits. Countries extending such credits will be entitled to equivalent amounts of conditional aid under the European Recovery Program.[53] Starting credits, in excess of the quotas described above, have been accorded to Austria, Greece, the Netherlands, Norway and Turkey; all of these except Turkey have continued in recent months to incur substantial deficits in their transactions with other countries in the region. Under the rules of the EPU, however, these starting debits and credits are not to give rise to gold transfers until June 1951.

The agreement for the European Payments Union also provides for the consolidation of

[52] During the eighteen months from October 1948 to March 1950 the drawing rights covered 32 per cent of the deficits (and surpluses) arising between countries participating in the scheme, and the percentage from July 1949 to March 1950 was substantially lower than in the previous period. During the nine months ending 30 March 1950, Denmark, France, Portugal and Turkey had surpluses even though they were entitled to net drawing rights under the payments scheme. Germany and the United Kingdom, on the other hand, which had granted net drawing rights, actually incurred deficits.

[53] While aid to the United Kingdom under the European Recovery Program was scheduled to be suspended on 1 January 1951, the United Kingdom will remain a full participant in the European Payments Union. Of the allotments of aid to the United Kingdom, amounting to $175 million for the six months ending 31 December 1950, $150 million was considered conditional aid as an offset to the starting debit assumed by the United Kingdom upon entering the European Payments Union.

unfunded debts outstanding between members on 30 June 1950. The most important of such obligations are the short-term liabilities of the United Kingdom to various European countries (particularly France, Italy, Portugal and Sweden) which, as shown in table 79, amounted to £378 million on that date. Arrangements have since been concluded covering the gradual liquidation of a substantial portion of such liabilities. At the same time, the short-term liabilities of Denmark and Norway to the United Kingdom were similarly disposed of. The United Kingdom has announced that, irrespective of funding arrangements, all sterling balances in the hands of members of the EPU on 30 June 1950 may be used to settle any deficits with the union. This commitment was rendered possible through the undertaking by the United States to compensate the United Kingdom for any loss in gold or dollars that might result.[54]

By providing for the partial settlement of intra-European balances in gold (or dollars) the agreement sought to afford incentives for European debtor countries to correct balance of payments disequilibria. This arrangement was supplemented by agreements under which members of the European Payments Union undertook to relax direct controls on their mutual trade and also on certain types of intra-European payments, particularly the transfer of income from investments, and to administer such controls within the region on a non-discriminatory basis after 1 January 1951. In conjunction with the provision for gold settlements, the undertakings regarding commercial policy were intended to encourage the lessening of disequilibria by adjustments in the internal economic situation of member countries rather than by direct controls on imports. A progressive relaxation of import restrictions was envisaged to cover, by the end of 1950, 75 per cent of the value of private trade among the participants in 1948.[55]

The most striking development during the first period of operation of the European Payments Union, shown in table 82, was the growth of western Germany's deficit, which reached $177 million during the three months ending September 1950 and grew to $357 million by the end of 1950. This situation has been attributed partly to temporary factors, including the lag between the increase in Germany's exports of manufactures and its imports of primary products and an unusually heavy accumulation of stocks by German importers, believed to reflect to some extent an anticipated appreciation of sterling. The deficit emerged despite the rise in Germany's exports during the third quarter of 1950 by more than 20 per cent above the level in the preceding quarter. Since Germany's quota in the union is $320 million, special action was required if the depletion of Germany's gold and dollar reserves (about $200 million on 30 June 1950) was to be avoided and if Germany's membership in the union was to be maintained. Accordingly, the union in November 1950 granted western Germany a special credit of $120 million to be repaid before 31 December 1951. At the same time western German authorities took measures to curb the expansion of bank credit and to control speculative imports.

A large part of the growth of the German deficit resulted from transactions with the sterling area and France, whose surpluses with other countries in western Europe also increased considerably. By the end of 1950 Denmark and the Netherlands, on the other hand, had approached the point at which gold payments to the European Payments Union were required. While some of the strains indicated by these developments are of a temporary nature, they serve to indicate that further adjustments in the oversea trade of western Europe are needed. One difficulty of the industrial European countries lies in the recent heavy increase in the prices of raw materials, felt particularly in the financing of imports from the outer sterling area. In the first half of 1950 the trade deficit of the continental OEEC countries

[54] See Economic Cooperation Administration, *Ninth Report to Congress* (Washington, D.C., November 1950), page 30.

[55] This undertaking has been subjected, however, to reservations by several countries in the light of recent developments. Thus, France reserved its position on further relaxation in view of recent increases in the price of imported raw materials, particularly from the sterling area. The Netherlands expressed concern over the effect on its position in the event that import restrictions were intensified by Germany as the result of its greatly expanded intra-European deficit in the third quarter of 1950. Countries with low tariffs also entered a reservation by making their action contingent on the outcome of current multilateral tariff negotiations being conducted under the General Agreement on Tariffs and Trade.

Table 82. Operations of European Payments Union, 1 July to 31 December 1950

(In millions of United States dollars)

Country	Net surplus or deficit (—)[a]	Quota	Use of quota: Credit granted or received (—)	Use of quota: Gold or dollars received or paid (—)	Amount of initial debit or credit (—) balance used
Austria	—37.4	70	–	–	—37.4
Belgium-Luxembourg	21.8	360	–	–	21.8
Denmark	—38.4	195	—38.4	–	–
France	212.4	520	158.2	54.2	–
Germany	—356.7	320	—192.0	—128.0	—36.7[b]
Greece	—70.8	45	–	–	—70.8
Iceland	—3.3	15	–	–	—3.3
Italy	—30.9	205	—30.9	–	–
Netherlands	—107.9	330	—75.5	—2.4	—30.0
Norway	—51.1	200	–	–	—51.1[c]
Portugal	36.8	70	25.4	11.4	–
Sweden	–	260	–	–	–
Switzerland	—12.6	250	–	—12.6[d]	–
Turkey	5.3	50	5.3	–	–
United Kingdom	433.0	1,060	247.5	35.5	150.0
Total	±709.3		436.4 —336.8	101.1 —143.0	171.8 —229.3

Source: Organisation for European Economic Co-operation, press releases of 21 December 1950 and 17 January 1951; and *A European Payments Union* (Paris, 1950).

[a] For definition of balances see table 81.

[b] Covered outside the quota under a special credit to Germany.

[c] Including $50 million as a grant and $1.1 million provided to Norway as a loan.

[d] Switzerland chose to settle a cumulative deficit of $27.3 million in dollars at the end of November, upon entering the European Payments Union, and thus did not use credit available under its quota. Switzerland was subsequently repaid $14.7 million in dollars for its surplus during December.

with that area was close to $350 million, and recent price trends are likely to raise this balance.

Other areas

The countries included in table 72 under the heading "rest of world" consist mainly of eastern European and Middle Eastern countries, a number of Far Eastern countries, especially China, Indonesia, Japan and the Philippines, and certain areas in Africa, including the dependent territories of the continental OEEC countries outside the sterling area. The areas in this group have in common mainly the fact that their deficits with the dollar area were substantially reduced between 1949 and 1950, except for eastern Europe, which was already in balance with the dollar area in 1949. In other respects their balance of payments position reflected widely different tendencies.

The situation of eastern Europe was determined chiefly by the fact that capital movements played an unimportant part in its relations with other regions. Hence the trade of eastern European countries tended to be closely balanced over fairly short periods. Minor temporary deficits occurred, however, and were offset by mercantile credits under trade or payment agreements. Surpluses earned in transactions with the United Kingdom were used to finance imports from other parts of the sterling area.

Export surpluses of the Union of Soviet Socialist Republics with other eastern European countries were financed by medium-term credits, such as that to Poland under the agreement of January 1948 providing for a loan of $450 million over a period of five years. Agreements have also been made by the Soviet Union with other eastern European countries under which capital equipment is supplied by the former on credit. In the case of Czechoslovakia, an agreement of December 1948 with the Soviet Union provided for a loan by the latter of gold and hard currency to help finance Czechoslovakia's deficits with countries outside the area. Agreements in force between Czechoslovakia, Finland, Poland and the Union of Soviet Socialist Republics at the end of June 1949 also provided for some degree of multilateral compensation of surpluses and deficits in transactions among the four countries. During the period under review the international trade of Yugoslavia was diverted from the rest of eastern Europe owing to political difficulties. In 1950 Yugoslavia received loans from the United States to assist in relieving the food shortage.

With the political change in China, that country's international transactions underwent a profound modification. The large trade deficits of 1947 and 1948 were reduced with the decline of imports in 1949. The value of China's exports to the United States actually increased somewhat during the first nine months of 1950 compared with the corresponding period of 1949, but imports dropped sharply, leaving a considerable Chinese trade surplus. The decline in China's imports from the United States appears to have been more than offset by increased imports through Hong Kong, particularly after the outbreak of hostilities in Korea.[56] Incomplete statistics indicate that China's trade during the first six months of 1950 may have resulted in a small trade surplus.[57] In February 1950 the Central People's Government of the People's Republic of China received a credit of $300 million from the Union of Soviet Socialist Republics to be expended over a five-year period, beginning January 1951, for the payment of imports from that country. The credit is to be repaid in ten equal instalments, beginning December 1954, in Chinese raw materials and gold or United States dollars. During 1950 some steps were also taken to expand the trade of China with other eastern European countries under barter agreements.

One of the most significant changes during the period under review was the improvement in Japan's balance of payments. During the early post-war years, Japan, like the western European countries, incurred large deficits, particularly with the United States, which were financed by special governmental assistance from that country. In the year ending 30 June 1950, as a result of rapid recovery in production, Japan reduced its deficit on goods and services to $220 million, compared with $352 million in the preceding year. At the same time it made net repayments of $79 million on United States short-term credits and added $111 million to its short-term assets, an accomplishment which would not have been possible, however, without the continuation of substantial aid from the United States.[58]

Japan faces serious problems in achieving equilibrium in international transactions. The Japanese economy was closely linked before the war to that of neighbouring Asian countries, particularly China and Korea; Japan obtained primary products from them and supplied them with manufactures. Political changes have disrupted relationships with China and Korea, and elsewhere in Asia the growth of population and the programmes of economic development have been associated with the retention of primary products for domestic consumption or processing. Under conditions of currency inconvertibility, post-war export surpluses with countries in south-east Asia and elsewhere were not available to offset the greatly increased import balance with the United States. The difficulty was increased by the decline in world demand for Japanese exports of silk. In general, Japan was confronted with payments problems akin to those of western Europe, the solution of which may require further changes in the structure of Japanese production and trade. The prospects for the expansion of Japan's export markets, particularly in south-east Asia, will be considerably affected, of course, by the extent to which the latter region's economic development is assisted by an inflow of capital, especially from the United States.

Before the war, the relationship of Indonesia to the Netherlands was similar to that of the British dependencies to the United Kingdom in the sense

[56] In November 1950 the United States Government took action to require specific authorization for all United States exports destined for China proper, Hong Kong and Macao, to forbid United States ships from calling at ports under the control of the Central People's Government of the People's Republic of China, and to freeze Chinese assets in the United States. In December the new administration ordered an embargo on exports to the United States and Japan, transactions in United States dollars were suspended and United States assets in China proper were frozen.

[57] See United Nations, *Direction of International Trade*, 15 January 1951, a joint publication of the International Monetary Fund, the International Bank for Reconstruction and Development, and the Statistical Office of the United Nations.

[58] These data are based on "International Transactions of Japan", 8 August 1950, a report issued by the Supreme Commander for the Allied Powers and cited in *Report to the President on Economic Policies* (United States Government Printing Office, Washington, D.C., 10 November 1950).

that surpluses earned by Indonesia in transactions with the United States contributed towards financing deficits with the metropolitan country which arose largely on account of the transfer of income on Netherlands investments. The currencies earned in this way by the Netherlands thus assisted in meeting its own deficit with the United States. Since the war Indonesia has incurred large deficits on current account, which, as was pointed out above, have been financed in large measure by grants and long-term loans from the Netherlands. In addition, in February 1950, the Export-Import Bank authorized a loan of $100 million to Indonesia to finance imports of capital goods from the United States for reconstruction purposes. The recovery in Indonesia's output of such commodities as rubber and tin, and the rise in United States demand for these goods towards the end of 1949, resulted in a surplus on Indonesia's merchandise account with the rest of the world in the first half of 1950. This tendency was reinforced by financial measures introduced in March 1950 to restrict non-essential imports.

The Philippines, which customarily had a surplus on current account before the war, has incurred considerable deficits in the post-war years owing to the extremely large volume of imports for reconstruction and other purposes, and to the drop in exports. The deficits were financed primarily by United States governmental disbursements, which amounted to $1,300 million during the period 1945 to 1949 and exceeded export receipts throughout these years. A substantial inflow of private funds for the reconstruction of foreign-owned enterprises during 1947 and 1948 dwindled in 1949 and was exceeded materially by the outflow of private remittances, the repayment of loans and the transfer of profits of foreign enterprises. The situation became unstable as imports continued on a high level, particularly in view of the prospective diminution of United States governmental disbursements. The outflow of private funds took on the proportions of a capital flight towards the end of 1949 and, with the demand for imports unabated, severe trade and exchange controls became necessary to balance international payments. In the first half of 1950 imports were cut by nearly 40 per cent and exports rose slightly, but United States Government disbursements were reduced to about 60 per cent of the 1949 level. Since an expansion of Philippine exports is not likely to be of such magnitude as to offset further prospective declines in United States governmental expenditures, the Philippines is faced with the need to make substantial adjustments in its domestic economy and in its international transactions.

The position of the Middle Eastern countries in international trade and payments stems primarily from their relationship to other countries as suppliers of petroleum products and, in the case of Egypt, of raw cotton. While world production of petroleum declined slightly from 1948 to 1949, the output in the Middle East rose by over 20 per cent, the principal increases being in Iran, Kuwait and Saudi Arabia. The growing importance of the region in supplying the needs of western Europe, particularly, has been reflected in an inflow of long-term capital both from western Europe, especially the United Kingdom, and from the United States, to finance imports of equipment and local expenditures associated with the production of oil. The royalty payments and local expenditures of the oil companies have served to raise the foreign exchange receipts not merely of the oil-producing countries but also of certain of the neighbouring countries, such as Lebanon and Syria, where pipelines and refineries have been constructed. These receipts have financed foreign deficits and have even permitted the accumulation of foreign exchange reserves and net imports of gold in some cases.[59]

Egypt had a favourable balance on current account in 1949—a deficit on merchandise account being more than offset by net receipts from other current items, particularly Suez Canal dues. A current surplus with the sterling area in that year was accompanied by a deficit with hard currency countries and other areas, which Egypt financed through releases from sterling balances, made convertible into hard currency, and through the purchase of dollars from the International

[59] This is not always reflected in official gold holdings, since the gold is often purchased by private persons for hoarding or other purposes. The gold holdings of the Government and the Bank of Lebanon increased from $1.7 million at the end of 1948 to $12.7 million at the end of 1949 and to $20.0 million at the end of June 1950. In a statement to the Egyptian Senate in June 1950, the Egyptian Minister of Finance stated that the Government's policy was to continue accumulating gold and dollar reserves for currency backing.

Monetary Fund and a loan from the Export-Import Bank of Washington.

In 1950 Egypt achieved a surplus in current transactions with the dollar area, as a result of import restrictions combined with an expansion of exports to the United States, largely due to the rise in the price of raw cotton. Egypt was able to pay $8.5 million in gold and dollars to the International Monetary Fund in July 1950, of which $3 million was on account of its purchase of dollars in the previous year and the remainder to adjust its gold subscription to the Fund. In September 1950 it was announced that the United Kingdom and Egypt would begin negotiations in November for the settlement of Egypt's outstanding sterling balances, estimated at about £320 million, of which some £250 million was blocked.

Following an agreement with the United Kingdom in 1947, Iran was allowed to convert current sterling earnings into dollars in respect of essential imports from the dollar area unobtainable on equal terms from the United Kingdom. In addition the United Kingdom made payments to Iran for war-time use of the Iranian railway system, and part of these payments were to be made available in dollars if required.[60] The whole of Iran's deficit with the dollar area, estimated at about $90 million for the year ending March 1950, was financed by dollars obtained in transactions with the United Kingdom. Thus, both Egypt and Iran have virtually had access to the resources of the sterling area dollar pool to meet deficits with the dollar area without themselves being members of the sterling area. In 1950 Iran received a credit of $25 million from the Export-Import Bank.

In Israel and Jordan current account deficits have been financed to a significant extent by drawings on sterling balances, largely accumulated during the war. The inflow of private donations and investments, and an Export-Import Bank loan of $100 million authorized in 1949, have financed the bulk of the large current deficit of Israel. Early in 1950 an agreement was concluded between Israel and the United Kingdom providing for the settlement of mutual financial claims, including Israel's sterling balances, estimated at £30 million at the end of 1949, of which £25 million was blocked. These balances were drawn on in 1950 to finance Israel's imports from the sterling area. In Lebanon and Syria merchandise deficits have been covered by drawings on accumulated balances of French francs as well as by profits on transit trade in merchandise and gold, tourist expenditures and remittances from emigrants. Early in 1950 Syria received a loan of $6 million from Saudi Arabia to finance the building of the port of Latakia with machinery previously used in constructing a port at Jidda. The new Syrian port is expected to reduce Syria's transit trade through Lebanon.

[60] The balance was covered by sterling which carried a revaluation guarantee. Thus Iran's holdings of sterling increased considerably after the sterling devaluation of September 1949. The sterling balances of Egypt, Israel and Jordan were unaffected by devaluation.

Summary and Conclusion

By the middle of 1950 it was possible to discern in international transactions the approach to a situation which, while far from satisfactory in some respects, nevertheless permitted an increasing number of countries to maintain their economies at levels at least comparable with those in the immediate pre-war years despite the reduction in the external assistance which some of them had been receiving. Since subsequent events are exerting a profound effect on international trade and finance, it seems desirable to appraise the situation as it stood prior to the outbreak of hostilities in Korea.

Although they reduced their deficit with the dollar area in 1948, most soft currency countries experienced a depletion of their foreign exchange reserves that accelerated during the first half of 1949 and led to intensified trade restrictions in the middle of the year, followed by widespread devaluation of currencies. There resulted a substantial drop in exports from the United States. The supply situation in the restricting and devaluing countries, however, was not adversely affected in most cases because of the concomitant rapid recovery of production and trade, particularly in Europe, which permitted countries to satisfy requirements formerly met through imports from the dollar area. Growing western European earnings from shipping and larger receipts from United States tourists also contributed to narrowing the gap in dollar payments. The reorientation of international transactions, which gained momentum after the middle of 1949, thus reflects the emergence of a greater degree of balance in the world's production and trade and may be said to mark the end of the period of post-war reconstruction. With the continuance of special assistance from the United States at a high level, many countries were able to begin rebuilding their gold and dollar reserves, a process which was aided by the reduction of capital flight from western Europe to the United States after the devaluations of 1949.

Despite the trend towards a greater degree of balance in transactions between the dollar area and the rest of the world, there remained significant elements of disequilibrium in the international transactions of important regions of the world. The nature of these difficulties is explored in some detail in the following two chapters. Here it will suffice to note the main features of the problem.

The countries of continental western Europe, while maintaining production in some cases well above the pre-war level, continued to be unable to pay through their own exports of goods and services for a substantial part of the essential imports of raw materials and foodstuffs which could be obtained only from outside the region, both in the dollar area and elsewhere. While most countries in the region were affected, the problem basically concerned the more highly industrialized countries, in particular, Belgium, France and western Germany. Without their pre-war export surplus with the United Kingdom, and to some extent as the result of the stalemate in east-west trade in Europe, these countries were seeking markets in Latin America and under-developed regions to absorb their exports in amounts well above pre-war levels. Under prevailing conditions, the scope for expansion of their exports in this direction appeared limited, however, particularly since the United Kingdom and Japan, both traditionally suppliers of manufactured goods to the same regions, were also under pressure to expand their exports in these directions in order to compensate for changes in their international economic position. Of these changes, perhaps the most important was the reduction suffered by the United Kingdom in the amount and, especially, in the purchasing power of its income from oversea investments. Furthermore, the difficulties of continental western European countries were increased —even before the outbreak of hostilities in Korea —by the rise in prices of imported primary products, both from the Western Hemisphere and from the outer sterling area.

Similar factors impeded effective intra-regional settlements among western European countries. While some of the difficulties stemming from short-term or largely domestic circumstances were overcome with the revival of production and trade within Europe, the reduction of inflationary pressure and the relaxation of trade restrictions, it appeared that the problem of regional settlement of accounts within Europe could not easily be separated from that of settling Europe's accounts with the outside world.

The narrowing of the deficit with the dollar area and the reconstruction of gold and dollar reserves had proceeded further by mid-1950 in the United Kingdom than in other western European countries. It should be borne in mind, however, that while the quantum of the United Kingdom's exports had reached an unprecedented level, the improvement in its dollar reserves was due in considerable measure to its position as repository of the reserves of the rest of the sterling area (other than the Union of South Africa). As the United Kingdom's gold and dollar reserves grew, its liabilities to the sterling area also expanded. The recent expansion of sterling liabilities was accompanied by a rise in the prices of imported raw materials and foodstuffs from the outer sterling area, as the result not only of devaluation but also of other factors. The issue of the United Kingdom's competitive position in trade with the dollar earning countries of the outer sterling area remained crucial.

While the United Kingdom thus assumed new sterling liabilities, there remained the large residue of such liabilities accumulated previously. By mid-1950 important progress had been made towards liquidating part of the older liabilities or converting them into long-term obligations. However, the rate at which the remainder might be disposed of remained uncertain. On this issue depended to an important extent the external financing that might be available for economic development programmes in India, Pakistan and other countries in the Middle East and in south-east Asia.

Largely for different reasons the international transactions of many countries outside western Europe remained in precarious balance or in nominal balance sustained only by direct controls on trade and payments. This situation persisted despite considerably increased prices of the principal foodstuffs and raw materials exported from these areas. The strain on the balance of payments of many such countries resulted from domestic inflationary pressure inherited from the war or linked with the financing of their economic development. The effort to maintain relatively high rates of investment, given the pressure of population and the inadequate level of food production in some under-developed countries, was bound to have an adverse effect on their external payments in the absence of a large inflow of capital from abroad. While the rate of long-term lending by the International Bank for Reconstruction and Development and the Export-Import Bank had increased by the middle of 1950 and some further expansion was in prospect, it was clear that this would not suffice to sustain the levels of investment and consumption sought by many under-developed countries. Long-term capital movements of the normal commercial variety continued to play a very limited role in international transactions—except in the field of mineral development in a few areas. While the exchange restrictions deterring international investments might be expected to abate with the increased dollar earnings of some areas, the outflow of United States private capital is likely to be confined largely to the Western Hemisphere in view of continued uncertainties in the international political situation.

Just as there was a close link between the aid extended to Europe under the European Recovery Program and the balance of payments position of areas outside Europe, so in mid-1950 the flow of capital from the United States to the under-developed regions appeared as one of the significant factors that would determine the nature of the solution to the outstanding payments difficulties of other countries, particularly in western Europe. The impact on the balance of payments of western European countries of an expanded rate of capital flow to under-developed countries would depend, of course, on the extent to which the former countries could expand their exports to such regions.

The outbreak of hostilities in Korea introduced a new set of forces affecting international transactions. While the impact of the recently initiated programmes of rearmament cannot yet be foreseen in detail, some of the main tendencies at work have become apparent.

One of the most immediate results has been the reinforcement of the previous movement towards the narrowing of the deficit of the rest of the world with the United States on account of goods and services.[61] The chief beneficiaries of the expansion of exports to the United States have been countries in the Western Hemisphere, the outer sterling area and other regions exporting primary products, and the same countries are likely to profit from the continued growth of United States demand. The net effect on western Europe cannot easily be anticipated. Countries in this region are likely to be in a better position to earn dollars in transactions with the United States as well as other areas. On the other hand, the intensified demand resulting from rearmament programmes may be expected to raise further the prices of

[61] The deficit on goods and services of the rest of the world with the United States dropped from $800 million in the second quarter of 1950 to $70 million in the third quarter. While the previous decline in the deficit had resulted mainly from a drop in imports from the United States, the reduction in the third quarter of 1950 was due mainly to the increased value of exports to that country, of which two-thirds represented an increase in quantum and the rest a rise in prices. Some of the reduction in the deficit, however, reflected not only seasonal but also other factors unrelated to the rearmament programme.

During the third quarter there was an extraordinarily large outflow of United States private capital, both short-term and long-term, much of which, however, was of a temporary or special nature, including speculative movements to Canada and a private loan to France of $225 million, the proceeds of which were reinvested in United States securities. Direct investments, according to preliminary estimates, amounted to about $200 million, $25 million above the average quarterly rate during the first half of 1950.

These tendencies, together with the continuation of assistance under the European Recovery Program, though at a considerably reduced rate, resulted in the accumulation of additional foreign gold and dollar assets in the United States of $1,600 million during the quarter. In comparing this with the corresponding figure of $679 million in the preceding quarter, allowance should be made for the abnormal capital movements referred to above. (See United States Department of Commerce, *Survey of Current Business*, December 1950.)

their imports of raw materials and foodstuffs, which will tend to weaken their balance of payments, not only with the Western Hemisphere, but also with the outer sterling area and other regions.

Of more fundamental importance than price movements, perhaps, is the potential direct impact of the armaments programmes on the supply position of western European countries. This is of a twofold nature, arising both from world-wide shortages of raw materials and from the diversion of domestic resources to use for armaments programmes. To the extent that the capacity of these countries to produce for export is reduced by the direct encroachment of armaments production on their supply position, they will not be able to take advantage of the trade possibilities afforded by the expanded dollar earnings of oversea countries producing raw materials.

While the financial position of the oversea raw material producing countries is likely to be considerably strengthened by recent events, their prospects of receiving an increased supply of imported manufactured goods, or perhaps even of maintaining the present volume of imports, are not reassuring. Should the impact of the rearmament programme be so severe as to curtail the supply of such goods, the under-developed countries would again be confronted with problems similar to those that arose during the last war. In the absence of adequate imports, their highly liquid international financial position would add to domestic inflationary pressure. At the same time, their development programmes would risk being deferred for lack of essential imports. In countries which are sources of supply of raw materials in greatest demand, the production of such raw materials would no doubt attract foreign —as well as domestic—capital; but the resulting redirection of investment activities would in many cases entail a shift of emphasis from the presently contemplated programmes of more diversified types of economic development.

Part III

DOLLAR DEFICITS AND CURRENCY DEVALUATIONS

Chapter 9

POST-WAR DOLLAR DEFICITS IN INTERNATIONAL TRADE

General Aspects

The problem of dollar deficits in world trade, which became acute after the Second World War, had been in the making long before the war. In the pre-war period the supply of dollars on current account and private long-term capital account by the dollar area was less than the use of dollars on such account by the rest of the world; moreover, the gap was growing continually. The shortage of dollars was obscured, however, by increasing gold production outside the dollar area and appreciation of the value of gold, which provided the means for financing the dollar deficit.

The tendency towards a dollar shortage became apparent after the Second World War. The dollar deficit on account of current and private long-term capital transactions increased very sharply, primarily because of a steep rise in the import balance of the non-dollar area on merchandise trade account. This was the result of changes in both the volume of trade and the price level. With respect to volume, the high level of post-war investment activity associated with reconstruction and economic development in the non-dollar area increased its demand for goods from the dollar area. This factor was partially offset by an increase in imports from the rest of the world by the United States and Canada, which resulted from the considerable expansion of their levels of economic activity. The increase in their imports was, however, proportionately less than the rise in economic activity, both because the war-time expansion of productive capacity had made them less dependent on imports than before the war and because war-time devastation in the rest of the world had reduced its export capacity. In addition to these changes in the volume of trade, the very large rise in the level of prices of goods entering into foreign trade considerably increased the size of the dollar deficit on merchandise trade account in money terms.[1]

On invisible items, the non-dollar world was, as a matter of fact, a net earner of dollars. In addition, the export of private long-term capital by the United States and Canada more than offset their net receipts on foreign investment in 1948, in contrast to the experience in the nineteen thirties when the former was consistently lower than the latter. However, net dollar receipts through these channels were much smaller than net dollar payments on merchandise trade account. Moreover, the production of gold in the non-dollar world was below the pre-war level, and its price remained unchanged. Hence, a large dollar deficit emerged which was financed principally by means of grants and long-term capital exports by the United States and Canadian Governments to the rest of the world.

Table 83 shows both for 1948 and for pre-war years the magnitudes of the deficit on current account and on private long-term capital account of the rest of the world with the United States and Canada, which together comprise the bulk of the dollar area. While the post-war deficit was on a much larger scale than in the pre-war period, a significant deficit existed throughout the nineteen thirties, which had to be financed from the production of gold in the rest of the world.

One of the longer run factors in the deficit with the dollar area is the trend towards economic expansion and development in the rest of the

[1] As will be seen below, this occurred even though prices of exports to the United States rose more than did the prices of imports from the United States. The deficit in the physical volume was so large, however, that the larger rise in prices of exports to the dollar area could only partially offset the effect of the smaller rise in import prices.

Table 83. Supply and Use of Dollars, in Selected Years
(In millions of current United States dollars)

Period	By payments on current account and long-term private capital outflow		Excess of supply over use of dollars	Gold production of rest of world	Excess of supply over use of dollars plus gold production
	Supply of dollars by United States and Canada	Use of dollars by rest of world			
1926-29	7,011	—6,962	49	309	358
1930-33	3,345	—3,572	—227	374	147
1934-36	2,876	—3,212	—336	808	472
1937	4,096	—4,472	—376	899	523
1938	3,062	—4,018	—956	976	20
1948[a]	11,433	—17,339	—5,906	615[b]	—5,291

Source: United States Department of Commerce, *United States in the World Economy* (Washington, D.C.) and *Survey of Current Business* (Washington, D.C.); Federal Reserve Board, *Banking and Monetary Statistics* (Washington, D.C.); Dominion Bureau of Statistics (Canada): *Canadian Balance of International Payments* (Ottawa); International Monetary Fund: *International Financial Statistics* (Washington, D.C.).

[a] Excluding government unilateral transfers.
[b] Figure for gold production in the Union of Soviet Socialist Republics for 1948 not available; production in 1938 estimated at $181 million.

world. Another major factor is the fact that United States and Canadian imports did not keep pace with domestic consumption in these countries. This is shown in tables 84 and 85, which give the ratios of imports to domestic use of various categories of commodities in both the pre-war and post-war periods. While lack of comparable figures on consumption prevents the computation of corresponding ratios in the United States for the years before 1929, a comparison of imports and national income also shows a downward trend between 1913 and 1929.

The several sections of this chapter examine in detail the factors that contributed to the sharp increase in the deficit of the rest of the world with the United States and Canada between 1935 and 1948.[2] In view of the large change in the level of

[2] The year 1935 was selected as the nearest pre-war year base for comparison, because it was subject to smaller cyclical fluctuations in international trade than later pre-war years.

Table 84. Ratios of Imports to Domestic Use, by Categories of Commodities, in the United States, in Selected Years
(In percentages; at 1929 prices)

Period	Ratios			
	Imports of manufactures to total consumer expenditure on non-food items (excluding services)	Imports of crude and manufactured foodstuffs to total consumer expenditure on food	Imports of crude materials to total manufacturing production[a]	Imports of semi-manufactures to total manufacturing production[a]
1929	3.70	4.88	7.12	4.13
1930-33	3.27	4.48[b]	8.57	4.10
1934-36	3.12	4.71[b]	7.02	3.73
1937	3.40	4.76	6.60	3.80
1938	2.73	3.73	5.81	3.31
1948	2.02	2.95	4.13	2.47
1949	1.88	3.16	3.81	2.43
1950 First half	1.99	3.03	3.10	2.90

Source: United Nations Department of Economic Affairs; based on data in United States Department of Commerce, *Survey of Current Business* and *Statistical Abstract of the United States* (Washington, D.C.).

[a] Total manufacturing production refers to total value added by the manufacturing industries. Figure for January to June 1950 is extrapolated on the basis of the index of manufacturing production.
[b] Figure is affected by exceptionally heavy imports of food grains due to drought in the United States during 1933 to 1935.

Table 85. Ratios of Imports to Domestic Use, by Categories of Commodities, in Canada, in Selected Years

(In percentages; at 1929 prices)

Period	Ratios: Imports of consumer goods to total consumer expenditure	Imports of raw materials and semi-manufactures to total manufacturing production[a]	Imports of machinery[b] to total manufacturing production
1926-29	12.5	34.5	5.4
1930-33	9.7	24.5	2.9
1934-36	8.7	24.6	2.3
1937	9.1	27.0	3.6
1938	9.0	23.4	2.9
1948	7.0	25.2	5.4
1949	7.1	24.3	5.1

Source: United Nations Department of Economic Affairs; based on data in Bank of Canada, *Statistical Summary*, 1950 Supplement; Dominion Bureau of Statistics (Canada), *Canada Yearbook*.

[a] Total manufacturing production refers to total value added by the manufacturing industries. Figures for 1948 and 1949 are extrapolated on the basis of the index of manufacturing production.

[b] Excluding agricultural implements and machinery.

prices of goods entering into foreign trade, it is desirable to treat first the factors affecting the real deficit measured in constant prices and then to consider the effect of the change in prices on the size of the deficit in money terms. In order to measure the trade deficit of the rest of the world in constant prices, both exports and imports in 1935 were inflated by an index of United States export prices;[3] thus the real imports of the rest of the world were determined by measuring them in constant import prices of 1948 while the real exports of the rest of the world were expressed in terms of their 1948 "import equivalent" from the United States. From the point of view of the rest of the world, a change in the import equivalent of its exports measures the change in real imports from the United States which could be obtained from the sale of its exports there. In addition to the proceeds from exports to the United States and Canada, the output of gold in the rest of the world may also be used to finance imports. To express the value of gold production in the rest of the world in terms of the 1948 import equivalent from the United States, the dollar values in current prices were also inflated by an index of United States export prices.

Table 86 shows, for five major trading areas, their real gaps on trade account with the United States and Canada. In 1935 the rest of the world had a real deficit of about $1,000 million in its merchandise trade with the United States and Canada, since its real imports amounted to $5,000 million in 1948 prices while its real merchandise exports (in import equivalent) were only $4,000 million. This deficit could, however, be more than met by the production of gold, which in terms of import equivalents in 1948 prices amounted to $1,600 million. From 1935 to 1948, against an increase of real imports from the United States and Canada of $7,200 million, real exports to these two countries rose only $2,000 million, while the real value of gold production outside these two countries declined in terms of import equivalents by $1,000 million. The deficit with the United States and Canada which had to be financed by other means thus amounted to about $5,600 million.

This deficit was unevenly distributed among the different regions. Seven countries of continental western Europe had the largest deficit on trade account, which resulted entirely from an increase in real imports since the real volume of exports remained about the same. The deficit of Austria, Germany and Japan was the second largest; in this case the deficit resulted from more than doubled real imports and a decrease in real exports to less than one-fourth the pre-war level.[4] Latin American real exports rose to about 2.4 times the pre-war level, but the region nevertheless shifted from a substantial pre-war surplus to a very large post-war deficit as a result of a rise in imports to more than 4.5 times the pre-war level. The sterling area's real exports likewise

[3] For statistical reasons the United States index of export prices was used throughout as a first approximation in measuring the prices of imports of the rest of the world from the United States and Canada; the movements of Canadian export prices were broadly similar to those of the United States. In any case, the importance of the United States in the total trade of the dollar area warrants, for present purposes, the assumption that United States export prices are representative of export prices of the United States and Canada together.

[4] The discussion below, of the dollar shortage of specific trading regions, excludes Austria, Germany and Japan because of abnormal conditions affecting their trade in 1948.

Table 86. Real Balance of Trade of Major Trading Regions with the United States and Canada, 1935 and 1948

(In millions of United States dollars, at 1948 prices of exports from the United States[a])

Trading region	Imports from United States and Canada 1935	Imports from United States and Canada 1948	Exports to United States and Canada 1935	Exports to United States and Canada 1948	Balance 1935	Balance 1948	Gold production 1935	Gold production 1948	Net balance plus gold production 1935	Net balance plus gold production 1948
Total	—5,017	—12,197	4,032	5,956	—985	—6,241	1,642	615	637	—5,626
Sterling area	—2,100	—2,921	1,200	1,682	—900	—1,239	993	502	93	—737
United Kingdom	—1,540	—1,324	546	547	—994	—777	0	0	—994	—777
Australia, New Zealand, South Africa	—352	—778	91	246	—261	—532	865	440	604	—92
Rest of sterling area	—208	—819	563	889	355	70	128	62	483	132
Continental Western Europe[b]	—835	—2,111	456	452	—379	—1,659	23	0	—356	—1,659
Latin America[c]	—773	—3,476	1,127	2,680	354	—796	122	51	476	—745
Austria, Germany and Japan	—612	—1,358	482	107	—130	—1,251	83	3	—47	—1,248
Other regions	—697	—2,331	767	1,035	70	—1,296	421	59[d]	491	—1,237

Source: United Nations Department of Economic Affairs; based on United States and Canadian trade statistics.

[a] As a statistical approximation, prices of imports of rest of world from the United States are measured by United States export prices; both imports and exports are valued in f.o.b. prices for the above table.

[b] Including Belgium-Luxembourg, Denmark, France, Italy, Netherlands, Norway and Sweden.

[c] Including the Latin American republics and the Netherlands Antilles.

