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REVIEW OF FOREIGN DEVELOPMENTS

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Foreign Credits of the United States Government

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By the fall of 1946 the United States Government had extended dollar credits to foreign governments or other foreign entities, or approved the extension of such credits, to the value of \$10,195 million. The credits granted are essentially of three types. The first provides for actual disbursement of dollars to the borrower to finance current purchases of commodities, principally in the United States. Credits of this type have been extended by the Export-Import Bank, by the Treasury directly, and to a lesser extent by various government agencies. The second type includes credits arranged in connection with the settlement of lend-lease transactions, providing for deferred payment by foreign governments for lend-lease goods not consumed or destroyed during the war and for lend-lease goods contracted for but not delivered by V-J Day. The third type consists of credits arising out of deferred-payment sales of United States property and goods produced during the war and subsequently declared surplus. Surplus property located abroad has been sold on credit by the Office of the Foreign Liquidation Commissioner, while surplus merchant vessels are being sold on credit by the United States Maritime Commission.

The following tabulation lists the amounts of foreign credits extended by the various lending agencies by the fall of 1946.

<u>Type of Credit and Lending Agency</u>	Credits		<u>Total</u>
	<u>Credits signed</u>	<u>Authorized or Approved by NAC</u>	
(In millions of dollars)			
I. Credits to finance current purchases			
Export-Import Bank	2,290	1,090	3,380
Treasury and U.S. Government agencies	4,052	75	4,127
II. Lend-Lease settlement credits	1,477		1,477
III. Surplus property credits			
Office of the Foreign Liquidation Commissioner	859	148	1,007
U.S. Maritime Commission		203	203
Total	8,678	1,516	10,194

Export-Import Bank loans. As this tabulation indicates, the principal lending agency of the United States Government is the Export-Import Bank. As of September 30, 1946, the Bank had current loans either outstanding or awaiting disbursement of \$2,290 million; there were also \$340 million of loan commitments authorized but not yet signed by borrowers, and the Bank had under consideration loans already approved by the National Advisory Council of an additional \$740 million. By far the largest share of the Bank's loans and commitments have been authorized since July 1, 1945; between that date and September 30, 1946, the Bank authorized loans totaling about \$2,185 million.

More than 60 per cent of the loans authorized by the Bank during this period were commitments to liberated and war devastated countries to finance purchases of United States equipment, raw materials, and consumers' goods required for reconstruction. Another 30 per cent, or \$655 million, represents credits to France, the Netherlands, and Belgium to finance purchases of United States goods requisitioned under lend-lease but not yet contracted for on V-J Day when the lend-lease program was terminated. Thus, during the period since July 1, 1945, less than 10 per cent of the Bank's credits were to finance development projects abroad or exports of specific items of equipment. However, the era of reconstruction loans by the Bank is drawing to a close and it may be anticipated that in the future a major part of the institution's lending will be development loans and exporter credits.

The table at the end of this article shows by countries the amount of Export-Import Bank loans signed or approved and the amount outstanding as of September 30, 1946. Of the total of \$3,380 million, about 60 per cent are to European, 23 per cent to Asiatic, and 16 per cent to Latin American countries. It is readily apparent from the table that France is the Bank's largest debtor, followed by the

Netherlands, China^{1/} and Brazil. Total loans outstanding on September 30 were about \$975 million, leaving about \$1,665 million yet to be disbursed on all loans and commitments. Of this amount, \$1,350 million remains to be disbursed on reconstruction credits; France will receive over \$750 million and the Netherlands over \$200 million.

Other loans. The largest single reconstruction loan, the \$3,750 million loan to Great Britain, was made outside the Export-Import Bank. This loan, approved in July 1946, is being extended through the agency of the Treasury Department. It is unique in that the dollar proceeds may be used to make purchases in countries other than the United States and in that the period of repayment is unusually long and the rate of interest unusually low. As of October 24, 1946, the Treasury had transferred a total of \$600 million to the account of the British under this loan.

Of the loans extended by United States Government corporations or agencies, the credits granted by the Reconstruction Finance Corporation are in point of size the most important. The largest of these is a loan of \$425 million extended to Great Britain in July 1941 to pay for war supplies contracted for by the British in this country prior to the enactment of lend-lease. As collateral the United Kingdom pledged British-owned United States securities and the capital stock of British-owned United States insurance companies. By this arrangement the British were relieved of the necessity of liquidating these securities in unfavorable markets. As of March 31, 1946, \$244 million of the \$390 million disbursed under this loan was still outstanding.

The second largest Reconstruction Finance Corporation credit is the budgetary loan to the Philippine Government approved by Congress on August 7, 1946. The Reconstruction Finance Corporation is authorized to extend credits during fiscal 1947 up to a maximum of \$75 million to the Philippines upon terms and conditions to be determined after consultation with the National Advisory Council. When advances are made, the proceeds will be used initially as legal reserve for the issuance of Philippine currency which in turn will be used to meet the current obligations of the Government. In October the Philippine Government requested an advance of \$25 million and it is anticipated that the request will be granted in the near future.

Other United States Government agencies which have engaged in foreign lending include the Office of Defense Supplies, the United States Commercial Company and the Office of Inter-American Affairs. Their current lending operations are negligible.

^{1/} The amount of loans to China shown in the table includes \$500 million earmarked for possible credits on a project by project basis to Chinese Government agencies and private enterprises.

