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## Canadian Reconversion Well Advanced

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In a recent press release, Canada's Reconstruction Minister Howe predicted that the economic impact of V-J Day would be much less severe in Canada than in the United States. Instead of heavy unemployment as predicted for the United States, Mr. Howe emphasized the fact that by the middle of August there were 100,000 excess jobs available over applicants despite the release of over 400,000 from war manufacturing employment since V-E Day. The truth of the matter is that Canada has already made an excellent start on reconversion and is further advanced in this respect than in the United States.

By reason of what has already been accomplished, Canada should have a relatively smaller reconversion problem to face from now on. Employment in Canadian war industry declined by more than 25 per cent from its 1943 peak to V-E Day and, after accelerated cutbacks since then, it is now approximately 75 per cent below the 1943 high mark. United States war industry, however, did not reach its maximum employment level until 1944 and by V-J Day it had reduced its working force from that peak by only about 20 per cent.

Canada's earlier entry into the war together with the fact that the Dominion's war industry was geared primarily to the requirements of the European war (Canada took only a relatively small part in the Pacific war) tended to give that country a time advantage over the United States with respect to reconversion. A large percentage of Canada's output went to the United Kingdom and to the United States and both of these countries tended to eliminate Canadian orders rapidly when their own war needs began to diminish.

Canada was accordingly compelled to cancel war contracts at comparatively early dates with the net result that V-J Day found Canadian war industry employment at a level which represented not more than 7 or 8 per cent of total non-agricultural employment. The ratio in the United States as of that date was probably 18 or 19 per cent. Demobilization of the armed forces has also advanced further in Canada because of her comparatively small participation in the Japanese conflict. Consequently, the total number of war workers and service personnel yet to be discharged in Canada is well under 15 per cent of the combined civilian working force and armed services, as compared with a corresponding ratio of around 25 per cent in the United States.

It would be a mistake, however, to assume that reconversion in Canada can be accomplished without any unemployment. It is considered inevitable by most qualified observers that considerably more than the "normal" unemployment of 200,000 - 250,000 will develop in a few months, and in some areas this unemployment will constitute a definite problem. For several reasons, a portion of the present acute labor scarcity is artificial. For example, there is a natural tendency for discharged war workers to take a temporary vacation where savings are substantial and unemployment insurance is available; many workers are doing this in preference to accepting jobs offering reduced rates of pay. War veterans too are taking time out in a good many cases before settling into their civilian grooves. It is expected that by October or November this mood will have worn off and there will be a greater tendency for ex-service personnel to seek work. It is also expected that the number of job applicants will have been increased materially by accelerated discharge of war veterans and by further discontinuance of war contracts. It is understood that combined discharges from the armed forces and from war industry are now running at around 200,000 monthly so that the total unemployment at the bottom of the reconversion dip may be as much as 500,000. Actual unemployment, however, may never reach that figure unless there is excessive "stickiness" in connection with the admittedly difficult switch-over from highly-paid war jobs to less remunerative work in lumbering, in foundries and textile mills, and in the building materials and construction industries. Labor is badly needed in these industries, the increased output of which will serve to create jobs in other industries and materially expedite reconversion. At the worst, reported unemployment figures will always include a large number who will merely be shifting from one job to another.

Even those Canadian authorities who foresee fairly substantial unemployment this fall and winter are confident that by spring a definite improvement will be apparent despite the normal tendency for employment in Canada to decline from a seasonal peak around October 1 to a seasonal low around April 1. Major significance must be attached to the unusual facility with which civilian occupations have absorbed war workers laid off to date. Out of every 100 war workers affected by war contract terminations thus far, approximately 40 have been re-employed immediately <u>in the same plants</u>, 15 have been women who have gone back to their homes and are no longer in the labor market (roughly half of all women discharged from war industry to date), and at least 10 are believed to have retired permanently because of age or to have returned to agricultural employment. Thus only 35 out of every 100 laid-off war workers have become available for non-agricultural civilian employment outside of the plants in which they were working, and of these a large number have already been placed.