[d] Figure for gold production in the Union of Soviet Socialist Republics not available.

rose, but its imports rose more substantially and the real value of its gold production (in import equivalents), on which it had relied in the pre-war period for financing its trade deficit, fell substantially; its real dollar balance on both merchandise trade and gold account shifted from a small surplus in the pre-war period to a very large deficit in the post-war period. The United Kingdom was the only major trading country whose deficit with the United States and Canada was reduced. In spite of real exports that were about the same in both years, its deficit in 1948 fell below that of 1935 as a result of restrictions on dollar imports.

It is also possible to evaluate the influence of changes in the price of exports and imports on the magnitude of the post-war dollar shortage by examining the inverse of the terms of trade for the United States and by regarding this reciprocal as the terms of trade for the rest of the world with the United States and Canada.[5] While the terms of trade of the rest of the world underwent violent cyclical changes during the inter-war period, they also showed a consistently unfavourable trend. After the war the terms of trade improved considerably, as compared with 1935 or 1937, and in 1948 approached the level of 1929 (see table 87). The growth in the dollar gap after the war cannot therefore be ascribed to an unfavourable change in the terms of trade. None the less, the rise in the rest of the world's import prices had, of necessity, the effect of increasing the size of its import surplus with the United States and Canada in money terms.

The separate effects of the rise of import prices and of the change in terms of trade on the dollar shortage in 1948 are shown below in millions of United States dollars.

	Effect on balance of trade
(1) Actual balance of trade in 1948[a]	—6,241
(2) Balance revalued at 1935 import prices[b]	—3,028
(3) Effect of change in import prices on dollar shortage (line *1* minus line *2*)	—3,213
(4) Quantum balance[c]	—3,673
(5) Effect of change in terms of trade (line *2* minus line *4*)	645
(6) Total effect of price changes on dollar gap (line *3* plus line *5*)	—2,568

[a] Excluding gold production.

[b] Balance in line 1 deflated by index of import prices of 206.1 in 1948, shown in table 87.

[c] Figures obtained by deflating the values of exports and imports by their respective price indices shown in table 87.

The first line shows the actual import surplus of the rest of the world with respect to the United States and Canada in 1948. The second line shows the value of this import surplus in terms of

[5] See footnote 3, above, on use of the United States index of export prices to measure the prices of imports from the rest of the world.

1935 import prices. The difference between these two lines, shown in line 3, represents the increase in the value of the import surplus in 1948 due to the rise in import prices. The fourth line represents the difference between the value of imports at 1935 import prices and that of exports at 1935 export prices, that is, the "quantum balance". The difference between lines 2 and 4, shown in line 5, represents the effect of the change in the terms of trade. It is clear that, for the rest of the world, as a whole, this second effect of a favourable change in the terms of trade was much less important than the first effect.

Table 87. Terms of Trade of Rest of World with the United States, Pre-war and 1948
(1935 = 100)

Year	*Export prices of rest of world*[a] *1*	*Import prices of rest of world*[a] *2*	*Terms of trade (column 1 as percentage of column 2)*
1929	174.8	133.3	131.1
1932	86.9	78.4	110.8
1935	100.0	100.0	100.0
1937	120.6	107.4	112.3
1948	265.3	206.1	128.7

Source: United States Department of Commerce, *Statistical Abstract of the United States.*

[a] World export and import prices of dollar trade considered as identical with United States import and export prices, respectively.

The Dollar Deficit of the Sterling Area

The sterling area comprises a heterogeneous group of countries at various stages of economic development. From the point of view of the dollar problem, the sterling area countries may be broadly classified into three groups in accordance with their trade relations with the dollar area. First, the United Kingdom incurred an annual dollar deficit by importing, from the dollar area, food, essential raw materials and, to a lesser extent, special kinds of machinery; these imports were only partly paid for by exports of manufactured goods and by net earnings on invisible account. The second group includes Australia, New Zealand and the Union of South Africa. These countries supplied the dollar area with only a limited number of raw materials, mainly wool and diamonds; they also incurred a dollar deficit on merchandise trade, but the value of their annual gold production was more than sufficient to finance their deficits. The rest of the sterling area consists of the countries which had become net dollar earners by supplying the dollar area with certain important raw materials. For the sterling area as a whole there was before the war a deficit on merchandise trade with the dollar area, but this deficit was partly financed by earnings on invisibles, and the annual production of gold was more than sufficient to cover the remainder. Accordingly, the United Kingdom was able to finance its dollar deficit through a triangular settlement within the sterling area. Although its balance of merchandise trade with the rest of the sterling area as a whole was unfavourable, the United Kingdom was able to secure dollars from it, both through purchases with sterling of the area's newly-mined gold, and through receipts from various types of services and from investment incomes earned in the area.

This situation changed after the war. While the sterling area in 1948 was able to balance its trade with the soft currency area as a whole, its dollar deficit on merchandise trade increased considerably. Its invisible account also changed from a pre-war surplus to a deficit. Moreover, the value of gold production had remained practically unchanged since 1935 and was insufficient to cover the increased dollar deficit of Australia, New Zealand and the Union of South Africa alone. The sterling area as a whole could therefore no longer finance its dollar deficit except through liquidation of gold stocks and currency holdings and through grants and capital loans, principally by the Governments of the United States and Canada.

In these circumstances the United Kingdom could obviously no longer finance its dollar deficit through triangular settlements within the sterling area. Although the trade of the United Kingdom with the outer sterling area changed from a deficit of \$60 million in 1935 to a surplus of \$551 million in 1948,[6] this active balance did not enable the United Kingdom to secure dollars on

[6] In addition, the United Kingdom had a surplus on invisible items to the amount of \$464 million in 1948 (United Kingdom, *Balance of Payments, 1946 to 1950*, Cmd 8065).

Table 88. Current Account of Sterling Area in Relation to Total Dollar Area, 1935 and 1948

(In millions of United States dollars in current prices)

Item	1935 United States and Canada	1935 Latin American dollar area	1935 Total	1948 United States and Canada	1948 Latin American dollar area	1948 Total
Balance of merchandise trade, f.o.b.[a]	—437	—48	—485	—1,239	—290	—1,529
Invisibles, net[b]	155[c]	[d]	155	—345[e]	[e]	—345
Balance on current account	—282	—48	—330	—1,584	—290	—1,874
Gold production	482[f]	[f]	482	502[f]	[f]	502
Balance on current account, plus gold production	200	—48	152	—1,082	—290	—1,372

Source: United Nations Department of Economic Affairs; based on data in United States Department of Commerce, *Balance of International Payments of the United States* (Washington, D.C.) and *Survey of Current Business;* Dominion Bureau of Statistics (Canada), *Canadian Balance of International Payments;* United Kingdom, *Balance of Payments, 1946 to 1950* (Cmd 8065); International Monetary Fund, *Balance of Payments Yearbook,* 1948 and preliminary 1949.

[a] Figures for balance of merchandise trade from table 89.

[b] Including private donations.

[c] According to Canadian statistics, the sterling area in 1935 had a surplus of $90 million on invisible items with Canada. The United States Department of Commerce has estimated that the United States deficit with the sterling area on invisible items in 1937 amounted to $99 million. Here the figure for 1935 is estimated to be in the neighbourhood of $60 million to $70 million, taking into account the fact that both the United States over-all balance of invisible items, and especially United States payments for dividends and shipping services, were much lower in 1935 than in 1937.

[d] Sterling area had net receipts on invisible items from the Latin American dollar countries; $155 million, therefore, is probably a minimum estimate of total figure.

[e] Amount shown in the balance with the United States and Canada includes net dollar payments on invisible items of $250 million by the United Kingdom and of $95 million by the rest of sterling area. Figure for the United Kingdom refers to net payments to total dollar area, whereas that for rest of sterling area, taken from United States and Canadian statistics, refers to payments to these two countries only.

[f] The total annual gold production of the sterling area is included in the account with the United States and Canada.

balance because these countries were no longer net dollar earners.

Table 88 shows the balance of payments of the sterling area as a whole with the total dollar area (including the Latin American dollar area) in both 1935 and 1948. Table 89 gives a matrix of the balances of merchandise trade (plus gold production) of the three groups within the sterling area, with each other and with the other major trading areas of the world, during the same years.

The most important element in the post-war dollar deficit of the sterling area was the very large increase in the volume of imports from the dollar area that occurred in all sterling area countries except the United Kingdom. This increase in imports considerably outweighed the increase in real exports (in import equivalents) on merchandise trade account which also occurred everywhere in the sterling area. In addition, the real dollar gap was increased through the very substantial decline in the real import equivalent of the gold production of the sterling area which resulted from the fact that gold prices were unchanged while prices of import commodities more than doubled.

These changes in the real volume of trade (plus the real value of gold production) of the sterling area with the total dollar area from 1935 to 1948 can be seen from the data on page 151 showing real imports and real exports (in millions of United States dollars in 1948 prices of exports from the United States).

The real imports of the sterling area as a whole from the total dollar area increased by $1,083 million from 1935 to 1948. Against this increase, the real exports (plus the real value of gold production) measured in import equivalents rose only by $63 million. In terms of percentages, real

Table 89. Balance of Merchandise Trade[a] (plus Gold Production[b]) between Sterling Area and Other Major Trading Areas, 1935 and 1948

(In millions of United States dollars in current prices, f.o.b.)

		Trade balance of							
		Sterling area				*Dollar area*			
Trade balance with	*World total*	*United Kingdom*	*Australia, New Zealand, Union of South Africa*	*Rest of sterling area*	*Total sterling area*	*United States and Canada*	*Latin American dollar countries*	*Total dollar area*	*Other regions*
World total:									
1935		—992	408	262	—322	—319	273	—46	368
1948		—790	200	—381	—971	5,626	—40	5,586	—4,615
United Kingdom:									
1935	992		51	9	60	482	49	531	401
1948	790		—134	—417	—551	777	265	1,042	299
Australia, New Zealand, Union of South Africa:									
1935	—408	—51		11	—40	—293	2	—291	—77
1948	—200	134		—103	31	92	7	99	—330
Rest of sterling area:									
1935	—262	—9	—11		—20	—234	—3	—237	—5
1948	381	417	103		520	—132	18	—114	—25
Total sterling area:									
1935	322	—60	40	20		—45	48	3	319
1948	971	551	—31	—520		737	290	1,027	—56
United States and Canada:									
1935	319	—482	293	234	45		111	111	163
1948	—5,626	—777	—92	132	—737		—546	—546	—4,343
Latin American dollar countries:									
1935	—273	—49	—2	3	—48	—111		—111	—114
1948	40	—265	—7	—18	—290	546		546	—216
Total dollar area:									
1935	46	—531	291	237	—3	—111	111		49
1948	—5,586	—1,042	—99	114	—1,027	546	—546		—4,559
Other regions:									
1935	—368	—401	77	5	—319	—163	114	—49	
1948	4,615	—299	330	25	56	4,343	216	4,559	

Source: Appendix table XIV; and League of Nations, *Network of World Trade* (Geneva, 1942).

[a] Data from export side of trade statistics.

[b] Value of gold production in different areas is added to the exports of these areas to the United States and Canada.

	Real imports		*Real exports (in import equivalents)*	
	1935	*1948*	*1935*	*1948*
United Kingdom	1,715	1,727	620	685
Australia, New Zealand, Union of South Africa	359	785	958	686
Merchandise only	359	785	93	246
Rest of sterling area	223	868	712	982
Merchandise only	223	868	583	920
Total sterling area, excluding United Kingdom	582	1,653	1,670	1,668
Total sterling area, including United Kingdom	2,297	3,380	2,290	2,353

Source: United Nations Department of Economic Affairs; based on data in League of Nations, *Network of World Trade*; and *Direction of International Trade*, a joint publication of the International Monetary Fund, the International Bank for Reconstruction and Development and the Statistical Office of the United Nations.

imports increased 47 per cent, and real exports only 3 per cent. Among all the countries in the sterling area, the United Kingdom was the only country which, by means of import restrictions, was able in 1948 to keep imports from the total dollar area down to the pre-war level. Moreover, as was seen in table 86, real imports into the United Kingdom from the United States and Canada alone had actually decreased by about 14 per cent. However, the rest of the sterling area's real imports from the total dollar area increased to nearly three times the pre-war level. The sterling area's increase of 3 per cent in real exports to the total dollar area (plus the real value of gold production), measured in import equivalents, lagged far behind the increase in imports. If gold production is excluded, however, the increase in real exports of merchandise alone amounted to about 43 per cent. All three groups of the sterling area shared in the increase of exports to the total dollar area, but the increase was smallest for the United Kingdom, which, unlike the rest of the sterling area, is primarily an exporter of manufactured goods rather than of raw materials. In fact, as was shown in table 86, the United Kingdom was not able to increase its real exports to the United States and Canada.

In view of the important differences between the United Kingdom and the rest of the sterling area with respect to the changes in trade, it is necessary to analyse separately the trade of the two parts of the area with the United States and Canada.

United Kingdom

The United Kingdom, unlike the rest of the sterling area, reduced its real dollar deficit on merchandise trade account with the United States and Canada between 1935 and 1948, as shown in table 86. It did so by restricting its real imports; the volume of its real exports to the United States and Canada (in import equivalents) remained roughly the same as in 1935.

The reduction in imports was the result of direct controls, which kept imports at a lower level despite the substantial increase in domestic production and real income. The restrictions on the United Kingdom dollar imports were selective in character, and their effects are reflected in the divergent movements of individual groups of dollar imports. The first part of table 90 shows United Kingdom imports from the United States and Canada in 1935 and 1948 in current prices. Adequate price deflators to convert these figures into values at constant prices are not readily available, but very crude approximations of the changes in volume of United Kingdom imports may be obtained by allowing for an approximate doubling of the price level in foreign trade between 1935 and 1948. On this basis it appears that, in general, the real volume of imports of consumers' durables declined sharply; the volume of imports of food also declined as a result of the increase in domestic agricultural production and of the shift of sources of supply to sterling and other soft currency countries. Imports of industrial raw materials, fuels and investment goods, however, rose —in some instances rather considerably. Thus it appears that in order to save dollars, the United Kingdom had arranged to buy from the dollar area only goods which were essential and were not easily available elsewhere. The effect of import

Table 90. Composition of Imports of the United Kingdom from the United States and Canada, 1935 and 1948

Item	Imports from United States		Imports from Canada		Total	
	1935	1948	1935	1948	1935	1948
In millions of current United States dollars:						
Non-durable consumption goods	190	147	194	407	384	554
Durable consumption goods	24	19	26	24	50	43
Fuels	30	97	–	–	30	97
Industrial raw materials	119	192	70	221	189	413
Machinery and equipment	56	138	6	10	62	148
Other imports	24	51	8	18	32	69
Total	443	644	304	680	747	1,324
As percentage of total:						
Non-durable consumption goods	42.9	22.8	63.8	59.8	51.4	41.8
Durable consumption goods	5.4	3.0	8.6	3.5	6.7	3.2
Fuels	6.8	15.1	–	–	4.0	7.3
Industrial raw materials	26.9	29.8	23.0	32.5	25.3	31.2
Machinery and equipment	12.7	21.4	2.0	1.5	8.3	11.3
Other imports	5.3	7.9	2.6	2.7	4.3	5.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: United Nations Department of Economic Affairs; based on United States and Canadian trade statistics.

Table 91. Shares of the United States and Canada in United Kingdom Imports, 1935 and 1948

(In percentage of total United Kingdom imports from all sources)

Commodity	United States 1935	United States 1948	Canada 1935	Canada 1948	Total 1935	Total 1948
Showing decline in share of dollar imports in 1948:						
Fruits, vegetables and nuts	18.1	0.1	5.6	–	23.7	0.1
Fats and oils, edible	27.2	0.2	–	–	27.2	0.2
Fish and fish products	17.0	0.3	15.5	2.3	32.3	2.6
Leather and manufactures	9.6	1.2	10.2	3.9	19.8	5.1
Cotton, raw and semi-manufactured	43.2	17.0	–	–	43.2	17.0
Grains and grain preparations	1.2	0.2	45.2	31.9	46.4	32.1
Vehicles and ships	50.0	31.2	–	1.6	50.0	32.8
Tobacco	84.1	52.6	2.4	3.1	86.5	55.7
Showing constant or increased share of dollar imports in 1948:						
Textile manufactures	0.9	3.6	0.1	0.2	1.0	3.8
Dairy products	2.6	–	3.8	9.1	6.4	9.1
Iron and steel semi-manufactures	5.1	6.9	4.1	2.8	9.2	9.7
Paper base stock	1.3	1.5	3.2	10.2	4.5	11.7
Meat and meat products	4.3	0.1	5.4	14.0	9.7	14.1
Non-ferrous metals and manufactures	5.8	6.4	23.5	22.7	29.3	29.1
Scientific instruments	12.2	30.7	–	1.7	12.2	32.4
Chemicals and chemical products	12.6	34.5	2.6	4.0	15.2	38.5
Iron and steel manufactures	10.6	18.5	9.3	22.6	19.9	41.1
Electrical goods and apparatus	46.0	53.2	3.9	2.8	49.9	56.0
Machinery	67.4	68.4	4.0	3.5	71.4	71.9

Source: United Nations Department of Economic Affairs; based on trade statistics of the United Kingdom, the United States and Canada.

restrictions upon the percentage composition of the United Kingdom's imports from the United States and Canada is shown in the second part of table 90.

Table 91 is designed to show the shift in the sources of supply of the principal United Kingdom imports after the war. So far as food items are concerned, the tendency was to buy less in the dollar area, especially in the United States. A large amount of dollars was saved by the virtual cessation of purchases of such items as fish, fats and oils, vegetables, fruits and nuts from the United States and Canada, which were the two main suppliers of these items before the war. In addition to a decline in the aggregate amount of grains and grain preparations imported as a result of the increase in home production since the war, the proportion of this total which was obtained by the United Kingdom in 1948 from the United States and Canada was smaller than in 1935. However, the proportion of dollar imports of meat and dairy products rose above the 1935 level, for while the shares of the United States in the British imports of these two products decreased, those of Canada showed large increases.[7] This shift, in contrast to the general trend, reflected partly the general shortage of these commodities in other world markets, which compelled the United Kingdom to buy in the dollar markets, and partly the terms of the Canadian loan to the United Kingdom. As to other consumption goods, the reduction of the shares of the United States and Canada conformed to the general tendency towards the reduction of purchases of consumption goods in the dollar market.

On the other hand, the shares of the United States and Canada in the United Kingdom's imports of industrial raw materials and investment goods increased. This rise was, in some cases, due to the increased level of investment in the United Kingdom and, in others, to an insufficient supply from other sources. It is of interest to note in this connexion that when other sources were available, as in the case of raw cotton, the United Kingdom succeeded in curtailing purchases in the dollar market.

[7] The total volume of British meat imports in 1948 was, however, below the pre-war level.

In contrast to the volume of imports, the volume of the United Kingdom's exports to the United States and Canada (in import equivalents) was virtually unchanged. Since its exports to the rest of the world rose substantially, this was not the result of inadequate export capacity. Instead, it appears to have reflected the general decline in the ratio of imports of the United States and Canada to their domestic consumption (see tables 84 and 85).

The composition of the United Kingdom's exports to the United States and Canada also changed significantly between 1935 and 1948, as shown in table 92. Exports of consumer goods constituted about 55 per cent of the total exports to the United States and Canada in 1935. Exports of industrial raw materials also bulked large, amounting to about 28 per cent in 1935, while exports of machinery and equipment were very small.

After the war, real exports of industrial raw materials declined sharply, with the exception of rayon and some high-quality woollen yarns, which showed large increases. Real exports of many consumer goods declined, but the volume of beverages, textiles and chinaware was maintained or even increased. The increase in the exports of passenger automobiles was mainly attributable to the temporary abnormal post-war demand in the United States and the Canadian markets.[8] There was also a sharp increase in the United Kingdom's exports of machinery and equipment, mainly of special types.

The outer sterling area

Although the outer sterling area is principally an exporter of raw materials, it consists of countries of two distinct types: Australia, New Zealand and the Union of South Africa form a group of fairly industrialized countries; the remaining countries represent mainly less developed areas.

The post-war import demands of all the countries in these two groups were exceptionally high as a result of higher post-war investment activity, of a backlog of demand for specific imports, which arose during the war and early post-war years, and, in the case of the more industrialized countries, of rising real incomes. Compared with 1935, the values of the total imports of these two groups of countries in 1948 were 354 per cent for the group comprising Australia, New Zealand and the Union of South Africa and 386 per cent for the remaining group of the area. Allowing for the rise in import prices, the value figures indicate that, in sharp contrast to the situation in the United Kingdom, there were substantial increases in import volume.[9]

[8] However, there seems to have been an upward trend in the Canadian demand for British automobiles.

[9] If the percentage rise in prices of total imports of these two groups is assumed to be equal to that of their imports from the United States and Canada, the volume of total imports of the former group increased by 72 per cent between 1935 and 1948 and that of the latter by 87 per cent.

Table 92. Composition of Exports of the United Kingdom to the United States and Canada, 1935 and 1948

Item	*Exports to United States* 1935	1948	*Exports to Canada* 1935	1948	*Total* 1935	1948
In millions of current United States dollars:						
Non-durable consumption goods	56	110	56	125	112	235
Durable consumption goods	29	50	5	33	34	83
Industrial raw materials	44	62	31	57	75	119
Machinery and equipment	4	31	7	37	11	68
Other exports	15	14	18	28	33	42
Total	148	267	117	280	265	547
As percentage of total:						
Non-durable consumption goods	37.8	41.2	47.8	44.6	42.3	43.0
Durable consumption goods	19.6	18.7	4.3	11.8	12.8	15.2
Industrial raw materials	29.8	23.2	26.5	20.4	28.3	21.8
Machinery and equipment	2.7	11.6	6.0	13.2	4.2	12.4
Other exports	10.1	5.3	15.4	10.0	12.4	7.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: United Nations Department of Economic Affairs; based on United States and Canadian trade statistics.

Table 93. Composition of Imports of Outer Sterling Area Countries from the United States and Canada, 1935 and 1948

(In millions of current United States dollars)

Item	Australia, New Zealand, South Africa		Other outer sterling countries	
	1935	1948	1935	1948
Total	171	778	101	819
Non-durable consumption goods	29	208	18	224
Durable consumption goods	50	104	6	33
Fuels	18	33	9	36
Industrial raw materials	16	121	13	139
Machinery and equipment	37	266	16	164
Other imports	21	46	39[a]	223[a]

Source: United Nations Department of Economic Affairs; based on United States and Canadian trade statistics.

[a] Including total imports from the United States and Canada of several small areas for which data are not classified in component groups.

Imports from the United States and Canada, even more than total imports, also present a contrast with United Kingdom imports. When 1935 imports from the United States and Canada are inflated by the United States export price index, it appears that the volume of such imports of Australia, New Zealand and the Union of South Africa increased by 121 per cent between 1935 and 1948, while that of the less developed countries rose by 294 per cent.

Table 93 gives the composition of imports from the United States and Canada. Compared with 1935, investment goods tended to constitute a higher proportion of total imports in all these countries.[10] But in contrast to the case of the United Kingdom, where the volume of consumption goods from the United States and Canada had been severely curtailed in order to maintain imports of investment goods, the outer sterling area experienced increased volumes of dollar imports of almost all commodities.

Among the consumption goods, food, textiles, passenger cars and tobacco showed the largest increases in volume after the war. The exceptionally high level of imports of food—especially of grains—by the less developed countries of the outer sterling area was mainly determined by special factors, such as poor harvests. But in other cases, rising real incomes, primarily of Australia and New Zealand, and the pent-up demand for specific imports in the group as a whole were the predominant causes. In fact, the increase in imports was in many cases, notably in textiles, associated with a rise in the domestic production of the same commodities.

The volume of the outer sterling area's imports from the United States and Canada rose not only in absolute terms but also in proportion to the area's total imports. Table 94 shows that, in spite of post-war dollar restrictions, the outer sterling area, in contrast to the United Kingdom, had after the war become more dependent upon the United States and Canada for most of their principal imports than before the war. Tobacco, fuel and vehicles, however, were important examples of decreases in the shares of the United States and Canada from 1935 to 1948. The increases in the dollar area's shares do not seem to have been the result of a substitution of dollar imports for United Kingdom goods; in fact, as may also be seen from table 94, the United Kingdom shares remained, in most cases, remarkably stable between 1935 and 1948.

The reasons for the increases in the share of the dollar imports are generally as follows: (*a*) the shift of the source of supply to the United States and Canada was, as in the case of food, mainly due to the general shortage in other world markets; (*b*) the virtual absence of imports from Germany and Japan after the war accounted for increases in imports of textiles, chemicals and of some kinds of machinery from the dollar area; and (*c*) productive capacity increased substantially in the United States and Canada so that

[10] For this comparison food imports are excluded from total imports in the figures referring to other outer sterling countries, because the poor harvest in India in 1948 resulted in abnormally high food imports from the United States.

Table 94. Shares of the United States and Canada in Imports of the Outer Sterling Area, 1935 and 1948

(In percentage of total imports from all sources)

Item	Australia, New Zealand, Union of South Africa: Imports from United States and Canada 1935	1948	Imports from United Kingdom 1935	1948	Rest of outer sterling area[a]: Imports from United States and Canada 1935	1948	Imports from United Kingdom 1935	1948
Grains and grain preparations	29.3	29.4	–	–	0.9	14.4	–	–
Fruits, vegetables and nuts	17.5	29.0	–	–	13.5	7.4	–	–
Meat and products	37.0	27.3	–	–	6.1	41.7	–	–
Fish and products	47.3	54.6	–	–	5.3	5.3	–	–
Tobacco	62.1	43.7	23.5	27.1	22.4	26.8	42.0	39.0
Leather and manufactures	15.3	47.2	50.5	49.5	–	–	–	–
Textile manufactures	3.2	25.6	56.1	62.5	0.3	13.0	41.2	28.0
Fuels	45.7	16.5	–	–	13.7	11.5	–	–
Iron and steel semi-manufactures and manufactures	12.7	35.4	63.4	60.4	1.5	15.6	63.8	50.2
Machinery, including electrical goods and apparatus	36.1	48.2	55.0	50.1	9.2	31.5	61.4	65.5
Vehicles, including passenger cars	40.6	31.5	45.6	66.9	27.7	21.0	66.8	65.1
Rubber manufactures	5.0	21.4	9.6	13.8	–	–	–	–
Chemicals and chemical products	9.9	32.1	41.4	47.1	8.3	32.0	41.5	36.2
Non-ferrous metals and manufactures	3.3	8.2	19.4	18.2	3.9	17.8	18.3	20.1

Source: United Nations Department of Economic Affairs; based on trade statistics of the United States, Canada and outer sterling area countries.

[a] Including only Ceylon, India, Ireland, Malaya and Pakistan.

they were able to supply in large quantities some products for which world demand was expanding rapidly during the process of development and high investment activity—for example, industrial chemicals and some non-ferrous metals and manufactures.

Table 95. Indices of Quantity and Value of Twelve Major Exports from the Outer Sterling Area to the United States and Canada, 1948

(1935 =100)

Commodity	Quantity	Value
Rubber	140	235
Jute	102	455
Wool	397	1,676
Cocoa	108	883
Diamonds	147	842
Tin	91	171
Gums and resins	162	431
Cashew nuts	153	361
Hides and skins	–	233
Mica	273	1,280
Furs	–	388
Cotton	400	764

Source: United Nations Department of Economic Affairs; based on United States and Canadian trade statistics.

The large increase in the outer sterling area's imports from the United States and Canada was accompanied by a considerable, albeit smaller, increase in real exports to these two countries. In contrast to the exports of the United Kingdom, the exports of the outer sterling area to the United States and Canada increased about 90 per cent in physical volume between 1935 and 1948.[11] This increase was mainly the result of the high level of economic activity in both the United States and Canada, since the economies of the outer sterling area are complementary to those of the United States and Canada. The stockpiling programme in the United States also had some influence in increasing the imports of strategic materials. Although the availability of domestic substitutes in the United States had, in some commodities, such as rubber, lessened the rate of increase of its imports, it was still necessary to depend on the outer sterling area for important

[11] The volume figure is obtained by deflating the total export values of individual commodities by their respective unit values as recorded in United States trade returns.

raw materials to meet the requirement of increased economic activity and to supplement the domestic supply. Canada, as a result of rapid industrial development during this period, now also ranks as one of the world's leading markets for certain industrial raw materials; its heavy demand for the raw materials of the outer sterling area after the war was reflected in a general increase in imports from the area.

The quantities and values of twelve major exports from the outer sterling area to the United States and Canada in 1935 and 1948 are compared in table 95. The value of these commodities increased from $285 million in 1935 to $940 million in 1948. With the exception of tin, all major commodities showed increases in volume in 1948.[12] The increase in wool exports was especially important because the rise in United States wool production had lagged far behind demand for it, and wool had become a major dollar earner of the sterling area.

A further favourable development in the exports of primary producers in the sterling area after the war was the widening of the scope of dollar exports as compared with pre-war years. For instance, Canada imported a fairly large amount of dried fruits, dairy produce and other foods from Australia and New Zealand, and the United States began to import from the outer sterling area many kinds of non-ferrous metals which had been imported in negligible quantities before the war. These changes were reflected in the fact that, though the value of the commodities shown in table 95 amounted to nearly 90 per cent of total exports to the United States and Canada in 1935, they constituted only about 81 per cent in 1948.

In spite of the increase in the physical volume of the dollar exports of the outer sterling area after the war, its trade was also subject to the influence of the tendency of the United States and Canada towards a generally decreasing dependence upon imports, shown in tables 84 and 85. In fact, the increased volume of imports from the outer sterling area bore a smaller ratio to the value added (in real terms) by the manufacturing industries in the United States and Canada in 1948 than in 1935.[13] The ratio declined from 2.11 per cent in 1935 to 1.60 per cent in 1948. However, this was a smaller rate of decline than that of the over-all ratio for total United States imports of crude materials, which fell from 7.31 to 4.13 per cent for the same period.[14]

The increased dollar gap of the outer sterling area after the war was thus the result of both long-term changes and special factors brought about by the war. After the war, the volume of both imports and exports of the outer sterling area increased sharply. However, as a result of a larger increase in the volume of dollar imports relative to that of dollar exports, there was a large dollar deficit after the war, which was further accentuated by the rise in import prices. Study of the net position of individual countries indicates that Australia, New Zealand and the Union of South Africa, which before the war were already net debtors to the United States and Canada on merchandise trade, increased their dollar deficit sharply. In spite of the policy of economizing on dollars, Australia and New Zealand increased their dollar imports more than their dollar exports owing to economic expansion at home. In the case of the Union of South Africa, the possibility of using newly mined gold and accumulated gold reserves for direct settlement of the dollar deficit made possible the financing of the vast expansion of dollar imports. The less developed countries which before the war had surpluses with the United States and Canada increased their dollar imports considerably; this resulted, as in the case of India and Pakistan, in turning a small surplus into a large deficit, while in other cases, it had the effect of greatly reducing the size of the surplus. The only country in this group which enlarged its net dollar earnings after the war was British West Africa; this was a result in part of its policy of import restrictions and in part of the vast expansion of the United States demand for cocoa.

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[12] The reduction in tin imports from the sterling area was mainly due to the growing importance of non-sterling sources of supply, since total United States imports of tin actually increased during this period.

[13] Use of the volume of manufacturing production as a base may not be entirely accurate, because the imports include foodstuffs, such as tea and nuts, but these are small in value.

[14] A similar ratio is not available for Canada. As shown in table 85, the over-all ratio for crude materials and semi-manufactures also declined.

The Dollar Deficit of Continental Western Europe[15]

The post-war dollar deficit of continental western Europe differs in origin and character from that of the United Kingdom in several respects.

First, before the war, continental western Europe was much less dependent on trade with the dollar area than was the United Kingdom. The proportions of dollar imports and exports to the total trade of continental western Europe were 12.3 per cent and 8.0 per cent, respectively, in 1935; the corresponding figures for the United Kingdom were 25.0 per cent and 12.9 per cent.

Second, though the United Kingdom ran a perennial deficit on current account in its transactions with the dollar area, the current account of continental western Europe with the dollar area was probably in balance before the war. Although its merchandise trade account showed a deficit, it was approximately offset by a surplus on invisible items and investment incomes.

Third, continental western Europe's pattern of settlement of dollar payments differed from that of the United Kingdom. As has been pointed out, the dollar deficit of the United Kingdom was traditionally settled on a triangular basis by dollars acquired from the earnings of countries producing raw materials and from the purchase of newly mined gold in the sterling area. In the case of continental western Europe, however, its oversea dependencies have never been important as net dollar earners, and their gold production has been negligible.

Finally, the United Kingdom's post-war dollar deficit was associated with a very substantial surplus in its current account with the rest of the world, so that its over-all transactions on current account with the world as a whole were nearly in balance. In continental western Europe, on the other hand, the large post-war deficit in its current account with the dollar area was associated with a significant, although considerably smaller, deficit with the rest of the world as well.

The post-war dollar deficit of continental western Europe was accounted for mainly by the very large increase in its trade deficit. It was intensified by a change in invisible items from a surplus in the pre-war period to a deficit in 1948, which was the result of a sharp fall in income from its investments in the dollar area because of substantial liquidation of these investments during the war. Tourist receipts and emigrants' remittances in 1948 were higher than in 1935, but payments on shipping services increased substantially. The balance of payments on current account for 1935 and 1948 is shown in table 96.

[15] In the present discussion, continental western Europe refers to the following industrial countries: Belgium-Luxembourg, Denmark, France, Italy, Netherlands, Norway and Sweden. The United Kingdom has been treated separately in the section on the sterling area.

Table 96. Current Account of Continental Western Europe with Total Dollar Area, 1935 and 1948

(In millions of current United States dollars)

Item	*1935*	*1948*
Imports, f.o.b.	—482	—2,357
Exports, f.o.b.	269[a]	600
Balance of trade	—213	—1,757
Invisibles, net[b]	[c]	—182[d]
Balance on current account	[e]	—1,939

Source: United Nations Department of Economic Affairs; based on United States Department of Commerce, *Balance of International Payments of the United States;* Organisation for European Economic Co-operation, *European Recovery Programme, Second Report* (Paris, 1950).

[a] Including gold production to value of $11 million.
[b] Including private donations.
[c] Net balance on invisible items was probably larger than $213 million in 1935; continental western Europe was a net earner of dollars on interest and dividend receipts, emigrants' remittances, tourist receipts and probably also on shipping services.
[d] Balance with the United States and Canada only.
[e] Positive balance.

Table 97 gives the matrix of the trade balances of western Europe with other major trading areas of the world in 1935 and 1948. It shows the large growth in the trade deficit with the dollar area from 1935 to 1948, and the fact that this deficit was accompanied by a significant increase in the trade deficit with the rest of the world.

The large increase in the trade deficit reflected changes in both volume and prices in foreign trade. As mentioned before, if the 1935 values of both imports and exports of continental western Europe are inflated by the index of United States export prices, estimates can be obtained of western Europe's real imports and real exports measured in 1948 import equivalents. For trade with the United States and Canada the figures are as follows (in millions of United States dollars at 1948 United States export prices):

	Amount 1935	*Amount* 1948
Real imports from the United States and Canada	835	2,111
Real exports to the United States and Canada	456	452
Ratio of dollar exports to dollar imports (percentage)	54.6	21.4

Source: United Nations Department of Economic Affairs; based on United States and Canadian trade statistics.

As may be seen, the increase in continental western Europe's real trade deficit with this area was entirely the result of an increase in the volume of its real imports to about 2.5 times the pre-war level. Real exports to the United States and Canada remained practically unchanged for the same period.

While the indices of individual countries showed divergent movements, it will be seen from the indices on page 160 that all the countries of continental western Europe increased their real imports from the United States and Canada after the war; the smallest increase in the group was that of Sweden and the largest increase that of the Netherlands. At the same time, their real earnings from exports not only failed to keep pace with their imports, except in the case of Denmark, but in the case of France and the Netherlands, 1948 real earnings fell far below the pre-war level.

Table 97. Balance of Merchandise Trade (plus Gold Production) between Continental Western Europe and other Major Trading Areas, 1935 and 1948

(In millions of United States dollars in current prices, f.o.b.)

Trade balance with [a]	*World total*	*Continental Western Europe*	*Eastern Europe*	*United States and Canada*	*Latin American dollar area*	*Total dollar area*	*Sterling area*	*Other regions*
	Trade balance of							
World total:								
1935		—653	172	—319	273	—46	—322	849
1948		—2,563	343	5,626	—40	5,586	—971	—2,395
Continental Western Europe:								
1935	653		122	173	40	213	—18	336
1948	2,563		185	1,659	98	1,757	411	210
Eastern Europe:								
1935	—172	—122		—250	—3	—253	—171	374
1948	—343	—185		31	11	42	—94	—106
United States and Canada:								
1935	319	—173	250		111	111	45	86
1948	—5,626	—1,659	—31		—546	—546	—737	—2,653
Latin American dollar area:								
1935	—273	—40	3	—111		—111	—48	—77
1948	40	—98	—11	546		546	—290	—107
Total dollar area:								
1935	46	—213	253	—111	111		—3	9
1948	—5,586	—1,757	—42	546	—546		—1,027	—2,760
Sterling area:								
1935	322	18	171	—45	48	3		130
1948	971	—411	94	737	290	1,027		261
Other regions:								
1935	—849	—336	—374	—86	77	—9	—130	
1948	2,395	—210	106	2,653	107	2,760	—261	

Source: Appendix table XIV; and League of Nations, *Network of World Trade* (Geneva, 1942).

[a] Data from export side of trade statistics.

[b] Value of gold production in different areas is added to the exports of these areas to the United States and Canada.