Lend-lease settlement credits. By the fall of 1946 final settlement of lend-lease and other claims arising from the war had been completed with a number of countries, including Australia, Belgium, France, India, Iran, New Zealand, Turkey, the United Kingdom, and the Union of South Africa. Credits were extended by the United States Government in connection with these settlements to France, the United Kingdom, and Iran of \$420 million, \$590 million, and \$8 million, respectively. In the settlements with the other countries, reciprocal claims have offset each other or the balance due has been settled in cash. Final settlements with other lend-lease recipient countries, including China, Ethiopia, the Netherlands, and the Soviet Union, have not yet been concluded. These settlements are likely to involve substantial credits. In addition, the United States Government has already extended credits to China and the Soviet Union of \$59 million and \$400 million respectively to finance the sale of the lend-lease pipeline materials to these countries (goods that were in process of manufacture or awaiting delivery at the termination of lend-lease). As of August 31, 1946, the Soviet Union had utilized about \$244 million of the pipeline credit; it is not anticipated that the full \$400 million will be utilized.

Surplus property dollar credits. The disposal of United States surplus property abroad by the Office of the Foreign Liquidation Commissioner has progressed relatively rapidly and in September it was announced that about 75 per cent of all Army and Navy surplus abroad had been sold either for cash or credit. As of October 1946, credits totaling \$859 million had been extended in connection with surplus sales, almost exclusively to foreign governments. Among these credit sales of surplus property are the bulk sales to Belgium, France, Italy, and the United Kingdom covering all property declared surplus within these countries (and, in the case of France, within French North and West Africa as well). In addition to these bulk sale credits of \$535 million, ^{1/}the OFLC has granted credit lines totaling \$175 million for the purchase of surplus items to be selected and purchased by other European countries, namely Austria, Czechoslovakia, Finland, Greece, Hungary, the Netherlands, Norway, and Poland. Credit lines to Asiatic countries total \$140 million of which \$100 million is a similar credit line to the Netherlands East Indies. Small credit lines have also been extended to Brazil, Uruguay, and Ethiopia. As of October 1946, additional credits to finance the sale of surplus property totaling \$148 million had been authorized and were in the process of negotiation. Of this amount \$100 million represents a line of credit to the Soviet Union authorized by OFLC. It also includes a \$10 million credit to be extended by the War Assets Administration to the Philippine Government on sales of surplus property located in the United States.

^{1/} This figure is only an estimate, since the amounts to be paid on credit terms may be varied according to the final valuation of the surplus property actually delivered. The figure includes a \$15 million credit to Belgium to finance purchases of surplus up to this amount; in addition, Belgium is to pay in dollars on credit terms one-half the proceeds of sales of additional surplus located in Belgium.

As of August 31, 1946, the OFLC reported that, of its surplus property credits of \$859 million, only \$204 million had been utilized for purchases of goods actually delivered or contracted for. This figure does not include credits to France and Great Britain under the bulk sales agreements with these countries; the OFLC will not consider these credits (of \$360 million) to be utilized until the actual physical transfer of the surplus property has taken place.

In cases in which the United States Government decides to extend foreign credits to finance sales of surplus property in the United States, this will in general be done by means of Export-Import Bank loans. Existing lines of credit may be used for this purpose, where available, or new loans may be made. The only exception is the \$10 million credit to the Philippine Government by the War Assets Administration.

U.S. Maritime Commission Ship Sales credits. The United States Maritime Commission, under the provisions of the Merchant Ship Sales Act of 1946, is authorized to sell surplus war-built vessels to non-citizens. The law stipulates that 25 per cent of the price of the vessels must be paid in dollars at the time of the sale and that the Maritime Commission may extend dollar credits for the balance of the sales price, such credits to be secured by a mortgage on the vessels. Following NAC approval of its proposed credit arrangements, the Maritime Commission approved sales of ships to the governments of France, the Netherlands, Italy, Norway, China, Brazil, and Peru. When these sales are concluded, the Commissioner may extend credit totaling \$203 million.

Foreign Credits of the United States Government ^{a/}
 (Credits to Foreign Governments and Other Foreign Entities)
 (Amount in millions of dollars)

Country	Export-Import Bank	Loans by Treasury	Lend-Lease	OFLC Surplus Property	U.S. Maritime	Total Credits	Total Credits			
	Loans and Commitments as of Sept. 30, 1946	or U.S. Govt. Corporations or Agencies	Settlement Credits	as of Aug. 31, 1946	Commission Credits	Authorized or Signed, (Sum of Columns 1, 3, 5, 6 and 8)	Utilized and Outstanding (Sum of Columns 2, 4, 5 and 10)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Amount signed, approved by MAC	Amount outstanding	Amount signed or authorized	Amount outstanding	Amount signed	Amount signed or authorized	Amount utilized	Amount approved by MAC		
Europe:										
Belgium	99	99	--	--	--	15	15	--	114	111
Czechoslovakia	22	4	--	--	--	10	7	--	32	1
Finland	65	51	--	--	--	15	11	--	80	6
France	1,195	443	--	--	420	300	d/3	44	1,959	86
Greece	25	3	--	--	--	45	80	--	70	8
Italy	125	5	--	--	--	160	11	24	309	10
Netherlands	350	90	--	--	--	20	11	25	395	8
Norway	51	0	--	--	--	10	1	21	82	2
Poland	43	3	--	--	--	50	25	--	93	2
United Kingdom	--	--	4,029	844	590	60	d/25	--	4,679	2
U.S.S.R.	--	--	--	--	400 e/	100	--	--	500	24
Other	60	15	--	--	--	25	14	--	85	2
Total	2,035	714	4,029	844	1,410	810	166	114	8,398	2,97
Asia:										
China	625	56	--	--	59	20 f/	20	76	780	13
N.E.I.	100	--	--	--	--	100 h/	9	--	200	
Philippines	--	--	75 E/	0	--	10 h/	0	--	85	
Other	53	2	13	13	8	55	9	--	129	3
Total	778	60	88	13	67	185	38	76	1,194	17
Latin America:										
Brazil	168	68	--	--	--	11	0	9	188	6
Chile	73	13	--	--	--	--	--	--	73	1
Mexico	80	40	1	1	--	--	--	--	90	4
Uruguay	32	10	--	--	--	1	0	--	33	1
Other	171	70	3	3	--	--	--	4	177	7
Total	533	201	3	3	--	12	0	13	561	20
Miscellaneous	34	0	7	7	--	1	0	--	42	
TOTAL	3,380	974	4,127	867	1,477	1,007	204	203	10,195	3,36