The experience to date lends considerable encouragement to hopes that high peace-time employment goals in Canada will be attained in the not too distant future. A year from now, for example, the high level of employment aimed at by the Government will call for about 4,800,000 civilian jobs of all kinds. This total, which contemplates some reduction in the abnormally large war-time labor force as well as an increase in unemployment over the normal peace-time level of 200,000 - 250,000, will require an expansion of non-agricultural civilian employment by 500,000 - 600,000 or 16 to 20 per cent during the next 12 months. An increase of these dimensions appears rather startling since it would represent a gain of roughly 1,000,000 over the highest pre-war level. It does not appear unattainable, however, when one considers that with the combined discharges of war industry and the armed forces exceeding 500,000 since V-E Day, a little over three months ago, civilian industry must have already absorbed around 300,000. It should also be remembered that Canada has not begun to tap the employment potentialities certain to develop in order to satisfy deferred demands for industrial plant and equipment, houses, automobiles, home electrical appliances, farm machinery, textiles, etc., to say nothing of the backlog of desirable public works which should not be exhausted for some years. Optimism over the conversion outlook for Canada is further strengthened by the fact that a large number of firms, big and small, are known to be mapping specific expansion plans on the assumption that their post-war business volume and employment will substantially exceed not only their best pre-war levels but also their highest war-time peaks.

Financial Program of the Belgian Government J.H.F.

The newly appointed Minister of Finance, F. de Voghel, submitted his financial program to the Chamber of Deputies on August 16. The Minister maintained that the radical currency contraction of October 1944 saved the Belgian currency, and that its success was incomplete only because the war, with its demands for increased expenditures and its restrictive effect upon the production of goods, continued far longer than had been expected. The Minister asked the Chamber to implement the program of financial rehabilitation by passing a bill providing for conversion of the 60 billion francs of "permanently blocked" balances (about 60 per cent of the note holdings and bank deposits as of October 1944) into a compulsory Government loan, and by enacting two severe tax measures. One of these would impose a levy on war profits, amounting to 100 per cent on profits gained by trading with the enemy, and from 70 to 95 per cent on all other profits. The 95 per cent bracket would be reached at total profits of 1 million francs (about 22,800 dollars); exemptions would be very moderate (5,000 francs per month, plus 6,000 francs per year for children of individual taxpayers) and appropriate allowances would be made for profits arising solely from devaluation of the franc. No exemptions would be granted in connection with profits resulting from trading with the enemy. The second measure would impose a capital levy of 5 per cent on all real and personal property, excepting ordinary household goods. The levy would be based upon the general property registration ordered in October 1944, and would include property located abroad. Corporations would be entitled to issue new shares to the amount of 5 per cent of their capital to the Government in lieu of cash payments. Revenue from this levy alone would amount to 25 billion francs. Together with the profits tax, it would enable the Government to retire most of the debt resulting from the proposed conversion of the blocked balances.

The plan is fundamentally the same as that developed exactly one year ago by Minister Gutt, who initiated the currency conversion. There is no valid reason why it has not been enacted long since. It will not provide the Government with new revenues or cover the budget deficit, but will merely "purify" the balance sheets of the National Bank and other credit institutions, which are now obliged to carry on their books a huge mass of blocked accounts. Thus it may have an important psychological effect, but will hardly change the basic monetary position of the country. This position is, however, quite satisfactory. Between January 11 and August 16, 1945, the note circulation rose from 43.2 billion to 61.7 billion francs, but 5.7 billion of this increase was due to the unblocking of "temporarily unavailable" balances and the rest to advances on behalf of the Allied armed forces, either in the form of reverse lend-lease or as outright loans. The Government has been able to finance its own activities by taxation and non-inflationary borrowing from the public. This fact, together with the rising rate of production, has prevented a further increase in the price level. For these reasons, Minister de Voghel implied that the Government would be able to maintain the present foreign exchange value of the franc (2.28 United States cents) without creating a dangerous disparity between domestic and world prices.

Currency Confusion in Czechoslovakia J. H. Adler

For the last three months, a system of dual exchange rates has prevailed in Czechoslovakia. In the region occupied by the Red Army, the rate of 18 rubles = 100 K (crowns) has remained constant since Russian troops entered Czechoslovak territory. In July the Czechoslovak National Bank established rates of K 29.57 and K 119.02 for the dollar and the pound sterling, respectively;1/ those rates correspond to the cross-rates via the ruble, and to the gold-parity rates which prevailed before the Protectorate crown was appreciated in 1940 to the equivalent of .10 RM (= 4 cents). In the zone occupied by the American Army, Allied occupation marks were issued. These were exchanged in the few former Protectorate districts in the American zone at the rate of 10 K for 1 RM, a rate corresponding to 100 K to the dollar or 400 K to the pound sterling. In the Sudeten districts where marks alone were in circulation, the problem of exchange for Czechoslovak currency did not at first arise.

