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Editor's Note

This is the first number of a bi-weekly periodical to be issued by the International Section. It will comment upon current events and economic and financial developments in foreign countries and in the United States which are significant in international affairs. Short paragraphs will set current events in proper perspective, and articles will analyze general situations and developments. Comprehensive coverage of countries will not be attempted. To permit greater freedom of expression and the use of confidential data, circulation will be restricted. Material appearing in the REVIEW is not to be reproduced or quoted for publication.

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The French Liberation Loan

The 3 per cent perpetual Liberation Loan launched by the French Provisional Government early in November as a first instalment of a broader financial plan, and as a partial substitute for the drastic plans previously formulated in Algiers, was obviously a half-hearted measure, destined to leave the French monetary and fiscal picture much as it was before. This first impression has been confirmed by the outcome of the operation.

Subscriptions were closed on December 20, and the proceeds reached about 160 billion francs, of which, according to official statements, 47 per cent came from cash holdings, 32 per cent from bank deposits, and the rest through the consolidation of Treasury bills. The outstanding note issue has been reduced from 640 to 590 billion francs since September.

Finance Minister Plevain described the operation as a "triumph", enabling the Treasury to face its budgetary needs, which are unavoidably heavy, without further recourse to inflation. It will be remembered, however, that his predecessor, the late M. Aimé Lepercq, had stated when the loan was announced that it was not being floated because the Government needed funds but to reduce the currency circulation. In this vital respect, the contribution made by the loan has not been very large. Incidentally, the fact that the net reduction in the note circulation between September and the end of December was 50 billion francs, while the loan netted apparently 75.2 billion in cash, gives an indication of the gross expansion in note circulation which occurred during that period.

The proceeds of the loan have enabled the Government to reduce its permanent advances from the Bank of France from 100 to 13 billion francs. In the circumstances, however, this step can have no significant deflationary effect. It is merely a symbolic gesture, made perhaps out of deference to the superstitions of the 'twenties, when the size of the Bank's advances to the Government was considered as the barometer of the French Government's credit.

Thus, as a "mopping up" device, the Loan appears to have been rather ineffective, although some observers feel it served a useful purpose in bolstering public confidence in the currency. Subscriptions by peasants have failed to make a real dent on their large hoards of cash (estimated at about 200 billion francs); it would not be surprising to learn that a sizeable part of the loan has been subscribed by banks and other institutional investors. Moreover, the Loan has admittedly - actually, purposely - created a large avenue of escape from taxation or confiscation of war and inflation profits.

It would be mistaken to disregard the formidable difficulties - emphasized by the earlier Belgian experiment - which stood in the path of heroic measures: the disruption of transportation and financial administration, the unsettled state of large regions of the country, and the expected adverse reaction of the peasantry, which would have added to the already enormous difficulties of the food situation. Yet, bolder and more effective measures might perhaps have been feasible, at least in the field of taxation; and the feeling of dissatisfaction and frustration expressed by some sections of French public opinion is understandable. It is also questionable whether the launching of the Loan was well timed, since physical and other conditions impeded a really large propaganda drive in the rural areas.

Other financial measures are expected in the wake of the loan, and undoubtedly will be required sooner or later to bring inflation under control. In view of the supply and transportation situation, no monetary action as such could help materially, at this stage. Accordingly, there is something to be said for the Fabian tactics of the French authorities, which may gain valuable time until conditions become propitious for a determined attack on inflation and war profits. There is the danger, however, that failure to act promptly and vigorously at least in the fiscal sector may lead to a capitulation to the pressure of all vested interests, including those of the powerful farm groups, already bent on the consolidation of their wartime gains.

B.F.

Current Russian Exchange Rate Policy

After the final breakdown of the international gold standard, the Soviet ruble was given in 1936 a parity of 5.30 rubles to the dollar. However, the Soviet ruble never has been freely convertible into gold or foreign exchange and the parity has been largely meaningless except for the tourist trade. All foreign trade is handled by the State and conducted in foreign currency. Though a rate of exchange must at some point enter into the Soviet bookkeeping of foreign trade transactions, the fixed external value of the Soviet ruble never has had a close relation to its internal purchasing power. The problem of maintaining equilibrium with international cost and price structures hardly arises in a completely planned and socialized economy, where foreign trade is a State monopoly. These conditions should be kept in mind in evaluating the recent developments with respect to the establishment of a new foreign exchange rate structure.