	Real imports from United States and Canada	Real exports to United States and Canada (in 1948 import equivalents)
	(1935=100)	
Belgium-Luxembourg	249	128
Denmark	215	227
France	266	64
Italy	290	125
Netherlands	301	75
Norway	276	100
Sweden	152	97
Weighted average	253	99

Source: United Nations Department of Economic Affairs; based on appendix table XIV and League of Nations, *Network of World Trade*.

The large increase in total imports affected all major commodity groups. Table 98 shows for the most important commodities the dollar values of western Europe's imports from the United States and Canada, measured in current prices, in 1935 and 1948.

In the absence of specific price indices for individual goods, a rough approximation of physical volume may be obtained for each major group by inflating the 1935 dollar values by the index of total United States export prices. The percentage increase in physical volume ranged from only 5 per cent in durable consumption goods to 60 per cent in industrial raw materials, 120 per cent in fuels, 420 per cent in non-durable consumption goods and 550 per cent in machinery and equipment.

The large increase in food imports in 1948 reflected exceptional post-war factors inasmuch as it was due to continuing poor harvests and, to a smaller extent, to the post-war shortages of meats, fats and oils. However, even if food imports had remained the same in 1948 as in 1935, the total volume of dollar imports in 1948 would still have been about 225 per cent of the 1935 level.

The large rise in the imports of investment goods and industrial materials into continental western Europe in 1948 reflected mainly the increase in industrial production and real gross capital formation compared with pre-war levels. The indices of industrial production and real gross capital formation in 1948 compared with 1938 are given below.[16] While import requirements for machinery and equipment may fall as domestic productive capacity rises, particularly if the increases in

	Industrial production	Real gross capital formation
	(1938=100)	
Belgium-Luxembourg	114	116
Denmark	129	123
France	111	140
Italy	99	108
Netherlands	113	102
Norway	128	114
Sweden	149	134

Source: United Nations, *Economic Survey of Europe in 1949* and *Monthly Bulletin of Statistics*.

[16] The base year 1938 has been used instead of 1935 because data on real gross capital formation are lacking for 1935.

Table 98. Composition of Imports of Continental Western Europe from the United States and Canada, 1935 and 1948

Item	Imports from United States 1935	Imports from United States 1948	Imports from Canada 1935	Imports from Canada 1948	Total 1935	Total 1948
In millions of current United States dollars:						
Non-durable consumption goods	46	589	15	72	61	661
Durable consumption goods	38	81	1	2	39	83
Fuels	55	247	—	—	55	247
Industrial raw materials	143	446	16	74	159	520
Machinery and equipment	36	414	1	75	37	489
Other imports	51	94	3	17	54	111
Total	369	1,871	36	240	405	2,111
In percentage of total:						
Non-durable consumption goods	12.5	31.5	41.7	30.0	15.1	31.3
Durable consumption goods	10.3	4.3	2.8	0.8	9.6	3.9
Fuels	14.9	13.2	—	—	13.6	11.7
Industrial raw materials	38.8	23.8	44.4	30.8	39.3	24.6
Machinery and equipment	9.8	22.1	2.8	31.1	9.1	23.2
Other imports	13.7	5.1	8.3	7.1	13.3	5.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: United Nations Department of Economic Affairs; based on United States and Canadian trade statistics.

investment should begin to taper off in western Europe, imports of production materials are likely to remain high so long as economic activity remains high.

The sharp post-war increase in the demand for dollar imports was influenced not only by the import demands of western Europe but also by the capacity of the rest of the world to export. As shown in table 99, there was a strong shift in the source of supply of the imports of continental western Europe towards the United States and Canada after the war. In contrast to the experience of the United Kingdom, the shifts to the dollar source of supply occurred in most of the principal imports.

Although, in some commodities, notably food, the shifts were the result of short-term factors, such as insufficient supplies in third markets, in other cases they were also affected by deep-rooted causes which may take years to reverse. So far as food imports are concerned, the increase in the share of dollar imports in 1948 was partly due to the fact that an exportable surplus of certain food items, such as meat, fats and dairy products, was available only in the United States and Canada. It was also due, however, to the substitution of dollar imports for imports from eastern Europe. Before the war, eastern Europe was an important supplier of cereals, meat and other foods to western Europe; in 1948, the volume of the food imports of western Europe from eastern Europe had declined to 45 per cent of the pre-war level.[17] As to the sharp increases in machinery, iron and steel manufactures, and chemicals, Germany had been the chief supplier of these imports before the war, and the large dollar share of these imports in 1948 reflected, *inter alia,* the replacement of German exports.

The general order of magnitude of shares in continental western Europe's imports, by percentage of total imports, was as follows:

	1935	*1948*
United States and Canada	9.5	20.0
United Kingdom	11.4	10.8
Germany	17.8	4.8

The decline in Germany's share was almost completely compensated by the increase in the portion of the United States and Canada, while

[17] United Nations, *Economic Survey of Europe in 1949,* page 79. Imports of United Kingdom and Germany have been excluded.

Table 99. Share of Imports from the United States and Canada in Total Imports of Continental Western Europe, 1935 and 1948

(In percentage of total continental western Europe's imports)

Commodity	*Imports from United States*		*Imports from Canada*		*Total*	
	1935	*1948*	*1935*	*1948*	*1935*	*1948*
Grains	1.0	32.3	4.1	5.2	5.1	37.5
Fruits, vegetables and nuts	12.6	10.8	0.2	0.2	13.0	11.0
Meat	5.0	8.1	0.3	2.4	5.3	10.5
Dairy products	–	18.6	–	1.3	–	19.9
Fats and oils, edible	0.9	11.3	–	3.8	0.9	15.1
Total food (weighted average)	3.9	27.9	1.8	4.6	5.7	32.5
Tobacco	17.7	51.4	–	–	17.7	51.4
Raw cotton	53.4	39.1	–	–	53.4	39.1
Textile manufactures	0.7	5.1	0.2	0.2	0.9	5.3
Hides and skins and leather manufactures	3.8	10.4	0.2	0.6	4.0	11.0
Fuel	10.0	17.9	–	–	10.0	17.9
Iron and steel manufactures	3.8	16.3	–	0.8	3.8	17.1
Machinery (including electric)	11.0	28.8	–	11.9	11.0	40.7
Vehicles	57.3	41.1	0.2	10.7	57.5	52.7
Rubber manufactures	10.2	10.8	3.6	5.0	13.8	15.8
Non-ferrous metals and manufactures	10.7	8.8	6.9	8.4	17.6	17.2
Chemicals and chemical products	6.0	19.9	–	2.0	6.0	21.9

Source: United Nations Department of Economic Affairs; based on trade statistics of the following countries: Canada and the United States, and also Belgium-Luxembourg, Denmark, France, Italy, the Netherlands, Norway and Sweden.

the United Kingdom hardly maintained its pre-war share. The 1935 percentages for imports of individual countries from Germany ranged from 8.3 per cent for France to 27 per cent for Denmark. The 1948 figure for Germany comprises western Germany only.

The reason why the United States rather than the United Kingdom was able to replace Germany's exports to western Europe was twofold. In the first place, the United States provided the means for the financing of western Europe's dollar import balance through the Economic Cooperation Administration. Secondly, the United States rather than the United Kingdom had export capacities in the categories of goods which Germany had exported before the war. As can be seen from table 100, a large proportion of the United Kingdom's exports of manufactures before the war consisted of consumption goods, especially textiles; the products of the heavy industries, the demand for which expanded very sharply in continental western Europe after the war, constituted only 42.2 per cent of total exports of manufactured goods but amounted to 65.9 per cent and 78.9 per cent, respectively, of pre-war German and United States exports. Although the production of heavy goods in the United Kingdom increased after the war, its domestic requirements also rose as a result of the increase in domestic investment; accordingly, the difference in the United Kingdom's position with respect to the United States persisted after the war. Moreover, the United Kingdom's exports, in general, required longer time for delivery. In view of the virtual absence of German exports in 1948, it was thus natural for western Europe to import its heavy machinery and iron and steel products from the United States.[18]

Table 100. Composition of Exports of Manufactures of Germany, the United States and the United Kingdom, 1935

(In percentage of total exports of manufactured goods)

Type of export	*Germany*	*United States*	*United Kingdom*
Textile manufactures	9.1	4.8	27.2
Chemical products	15.8	6.3	6.7
Machinery	16.4	26.6	15.6
Vehicles	3.2	25.8	6.5
Iron and steel manufactures	24.3	14.0	10.8
Non-ferrous metal manufactures	6.2	6.2	2.8
Total, above manufactures	75.0	83.7	69.6
Total, excluding textiles	65.9	78.9	42.4

Source: League of Nations, *International Trade Statistics* (Geneva).

[18] The comparison between the composition of United States and United Kingdom exports also helps to explain the relative stability of the United Kingdom's share in the imports of the outer sterling area (table 94). The huge post-war expansion in the outer sterling area's demand for products of heavy industries had undoubtedly left the United Kingdom in a comparatively disadvantageous position as a source of supply in relation to the United States.

Table 101. Composition of Exports of Continental Western Europe to the United States and Canada, 1935 and 1948

Item	*Exports to United States* 1935	1948	*Exports to Canada* 1935	1948	*Total* 1935	1948
In millions of current United States dollars:						
Non-durable consumption goods	93	130	8	20	101	150
Durable consumption goods	22	35	3	7	25	42
Industrial raw materials	97	229	7	15	104	244
Machinery and equipment	3	7	2	5	5	12
Other exports	24	45	2	5	26	50
Total	239	446	22	52	261	498
As percentage of total:						
Non-durable consumption goods	38.9	29.2	36.4	38.5	38.7	30.1
Durable consumption goods	9.2	7.9	13.6	13.4	9.6	8.4
Industrial raw materials	40.7	51.3	31.8	28.9	39.8	49.0
Machinery and equipment	1.2	1.6	9.1	9.6	1.9	2.4
Other exports	10.0	10.0	9.1	9.6	10.0	10.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: United Nations Department of Economic Affairs; based on United States and Canadian trade statistics.

In the face of the very large rise in continental western Europe's real imports, the import equivalent of its exports to the United States and Canada hardly rose at all. Table 101 shows the dollar values of continental western Europe's exports to the United States and Canada in 1935 and 1948.[19] Since, as was previously noted, United States export prices slightly more than doubled during this period, it is evident that there were very few commodities whose exports had risen in terms of import equivalents. The principal exceptions were non-ferrous metals and manufactures and textile materials, especially rayon. Since domestic consumption in the United States and Canada had risen considerably meanwhile, it is evident that the ratio of continental western European exports to domestic consumption of commodities in the United States and Canada declined very sharply. In this respect the experience of western Europe was similar to that of the United Kingdom. The pre-war[20] and post-war[21] ratios of imports from continental western Europe to total domestic consumption in the United States, with only a few exceptions, showed a sharp decline in all traditional continental western European exports, as the following list indicates.

	Ratio	
	Pre-war	*Post-war*
Cigarette paper	93.0	–
Sparkling wines	59.0	23.6
Brandy	25.0	11.0
Cotton quilts and bedspreads	13.6	0.02
Table and dessert wine	3.9	0.7
Glove and garment leather (goat and kid)	3.7	–
Furs (fox)	2.7	3.9
Upper leather (all kinds)	2.0	0.1
Glassware	1.7	3.2
Leather gloves	1.5	2.7
Plate glass	0.7	0.3
Cotton cloth	0.3	0.02
Rayon (filament yarn)	0.1	21.7

Source: United Nations Department of Economic Affairs; based on publications of the United States Tariff Commission.

The basic factors which have been responsible for the decline of continental western European exports since the war, in relation to United States consumption, were similar to those for United Kingdom exports. The decline reflected in part the inadequacy of export supplies in Europe in 1948. To a very considerable extent, however, it reflected a continuation of the pre-war trend in the United States towards less dependence on imports.

[19] For statistical convenience, figures for United States and Canadian imports from continental western Europe are used here instead of continental western European exports to United States and Canada. These two sets of figures show small discrepancies, but their percentage changes from 1935 to 1948 are roughly the same.

[20] Generally 1935 or 1937.

[21] Generally 1946 or 1947.

The Dollar Deficit of Latin America[22]

During the inter-war period, the merchandise export surplus of Latin America with the United States and Canada, though showing a steadily declining trend, offset a large part of the deficit on invisible items, consisting primarily of shipping charges and dividend and interest payments. For instance, in 1935, the trade surplus (including gold production) amounted to $231 million, and the net payment on invisibles was estimated at $250 million to $300 million; the resulting net deficit on current account therefore was about $20 million to $70 million. After the war, the traditional export surplus in trade changed into a large import surplus. The import surplus on trade with the United States and Canada, though much smaller in 1948 than during the years 1945 to 1947, still amounted to $745 million (see table 102). In addition, the deficit on invisible items had increased to $605 million. Thus, the total deficit in 1948 was $1,350 million.[23]

As shown in table 103, Latin America had surpluses on trade account in 1935 with all the major trading areas. In 1948, while it had a surplus of $1,420 million with the non-dollar world, its trade deficit with the United States and Canada was as high as $745 million. The enormous increase in the real dollar deficit of Latin America after the end of the war was the result of a larger

[22] This section deals with the dollar shortage of all the hard currency and soft currency countries in Latin America treated as a single group. It includes the Latin American republics and the Netherlands Antilles.

[23] Against this deficit, Latin America earned about $200 million through the offshore operations of the Economic Cooperation Administration.

Table 102. Current Account of Latin America with the United States and Canada, 1935, 1947 and 1948

(In millions of current United States dollars)

Item	*1935*	*1947*	*1948*
Balance of merchandise trade, f.o.b.[a]	231	—1,760	—745
Invisibles,[b] net	—250 to —300	—549	—605
Balance on current account	—19 to —69	—2,309	—1,350

Source: United Nations Department of Economic Affairs; based on United States Department of Commerce, *Survey of Current Business* and *Balance of International Payments of the United States;* International Monetary Fund, *Balance of Payments Yearbook,* 1948 and preliminary 1949.

[a] Plus annual gold production.

[b] Balance with the United States only; including private donations.

increase in the volume of imports from the United States and Canada than in the volume of real exports to these countries. Real imports from the United States and Canada in 1948 were more than 4.5 times the 1935 level, whereas real exports to these two countries, measured in import equivalents, were about 2.4 times the pre-war level. However, as the following figures (in millions of United States dollars at 1948 United States export prices) show, the situation in 1948 had already improved as compared with 1947.

	Amount			*Index 1935=100*	
	1935	*1947*	*1948*	*1947*	*1948*
Real imports from United States and Canada	773	4,440	3,476	574	450
Real exports to United States and Canada (excluding gold production)	1,127	2,568	2,680	228	238

Source: United Nations Department of Economic Affairs; based on United States and Canadian trade statistics.

The increase in the volume of imports from the United States and Canada in the immediate post-war years appears to have met a substantial part of the pent-up demand which was supported by the assets in foreign exchange accumulated during the war. By 1948 this type of demand had weakened considerably as these assets were gradually exhausted. What remained as factors creating the post-war dollar deficit were the high levels of investment activities and development programmes in Latin America. In other words, the dollar deficit was, to a large extent, a concomitant of the economic development efforts of Latin America.

Table 103. Balance of Merchandise Trade (plus Gold Production) between Latin America and other Major Trading Areas, 1935 and 1948

(In millions of United States dollars in current prices, f.o.b.)

Trade balance with	*World total*	*Trade balance of*				
		Latin America	*United States and Canada*	*Sterling area*	*Continental western Europe*	*Other regions*
World total:						
1935		601	—319	—322	—653	693
1948		675	5,626	—971	—2,563	—2,767
Latin America:						
1935	—601		—231	—222	—185	37
1948	—675		745	—595	—362	—463
United States and Canada:						
1935	319	231		45	—173	216
1948	—5,626	—745		—737	—1,659	—2,485
Sterling area:						
1935	322	222	—45		18	127
1948	971	595	737		—411	50
Continental western Europe:						
1935	653	185	173	—18		313
1948	2,563	362	1,659	411		131
Other regions:						
1935	—693	—37	—216	—127	—313	
1948	2,767	463	2,485	—50	—131	

Source: See source and footnotes for table 89.

Latin America was the only region, in addition to the primary producing countries in the sterling area, which substantially increased its exports to the United States and Canada after the war. In the case of industrial materials this was due primarily to intensified industrial activity in the United States and Canada, which increased their imports of raw materials, such as petroleum, non-ferrous metals, and wool. In some commodities, such as tin, the increase in the export quantity was due to the supplanting of other areas as sources of supply after the war; in others, the stockpiling programme of the United States was an additional factor. The increase in Latin American food exports was associated with the growth in population and per capita income in the United States.

Not only did the United States and Canadian markets absorb the largest share of Latin America's total exports before the war, but the share actually rose from 31 per cent to 39 per cent between 1935 and 1948. Moreover, for many commodities, such as copper, petroleum and fruit, the United States and Canada were the predominant buyers.

An analysis of the composition of exports from all Latin American countries indicates that in 1935 foodstuffs and industrial raw materials were almost equally important in the total value of exports to the United States and Canada. Among the individual commodities exported, coffee was the most important item, constituting one-quarter of the total. Between 1935 and 1948 the exports of foodstuffs increased less than those of raw materials (table 104).

In physical volume, exports of foodstuffs increased 25 per cent from 1935 to 1948 while in the same period exports of industrial raw materials increased about 120 per cent.[24] However, as in the case of countries producing raw materials in the sterling area, the exports of Latin America were also subject to the influence of the inherent tendency of the United States and Canada towards a generally decreasing dependence on imports. In fact, the increased volume of food exports from Latin America bore a smaller ratio to real food consumption in the United States in 1948 than in 1935. The ratio declined from 1.45 per cent in 1935 to 0.98 per cent in 1948. Similarly, the ratio of exports of industrial raw materials from Latin America to the value added (in real terms) by manufacturing industries in the United States fell from 2.13 per cent in 1935 to 1.67 per cent in 1948.[25]

The imports of individual Latin American countries in the pre-war period varied greatly, in accordance with both the amount and the kind of imported food required for domestic consumption and the degree of industrialization. However, in the countries as a group, the pre-war composition

Table 104. Value of Latin American Exports[a] to the United States and Canada, 1935 and 1948

(In millions of current United States dollars)

Commodity	*1935*	*1948*
Crude foodstuffs:		
Coffee	134.6	705.9
Cane sugar	83.3	327.5
Bananas	27.1	65.8
Other food	18.0	126.3
Total, foodstuffs	263.0	1,225.5
Raw materials for consumption industries:		
Hides and skins	17.3	40.1
Tobacco, manufactured	9.7	24.5
Wool, manufactured	6.9	136.4
Other textile fibres (including manufactured)	8.6	86.4
Total, raw materials for consumption industries	42.5	287.4
Raw materials for heavy industries:		
Non-ferrous metals and manufactures	29.4	298.9
Oil and fats, inedible	19.9	60.6
Sodium nitrate	8.0	23.0
Total, raw materials for heavy industries	57.3	382.5
Fuels	44.7	478.4
Other exports	139.3	306.2
Grand total	546.8	2,680.0

Source: United Nations Department of Economic Affairs; based on United States and Canadian trade statistics.

[a] For statistical convenience, figures for United States and Canadian imports from Latin America are used instead of figures for Latin American exports to United States and Canada.

[24] The volume of exports of foodstuffs is obtained by deflating the values by the United States import prices of crude foodstuffs; that of industrial raw materials is obtained by using as the deflator a weighted average of United States import prices of crude materials and semi-manufactures.

[25] Since Latin American exports to Canada were about one-tenth of those to the United States, the ratios are calculated, as an approximation, with respect to the United States only.

of imports appears to have been, in order of importance, investment goods, food, textiles and other consumption goods. Among the individual suppliers, the United States was by far the most important; it alone furnished about one-third of the total imports of Latin America in 1935.[26]

As compared with pre-war years, the Latin American demand for imported investment goods from the United States and Canada expanded notably in 1948. But, as shown in table 105, the increase in imports was not confined to investment goods. The share of imports from the United States and Canada in total Latin American imports rose from about one-third in 1935 to about two-thirds in 1948 and, as shown in table 106, the changes are even more striking in the case of individual commodities.

The dollar position of Latin America after the war may be summed up as follows: In spite of the increase in its exports to the United States after the war, the dollar shortage of Latin America was brought about by the huge expansion of its dollar imports and the rising prices of imports, which, in the circumstances, could not be counterbalanced by higher prices for its exports. The maintenance of high levels of investment activity in Latin America tends to perpetuate its high demand for imports of investment goods. The dollar deficit is thus likely to remain coupled with Latin American economic development problems, although the situation may be alleviated by the development of alternative sources of supply in Germany and Japan, which were important suppliers to Latin America before the war, and in the United Kingdom and continental western Europe. It is reasonable to expect that with the continuance of economic development in Latin America, the United Kingdom and continental western Europe will be able to increase their volume of manufactured exports to this area in the future. As has already been noted, however, the latter two areas have traditionally concentrated largely on the export of consumption goods, whereas the increased demand of Latin America is especially significant in respect of investment goods. The future composition of exports from the United Kingdom and western Europe will thus be an important factor in determining their sale in Latin American markets.

[26] The share of the United States in the imports of some individual countries was as high as 90 per cent.

Table 105. Major Commodities Imported from the United States and Canada by Latin America, 1935 and 1948

(In millions of current United States dollars)

Commodity	*1935*	*1948*
Consumption goods:		
Food	36.1	366.7
Textile manufactures (including yarns)	26.9	260.0
Automobiles and automobile parts	14.4	378.8
Papers and related products	9.3	63.9
Rubber and manufactures	8.4	35.7
Total, consumption goods	95.1	1,105.1
Investment goods:		
Industrial machinery	39.3	466.9
Iron and steel manufactures	38.1	338.7
Electrical machinery and apparatus	23.6	240.7
Chemicals	23.3	256.1
Agricultural machinery	9.9	98.6
Total, investment goods	134.2	1,401.0
Others	145.7	969.9
Grand total	375.0	3,476.0

Source: United Nations Department of Economic Affairs; based on United States and Canadian trade statistics.

Table 106. Ratio of Imports from the United States and Canada to Total Imports of Latin American Countries, 1935 and 1948

(In percentages)

Category	*Number of countries included*[a]	*1935*	*1948*
Cereals	3	1.9	40.0
Textiles and manufactures	7	12.9	54.2
Iron and steel manufactures	4	17.5	69.4
Machinery and vehicles	7	72.0	85.2
Chemicals and products	4	36.2	77.2

Source: United Nations Department of Economic Affairs; based on United States Department of Commerce, *Foreign Commerce Yearbook* and *Foreign Commerce Weekly*.

[a] Including only countries for which relevant statistical data are available for both years. The ratios are assumed to be representative for Latin America as a whole.

Chapter 10

The 1949 Currency Devaluations and International Trade

The preceding chapter indicated that the dollar problem, which was the principal manifestation of international economic disequilibrium in the post-war period, had its origins in certain trends evident long before the Second World War; and that war-time and post-war developments reflected not merely the continuation of these trends, but the emergence of new sources of disequilibrium—some of them short-term in character, some of them of longer term. The short-term sources of disequilibrium were the dislocations of production and normal trading relations which occurred in the war-devastated economies, giving rise to heavy imports from other areas, particularly from the dollar area, in which supplies were more abundant than elsewhere. The longer term factors included the economic aims of countries in Europe and overseas for promoting further industrial expansion when the reconstruction or reconversion process had been completed; the high levels of investment activity which were required in the under-developed countries if standards of living were to rise; and the exceptional self-sufficiency of the United States in normal times. Under these conditions the demand for United States goods was likely to exceed the current dollar earnings of the rest of the world, even after the end of the reconstruction period.

During the nineteen thirties, deficits with the United States were financed in large measure through drawings on reserves or sales of gold from current production. These methods of financing declined in importance in the post-war period owing to the very low level of reserves in the non-dollar area; moreover, the dollar value of current gold production fell by comparison with the pre-war period, while the current dollar deficits increased greatly owing to the larger volume of imports from the dollar area and the much higher levels of post-war prices.

In order to adjust their demand for dollar goods to the level of their dollar earnings together with the inflow of dollar capital in one form or another and net sales of gold to the United States, the deficit countries employed direct exchange and trade controls throughout the post-war period. Following upon the dollar crisis in 1949, described below, many countries decided to devalue their currencies in relation to the dollar. This policy was designed both to raise their dollar earnings through increasing their export competitiveness, and to discourage dollar imports through a rise in the prices of dollar goods in terms of devalued currencies.

The analysis which follows examines the short-term effects of the price adjustments that occurred after the devaluations of September 1949. Information was insufficient at the end of 1950 to permit conclusions concerning the longer term effects of devaluation, and hence as to the general effectiveness of price adjustments in resolving the problem of international disequilibrium.

The analysis indicates the nature of the events immediately preceding devaluation and considers the actual price changes which occurred as a result of devaluation. The relationship of these price changes to developments in trade between the dollar and non-dollar areas of the world are then examined both as to the rest of the world's exports to, and as to its imports from, the dollar area. By this means some judgments may be possible regarding the extent to which devaluation contributed to the narrowing of the dollar gap which took place during the first half of 1950.

The Dollar Crisis of 1949

Some progress had already been made by 1948 in reducing the dollar gap, as production levels rose in the deficit countries, and more normal sources of supply replaced emergency imports from the dollar area. The merchandise export surplus of the United States declined from $9,500 million in 1947 to $5,500 million in 1948, as a result both of increased imports and of decreased exports.

In the first half of 1949, however, the dollar gap widened once again, and United States exports increased while imports fell. The rise in exports was partly the result of higher shipments under the European Recovery Program, but it also reflected the anticipation of other countries that their current dollar earnings through exports to the United States would be maintained at the rate of the second half of 1948, or higher. In fact, however, United States imports fell in the first three quarters of 1949 during the phase of inventory liquidation associated with the business recession in the United States. By the second quarter of 1949, the United States export surplus had risen to an annual rate of $7,000 million.

These developments were associated with an increase in the gold and dollar deficit of the non-dollar area, which appears to have been concentrated largely in the sterling area. During the nine months ending 31 March 1949, the gold and dollar deficit of the countries participating in the sterling area's dollar pool was fairly stable at a quarterly average of $337 million. The pooled gold and dollar reserves of the sterling area were at approximately the same level at the end of this period as at the beginning. Thereafter a rapid deterioration set in, and the gold and dollar reserves fell from $1,912 million on 31 March 1949 to $1,340 million on 18 September 1949.

In the first half of 1949 the anticipated and actual net gold and dollar deficits of countries participating in the sterling area dollar pool were as follows (in millions of current dollars):

	Deficit	
	Forecast	*Actual*
Total	—786	—962
United Kingdom deficit with dollar area[a]	—524	—629
Rest of sterling area deficit with dollar area[b]	—60	—177
Net gold and dollar payments to non-dollar countries[c]	—202	—156

Source: United Kingdom, *Economic Survey for 1949* (Cmd 7647, London, 1949), and *Balance of Payments, 1946 to 1950* (Cmd 8065, London, October 1950).
[a] On current and capital accounts.
[b] Net contributions to sterling area dollar pool by rest of sterling area, less net withdrawals.
[c] On whole sterling area account.

It will be seen that the actual gold and dollar deficit in the first half of 1949 was $176 million larger than had been anticipated in the United Kingdom *Economic Survey for 1949;* the United Kingdom and the rest of the sterling area made approximately equal contributions to the increase, while net gold and dollar payments to non-dollar countries were lower than expected. The exports to the United States of sterling area countries other than the Union of South Africa[1] fell from a semi-annual rate of $584 million in 1948 to $507 million in the first half of 1949. The remainder of the "unexpected" increase in the dollar deficit was due in part to higher dollar imports by the rest of the sterling area than had been foreseen.[2] Speculation based on the anticipated devaluation of sterling was an additional major factor, reflecting both the postponement of orders and payments for purchases from the sterling area by dollar area countries and also, probably, an increased outflow of capital from the sterling area to the United States, notwithstanding exchange control.[3]

Since the dollar deficit anticipated in the United Kingdom *Economic Survey for 1949* had been budgeted with the intention of maintaining

[1] The Union of South Africa is excluded since the proceeds of its exports to the United States did not accrue to the sterling area dollar pool.

[2] United Kingdom imports from the dollar area in the first half of 1949 were almost exactly as anticipated in the *Economic Survey for 1949*. See *Hansard,* vol. 467, column 799, table A. Dollar area exports to the rest of the sterling area excluding the Union of South Africa, on the other hand, increased from a semi-annual rate of $544 million in 1948 to $655 million in the first half of 1949. Only part of this increase had been expected.

[3] The composite item in the United States balance of payments with the sterling area, which includes multilateral settlements as well as errors and omissions, shows an increase from $285 million in the first quarter of 1949, to $339 million and $402 million, in the second and third quarters, respectively. A considerable part of this rise probably reflected unrecorded capital flight from the sterling area to the United States (see chapter 8).

gold and dollar reserves intact,[4] any increase in the deficit above this level necessarily involved a reduction of the reserve.

The very expectation that sterling would be devalued made devaluation more difficult to resist, since it generated an outflow of speculative funds which, together with the adverse movement on current account with the United States, strained the sterling area's resources almost to the limit.

On 18 September 1949 the devaluation of sterling by 30.5 per cent in relation to the United States dollar was announced. This was followed by a wave of devaluations in the non-dollar area and in Canada.[5]

[4] An increase in the sterling area net gold and dollar deficit of $105 million over the level of the second half of 1948 had been forecast in the *Economic Survey for 1949*, but dollar requirements were expected to be approximately covered by European Recovery Program aid, by drawings on the Canadian credit and by other dollar finance. Dollar receipts under the European Recovery Program for the year 1948-49 were expected to amount to $1,261 million, and were in fact very close to this figure, namely, $1,258 million. See paragraph 69 and table 16 of the *Economic Survey for 1949* (Cmd 7647).

[5] For details see *Annual Report of the International Monetary Fund*, 30 April 1950, appendix I.

Commodity Prices after Devaluation

Primary Commodities

Many factors other than devaluation influenced the course of primary commodity prices after September 1949.

In some cases international agreements or national policies considerably affected the prices of primary commodities. For example, transactions under the International Wheat Agreement, accounting for about half of total world wheat exports in the season 1949/50, were generally made at the maximum of the specified price range (US $1.80 per bushel). United States Government price support programmes set floors beneath the dollar prices of certain agricultural commodities, such as wheat and cotton. Variations in United States purchases for the strategic stockpile exerted a significant influence on the markets for such commodities as rubber and tin.[6] United Kingdom bulk purchase agreements established contract prices for British imports of food and raw materials; the impact of devaluation here depended on whether these prices were fixed in sterling or some other currency.[7]

Apart from these factors, the dollar prices of primary products which were supplied on balance from the non-dollar area to the dollar area—forming the first group of commodities in table 107—were largely determined by fluctuations in United States imports, since demand elsewhere was generally stable or steadily rising.

Wool provides an outstanding example of the effect of changes in United States demand upon raw material prices. European imports of raw wool increased from 1948 to the first half of 1949, but the decline in United States imports was sufficient to cause a marked fall in wool prices. At the end of 1949 and during the first half of 1950, European imports of raw wool continued to rise steadily, and United States imports also increased sharply owing to improved business conditions. Higher imports of this commodity alone accounted for nearly $100 million of the entire increase of $425 million in the imports of the United States between the first half of 1949 and of 1950. Since current rates of wool production could not be increased quickly, and world stocks were declining in view of the excess of consumption over production, it was probably inevitable that wool prices should rise even beyond pre-devaluation dollar levels. Devaluation appears to have had no influence of any consequence on the dollar prices of wool.[8]

[6] The fall in the dollar price of tin at the end of 1949 was probably due to the resumption of free trading in the tin market in November 1949, rather than to devaluation, or changes in United States demand.

[7] For example, the contract price of wheat imports from Canada was fixed in Canadian dollars, so that the sterling price of Canadian wheat rose sharply after devaluation. The sterling prices of United Kingdom imports of bacon and butter from Denmark, on the other hand, actually declined between 1949 and 1950.

[8] It is noteworthy that the New York Raw Wool and Wool Top Futures Exchange registered a marked upswing of forward quotations during the four weeks preceding the devaluation of sterling—reflecting the expectation of increased demand as United States recovery proceeded. After the announcement of the new rate of exchange for sterling, futures dropped temporarily but recovered again from October onwards. See Food and Agriculture Organization of the United Nations, Commodity Reports, *Wool*, 13 March 1950.

Table 107. Indices of Post-Devaluation Prices of Basic Commodities in Sterling and Dollar Markets, June 1948 and January and June 1950

(June 1949 = 100)

Commodity	Description, sterling market quotations[a]	Description, dollar market quotations[b]	Price index: Sterling market, June 1948	Sterling market, January 1950	Sterling market, June 1950	Dollar equivalent of sterling market, January 1950	Dollar equivalent of sterling market, June 1950	Dollar market, June 1948	Dollar market, January 1950	Dollar market, June 1950
Commodities supplied, on balance, from non-dollar to dollar area:										
Cocoa	British imports from British West Africa[c]	Accra, New York	171	152	175	106	122	.	145	165
Coffee	British imports from British East Africa[c]	Santos No. 4, New York	114	93	197	65	137	99	182	176
Jute	Daisee 2/3, Dundee	Native firsts, New York	102	116	112	81	78	100	90	94
Rubber	RSS No. 1, London	RSS, Plantation, New York	137	149	243	104	169	140	113	190
Tea	Ceylon: Black medium	Black, Ceylon and India, ex store	75	146	95	101	66	102	99	81
Tin	Standard cast	Straits, N. Y.	100	105	106	73	74	100	74	75
Wool, scoured	Dominion, London	Territory, Boston	110	150	159	104	111		92	102
Commodities supplied, on balance, from dollar to non-dollar area:										
Aluminium	Ingots, home	Virgin ingots, N. Y.	92	124	124	86	86	89	100	103
Copper	Electrolytic, London	Electrolytic, New York	112	130	158	90	110	130	111	135
Cotton	Middling 15/16", Liverpool	Middling 15/16"	113	128	141	89	98	113	95	103
Fuel oil	General zones	No. 2 straw, Oklahoma	108	116	121	81	84	143	114	116
Lead	Soft, foreign	Pig, desilverized, New York	110	118	112	82	78	146	100	99
Linseed	India: Brown bold Bombay	No. 1, Minnesota[d]	95	124	126	86	88	102	66	67
Sugar, raw	UK: imports from Cuba[c]	Raw 96°, New York	115	136	143	95	99	92	98	98
Tobacco	Rhodesia, stemmed	Leaf	100	120	130	83	90	89	97	97
Wheat	Manitoba No. 1	Dark No. Spr.: Minneapolis	..	131	131	91	91	110	100	103
Zinc	G.O.B. foreign	Prime Western, St. Louis	96	110	163	76	113	126	102	153
Commodities traded mainly within dollar or non-dollar area:										
Bacon	British cutsides	Smoked, cured	100	101	111	70	77	..	91	93
Butter	All grades, first hand, ex store	Creamery, 92 score, New York	87	100	120	70	83	136	106	102
Cement	Best Portland, London	Portland composite	100	103	103	72	72	96	100	100
Coal	Best Admiralty, Cardiff	Bituminous	100	100	101	70	70	93	103	102
Coconut oil	UK total imports[c]	Crude, Manila	86	116	105	81	73	169	97	88
Copra	Ceylon: Estate No. 1, Colombo	Bulk, Pacific ports	83	128	118	89	82	209	127	114
Pig-iron	Basic	Composite	93	100	107	70	74	89	100	101
Rice	UK total imports[c]	Rexora, New Orleans	99	101	114	70	79	128	79	77
Steel	Bars, blooms, billets	Billets, rerolling	82	100	100	70	70	87	102	102
Sulphuric acid	68° Tw	66° Be, 100% H_2SO_4	106	100	111	70	77	88	100	104
Wood-pulp	Imports from Sweden[c]	Sulphite, domestic	112	67	88	47	61	111	90	90

Source: Statistical Office of the United Nations.

[a] United Kingdom, unless otherwise stated.

[b] United States.

[c] Unit value of imports.

[d] Base: April 1949.

Composite dollar price indices for the eight major primary products imported by the United States from the sterling area together with a quantum index of United States imports of these commodities, are shown below for selected months (June 1949 = 100):

	Composite dollar prices[a]	Composite quantum[b]
1949:		
August	104.4	99.1
November	99.4	124.2
1950:		
January	104.8	162.7
March	104.3	164.0
June	124.7	166.5[c]

Source: Based on United States official statistics.
[a] Based on dollar prices for burlap, cocoa, goatskins, jute, rubber, tea, tin and wool, weighted by the 1948 value of United States imports of each of these commodities.
[b] Three-month moving averages centred.
[c] Month of June.

It will be seen that since June 1949 increased United States imports of sterling area raw materials were associated with higher, and not with lower, dollar prices. This would suggest that sterling area primary commodity prices since devaluation have, on the whole, been influenced more by the level of United States demand and by the relative inelasticity of supply in the short period than by devaluation itself.