After Czech authorities, together with the military authorities of the Allied armies, assumed the task of local administration in the Sudeten districts, Czechoslovak crowns were issued (old Protectorate issues and military crowns issued by the Russian army) and circulated side by side with reichsmarks for a few weeks. According to a Czechoslovak government decree of July 26, reichsmarks ceased to be legal tender on August 1. But since American Army authorities continued to issue occupation marks and Protectorate currency was scarce, old reichsmarks continued to be accepted in private business transactions in the American zone. Allied occupation marks were exchanged at the rate of 10 K for 1 mark in private transactions, as well as by Allied military authorities. The price for old reichsmarks declined to 4 to 5 K. In the former Protectorate districts, however, the old reichsmark depreciated rapidly immediately after liberation since financial and public institutions refused to accept them. In Prague and other Czech towns, old reichsmarks were exchanged at a rate of 2 to 2.50 K for 1 RM, somewhat below the new cross-rate via the dollar of 2.957 K. The continued issuance of occupation marks was the subject of repeated representations by Czechoslovak authorities at American Headquarters. American and British representatives accepted an invitation for discussion of the matter in Prague. But since American troops stationed in Czechoslovakia are part of the Third Army, which also occupies Bavaria, and travel more or less freely from Germany to Czechoslovakia, marks are still being put into circulation according to latest available information.

To confuse matters still further, the Czechoslovak government has issued several decrees, pertaining to debts and claims originating in Sudeten districts and to the exchange of reichsmark holdings of persons of Czech nationality, in which the old rate of 10 K for 1 RM has been reasserted. Since bank and savings bank deposits of German owners have been temporarily blocked pending solution of the problem of transferring the Sudeten German population, the question of establishing an exchange rate for those accounts as

1/ On September 10, the New York agency of the Prague Credit Bank was advised that the dollar rate was changed to 29.82 K.

well as for cash holdings of Sudeten Germans has not as yet arisen.

Various pronouncements had indicated that a substantially lower rate of exchange--presumably in the neighborhood of the cross-rate via the dollar--was to be set for German cash holdings and claims not subject to outright confiscation. However, a recent decree permits the unblocking of amounts of 2,000 to 4,000 K from former RM-accounts for the payment of wages and pensions, and of unspecified amounts for rent payments, medical care, funeral expenses, and agricultural supplies; conversion for these purposes is apparently at the rate of 10:1. Particular problems arise in connection with those German enterprises for which "national administrators" have been appointed. These have presumably become Czech enterprises and their deposits should be treated as Czech deposits for which the 10:1 rate is applicable.

Similar difficulties are bound to arise with respect to branches of German banks which have been taken over by Czechoslovak institutions. In this connection it is of interest to note that in spite of numerous official declarations that all banks will be nationalized, Czechoslovak banks are competing for the acquisition of these branches and are reopening branches which were eliminated by the German authorities in the course of rationalization measures. The Prague Credit Bank (formerly Anglo-Czechoslovak and Prague Credit Bank), which was in the process of liquidation and absorption by three other banks, has been reestablished by a government decree invalidating all Protectorate measures pertaining to its dissolution. It has already acquired 35 branches in Bohemia and Moravia.

Central Bank Developments in Czechoslovakia J.H.A.

The first post-liberation statements of the Czechoslovak National Bank have recently become available. The statements pertain only to the assets and liabilities of the former central bank of the Protectorate, the National Bank for Bohemia and Moravia. The heading of the statements reads "Czechoslovak National Bank in Prague," indicating that the Slovak National Bank, the central bank of independent Slovakia since 1939, has probably become the "Czechoslovak National Bank in Bratislava." This formal change, as well as several official pronouncements about the unification of the monetary system indicate that the two central institutions will shortly be reunited.