Russian armies are now fighting or maintaining forces on the soil of eight foreign countries (in addition to Germany), and in financing the occupying troops the Soviet ruble has been forced out of its utter seclusion. Although information has become available only on four of these countries, namely Poland, Czechoslovakia, Bulgaria, and Rumania, a certain pattern of exchange rate policy is already recognizable. In Allied countries (Poland, Czechoslovakia) or countries considered sympathetic to the Russian cause (Bulgaria), the pre-war parities are reestablished, while the currencies of Axis countries (Rumania) are devalued against the ruble with a considerable amount of undervaluation of the enemy currency. Changes in the relative purchasing power of the ruble and of the occupied countries which may have occurred during the war are apparently not taken into consideration.

In Poland, ruble notes were issued by the Russian troops at the rate of one zloty to the ruble, a ratio corresponding to the pre-war dollar cross rate for the two currencies. For Bulgaria, a rate of 15 leva to the ruble was established, close to the pre-war (August 1939) dollar cross rate of 15.6 leva to the ruble, probably considerably overvaluing the lev. For Czechoslovakia an exchange rate of 5.56 koruny of the new koruna currency to the ruble (18 rubles = 100 koruny) has been agreed upon, almost exactly the rate prevailing in March 1939, when the American cross rate was 5.51 koruny to the ruble. The Czechoslovak Government will have to decide at what rates the new koruna currency is to be exchanged for the four different currencies now circulating in Czechoslovak territory, namely the Protectorate koruna, the Slovak koruna, the reichsmark, and the pengő. Difficult problems will arise because of the different economic development in the four regions after the dismemberment of the republic.

In Rumania, both ruble currency and occupation lei were used by Russian troops with different rates of exchange for local currency. One ruble was declared equal to 100 Rumanian lei or 20 occupation lei. The technique of issuing military currency in terms of, but not circulating at par with, local currency has been a novelty in occupation finance and probably has been chosen for psychological reasons, the Soviet lei being worth five times as much as the Rumanian leu. By December 1, 1944, all rubles and occupation lei were to have been exchanged into Rumanian lei which is to be the only currency in circulation. The pre-war rate of exchange was approximately 26.5 lei to the ruble, and hence the present rate of 100 lei to the ruble amounts to a devaluation of 73.5 per cent. The degree of devaluation of the leu corresponds roughly to that applied by the Western Allies to the reichsmark (75 per cent) and of the lira (about 80 per cent for the metropolitan lira and 77 per cent for the colonial lira).

The newly established rates with respect to the ruble are completely out of alignment with the rate structure established by the Germans. After the invasion of the Soviet Union, they devalued the ruble from RM 0.47 = one ruble to RM 0.10 = one ruble, while the currencies of the other countries were devalued very much less or not at all.

H.J.D.

The Turkish Pound

The Turkish Government has granted a premium of 40 per cent on dollar exchange used for purchasing Turkish export goods, effective November 15, 1944. American importers, as well as importers of other countries securing dollar exchange, thus will obtain about 1.80 Turkish pounds for a dollar, as against the previous rate of about 1.29 TP.

This action puts an end to a paradoxical situation. The circulation of Turkish currency has expanded substantially during the present war, the outstanding notes of the Central Bank increasing from 165 million TP on the average for 1938 to 970 million TP on November 4, 1944. At the same time, the value of the currency has dropped in terms of gold and commodities. By the end of 1943, the price of the Turkish gold pound had risen to 330 per cent, the cost of living in Istanbul to 340 per cent, and the official wholesale price index to 472.5 per cent of the average for 1938.

The Turkish Government, however, not only tried to prevent a depreciation of the currency in terms of dollars, but even appreciated it on May 25, 1942, by abolishing the premiums of 25 to 40 per cent previously granted on the exchange of dollars and other gold currencies used for purchasing export goods. Thus the official rate was restored to approximately the pre-war level while in the Istanbul black market -- the rates of which were recorded almost as if the dealings were legitimate -- dollars commanded a premium of about 100 per cent. These rates stood at 2.65 TP for dollar notes and 2.42½ TP for telegraphic transfers on August 25, 1944, the last date available.

This discrepancy was the more anomalous because the Turkish Government continued to grant a premium of 40 per cent on British pounds sterling used for purchasing export goods, except for an amount corresponding to the payments of interest and amortization on the Turkish debt to the United Kingdom, equal to about 18 million TP annually. The discrimination was of little practical importance in the past because until recently all commerce between the United States and Turkey was channeled through Government agencies. But its continued application would have made impossible the resumption of normal trade relations.