(Footnotes to table on p. 6)

- a/ The table does not include credits extended prior to 1938, advances by United States Government agencies against future deliveries of commodities, surplus property credits repayable in the first instance in real estate, services, supplies or local currency, short-term loans on gold by the Federal Reserve Banks, or the \$500 million "financial aid" to China. All data are rounded to the nearest million and detailed figures will accordingly not always add to the totals and sub-totals shown; credits of less than \$500,000 have also been omitted.
- b/ Net of cancellations, expirations, and repayments.
- c/ Final lend-lease settlements have yet to be negotiated with a number of countries (see text). Both the Russian and Chinese credits listed are pipeline credits only.
- d/ The OFLC does not report this bulk sale credit as utilized until physical transfer of the surplus has occurred, even though the full amount of the credit is at present encumbered.
- e/ As of September 1946 the U.S.S.R. had utilized \$244 million of this credit.
- f/ Credit negotiated by the Army and extended by Treasury Department to finance sale of "abandoned" property located in West China.
- g/ Budgetary loan to the Philippine Government authorized by Congress (see text).
- h/ Credit authorized by War Assets Administration to finance the sale to the Philippine Government of surplus property located in the United States.

Wage Parity Calculations for Six Countries

F. Jaffy

Comparative wage data have a value at least equal to that of comparative price data in connection with the estimates of appropriate foreign exchange rates. Whether a "wage parity" or a "price parity" will be more informative depends on the individual case, since cost-price relationships, and hence prospective movements in wage and price levels, differ from country to country. At any rate, it would seem desirable to calculate wage parities where possible, in order to supplement the more easily obtainable price data.

This article attempts to estimate wage parity values for Canada, the United Kingdom, Czechoslovakia, Belgium, the Netherlands, and France. Because of the difficulty of getting data, the necessity of comparing indexes not strictly alike, and the doubtful validity of the assumptions which underlie some of the methods used, it seems desirable to discuss the problems and procedure step by step.

However, it may be stated as a general conclusion that wage calculations indicate higher "parity" values for the foreign currencies relative to the dollar than do price calculations. That is, where a country's currency appears overvalued on the basis of price comparisons, it is apt to appear less overvalued on the basis of wage comparisons; and where a currency appears undervalued from a price parity view, it is apt to appear more undervalued from a wage parity viewpoint. This merely expresses the fact that wages have risen less, relative to prices, in many foreign countries than they have in the United States. Canada is an exception, as the wage parity of its currency is below the price parity for the same period. The United Kingdom is in an intermediate position, since the wage parity value of the pound lies between the wholesale and the cost-of-living parity figures.

On the basis of the estimates made, which could not always be based on very recent data, the British, Dutch, and French currencies appear undervalued with respect to wage parity, while the Canadian, Czech, and Belgian currencies are overvalued with respect to wage parity.

The first problem encountered was that of selecting United States wage indexes with which each foreign index might be compared. There are four or five different types of United States wage indexes which might be calculated or used; since most foreign countries have only one index available, and that differing in type from country to country, it will be necessary to make use of more than one United States index in order to use that one which is closest to the available foreign index. Available United States wage data are as follows:^{1/}

^{1/} Unless otherwise stated, the Bureau of Labor Statistics is the source of United States wage statistics.

- (1) and (2) Gross average hourly earnings.

For manufacturing industries alone.

For manufacturing, mining, and steam railroads.

Figures are available for a sufficiently long period to permit an index to be calculated on a 1937 base or earlier, and carried forward to August 1946 (for manufacturing alone) or 1945 (for the combined figure). These figures are affected by overtime premia, shift differentials, and production bonuses.

- (3) Estimated straight time average hourly earnings in manufacturing.

This is estimated by the Bureau of Labor Statistics by applying to gross average hourly earnings figures a conversion factor, varying with the average number of weekly hours worked during the period, which is designed to eliminate the influence of overtime pay. However, it does not remove the effect of holiday and Sunday premium pay, bonuses, or shift differentials. The conversion factor is not considered by the Bureau of Labor Statistics to be applicable previous to January 1941; hence no earlier estimate of straight time hourly earnings can be made. But for our purposes it is possible to use gross average hourly earnings prior to 1941 in place of straight time, since it is likely that prior to 1938 there was little difference between the two. (The Fair Labor Standards Act of 1938, which made a 40-hour week effective, did not go into effect until October 1940.) Hence I have made the assumption that straight time hourly earnings in the year 1937 corresponded to the gross figure, and have formed an index on a 1937 base by dividing the straight time earnings figures for recent periods by the gross figure for 1937.

- (4) Urban wage rates in manufacturing industries.