A comparison of the statement of August 7 with the figures of the annual report for 1944 (see table) indicates that the Czechoslovak National Bank has, at least in form, accepted the assets and liabilities of the National Bank of Bohemia and Moravia without questioning the validity of the accounts although practically all assets and liabilities of the National Bank of Bohemia and Moravia are of an extremely doubtful character. The gold item is a carry-over from the period before the occupation of Czechoslovakia by Germany. It has been left substantially unchanged (with the exception of the revaluation of the crown to make its parity equal to .10 RM) although the gold--and probably also the foreign exchange--was partly blocked in Switzerland by the Bank for International Settlements and in Great

Britain by the Bank of England, and partly transferred from Prague, Basle, and London[1] to Berlin. Since the London-held assets of the Czechoslovak National Bank were turned over to the Czechoslovak Government-in-exile in 1940 and used as security for a loan from the British Government the amount of which finally exceeded the value of the gold, title to this portion is no longer unencumbered. Any claim to a portion of the gold found in Germany will, in all probability, collide with similar claims of other occupied countries. The only part of the gold item in the Bank's statements which will be available in full is the unknown amount withheld by the B.I.S. until rightful ownership can be established. An estimated 90 per cent of "other assets" consists of accounts receivable from the Reichsbank and German Treasury certificates. The note circulation, which apparently has increased since liberation at a slower rate than in previous months, includes 446 million K for the exchange of RM notes at post offices. Other increases among liabilities, notably the rise in demand deposits and in "other liabilities" are not explained in the statements. They probably occurred before the establishment of the present administration.

Statements of the Czechoslovak National Bank in Prague[2]
(In millions of K)

| Assets | December 31, 1944 | August 7, 1945 |
|---|---|---|
| Gold | 1,516 | 1,517 |
| Foreign exchange | 776 | 788 |
| Cash | 2,078 | 1,786 |
| Bills discounted | 1,775 | -- |
| Securities discounted | 1,865 | -- |
| Other assets | 56,564 | 100,109 |
| Total | 64,574 | 104,199 |
| **Liabilities** | | |
| Share capital | 405 | 405 |
| Reserves | 153 | 153 |
| Note circulation | 34,879 | 40,399 |
| Giro and other demand deposits | 6,435 | 31,886 |
| Cash-deposit certificates | 8,870 | 10,973 |
| Other liabilities | 13,832 | 20,383 |
| Total | 64,574 | 104,199 |

1/ The Bank for International Settlements transferred gold held for the Czechoslovak National Bank in Switzerland and in London to the Reichsbank in 1939. After the outbreak of the war, it refused to execute further transfer orders "until the rightful owner can be established."

2/ Until May 1945, "National Bank for Bohemia and Moravia."

British Imports, War and Pre-War C. R. Harley

Table I summarizes the principal developments in British import trade (excluding munitions), as disclosed in data recently published by the Board of Trade.1/

Table I.
Total British Imports* and Imports from the United States
(In millions of £'s)

| | 1938 | | 1944 | | 1938 | 1944 |
|---|---|---|---|---|---|---|
| | Total imports | Imports from U.S. | Total imports | Imports from U.S. | Per cent of total from U.S. | |
| I. Food, Drink, and Tobacco | 430 | 52 | 519 | 138 | 12 | 27 |
| Meat | 91 | 3 | 168 | 40 | 4 | 24 |
| Dairy produce | 80 | .2 | 91 | 44 | - | 49 |
| Tobacco | 23 | 18 | 32 | 25 | 76 | 80 |
| II. Raw and unmfgd. goods | 248 | 23 | 279 | 52 | 9 | 19 |
| Raw cotton and cotton waste | 30 | 10 | 42 | 14 | 34 | 33 |
| Wood and timber | 43 | 4 | 36 | 8 | 9 | 23 |
| Rubber | 12 | - | 26 | 20 | - | 79 |
| III. Finished Products | 234 | 42 | 478 | 341 | 18 | 71 |
| Oils, fats, and resins | 44 | 12 | 221 | 195 | 26 | 88 |
| Machinery | 22 | 10 | 42 | 38 | 45 | 92 |
| Electrical apparatus | 3 | 1 | 24 | 21 | 30 | 87 |
| Iron and steel and manufactures | 15 | 2 | 33 | 27 | 14 | 83 |
| Grand Total** | 920 | 118 | 1,306 | 533 | 13 | 41 |

* Excluding munitions.
** Including two minor classes not shown.