According to the Turkish press, the granting of the premium has silenced rumors of an impending all-around devaluation of the currency, and has brought about a fall in the price of gold by as much as 30 per cent. In spite of the premium, however, the Turkish wholesale price level still is about two and one-half times as high as the American. Turkish producers will be handicapped when other Mediterranean countries like Greece are able once more to compete with similar goods (tobacco, raisins, figs, hazelnuts, and olive oil) in the export markets. Unless world market prices rise substantially, Turkey will be compelled in the long-run to adjust the foreign exchange value of its currency, or its domestic price level, or both.

J.H.F.

Lend-Lease -- Second Phase

C. R. Harley

Discussions concerning the continuation of Lend-Lease aid to the United Kingdom after the defeat of Germany have recently been concluded. A British delegation, headed by Lord Keynes, conferred for several weeks with an American group referred to as "a special committee of the Government on Lend-Lease and reverse Lend-Lease" composed of Leo Crowley, Henry Morgenthau, Jr., and Edward R. Stettinius. On November 30, the results of the discussions were announced simultaneously in both capitals.

These announcements were carefully phrased and probably intentionally cryptic. Mr. Churchill stated in his speech to the House of Commons: "This statement was agreed upon almost sentence by sentence by our American colleagues ...," and "I would not like to give the answer offhand, which may not correspond with exactly what was decided upon." The United States' announcements, in the form of a two-page press release, introduced with seeming casualness certain statements which appear to represent an extremely important policy decision. I may say at this point that I believe the policy to be correct. I am not convinced, however, that it will secure general public or Congressional approval and suggest that a decision of such importance might be more soundly based if it were hammered out in public discussion.

The policy inferred from the published material is this: that an equitable rate of reconversion in the United States and the United Kingdom should be encouraged through the Lend-Lease program. (In this connection, British export trade must be considered an essential component of British reconversion.)

The November 30th release says in part:

> "It is likely, however, that both the United Kingdom and the United States will be able to reconvert part of their resources on an equitable basis to meet essential civilian needs in the period between the defeat of Germany and the defeat of Japan. As a result of such a partial and equitable reconversion there will be some improvement in the conditions of life of the British people."

And at another point:

> "The committee understands that, as in the past, the United States and the United Kingdom will both endeavor to insure, to the extent practicable, that neither United States nor United Kingdom exporters receive undue advantage over the other as a result of the war situation."

This policy was officially suggested on September 29 in a letter from President Roosevelt to Mr. Crowley regarding the major economic questions which would face the United States after the end of the European phase of the war. In speaking of Lend-Lease the President said:

> "The amount and nature of the aid necessary after the defeat of Germany is closely tied up with the strategic plans for the Pacific war, <u>and the programs for reconstruction and for reconversion of industry to civilian needs which we and our allies work out on a basis of mutual understanding</u>." (Underlining added.)

There would appear to be adequate evidence that the policy suggested by the President has been incorporated in our most recent understanding with the British.

Assuming that Lend-Lease aid will, in fact, be used to assist British reconversion, the extent of this aid will determine the practical importance of the policy. No adequate quantitative data are given in the November 30 release which merely states:

> "It appeared in the discussions that in the period immediately following the defeat of Germany, the British need for lend-lease assistance would be not much more than one-half of that currently furnished in 1944."

The first specific step toward rehabilitation of United Kingdom exports will be removal from the Lend-Lease supply program (as of January 1945) of "some raw and semi-fabricated materials, such as iron and steel". This will mean that British exports of iron and steel and manufactures thereof will not be restricted by any possible application of the terms of the British White Paper of September 1941, the relevant portion of which reads:

> "His Majesty's Government have not applied and will not apply any materials similar to those supplied under Lend-Lease in such a way as to enable their exporters to enter new markets or to extend their export trade at the expense of United States exporters."

It appears from the following passage in Mr. Churchill's announcement, however, that the White Paper provision quoted above has been largely emasculated in any case in that materials "<u>similar to</u> those supplied under Lend-Lease" will no longer be subject to restriction:

> "There is not and never has been any question of re-exporting in commerce any articles we received under lend-lease, nor in general shall we receive in this country under lend-lease finished articles identical with those we export.

"All such articles will be paid for by us. Where we continue to receive any raw materials, the quantities supplied under lend-lease are limited to our domestic consumption for the manufacture of munitions and the maintenance of our essential wartime economy. We shall pay cash for any additional supplies we wish to take from the United States for export purposes. This one uncertainty about our future conditions has now been removed."

It is clear that the discussions with the British were based upon a prior decision that Lend-Lease aid should not cease with the end of the war in Europe. This principle was clearly stated by the President many months ago and appears to be acceptable to the Congress and the public generally. The quantitative aspects of the problem remain at issue and undoubtedly will be fully discussed in connection with renewal of the Lend-Lease Act which, under existing legislation, expires July 1, 1945.