This is the only United States series which claims to represent changes in basic wage rates. It is reported by the Bureau of Labor Statistics as a percentage increase since January 1941, and is calculated only twice a year--in April and October. The latest figure now available is for October 1945. To get a rough idea of the change since 1937, I have spliced this urban rate index, on its original January 1941 base, to the ratio between gross hourly earnings in 1937 and straight time earnings in January 1941. The result is admittedly not an exact measure of the change in basic urban wage rates since 1937, but can be taken as a rough approximation.

- (5) The Federal Reserve Bank of New York maintains a wage index which, although called a wage rate index, is based for the most part on hourly earnings. Unlike any of the Bureau of Labor Statistics indexes, it includes teaching and clerical occupations.

The five indexes, arranged in order from that showing the greatest increase over 1937 to that showing the least, are as follows:

- 1. Gross average hourly earnings in manufacturing;
- 2. Gross average hourly earnings in manufacturing, mining and steam railroads;
- 3. Straight time average hourly earnings in manufacturing;^{1/}
- 4. Federal Reserve Bank of New York index;^{1/}
- 5. Urban wage rates in manufacturing.

Canada

The Dominion Bureau of Statistics maintains a wage rate index on an annual basis covering 11 groups of industries, including manufacturing industries. Each annual figure refers to the months of September and October of the given year; the latest figure now available applies to these months of 1945. Since late 1944 the Canadian Government has also been collecting statistics of hourly earnings in manufacturing; averages are available from November 1944 to the present on a monthly basis. There is no way to carry these figures back of November 1944. What can be done is to calculate a wage parity for October 1945, using the Canadian wage rate index for manufacturing and the United States urban wage rate index for manufacturing for October 1945. Neither index has later figures available. The data and the wage parity are then:

United States urban wage rate index,	
October 1945 (1937=100)	142.3
Canadian wage rate index, 1945 (1937=100)	149.0
Value of Canadian dollar, 1937 average	100.00 cents
Indicated wage parity value, 1945	95.50 cents
^{1/} Present value of Canadian dollar	100.00 cents ⁷

The Canadian average hourly earnings data referred to, which are available for 1946, cannot easily be used to make inferences as to the behavior of basic rates in 1946. They show a slight rise from January to June (from 67.9 to 69.1 cents) but since weekly hours also increased somewhat in that period, this may reflect either a rate rise

^{1/} The relative rank of 3 and 4 varied during the year 1946.

or an increase in premium pay. The closest thing to a wage rate series for 1946 in the United States is the straight time average hourly earnings series, which rose from 97.0 to 105.7 cents from January to June--but it must be remembered that this series reflects holiday and Sunday premium pay. Nevertheless, we might hazard the opinion that basic wage rates rose more in 1946 in the United States than in Canada, and therefore that the wage rate parity shown above would be higher for the present time than for 1945.

It would indeed be preferable to calculate a wage parity entirely on the basis of gross average hourly earnings, since overtime premium pay is a legitimate part of costs. However, this is impossible here because of the lack of Canadian data prior to November 1944, and it will be seen also to be impossible for most of the remaining countries studied.

If we compare the wage parity for September-October 1945 with wholesale and cost-of-living parity rates for the same period, we find that the wage parity falls below both price parities:

Wage parity	95.50 cents (Sept.-Oct. 1945)
Wholesale parity	98.29 cents
Cost-of-living parity	106.56 cents

However, a similar comparison for the present time might show less spread, since the price parities have fallen slightly from late 1945 to mid 1946 while, as explained above, it is possible that the wage parity has risen.

United Kingdom

The Ministry of Labor publishes figures showing the percentage increase in average hourly earnings semi-annually since October 1938. The coverage is 13 broad groups of manufacturing industries, plus transportation and storage (excluding railways), public utilities, and government industrial establishments. It is not therefore comparable in coverage to either of the gross average hourly earnings series of the Bureau of Labor Statistics, i.e., to either the manufacturing series or that covering manufacturing, mining, and steam railroads. However, calculations using both of these United States series were prepared as the most nearly comparable data. Since British figures are not available for 1937, in both cases a United States index on a 1938 base has been used. The British index is on the base given by the Ministry of Labor, which is October 1938. The wage parities are as follows:

1. Comparing the British earnings index with the United States index for manufacturing alone:

British earnings index, Jan. 1946 (Oct.1938 base)	177
U.S. earnings index, Jan. 1946 (1938 base)	163.1
Value of pound in 1938	488.94 cents
Indicated wage parity value, Jan. 1946	450.50 cents
<u>Present value of pound</u>	<u>403.32 cents</u>

2. Comparing the British earnings index for 1945 with the United States combined earnings index:

British earnings index, 1945 (Oct. 1938 base)	176
U.S. combined earnings index, 1945 (1938 base)	157.5
Value of pound in 1938	488.94 cents
Indicated wage parity value, 1945	437.50 cents

An index of wage rates in Britain, prepared by the London and Cambridge Economic Service, goes back to 1924 and extends to recent months. This makes it possible to use the base year of 1937. Unfortunately, however: (1) Its coverage is broader than the United States wage rate indexes. (2) It indicates movements in weekly rates. This, however, is not too serious, since basic rate figures, even if weekly, do not reflect overtime pay. (3) The United States wage rate index is not available for any period later than October 1945. This discrepancy can be taken care of approximately by using the estimated straight time hourly earnings series for the United States, which is available for more recent months. Of course this is not a perfect substitute, since the latter series reflects holiday and Sunday premium pay and other bonuses, as already pointed out. We have formed what is therefore an imperfect wage rate parity by using the London and Cambridge wage rate index and an index formed from the BLS straight time average hourly earnings series for manufacturing. The figure may be expected to have an upward bias, both because the inclusion of other than manufacturing industries in the British index lowers the extent of increase, and because of the difference between basic rates and straight time hourly earnings. The figures are:

