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# EXPORT PRICES AND THE DOLLAR-STERLING RATE

Randall Hinshaw

In recent months, the dollar-sterling rate has been the subject of much controversy. In the United States, the opinion is widespread that sterling is overvalued in terms of the dollar, but in Britain this view is stoutly resisted in most quarters, and until lately there has even been some sentiment in favor of sterling appreciation.1/ A certain measure of support for the latter view has been afforded in studies prepared by the staff of the International Monetary Fund which appear to show that, in terms of relative purchasing power, the pound has consistently been undervalued with respect to the dollar since the end of the war.2/ It is difficult, however, to take such a conclusion very seriously, since a large segment of the British price structure is kept below the free-market level by subsidies and direct controls. The question remains whether there are any price-level comparisons which shed light on the appropriateness of the present dollar-sterling rate. Despite certain protestations to the contrary, the answer would appear to be a qualified affirmative. By means of certain modifications in the conventional assumptions and methods, it appears possible to derive figures which, although clearly not providing an adequate basis for judging the present sterling rate, may be of some value when used in conjunction with other criteria.

Under normal international conditions, the most significant price-level comparisons for exchange-rate evaluation are those which do not embrace prices of internationally traded goods, since such prices are closely tied together by competition. Where the international price structure is highly integrated, there is no reason to expect purchasing-power parities derived exclusively from international-price data to diverge significantly from the prevailing exchange rates. Such computations are therefore useless as a measure of over- or under-valuation.

This objection to the use of international-price data is not, however,

1/ See, for example, R. G. Hawtrey, "Monetary Aspects of the Economic Situation," American Economic Review, March 1948. As late as January 1949, Paul Einzig recommended raising the sterling rate to $4.86, and in April 1949 an official of the Bank of England expressed to the writer his private view that the rate should be raised to $4.50. At the same time, Hawtrey indicated that, as a result of price developments in the United States, he no longer favored sterling appreciation.

2/ According to a recent Fund memorandum on this subject, the pound sterling in May 1949 was undervalued with respect to the dollar by 12 per cent on the basis of consumers' prices and by 4 per cent on the basis of wholesale prices. (Confidential staff memorandum 191, supplement 13, Measures of Overvaluation and Undervaluation, July 5, 1949.)

relevant at the present time. As a result of the breakdown of currency convertibility, prices of like commodities can differ from one area to another by a much wider margin than would be expected on the basis of transportation costs and customs duties. Since this is so, it would seem clear that international-price series (particularly export-price series), which normally are of little value in appraising exchange rates, are under present conditions of foremost relevance. By relating relative changes in export price levels to a pre-war norm, it should be possible to obtain a rough indication of the degree to which foreign currencies are overvalued or undervalued with respect to the dollar. The brief and preliminary study which follows represents an attempt to apply this procedure to the dollar-sterling rate.

During the war, export prices in both the United Kingdom and the United States rose very sharply. This rise was considerably greater in the case of the United Kingdom than in the case of the United States. For a time after the war, the two price series tended to converge as a result of the rapid rise of prices in the United States following the removal of controls, but in recent months the spread between the two indexes has been steadily widening. On a 1938 base, the British export-price index in May 1949 stood at 260, while the corresponding figure for the United States was 194.1/ Part, but only part, of this difference can be accounted for by the depreciation of sterling in 1939. This is clearly shown by taking, as a point of departure, the average dollar-sterling rate in 1938 ($4.89) and, on this basis, computing from the export-price indexes the purchasing-power parity (or, more accurately, the "export-price parity") of the pound. A full allowance for the effect of depreciation would be reflected in an export-price parity equal to, but no lower than, the present exchange rate of $4.03. Instead, the export-price parity for May 1949 turns out to be $3.65.