An extremely important by-product of the rise in prices of sterling area raw materials has been the worsening of the terms of trade of the United Kingdom and other western European countries with the rest of the sterling area.[9] The weighted average volume of imports by the United Kingdom of the eight sterling area commodities discussed above was 3.5 per cent lower in the first six months of 1950 than in the corresponding period of 1949, but the cost of this decreased volume of imports was 26 per cent higher than in 1949, owing to a 31 per cent rise in the average unit value in terms of sterling. United Kingdom export prices, on the other hand, rose only 6 per cent between the first half of 1949 and the first half of 1950 in terms of sterling.[10]

The second group of primary commodities for which price changes are given in table 107 are those which the United States or other countries in the dollar area export in significant quantities to the non-dollar area; world prices of these commodities also tend to be strongly influenced by demand in the dollar area. The dollar prices for wheat, cotton, tobacco, sugar and the non-ferrous metals were little different in January 1950 from their June 1949 level, and subsequent increases, particularly in copper and zinc, were the consequence of increased business activity in the United States. As a result, the prices of all these commodities increased sharply in the sterling market after devaluation—as indeed had been fully expected. The extent of the cost to devaluing countries of the increased local currency prices of dollar area commodities may be gauged from the experience of the United Kingdom with its imports from the dollar area of grain, sugar, tobacco, cotton, petroleum[11] and non-ferrous metals. The total volume of United Kingdom imports of these commodities from the dollar area was some 18 per cent lower in the first half of 1950 than in the first half of 1949,[12] but the cost in sterling was 2.5 per cent greater, as a result of an average increase of nearly 25 per cent in the sterling unit value of these commodities.

Sterling prices of primary commodities which are traded to a relatively small extent between dollar and non-dollar areas appear to have increased very little or, at any rate, to have risen to far less a degree than the rate of devaluation. Thus, in the case of commodities like cement, pig-iron and steel, which are produced in the United Kingdom largely from domestic raw materials, there was no reason why sterling prices should rise as a result of devaluation, except in so far as, in the longer term, the effects of increased costs in sectors of the economy dependent upon imports began to spread elsewhere.

Manufactures

While devaluation appears in many cases to have had only a minor effect on the export prices of primary commodities in terms of dollars, the prices of manufactures exported by western

[9] As shown below, this was due in part to higher United States demand for sterling area raw materials and in part to devaluation.

[10] These developments have important implications which are further considered below.

[11] Imports from the United States, Venezuela and the Netherlands Antilles are included in the case of petroleum.

[12] The volume of imports of grain, cotton and non-ferrous metals was much higher in the first half of 1949 than in the second half.

Table 108. Indices of Unit Values of Imports and Exports of Selected Countries, 1949 and 1950 (First half)[a]

(1948 = 100)

Country	Import unit values[b]				Export unit values[b]				Terms of trade[c]			
	1949			1950	1949			1950	1949			1950
	Year	First half	Second half	First half	Year	First half	Second half	First half	Year	First half	Second half	First half
Sterling area:												
Australia	103	101	106	116	103	103	103	134	110	98	103	87
Ceylon[d]	95	96	94	98	106	103	111	132	90	93	85	74
India	102	102	101	105	101	99	102	109	101	103	99	96
Ireland	94	97	96	101	102	104	100	105	92	93	96	96
Malaya	101	102	100	101	98	94	97	127	103	109	103	80
New Zealand[e]	98	98	98	102	102	101	103	109	96	97	95	94
Union of South Africa[e]	109	108	110	117	103	101	105	105	106	107	105	111
United Kingdom	102	102	102	114	103	102	104	108	99	100	98	106
Dollar area:												
Canada	103	103	103	109	103	105	102	105	100	98	101	104
Costa Rica[f]	93	93	92	104	107	100	115	140	87	93	80	74
Cuba	86	91	80	79	93	92	94	96	92	99	85	82
Guatemala[e]	93	96	90	91	103	101	105	107	90	95	86	85
Philippines	102	103	100	77	70	68	72	71	146	151	139	108
United States	95	97	92	96	93	96	91	88	102	101	101	109
Venezuela[e]	90	94	87	77	99	98	100	98	91	96	87	79
Latin American non-dollar area:												
Brazil	93	93	93	..	106	97	115	..	88	96	81	..
Chile[e]	115	112	119	135	114	110	117	123	101	102	102	110
Peru[f]	153	144	162	148	148	142	153	184	103	101	106	80
Continental Europe:												
Austria	109	109	109	166	127	117	133	171	86	93	82	97
Belgium-Luxembourg	95	99	91	94	100	102	96	86	95	97	95	109
Czechoslovakia	96	102	90	..	94	102	87	..	102	100	103	..
Denmark	96	96	97	106	100	96	103	100	96	100	94	106
Finland	107	98	116	127	97	96	98	98	110	102	118	130
France	134	133	134	149	130	129	131	142	103	103	102	105
Germany, western zone	151	142	156	161	111	118	106	95	136	120	147	169
Italy	93	95	92	87	95	104	96	96	98	91	96	91
Netherlands	96	96	96	104	94	96	92	98	102	100	104	106
Norway	97	96	98	107	97	99	96	94	100	97	102	114
Portugal[f]	96	100	93	91	90	89	90	95	107	112	103	96
Sweden	101	104	99	112	93	96	90	95	109	108	110	117
Switzerland	90	94	86	80	97	98	96	92	93	96	90	87
Turkey	94	100	87	74	100	94	105	96	94	106	83	77
Rest of world:												
Anglo-Egyptian Sudan	99	99	98	103	97	95	99	112	102	104	99	92
Indochina	123	122	124	116	129	124	133	126	95	98	93	92
Indonesia[g]	94	94	94	..	105	99	111	201	90	95	85	..
Iran[f]	96	99	94	80	86	93	78	70	112	106	121	114
Spain	92	97	88	79	109	110	97	84	90	88	91	94

Source: United Nations, *Summary of World Trade Statistics.*

[a] In some cases, average of indices for the two half years of 1949 does not coincide with annual index; this is generally due to revisions in annual data which are not carried back to the monthly figures.

[b] Or prices.

[c] Import unit value or price divided by export unit value or price.

[d] Unit value series for 1950 are not comparable with those for earlier periods.

[e] Wholesale price indices of imported and domestically produced goods.

[f] Wholesale price indices of imported and exported goods.

[g] Import index is a wholesale price index; the export index, on the other hand, is a unit value index.

European countries fell appreciably in terms of dollars. Between early September 1949 and mid-1950, typical dollar prices of United Kingdom exports of cotton and leather goods fell by over 20 per cent and of woollens and worsteds and motor vehicles somewhat less, French brandy declined about 20 per cent and French wines a little less, on the average. Cheese products of Italy and the Netherlands were over 30 per cent cheaper. French, German and United Kingdom china and earthenware fell between 10 and 25 per cent. Certain manufactured commodities exported by western Europe, however, failed to decline in dollar price, or even increased. These were generally commodities for which United States demand was judged to be inelastic with respect to price so that the maximization of dollar earnings required the maintenance of dollar prices.[13] Examples of such cases were Scotch whiskey and French perfume.

The decline in the United States import unit value for manufactures was only four to five points from the third quarter of 1949 to the first and second quarters of 1950, which might appear surprising in view of the widespread declines in the dollar export prices of the western European manufacturing countries. However, western European manufactures constitute only a fraction of United States imports of finished manufactures, which include such items as newsprint, obtained mainly from Canada, and petroleum products from Latin America and the Middle East.[14] Total United States imports from the western European countries which devalued—in all categories, including manufactured foodstuffs and semi-manufactures as well as finished manufactures—were valued at some $410 million in the first half of 1950, while total imports of finished manufactures alone amounted to $664 million.

Import and Export Prices and Terms of Trade

The effects of devaluation on the cost of imports to the devaluing countries is clearly apparent from table 108. It will be seen that in nearly all cases the unit value of imports by devaluing countries rose considerably between the first half of 1949 and the first half of 1950. This was due not only to the higher costs of imports from the dollar area, in terms of domestic currencies, but also to rising export prices in soft currency countries.

The import unit value index of the United States declined only slightly from the third to the fourth quarters of 1949, and subsequently increased by several points. This was the result, in large measure, of the sharp rise in the cost of imported crude foodstuffs, heavily weighted by coffee. After a small initial fall, the import unit value of crude materials also rose in the second quarter of 1950 above the level prevailing immediately before devaluation.

Further light on the changes in import prices which have taken place since devaluation is provided in table 109, in which actual changes in import unit values between the first half of 1949 and the first half of 1950 are compared with "expected" changes. The latter, which are presented in the second column of the table, are defined, for individual countries, as the anticipated movements in import unit values resulting from the relative changes in the exchange rates

[13] In this connexion, the following extract from a statement of the President of the United Kingdom Board of Trade, published in the *Board of Trade Journal* for 24 September 1949, is of interest: ". . . The objective of every exporter must be to intensify his selling effort in such a way as to secure the maximum dollar receipts. The prices of most British exports to North America are quoted in sterling but are payable in dollars or United States sterling at the current rate. There is nothing to prevent our exporters from raising their sterling prices where they already hold an assured dollar market which could not easily be expanded, for example because of production limitations, and it may well be appropriate for a number of exporters to raise their prices in terms of sterling so as to earn something like the same amount in dollars as previously. But buyers in the United States and Canada will probably expect some cut in prices to them and in certain ranges of goods competitive conditions in North America will of course require reductions in dollar prices, especially where reduction in the dollar price of sterling area raw materials leads to lower manufacturing costs in North America . . ."

[14] The fall in the United States dollar price of newsprint imports from Canada after the Canadian devaluation was very small. This item alone accounted for about one-third of all United States imports of finished manufactures in the first half of 1950. United States dollar prices for fuel oil rose from August 1949 to January 1950; and for gasoline fell only slightly.

of the countries of origin—on the assumption that the composition and origin of imports were the same as in the first half of 1949, and no changes in prices occurred in terms of the national currencies of the supplying countries. The differences between the first and second columns of table 109 are due to changes in the origin or composition of imports, or to changes in the prices of the supplying countries in terms of their domestic currencies.

Table 109. Indices of Import Unit Values of Certain Countries, in National Currencies after Devaluation, 1950 (First half)

(First half of 1949 = 100)

Country	*Import unit value*[a]	*"Expected" import unit value*[b]
Belgium-Luxembourg	95	98
Denmark	110	121
France	112	108
Italy	92	99
Netherlands	108	122
Norway	108	120
United Kingdom	112	118
United States	99	90

Source: Statistical Office of the United Nations and International Monetary Fund.

[a] Unit value indices with current weights, except that unit value indices for Italy and the United States are based on moving crossed weights.

[b] Computed short-run change due to devaluation; based on changes in the exchange rate of the importing country in relation to the currency of each trading partner, weighted by the value of imports from that trading partner in the first half of 1949.

In all the cases in which devaluation was "expected" to result in increased import prices, with the exception of France, the actual increase turned out to be less—sometimes substantially less—than the anticipated increase.[15] This probably reflects, in large part, the change in the composition of imports of the countries concerned. Imports from the United States were considerably reduced between the first half of 1949 and of 1950, and such goods as continued to be obtained from the United States were, on the average, 8 per cent cheaper in the first half of 1950 in terms of dollars. On the other hand, imports from other devaluing countries increased.

For the United States, developments were exactly the contrary of the above. It might have been "expected" that devaluation would lower the average cost of United States imports by about 10 per cent, but the actual decline between the first half of 1949 and the first half of 1950 was only one per cent. This resulted from the changes in the export prices of the devaluing countries, particularly those which export primary products.

With respect to export prices, the immediate effect of devaluation was, of course, to lower the dollar export prices of the devaluing countries. However, the export prices of a number of countries which are important suppliers of primary commodities rose—often to the full amount of the devaluation, or even more.[16] These developments are reflected in the export unit value indices for the first half of 1950 of such countries as Australia, Ceylon, Indonesia and Malaya, as indicated in table 108.

The export unit value indices of the industrial countries of western Europe and the United States fell in terms of dollars; the greater fall took place in western Europe owing to devaluation. It is evident from table 110 that the rise in western European export unit values in terms of domestic currencies was considerably less than the rate of devaluation. It is possible that the consequent fall in western European dollar export prices had some effect on United States export prices. It is also noteworthy that while the rates of devaluation were different in the United Kingdom, Belgium and the western zones of Germany—countries which compete with one another over a wide range of export goods—their export prices in domestic currencies moved in such a way as to offset to a considerable extent the differential effects of the devaluations; thus, as shown in table 110, the export unit value indices of these countries in terms of dollars bore approximately the same relationship to each other in the second quarter of 1950 as before devaluation.

The terms of trade of the main western European devaluing countries moved adversely in the

[15] In the cases of Belgium-Luxembourg and Italy, which devalued by 12 and 8 per cent, respectively, in relation to the United States dollar, and which therefore appreciated in relation to sterling and other soft currencies, the fall in the average cost of imports was greater than expected, for the same reasons as the above.

[16] See the composite price indices of eight major primary commodities imported by the United States from the sterling area, shown on page 171.

Table 110. Indices of Prices or Unit Values of Western European and United States Exports in terms of United States Dollars, 1950 (First half)

(Third quarter of 1949 = 100)

Item	1950 First quarter	1950 Second quarter	Rate of devaluation (per cent)
Prices:			
Denmark	65	64	30.5
Sweden	80	84	30.5
Switzerland	97	98	–
United Kingdom	72	73	30.5
Unit values:			
Belgium	77	76	12.3
France	83	82	21.8
Germany, western zones[a]	72	71	20.6
Italy	93	89	8[b]
Netherlands	79	76	30.2
Norway	69	67	30.5
United States	97	95	–

Source: Statistical Office of the United Nations.

[a] Index for third quarter of 1949 estimated on the basis of the index for the United Kingdom and the United States.

[b] Approximate.

first half of 1950, as can be seen in table 108. The leading exception was Italy, which devalued by only 8 per cent, and which therefore appreciated in relation to many of its trading partners, so that export prices fell less than import prices. Many of the devaluing countries which export primary commodities were able to offset the higher cost of imports by still greater increases in the prices of exports. In general, the primary producing countries, whether they devalued or not, improved their terms of trade in the first half of 1950.[17]

Perhaps the most surprising development of all after devaluation was the adverse movement of about 8 per cent in the terms of trade of the United States between the first half of 1949 and the first half of 1950, whereas it might have been expected that the prices of United States imports would decrease in terms of its exports by something of the order of 10 per cent. The reasons for this occurrence follow from the data already presented concerning the decline of United States export prices, and the lesser fall than anticipated in the prices of United States imports.

Devaluation and International Trade

The major change in international trade between the first half of 1949 and of 1950 was the fall in the import surplus of the rest of the world with the dollar area by over $4,300 million, at annual rates, as the following figures on the merchandise export surplus of the dollar area (in millions of dollars in current prices) show:

	1948 Half-yearly rate	1949 First half	1949 Second half	1950 First half
Exports of dollar area to rest of the world, f.o.b.	5,260	5,427	4,408	3,691
Exports of rest of the world to dollar area, f.o.b.	2,322	2,106	2,137	2,541
Export surplus of dollar area	2,938	3,321	2,271	1,150

Source: Based on appendix table XIV.

Of the total decline, 20 per cent was due to increased exports by the rest of the world to the dollar area. The remainder was the result of diminished dollar area exports to the rest of the world.

The period following devaluation therefore undoubtedly coincided with a very marked reduction in the unbalance of trade between the dollar and non-dollar areas. Devaluation was, however, only one of a number of significant economic developments affecting the dollar trade balance of the world in the first half of 1950. Some of the most important of these were the upturn in United States economic activity towards the end of 1949 and during 1950; the additional import restrictions applied by many countries against dollar area goods during this period; the higher levels of food production in western Europe; the lower shipments under the European Recovery Program; and the revival of German industrial output

[17] This conclusion is confirmed by an examination of the relative movements between 1948, 1949 and the first half of 1950 in the export unit value indices for manufactures of the United States and the United Kingdom as against their import unit value indices for foodstuffs and raw materials. The purchasing power of primary products in terms of both United Kingdom and United States exports of manufactures improved in the first half of 1950 in relation to both 1948 and 1949.

and exports. Since all these developments tended, of themselves, and independently of devaluation, to narrow the dollar trade gap, it is extremely difficult to obtain any clear idea of the net impact of devaluation itself in that respect.

The effectiveness of devaluation as a means of reducing the dollar gap depended on the extent to which the imports of devaluing countries from the dollar area declined, owing to the rise in the prices of such imports in the domestic currencies of the devaluing countries, and on the extent to which the exports of the devaluing countries both to the dollar area and to other markets, in replacement of dollar goods, could be increased as a result of their improved competitive position.

So far as exports to the dollar area were concerned, the effects of devaluation depended on the elasticity of the demand of the dollar countries for the products of the devaluing countries. If the dollar value of exports of any devaluing country to the dollar area were to increase, the volume of these exports had to rise more than in inverse proportion to the reduction in dollar prices.[18]

Increased trade between soft currency countries in replacement of dollar goods could also have contributed to the easing of the dollar shortage. For example, the substitution by western European countries of soft currency sources of supply for dollar area imports would to that extent have reduced their demand for dollars. Or, again, increased exports by the United Kingdom to the sterling area in replacement of dollar products would have reduced demands upon the sterling area dollar pool.

For convenience, these various aspects of the effects of devaluation are considered in turn, beginning with the impact upon the exports of the devaluing countries to the United States and other countries of the dollar area.

Exports to the dollar area

Table 111 indicates that the dollar value of exports of the non-dollar area to the dollar area increased by approximately $435 million between the first half of 1949 and of 1950. Only $83 million, or less than one-fifth of this increase, is attributable to the countries of western Europe, including the United Kingdom, whose total exports to all destinations are nearly as large as those of the whole of the rest of the non-dollar area put together. Moreover, western European countries other than Germany show, on balance, practically no rise in the dollar value of their exports to the dollar area between 1948 and the first half of 1950. Non-dollar area countries outside western Europe increased their exports, mainly of primary products, to the dollar area by $352 million between the first half of 1949 and the first half of 1950.

While non-dollar area exports to the United States increased in value between the first half of 1949 and of 1950, exports to other countries in the dollar area were little changed in dollar value.

Exports to the United States

One of the difficulties in the way of analysing the effect of devaluation on the course of international trade since September 1949 is posed by the fluctuations in United States business activity between 1949 and 1950. This is clearly demonstrated in table 112. Any comparison of the exports of soft currency countries to the United States immediately before and after devaluation is necessarily affected by the recession in United States economic activity during the first half of 1949. Nor is it possible to allow for the effects of the recession simply by taking into account the changes in United States gross national product.

It will be seen from table 112 that the real gross national product of the United States actually increased slightly from the first half of 1948 to the first half of 1949, while real gross private income after taxes rose by 4 per cent. On the other hand, there was a fall of nearly 6 per cent in industrial production and of 2 per cent in import volume between the same periods. The reason for this striking contrast lies in the fact

[18] Thus, for example, assuming no rise in the sterling prices of United Kingdom exports, an increase of about 44 per cent in the volume of exports would have left the dollar value of exports unchanged. To the extent that the prices of United Kingdom exports rose, in terms of sterling, a lesser increase in the volume of exports was required. Since, as noted above, the domestic currency prices of the exports of many of the primary producing devaluing countries rose to, or even beyond, their pre-devaluation dollar parities, little or no increase in export volume was required to increase the dollar value of their exports.

Table 111. Exports to Dollar Area from Given Areas, 1948 to 1950 (First half)

(In millions of United States dollars in current prices, f.o.b.)

Area of origin	*1948 Half-yearly rate*	*1949 First half*	*1950 First half*
Total non-dollar area exports to dollar area	2,322	2,106	2,541
Exports to United States	1,749	1,540	1,964
Exports to rest of dollar area	573	566	577
Sterling area	955	863	1,031
United Kingdom	348	333	356
Iceland, Ireland	3	2	3
Australia, New Zealand, Union of South Africa	125	97	176
Rest of sterling area	479	431	496
Latin American non-dollar countries	518	437	538
Continental OEEC countries (excluding Trieste)	466	432	492
Denmark, France, Italy, Netherlands, Norway, Sweden	249	186	225
Belgium-Luxembourg, Portugal, Switzerland	165	166	168
Western Germany	18	34	50
Other	34	46	49
Eastern Europe	81	62	72
Rest of world	303	312	408

Source: Based on appendix table XIV.

that during the first half of 1949 the United States economy ended a phase of inventory accumulation and began a period of inventory liquidation. The change-over was very sharp—inventories were accumulated at the rate of $7,500 million per annum in the second half of 1948, and were liquidated at the rate of $2,500 million per annum in the first half of 1949; and both industrial production and imports were naturally very sensitive to the shift.[10] The first half of 1950, on the other hand, was a period of voluntary inventory accumulation—at an annual

Table 112. Indices of United States Imports and Domestic Economic Activity, 1949 (First half) and 1950 (First half)

(First half of 1948 = 100)

Item	*1949 First half*	*1950 First half*
Real gross national product	101.4	106.7
Real gross private income after taxes[a]	104.2	109.7
Industrial production	94.4	98.6
Quantum of imports	98.1	112.3

Source: United States Department of Commerce, *Summary of Foreign Commerce of the United States* (Washington, D.C.); also the *Survey of Current Business* (Washington, D.C.).

[a] Gross private income equals gross national product less total taxes plus government subsidies and transfers.

rate of $2,700 million. It follows that the change in gross national product between the first half of 1949 and the first half of 1950 does not fully reflect the significance of the factors tending towards an increase in industrial production and imports between the two periods.

There is an additional reason why it is impossible to obtain a true picture of the effects of devaluation through a comparison of United States imports in the first halves of 1949 and 1950. This has already been touched upon earlier. The fall in United States imports from soft currency countries during the first half of 1949 was greater than would have been dictated by developments in United States business activity alone. This resulted from the speculation which took place against the currencies which were subsequently devalued—in the form of a postponement of purchases of goods whose dollar prices appeared likely to fall immediately upon devaluation.

For these reasons it is necessary, in any analysis of the effects of devaluation on the United States demand for imports, to relate the first half

[10] Studies by the staff of the International Monetary Fund indicate that during the entire period from 1946 to the first half of 1950 there was an exceptionally clear relationship between the volume of imports and inventory changes in the United States.

of 1950[20] to a comparable previous period. The phase of the inventory cycle reached during the first half of 1948 was approximately comparable with that of the first half of 1950, since inventories were being accumulated at an annual rate of $3,400 million in the former period, and of $2,700 million in the latter; and gross national product and industrial production were increasing together in both periods. Moreover, speculation against the soft currencies had not yet begun. If, therefore, the exports of other countries to the United States in the first half of 1948 are compared with those of the corresponding period of 1950, the effects of changes in income and in dollar prices upon United States imports are isolated as far as the data permit.[21]

In order to obtain some indication of the effect of devaluation upon United States imports, it is necessary to distinguish between the various types of commodity which the United States normally purchases abroad. For the year 1949 as a whole United States imports were distributed, by category of commodity, as follows (in millions of dollars, f.o.b.):

	Value of imports	*Percentage of total imports*
Total imports for consumption	6,598	100.0
Crude materials	1,855	28.1
Crude foodstuffs	1,333	20.2
Manufactured foodstuffs	742	11.2
Semi-manufactures	1,422	21.6
Finished manufactures	1,246	18.9

Source: United States Department of Commerce, *Summary of Foreign Commerce of the United States.*

Thus, of total United States imports in 1949, 59.5 per cent consisted of crude and manufactured foodstuffs and crude materials. In addition, the category of semi-manufactures, accounting for a further 21.6 per cent of United States imports, contains a high proportion of processed raw materials; the largest items are such commodities as vegetable oils, sawmill products, paper base stock, petroleum products and non-ferrous metals.

United States imports of finished manufactures in 1949 accounted for under 19 per cent of total imports. Moreover, one-third of the imports in this category consisted of the single item newsprint, most of which is obtained by the United States from Canada; the United States dollar import price of newsprint fell only slightly after the Canadian devaluation.

The striking fact thus emerges that the categories of goods whose dollar prices were most affected by devaluation—namely manufactures of the type exported by western European countries—were precisely those which are of least importance in United States imports; while the dollar prices of some of the leading primary commodities in United States imports were affected far less by devaluation than by other factors, such as the course of United States business activity.[22]

It was nevertheless possible that, as a result of devaluation, western European manufactures might find a greatly enlarged market in the United States. Past experience does not suggest that this would be an easy matter. As is shown in chapter 9, there appears to have been a long-term downward trend in the ratio of United States imports of manufactures to total consumer expenditures on items other than food and services. After the Second World War, during which there had been a considerable incentive to provide substitutes for imports from Europe, the ratio fell still further, and was, if anything, slightly lower in the first half of 1950 than in 1948.[23]

It will be seen from table 53 in chapter 7 that the leading increases in United States imports between the first half of 1948 and of 1950 oc-

[20] The fourth quarter of 1949 is excluded because the trade figures for that quarter would not, in many cases, reveal the effects of devaluation; and because it was affected by the placing of orders which had previously been deferred in anticipation of devaluation.

[21] However, the effects of changes in dollar import prices upon the volume of United States imports may be over-estimated in such a comparison, owing largely to supply difficulties, associated with shortages of key materials and domestic inflationary pressures, which prevailed throughout much of the world in 1948.

[22] See composite dollar price indices of eight major primary products imported by the United States, above.

[23] Economic Cooperation Administration, *Report of the ECA-Commerce Mission* (Washington, D.C., October 1949), which investigated possibilities of increasing western Europe's dollar earnings, listed the following obstacles to increased United States imports from western Europe: (*a*) "Oppressive controls imposed by the governments of exporting nations", particularly "the artificial channelling of large segments of trade by export and import controls"; (*b*) the "high American tariff", particularly on European speciality exports "whose sales potential in the United States market would otherwise be high"; (*c*) United States customs administration; (*d*) "Buy American" restrictions on federal, state and local government procurement; and (*e*) high prices.

Devaluation could not, of course, be expected of itself to do more than lower the f.o.b. prices of the exporting countries in terms of dollars. Other obstacles to increased United States imports remained.

curred not in finished manufactures but in foodstuffs and raw materials, particularly coffee, sugar, tin, petroleum products and sawmill products. Wool, coffee, petroleum products and sawmill products were the leading commodities accounting for the increase in United States imports between the first half of 1949 and the first half of 1950.[24]

In the case of foodstuffs and raw materials, the problem of catering to the specific requirements of the United States market hardly arises, since primary commodities are, for the most part, homogeneous in character. United States imports of foodstuffs consist mainly of commodities which are produced in relatively small or in insufficient quantities in the United States itself. Imported raw materials likewise consist largely of goods not produced in the United States in adequate amounts, particularly for periods of high industrial output. With respect to finished manufactures, on the other hand, the problem of the particular requirements of the United States market may be much more important, and domestic output is substantially more elastic. While it may not be possible for the United States to raise its output of such commodities as raw wool rapidly to meet the requirements of a period of growing economic activity, it can certainly expand its production of manufactures with relative ease[25] if supplies of essential raw materials are assured.

It is for reasons such as these that the increase in the dollar value of United States imports since devaluation has been concentrated in foodstuffs and raw materials, rather than in finished manufactures, notwithstanding the greater fall in the dollar prices of the latter category of goods—particularly from western European sources.

In order that devaluation might result in increased dollar earnings from exports to the United States by the devaluing countries, it was necessary that the proportionate increase in the volume of United States imports should exceed the proportionate decrease in the dollar price. In this case, it might have been expected that the share of the devaluing countries in a given total value[26] of United States imports would increase. In table 113 data are given on the percentage shares of devaluing and non-devaluing countries in United States imports during the first half years of 1948, 1949 and 1950. It will be seen that, while the share of non-devaluing countries—mainly countries in Latin America, eastern Europe and Asia—decreased slightly from the first half of 1949 to the first half of 1950, it was none the less higher in the latter period than in the first half of 1948. In other words, the non-devaluing countries did not lose ground in relation to the devaluing countries by comparison with 1948.

A clearer idea of the effects of devaluation upon a country exporting manufactures to the United States may be obtained from the indices of United Kingdom exports to the United States shown in table 114.[27]

It will be noted that the data in table 114 bear out the conclusions presented earlier to the effect that the first half of 1949 is an unsatisfactory base period for use in connexion with the analysis of the effects of devaluation. The fall of nearly 12 per

[24] Other significant increases between the first half of 1949 and of 1950 were in edible animals and products, raw cotton, diamonds, paper base stocks, crude rubber and hides and skins.

[25] With respect to speciality products exported to the United States by western Europe, it is likely that United States demand is normally more sensitive to income than to price changes. In these cases, the western European countries often raised their export prices to pre-devaluation dollar parities. See discussion above of changes in export prices of western European manufactures.

[26] Total United States imports, and hence imports from devaluing countries, might increase in absolute value for a number of reasons other than devaluation, particularly if United States gross national product increased.

[27] An examination of United States imports of specific finished manufactures in the first half of 1948 and of 1950 does not appear to yield conclusive evidence as to the price elasticity of United States demand for these goods. Of the 49 commodities examined, 18 show the unit value and quantum of imports moving in the same direction—upwards or downwards—between these two periods. These include most of the larger items in the list, particularly burlap, watches, industrial diamonds, automobiles, agricultural tractors and oriental carpets. Apparent price elasticities of demand greater than unity are indicated for a number of metal manufactures, chemicals and textile items, after adjustments for the increase in United States real gross national product and for the fall in United States prices. However, this is not reflected in a weighted average for all commodities considered, since the import values of these goods were low in relation to those of the items mentioned above. Moreover, part of the increases in United States imports of these goods may have been due simply to the larger supplies available from abroad in 1950 than in 1948, for reasons unconnected with devaluation (see discussion below of the increase in continental western Europe's exports to the United States between 1948 and the first half of 1950).

Table 113. Shares of Given Areas in Current Value of United States Imports, f.o.b., 1948 (First half) to 1950 (First half)

(In percentage of total)

Source of imports	*1948 First half*	*1949 First half*	*1950 First half*
Total	100.0	100.0	100.0
Non-devaluing countries	34.1	35.5	34.6
Devaluing countries	65.9	64.5	65.4
Canada	19.9	22.5	23.1
Western European countries[a]	10.7	10.3	10.5
Total current value of United States general imports, f.o.b. (in millions of dollars)	3,520	3,390	3,816

Source: United States Department of Commerce, *Summary of Foreign Commerce of the United States.*

[a] Austria, Belgium-Luxembourg, Denmark, France, Germany, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Sweden and the United Kingdom.

cent in the volume of United Kingdom exports to the United States between the first half of 1948 and the first half of 1949 cannot be ascribed to changes in the real gross national product or real gross private income after taxes of the United States since both of these increased between the two periods. The decline must largely be ascribed to the liquidation of United States inventories in the first half of 1949 and to the deferment of purchases of United Kingdom goods in anticipation of devaluation.

Between the first half years of 1948 and 1950, the unit dollar value of United Kingdom exports fell by approximately 20 per cent in relation to United States prices for corresponding goods. In order to compensate in dollar proceeds for this greater decline in United Kingdom dollar export prices, the volume of United Kingdom exports to the United States would have had to rise 25 per cent between the first half of 1948 and of 1950. The actual increase in volume between these periods, however, was only 14.4 per cent, and was therefore insufficient, by a large margin, to offset the relative fall in United Kingdom dollar prices. This holds true *a fortiori* if it be assumed that part of the increase in the volume of United Kingdom exports to the United States between the first half years of 1948 and 1950 was due to the 6.7 per cent rise in the real gross national product of the United States.

So far as other western European countries are concerned, the volume of their exports to the United States rose between 1948[28] and the first half of 1950 by a considerably larger percentage than that of the United Kingdom (see table 115). The dollar unit value of United States imports from these countries fell about 18 per cent, relative to the United States export unit value for manufactures. In order to compensate in dollar proceeds for the greater decline in western European than in United States dollar export prices, it would therefore have been necessary for the volume of western European exports to the United States to increase by about 22 per cent over 1948.

[28] See footnote *b* to table 115.

Table 114. Indices of United Kingdom Exports to the United States, 1949 (First half) and 1950 (First half)

(First half of 1948 = 100)

Item	*1949 First half*	*1950 First Half*
(1) Quantum of United Kingdom exports to United States[a]	78.3	114.4
(2) F.o.b. dollar value of United Kingdom exports to United States	79.4	90.0
(3) Dollar unit value of United Kingdom exports to United States[a]	101.4	78.7
(4) Index of United States prices for comparable commodities[b]	101.8	99.1
(5) Relative changes in United Kingdom prices (line *3* as percentage of line *4*)	99.6	79.4
(6) United States real gross national product	101.4	106.7
(7) United States real gross private income after taxes	104.2	109.7

Source: United Nations Department of Economic Affairs; based on data in *Accounts Relating to Trade and Navigation of the United Kingdom*, June, July 1949 and June, July 1950 (HMSO, London); United States Department of Commerce, *Survey of Current Business* and other official sources.

[a] Quantum estimates based on quantum indices of exports of 49 leading commodities and commodity groups covering 90 per cent of the total value of United Kingdom exports to the United States, weighted by the respective values of such exports to the United States in the first half of 1948; an adjustment was made for the remaining exports not covered by these calculations on the basis of the results for the exports analysed. The unit value indices were derived from the quantum and value indices.

[b] The indices of United States prices were calculated from separate United States wholesale price indices for each of 37 commodity groups distinguished in the United Kingdom trade returns. These indices were weighted by the current value of United Kingdom exports to the United States in each group in the first half of 1948.

In fact, the exports of the western European countries considered rose in volume by 44 per cent between 1948 and the first half of 1950, or by nearly 35 per cent if western Germany is excluded. If it is assumed that a given proportionate increase in United States real gross national product gives rise to the same proportionate increase in the volume of imports, about 5 per cent of this rise would be attributable to higher levels of United States economic activity in 1950. Thus the *relative* fall in the dollar export prices of these western European countries was more than offset by the increase in the volume of their exports to the United States, even after allowing for the probable effects of higher United States business activity in the first half of 1950. The actual dollar earnings of these countries in the first half of 1950 were nearly 8 per cent above the level of 1948, or 1.5 per cent higher if Germany be excluded.

The contrast between the experience of the United Kingdom and of the other western European countries is so marked that the question arises as to whether devaluation and higher United States gross national product can be regarded as the only elements in the large increase in the volume of continental western European exports to the United States between 1948 and the first half of 1950. The contrast is probably due for the most part to differences in the degree of recovery of the export capacity of these countries by 1948. War devastation in continental Europe had been more serious than in the United Kingdom, and, partly as a result of this, reconstruction in the United Kingdom had proceeded further by 1948 than in some of the western European countries.

In addition, the United Kingdom had, before 1948, instituted a far more conscious export drive, and had taken special measures to make goods available for export to the dollar area, notwithstanding competing internal demands. In other European countries domestic inflationary pressures were of more significance in contributing to the low level of exports. Thus the volume of total United Kingdom exports to all destinations in 1948 was 36 per cent above the level of 1938, whereas none of the European countries con-

Table 115. Indices of United States Imports, f.o.b., from Continental Western Europe,[a] 1949 (First half) and 1950 (First half)

(Half-yearly rate, 1948 = 100)[b]

Item	*United States imports from continental western Europe* — *Including Germany* — *1949 First half*	*1950 First half*	*Excluding Germany* — *1949 First half*	*1950 First half*
(1) Dollar value, f.o.b., of United States imports from western Europe	93.4	107.7	87.7	101.5
(2) Quantum of United States imports from western Europe[c]	92.3	144.0	86.7	134.7
(3) Unit dollar value of United States imports from western Europe	101.2	74.8	101.2	75.4
(4) United States export unit value for manufactures	97.4	91.2	97.4	91.2
(5) Relative change in western European export unit value (*3* as percentage of *4*)	103.9	82.0	103.9	82.7
(6) United States real gross national product	100.1	105.3	100.1	105.3
(7) United States real gross private income	102.4	107.8	102.4	107.8

Source: United Nations Department of Economic Affairs; based on official statistics of the individual countries.

[a] Austria, Belgium-Luxembourg, Denmark, France, Germany, Italy, the Netherlands, Norway and Sweden.

[b] It proved difficult, for statistical reasons, to relate these indices to the first half of 1948 as a base, as was done for the United Kingdom in table 114, above. The evidence suggests, however, that the results obtained when using 1948 as a whole as a base do not differ very seriously from figures based on the first half of 1948.

[c] Quantum indices obtained by deflating United States imports from each of the countries by that country's export unit value index converted to a United States dollar basis.

Table 116. Exports of United States and Western Europe to Rest of Dollar Area,[a] 1948 to 1950 (First half)

(In millions of dollars, f.o.b.)

Item	In current prices			In 1948 prices[b]	
	1948 Half yearly rate	1949 First half	1950 First half	1949 First half	1950 First half
United States exports to rest of dollar area	2,254	2,310	2,046	2,400	2,310
Western European[c] exports to dollar area excluding United States	349	375	380	365	500
United Kingdom	215	229	226	220	300
Western Germany	2	9	24	9	33
Rest of western Europe	132	137	130	136	167
Total non-dollar area exports to dollar area excluding United States	573	566	577		
Non-dollar area exports to Canada	279	312	322		

Source: United Nations Department of Economic Affairs; based on appendix table XIV.

[a] All dollar area countries except the United States.

[b] Values in 1948 prices estimated on the basis of the over-all export unit value indices of the respective countries.

[c] OEEC countries, excluding Trieste.

sidered above[29] had even regained the 1938 volume of exports, and many of them were still far below it. Part of the increase in western European exports to the United States between 1948 and the first half of 1950 may therefore be due simply to the recovery of these countries, the subsiding of inflationary pressures and hence a considerable growth in their capacity to export.[30]

Exports to dollar area countries other than the United States

During the first half of 1950, as indicated in table 116, the exports of the non-dollar countries to the dollar area outside the United States amounted to $577 million, compared with $566 million in the first half of 1949 and the half-yearly rate of $573 million for 1948.