British wage rate index for July 1946 (1937 base)	174.9
U.S. straight time earnings index, July 1946 (1937 base)	171.0
Value of pound in 1937	494.40 cents
Indicated wage rate parity value, July 1946	483.40 cents

It would be both tedious and confusing to show price parities for the variety of months and base years that would be necessary for purposes of comparison with these wage parities. It may be sufficient to give a wholesale and a cost-of-living parity that was calculated for June 1946, on a base of October-June 1936-37:

Wholesale price parity	386.45 cents
Cost-of-living parity	479.16 cents
Wage parity (earnings) (1945)	437.50 cents (using U.S. combined fig.)
Wage parity (rates) (July 1946)	483.30 cents

Czechoslovakia

With the exception of such countries as the United Kingdom and Canada, the problem is not one of making a correct choice among indexes, since there is generally only one. But since it is more difficult to discover the makeup of the available index, there is even more danger of distortion through comparing indexes which may be quite unlike. The wage parities which follow are therefore even more approximate than those which preceded.

The Republic of Czechoslovakia publishes an index of average hourly wage rates covering 27 branches of industry on a March 1939 base. There seems to be no accurate way of converting this to an earlier base. What we have done is to use the change in wage rates at Prague from 1937 to January-June 1939, as given by the International Labor Organization, on the assumption that overall Czech wage rates moved in the same ratio from 1937 to March 1939. On this assumption, the June 1946 index of wage rates on a 1937 base is 311.7. The most similar United States index for which 1946 data is available is the estimated straight time hourly earnings series. The data and the parity are as follows:

Czech wage rate index for June 1946 (1937 base)	311.7
U.S. straight time hourly earnings index, June 1946 (1937 base)	169.4
Value of koruna, 1937	3.49 cents
Indicated wage parity value, June 1946	1.90 cents
<u>Present value of koruna</u>	<u>2.01 cents</u>

The values of the koruna indicated by price parity calculations for this general period are:

Wholesale price parity for May 1946	1.57 cents
Cost-of-living parity for June 1946	1.35 cents

Belgium

There is no official wage index of any kind at present. By combining official statements, news of legal wage increases, information given in consular reports, and an old index of the International Labor Organization, several different estimates can be reached as to the present level of wages compared to 1937. I have made three such estimates, which range from an index number of 215.2 to one of 336.3.

The low estimate of 215.2 was obtained by considering that (1) wages are now frozen at July 1945 levels; (2) in 1945 a total increase of 92 per cent (60 per cent and 20 per cent) was decreed over May 1940 levels; and (3) the relationship between 1940 and 1937 wage levels is roughly that given by the International Labor Organization. The fact that the International Labor Organization index refers to hourly earnings instead of rates has not deterred us, not only because nothing else is available, but also because pre-war hourly earnings, as elsewhere mentioned, are probably not too different from hourly rates.

The high estimate of 336.3 was obtained by combining the relationship between wages in 1937 to 1940 as given by the International Labor Organization with a statement made by the Minister of Economic Affairs in March 1946, to the effect that wage rates, including social benefits and indirect payments, were then around 300 compared to 1940.

An intermediate figure of 291.6 was obtained by combining the International Labor Organization index numbers for 1937 to 1939 with a New York Times dispatch stating that wages in May were at 275, if January to June 1939 equals 100.

If we use the intermediate figure of 291.6, the wage data and parity are as follows:

Belgian wage rate index for May 1946 (1937 base)	291.6
U.S. straight time hourly earnings, May 1946 (1937 base)	167.8
Value of Belgian franc, 1937	3.37 cents
Indicated wage parity value, May 1946	1.94 cents
<u>Present value of franc</u>	<u>2.28 cents</u>

This compares with a wholesale price parity for January 1946 of 1.64 cents, and a cost-of-living parity for August 1946 of 1.47 cents.

Netherlands

There appears to be no official over-all wage index, though there is some data on agricultural and on industrial wages. However, L'Echo de la Bourse for August 25, 1946, reports that as of June the average rise in Dutch wages over 1938-39 is 75.6 per cent. It may be assumed that this refers to wage rates, since it is doubtful that hourly earnings statistics could have been compiled in that country during or since the war. Nevertheless, in the absence of other data, this statement may be combined with an I.L.O. index of hourly earnings for pre-war years to provide a figure of 184.6 representing the June 1946 wage level on a 1937 base. On this basis the data and parity calculations are as follows:

Dutch wage rate index for June 1946 (1937 base)	184.6
U.S. straight time hourly earnings, June 1946 (1937 base)	169.4
Value of guilder in 1937	55.04 cents
Indicated wage parity value, June 1946	50.51 cents
<u>Present value of guilder</u>	<u>37.79 cents</u>

This compares with a wholesale price parity for April 1946 of 29.73 cents, and a cost-of-living parity for March 1946 of 40.00 cents.