On this basis, the pound at present would appear to be overvalued in terms of the dollar by about 10 per cent. There are reasons, however, for believing that the degree of overvaluation may be considerably greater than this. In the first place, British exports are almost entirely in the category labelled "articles wholly or mainly manufactured," while a large proportion of United States exports are in the form of crude materials, crude foodstuffs, and semi-manufactured goods. Thus the most relevant export-price parity for present purposes would appear to be one which linked the price level of British exports of manufactures with the corresponding price level in the United States. Fortunately, it is possible to make such a calculation, and the result is a somewhat lower export-price parity than when the over-all export price series are used. Linking the British price index of exports "wholly or mainly

1/ The British index here used is the one published by the Board of Trade; the United States index is the unit-value series prepared by the Department of Commerce.

manufactured" with the United States export-price index for "finished manufactures" yields an export-price parity for May 1949 of $3.54.1/

In the foregoing computations, the 1938 average dollar-sterling rate was used as a norm. This procedure rests on a rather dubious assumption--namely, that sterling was in an appropriate relationship with the dollar in 1938. Actually, as Balogh and others have contended, there is an impressive evidence that sterling in that year was substantially overvalued.2/ The British balance of payments during the thirties was characterized by a persistent deficit on current account, and in the two years preceding the outbreak of war the Bank of England and the Exchange Equalization Account suffered large losses of gold in a fruitless effort to maintain the external value of the pound. In part, the latter difficulties were the result of the disturbed international situation, but they also were a reflection of unfavorable price developments. In relation to 1929 (the most recent year which could conceivably be regarded as a satisfactory domestic and international norm for both the United Kingdom and the United States), the purchasing-power parity of the pound in 1938, as computed from cost-of-living series, was $4.25. If this figure, rather than the 1938 average sterling rate, is taken as a standard, we obtain correspondingly lower export-price parities. For May 1949, the adjusted over-all export-price parity is $3.17; the more significant adjusted export-price parity for manufactures is $3.08.

In the table below, export-price parities are given for May of the years 1946 through 1949. All figures are on a 1938 base. Rows A and B are derived on the basis of the 1938 average dollar-sterling rate ($4.89); rows C and D, on the basis of the 1938 purchasing-power parity ($4.25).

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1/ It should not be inferred from this that British exports to the United States are necessarily over-priced. Indeed, it is clear that, in the case of standardized products, British goods must either meet competitive prices or be excluded from the American market. But to the extent that British exports to the dollar area are competitively priced, it follows that the price level of British exports to other areas must be above the price level for British exports as a whole. Thus it is difficult to escape the conclusion that Britain is exporting to other areas goods which, because of unfavorable prices, cannot be sold in the dollar area, and which, at a more favorable exchange rate, might flow to dollar markets in considerable volume.

2/ Cf. Thomas Balogh, "Foreign Exchange and Export Trade Policy," Economic Journal, March 1940, p. 2.

## Export-Price Parity of the Pound Sterling

| | May, 1946 | May, 1947 | May, 1948 | May, 1949 |
|---|---|---|---|---|
| On basis of 1938 average dollar-sterling rate: | | | | |
| A. Over-all export-price parity | $3.94 | $4.24 | $4.07 | $3.65 |
| B. Export-price parity for manufactured goods | 3.76 | 3.89 | 3.76 | 3.54 |
| On basis of 1938 purchasing-power parity: | | | | |
| C. Over-all export-price parity | 3.43 | 3.69 | 3.54 | 3.17 |
| D. Export-price parity for manufactured goods | 3.27 | 3.38 | 3.27 | 3.08 |

It will be noted that all four figures for May 1949 are well below the existing dollar-sterling rate. Indeed, only row A, which for the present purpose is perhaps of least interest, has any figures which are higher than the current rate. The most significant row in the present connection is row D, which for all four years shows figures well below the four-dollar level.

These computations appear to indicate that the pound may be overvalued in terms of the dollar by as much as 25 per cent. This tentative conclusion in no way depends on the choice of 1938 as base year. Any other year during the later thirties yields similar results. For example, on a 1937 base, the 1949 figure in column D is $3.05 rather than $3.08; on a 1936 base, the corresponding figure is $3.01.

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INDIAN PUBLIC FINANCE SINCE THE WAR

Harrison Parker

One of the main factors underlying the postwar inflation[1/] in India has been the great increase in government expenditures since prewar days. War expenditures, accompanied by heavy deficit financing, were very large from 1939 to 1946. In the fiscal year 1945-46 (April through March) total central government outlays (as shown in Table I) were 10 times those of 1938-39. At the end of 1946, the money supply had increased five-fold. Due to price and distribution controls, and efforts to mop up purchasing power such as the government compulsory savings programs, the wholesale price index at the end of 1946 stood only about 2.6 times higher than in August 1939.