Exports to Canada

Of the dollar area countries aside from the United States, Canada is by far the most important as an actual and potential source of dollar earnings; Canada accounted for over one-half of all non-dollar area exports to the dollar area outside the United States in the first half of 1950.

[29] The quantum of total exports of these countries in 1948 (1938 = 100) was as follows: Austria 58; Belgium-Luxembourg 91; Denmark 72; France 96; western zones of Germany 21; Italy 80; Norway 81; Netherlands 64; and Sweden 90.

[30] The value of United States imports from members of the Organisation for European Economic Co-operation in the third quarter of 1950, which was probably affected only to a limited extent by events in Korea, increased by 34 per cent over the quarterly average in the first half of 1950, while the value of United States imports from all other countries taken together increased 24 per cent. However, the share of OEEC countries in total United States imports was no higher in the third quarter of 1950 than in 1948. The somewhat larger rise in imports from western Europe than from other countries in the third quarter of 1950 may be attributable in part to seasonal factors, affecting such commodities as bulbs from the Netherlands and manufactures required for the Christmas retail trade. There were significant increases in imports of foodstuffs and beverages, particularly whiskey, and of certain raw materials, especially tin—dollar prices of many of these had been relatively little affected by devaluation. However, there were also important increases in imports of steel mill products, particularly from France, the Netherlands and western Germany. Total United States imports of iron and steel products (excluding advanced manufactures) from all sources increased from 218,120 short tons in the first quarter of 1950 to 421,739 and 733,723 tons in the second and third quarters, respectively, owing to the fact that by the second quarter of 1950 the United States steel industry was operating at, or close to, capacity, while unfilled orders were increasing. United States imports of these products, which had amounted to 876,195 short tons in the first quarter of 1949, had fallen sharply during the recession. There was also a considerable rise in United States imports of vehicles in the third quarter of 1950, especially from the United Kingdom, but the total value remained well below the 1948 level.

There was some increase in the share of the devaluing countries in Canadian imports in the first half of 1950, owing chiefly to the substitution of imports from the United Kingdom for United States goods (see table 117).

Since United Kingdom exports to Canada accounted for nearly 28 per cent of all non-dollar area exports to the dollar area outside the United States in the first half of 1950, it is important to make a closer examination of the increase in the volume of these exports after devaluation. A detailed analysis of Canadian imports from the United Kingdom is provided in table 118. The unit Canadian dollar value of imports from the United Kingdom fell by 23 per cent in relation to Canadian wholesale prices for finished goods, between the first half of 1949 and of 1950. The increase in the United Kingdom volume of exports which would have been required to offset this fall in Canadian dollar price was just under 30 per cent. The actual increase in the volume of Canadian imports from the United Kingdom between these periods, however, was 44 per cent. Even after reasonable allowance for the effects of, say, a 3 to 4 per cent increase in Canadian real gross national product between the first half of 1949 and of 1950,[31] this would suggest that the United Kingdom had benefited from devaluation in respect of its exports to Canada.

Table 117. Shares in Current Value of Canadian Imports, f.o.b., 1948 (First half) and 1950 (First half)

(In percentage of total)

Country of origin	*1948 First half*	*1949 First half*	*1950 First half*
Total	100.0	100.0	100.0
Non-devaluing countries	77.9	78.2	76.4
United States	69.6	71.6	69.1
Devaluing countries	22.1	21.8	23.6
United Kingdom	11.0	11.6	12.9
Western European countries[a]	1.6	2.4	2.0
Total current value of special imports, f.o.b. (millions of Canadian dollars in current prices)	1,270	1,409	1,453

Source: Canadian official trade returns.

[a] Austria, Belgium-Luxembourg, Denmark, France, Germany, Iceland, Ireland, Italy, Netherlands, Norway, Portugal and Sweden.

Table 118. Indices of Canadian Imports from the United Kingdom, 1948 to 1950 (First halves)

(First half of 1948 = 100)

Item	*1948 First half*	*1949 First half*	*1950 First half*
Quantum[a] of Canadian imports from United Kingdom	100	113	163
Schedule III imports[b]	100	166	375
Other imports	100	105	130
Canadian dollar unit value[a] of imports from United Kingdom	100	104	82
Schedule III imports[b]	100	105	81
Other imports	100	104	83
Canadian wholesale prices for finished goods	100	103	104
Value of Canadian imports from United Kingdom (millions of Canadian dollars)	139	163	187
Schedule III imports[b]	19	33	58
Other imports	120	130	129

Source: United Nations Department of Economic Affairs; based on Canadian official statistics and data in United Kingdom *Board of Trade Journal* (London).

[a] Unit value figures obtained by weighting the unit values of United Kingdom exports—as published for 43 categories of such exports in the *Board of Trade Journal*—by the current value of exports to Canada in each category in the first half of 1948, and by applying the appropriate Canadian dollar conversion factor for the first half of 1950. The volume figures were then derived by deflating the current values of Canadian imports by the unit values thus obtained. In the case of Schedule III imports, the unit value and volume figures were estimated by weighting the unit values of United Kingdom exports of iron and steel manufactures, electrical goods and apparatus, machinery and vehicles, by United Kingdom exports to Canada in those categories.

[b] Imports subject to special control under the Emergency Exchange Conservation Act, including particularly capital goods and motor vehicles and parts. Current value figures from the *Interim Report on the Administration of the Emergency Exchange Conservation Act, Schedule III*, published by the Canadian Department of Trade and Commerce.

It will be noted, however, that the increase in the Canadian dollar value of imports from the United Kingdom between the first half of 1949 and of 1950 was concentrated in items subject to special controls under Schedule III of the Canadian import restrictions. The most important of these items were motor vehicles and parts, accounting for 38 million Canadian dollars of the 58 million in the Schedule III category as a whole for the first half of 1950.

[31] This would be consistent with what is known of trends in Canadian real gross national product and industrial production between 1948 and 1950.

During the entire period from 1948 to 1950 there were extremely severe restrictions on Canadian imports of passenger cars from the United States, so that there was a large unsatisfied domestic demand for cars which Canadian production, though increasing rapidly, was unable to meet. In these circumstances the main problem, so far as the United Kingdom was concerned, was the number of cars it could make available to the Canadian market, rather than the prices charged. United Kingdom production of passenger cars increased to a relatively moderate extent between the first half of 1948 and of 1949, but during the first half of 1950 output rose by over one-third compared with the corresponding period of 1949, so that many more cars became available for export.[32] This fact, together with the continuing Canadian restrictions on imports of United States cars, and with the considerable effort made by the United Kingdom to divert goods to dollar markets and to undertake special sales promotion schemes in these markets, accounts very largely for the great increase in British exports of vehicles to Canada in 1950.

Canadian imports from the United Kingdom of other items covered by Schedule III of the Canadian import restrictions also increased sharply between the first half years of 1949 and 1950—particularly of iron and steel products, in respect of which additional Canadian controls on dollar imports were imposed during the second half of 1949.[33]

So far as other imports by Canada from the United Kingdom are concerned, it will be seen from table 118 that the increase in their volume was no more than sufficient to offset the fall in their unit Canadian dollar price.[34]

In the case of textiles there was actually a considerable fall in the volume of United Kingdom exports to Canada, owing in part to the fact that the special arrangements for the encouragement of these exports made by the two countries in 1947 were allowed to lapse on 1 July 1949,[35] and notwithstanding the fact that the fall in United Kingdom dollar export prices for textiles was comparable with declines in the prices of Schedule III goods.

It would appear from the available evidence that the Canadian import restrictions and the way in which they were administered, together with the availability of United Kingdom goods in the categories[36] in which Canada was making special efforts to substitute soft currency for hard currency sources of supply, played an important and perhaps a predominant part in the changes in Canadian imports from the United Kingdom which have been analysed above.

Changes in the exports of other western European countries to Canada after devaluation were in marked contrast to the experience of the United Kingdom. As shown in table 119, the Canadian dollar value of imports by Canada from these countries fell from the first half of 1949 to the first

[32] This was made possible by the United Kingdom restrictions on sales of cars to the home market. The target figure for United Kingdom domestic consumption was 110,000 both in 1949 and 1950, so that the entire increase in output in 1950 became available for export. United Kingdom monthly average production figures for passenger cars in the first half of the year were as follows: 1948, 28,330; 1949, 32,790; 1950, 43,750. Canadian imports of passenger cars from the United Kingdom valued at under $1,200 apiece increased in number from 9,051 in the first half of 1949 to 39,250 in the first half of 1950; and in current value from 8.9 million Canadian dollars to 33.3 million Canadian dollars.

[33] United Kingdom *Board of Trade Journal*, 8 October 1949. See also United States *Foreign Commerce Weekly* for 1 August 1949, in which the Canadian Minister of Trade and Commerce is reported to have stated in a press conference on 13 July 1949 that "there would be an immediate tightening of the issue of import permits for the capital goods included in Schedule III of the Emergency Exchange Conservation Act". These additional restrictions were not lifted again until April 1950.

[34] The fall in the Canadian dollar value of Canadian imports of these goods, from $130 million in the first half of 1949 to $129 million in the first half of 1950, corresponded, of course, to an even larger reduction in the United States dollar equivalent, owing to the depreciation of the Canadian dollar.

[35] These arrangements had included, for example, the earmarking by the United Kingdom of 10 per cent of cotton exports for the Canadian market. Canadian output of cotton textiles has, however, risen at the expense of imports from both the United Kingdom and the United States.

[36] Capital goods and motor vehicles. United Kingdom output of metals, engineering products and vehicles increased nearly 11 per cent between the first half of 1949 and of 1950, while real gross domestic investment in fixed capital was probably little changed. See United Kingdom *Economic Survey for 1950* (Cmd 7915), paragraph 121, "It is intended that investment at home in engineering products should be slightly less than in 1949, and that the products so released and the whole of the increment in output in 1950 should be exported". See also footnote [32] above, regarding passenger cars.

Table 119. Indices of Canadian Imports[a] from Western Europe,[b] f.o.b., 1949 (First half) and 1950 (First half)

(Half-yearly rate, 1948 = 100)

Item	*Canadian imports from western Europe*			
	Including Germany		*Excluding Germany*	
	1949 First half	*1950 First half*	*1949 First half*	*1950 First half*
Dollar value of imports	124	105	114	93
Quantum of imports[c]	122	125	112	109
Dollar unit value of imports	101	84	101	85
Wholesale prices of finished goods in Canada	102	103	102	103

Source: United Nations Department of Economic Affairs; based on official statistics of the individual countries.

[a] In terms of Canadian dollars.

[b] Austria, Belgium-Luxembourg, Denmark, France, Germany, Italy, Netherlands, Norway and Sweden.

[c] See footnote to table 115 for method of obtaining quantum indices.

half of 1950, and the United States dollar equivalent of these imports declined even below the 1948 level. It is difficult to account for this decline in the light of the fact noted earlier that the proportionate increase after devaluation in the volume of western European exports to the United States was greater than in the case of the United Kingdom. It has been shown above that the increase in United Kingdom exports to Canada was heavily concentrated in the sphere of passenger cars and capital goods, subject to special control by the Canadian Government. However, capital goods formed a relatively small part of Canadian imports from other western European countries in 1949 and 1950, while imports of textiles declined, as in the case of imports of textiles from the United Kingdom.

On balance, there does not appear to have been any increase in western European dollar earnings in Canada in the first half of 1950. Even in the case of the United Kingdom, the increase in the United States dollar equivalent of Canadian imports between the first half of 1949 and of 1950 amounted to only $7 million, while the corresponding decline in Canadian imports from the other western European countries considered here was nearly US$8 million.

Exports to other dollar area countries

The value of the non-dollar area's exports to dollar area countries other than the United States and Canada was nearly unchanged—at approximately $255 million—between the first half years of 1949 and 1950, as may be seen from table 116. In other words, the increase in the volume of these exports was just sufficient to offset the fall in their dollar price.

In table 123 on page 194, estimates are given in current and in constant prices, of exports of manufactures by the United States and western Europe to third markets in the dollar and non-dollar areas for 1949 and the first half of 1950. The dollar area countries included in these estimates are Canada, Colombia, Cuba, Mexico and Venezuela. There was no decline in the real exports of manufactures by the United States to these countries as a whole between 1949 and the first half of 1950. There was, on the other hand, an increase of approximately 35 per cent in the volume of western European exports of manufactures to these countries. However, the dollar value of these exports increased by only $24 million at annual rates, of which two-thirds was accounted for by western Germany. It is likely that devaluation had some effect in making these increases possible, though their over-all significance is small in relation to the magnitude of the western European dollar problem, and evidently relatively little impact has as yet been made upon the overwhelmingly predominant position of the United States in these markets.

NON-DOLLAR AREA IMPORTS FROM THE DOLLAR AREA

During the first half of 1950 the dollar area's exports to the rest of the world amounted to approximately $3,690 million, compared with $5,430 million in the first half of 1949 and the half-yearly rate of $5,260 million for 1948 (see table 120). This represents a decline of 32 per cent in dollar value between the first half of 1949 and of 1950, and of nearly 30 per cent between 1948 and the first half of 1950.

It is unlikely that an index of export prices for the dollar area as a whole would show a decline of more than 8 per cent between the first half years of 1949 and 1950.[37] If it were actually 8 per cent, the decline in the volume of dollar area exports to the non-dollar area between 1949 and 1950 would be 26 per cent. If the export price decline was in fact smaller, the fall in volume would, of course, be *pro tanto* larger.

In normal circumstances, a rise in the domestic currency prices of devaluing countries for imports from non-devaluing countries would be expected to result in a reduction of such imports and, wherever possible, a substitution of alternative sources of supply. However, all the devaluing countries had various methods of import control in force, thereby severely limiting expenditures on dollar goods. Consequently, there was always a large unsatisfied demand for dollar goods which could not become effective. It was therefore unlikely that an increase in the domestic currency price of dollar goods could result in any considerable reduction from the controlled level of dollar imports, even though it might diminish the pressure on the controls. In fact, many soft currency countries introduced additional import restrictions during 1949 and 1950, notwithstanding the devaluation. In the case of the sterling area, the tightening of import restrictions preceded devaluation, but the new programme was allowed to stand after sterling was devalued, presumably because devaluation was not relied on to cause a reduction in dollar imports of the magnitude required.

The nature of the factors making for a reduction in the dollar area's exports to the rest of the world may be illustrated from developments in western Europe, the oversea sterling area and the soft currency countries of Latin America.

Western Europe

Data on the exports of the main trading areas of the world to western Europe (including the United Kingdom) are presented in table 121. Allowing for price changes since devaluation, there was a considerable reduction in the volume of western Europe's imports from the dollar area, which was more than compensated for by an increase in the volume of exports by the western European countries to one another. Of this increase, 23 per cent represented a larger volume of western German imports from the rest of western Europe, and 29 per cent a higher volume of western German exports to that area.

It will be seen from table 60 in chapter 7 that, of the total decline between the first half of 1949

[37] The unit value index of exports of the United States, which accounts for the bulk of the dollar area's exports, fell from 96 to 88 (1948 = 100) between the first half of 1949 and of 1950. The corresponding fall in the Canadian export unit value index was, in United States dollar terms, from 105 to 95 (1948 = 100). Other countries in the dollar area are exporters mainly of primary products, whose dollar prices were, on the whole, higher in the first half of 1950 than in the first half of 1949.

Table 120. Exports of Dollar Area to Rest of World, 1948 to 1950 (First half)

(In millions of dollars, f.o.b.)

Destination	In current prices: 1948 Half-yearly rate	In current prices: 1949 First half	In current prices: 1950 First half	In 1948 prices[a]: 1949 First half	In 1948 prices[a]: 1950 First half
All non-dollar areas	5,260	5,427	3,691	5,633	4,172
Sterling area	1,696	1,727	1,130	1,793	1,277
Latin American non-dollar area	633	554	371	575	419
Continental OEEC countries, excluding Trieste	2,075	2,147	1,530	2,229	1,729
Eastern Europe	106	71	52	74	59
Other non-dollar countries	750	928	608	963	687

Source: United Nations Department of Economic Affairs; based on data shown in appendix table XIV.

[a] Assuming that prices of dollar area exports as a whole changed in the same way as those of the United States.

Table 121. Exports of Selected Areas to Western Europe,[a] 1948 to 1950 (First half)

(In millions of dollars, f.o.b.)

Source of exports to western Europe	*In current prices* 1948 Half-yearly rate	1949 First half	1950 First half	*In 1948 prices* 1949 First half	1950 First half
World total	11,175	12,128	10,716	11,840[b]	12,960[b]
Western Europe[a]	3,761	4,393	4,359	4,290[c]	5,530[c]
Western German exports to western Europe	315	440	562	435	795
Western European exports to western Germany	250	455	570	450	735
Dollar area	2,972	3,070	2,157	3,190[d]	2,440[d]
Oversea sterling area[e]	1,761	1,991	1,812	4,360[b]	4,990[b]
Latin American non-dollar area	815	580	581		
Eastern Europe	679	640	465		
Rest of world	1,187	1,454	1,342		

Source: United Nations Department of Economic Affairs; based on appendix table XIV.

[a] OEEC countries.

[b] World exports to western Europe in 1948 prices were obtained by applying the quantum indices of western Europe's imports to the value in current prices of the world's exports to western Europe in 1948. The value in 1948 prices of the combined exports of the oversea sterling area, Latin American non-dollar area, eastern Europe and rest of the world was then obtained as a residual, after deducting dollar area exports and intra-European trade.

[c] Based on quantum indices of intra-western European trade in table 58.

[d] Based on export unit values of the United States for these periods.

[e] Excluding Iceland, Ireland and the United Kingdom.

and of 1950 in imports from Canada and the United States by the western European countries other than the United Kingdom, amounting to $580 million,[38] $521 million was accounted for by food and raw materials and only $59 million by manufactures. The reduction in imports of food and raw materials from the United States and Canada was made possible by the increased supplies becoming available from other areas. Continental western Europe itself increased the value, in constant prices, of its intra-regional trade in food and raw materials by $427 million between the first halves of 1949 and 1950; and imports of these commodities from the United Kingdom increased by $91 million. Thus the fall in imports from Canada and the United States was virtually made good from western European sources.

Western Europe also greatly increased the volume of its intra-regional trade in manufactures, as a result particularly of the growth in the capacity of western Germany to export capital goods and chemicals. On the other hand, the volume of imports of manufactures from the United States fell moderately—by less than 7 per cent between the first half of 1949 and of 1950—notwithstanding the much higher prices of dollar goods in terms of devalued currencies in 1950 and the increased supplies available from other sources.

In order to establish the significance of the price factor in the reductions in specific commodity imports by western Europe from the dollar area, an examination was made of changes in the leading commodity imports of six western European countries—the United Kingdom, Belgium-Luxembourg, France, Italy, the Netherlands and the western zones of Germany. These countries reduced the current c.i.f. value of their aggregate imports from the United States from $1,876 million in the first half of 1949 to $1,186 million in the first half of 1950.

In the case of the United Kingdom, the decision had been made in July 1949[39] to reduce imports

[38] In prices of the first half of 1949.

[39] Together with other Commonwealth members of the sterling area. See section on the "oversea sterling area", below.

to 75 per cent of the 1948 level. The dollar import programmes announced after devaluation provided for approximately $800 million to be expended on imports from the dollar area in the second half of 1949 and $600 million in the first half of 1950.[40] In fact, the f.o.b. values of imports from the dollar area during these periods were $772 million and $565 million, respectively, compared with $1,623 million in 1948.[41]

A comparison of United Kingdom imports from the United States in the first half of 1949 and of 1950 shows a decline in current c.i.f. value of $159 million. Leading commodities and commodity groups accounting for this decline were cheese, lard, raw cotton, lead, zinc, petroleum products, iron and steel manufactures and machinery. The total c.i.f. value of imports from the United States of these items fell by $143 million between the first halves of 1949 and 1950.

In all these cases there was some element of substitution, either of domestic products or of soft currency sources of supply for dollar imports. Thus, for example, British requirements for foreign supplies of iron and steel manufactures and machinery declined as real investment in fixed capital levelled off, and domestic output of these goods rose,[42] so that British imports were reduced not merely from the United States but, in general, from all sources. There was, however, some increase in imports of these goods from Germany, which may to some extent have been in replacement of United States products. This substitution, made possible by German recovery, might well have taken place irrespective of devaluation. A large increase in imports of capital goods from Germany had already occurred between 1948 and 1949, before devaluation.

So far as the foodstuffs and raw materials mentioned above are concerned, alternative soft currency sources of supply for these commodities had been sought long before devaluation occurred, and further substitutions for imports from the dollar area in these cases depended not so much on the price factor as on the rate at which new supplies from other areas became available. The rise in the United Kingdom's own output of cheese made it possible for over-all imports, as well as imports from the dollar area, to be reduced. The growing supplies of vegetable substitutes for lard from soft currency sources resulted in the elimination of dollar imports of this item. Considerably increased imports of zinc from Belgium and, to a small extent, from Australia, partly offset the reduction in imports of this item from the United States and Canada, though the unit value of imports of zinc from Belgium in the first half of 1950 was slightly higher than for imports from Canada, and considerably higher than for imports from the United States. The reduction in imports of raw cotton from the United States was also only partly compensated for[43] by larger supplies of comparable grades becoming available from British East and West Africa, Brazil[44] and Egypt. Finally, in the case of petroleum products, the prices of which in soft currency exporting countries tended to follow prices in the dollar area, a fall in United Kingdom imports of refined products, particularly from the dollar area, was offset by larger purchases of crude petroleum from sterling sources, for United Kingdom refining.[45]

Italian imports from the United States fell from $310 million in the first half of 1949 to $196 million in the first half of 1950. The decline was accounted for largely by wheat, flour and coal;

[40] See statement by the Chancellor of the Exchequer of the United Kingdom on 26 October 1949, in *Hansard*, vol. 468, column 1348.

[41] From data in United Kingdom, *Balance of Payments, 1946 to 1950* (Cmd 8065).

[42] United Kingdom output of metals, engineering products and vehicles increased nearly 11 per cent between the first half years of 1949 and 1950, while real gross domestic investment in fixed capital was probably little changed. See also United Kingdom, *Economic Survey for 1950* (Cmd 7915), paragraph 121: "It is intended that investment at home in engineering products should be slightly less than in 1949, and that the products so released and the whole of the increment in output in 1950 should be exported".

[43] British stocks of raw cotton had increased appreciably during 1949, so that economies in imports could presumably be made without immediate effects on domestic consumers.

[44] Brazil did not devalue.

[45] The abolition of petrol rationing in the United Kingdom was announced by the Minister of Fuel and Power on 26 May 1950 as a result of an agreement with two United States companies which were prepared to accept sterling in payment for any additional supplies which the end of rationing might involve. The Minister also pointed out that as the refinery expansion programme had made better progress than expected, British companies had been able to give the Government an assurance that they would be able to supply other petrol requirements from sterling sources. See *Hansard*, 26 May 1950, columns 2383 to 2385.

Italian imports of these commodities from the United States fell from approximately $173 million to only $19 million.[46] The decline in wheat and flour imports was the result of a notable increase in the domestic grain crop, and no alternative sources for these commodities were therefore sought, while in the case of coal increased imports from the United Kingdom, France and Germany were the result of larger exportable supplies from these countries rather than of changes in relative prices; United States coal had always been relatively expensive for European importers owing to heavy shipping costs.

The largest single item in the fall of $156 million in French imports from the United States between the first half of 1949 and of 1950 was also coal; the c.i.f. value of imports of this commodity from the United States declined from approximately $79 million to $4 million. However, imports of coal from all other countries together fell likewise, so that no net substitution for United States coal took place.[47] Other leading declines in French imports from the United States were in the categories of wheat, dairy products, oleaginous products (ground-nuts and linseed) and in railway vehicles and equipment, where, again, there were similar declines in imports from other sources.

The Netherlands reduced its imports from the United States between the first six months of 1949 and of 1950 by $44 million; leading elements in this decline were linseed—imports of which from other sources were very small—coal, iron and steel products and transport equipment. The fall in transport equipment was offset from other sources to only a small extent. However, there was a considerable increase in imports of coal and iron and steel products from other sources, particularly Germany, as goods became available from that country.[48]

The imports of Belgium-Luxembourg from the United States fell by only $15 million between the first half of 1949 and of 1950; cereals accounted for nearly $10 million. There appears, in addition, to have been a small degree of substitution of United Kingdom and French vehicles for United States vehicles, owing to the increased supplies available from these sources as well as the relative fall in European prices.

United States exports to Germany fell from $446 million to $240 million between the first halves of 1949 and 1950.[49] Foodstuffs accounted for $176 million of this total decline of $206 million; and grains alone for $140 million. This was due in part to the larger crops in western Germany itself, but also to increased imports under trade agreements with Sweden and other European countries, as well as Argentina. Vegetable oils and fats were obtained in larger quantities from a number of European countries, particularly the Netherlands, in addition to increased supplies from Ceylon, Malaya and the Union of South Africa. Declines in German imports of other commodities from the United States were due in large part to the recovery of domestic industrial output.[50]

From the preceding review of the imports of six leading western European countries, it may be concluded that, with some exceptions, declines in imports from the United States in the first half of 1950 were not the result of substitutions of other sources of supply as a consequence of devaluation *per se*. The reductions made in imports from the United States appear to have been of three main kinds. In the first place, imports were lowered in some cases without fully compensating increases

[46] In other words, Italian imports of other goods from the United States increased.

[47] French consumption of coal fell appreciably in the first half of 1950 owing to the fall in industrial activity in comparison with the first half of 1949.

[48] It is not clear whether this was due to devaluation; e.g., imports of iron and steel products from the United Kingdom fell between the first halves of 1949 and 1950. At the same time, the expansion in imports from western Germany may stem primarily from the utilization of the exceptionally large balances in deutsche marks which the Netherlands had previously accumulated. (See United Nations, *Economic Bulletin for Europe*, vol. 2, No. 2, Geneva, October 1950).

[49] United States export figures are used in this case because available commodity statistics of German imports on a comparable basis refer to the United Kingdom and United States zones of Germany in the first half of 1949 and to the three combined western zones in the first half of 1950. These export figures are f.o.b., compared with the c.i.f. data on imports of the other European countries analysed; the figures, moreover, refer to United States exports to all zones of Germany.

[50] German imports of raw cotton and of machinery and vehicles from the United States actually increased.

in other supplies, whether domestic or foreign. This applies, for example, to British imports of raw cotton. Secondly, reductions were made in imports from the United States wherever increased domestic production or the completion of reconstruction programmes lowered import requirements; in many of these cases imports from soft currency sources, as well as from the United States, were reduced. This category of reductions includes the declines in Italian and German imports of grain and British imports of cheese, in British imports of capital goods, in French imports of coal and railway vehicles and equipment and in German imports of metal manufactures and chemicals. Finally, dollar imports were diminished in a number of cases in which alternative supplies became available from soft currency sources for reasons unconnected with devaluation. Thus, for example, higher production of fats and oils in western Europe and other non-dollar countries made possible a decrease in imports from the dollar area. Larger German exports of iron and steel products and chemicals to other European countries replaced United States goods to some extent; this process had been going forward rapidly even before devaluation.

It thus appears that the price factor itself was of relatively limited importance in the reduction in western European imports from the United States in 1950. The increased prices of dollar goods in terms of domestic currencies of the devaluing countries no doubt added to the incentive to seek alternative sources of supply. But it depended on the availability of increased supplies from soft currency sources as to whether substitutions could in fact be made. Certainly, so far as foodstuffs, fuels and essential raw materials are concerned, it could not be said that the price factor, before devaluation, had been a major obstacle to the reduction of imports from the dollar area. It was, on the contrary, the extreme shortage of alternative supplies—at any price—which had been one of the elements in the establishment of the European Recovery Program. As the production of scarce commodities rose in soft currency areas, as deliveries under the European Recovery Program were reduced and the dollar shortage persisted, it was natural that countries should seek to make substitutions for imports payable in dollars wherever this became possible. The price factor does not seem to have been the primary consideration in this respect.

Devaluation may have been of somewhat greater significance in the growth in intra-European trade in manufactures in 1950. Even here, however, it is difficult to separate the effects of devaluation in cheapening western European, relative to United States, manufactures from the effects of the increased supplies becoming available in western European countries, particularly the western zones of Germany; and in any case, the consequential reduction in imports of manufactures from the United States was relatively small, as has already been noted.

Oversea sterling area

In July 1949, the Commonwealth members of the oversea sterling area, except the Union of South Africa,[51] had agreed to join the United Kingdom in imposing additional restrictions on imports from the dollar area, designed to bring these imports down to 75 per cent of the 1948 level during the twelve months ending June 1950. Dollar area exports to the Commonwealth sterling countries, other than the United Kingdom and the Union of South Africa, fell to 89 per cent of the 1948 level during the year ending June 1950, and to 82 per cent of that level in the first six months of 1950. Thus neither the restrictions imposed nor the increased prices of dollar goods in terms of sterling were fully effective in reducing imports from the dollar area to the agreed level—notwithstanding the 8 per cent fall in United States dollar export prices between the first half of 1949 and of 1950.[52]

An indication of the relative significance of the price element and of other factors in reducing

[51] The Union of South Africa had been attempting to reduce the drain on its gold reserves through successive measures of import restriction since November 1948. United States exports to the Union of South Africa declined from a semi-annual rate of $246 million in 1948 to $65 million in the first half of 1950, i.e., by a considerably larger percentage than for the rest of the sterling area, which had introduced effective controls much earlier.

[52] However, if United States exports of cotton to India in the first half of 1950 are excluded, owing to the unusual character of these shipments (see discussion in text), dollar area exports to the Commonwealth sterling countries, excluding the United Kingdom and the Union of South Africa, fell to 82 per cent of the 1948 level during the twelve months ending June 1950 and to 69 per cent of that level in the first six months of 1950.

dollar imports is to be found in the nature of the specific commodities in which the declines occurred in Australia and India. These two countries accounted for over one-half of all dollar area exports to the oversea Commonwealth members of the sterling area, excluding the Union of South Africa, during the period under consideration.

The current dollar value of United States exports to Australia in 1948 was $114.0 million, and $57.7 million in the first half of 1950, or approximately the same annual rate. On the other hand, United States exports to India in 1948 were valued at $297.6 million, and at $128.2 million in the first half of 1950, or 86 per cent of the 1948 rate. It should be noted that United States exports to India had actually been reduced to $75.2 million in the second half of 1949, a period in which the increased prices of dollar goods in terms of rupees after the devaluation of September would have had relatively little time to affect United States shipments. For the third quarter of 1949 alone, United States exports to India were valued at $44.0 million, or less than 60 per cent of the 1948 quarterly rate. This decline resulted from the severe curtailment of licences for dollar imports in the first half of 1949, even before the joint Commonwealth restrictions agreed upon in July. From the end of June to the middle of September there was a complete suspension of licences by India for dollar imports.

It is apparent from table 122 that by the first half of 1949 United States exports to Australia and India were already heavily concentrated in items of high priority, such as foodstuffs, raw materials and machinery, which were obtainable only with difficulty from other sources; it could not be expected that the demand for such commodities would be substantially affected by price considerations. The demand for types of commodities normally regarded as being sensitive to price changes, such as textile manufactures, was of very little importance in United States exports to these countries before devaluation.

The most striking feature of the changes indicated in table 122 is the sharp cut in food imports by India in 1950. Since the demand for food is relatively little affected by price,[53] this change clearly resulted from administrative policy.

At the same time, difficulties experienced in securing raw cotton from Pakistan were reflected in a large rise in Indian imports of this commodity from the United States. This development was likewise a result of a change in administrative policy. In the case of Australia the fall in imports of cotton manufactures to a negligible quantity was the result of the administered cut of 100 per cent on cotton textiles, except automobile tire fabric; the fall in synthetic fibres and manufactures was much smaller owing to the predominance, in the Australian imports in this group, of tire fabrics, which were regarded as essential dollar imports.

It is doubtful whether reductions in Australian and Indian imports of petroleum and its products from the United States were due to the price factor.[54] It is also noteworthy that the reduction in Australian imports of crude sulphur were not paralleled in the case of New Zealand; the Australian restrictions against imports of this commodity from dollar sources were the decisive factor.

It is likely that in both Australia and India the demand for metals and manufactures and for machinery and vehicles is relatively insensitive to price changes. The sharp fall in imports of these goods by India in the first half of 1950 was mainly the result of severe cuts in import licences, though domestic economic conditions may also have been partly responsible.[55] In contrast with India, Australia records a much smaller reduction in the value of imports of these commodities, owing to the fact that the scheduled restrictions were more moderate for the items included in these commodity groups.[56]

In general, the composition of imports by Australia and India from the United States, and

[53] While the demand for food in general may be inelastic, the demand for food from any particular source may be highly elastic. However, prices for grain were generally determined by dollar prices, or in the case of transactions under the International Wheat Agreement, which appear to account for some 80 per cent of India's imports of wheat in the crop year 1949/50, by the maximum dollar price permitted under the agreement.

[54] Prices from soft currency sources were generally determined by prices in the dollar area.

[55] See chapter 3. Imports of these goods from the United Kingdom were also reduced considerably by administrative restrictions, so that there was no substitution of United Kingdom for United States products.

[56] For example, scheduled Australian reductions for motor chassis were 7.5 per cent; for caterpillar tractors 10 per cent and for wheel tractors 20 per cent.

Table 122. United States Exports to Australia and India, 1949 (First half) and 1950 (First half)

(In millions of United States dollars in current prices, f.o.b.)

Commodity	Australia		India	
	1949 First half	1950 First half	1949 First half	1950 First half
Total exports of United States merchandise	78.9	57.7	177.1	128.2
Foodstuffs	0.6	0.2	43.8	2.1
Grains and prepared products	–	–	42.1	1.8
Tobacco	6.9	5.3	4.3	1.8
Textiles and textile manufactures	4.3	2.1	0.9	66.4
Raw cotton	–	–	–	66.4
Cotton manufactures	2.1	0.1	0.1	–
Synthetic fibres and manufactures	2.1	1.8	0.3	–
Non-metallic minerals	13.6	7.1	13.4	5.9
Petroleum and products	11.3	6.0	11.4	4.5
Crude sulphur	1.7	0.6	0.6	0.5
Metals and manufactures	9.1	8.6	23.3	6.2
Iron and steel mill products	7.9	7.7	10.7	2.3
Machinery and vehicles	33.7	27.9	69.0	32.9
Industrial machinery	11.9	9.2	37.1	20.2
Tractors, parts and accessories	7.9	6.4	3.0	1.8
Automobiles, parts and accessories	6.1	5.1	11.8	4.9
New trucks	3.1	1.5	6.8	1.7
New passenger cars, parts and accessories	0.4	0.7	1.3	0.3
Chemicals	4.1	2.7	15.0	10.7
Other	6.6	3.8	7.4	2.2

Source: United States official trade statistics.

the character of changes in that composition between the first half of 1949 and of 1950 appear to warrant the conclusion that the price factor was of secondary significance compared with the structure of the import restrictions, though the price factor may have resulted in some diminution of the pressure on the controls.[57]

Latin American non-dollar countries

A similar conclusion emerges from an examination of the reduction in imports from the United States by the soft currency countries of Latin America. Between the first half of 1949 and of 1950 United States exports to Brazil fell from $238 million to $133 million, representing a percentage reduction considerably larger than that of the sterling area between these periods. However, Brazil did not devalue, and it is probable that the fall in Brazilian imports from the United States was mainly the result of administrative restrictions.[58] Argentine imports from the United States in the first half of 1950 actually increased to some extent from the very low point reached in the first half of 1949 but were still less than one-third of the value of imports in the corresponding period of 1948. At this low level of imports, resulting from restrictions, it was not likely that the increased prices of dollar goods in Argentine currency resulting from the exchange adjustment of 1949 would operate to reduce imports to any significant extent.

Substitutions of western European for United States goods

The above discussion of reductions in dollar imports in typical countries of the oversea sterling area and the soft currency countries of Latin America has thus far not taken full account of the possible effects of devaluation in causing a substitution of western European for United States goods in these markets.[59]

[57] It is, however, pointed out below that the higher incomes of primary producing countries after devaluation may have tended to increase pressures for dollar goods.

[58] The gross national product of Brazil probably increased in 1950 (see chapter 3). Brazil's real imports from western Europe increased to some extent in the first half of 1950 but not by an amount at all comparable with the reduction in imports from the United States.

[59] Such substitutions have, however, been considered, above, in relation to dollar area countries and western European markets.

In 1949 a little more than half of total United States exports to all destinations consisted of finished manufactures. Thus considerable opportunity appeared to exist for reducing the United States export surplus with the rest of the world through the substitution of manufactures from soft currency sources, and particularly from western Europe, for those of the United States. It was one of the objects of devaluation to hasten the trend which had already been taking place in this direction during 1948 and 1949, by rendering western European manufactures more attractive in relation to United States goods. It will be seen that United States real exports of manufactures to the areas included in table 123 did in fact decline by something of the order of 13 per cent between 1949 and the first half of 1950. While the volume of United States exports of manufactures to the dollar area remained approximately unchanged, real exports to the soft currency area fell by approximately 30 per cent. Nevertheless, the small increase in the oversea exports of manufactures by western Europe was absorbed mainly by the dollar area. There was relatively little increase in western European exports of manufactures to third markets in the non-dollar area to compensate for the 30 per cent reduction in United States exports. Even in the case of the areas having currency affiliations with western European countries—namely the sterling area and the dependent oversea territories—where substitutions for United States exports would presumably have had the effect of diminishing the pressure upon the dollar resources of the European countries concerned, the increase in western European exports was relatively small. So far as the sterling area countries[60] are concerned, the small amount of the increase in United Kingdom exports and the actual decline in other western European exports are due mainly to the restrictions imposed by India and the Union of South Africa, even on imports from soft currency sources. Other countries in the sterling area group indicated in table 123 did increase their imports of manufactures, particularly capital goods, from the United Kingdom.[61]

There are two distinct reasons which could have given rise to an increase in United Kingdom exports to the rest of the sterling area countries other than India and the Union of South Africa.