France

The Bulletin of the Statistique Générale of France has a wage rate index for skilled and unskilled workers, for which, however, no great reliability is claimed. The I.L.O. has an over-all index which combines several wage series, but which is not carried to a more recent date than 1944. The former series is available to 1945. To take account of 1946 wage increases (there have been two legal increases in 1946, and further increases in the average are possible through movement from minimum to maximum rates), it is necessary to use very approximate methods. A State Department airgram states that by July 1946 wage rates were about 10 per cent higher than they were at the beginning of 1946. The August wage increases averaged 18 per cent. On the basis of this information, an increase of 29.8 per cent over January 1946 levels is indicated. This increase has been applied to the latest available 1945 wage index, which is that of the Statistique Générale for October 1945. Since the latter is available for both

skilled and unskilled workers, a simple average was computed (after converting both to an October 1937 base) which gives an index of 417.5 for October 1945. Multiplying by 129.8 per cent gives an index of 541.9. (This figure does not take account of possible increases in 1946 due to shifting among the various legal rates from minimum to maximum.) The data and parity calculations are then:

French wage rate index, summer 1946 (October 1937 base)	541.9
U.S. straight time average hourly earnings index, July 1946 (1937 base)	171.0
Value of franc, 1937	4.05 cents
Indicated wage parity value, summer 1946	1.28 cents
<u>Present value of franc</u>	<u>0.84 cents</u>

In the case of France it may be considered more desirable to calculate parities from a 1938 base since France devalued in mid-1937. The October 1945 French index, on a base of October 1938, is 374.8. Increasing this by 129.8 per cent gives an index of 486.5. The data and parity calculations on this basis follow:

French wage rate index, summer 1946 (October 1938 base)	486.5
U.S. straight time hourly earnings index, July 1946 (1938 base)	170.1
Value of franc, 1938	2.88 cents
Indicated wage parity value, summer 1946	1.01 cents

Comparable price parities are as follows: A wholesale price parity calculation on a 1936-37 base for June 1946 gives an indicated value for the franc of 0.83 cents; a cost-of-living parity calculation on a 1938 base for the same month gives a franc valuation of 1.01 cents.

Computations Regarding the Value of the
French Franc

Hans J. Dernburg

In the pre-war years the French balance of trade traditionally showed an excess of imports over exports. Deficits on trade account were offset in part through net receipts from services (especially from the tourist trade) and from interest and dividends. Following a period of increasing disequilibrium on current account in the years 1935-37, French international trade and service accounts were practically in balance in 1938. The years 1935 to 1937 were characterized by heavy gold exports which offset both the deficit on current account and heavy capital exports (mostly short-term). In 1938 this trend was reversed; short-term capital flowed back and gold was imported. This trend probably continued in the first half of 1939, but no balance of payments estimate for this period is available.

French Balance of Payments 1935-1938
(In billions of francs of 1928 parity)

	<u>1935</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>
Merchandise	-5.9	-8.2	-10.0	-6.1
Interest and dividends	+3.6	+3.8	+3.9	+3.5
Other services	+1.6	+1.6	+2.1	+2.5
Deficit on current account	-0.7	-2.8	-4.0	-1.1
Gold	+14.9	+20.6	+6.5	-3.0
Capital movements	-14.2	-17.8	-2.5	+3.1

In the four years 1935 to 1938, the French franc depreciated from 6.63 cents in August 1935 to 2.63 cents in November 1938.

Exchange Rate of the French Franc
(Average of daily rates)

	<u>1935</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>
Highest month	6.63(Aug.)	6.68(Feb.)	4.67(Jan.)	3.34(Jan.)
Lowest month	6.58(Jan.)	4.65(Nov.)	3.35(Oct.)	2.63(Nov.)
Year	6.60	6.11	4.05	2.88

However, in the 15 months preceding the outbreak of war, the exchange rate was relatively stable; in the period May 1938 to August 1939 it fluctuated between 2.8 and 2.6 cents.

Because of the greater degree of equilibrium in French current accounts and the relative stability of the exchange rate in 1938, that year has been chosen as the base year in the following computations of purchasing power rates. The rate of 2.7 cents to the franc has been chosen as the pre-war parity for the French monetary unit.

Great discrepancies in the French cost-price structure have developed since the beginning of the war and purchasing power computations yield quite different results, depending on whether wages or prices are made the standard and whether "prices" are made to include black market prices or to show controlled prices only. The discrepancies can be seen from the following comparison:

	Approximate Indexes for <u>August 1946</u> (1938 = 100)
Official wholesale prices	698
Wholesale prices including black market transactions	960
Official retail prices	730
Retail prices including black market transactions	1,004
Wages	490

The French index of wholesale prices stood in August 1946 at 698, the corresponding American index at 164. Basing the computation on these index numbers, the purchasing power rate for August 1946 would amount to .6344 cents.

The French index of retail prices in Paris (29 food items, soap, and four items relating to the provision of light and heat) stood at 730 in August 1946, while the American cost-of-living index was at that time 142.6. On the basis of these index numbers, the cost-of-living purchasing power rate for August 1946 would amount to .5274 cents.

It should be noted that in September 1945 the French Government reintroduced subsidies for producers of essential foods. These subsidies lower the actual cost of living and relieve to a certain extent pressure for higher wages. The actual cost of living, on the other hand, is considerably increased by purchases in the black market, from which the French people customarily buy a substantial part of their food. From the point of view of present actual living costs, no adjustment of the cost-of-living index is necessary for subsidies, because these are already reflected in the index. However, an adjustment of the cost-of-living index for black market purchases is desirable because the index is based on regulated prices only.

The Finance Committee of the French Constituent Assembly estimated that 25 per cent of all transactions in France are made at black market prices; and according to an assumption made in a study by the Service National de Statistiques, general black market prices are 2.5 times official prices. If one computes the index numbers on this basis, giving official prices a weight of 3 and black market prices a weight of 1, the index of wholesale prices for August would be 960 (against 698 for official prices only) and the cost-of-living index 1004 (against 730 for official prices only). On the basis of these figures, one may compute an adjusted wholesale price purchasing power rate of .4613 cents and an adjusted cost-of-living purchasing power rate of .3834 cents.