At the end of the war, the government of India had great hopes of bringing the inflation of money and prices to an end. In order to cut down the 'monetary overhang' created by wartime financing, the government expressed its intention to cut expenditures and operate with a surplus in the budget. It was fortunate in possessing a powerful anti-inflationary tool in the large sterling balances which had been built up during the war. The borrowing program, which had been successfully used in 1943-45 to mop up part of the excess purchasing power created by government expenditures, and through which a large cash balance had been built up, was retained, on an entirely voluntary basis, in the postwar period.

The postwar experience demonstrated, however, that inflation could not be stopped immediately at the end of hostilities. Postwar government outlays, though no longer burdened by war expenditures, remained at a high level as a result of relief and rehabilitation payments, of military expenditures connected with unstable internal and external conditions, and of development outlays; moreover, a further serious price rise, which carried the wholesale price index to a peak of 390 in July 1948 (year ended August, 1939 = 100) necessitated larger expenditures for the same amount of goods and services. Thus the outlay in the 1949-50 budget is still 5 times that in 1938-39, though only about half as large as the outlay in 1945-46. Deficits were financed largely by drawing down the large government cash balances which had been accumulated in wartime.

Before the actual budget figures themselves can be discussed, a few problems must be pointed out. First, Indian budgets are divided into two sections: revenue account and capital account. The revenue account comprises taxation and other receipts classified as revenue and the expenditures therefrom. The capital account comprises capital expenditure covered by the proceeds of loans and other credit operations. Budgets of government commercial operations are drawn up separately, but they are reflected in the general budget accounts. Second, the partition of India caused a break in public finance statistics. The original budget for 1947-48 had to be abandoned and a new one adopted dating from the establishment of the Dominion of India, covering only the period from August 15, 1947 to March 31, 1948. No figures have been released for the earlier period of the 1947-48 fiscal year. Finally, the post-partition budgets are not comparable with pre-partition budgets in that the latter included expenditures and revenue in what is now Pakistan.

1/ See this Review, July 5, 1949.

The revised budget estimates for the 7 1/2 month period of fiscal 1947-48 and for 1948-49, and the budget for 1949-50 show total central government outlays of Rs. 2,576 million, Rs. 5,503 million, and Rs. 4,818 million, and total deficit outlays of Rs. 788 million, Rs. 2,120 million, and Rs. 1,589 million respectively (an average deficit not met from revenue of 35 per cent over the three years).1/ (See Table I.)

Net defense expenditure on revenue account, which had averaged 75 per cent of the outlays on revenue account in the war years (exclusive of large additional "recoverable war expenditures" or rupee finance supplied to the United Kingdom and allies in return for the acquisition of sterling balances), was 47 per cent of the revenue account expenditures in 1947-48 (7 1/2 months), and 46 per cent of the same in 1948-49. This relatively high level was due in part to the expense of setting up an independent army, but in 1948-49 the expenditure was raised by the Kashmir and Hyderabad operations. 49 per cent of the revenue account expenditure in the new budget for 1949-50 is classed as military in nature. Food subsidies took an additional 10 per cent of revenue account outlays in each year. Expenditure on refugees was 8 per cent of the revenue account outlays in 1947-48, 5 1/2 per cent in 1948-49, and only 3 per cent in the 1949-50 budget.

Receipts on revenue account are dominated by tax revenue from four main sources: customs revenue, excise duties, corporation tax, and income tax. Revenue is also derived from the net profits of the government of India railways, posts and telegraphs, and from monopolies as on salt and opium. Government revenue has been estimated as absorbing from 11 to 15 per cent of national income during the war, falling to around 11 per cent again in the postwar period.