In the first place, United Kingdom goods, as a result of devaluation, became cheaper, relative to their United States equivalents, and this no doubt induced oversea sterling area importers to substitute United Kingdom for United States products wherever this was possible. To the extent that such substitutions were made,[62] the increase in United Kingdom exports to sterling area countries fulfilled a function of dollar saving which was no less important than direct dollar earning through sales to the United States. This would take the form of lower demands by the sterling area countries upon the resources of the sterling area dollar pool.

But even if there were no substitutions of specific United Kingdom products for equivalent United States goods in sterling area markets, there would have been a tendency for United Kingdom exports to the sterling area to increase. This followed from the sharp deterioration of the terms of trade of the United Kingdom with the sterling area and the greatly increased sterling incomes of the oversea sterling area countries from sales of raw materials, which caused a considerable growth in holdings of currently expendable sterling balances.[63] In fact, the 20 per cent increase in United Kingdom total real exports to all sterling area countries, other than India and the Union of South Africa, between the first halves of 1949 and 1950 may be no more than could be expected on the grounds of the deterioration in terms of trade

[60] It will be noted that dependent oversea territories in the sterling area are classified with all other dependent territories in table 123.

[61] The United Kingdom's total exports to all sterling area countries other than India and the Union of South Africa were valued at $1,266 million in the first half of 1949 and $1,117 million in the first half of 1950. This represents an increase in volume of about 20 per cent.

[62] Such substitutions were probably not very large in the case of Australia, notwithstanding the considerable increase in United Kingdom exports of capital goods and motor cars to Australia in the first half of 1950. Table 122 indicates that this increase was accompanied by a relatively moderate decline in Australian imports of these goods from the United States.

[63] Total United Kingdom sterling liabilities to sterling area countries had increased by 30 June 1950 to £2,497 million—a higher figure than at any time since the end of the Second World War. The increase over 30 June 1949 was £272 million. Part of this increase was also due to larger sales of gold to the United Kingdom by the rest of the sterling area, particularly the Union of South Africa.

Table 123. Exports of Manufactures by the United States and Western Europe to Third Markets, 1949 and 1950 (First half)

(In millions of United States dollars, f.o.b.)

Importing area	*Total*	*Exporting area*				
		United Kingdom	*Western Germany*	*Other western European countries*[a]	*Total western Europe*[b]	*United States*
Dollar area (excluding United States):[c]						
1949	2,711	335	14	79	428	2,283
1950 First half:						
In current prices[d]	2,642	346	30	76	452	2,190
In 1949 prices[e]	2,868	448	39	91	578	2,290
Latin American non-dollar area:[f]						
1949	1,328	349	14	307	670	658
1950 First half:						
In current prices[d]	1,048	254	40	254	546	502
In 1949 prices[e]	1,210	329	52	304	685	525
Dependent oversea territories:[g]						
1949	1,975	712	9	868	1,589	386
1950 First half:						
In current prices[d]	1,548	540	14	746	1,298	250
In 1949 prices[e]	1,870	699	18	892	1,609	261
Rest of oversea sterling area:[h]						
1949	2,831	1,970	29	224	2,223	608
1950 First half:						
In current prices[d]	2,096	1,560	38	142	1,740	356
In 1949 prices[e]	2,610	2,019	49	170	2,238	372
Eastern Europe:[i]						
1949	676	146	49	442	637	39
1950 First half:						
In current prices[d]	568	122	86	308	518	50
In 1949 prices[e]	689	158	111	368	637	52
Other countries:[j]						
1949	691	256	12	151	419	272
1950 First half:						
In current prices[d]	546	208	22	130	360	186
In 1949 prices[e]	647	269	29	155	453	194
Total, above areas:						
1949	10,212	3,768	127	2,071	5,966	4,246
1950 First half:						
In current prices[d]	8,448	3,030	230	1,656	4,914	3,534
In 1949 prices[e]	9,894	3,922	298	1,980	6,200	3,694

Source: United Nations Statistical Office and Department of Economic Affairs; based on official statistics of the exporting countries. Data for the first half of 1950 in 1949 prices were estimated on the basis of dollar export unit value indices for manufactures in the case of the United Kingdom and the United States and on the basis of over-all dollar export unit values for other countries.

[a] Austria, Belgium-Luxembourg, Denmark, France, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.
[b] Total of preceding three columns.
[c] Canada, Colombia, Cuba, Mexico and Venezuela.
[d] Yearly rate in current prices, based on first half of 1950.
[e] Yearly rate in 1949 prices, based on first half of 1950.
[f] Argentina, Brazil, Chile, Peru and Uruguay.
[g] Dependent territories of western European countries, including United Kingdom dependencies in the sterling area, and former Italian colonies in Africa.
[h] Australia, Burma, Ceylon, India, Iraq, New Zealand, Pakistan and Union of South Africa.
[i] Bulgaria, Czechoslovakia, Finland, Hungary, Poland, Romania, Union of Soviet Socialist Republics and Yugoslavia.
[j] China, Egypt, Iran, Israel, Lebanon, Syria and Thailand.

alone.[64] Sterling area raw material prices would have risen in any case, irrespective of devaluation, owing to the recovery of United States demand and the continuing expansion of European requirements. But, in addition, the devaluation of sterling caused *pro tanto* a still greater fall in the purchasing power of United Kingdom exports over sterling area raw materials.[65] The additional claims on United Kingdom goods thus generated by the much increased sterling incomes of primary producers in the sterling area do not have their counterpart in any corresponding reduction in dollar expenditures by the sterling area countries. In fact, the higher incomes of these countries tend, on the contrary, to increase their pressure for dollar goods of types which are unobtainable in the United Kingdom, thus offsetting, at least in part, the deterrent effect of the higher sterling prices of dollar goods.[66] In many cases, however, increased sterling profits from sales of primary commodities accrue, not to the country of origin, but to the United Kingdom, where operating companies are registered. This results in increased invisible earnings by the United Kingdom from the sterling area.[67]

Similar considerations apply to the exports of other western European countries to their associated monetary areas. Since the exports of France to its oversea territories did not increase in real terms between the first half of 1949 and of 1950, there probably was not any significant element of dollar saving to the French monetary area through the replacement of United States by French products in these territories.

The effect of increased exports by western European countries to soft currency countries outside their respective associated monetary areas is somewhat different from the above. Such exports may diminish the requirements of the recipient countries for dollar goods; but they can improve the dollar position of the exporting countries only to the extent that any resulting export surplus is settled in gold or dollars. The French export surplus with Argentina in the first half of 1950 helped to liquidate French debts to Argentina contracted in earlier years, but did not give rise to dollar settlements. In 1950 Brazil was in surplus with the United States and in deficit with the United Kingdom to an extent which resulted in an actual shortage of sterling owing to difficulties in securing agreement on the prices of Brazilian exports. Brazil did not, however, use dollar resources to settle the deficit with the United Kingdom in the first half of 1950, but accumulated sterling debts instead.[68]

On the whole, it would appear that the amount of substitution in third markets of western European for United States goods was of relatively little significance in relation to the dollar problem in the first half of 1950, either in the dollar area or, with some possible exceptions, in the non-dollar area. The increase in the volume of western European exports to the dollar area countries, other than the United States, was relatively large in the first half of 1950, but insufficient to cause any appreciable rise in net dollar earnings on balance. On the other hand, the increases in the volume of exports by western Europe to oversea non-dollar countries were small, except for United Kingdom exports to sterling area countries other than India and the Union of South Africa; even here the rise may have been no larger than corresponded to the deterioration in the terms of trade, and the extent of substitution of specific United Kingdom goods for corresponding United States goods was probably of rather limited importance during the period under consideration.

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[64] See discussion, above, concerning primary commodity prices after devaluation.

[65] This applies also, of course, to other western European countries. Since their exports to the rest of the sterling area did not rise in the first half of 1950, they were compelled to draw heavily on their sterling balances to finance their greatly expanded deficits with that area, owing to the sharp increases in raw material prices in terms of devalued currencies.

[66] Thus, as noted above, United States exports to Australia in the first half of 1950 were at approximately the same annual rate as in 1948, notwithstanding the administrative restrictions and the higher prices of dollar goods in terms of Australian pounds.

[67] In such cases the effect on the United Kingdom is largely confined to the transfer which takes place internally from the consumers of such primary commodities to the operating companies which control their production.

[68] See chapter 8 for a further discussion of this point. The United States Department of Commerce *Survey of Current Business* for December 1950 points out that "for the present the dollar surplus countries seem to have increased their reserves rather than increased their dollar expenditures in Europe. Although the current trend in these countries is toward utilizing these balances to acquire goods, the preference is apparently still to use the available dollars for purchases in the United States".

Consequently, the reductions made by soft currency countries outside western Europe in their imports from the dollar area in the first half of 1950 are attributable mainly to the effects of administrative restrictions. At the same time, the higher prices of United States goods in terms of the currencies of the countries which devalued may have resulted in some lessening of the pressure on controls, except where the higher incomes of primary producing countries, resulting in part from devaluation, may have tended to offset this effect.

Summary and Conclusion

The immediate effect of devaluation was to lower the dollar prices of western Europe's exports, relative to those of the United States. In many of the primary producing countries which devalued, export prices in domestic currencies increased to levels approaching or even exceeding pre-devaluation dollar parities. As a result, western Europe's terms of trade deteriorated in the first half of 1950, not only with respect to the dollar area, but also as against other soft currency countries which export primary products. Moreover, the higher costs of raw materials, whether from dollar or non-dollar sources, and the possibility of wage-price increases in the countries whose cost of living had risen, were causing an upward pressure on the export prices of the devaluing countries in the first half of 1950.

The period following devaluation coincided with a very considerable reduction in the import balance of the rest of the world with the dollar area. This reduction consisted, as to 20 per cent, of increased exports to the dollar area by the rest of the world, and, as to 80 per cent, of lower imports from the dollar area.

Nearly all of the rise in exports to the dollar area was accounted for by the United States. The increase in the dollar value of exports to other dollar area countries between the first half of 1949 and of 1950 amounted to only $11 million, and much of this minor increase was attributable to factors other than devaluation.[69]

With respect to the rise in the dollar value of exports of the non-dollar world to the United States, this was due almost entirely to the increasing volume and dollar prices of United States imports of food and raw materials, resulting from higher levels of United States business activity. In the case of the United Kingdom, the increase in the volume of exports to the United States in the first six months of 1950 was far short of what was required to raise United Kingdom dollar earnings above the level reached in the corresponding period of 1948. Other western European countries raised the volume of their exports to the United States between 1948 and the first half of 1950 by a considerably larger percentage than the United Kingdom. There is some doubt as to how far this was due to devaluation and how far to other factors, including the eased supply position by comparison with 1948; and in any event the dollar value of exports to the United States by continental western European countries, other than western Germany, was not much higher in the first half of 1950 than the half-yearly rate of 1948.

It emerges that factors other than devaluation were primarily responsible for the increase in the dollar value of exports by the rest of the world to the dollar area in the first half of 1950.[70]

By far the most important element in the fall in the dollar area trade surplus with the rest of the world between the first half of 1949 and of 1950 was the decline in dollar area exports to the rest of the world of over $1,700 million.

Most non-dollar countries had instituted measures designed to restrict their imports from the dollar area to the most essential commodities,

[69] Such as Canadian import policy; see discussion of United Kingdom exports to Canada.

[70] Compare the conclusions of the United States Department of Commerce in its *Survey of Current Business* for June 1950, page 13: "Most of the rise in the value of imports by nearly $400 million [in the first quarter of 1950] from the low point in the third quarter of 1949 can be attributed to the general rise in business activity in the United States, accompanied by a shift in inventory policies, rising prices, and an increased need for primary and semi-processed materials for consumption. The value of imports from Western Europe, which rose about $40 million from the third quarter of 1949, was still smaller than during the first quarter of 1949. The devaluations, though undoubtedly an important factor, do not appear to have been the primary cause for the large rise in imports during recent months".

long before devaluation occurred. Consequently the increase in the domestic currency prices of dollar imports after devaluation could not have any considerable effect in reducing these imports below the controlled levels. The countries in the sterling area and the Latin American non-dollar area imposed new import restrictions during 1949 designed to lower their dollar imports still further, thus leaving even less margin for additional reductions as a result of the price factor.

The reduction in western Europe's imports from the dollar area in the first half of 1950 was concentrated heavily in foodstuffs and raw materials and was made possible primarily by the improved domestic food output, particularly in Germany and Italy, and by the increased supplies of these goods becoming available both in western Europe itself and from oversea soft currency countries. The fall in western Europe's imports of manufactures from the dollar area was relatively moderate, notwithstanding the greatly increased prices of these goods in terms of devalued currencies. The recovery of western Germany contributed substantially to the decline in western Europe's requirements from the dollar area in this category of goods.

The nature of the declines in specific dollar imports by leading countries in the oversea sterling area and the non-dollar area of Latin America suggests that these were mainly the result of the administrative restrictions imposed, rather than of the price factor. The higher incomes of the primary producing countries may have tended to increase their pressure for dollar imports, thus offsetting, in some measure, the deterrent effects of the increased prices of these imports in terms of local currencies.

There appears to have been no major increase in the imports of oversea non-dollar countries from western Europe in replacement of United States goods. United Kingdom exports to the sterling area[71] and French exports to French oversea territories were approximately unchanged in real terms between the first halves of 1949 and 1950. Nor does there appear to have been any important degree of substitution of western European for United States manufactures in other oversea non-dollar markets. Such surpluses as were earned in the first half of 1950 by western European soft currency countries in trade with the non-dollar countries of Latin America do not appear to have resulted in dollar settlements in that period. On the whole, countries with growing dollar balances in 1950 seem to have continued to prefer to utilize these resources for purchases in the United States rather than elsewhere.

It would appear that the decline between 1949 and 1950 in dollar area exports to the rest of the world corresponded for the most part to the tightening of import restrictions, particularly in the sterling area and the non-dollar area of Latin America; and, so far as continental western Europe is concerned, to the recovery of the countries in that area, particularly of western Germany.

In evaluating the significance of the economic developments in the first half of 1950 which have been studied above, it is necessary to stress once again the short-term character of the analysis. If it be concluded that factors other than devaluation were mainly responsible for the narrowing of the dollar gap in the first half of 1950, this does not necessarily imply any judgment as to the significance of devaluation and its effects on international price relationships and trade in the longer run. Developments in 1950 and 1951 are, however, likely to obscure rather than throw further light on this problem, owing to the powerful new factors introduced into the situation after the beginning of the Korean conflict and the rearmament programmes which followed.

[71] As shown above, this was mainly due to the import restrictions, affecting even purchases in the sterling area, imposed by India and the Union of South Africa. United Kingdom real exports to other sterling area countries did increase, and part of this increase may have been in replacement of United States products; however, this increase may have been no larger than corresponded to the deterioration in terms of trade with the rest of the sterling area.

STATISTICAL APPENDIX

STATISTICAL APPENDIX

Table I. Indices of Mining and Manufacturing Production in World and Selected Countries, 1947 to 1950 (Third quarter)

(1937 = 100)

Country	1947	1948	1949	1948 quarters				1949 quarters				1950 quarters		
				First	Second	Third	Fourth	First	Second	Third	Fourth	First	Second	Third
World	121	135	140	130	134	135	142	140	139	137	145	148	157	163
World excluding United States	96	115	131	108	113	115	124	126	131	129	139	142	148	150
Argentina[a]	175	178	173	..	..	..	..	..	..	..	..	167	..	..
Austria[b]	58	89	118	73	89	94	98	100	118	124	133	133	139	140
Belgium	83	89	91	88	89	88	92	94	93	85	91	91	92	90
Brazil[b c]	97	111	114	99	140	117	107	106	134	123	110	99	106	136
Bulgaria	148	180	234	134	165	195	227	..	..	..	..	..	..	..
Canada	162	169	171	168	168	165	173	169	173	168	173	173	183	183
Chile	136	143	140	140	140	137	154	143	138	134	145	134	135	129
Czechoslovakia	83	99	107	93	101	93	105	102	111	99	114	..	..	..
Denmark	116	129	138	128	133	119	136	133	140	130	147	146	161	143
Finland[a]	121	137	146	134	137	132	143	144	146	136	156	155	157	135
France	85	100	110	99	105	94	102	112	117	101	112	109	112	102
Germany:														
Western zones	33	52	78	41	43	57	66	73	76	77	85	86	95	103
USSR zone[a]	51	65	77	..	..	..	..	..	..	..	..	..	..	..
Greece	66	70	82	63	64	70	83	73	80	85	90	86	99	114
Guatemala[b c d]	106	110	114	..	..	..	..	..	..	103	118	117	109	107
India	102	114	111	123	110	104	118	112	113	106	111	110	109	108
Ireland	117	128	139	119	132	127	136	128	140	138	152	146	161	155
Italy	88	92	100	85	90	93	100	95	102	98	107	108	113	108
Japan	28	40	53	32	37	44	47	49	54	55	55	56	63	66
Luxembourg	75	100	95				..	112	103	86	78	91	96	101
Mexico	129	128	137	119	132	132	129	130	136	141	141	147	145	..
Netherlands	91	110	123	99	108	111	122	115	118	124	134	126	128	141
Norway[e]	115	125	132	125	134	111	129	137	137	114	138	146	146	123
Philippines[f]	76	85	91	..	..	..	..	..	..	..	..	..	..	
Poland[a g]	106	146	177	..			..	167	179	190	209	231	242	
Sweden	141	150	156	148	151	150	153	158	163	141	163	163	170	146
Turkey[h]	151	156	172	..	..	..	..	..	..	..	..	..	..	
USSR[a i]	93	118	141		114		130[j]		137[j]		153		170[k]	
United Kingdom	98	110	118	109	111	105	115	118	119	113	124	128	129	123
United States	165	170	156	167	168	171	172	163	154	152	154	159	172	185

Source: Statistical Office of the United Nations.

Note: A revised index for the world and the world excluding the United States will be found in the April 1951 issue of the United Nations, *Monthly Bulletin of Statistics*.

[a] Including electricity and manufactured gas.

[b] Including electricity.

[c] 1946 = 100.

[d] Excluding mining.

[e] Including manufactured gas.

[f] Including agriculture.

[g] Post-war production in post-war territory has been related to 1937 production in pre-war territory.

[h] 1938 = 100.

[i] 1940 = 100. According to League of Nations, *Statistical Yearbook* (Geneva, 1945), industrial production in the Union of Soviet Socialist Republics in 1940 was 43.8 per cent above 1937.

[j] Estimated.

[k] First ten months of 1950.

Table II. Estimated Value of Trade of Hard and Soft Currency Countries, 1948 to 1950 (First half)

(Based on exports, f.o.b., in thousand millions of United States dollars at annual rates)

Item and period	Estimated total world exports[b]	Exports of hard currency countries[a]			Exports of rest of world			Import surplus of rest of world with hard currency countries
		Total	To one another	To rest of world	Total	To hard currency countries	To one another	
Value in current prices:								
1948	55.4	21.9	10.1	11.8	33.5	6.7	26.8	—5.1
1949 First half	59.4	22.4	10.0	12.4	37.0	6.1	30.9	—6.3
1949 Second half	53.8	19.8	9.4	10.4	34.0	5.7	28.3	—4.7
1950 First half	52.6	18.6	9.8	8.8	34.0	6.6	27.4	—2.2
Value in 1948 prices:								
1948	55.4	21.9	10.1	11.8	33.5	6.7	26.8	—5.1
1949 First half	59.8	23.0	10.2	12.8	36.8	6.0	30.8	—6.8
1949 Second half	60.4	20.8	10.0	10.8	39.6	6.6	33.0	—4.2
1950 First half	64.2	20.2	10.6	9.6	44.0	8.6	35.4	—1.0

Source: United Nations Department of Economic Affairs; based on values in current prices reported by the Statistical Office of the United Nations.

[a] Including Canada and the United States and the following countries in the dollar area: Bolivia, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Netherlands Antilles, Nicaragua, Panama, Philippines and Venezuela, and in addition Belgium-Luxembourg, Portugal and Switzerland.

[b] Including estimates for countries not included in table 1 in the Introduction to the report.

Table III. Percentage Distribution, by Value, of United States Exports, by Economic Classes, 1948 to 1950 (First half)

Economic class	1948	1949 First half	1949 Second half	1950 First half
Total	100.0	100.0	100.0	100.0
Foodstuffs:				
Total	20.6	19.2	18.1	14.0
Net of foreign aid	8.4	7.4	10.1	7.5
Crude materials and semi-manufactures:				
Total	22.8	27.0	25.6	30.2
Net of foreign aid	20.2	21.7	17.8	21.8
Finished manufactures:				
Total	56.6	53.8	56.3	55.8
Net of foreign aid	71.4	70.9	72.1	70.7

Source: Midyear Economic Report of the President, July 1950 (Washington, D. C.); United States Department of Commerce, *Foreign Commerce Weekly*, 4 September 1950 (Washington, D. C.). Figures net of foreign aid derived by deducting from total exports grants reported under the following foreign aid programmes: European Recovery Program, interim aid programme for western Europe, post-UNRRA relief, Army Civilian Supply Program for Germany and Japan, aid to China by the Economic Cooperation Administration, civilian aid under the assistance programme for Greece and Turkey; exports under the programmes for aid to Korea and certain other programmes, however, not deducted owing to lack of data.

Table IV. Value and Indices of Unit Value and Quantum of United States Imports, by Economic Classes, 1948 to 1950 (First half)

(In millions of United States dollars, f.o.b.)

Item and period	All commodities	Crude materials	Semi-manufactures	Crude foodstuffs	Manufactured foodstuffs	Finished manufactures
Current value:						
1948 Semi-annual average	3,546	1,074	816	636	366	654
1949 First half	3,346	952	732	642	379	641
1949 Second half	3,252	903	690	691	363	605
1950 First half	3,777	1,050	896	769	398	664
Unit value index (1948 = 100):						
1949 First half	98	100	99	93	95	99
1949 Second half	92	93	85	99	96	95
1950 First half	95	93	81	123	95	93
Quantum index (1948 = 100):						
1949 First half	96	89	90	110	109	99
1949 Second half	99	91	100	110	103	97
1950 First half	111	105	135	99	116	110

Source: United States Department of Commerce, *Summary of Foreign Commerce*.

Table V. Quantum Indices of Exports of Western European Countries, 1948 to 1950 (First half)

Country[a]	1948 (1938=100)	1949 First half (1948=100)	1949 Second half (1948=100)	1950 First half (1948 = 100)
Western Germany	21	164	219	348
Austria	58	129	120	159
Netherlands	64	132	170	174
Denmark	72	121	138	151
Ireland	74	110	135	117
Italy	80	106	119	126
Norway	81	109	98	134
Sweden	90	101	128	134
Belgium-Luxembourg	91	112	102	114
Turkey	94	131	127	111
France	96	138	140	162
Switzerland	125	92	107	96
United Kingdom	137	110	110	122

Source: United Nations, *Summary of World Trade Statistics.*

[a] Countries arranged in ascending order of quantum in 1948 relative to 1938.

Table VI. Quantum Indices of Imports of Western European Countries, 1948 to 1950 (First half)

Country[a]	1948 (1938=100)	1949 First half (1948=100)	1949 Second half (1948=100)	1950 First half (1948 = 100)
Austria[b]	48	147	180	169
Western Germany[c]	54	134	172	164
Denmark	84	132	123	154
Netherlands	85	111	112	145
Norway	100	117	117	130
Turkey	110	98	129	120
Italy	109	118	99	119
United Kingdom	81	105	111	112
Ireland	127	98	102	111
France	101	106	99	110
Belgium-Luxembourg	108	91	96	99
Sweden	106	83	87	99
Switzerland	147	79	82	84

Source: United Nations, *Summary of World Trade Statistics.*

[a] Countries arranged in descending order of quantum in first half of 1950 relative to 1948.

[b] Excluding non-commercial imports.

[c] United Kingdom and United States zones prior to 1950; French, United Kingdom and United States zones thereafter.

Table VII. Value of Imports of Latin American Countries,[a] 1948 to 1950 (First half)

(In millions of United States dollars, c.i.f., in current prices)

Country	1948 Semi-annual average	1949 First half	1949 Second half	1950 First half
Total	3,052	2,765	2,560	2,365
Dollar countries[b]	1,375	1,372	1,110	1,130
Venezuela	377	415	321	283
Mexico	291	283	220	237
Cuba	290	267	229	237
Colombia	168	152	104	147
Panama	35	34	32	29
Guatemala	34	35	32	35
Dominican Republic	33	26	25	19
Non-dollar countries[b]	1,677	1,393	1,450	1,235
Argentina	777	..	..	..
Brazil	567	564	552	430
Chile	135	142	161	119
Uruguay	100	87	97	90
Peru	84	78	89	68

Source: Statistical Office of the United Nations.
[a] Exclusive of Non-Self-Governing Territories.
[b] Totals include estimates for certain other countries.

Table VIII. Value of Exports of Latin American Countries,[a] 1948 to 1950 (First half)

(In millions of United States dollars, f.o.b., in current prices)

Country	1948 Semi-annual average	1949 First half	1949 Second half	1950 First half
Total	3,302	2,767	2,808	3,015
Dollar countries[b]	1,563	1,419	1,331	1,480
Venezuela	595	497	577	585
Cuba	355	281	297	290
Mexico	233	241	200	169
Colombia	145	135	170	154
Non-dollar countries[b]	1,739	1,348	1,477	1,535
Argentina	812	..	..	..
Brazil	586	441	649	491
Chile	165	176	126	123

Source: Statistical Office of the United Nations.
[a] Exclusive of Non-Self-Governing Territories.
[b] Totals include estimates for certain other countries.

Table IX. Volume of Latin American Exports[a] of Major Raw Materials and Foodstuffs to Selected Areas, 1948 to 1950 (First half)

(In thousands of metric tons)

Commodity	Total 1948	Total 1949 First half	Total 1949 Second half	Total 1950 First half	United States 1948	United States 1949	United Kingdom 1948	United Kingdom 1949	Other ERP countries 1948	Other ERP countries 1949	Rest of world 1948	Rest of world 1949
Raw materials:												
Petroleum:												
Crude[b]	66,295	30,557	34,423	34,340	15,258	17,289	272	143	3,275	3,132	47,490[c]	44,416[c]
Refined	5,693	2,393	4,236	..[d]	493	1,526	302	1,097	334	636	4,564	3,370
Hides and skins[g]	268	133	94	147	48	18	66	85	82	48	87	87
Argentina	*175*	*87*	*62*	*108*	*32*	*7*	*32*	*51*	*53*	*33*	*58*	*58*
Raw cotton	350	103	191	96	44	112	80	75	107	42	119	65
Raw wool (greasy)	289	67	105	159	209	104	2	5	70	34	8	29
Argentina	*211*	*39*	*72*	*109*	*155*	*68*	*2*	*2*	*54*	*23*	–	*18*
Non-ferrous metals:												
Copper[f]	432	207	129	139	290	262	35	19	69	39	38	16
Tin[g]	38	17	16	18	20	20	17	14	–	–	–	–
Nitrates	1,691[h]	857	570	904	643	613	46	46	202	83	800	685
Linseed oil[i]	88	..	..	85	–	–	41	70	16	18	41	32
Argentina	*53*	*4*	*65*	*80*	–	–	*41*	*55*	*11*	*9*	*1*	*5*
Foodstuffs:												
Sugar	6,982	2,659	3,034	2,846	2,796	2,871	1,074	1,121	1,646	682	1,466	1,019
Coffee	1,632	772	1,075	585	1,219	1,260	60	102	203	336	150	149
Meat[j]	612	295	342	331	48	24	343	377	119	120	73	72
Argentina	*508*	*225*	*275*	*234*	*38*	*20*	*317*	*327*	*90*	*92*	*63*	*61*
Wheat[k]	2,149	1,089	748	1,632	–	–	107	–	1,196	475	846	1,362
Maize[k]	2,521	497	584	652	–	–	1,163	424	1,137	633	279	24
Cocoa	138	73	99	97	105	133	3	4	14	20	16	15
Bananas[l]	58	27	27	26	58	54	..	..	..	..	..	..

Source: United Nations Department of Economic Affairs; based on national statistics and special commodity reviews.

[a] Of principal suppliers only.
[b] Conversion rate: 1 metric ton of refined petroleum = 1.11 metric tons of crude petroleum.
[c] Netherlands Antilles accounted for 38,714,000 tons in 1948 and 36,279,000 tons in 1949.
[d] Venezuelan exports increased from 2,034,000 metric tons in the first half of 1949 to 4,363,000 metric tons in the first half of 1950.
[e] Exports of Argentina, Brazil and Uruguay.
[f] Chile only.
[g] Bolivia only.
[h] Annual rate based on eleven months.
[i] Exports of Argentina, Mexico and Uruguay; total excluding Mexican exports for which data are not available for 1950.
[j] Exports of Argentina, Uruguay and Brazil, except for exports to United States and rest of world which are exclusive of Uruguay's exports.
[k] Argentina only.
[l] To United States only, in millions of bunches.

Table X. Transactions of International Monetary Fund,[a] 1947 to 1950 (Nine months)

(In millions of United States dollars)

Country	*1947*	*1948*	*1949*	*1950*[b]
Total sales	467.7	214.2	101.5	–
Total repurchases by member countries	–	–	—3.5	—29.4
Australia	–	–	20.0	–
Belgium	11.0	22.0	—0.9	—20.6
Brazil	–	–	37.5	–
Chile	8.8	–	–	–
Costa Rica	–	1.3	—2.1	–
Czechoslovakia	–	6.0	–	–
Denmark	3.4	6.8	–	–
Egypt	–	–	3.0	—8.5[c]
Ethiopia	–	0.3	0.3	—0.3
France	125.0	–	–	–
India	–	68.3	31.7	–
Mexico	22.5	–	–	–
Netherlands	52.0[d]	23.3[e]	–	–
Nicaragua	–	0.5	—0.5	–
Norway	–	15.7[f]	–	–
Turkey	5.0	–	–	–
Union of South Africa	–	10.0	–	–
United Kingdom	240.0	60.0	–	–
Yugoslavia	–	–	9.0	–

Source: International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

[a] All Fund sales represent United States dollars unless otherwise stated; all repurchases (—) made with gold or United States dollars.

[b] Nine months ending 30 September.

[c] Since part of Egypt's initial subscription paid in gold was based on 10 per cent of its official holdings of gold and United States dollars, and was less than 25 per cent of its quota, it was required to repurchase Egyptian pounds held by the Fund in excess of 75 per cent of its quota when its monetary reserves improved in the third quarter of 1950.

[d] Including sale of $6.0 million in pounds sterling.

[e] Including sale of $6.8 million in Belgian francs.

[f] Including sale of $4.6 million in Belgian francs.

Table XI. Lending Operations of International Bank for Reconstruction and Development,[a] 1947 to 1950 (Nine months)

(In millions of United States dollars)

Country	Total		1947		1948		1949		1950[b]	
	Authorizations	Disbursements	Authorizations	Disbursements	Authorizations	Disbursements	Authorizations	Disbursements	Authorizations	Disbursements
Total	955.2	627.0	492.8	300.2	32.0	198.9	201.7	67.9	228.7	60.0
Europe	567.5	528.1	492.8	300.2	16.0	198.9	42.3	17.3	16.4	11.7
Belgium	16.0	10.8	–	–	–	–	16.0[c]	7.4	–	3.4
Denmark	40.0	40.0	40.0	1.3	–	31.5	–	7.2	–	–
Finland	14.8	4.2	–	–	–	–	14.8	0.2	–	4.0
France	250.0	250.0	250.0	227.0	–	23.0	–	–	–	–
Luxembourg[d]	11.8	11.8	11.8	4.9	–	4.4	–	2.5	–	–
Netherlands	215.8	208.7	191.0	67.0	16.0[e]	140.0	8.8[f]	–	–	1.7
Turkey	16.4	–	–	–	–	–	–	–	16.4	–
Yugoslavia	2.7	2.6	–	–	–	–	2.7	–	–	2.6
Other countries	387.7	98.9	–	–	16.0	–	159.4	50.6	212.3	48.3
Australia	100.0	–	–	–	–	–	–	–	100.0	–
Brazil	90.0	40.9	–	–	–	–	75.0	25.0	15.0	15.9
Chile	16.0	5.7	–	–	16.0	–	–	4.0	–	1.7
Colombia	5.0	3.8	–	–	–	–	5.0	–	–	3.8
El Salvador	12.5	–	–	–	–	–	12.5	–	–	–
Ethiopia	7.0	–	–	–	–	–	–	–	7.0	–
India	61.3	33.8	–	–	–	–	42.8	14.7	18.5	19.1
Iraq	12.8	–	–	–	–	–	–	–	12.8	–
Mexico	50.1	14.7	–	–	–	–	24.1	6.9	26.0[g]	7.8
Uruguay	33.0	–	–	–	–	–	–	–	33.0	–

Source: International Bank for Reconstruction and Development, *Fifth Annual Report, 1949-50* (Washington, D.C.); and *Quarterly Financial Statement of 30 September 1950* (Washington, D.C.).

[a] Authorizations, excluding cancellations of $17.6 million; figures for disbursements do not take account of repayments.

[b] Nine months ending 30 September 1950.

[c] The Bank under its guarantee has sold to private United States investors $16 million in Belgian bonds received as security for this loan.

[d] In third quarter of 1950 the Bank sold, without its guarantee, $448,000 Grand Duchy of Luxembourg bonds from its portfolio.

[e] Of this amount $12 million consisted of a loan to a group of Netherlands shipping companies. The Bank under its guarantee later sold to private United States investors the $12 million in Netherlands Government notes deposited as collateral for this loan.

[f] The Bank sold, without its guarantee, the equivalent of about $617,000 in bonds of the Finance Corporation for National Reconstruction (Herstelbank) of the Netherlands.

[g] Interim loan of January 1949 for $10 million was refunded and disbursements charged to this loan.

Table XII. Aid Received and Extended Under the European Recovery Program, by Country, 3 April 1948 to 30 June 1950

(In millions of United States dollars)

Country	Aid received from United States: Grants: Direct	Grants: Conditional upon intra-European aid[a]	Grants: Total grants	Credits received	Total grants and credits	Aid under intra-European payments plan[a]: Received from other participants	Extended to other participants[b]	Net aid received (+) or provided (-)
Total	5,579	1,171	6,750	988	7,738	1,309	1,309	+7,738
Austria	374	4	378	–	378	152	4	+526
Belgium-Luxembourg	3	357	360	51	411	9	438	—18
Denmark	134	6	141	31	172	32	6	+197
France	1,362	55	1,417	174	1,592	344	55	+1,881
Germany, western	573	204	777	–	777	120	204	+693
Greece	251	–	251	–	251	180	–	+431
Iceland	4	4	8	2	10	–	4	+7
Ireland	3	–	3	96	99	–	–	+99
Italy	593	78	671	67	738	1	78	+661
Netherlands (including Indonesia)	529	25	555	147	701	179	25	+855
Norway	94	10	104	35	139	131	10	+260
Portugal	c	1	1	4	5	14	7	+12
Sweden	–	44	44	20	65	8	82	—9
Trieste	21	–	21	–	21	1	–	+22
Turkey	c	19	19	35	54	63	33	+85
United Kingdom	1,578	364	1,942	325	2,267	75	364	+1,978
Unallocated	58	–	58	–	58	–	–	+58

Source: United States Department of Commerce, *Survey of Current Business,* November 1950. Data exclude shipments under Mutual Defense Assistance Program ($71 million in the year ending 30 June 1950) and guarantees extended by the Economic Cooperation Administration to new private United States investments in participating countries ($22 million in the period April 1948 to June 1950).

[a] Including $3.5 million extended by Iceland to Germany and $869,000 extended by Italy to Trieste outside the intra-European payments plan.

[b] Including the following amounts in excess of conditional aid received: Belgium-Luxembourg, $81 million; Portugal, $6 million; Sweden, $37 million; Turkey, $14 million; total, $138 million.

[c] Under $500,000.

Table XIII. Operations of Export-Import Bank, 1946 to 1950 (Eight months)

(In millions of United States dollars)

Year	*New loans authorized*	*Disbursements*	*Repayment of principal*	*Disbursements less repayment of principal*
1946	1,211	1,037	40	997
1947	614	825	96	729
1948	138	429	261	168
1949	241	185	144	41
1950[a]	505	138	99	39

Source: Export-Import Bank of Washington, *Tenth Semiannual Report to Congress,* for January to June 1950, and supplementary data.

[a] Eight months.

SOURCES

The following sources were employed in compiling the "Chronology"; as the list indicates, the information has not always been obtained from international or inter-governmental organizations. The accounts of economic events contained in the pages which follow are summaries of the principal facts as given in these sources.

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International Bank for Reconstruction and Development, annual reports (Washington, D.C.)

International Monetary Fund, annual reports and press releases (Washington, D.C.)