Quite different results are reached when the computation is based on wages. The French wage rate index stood in the summer of 1946 at 486.5 (October 1938 = 100), while the American index for straight-time hourly earnings in July 1946 was 170.1.^{1/} On the basis of these index numbers the wage rate parity for the summer of 1946 would amount to .9440 cents.

The prevailing French exchange rate is .8408 cents per franc. The computed rates compare with this rate as follows:

^{1/} See Miss Jaffy's article, "Wage Parity Calculations for Six Countries," in this issue of the Review. The discrepancy between the parity rate computed here and that computed by Miss Jaffy is explained by the present writer's use of a representative rate of 2.7 cents for ~~the franc in 1938~~, as compared with the average rate of 2.88 cents used in the article cited.

Indicated Parity Values for the French Franc in August 1946
(Base year 1938)

	<u>U.S. cents per franc</u>	<u>Prevailing rate in per cent of computed rates</u>
Wholesale price purchasing		
power rate:		
Uncorrected for black market	.6344	132
Corrected for black market	.4613	182
Cost-of-living purchasing		
power rate:		
Uncorrected for black market	.5274	159
Corrected for black market	.3834	211
Wage rate	.9440	89

On the basis of the computation of relative changes in wage rates, the franc appears to be roughly at an equilibrium level. The wage comparison, however, does not take into consideration relative changes in the efficiency of labor. The relative efficiency of French labor has doubtless decreased since 1938 in view of inadequate diets, disrupted organization of production, and shortages of both machinery and materials. Apparent equilibrium, as far as wages are concerned, might still imply a certain amount of overvaluation, but a moderate amount in comparison with the overvaluation indicated by a comparison of price developments. Taking only controlled prices into consideration, overvaluation appears to range between 32 and 59 per cent, and including black market prices between 82 and 111 per cent.

The discrepancy in the development of wages and prices indicates a considerable decline in real wages and the French standard of living. The basic problem seems to be whether the spread will be narrowed by a decline in prices or by a rise in wages. Since June 1946 the general level of industrial production has been about 80 per cent of 1938. It seems probable that the 1938 general level may be achieved by the beginning of 1947. The French program of reconstruction and development anticipates levels of production much in excess of the 1938 level. A relatively high proportion of net output will flow into investment rather than consumption, but consumption should rise appreciably nevertheless.

Until higher levels of consumption are achieved, however, there will be strong pressure for wage increases, especially since prices continue to rise (see table at end of article). Two legal wage increases were granted in 1946, raising wages by about 30 per cent over the January 1946 level. The extent to which further wage demands will be granted may depend mainly on the strength of future French Governments, and no predictions are possible on this score.

The present volume of French exports is determined primarily by the general level of output and the policy of the Government in determining what portion of France's production can be made available for exports. As long as the present world shortage of goods continues,

France may be able to sell whatever goods are available for export at relatively high prices. With growing world production, however, competition on world markets will stiffen, and the relationship of the French cost structure to the level of world prices will become of greater importance. If by that time wages have risen considerably, devaluation may be indicated.

Present black market rates for the United States dollar seem to express rather pessimistic attitudes regarding the value of the franc. Until early September the rates were remarkably close to the computed purchasing power rates corrected for black market prices. The black market rate for dollar notes in Paris between September 6 and 10 was 235 francs to the dollar or .4255 cents per franc.

French Indexes

	Index of Wholesale Prices ^{1/} General Index	Index of Retail Prices in Paris 34 Articles ^{2/}
1938	100	100
1939	105	108
1940	139	129
1941	171	150
1942	201	175
1943	234	224
1944	265	285
May ^{3/}	287	355
1945	375	393
December ^{4/}	469	497
1946		
January	479	481
February	488	482
March	548	490
April	559	491
May	624	547
June	604	577
July	571	576
August	698	730
September	727	785

^{1/} Weights of 1938.

^{2/} Twenty-nine food items, soap and 4 items relating to the provision of light and heat.

^{3/} Last month prior to liberation.

^{4/} Month of franc devaluation.

Some Remarks on the 1946 Budget of the U.S.S.R. Alexander Gerschenkron

A number of reports on this year's budget of the Soviet Union have appeared in various publications. Attention should be called particularly to the illuminating discussion in The Economist of October 26, 1946. The present article is accordingly limited to some general comments on recent inflationary processes and on proposed military expenditures and is not concerned with more comprehensive analysis of the budget.

I. Deflation and Inflation. When the 1946 budget was finally published (in mid-October 1946), almost four-fifths of the budgetary period had elapsed. This is comparable to announcing a Five Year Plan at the end of the fourth year and, even by Russian standards, is an extraordinary delay which tends to make the budget a report on the past rather than an estimate of the future. The Economist, in the article just cited, attempts to explain the procrastination by ascribing it to uncertainties produced by "an undefinable element of price inflation." This is indeed quite plausible. Less so is the impression given that the present inflationary pressures are a direct continuation of wartime inflation. This deserves a few comments in order to clarify somewhat the degree of comparability between the current figures and those of the preceding budget (1945).

In the absence of official price statistics (which were discontinued some fifteen years ago), an approximate summary of price developments may be presented as follows: The widespread and very considerable price increases of the first war years were checked sometime in 1944. A period of sustained price reductions followed. The low was apparently reached sometime early in 1946. Support for this conclusion is contained in the current (Fourth) Five Year Plan, although the evidence is presented in the semi-disguised fashion which characterizes Russian disclosures of this sort of intelligence.^{1/} According to this statement the increase in retail prices between 1940 and the end of 1945 can be computed at about 23 per cent. It seems that the downward trend was reversed sometime in the spring of this year when prices of rationed goods were increased sharply.