Reorientation of Swedish Foreign Trade

J. Hans Adler

As a result of the military developments in Europe during 1944, Sweden has been gradually but persistently reorienting her foreign trade relations. Since April of last year, representatives of the Swedish Government have concluded with the Governments of German-occupied and liberated European countries a series of agreements which commit the Swedish Government to the extension of reconstruction loans totaling more than 600 million Swedish kronor and to aggregate deliveries against cash payments of 50 million kr. At the same time, Swedish-German trade has almost halted as a consequence of the suspension of war risk insurance for Swedish ships and the closing of Swedish territorial waters to foreign vessels.

By the end of 1944, the following loans had been granted:

Norway	300 million kr.
Netherlands	100-150 " "
Finland	160 " "
France	60 " "
Total	620-670 million kr.

The credit to Norway consists of two loans. The first loan agreement with the Norwegian Government was signed in April. It provided for the delivery immediately after the liberation of Norway of foodstuffs, seeds, pharmaceutical articles, iron and steel, machinery, motors, tools, and presumably also merchant vessels to a total of 200 million kronor. After the agreement was signed, it was announced Swedish firms already had received orders for goods to the amount of 50 million kr. In November, an additional loan of 100 million kr. was granted for the purpose of defraying the expenses of the Norwegian Government in Sweden during the succeeding six months.

When the conclusion of a loan agreement with the Netherlands Government was announced early in October, it was stated only that the amount was smaller than that granted to Norway. The terms and purposes of the loan to the Netherlands appear to be similar to those of the first loan to Norway, because it was announced that the credit would assure the Netherlands Government supplies for reconstruction purposes prior to receipt of the shipments of the United Nations Relief and Rehabilitation Administration. The credit to Finland was covered by two agreements. The Swedish supplementary budget of April 1944 provided for a loan of 10 million kr. for the purchase of urgently needed relief articles and civilian supplies. After the Russian-Finnish armistice, on October 25, the Swedish Government granted a loan of 150 million kr. to Finland and promised the delivery of substantial quantities of foodstuffs (grain, sugar, fats) and fertilizer by March 1945. The loan to the provisional Government of France was granted in November and will be repaid in French wines to the extent of 8 million kr., the remainder to be covered partly by Government and partly by private exports. This is the only case in which information on terms of repayment is available.

Sweden also has received substantial export orders against cash payments. The Netherlands Government placed orders in Sweden for locomotives and machinery totaling 30 million kr. These purchases are not covered by the loan agreement and are to be paid for in cash. The Government of Iceland ordered 45 fishing vessels valued at 18 million kr. for delivery in June 1945, presumably against cash. In addition, Sweden has resumed trade relations with the Soviet Union. Russia had signed a trade treaty with Sweden in September 1940, providing for export credits of 100 million kr. When deliveries became impossible after the outbreak of the war between Germany and Russia, only 40 million had been utilized. The remainder of 60 million kr. is now expected to be used for the resumption of Swedish exports to Russia.

On the other hand, trade relations with Germany were severed by two administrative measures. In August the State War Insurance Board announced the suspension of war risk insurance for Swedish ships on Baltic and North Sea routes. The effect of this action was that Swedish vessels which had carried approximately one-half of the shipments between Sweden and Germany discontinued their runs to German and German-held ports. At the end of September the Swedish territorial waters in the Gulf of Bothnia and in the Baltic Sea were closed to foreign ships. This made shipments in German vessels impossible. The cessation of Swedish-German trade relations coincided with the disappearance of German clearing debts to Sweden. Since the autumn of 1943 the German clearing debt to Sweden, which had been financed by the Swedish Government through a loan of 120 million kr., declined continuously to 80 million by the end of 1943, and to .5 million by the end of August 1944. Germany paid for current imports, the clearing debt, and 32 million kr. of interest on pre-war obligations through voluminous exports, mainly of coal. When the deliveries to Sweden were halted in September 1944, Germany had delivered 3.4 million tons of coal, only .6 million less than the promised volume. Through extensive substitution of firewood for coal, Sweden had hoarded approximately one year's supply of coal. These reserves enable Swedish industry to sustain its current rate of production (the index of industrial production for October 1944 was at the same level as in October 1943) and to fill the export orders now on the books which, according to latest reports, have already reached 500 million kr. In most instances, delivery will take place only after the defeat of Germany.

(The last certified quotation of the Swedish krona is 23.8 U.S. cents.)