Keesing's Publications, Ltd., *Keesing's Contemporary Archives* (Bristol)

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ABBREVIATIONS

Bank	International Bank for Reconstruction and Development
ECA	Economic Cooperation Administration
ECAFE	United Nations Economic Commission for Asia and the Far East
ECE	United Nations Economic Commission for Europe
ECLA	United Nations Economic Commission for Latin America
EPU	European Payments Union
ERP	European Recovery Program
Export-Import Bank	Export-Import Bank of Washington
FAO	Food and Agriculture Organization of the United Nations
Fund	International Monetary Fund
GATT	General Agreement on Tariffs and Trade
ILO	International Labour Organisation
IRO	International Refugee Organization
OEEC	Organisation for European Economic Co-operation
SCAP	Supreme Commander for the Allied Powers
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations International Children's Emergency Fund
UNRRA	United Nations Relief and Rehabilitation Administration
UNSCCUR	United Nations Scientific Conference on the Conservation and Utilization of Resources
WHO	World Health Organization

CHRONOLOGY

OF

MAJOR ECONOMIC EVENTS

CHRONOLOGY OF MAJOR ECONOMIC EVENTS

January 1949 to December 1950

JANUARY 1949

1 *Poland.* Rationing abolished; prices of many necessities reduced.

7 *Hungary-Israel.* Trade agreement signed for £2 million; in return for Israeli scrap iron and other goods, Hungary to export finished articles and foodstuffs.

14 *Poland-UK.* Five-year trade and finance agreement signed for total of £260 million; Poland to exchange agricultural produce and timber for raw materials, including wool, rubber and crude oil, as well as manufactured goods and capital equipment; release of £500,000 in pre-war Polish assets to be followed by discussion of settlement concerning UK property nationalized by Poland (amounting to about £500,000 by end of 1950 and, from 1951 to 1953, to about £4.7 million in Polish exports).

15 *Poland-USSR.* Supplemental one-year trade agreement announced for exchange of 1,430 million roubles of goods; USSR to ship cotton, iron ore, tractors and petroleum products and receive Polish coal, rolling-stock and textiles.

18 *Bulgaria-USSR.* One-year commodity agreement signed providing for 20 per cent increase over 1948.

20 *Canada-UK.* Agreement reached on terms of one-year wheat contract, effective 1 August.

Spain. Peseta devalued to 25 from 16.4 to US dollar for tourists and Spaniards repatriating capital, and to 16.4 from 10.95 to US dollar for foreign investment capital.

US. Inaugural address of President calling for "bold new program" for making benefits of scientific advances and industrial progress available for improvement and growth of under-developed areas; programme to operate through United Nations and specialized agencies wherever practicable.

21 *Canada-UK.* Agreement announced by Canada to release remainder, $235 million, of $1,250 million UK loan, blocked since April 1948: drawings to resume immediately at $10 million rate monthly, subject to review, to finance Canadian exports to UK.

January 1949 (*continued*)

France. Wages and prices stabilized by Government as on 31 December; bread rationing ended, effective 1 February.

France-Italy. Agreement concluded to form customs union within year and co-ordinate industries within six years.

24 *Romania-USSR.* Trade agreement signed; 1949 exchange to amount to 465 million roubles (2.5 times that of 1948); USSR to export industrial and capital equipment, motor vehicles, metals, agricultural machinery, iron ore, coke and cotton and to render technical assistance in exchange for Romanian oil, timber, locomotives, barges, chemicals and meat products.

25 *Belgium and Luxembourg-UK.* Trade agreement announced; £20 million for first half of 1949; limited resumption of UK tourist trade as on 1 May.

Council for Mutual Economic Assistance formed by Bulgaria, Czechoslovakia, Hungary, Poland, Romania and USSR. (Albania joined 22 February.)

Finland-UK. Agreement concluded on increased exchange in 1949; 1948 trade announced as considerably greater than 1947.

27 *ECA.* Completion announced by ECA of three-way trade agreement by Austria, Hungary and US under ECA auspices.

FEBRUARY 1949

3 *Ceylon-UK.* Agreement reached on balances for 1949, sterling releases and proposed dollar expenditure.

Italy-Yugoslavia. Agreement concluded on rectification of frontier, frontier traffic and free exchange of goods to value of £2 million between border provinces.

5 *Italy-UK.* Trade agreement for 1949 announced, to increase trade in both directions.

February 1949 (*continued*)

7 *Finland-Germany, UK and US zones.* Agreement concluded for delivery of machinery, electrical equipment and textiles in exchange for pulp, newsprint and chemicals.

Germany, UK and US zones-Greece. Agreement concluded for £3.5 million trade; UK and US zones to export chemicals, coal, textiles and manufactured goods for iron ore, magnesite and dried fruit.

10 *Belgium-Portugal.* Trade agreement signed for £12.6 million.

Czechoslovakia-USSR. Supplemental trade agreement announced to total value of £10 million; USSR to exchange raw materials, including non-ferrous metals, iron ore and buna, for manufactured goods.

FAO. Allocations under International Emergency Food Committee discontinued for fats and oils; rice, wheat and cocoa to remain controlled.

11 *India-USSR.* Trade agreement for 1949 signed; USSR to export wheat in exchange for Indian jute, tea and castor oil.

13 *Canada.* Development programme of $90 million announced by British Columbia for railway and highway construction, hydro-electric expansion and irrigation.

14 *US.* Lend-lease reported by President for period 11 March 1941 to 31 March 1948, totalling $50,205 million, of which major items were aircraft and supplies, $8,763 million, ships $7,519 million.

15 *Germany, UK and US zones-Italy.* Agreement concluded for purchase of $4.5 million of fruit and vegetables and $6 million of jute.

16 *Germany, French, UK, and US zones.* Unified customs administration agreed upon.

Netherlands-Poland. One-year trade agreement concluded, to value of $22 million.

17 *Germany, UK and US zones-Norway.* One-year agreement concluded, increasing trade; Germany to import $1.7 million of industrial oil, fish products and copper concentrates in exchange for $2.9 million of iron, steel products and chemicals.

26 *Netherlands-Norway.* Trade agreement of 1946 renewed to end of 1949; Norway to export 25 million kroner of fish, fish products,

February 1949 (*continued*)

minerals and special steel in exchange for 45 million kroner of Netherlands agricultural products, chemicals, textiles, lubricants and grease.

27 *US.* Bill signed authorizing extension of export control law to 30 June 1951.

28 *France-Germany, UK and US zones.* Trade agreement concluded; France to export $7.7 million in agricultural products, in exchange for German copper, sulphate, agricultural tools and tractors.

USSR. Retail price reductions of from 10 to 30 per cent on consumer goods decreed, effective 1 March.

MARCH 1949

1 *Belgium and Luxembourg-Portugal.* One-year payments agreement concluded, fixing currency rates and mutual credits.

Czechoslovakia-Yugoslavia. Trade agreement concluded for exchange of Yugoslav foodstuffs and raw materials for Czechoslovak manufactured goods.

Netherlands-UK. One-year agreement concluded, increasing trade to total value of £120 million; Netherlands to export manufactured goods, foodstuffs, livestock and £8 million in Indonesian raw materials; UK to export coal, tin plate, yarns and £13 million in manufactured goods to Indonesia.

2 *Romania.* Distribution of land of large estates announced; holdings limited to 50 hectares.

4 *Czechoslovakia-Germany, USSR zone.* Protocol to trade agreement of 21 July 1948 signed, increasing volume of trade by $25 million.

8 *Switzerland-UK.* Trade and payments agreement concluded, extending 1946 agreement in amended form; 1949 trade to balance at 1,500 million Swiss francs, against 1,400 million in 1948.

9 *Germany, French, UK and US zones-UK.* Trade agreement concluded for first half of 1949, increasing exports to UK to £22 million, against £26 million for whole of 1948; UK to export £30 million, against £21 million for whole of 1948.

10 *Israel.* Four-year plan announced to double present population of 900,000 and start 6,500 new settlements at cost of $100 million.

March 1949 (*continued*)

12 *Albania-Czechoslovakia.* One-year trade agreement concluded for exchange of Albanian raw materials for Czechoslovak machinery and consumer goods.

Greece-Norway. Trade agreement to 31 December 1949 concluded; Norway to grant $2 million credit towards Greek purchase of $2.5 million of fish and oils, paper pulp, crude iron and chemicals, in exchange for tobacco, raisins and ores.

13 *Benelux.* Agreement announced by Prime Ministers of Belgium, Netherlands and Luxembourg to enter into provisional economic union on 1 July 1949 and full economic union a year later; ministerial committee to be established to supervise co-ordination of external trade and monetary policy.

ECE. Fourteen-nation agreement on plans for modern network of highways announced.

18 *France-UK.* Private UK bank credits of £10 million to French firms for purchase of British Commonwealth wool announced, available to 30 June 1950, repayable from export proceeds of French manufactured woollen goods.

United Nations Economic and Social Council. Eighth session held from 7 February at Lake Success.

20 *Germany.* French, UK and US authorities announced discontinuation of east mark as legal tender in western sectors of Berlin.

North Korea-USSR. Ten-year economic pact announced.

23 *International Wheat Conference.* International Wheat Agreement concluded in Washington, signed by 5 exporting countries and 36 importing countries, subject to ratification; agreement provides basic maximum and minimum wheat prices for guaranteed quantities for each of four years of agreement, commencing with 1949/50 season.

24 *Germany, western zones-Yugoslavia.* Trade agreement concluded for exchange of German machinery, chemicals, metal goods, coke and electrical equipment for Yugoslav agricultural products, timber and raw materials.

25 *France-Italy.* Protocol signed, providing first steps for customs union; agreement reached on financial and commercial problems and on Italian workers' wages in France.

29 *Germany, USSR zone-Poland.* One-year trade agreement concluded for exchange of $152 million of goods.

March 1949 (*continued*)

30 *Czechoslovakia-Norway.* One-year trade agreement to 28 February 1950 concluded; Norway to export 15 million Norwegian kroner of fish, acids, minerals, crude iron and machinery in exchange for 645 million Czechoslovak koruny of metals and machinery.

UNRRA. Formal disbandment in Washington of *UNRRA,* established 9 November 1943.

31 *Egypt-UK.* Financial agreement concluded; UK to release £12 million from blocked account immediately and £18 million as needed; UK to sell, against sterling, £5 million in US dollars for hard currency purchases; UK to export to Egypt at least £47 million in goods during the year.

APRIL 1949

1 *Argentina-UK.* Andes agreement suspended by Argentina, pending negotiations for higher meat prices.

2 *Norway-Yugoslavia.* Trade and payments agreement of 30 August 1946 renewed to 30 August 1950; Norwegian cod liver oil, margarine and industrial products to be exchanged for Yugoslav minerals, wood products and foodstuffs.

Sweden-USSR. Trade protocol for 1949 signed; Sweden to deliver ball bearings and high-grade steel in exchange for fertilizers, asbestos and lubricating oils.

4 *North Atlantic treaty.* Mutual defence treaty signed, *ad referendum,* by foreign ministers of Belgium, Canada, Denmark, France, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, UK and US.

5 *IRO.* Expenditure of $9 million approved for financing immigration to Israel.

8 *Bulgaria-Czechoslovakia.* One-year agreement concluded, increasing trade by 30 per cent over 1948.

Germany, western. Agreement concluded by France, UK and US: to merge occupation zones; to replace military with civilian control upon establishment of west German parliament with specified powers; to retain 158 plants originally scheduled for dismantling under October 1947 agreement; to maintain total annual steel capacity at 11.1 million tons; to permit resumption of wide range of manufactures, except certain military and strategic items.

April 1949 (*continued*)

12 *Albania-USSR.* Agreement concluded for 1949 credit deliveries of equipment and material to Albania and protocol on mutual deliveries.

13 *Iceland-UK.* Agreement concluded on fish landings by Icelandic trawlers in UK, 1 April to 31 August 1949; also arrangement for additional purchase by UK of substantial quantities of frozen fish and fish products.

14 *Greece-Italy.* One-year trade agreement concluded; Italy to export $13.5 million of engineering and industrial products, textiles, chemicals and foodstuffs in return for $6.5 million of Greek tobacco, raw hides and minerals.

Portugal-UK. Payments agreement renewed for one year.

15 *Italy-Yugoslavia.* Agreement concluded granting Italy fishing rights in Yugoslav waters in return for annual payment of 750 million lire.

16 *Italy.* Plan for distribution of land and purchase of land by small holders announced; cost to Government to include £44 million for purchase of land and £176 million for development.

19 *Japan.* Japanese war losses announced by Economic Stabilization Board in Tokyo as $15,000 million.

22 *Germany, western zones-Switzerland.* Trade agreements terminated by Switzerland effective 30 April, pending settlement of German debts owed Switzerland.

23 *India-Pakistan.* Agreement on banking signed.

26 *Belgium and Luxembourg-Bolivia.* One-year payments agreement concluded.

27 *Australia-UK.* Development scheme for increasing Australian meat production agreed upon informally; UK guarantee to buy all exportable surpluses for 15 years; plan to cost Australia £A40 million.

Czechoslovakia-Hungary. Trade agreement concluded.

Export-Import Bank. Credit of $4 million for Liberia authorized for iron ore production.

28 *Germany, western.* Ruhr authority formally set up under agreement signed by Belgium,

April 1949 (*continued*)

France, Luxembourg, Netherlands, UK and US for allocation of coke, coal and steel produced in Ruhr and for protection against revival of war industries.

India. Decision to remain within British Commonwealth of Nations announced; India to retain all membership privileges, including preferential British tariff rates.

29 *Sweden-UK.* Payments agreement for 1949 concluded; each country to waive claim for repayment in gold should trade either way exceed £8 million.

MAY 1949

5 *Council of Europe.* Statute of Council and establishment of preparatory commission to make technical arrangements for first meeting agreed upon.

10 *USSR.* Fourth rehabilitation and development loan of 20,000 million roubles, inaugurated 3 May, oversubscribed by 3,800 million roubles.

12 *Czechoslovakia-Netherlands.* Trade agreement to value of 100 million guilders concluded.

Germany. USSR rail and highway restrictions against west Berlin ended, together with counter-restrictions against shipments of supplies from west Germany to USSR zone.

16 *Syria.* Agreement with US-owned Trans-Arabian Pipeline Company for construction of Syrian link of 30-inch pipeline from Persian Gulf to Mediterranean approved by Cabinet.

18 *Argentina-Bulgaria.* One-year $14 million trade agreement signed.

United Nations General Assembly. Second part of third session, from 5 April, ended.

23 *Germany, western.* Constitution of Federal Republic of Germany became effective.

26 *Argentina.* New import restrictions issued; 50 per cent cut from average 1947-48 imports from sterling, Belgian franc and Netherlands guilder areas, and from Brazil, Italy, Poland, Romania, Sweden, Switzerland and Yugoslavia; 25 per cent cut from 1947-48 level of imports from US.

Brazil-UK. Purchase of two remaining UK-owned railways in Brazil for £14 million, May 1949 (*continued*)

payable from blocked sterling balances, agreed upon.

26 *ECE.* Fourth session, held in Geneva from 9 May, closed.

27 *Canada-Netherlands.* Settlement of war-time debts agreed upon.

31 *Central African Transport Conference.* Agreement concluded by Belgium, France, Portugal, UK and Union of South Africa not to alter port, transport or tariff arrangements without prior consultation with one another.

JUNE 1949

1 *France-Spain.* Trade agreement concluded for exchange of goods to value of 13,000 million francs each way.

France-Switzerland. One-year trade agreement concluded.

8 *Germany, USSR zone-Poland.* Agreement concluded for delivery of $30 million of machinery and equipment.

11 *Czechoslovakia.* Trade relations with Yugoslavia severed by Czechoslovakia.

13 *Belgium-Germany, western.* One-year trade agreement concluded, effective 1 July, for exchange of £126 million of goods in each direction.

Nigeria-UK. Three-year contract signed for supply of oil and oil-seeds to UK, effective 1 January 1950.

US. International Wheat Agreement ratified by US Senate.

15 *Italy-Poland.* Three-year trade and clearing agreement concluded, providing for exchange of £12.5 million of goods each way in first year.

17 *Mexico.* New par value of peso of 8.65 to US dollar agreed to by Fund.

19 *Hungary-Yugoslavia.* Trade agreement of 1947 terminated by Hungary.

22 *Sweden-UK.* Agreement concluded increasing import quotas for UK goods by £5 million.

24 *India-Pakistan.* One-year trade agreement concluded, providing for exchange of Pakistan jute, cotton, hides and salt for coal, iron and steel.

June 1949 (*continued*)

27 *Argentina-UK.* Five-year trade agreement concluded, providing for exchange of goods totalling £125 million each way in first year, beginning 1 July; Argentina to supply meat, foodstuffs and raw materials in exchange for coal, iron and steel, machinery, manufactured goods and oil.

30 *Germany, USSR zone-Netherlands.* Agreement concluded for exchange of goods totalling 5.3 million guilders.

JULY 1949

1 *Egypt-Poland.* Exchange of $40 million a year agreed upon; Polish coal, chemicals, textiles and agricultural products to be exchanged for Egyptian cotton.

Germany, western-Poland. One-year trade agreement to value of $70 million concluded.

Germany, western-UK. One-year trade agreement for exchange of $500 million concluded; Germany to export approximately $218 million and import $291 million from UK, as well as $27 million from British colonies and $40 million from other members of sterling area; two-year payments agreement and increase in credit margin from £1.5 million to £7.5 million.

International Wheat Agreement. Entered into force.

2 *ILO.* Thirty-second conference, from 7 June, ended.

WHO. Second assembly, from 13 June, ended.

3 *Yugoslavia.* Economy of Yugoslav occupation area of Trieste incorporated into Yugoslav economy.

4 *Czechoslovakia-Finland-Poland-USSR.* Interlocking trilateral one-year trade agreements to total value of $56.4 million concluded; principal commodities, Czechoslovak sugar and industrial products, Finnish timber, Polish coal and USSR food.

Finland. Fourth post-war devaluation of markka, by 17.7 per cent, announced; new rate 160 to US dollar.

6 *Germany, western.* Responsibility for reorganization of coal industry granted to Germans, subject to approval of French, UK and US authorities.

Poland. Trade relations with Yugoslavia severed by Poland.

July 1949 (*continued*)

7 *ECA*. Principles of intra-European payments system for 1949-50, unanimously approved by Council of OEEC on 2 July, accepted by the Administrator.

France-Ireland. Trade agreement increasing exchange of goods signed.

8 *USSR-UK*. One-year agreement concluded, for exchange of UK non-military machinery for 950,000 tons of USSR grains.

10 *International Wheat Council*. First session held in Washington, from 6 July; deadline for signatory nations to ratify International Wheat Agreement extended to 31 December 1949 (ratified by 23 countries by 6 July 1949).

12 *Denmark-Spain*. One-year trade agreement ending 1 July 1950 signed; total value of exchange of food, machinery and raw material items to reach about 150 million Danish kroner.

13 *Egypt-Yugoslavia*. One-year trade agreement concluded for Egyptian deliveries of 11,500 tons of cotton, salt and manganese in exchange for 100,000 tons of maize and timber.

Export-Import Bank. Credit of $250,000 to Philippine firm authorized for hardwood lumber development.

UK. Establishment of five regional corporations covering 25 territories and progress on nine projects costing £3 million reported by Colonial Development Corporation.

15 *Austria-Poland*. One-year trade agreement signed, to total value exceeding $40 million.

18 *Commonwealth Conference* (from 13 July). Reduction in dollar imports for fiscal year 1949-50 to 75 per cent of 1948 level announced by finance ministers for certain Commonwealth sterling area countries.

UK. First post-war foreign governmental loan offered on London market: £1.25 million, 4.5 per cent, Government of Iceland sterling registered stock, 1960 to 1969.

19 *Germany, USSR zone-Sweden*. One-year trade agreement to total value of 80 million Swedish kronor concluded; payment to be made in kronor.

22 *Germany, western-Ireland*. Trade agreement concluded for exchange of $4.1 million of German chemicals and machinery for $3.2 million of Irish foodstuffs.

July 1949 (*continued*)

23 *France-Germany, western*. One-year agreement concluded for French deliveries of $168 million and German deliveries of $205 million; French deficit of $37 million to be added to outstanding accounts of $25 million.

24 *Austria-India*. One-year trade agreement for exchange of £4.5 million of goods concluded.

25 *Czechoslovakia-Hungary*. Agreement concluded on final reciprocal compensation and settlement of outstanding financial questions.

France-Netherlands. Trade agreement to 30 June 1950 to value of 64,000 million francs concluded.

26 *Bank*. Loan of $15 million granted to Netherlands private bank for industrial reconstruction and modernization.

29 *Czechoslovakia-Denmark*. Supplementary trade agreement concluded.

31 *Manchuria-USSR*. One-year trade agreement concluded between Manchuria and USSR providing for imports of USSR industrial equipment and motor vehicles in exchange for foodstuffs.

AUGUST 1949

1 *Argentina-Czechoslovakia*. Trade agreement concluded to 31 December 1951 for exchange of £7.25 million each way.

Bank. Loan of $12.5 million for 15 years granted to Finland for equipment and materials for wood products, electric power and limestone fertilizer industries.

Southern Rhodesia-UK. Floating of loan not to exceed £15 million by Southern Rhodesia on London market agreed upon.

3 *Brazil-UK*. Terms of 1949 trade agreed upon; UK to supply manufactured goods, machinery and consumer goods to value of £30.7 million; Brazil to export cotton, agricultural goods and feed to value of £33.3 million.

Council of Europe. Statute of the Council of Europe entered into force.

4 *India-UK*. Financial agreement to supplement that of 15 July 1948 concluded.

5 *Ceylon-UK*. Sterling balance agreement renewed.

August 1949 (*continued*)

6 *Italy-Yugoslavia*. One-year trade agreement for exchange of goods valued at £25 million concluded; second agreement providing for Italian settlement of outstanding peace treaty debt for damage to Yugoslav property signed.

7 *Iran-Jordan*. Treaty of friendship and collaboration and agreement on commercial relations concluded.

9 *Argentina-Norway*. Five-year trade agreement signed; goods valued at 80 million kroner to be exchanged in first year.

11 *Australia*. Coal strike ended.

13 *GATT*. Annecy conference (from 8 April) on terms of accession to GATT concluded after completion of bilateral negotiations among the twenty-three contracting parties and the ten acceding parties.

15 *United Nations Economic and Social Council*. Ninth session held from 5 July at Geneva.

16 *Pakistan-UK*. Agreement on sterling balances and hard currencies reached; sterling releases for year ending 30 June 1950 to amount to £12 million, plus additional £5 million to finance refugee resettlement.

Poland-UK. Agreement reached on UK claims for outstanding debts and compensation for nationalized property.

17 *Bank*. Loan of $34 million granted to India for railway projects.

US-Yugoslavia. Yugoslavia granted permission by US Department of Commerce to buy $3 million steel mill.

18 *Bank*. Loan of $5 million granted to Colombia for purchase of agricultural machinery.

24 *Bulgaria-Romania*. Electric power networks merged as project of Council for Mutual Economic Assistance.

North Atlantic treaty. Came into force with deposit of French instrument of ratification, and signature by US President.

31 *Export-Import Bank*. Credit of $1.2 million authorized for Chile for machinery and equipment for rayon plant.

Greece-Italy. Reparations agreement concluded, providing payment by Italy of $105 million in five yearly instalments by supplying agricultural and industrial products for which Greece would provide raw materials; Italian residents of Dodecanese to sell holdings within a year; large Italian holdings in islands to become property of Greek Government.

SEPTEMBER 1949

1 *Germany, western-Switzerland*. One-year trade agreement to value of $65 million each way became effective.

UK-USSR. Contract for supply by USSR of one million tons of grain entered into force; represents one-third increase over amount provided in 1947 trade agreement.

2 *USSR-Yugoslavia*. Danubian shipping and civil air lines agreements with USSR cancelled by Yugoslavia.

5 *France*. Measure adopted providing for transferability of capital invested after 31 August by persons and firms of countries which allow equally favourable transfers to the franc zone.

6 *UNSCCUR*. Session (from 17 August), at Lake Success, concluded.

7 *Export-Import Bank*. Credit of $20 million granted to Yugoslavia: $12 million for purchase of mining equipment and materials and $8 million for US materials, equipment and services.

OEEC. Intra-European payments plan for 1949-50 signed.

8 *Australia*. Immigration since 1947 census announced at approximately 160,000.

Belgium-UK. Credit in Belgian francs equivalent to $28 million opened for UK, repayable beginning July 1956 in 50 half-yearly instalments at 2.5 per cent interest.

Germany, western-Netherlands. One-year trade agreement for $300 million concluded.

12 *Canada-UK-US*. Washington conference (from 7 September) on UK financial position agreed, *inter alia*: Canada to increase stockpiling of tin and rubber, US to review its stockpiling programme for these items and promote use of natural rubber; UK to be permitted to finance from its share of ECA funds a wider range of dollar expenditure both within and outside US including immediate use of $175 million for purchase of Canadian wheat and $30 million for payment of US bunker fuel and port charges.

16 *India*. New import restrictions announced.

17 *North Atlantic Council*. Council formed under article 9 of North Atlantic treaty by foreign ministers of twelve member nations to carry out security provisions of treaty (see entry of 4 April).

September 1949 (*continued*)

18-23 *Currency devaluation.* UK announced devaluation of pound sterling 18 September, cutting official US dollar value by 30.5 per cent to $2.80. For subsequent devaluations of other currencies see International Monetary Fund, *Annual Report,* 30 April 1950, appendix I, pages 88 and 89.

19 *International Road Conference.* Convention standardizing highway traffic regulations signed in Geneva by 20 nations.

21 *Argentina-UK.* UK advised by Argentina of rise in meat prices above those fixed by trade agreement of 27 June, effective 1 July, because of devaluation of pound sterling.

Germany, western. Military government in French, UK and US zones ended, formally superseded by Allied High Commission.

26 *Union of South Africa.* Cut of 50 per cent in imports from US for six months ending 30 June 1950 announced.

US. Reciprocal Trade Agreements Act renewed.

28 *Czechoslovakia-UK.* Trade and finance agreements concluded: Czechoslovakia to repay £8 million over 10 years for UK property in Czechoslovakia; Czechoslovakia to pay £15 million over five years for settlement of government debt; UK to import essential Czechoslovak goods to value of £4.8 million first year, £4.5 annually in four subsequent years and to export goods in easy supply to value of £1.5 million annually for five years.

USSR-Yugoslavia. Treaty of 1945 of friendship and mutual assistance with Yugoslavia terminated by USSR.

29 *Bank.* Additional $10 million loan granted to India for purchase of agricultural machinery for jungle clearance.

Germany, western-Italy. Supplementary trade agreement to value of £9.6 million concluded.

UK. Removal announced of import licensing restrictions on wide range of goods in accordance with OEEC recommendations.

30 *Burma.* Rice exports to Japan and Pakistan suspended pending clarification of latter countries' decision not to devalue their currencies.

Germany, western. UK-US airlift to Berlin officially ended.

Italy. Purchase announced of 127.2 tons of gold from US at $35 an ounce.

September 1949 (*continued*)

30 *Poland.* Treaty of 1946 of friendship and mutual assistance with Yugoslavia terminated by Poland.

OCTOBER 1949

1 *Bulgaria-Yugoslavia.* Friendship treaty of 1947 terminated by Bulgaria.

China. Central People's Government of People's Republic of China inaugurated in Peking by formal proclamation.

2 *China-USSR.* Diplomatic recognition extended by USSR to new Central People's Government of People's Republic of China.

Colombia. Liquidation of all foreign debt by payment of $236 million in 1949 announced.

4 *Czechoslovakia-Yugoslavia.* Treaty of friendship and mutual assistance of 1947 with Yugoslavia terminated by Czechoslovakia.

5 *Export-Import Bank.* Credit of $25 million authorized for Chile for US materials, equipment and services.

UNESCO. Fourth general conference (from 19 September) ended in Paris, having voted $8 million programme for 1950.

6 *US.* Foreign aid bill of $5,809 million for 15 months ending 30 June 1950 signed; aid to be divided as follows: European Recovery Program $4,702 ($1,074 for quarter ending 30 June 1949 and $3,628 for year ending 30 June 1950); occupied areas $912 million; Greece and Turkey $45 million. Loans of $150 million to ERP countries also approved.

US. Mutual Defense Assistance Act signed; $1,314 million in armaments to be sent to 12 North Atlantic pact nations (see 4 April) by 30 June 1950.

7 *Germany, eastern.* German Democratic Republic proclaimed in USSR zone.

8 *Germany.* Trade agreement between eastern and western Germany to exchange $112.8 million in goods concluded.

10 *GATT.* Protocol for terms of accession opened for signature at Lake Success. Tariff reduction agreements adopted at Annecy trade conference.

11 *Germany, western.* Permission to join OEEC granted by Allied High Commission.

14 *Germany, eastern-Hungary.* Trade pact concluded.

October 1949 (*continued*)

16 *Hungary*. Oversubscription by 50.5 per cent of government five-year development loan, set at 500 million forints, announced.

17 *Australia*. Hydro-electric project to cost £160 million begun in New South Wales.

Bank. Loan of $2.3 million granted to Finland for development of timber resources; similar loan of $2.7 million granted to Yugoslavia.

Colombia-US. Reciprocal trade agreement, signed in September 1935, terminated by mutual consent.

18 *Finland-Germany, eastern*. One-year $4 million trade pact concluded.

19 *Export-Import Bank*. Credit of $2.75 million authorized for Chile for railway and construction equipment.

25 *Ceylon*. Restriction of non-essential dollar imports announced.

26 *Export-Import Bank*. Credit of $3.8 million authorized for Brazilian shipping firm for purchase of ferries and converted LST (landing ship tank) vessels.

US. Amendments to Fair Labor Standards Act of 1938, raising minimum wage of covered workers from 40 cents to 75 cents an hour, signed.

27 *Iran-UK*. Financial agreement renewed for additional year.

UK. Interim reduction of government expenditures, by £250 million annually, approved, distributed as follows: capital expenditure cut by £140 million, more than £100 million on current account, including building £35 million, education £5 million, food and agriculture £43.6 million, health £10 million and defence £12.5 million.

28 *Export-Import Bank*. Loan of $16 million granted to Bolivia for highway construction.

30 *France-Portugal*. One-year trade agreement for exchange of 600 million escudos in goods in each direction concluded.

NOVEMBER 1949

1 *Denmark-France*. One-year trade agreement for exchange of 28,000 million francs of goods came into effect.

November 1949 (*continued*)

2 *Indonesia-Netherlands*. Netherlands-Indonesian union established, Indonesia to assume sovereignty by 31 December.

3 *UK*. Decision to increase price of export coal announced; home market not to be affected.

9 *Export-Import Bank*. Credit of $4 million authorized for Saudi Arabia for cement plant construction.

Netherlands-Yugoslavia. One-year trade agreement concluded for exchange of £10.7 million in goods each way.

11 *Denmark*. List of quota-free imports extended to total of 680 million kroner worth of goods during coming year, in accordance with OEEC policy.

Sweden. OEEC proposal accepted to lift import restrictions on half of goods imported from ERP countries.

13 *Belgium-Switzerland*. Trade restrictions on Belgian industrial products lifted by Switzerland.

14 *Czechoslovakia*. Nationalization since July of 22,000 privately owned shops announced; nationalization programme to be completed by 1951, with 75 per cent of all goods processed by nationalized shops.

Iran-UK. Release to Iraq of £1 million monthly for scarce currency transactions agreed to by UK.

16 *Australia-UK*. Grant from Australia of £8 million (US $22.4 million) received by UK, bringing total gifts during 3 years to US $100 million.

United Nations General Assembly. Resolution 304 (IV) adopted approving expanded programme of technical assistance for economic development of under-developed countries.

19 *Italy-Norway*. Trade agreement ending 30 June 1950 signed; total value of exchanges to reach 120 million Norwegian kroner; Italian exports to include chemical products, ball bearings and machine tools; Norway to export principally fish, fish oil and paper.

22 *Japan-UK*. Trade agreement for exchange of $360.4 million in goods concluded.

23 *Export-Import Bank*. Credits of $21 million to Afghanistan authorized for dam, canal and

November 1949 (*continued*)

irrigation works; $5.15 million to Venezuela for electric power equipment.

24 *Germany, western-France, UK, US.* Reduction of about 200,000 tons of equipment announced in programme of dismantling German industry for reparations; agreement concluded to re-establish consular and commercial relations and to permit German construction of freighters and small boats.

30 *OEEC.* Standardization of customs requirements for tourists by all member countries announced.

DECEMBER 1949

1 *Argentina-Japan.* Trade agreement to value of £14.2 million concluded.

3 *Inter-Allied Reparations Agency.* Shipments of dismantled German plants to USSR discontinued on grounds that USSR had not fulfilled agreement to pay 15 per cent of its shares in such plants with food for western Germany.

5 *Argentina.* Earmarking of $27 million annually for imports of agricultural machinery announced.

6 *FAO.* Fifth Conference (from 21 November) ended.

9 *Philippines.* Comprehensive foreign exchange controls instituted.

10 *United Nations General Assembly.* Fourth regular session (from 20 September) ended.

12 *UK.* Aid to Europe since 1945 announced as £1,498 million in gifts, loans, drawings on blocked sterling balances and oversea investments; aid received totalled £1,538 million.

14 *Bank.* Loan of $12.5 million granted to El Salvador for electric power development.

Export-Import Bank. Credit of $7 million authorized for Ecuador: $3.75 million for US machinery, equipment and services, $1.5 million for highway maintenance, $1.5 million for railway equipment and $0.25 million for mechanization of rice production.

Sweden-UK. One-year trade agreement to value of $395 million concluded.

December 1949 (*continued*)

15 *Germany, Federal Republic of.* ERP debts of Allied military governments, amounting to 697 million deutsche marks (about $165.9 million) and assets of 933 million deutsche marks assumed by Government.

UK. Further lifting of import restrictions in trade with other OEEC countries announced, effective 5 January 1950; relaxations to extend to 68 per cent of 1948 totals for raw materials, over 50 per cent for manufactured goods and animal feed.

17 *Czechoslovakia-Denmark.* One-year trade and payments agreements signed, retroactive to 1 December; Czechoslovakia to import over 5 million Danish kroner in fats, fish, chemical products and export over 400 million Czechoslovak korunas in paper, glass, kaolin, porcelain, laminated products and machinery.

18 *Iraq-UK.* Loan of £3 million to Iraq for railway announced.

19 *Canada-UK-US.* Standardization of military training and arms manufacture agreed upon.

23 *Berlin, western.* Revaluation of pre-occupation bank accounts, dormant since bank closing of May 1945, authorized by western commands; conversion to benefit western sectors by estimated 250 million deutsche marks.

26 *UK-Yugoslavia.* Five-year trade agreement signed for exchange of total of £110 million each way; UK to export wool, chemicals, rubber and machinery in exchange for Yugoslav timber, non-ferrous metals and maize; UK to extend £8 million credit repayable over six years; agreement reached to provide payment by Yugoslavia for nationalized UK property of £506,000 a year for eight years.

27 *Indonesia-Netherlands.* Sovereignty of Indonesia transferred from Netherlands to United States of Indonesia.

Japan. Return of import trade to private control, effective 1 January, announced by SCAP, which also released $24 million from counterpart funds to help rebuild Japanese merchant fleet.

28 *ECA.* Korea granted $6.5 million for power plant construction.

29 *Israel.* Ten-year plan launched to establish forests in 20 per cent of northern half of country.

December 1949 (*continued*)

29 *Romania.* Economic plan for 1950, calling for 37 per cent increase in industrial production and $1,000 million in industrial expansion, approved by Parliament.

30 *Czechoslovakia-Pakistan.* One-year trade agreement to value of 1,000 million korunas (US $19.6 million) announced; Czechoslovakia to export vehicles, manufactured goods and chemicals in exchange for Pakistan jute and cotton.

ERP. Elimination of restrictions by OEEC countries on imports from one another announced as covering, on basis of 1948 imports, 77 per cent of raw materials, 53 per cent of agricultural and food products and 11 per cent of finished goods.

31 *ECA.* Total procurement authorized from beginning of programme, 3 April 1948 to 31 December 1949, reported at $8,290.9 million, total paid shipments at $6,151.3 million to the following countries (in millions of US dollars): Austria 300.2, Belgium-Luxembourg 309.1, Denmark 142.8, France, 1,296.5, Germany (Federal Republic) 600.5, Greece 184, Italy 577.4, Netherlands 486.8, UK 1,821.8, other European countries 255.3, China 178.6 and Korea 71.3.

JANUARY 1950

3 *Pakistan-Poland.* Agreement concluded to supply 85,000 tons of Polish coal per month for indefinite period to Pakistan.

5 *Turkey-Yugoslavia.* Trade and payments agreement concluded; also terms of compensation agreed upon for Turkish property nationalized in Yugoslavia.

Uruguay-Yugoslavia. Trade agreement concluded.

9 *Czechoslovakia-Germany, eastern.* Trade agreement concluded, providing for 50 per cent increase over 1949 volume of $44 million.

10 *China.* Value of new yuan notes issued by People's Bank announced as 23,000 to US dollar and 64,400 to pound sterling.

17 *Argentina-Spain.* Revision of agreement announced by Argentina: promised credits to Spain not to be available for 1950-51; further wheat deliveries to require immediate counter-deliveries in coal, iron, olive oil or US dollars.

January 1950 (*continued*)

18 *British Honduras-UK.* £250,000 granted by UK for road building.

23 *Argentina-Yugoslavia.* Trade agreement to value of $44.7 million concluded.

25 *Poland-USSR.* One-year trade agreement concluded, increasing exchanges 34 per cent, by value, over 1949.

26 *Korea-US.* Supplies to value of $10 million received by Republic of Korea under military assistance programme.

UNICEF. Milk-processing plant construction programme of $4 million for eight European countries announced.

27 *North Atlantic treaty.* Bilateral agreements for mutual defence assistance to value of $1,000 million signed between US and seven other parties to North Atlantic treaty.