A considerable part of the budget speech of M. Zverev, the Minister of Finance of the U.S.S.R., was devoted to the problem of inflationary pressures evidenced by discrepancies between the planned and actual cost of production of a number of commodities (coal, construction materials, and a few others). The discrepancies as cited by

^{1/} The section of the Plan relating to domestic trade and consumption reads as follows: "To increase to R 275 billion in 1950 the volume of retail trade of state and co-operative enterprises, taking into account the price reductions that have taken place in 1945; in comparable prices this will exceed the volume of retail trade of 1940 by 28 per cent." Since the volume of retail trade in 1940 amounted to R 174.5 billion, the increase in prices may be computed at about 23 per cent.

the Minister are considerable. It should be realized, however, (a) that the Five Year Plan actually envisaged further reductions in cost so that actual increases may well be smaller than is indicated by the discrepancies revealed; and (b) that a number of the examples cited by M. Zverev relate not to the major portion of the output of the commodities in question, but rather to the limited production established during the war at plants which were consumers of those commodities. The Russians, incidentally, have thus far preserved these make-shift production arrangements and are attempting to make at least some of them permanent; the present experience with the unduly high cost of production may well lead to a revision of the pertinent decisions.

If what is said in the preceding paragraph is taken into consideration and the discrepancies given by M. Zverev discounted accordingly, it seems likely that the inflation of 1946 has not yet undone the effects of the preceding deflation. The conclusion is that the figures of 1946 are very roughly comparable to those of 1945.

A wider problem is presented by the quest for the main cause of the reversed trend in prices. It appears that one would not go far wrong in assuming that the human equation, i.e. the reaction of labor to the terrible strain of the war years, is primarily responsible for the development. The fact that in 1945 a level of industrial output could be reached which was only a few per cent lower than the pre-war level is evidence of that strain. It is difficult to restore production with this physically exhausted labor force, which, as M. Zverev complains, is now responsible for enormous percentages of flawed goods in total production. Improvement in the mental and physical condition of industrial labor is likely to become the pivot of all attempts to increase output and to control inflationary tendencies during the months to come. The announcement in the budget speech that paid vacations unused during the war may be used in the future shows the concern of the regime for the problem. On the other hand the fact that the abolition of rationing, so definitely promised for this fall, has been postponed until the next year may mean that diets will continue to be inadequate. It will also remain to be seen whether or not this reduction in efficiency of industrial labor will induce the Russians to place additional emphasis on production of industrial consumer's goods, primarily shoes and textiles.

II. Military Expenditures. When in May 1945 the 1945 budget was announced and it was found that military expenditures remained unchanged at the 1944 level of about 137.9 billion rubles, there was considerable speculation as to Russia's military plans. The amount actually expended is now revealed to be somewhat lower (R 128.2 billion); but this is unimportant as, in view of the falling price tendency in 1945, the real value of military expenditures may have been in reality even higher than the original appropriations. The main explanation for the high military expenditure in 1945 seems to lie (a) in the unwillingness of the regime to demobilise the men before jobs have been created for them, and (b) in the inertia shown in the process of reconversion. For 1946, military expenditures have been cut to R 72 billion, which means a reduction of the share of these expenditures in the total budget from about 44 to about 22 per cent.

It should be noted, however, that just as the high military expenditure of 1945 did not necessarily indicate any aggressive intentions on the part of the Russians, no opposite interpretation should be placed on the present reduction of military expenditure. It is obvious that without extensive demobilization, Russia, suffering as it is from acute manpower shortages and faced by a disastrous fall in the productivity of labor, would be unable to reconstruct its economy.

The scaling down in military expenditures per se points neither toward peace nor toward aggression, unless in terms of an unrealistically short period. It would be more significant, if an analysis of the Five Year Plan were to show a proposed shift in the relation between heavy and light industries. But for the time being there is no sign of that. The data of the current Five Year Plan show that the Russians, on the whole, aim at the same ratio between the two main branches of industry in 1950 as had been envisaged for 1942 (which was supposed to be the last year of the Third Five Year Plan). Since that Five Year Plan was adopted as late as March 1939, its character, and in particular the ratio of heavy to high industry, was certainly not unaffected by the coming war.

Whatever improvement in international political relations may be anticipated for the years to come is not adumbrated either in the data of the Fourth Five Year Plan or in the budgetary reduction of military expenditures, which, it may be added, leaves the latter in almost exactly the same relation to total expenditure as was the case in 1938.

Turkey's 1947 Budget

A. R. B.

Turkey's budget for 1947 has been submitted to the National Assembly for enactment, and will soon come up for discussion. According to information made available at this time, the projected budget provides for T.£ 1,134 million (\$405 million) of expenditures during the calendar year 1947, an amount 14.5 per cent higher than that of the budget finally adopted for 1946. A deficit of T.£ 144.9 million (\$41 million) is expected, which will be largely covered by a National Recovery loan and other loans.

The principal categories in which larger expenditure are contemplated are national defense, education, and health and sanitation. Sizable increases in expenditures for national defense and security account for approximately 70 per cent of the total net increase. Provision is also made in the budget for granting substantial increases to government employees to meet the high cost of living. The government hopes to recover some of this expenditure by eliminating existing aids to employees and by reducing the total number of government workers by not filling vacancies as they occur.

The budget also provides for reductions of expenditure in certain categories, the principal one being service of the national debt. It is believed that this was made possible through the liquidation of a major part of the floating debt by means of receipts accruing to the government as a result of the revaluation of the central bank's gold stock following the recent devaluation of the Turkish pound.

Details are not at present available concerning the various sources of revenue, but it is expected that these will be revealed during parliamentary debates.