Between 1938 and 1944, the value of British imports other than munitions increased from 920 million pounds to 1,306 million pounds, or about 42 per cent. The value of non-munitions imports from the United States during the same period increased from 118 million pounds to 533 million pounds, or by 350 per cent. The share of the United States in British imports rose from 13 per cent in 1938 to 41 per cent in 1944. Of the 415 million pound increase in imports from the United States, nearly 300 million resulted from a rise in imports of finished

1/ Data on rubber imports are estimated from United States statistics since no country detail is included for this product in the British source.

goods and just over 60 per cent of the latter sum from increased imports of finished petroleum products (shown in the United Kingdom statistics under the heading "oil, fats, and resins" in Class III). A further 86 million increase is shown in British imports of foodstuffs and tobacco from the United States, and the balance of 29 million pounds in imports of raw materials and articles mainly unmanufactured.

The value figures, however, give a distorted impression of changes in the physical volume of British imports. A volume index based on 1938 as 100 shows retained imports (i.e., total imports less re-exports) in 1944 as 79. A similar index for total imports would show a greater decline since British re-exports decreased sharply during the war. According to the volume index, the quantity of imports was greater in 1944 than in 1938 for only 6 of the 44 classifications listed in the trade tables; index numbers of the volume of retained imports are shown below for these commodity groups:

| | 1942 | 1943 | 1944 |
|---|---|---|---|
| Meat | 119 | 126 | 123 |
| Iron and steel and mfg. thereof | 208 | 234 | 117 |
| Cutlery, hardware, implements and instruments | 130 | 183 | 151 |
| Electrical apparatus | 42 | 108 | 340 |
| Machinery | 79 | 92 | 103 |
| Oils, fats, resins, mfg. | 108 | 146 | 227 |

Certain other classifications show greatly expanded imports in earlier war years (e.g., the volume index for vehicles reached 1,213 in 1941) but munitions imports were included in the trade data prior to 1942. Among the import classifications showing drastic declines in volume throughout the war period were fresh fruits and vegetables, textiles and textile products, leather and footwear, paper making materials and paper.

Changes in the proportion of British imports in the various classifications received from the United States gives an indication of the extent to which "normal" trade channels were distorted by war influences. By determining those sources which were displaced by this country, we may form some rough conceptions of potential trade shifts during the transition period. In Class I (foodstuffs, etc.), the major shift occurred in the dairy products classification. Roughly speaking, the United States displaced a large group of western and northern European countries as a source of British imports. These countries include the Netherlands, Denmark, Poland, Sweden, Finland, Lithuania, and others; it is doubtful that these nations will have large exportable surpluses of dairy products for at least two years. In regard to meat, the United States replaced European nations to a small extent; the bulk of England's meat imports came from the Dominions and South America prior to the war. Increased shipments from this country, Canada, and Argentina served to supplement pre-war imports.

In Class II (raw materials, etc.), imports from the United States probably changed little in physical volume with the exception of raw rubber (synthetic) imports. In normal times, Britain has access to natural rubber within its colonial empire and imports of synthetic rubber may be expected to decline sharply as soon as those areas are reopened. In Class III (finished goods), American refined petroleum exports replaced in part, and greatly supplemented, pre-war imports from Burma, Malaya, Iran, the British West Indies, Mexico, Venezuela, and Rumania. Many of these areas should regain a large share of the United Kingdom market as tanker tonnage is relieved of war duties. With the exception of petroleum products, Class III consists principally of commodities normally imported by Britain from the industrialized countries of western and northern Europe; trade with these countries was almost completely stopped by the war and imports from the United States filled a large share of the resulting gap. It is not likely that Europe will be able to resume large scale exports to Britain for several years. On the other hand, it is certain that British demand for many of the industrial products included in the class will fall sharply with the end of the war. Heavy as reconstruction needs may be, the increased capacity of British industry should suffice to meet a larger proportion of domestic requirements for machinery, machine tools, iron and steel, and electrical equipment than it met in the pre-war years. Demands in this Class which must increase include leather and footwear, perhaps apparel (though this is doubtless a luxury import in large part), woolen and cotton yarns, manufactures of wood and timber, and paper products. Few of these demands should center on the United States.

From this brief study of Britain's war-time import experience, it is possible to reach the tentative conclusion that United Kingdom imports (non-munitions) from the United States will decline on a quantity basis during the transition period. Within perhaps two years, the share of total British imports secured from the United States should be no more than 25 per cent of total imports. This conclusion must, of course, remain tentative until further information is available concerning the financial arrangements which the United Kingdom may be able to make with other suppliers, as well as with the United States, and until the effect of relative price changes in the various nations has become clarified.