Union of South Africa-UK. Arrangements concluded for payment in gold for imports of essential sterling area goods to Union of South Africa.

30 *OEEC.* Four-way financial agreement signed in principle among Denmark, Norway, Sweden and UK, providing for current payments without restriction, relaxation of restrictions on tourist allowances and concessions on blocked balances and other blocked assets.

FEBRUARY 1950

1 *Czechoslovakia-Sweden.* One-year trade agreement for Swedish exports of 119 million kronor and Czechoslovak deliveries of 135 million kronor became effective, the surplus of 16 million kronor from Czechoslovakia to cover freight, commissions and indemnification claims.

Denmark-Sweden. One-year trade agreement concluded, increasing Danish imports by 250 million kronor and Swedish imports by 50 million to 200 million kronor.

OEEC. Proposals approved for removal of 60 per cent, and at a later date 75 per cent, of import restrictions between member countries, subject to formation of a European payments union.

8 *Export-Import Bank.* Credit of $100 million to Indonesia authorized for industrial material and reconstruction equipment.

February 1950 (*continued*)

8 *Saudi Arabia-Syria.* One-year trade agreement signed.

10 *Israel-UK.* Financial agreement concluded for 1950, for release of £3 million from Israel's blocked sterling balances for general payments, £4 million as working balance and a monthly maximum of £435,000 for oil imports until reopening of Haifa refinery.

Switzerland-Union of South Africa. Credit of 36 million Swiss francs announced from Swiss banking group to Union of South Africa for purchases in Switzerland.

14 *China-USSR.* Thirty-year friendship and mutual assistance treaty concluded by Central People's Government of People's Republic of China and USSR.

US. Bill authorizing economic aid to Korea of $60 million, and withdrawals from $103 million China aid fund signed by President.

15 *Czechoslovakia.* All banks, except Investment Bank, amalgamated into single government bank.

ECA. $10 million allocated to Italy to finance increased emigration to Latin America.

Arab States-Israel. Agreement negotiated through United Nations Palestine Conciliation Commission for limited release of blocked Arab accounts.

16 *Finland.* Markka devalued from 30.19 to 43.58 in relation to USSR rouble and from 160 to 231 in relation to currencies of Bulgaria, eastern Germany, Hungary, Poland, Romania and Yugoslavia.

17 *Romania-USSR.* One-year trade agreement concluded, increasing value of exchanges 30 per cent over 1949.

18 *Bulgaria-USSR.* One-year agreement concluded, increasing trade 20 per cent over 1949.

Italy-Portugal. Trade agreement concluded to value of $16 million.

22 *Czechoslovakia-USSR.* One-year trade agreement concluded.

23 *Greece-Spain.* Trade resumed; agreement on trade items to value of $2 million each way; settlement agreed upon for claims pending since Spanish civil war.

February 1950 (*continued*)

24 *US.* Assets held in US by citizens of Bulgaria, Hungary and Romania frozen because of delay in settling US claims.

28 *USSR.* Rouble revalued: 0.222168 grammes of gold, four roubles to US dollar instead of previous 5.3; price reductions of 15 to 35 per cent decreed on certain goods.

MARCH 1950

1 *Australia.* Five-year development plan of £A1,000 million announced, financed by private and public investment and oversea investment.

Export-Import Bank. Second credit of $20 million authorized for Yugoslavia, to be used for US materials, equipment and services (see 7 September 1949).

3 *France-Saar.* Agreements signed, pending German peace treaty, on autonomy of Saar in domestic affairs; on French control of Saar coal mines (for 50 years), customs and foreign relations; and on economic union.

Hungary-USSR. Trade agreement signed, increasing trade 20 per cent.

5 *US.* Nine months of strikes and shortened work weeks in coal industry ended with contract to 1 July 1952 covering wages and welfare and retirement fund.

6 *Caribbean Commission.* Agreement concluded by France, Netherlands, UK and US to raise living standards in territorial possessions by improved transportation, reduction of trade barriers, promotion of tourism and integrated hurricane-warning systems.

United Nations Economic and Social Council. Tenth session held from 7 February at Lake Success.

7 *Export-Import Bank.* Total 1949 credits announced of $241 million for economic development throughout world.

France-Italy. Agreement signed on unification of postal systems and reduction of restrictions on telecommunications, and on road and air travel.

9 *Chile.* Foreign exchange allocation for 1950 imports reduced by $71.25 million, to $273.55 million.

March 1950 (*continued*)

10 *Germany, western-France, UK and US*. Occupation costs for fiscal 1950-51 fixed at $962 million.

12 *Turkey*. Industrial development bank formed by Government and private banks to cooperate with International Bank for Reconstruction and Development in expansion of industry.

14 *Poland*. Withdrew from International Monetary Fund.

15 *Finland-UK*. One-year trade agreement concluded, increasing Finnish timber exports, raising UK exports to £38.5 million.

International Wheat Agreement. Application of western Germany for accession approved.

17 *Ireland*. Decision announced to abolish import restrictions on 60 per cent of goods from other OEEC countries.

19 *Indonesia*. Currency reform and introduction of multiple exchange rate structure announced.

20 *Czechoslovakia-Israel*. One-year trade agreement signed: Israel to purchase $9 million of manufactured goods; Czechoslovakia to purchase $3 million of citrus and chemical products.

Iceland. Krona devalued by 42.3 per cent to 6.14 US cents.

21 *Burma-Japan*. Trade agreement of $49 million concluded.

24 *Indonesia-Poland*. One-year trade agreement to value of $13 million concluded by Poland and Netherlands-Indonesia.

Spain. Loan of $20 million received from private US bank.

26 *Lebanon*. Imports from Syria banned; frontier closed.

Mexico. Investment of foreign capital in new international shipping companies authorized up to 100 per cent (previously 49 per cent).

27 *China-USSR*. Thirty-year agreement signed by Central People's Government of People's Republic of China and USSR: provides for establishment of joint companies to exploit oil and non-ferrous metal resources of Sinkiang province.

28 *ECA*. $78.5 million released to western Berlin to launch public works and combat unemployment.

March 1950 (*continued*)

30 *Israel-UK*. Final agreement reached on financial issues arising from Palestine Mandate: Israel to settle balance of claims in favour of UK by £1,118,000 in cash and by £2,598,400 funded over 15 years at one per cent interest.

APRIL 1950

1 *Denmark-Norway*. One-year trade agreement became effective, for Danish deliveries of 130 million and Norwegian deliveries of 190 million Danish kroner.

Finland-Sweden. One-year trade agreement to value of 128 million kronor became effective.

Indonesia-Netherlands. Agreement reached on terms of Netherlands loan of 200 million Dutch guilders, redeemable in 11.5 years, to cover Indonesian deficit in payments to Netherlands.

2 *Germany, western-Spain*. One-year trade agreement concluded to provide German exports of $47 million and Spanish exports of $42 million.

Union of South Africa. Government announcement that all diamond exports must be paid for in US dollars, except exports to UK.

3 *Paraguay-UK*. Three-year trade and payments agreement concluded.

4 *Japan-Sweden*. One-year trade agreement to value of $18.4 million concluded.

6 *Austria-Israel*. Trade and payments agreement concluded.

9 *Germany, western-Italy*. Supplementary trade agreement to value of $20 million concluded.

11 *Spain-Sweden*. Agreement concluded for exchange of goods to value of 30 million kronor in each direction.

Switzerland-Yugoslavia. Trade agreement concluded for exchange of goods to value of 40 million Swiss francs in each direction.

12 *Argentina-Australia*. First trade agreement, to run through June 1951, concluded to value of £1 million.

Germany, eastern-USSR. Trade agreement concluded for 35 per cent increase over 1949.

April 1950 (*continued*)

13 *Brazil-Italy*. Trade agreement concluded for exchange of goods to value of $50 million in each direction.

14 *Chile*. Import duties on food and essential raw materials reduced; restrictions on foreign investments eased.

15 *Argentina*. Offer by Government to farmers of increase in grain prices of 20 per cent or more over 1949; 25 per cent increase in wheat acreage and 50 per cent increase in corn acreage requested.

18 *Bank*. Loan to India of $18.5 million announced to help carry out $53 million electric power project.

Germany, western-Yugoslavia. One-year trade agreement concluded for Yugoslavia exports of $65.7 million, German deliveries of $61.2 million and reciprocal credit margin of $7.5 million.

19 *Export-Import Bank*. Two credits to Mexico totalling $1.25 million authorized to finance purchase of shrimp vessels by two private Mexican enterprises.

21 *Argentina-Israel*. Trade agreement signed: $10 million credit to Israel.

India-Pakistan. Trade agreement reached; settlements to be made in Indian rupees.

22 *Japan-Philippines*. Agreement concluded for exchange of $50 million in goods.

Pakistan. Agreement to continue, at UK request, for a year; 25 per cent cut in dollar expenditure.

24 *Bolivia*. Value of boliviano reduced by 29.9 per cent, from 42 to 60 bolivianos to US dollar.

Jordan. Annexation of its occupied areas in central Palestine voted by Parliament.

28 *Bank*. Loan of $26 million granted to Mexico for electric power development.

MAY 1950

1 *Sweden-Switzerland*. One-year trade agreement to value of £5 million concluded.

5 *New Zealand*. End of food rationing and reduction of food subsidies announced; estimated to save £12 million in a year.

Union of South Africa. Reserved right to sell gold at premium prices to individuals and

May 1950 (*continued*)

to governments not members of the International Monetary Fund despite contrary ruling by Fund.

7 *Czechoslovakia-France*. One-year trade agreement announced for $24.3 million in French goods and $27.7 million in Czechoslovak goods.

9 *Burma*. Two-year loan of £6 million received from Commonwealth countries as follows: from Australia £500,000; Ceylon £250,000; India £1 million; Pakistan £500,000; UK £3.75 million.

France. Schuman Plan proposed: French and west German coal and steel production to be placed under single authority within an organization open to other European countries.

Greece-Yugoslavia. Agreement announced on plan to restore normal relations.

10 *USSR*. Subscriptions closed to 20,000 million rouble lottery with oversubscription of 7,000 million roubles.

12 *Argentina-Hungary*. Supplementary trade agreement concluded, increasing exchange of goods to $74.8 million in each direction.

Bank. Loan of $10 million granted to Iraq.

Germany, western. Restrictions on construction of cargo ships and small craft further eased by High Commission.

13 *Austria-Brazil*. First trade agreement concluded for exchanges up to $8 million in each direction.

16 *Germany, eastern-USSR*. Agreement by USSR to forgo half of reparations outstanding: total of $3,171 million still to be delivered; $3,658 million previously paid out of $10,000 million claimed; remainder to be paid from current production from 1951 to 1965.

17 *Egypt*. Plan announced to lower cost of living through sale of foodstuffs in co-operatives at cost or less; initial government subsidy to be £E500,000.

Export-Import Bank. Credit of $125 million granted to Argentine banks.

18 *Brazil*. Five-year plan approved for economic and social development in 1950-54 at cost of £427.5 million.

19 *UK*. Food rationing ended with exception of tea, meat, butter, margarine and cooking fat.

May 1950 (*continued*)

24 *Export-Import Bank.* Credit of $2 million authorized to aid Brazilian firm in construction of $4.5 million cement plant.

26 *Bank.* Announcement of action by additional countries to make their currencies available for Bank's lending operations: El Salvador, Honduras, Italy, Mexico, Netherlands and Paraguay.

ECE. Allocation of coal and coke among importing countries by Coal Committee dropped to encourage competitive sales at lower prices.

27 *Poland.* Decision announced to reduce reparations from eastern Germany, extending payments over 15-year period.

WHO. Third Assembly (from 8 May) ended.

28 *Bank.* Loan of $15 million granted to Brazilian firm for hydro-electric power development.

JUNE 1950

1 *Finland-France.* One-year trade agreement to value of £14 million signed.

Hungary-Indonesia-Netherlands. One-year trade agreement renewed for exchanges of 40 million guilders in each direction.

Ireland. Railroad, trucking and canal shipping systems nationalized.

Netherlands-Spain. One-year trade agreement concluded for exchanges totalling 75 million guilders.

4 *Iran.* Loan of £6 million, interest-free, received by Government from Anglo-Iranian Oil Company.

5 *US.* Foreign economic aid authorization of $3,121.5 million signed by President, allocated as follows: $2,700 million for ERP funds in addition to $150 million carryover, $100 million for Republic of Korea, $94 million for China area, $35 million for technical assistance, of which $25 million would be new funds, $27.4 million for Arab refugees, $15 million for UNICEF.

7 *Czechoslovakia-France.* Agreement signed on compensation for nationalized property of French joint stock companies.

June 1950 (*continued*)

7 *Germany, eastern-Poland.* Agreements reached, including provision for 60 per cent trade increase, Polish credit grant and negotiation of long-term agreement for trade extension.

9 *Austria-Poland.* US approved exchange by Austria of $2.1 million of surplus US cotton for Polish coal.

13 *Finland-USSR.* Five-year trade agreement concluded to value of $320 million in addition to trade of $30 million in second half of 1950.

14 *Germany, western.* One-year trade agreements announced (in millions of US dollars in each direction): Argentina, 123; Brazil, 115; Chile, 11; Colombia, 20; Ecuador, 6; Paraguay, 5; Peru, 12; 18-month agreement with Uruguay, 17.

15 *Bank.* Loan of $12.8 million granted to Iraq to help finance Tigris River flood control system.

Germany, western. Reopened by High Commission for foreign capital investments.

16 *US.* Displaced Persons Act signed by President, extending Act of 1948 to 30 June 1951; admissions increased from 205,000 to 341,000; restrictions pertaining to origin of displaced persons and date of acquiring status as "displaced person" liberalized.

17 *China-Czechoslovakia.* Trade agreement concluded between Central People's Government of People's Republic of China and Czechoslovakia.

20 *Bulgaria-Germany, eastern.* Agreement for quintupling of 1949 trade concluded.

22 *Export-Import Bank.* Credit of $8.8 million authorized to privately owned Brazilian railway for equipment.

23 *Germany, eastern-Romania.* Financial and cultural agreements concluded.

24 *Germany, eastern-Hungary.* Trade and financial agreements concluded.

Korea. Invasion of Republic of Korea by forces from North Korea.

25 *United Nations Security Council.* Resolution adopted terming attack by North Korean

June 1950 (*continued*)

forces a breach of peace; calling for immediate cessation of hostilities and withdrawal of North Korean forces to thirty-eighth parallel; requesting United Nations Commission on Korea to send Council its recommendations and to observe withdrawal of North Korean forces; calling upon all Members to render every assistance to United Nations forces and to refrain from assisting North Korea.

26 *Germany, western-Portugal.* Agreement concluded for exchange of goods to value of $30 million in each direction.

29 *Export-Import Bank.* Credit of $2.2 million to Colombia authorized for construction of grain treatment and storage plants.

Poland-USSR. Increase in trade under ten-year agreement of 1948 provided for: 400 million rouble credit granted by USSR; trade during 1951 and 1952 to be increased by 35 per cent; USSR exports of capital goods to increase until they constitute 40 per cent of shipments to Poland.

JULY 1950

1 *Denmark-Finland.* One-year trade agreement became effective for 180 million Danish kroner of exports by Finland and for Danish deliveries worth 150 million kroner.

Finland-Indonesia-Netherlands. Three-way trade agreement concluded; excess of Indonesian deliveries to Finland to be paid for via Finnish-Netherlands clearing.

Germany, western-Italy. One-year agreement became effective increasing trade by 30 per cent to $140 million in each direction: Italian agricultural products and textiles to be exchanged for German machinery, steel and industrial articles; payments to be in German, Italian or other currency instead of US dollars as hitherto.

Hungary-Switzerland. One-year trade and payments agreement concluded for exchange of Hungarian agricultural products for Swiss machinery, cattle and textiles to value of 45 to 50 million Swiss francs in each direction; also for settlement of Swiss claims to property nationalized in Hungary.

Jordan. Re-entered sterling area, issuing new currency, the dinar, equal to one pound sterling.

United Nations. Beginning of expanded programme of technical assistance for economic

July 1950 (*continued*)

development of under-developed countries, first financial period 1 July 1950-31 December 1951.

2 *Indonesia-Japan.* Trade and financial agreement amounting to $74.4 million concluded.

3 *Argentina-Brazil.* One-year trade agreement signed, for exchange of goods totalling 2,850 million cruzeiros.

Italy-Pakistan. First trade agreement concluded, for exchange of goods to value of £27 million.

4 *Germany, western-India.* Trade agreement concluded for exchange of $26.4 million of goods in each direction.

Mexico-UK. One-year trade agreement concluded.

6 *Germany, western-Poland.* One-year trade agreement concluded for exchange of $32.6 million of goods in each direction.

Germany, western-UK. £2.4 million to be made available by UK to Bonn Government under terms of final settlement of financial questions arising from bizonal fusion.

USSR-US. Payment of $5 million made by USSR to US on post-war lend-lease obligation; war-time lend-lease balance of $11,298 million not affected.

7 *Bank.* Two loans totalling $16.4 million received by Turkey for seaport and grain storage projects.

OEEC. Scheme for European Payments Union approved by OEEC Council; financial commitments undertaken for two-year period, US to provide from $275 to $400 million from ERP funds as initial working capital.

10 *Israel-Turkey.* Trade agreement concluded, providing unrestricted exchange of goods on a clearing basis with $840,000 margin each way for excess sales.

12 *Germany, western-Ireland.* One-year trade agreement signed, providing for German imports of £1.9 million and Irish imports of £2.4 million.

13 *France-UK.* Agreement announced on utilization of France's sterling holdings in accordance with European Payments Union decisions.

July 1950 (*continued*)

13 *Germany, western.* Adoption by International Ruhr Authority of reduction by 20 per cent of differential between export and domestic coal prices.

14 *Austria-Pakistan.* £4 million trade agreement announced for exchange of Pakistan wheat, cotton and jute for Austrian textiles, pig-iron, metal goods and machinery.

16 *ECA.* Expenditure of $1 million authorized in technical assistance programme to be administered by ILO in order to facilitate emigration from over-populated countries of western Europe.

17 *Afghanistan-USSR.* Four-year trade agreement concluded.

18 *Greece-Italy.* Trade agreement renewed for one year.

20 *Argentina.* Restrictions on essential imports, in effect since 1948, relaxed.

Export-Import Bank. Loan of $25 million granted to Brazil for steel mill, and $15 million to Saudi Arabia for transportation and agricultural development.

21 *Germany, eastern-USSR.* Supplementary trade agreement signed, providing for extra USSR food deliveries.

Netherlands. Loan of 200 million guilders granted to Indonesia for general purposes; credit of 80 million guilders granted for consolidation of debt recognized by Indonesia in 1949.

26 *US.* Second-year arms aid authorization bill for $1,222 million signed: $1,000 million to nations of the North Atlantic alliance; $131.5 million to Greece, Iran and Turkey; $75 million for general area of China; $16 million for Korea and the Philippines.

29 *Finland.* Price control restored on consumer goods and services.

31 *India-Nepal.* Trade treaty concluded.

New Zealand. Import controls lifted on goods from soft currency countries to value of £NZ45 million annually.

AUGUST 1950

1 *Czechoslovakia-Indonesia and Netherlands.* One-year trade agreement concluded for exchange of goods to the value of 90 million guilders in each direction.

August 1950 (*continued*)

1 *France-Mexico.* One-year trade and payments agreement announced to value of $35 million in each direction; exchanges to be made in French francs and Mexican pesos instead of US dollars.

Spain. Foreign exchange system revised to encourage US tourism.

3 *Argentina-Switzerland.* Trade agreement concluded for exchange of Argentine goods to the amount of 115.8 million Swiss francs for Swiss goods in the amount of 120 million Swiss francs.

Export-Import Bank. $20.8 million loan granted to Peru for zinc refinery.

Philippines. Quota of profits foreign countries may send out of Philippines trebled, as incentive to foreign capital investment.

4 *Mexico.* Final repayment of $15 million to US on 1949 loan of $50 million for stabilizing peso.

Pakistan-UK. Financial agreement concluded for release of £15 million from Pakistan's blocked balances during year ending 30 June 1951.

5 *US.* Loan of $120 million granted to Cuba.

9 *Chile-Spain.* Three-year trade and payments agreement signed.

10 *Export-Import Bank.* Loan of $15 million granted to Yugoslavia.

12 *Bolivia.* Control assumed by Government of all exports to increase foreign exchange holdings and essential imports.

17 *Export-Import Bank.* Loan of $1.8 million granted to Chile for road-building equipment.

France. Loans totalling $225 million from US banks announced.

21 *Brazil-Germany, western.* Trade agreement concluded for exchange of goods to the value of $115 million in each direction.

22 *Bank.* Loan of $100 million granted to Australia.

Sweden-Yugoslavia. Trade agreement to 30 June 1951 concluded for Yugoslav deliveries of 45 million kronor of corn, timber, metals and Swedish deliveries of 22 million kronor of synthetic wool, iron and steel and industrial equipment.

August 1950 (*continued*)

24 *Export-Import Bank*. Loan of $500,000 granted to Colombia for freight and passenger vessel.

25 *Bank*. Loan of $33 million granted to Uruguay for expansion of power and telephone facilities.

29 *Argentina*. Foreign exchange regulations became effective, devaluing peso to 14 to pound sterling for basic exports, 21 to pound sterling for preferential exports and 14 to pound sterling for preferential imports.

France. Import restrictions lifted on 60 per cent of imports in accordance with OEEC plan.

31 *Export-Import Bank*. Loan of $150 million granted to Mexico for development of agriculture, transport, communications and electric power.

SEPTEMBER 1950

1 *Finland-Switzerland*. One-year trade agreement concluded for Finnish exports to value of 11 million Swiss francs, Swiss exports of 9.6 million francs, difference to be applied against Finnish deficit.

France-Switzerland. One-year trade and financial agreements, raising allocation of Swiss francs for French tourists, became effective.

France-UK. Total outstanding French war debts to UK fixed at £15.25 million; £9.25 million paid on 1 September 1950, remainder to be paid a year later.

2 *Germany*. One-year agreement concluded for exchange by eastern Germany of 3 million tons of soft coal for western German hard coal, phosphates and other goods.

Japan-Philippines. One-year trade agreement from 30 June announced, increasing exchanges by 34 per cent to $67 million.

4 *Mexico-Switzerland*. Two-year trade agreement concluded for balanced trade, providing for application of most-favoured-nation clause.

12 *Iran*. Loan of £8 million sterling, without interest, received by Government from Anglo-Iranian Oil Company against future royalties. (Similar loan of £6 million made 4 June.)

USSR. Plans announced for irrigation of 20 million acres of desert and construction of hydro-electric project to produce 10,000 million kilowatts.

September 1950 (*continued*)

13 *Bank*. Loans totalling $7 million granted to Ethiopia.

14 *Bank-Fund*. Fifth annual meeting from 6 September.

ECA. Nine-month loan of $8 to $10 million to Burma announced.

18 *North Atlantic treaty*. Decision by Foreign Ministers' Council (from 15 September) to permit increased production by western Germany of steel and ships.

19 *OEEC*. Agreement signed establishing European Payments Union, effective at once, providing for elimination of restrictions on 60 per cent of imports of OEEC countries from one another within fifteen days and for policy of non-discrimination by all members with respect to one another.

20 *Germany, western-Switzerland*. Agreement announced liberalizing existing trade and payments agreement.

Panama. First private US bank loan made to any Latin American country in decade obtained by Government of Panama: $10.5 million, to consolidate external debt.

21 *Turkey*. Plans announced for $47 million hydro-electric project to increase output by 50 per cent, ECA to contribute $8 million.

Yugoslavia. Eleventh national loan closed, raising 5,410 million dinars in eighteen days.

23 *US*. Bill increasing taxes by $4,700 million signed by President, with estimated $2,700 million to be raised by individual income tax increase effective 1 October and $1,500 million by increased corporation taxes.

27 *Hungary*. Food ration cards reintroduced for workers because of food shortage.

Yugoslavia. Bread ration reduced by 10 per cent from 1 October.

30 *Canada*. Government freed exchange rate from direct control; all import controls on consumer goods from US to be lifted 1 January 1951.

OCTOBER 1950

1 *Ceylon-Germany, western*. One-year trade agreement concluded for German exports of $14 million and deliveries of $22 million by Ceylon.

October 1950 (*continued*)

1 *Germany, eastern.* Became member of Council for Mutual Economic Assistance, comprising Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania and USSR.

Czechoslovakia-Norway. One-year agreement concluded for Czechoslovak exports of sugar, metals and metal goods and Norwegian deliveries of fish, gold ore and pyrites.

Germany, western-Romania. Fourteen-month trade agreement announced for exchange of German machinery for Romanian food.

Germany, western-UK. Agreement signed increasing trade from former annual $280 million to $500 million in each direction; liberalization of 60 per cent of trade in accordance with European Payments Union, valid until amendment at beginning of new EPU year January 1951.

Poland-Sweden. One-year trade agreement announced for Swedish exports of iron ore, steel goods and fish, amounting to 100 million kronor, and Polish deliveries of 245 million kronor of coal, foods and chemicals, balance to be applied to Polish debt reduction.

4 *Commonwealth Conference* (London, from 25 September). Draft constitution for Council of Technical Co-operation approved, including agreement by Australia, Canada, Ceylon, India, New Zealand, Pakistan and UK to provide technical assistance to maximum of £8 million during three years beginning 1 July 1950 to promote economic development in south and south-east Asia.

5 *Sweden-Turkey.* Trade and payments agreement extended for year ending 15 June 1951.

6 *Egypt-Ethiopia-UK.* Agreement concluded for dam construction at Lake Tana, source of Blue Nile.

Export-Import Bank. Loan of $25 million granted to Iran for equipment, materials and services.

7 *China.* Two joint companies established with USSR for exploitation of oil and non-ferrous metals in Sinkiang province in accordance with agreement of 27 March.

9 *Pakistan.* Six-year development plan announced to cost 2,600 million rupees.

10 *Fund.* Advance equivalent of 22 million pesos granted to Philippines.

Thailand-US. Agreement for technical assistance signed.

October 1950 (*continued*)

11 *China-Germany, eastern.* Agreement concluded by Central People's Government of People's Republic of China, and Germany, for exchange of Chinese raw materials for German industrial goods.

US-Yugoslavia. Agreement concluded for US purchase in 1951 of $15 to $20 million in strategic non-ferrous metals.

12 *Germany, western.* Restrictions on tonnage and speed of merchant ships built for export abolished by Allied High Commission.

Italy. Bill for expropriation and reallocation of 1.7 million acres of land passed by Senate.

UK-US. Agreement reached on first £200 million advance by US for UK £3,600 million rearmament programme.

15 *Denmark-Italy.* One-year trade agreement became effective for annual turnover of 240 million kroner and lifting of Italian restriction on butter imports.

16 *Denmark-UK.* Monetary agreement in conformity with European Payments Union, to supersede 1945 agreement, initialled.

Indonesia-US. Agreement signed for economic and technical assistance to be provided by US in fields of public health, agriculture, fisheries, industry and education.

Union of South Africa. Import controls relaxed on certain essential consumer goods.

18 *Bank.* Loan of $10 million granted to Mexican banks for relending to small enterprises; first such loan made.

Denmark-Germany, western. Trade agreement concluded for exchange of goods to value of $115 million in each direction.

19 *Bank.* Loan of $9 million granted to Turkey.

Norway-UK. Monetary agreement within provisions of European Payments Union concluded.

US. Iran allotted first technical assistance funds, totalling $500,000, under "Point Four."

22 *Spain.* System of government-controlled cheap exchange for essential imports introduced.

US. Foreign aid expenditure of $42,591 million since V-J Day announced, of which $6,052 million was for military assistance.

23 *Belgium.* Five per cent price reduction agreed to by Government to avoid wage increases.

October 1950 (*continued*)

26 *Canada-US.* Defence economy agreement signed for free exchange of raw materials, munitions and skills.

27 *Bank.* First loan in south-east Asia, totalling $25.4 million, granted to Thailand for irrigation, waterways, railway and seaport development.

OEEC. Council agreed that from 1 February 1951 liberalization of quantitative restrictions by OEEC countries against imports from one another should be increased from 60 per cent to 75 per cent of imports on private account.

28 *Poland.* Zloty revalued, existing banknotes exchanged at rate of 100 zlotys to one new, savings and bank deposits at special rate of 100 old to three new. Wages and prices adjusted at rate of 100 zlotys to three.

NOVEMBER 1950

1 *Austria-Germany, western.* Trade agreement for total volume of $72 million became effective.

Denmark-Yugoslavia. One-year trade agreement announced for exchange of goods amounting to 28 million kroner: Yugoslav deliveries to amount of 21 million kroner, Danish deliveries of 7 million kroner, Yugoslav balance to be applied against its deficit.

Finland-Norway. One-year trade agreement became effective for exchange of goods to amount of 29 million kroner in each direction.

France-Spain. One-year trade and payments agreement became effective for exchange of goods worth 13,000 million French francs in each direction.

Germany, western-Norway. One-year agreement concluded, increasing trade from $58 million to between $70 and $80 million.

Italy-Sweden. One-year trade agreement became effective.

Italy-Switzerland. Trade and payments agreement became effective.

2 *Bank.* Loan of $3.5 million granted to Colombia for construction of hydro-electric plant.

Germany, western. Latin American trade agreements of 14 June increased each way as follows: Chile to $27.5 million, Colombia to $37 million, Uruguay to $35 million; new agreement of $61.91 million each way concluded with Mexico.

November 1950 (*continued*)

Germany, western-Yugoslavia. Credit agreement concluded for exchange of $35 million in goods.

3 *Iran-USSR.* Trade agreement totalling $20 million concluded for exchange of Iranian cotton, food and hides for USSR textiles, cement and machinery.

6 *Czechoslovakia-USSR.* New five-year agreement signed expanding trade exchanges by 50 per cent.

USSR-UK. Agreement announced for UK purchases of 800,000 tons of grain; USSR to use proceeds for purchase of rubber, cocoa and other products in sterling area.

7 *Ceylon-US.* General agreement on technical assistance concluded.

Germany, eastern-Romania. One-year trade agreement announced for exchange of German machinery for Romanian consumer goods.

9 *Export-Import Bank.* Loan to Panama increased by $500,000 for hotel improvement.

10 *Nicaragua.* Foreign exchange rates for exports and imports revised with Fund concurrence.

11 *Sweden-UK.* Monetary agreement concluded, conforming with provisions of European Payments Union.

12 *Hungary-Poland.* Agreement for 1951 to 1954 trade concluded: exchange of Hungarian machinery, crude oil and industrial products for Polish coal, lumber and rolling-stock.

13 *United Nations Economic and Social Council.* Eleventh session, resumed 12 October at Lake Success; met from 30 July to 16 August at Geneva.

14 *Argentina.* New customs duties of from 3 to 60 per cent on imported goods announced.

15 *Australia.* Total of post-war immigration announced as 400,000 persons, half of whom were British.

ECA. Loan of $62.5 million to Spain via Export-Import Bank announced.

November 1950 (*continued*)

15 *UK*. Fifteen-year coal industry improvement plan to cost £635 million announced.

UK-Yugoslavia. £3 million credit granted by UK for purchases of food and consumer goods.

17 *ECA*. Loan of $250 million to Philippines announced for five-year development plan. Emergency flour shipments valued at $11.5 million to Yugoslavia from Italy and Germany announced; extra ERP allotments to be granted for replacements.

Egypt-Poland. Trade agreement signed.

21 *Iran*. Exchange rate for exports other than oil and for non-essential imports stabilized at 48.75 rials to US dollar, with Fund concurrence.

23 *Canada-Costa Rica*. One-year trade agreement announced, granting tariff reductions on many Canadian food and manufactured products.

ECA. Loan of $4 million granted Netherlands via Export-Import Bank.

25 *Chile*. $87.4 million steel plant opened ($48 million obtained through government and private US financing) increasing Chile's production capacity tenfold.

26 *Finland-Hungary*. Trade agreement for 1951 concluded for exchanges totalling $5.4 million.

27 *Iran*. Ratification of 1949 oil agreement with Anglo-Iranian Oil Company rejected by Majlis.

28 *Commonwealth Conference*. (Colombo). Six-year, £1,868 million development plan for Ceylon, India, Federation of Malaya, North Borneo, Pakistan and Singapore announced by Consultative Committee; £1,084 million of costs to be financed externally, £246 million to come from sterling balances; cultivated acreage to be increased 13 per cent, food grain production 10 per cent and electric generating power 17 per cent.

Germany, western-Hungary. Trade agreement for 1951 concluded to value of $66 million; Germany to export iron, steel and electrical equipment in exchange for Hungarian agricultural products.

28 *Japan*. Agreement with sterling area concluded (not including Burma, Hong Kong

November 1950 (*continued*)

and Pakistan) to increase exchanges for year ending 30 June 1951 to £92.6 million in each direction against total of £130 million for corresponding 1949-50 period.

29 *Belgium-Israel*. Trade agreement concluded for Belgian exports of 300 million francs.

Ireland. Bread rationing, suspended for more than a year, resumed.

DECEMBER 1950

1 *France-Italy*. One-year agreement concluded for exchange of 30,000 to 40,000 million francs in each direction; France to export steel and coal in exchange for Italian rice and sulphur.

Germany, western-Iran. One-year trade agreement became effective for exchange of goods to total of 110 million deutsche marks in each direction.

2 *Ecuador*. Sucre devalued 11 per cent in relation to US dollar, with Fund's concurrence.

Yugoslavia. Export of all staple foodstuffs banned until 1 July 1951.

4 *Germany, western*. Allied High Commission ordered halt in shipments of strategic materials to member countries of the Council for Mutual Economic Assistance.

7 *France-Portugal*. Trade agreement concluded for exchanges of goods to total of 7,000 to 8,000 million francs in each direction.

8 *US*. Exports prohibited to China, Hong Kong and Macao as well as to Portuguese and UK ports used for transhipment to China; US ships prohibited from carrying strategic goods from foreign ports to China, to member nations of Council for Mutual Economic Assistance, and to Hong Kong and Macao.

9 *Canada*. All exports to China, Hong Kong and Korea suspended.

Germany, western-UK. Payments agreement covering sterling area signed.

10 *Norway-Sweden*. Trade agreement for 1951 concluded, providing for total trade of 400 million Swedish kronor.

13 *Austria-Czechoslovakia*. One-year trade agreement concluded for exchange of $29 million in goods.

December 1950 (*continued*)

13 *ECA*. Aid suspension agreed to by UK effective 1 January 1951.

OEEC. Council approved special credit of $120 million to western Germany to help overcome its deficits with other members of European Payments Union.

UK. One-third cut in meat ration scheduled, to take effect 31 December, because of collapse of negotiations with Argentina.

14 *France-UK*. Convention for avoidance of double taxation on income and profits signed, to come into force 6 April 1951.

15 *Norway-UK*. Trade agreement concluded.

Sweden-UK. Trade agreement for 1951 concluded; Swedish exports of £65 to £70 million of timber and iron ore in exchange for £75 million of UK exports of coal (in reduced quantities) and iron and steel.

United Nations General Assembly (from 19 September). Fifth session ended.

18 *Germany, western-Greece*. One-year trade and payments agreement retroactive to 1 May concluded, for total exchanges of $60 million, of which Greece will export $45 million.

United Nations. Korean relief and rehabilitation fund of $250 million; 80 per cent subscribed by Member nations.

20 *Commonwealth Conference*. (Colombo). In implementation of Colombo plan £25 million contribution by Australia to development plan for south-east Asia announced; development aid to be distributed as follows (in millions of pounds): Ceylon, 102; India, 1,379; Pakistan, 280; Singapore, Malaya and British Borneo, 107.

Italy-Romania. Trade and payments agreement to total of 14,000 million lire became effective.

21 *Export-Import Bank*. Loan of $35 million granted to Israel for agricultural development.

US. Allotted Brazil $800,000 in technical assistance, under "Point Four".

December 1950 (*continued*)

22 *Norway-Spain*. First trade agreement since 1939 concluded for exchanges of $3.6 million in each direction.

23 *France-Indochina*. Treaty signed making Viet Nam a sovereign nation within French Union, independent in domestic and foreign trade.

25 *Italy-Yugoslavia*. Agreement reached on Italian reparations of $30 million.

26 *Czechoslovakia - Germany, western*. Trade agreement for 1951 for exchanges of $30 million concluded.

27 *US*. Allotted India $1.2 million in technical advisory aid under "Point Four".

28 *Bank*. Loan of $2.6 million granted to Colombia for construction of hydro-electric project.

Japan-Thailand. Trade agreement for 1951 concluded for turnover of $110 million.

US. Complete control of natural rubber supply assumed by Government in first action under Defence Production Act; controls imposed on 55 items requisite for defence or civilian production.

29 *Germany, eastern*. Rationing of bread, other cereal products and pulses abolished from 1 January 1951.

US. Granted Yugoslavia $38 million of ERP funds for famine relief.

31 *ECA*. Total procurement authorizations, 3 April 1948—31 December 1950, $11,186.7 million; total paid shipments $9,201.2 million to the following countries (in millions of US dollars): Austria 412.7, Belgium-Luxembourg 469.3, Denmark 197.9, France 1,818.8, Germany (Federal Republic) 900.2, Greece 300.1, Ireland 121.6, Italy 843.3, Netherlands 809.1, Norway 172.1, UK 2,532, other European countries 209.3, Government and Relief in Occupied Areas (from 22 December 1949) 169.1, China 168.5, Korea (from 1 January 1949) 73, other Far East countries (from 15 June 1950) 4.

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