Although never attaining wartime peak levels, tax revenues remained high in the postwar period due to a sharp increase in import duties and excise taxes, and to the maintenance of direct taxes at high levels. Taxes on income (including income taxes and the corporations tax) rose from 24 per cent of total tax revenue in 1939-40 to 68 per cent in 1944-45. In the postwar period, in an effort to relieve some of the pressure on business and private initiative, this percentage was lowered, and amounted to just about 50 per cent in the 1948-49 budget. In the new 1949-50 budget, further concessions are made to the business community, with taxes on income and corporation taxes being lowered again, and excise and customs duties being raised. However, since the excise taxes, with the exception of those on sugar and cloth, fall chiefly on what in India are high income groups, the shift is not as regressive as it might appear. Customs revenue is expected to produce almost as much as income taxes in the 1949-50 budget, which is both a commentary on the poverty of the country and on the manner in which the finances of the country are hostage to the necessity of continuing high imports.

As a result of these efforts to raise revenue, the expenditures of the government on revenue account were largely met, and insignificant deficits appeared in the estimates and budgets for each of the postwar years. The real inflationary deficit appeared in the capital accounts, which assumed new significance after the war. The government undertook extensive development and reform projects in the postwar period, both on its own account and, through financial aid to the

1/ 1 Rupee = $0.30.

TABLE I

Central Government Finances

| | Closed Accounts | | Revised Budget Estimates | | | Budget |
|---|---|---|---|---|---|---|
| | 1938-39 | 1945-46 | 1946-47 | 1947-48 7 1/2mo. | 1948-49 | 1949-50 |
| **Central Government Budget (Revenue Account)** | | | | | | |
| Revenue 1/ | 845 | 3,607 | 3,362 | 1,788 | 3,383 | 3,230 |
| Expenditure 1/ | 852 | 4,846 | 3,815 | 1,853 | 3,399 | 3,225 |
| Civil | (390) | (1,244) | (1,434) | (987) | (1,844) | (1,651) |
| Defense | (462) | (3,602) | (2,381) | (866) | (1,554) | (1,574) |
| Surplus or Deficit (-) | -7 | -1,239 | -453 | -65 | -16 | +5 |
| **Total Central Government Outlays** | | | | | | |
| Expenditure on Revenue Account | 852 | 4,846 | 3,815 | 1,853 | 3,399 | 3,225 |
| Deduct: Appropriation for Debt Reduction | 30 | 30 | 50 | 50 | 50 | 50 |
| Net Expenditure on Revenue Account | 822 | 4,816 | 3,765 | 1,803 | 3,349 | 3,175 |
| Disbursements on Capital Account not met from Revenue | 91 | 575 | 525 2/ | 569 | 1,750 3/ | 946 |
| Loans and advances to Provinces, etc. (net) | -25 | -168 | 5/ | 204 | 405 | 697 |
| Recoverable War Expenditure | 0 | 3,745 | 516 | 0 | 0 | 0 |
| Total | 888 | 8,968 | 5/ | 2,576 | 5,503 | 4,818 |
| **Central Government Deficit** | | | | | | |
| Total Outlays Excluding Recoverable War Expenditures 4/ | 888 | 5,222 | 5/ | 2,576 | 5,503 | 4,818 |
| Deduct: Revenue | 845 | 3,607 | 3,362 | 1,788 | 3,383 | 3,230 |
| Total Deficit Outlays | 43 | 1,615 | 5/ | 788 | 2,120 | 1,589 |
| **Means of Financing** | | | | | | |
| Interest-Bearing Debt: | | | | | | |
| Sterling Loans | (-30) | (-4) | (-10) | (-16) | (-60) | (-28) |
| Rupee Loans | (-5) | (+2,801) | (+375) | (-170) | (-439) | (+162) |
| Floating Debt | (+83) | (-34) | (-41) | (+100) | (+590) 3/ | (+50) |
| Small Savings | (+37) | (+623) | (+517) | (+91) | (+329) | (+376) |
| Other Unfunded Debt and Interest-Bearing Accounts | (+1) | (+833) | (-71) | (-549) | (-345) | (-450) |
| Total Interest-Bearing Debt | +86 | +4,219 | +770 5/ | -544 | +75 | +110 |
| Non-Interest-Bearing Debt and Miscellaneous Accounts | -25 | +29 | | +225 | +930 | +429 |
| Decrease (+) or Increase (-) in Cash Balance | -18 | -2,633 | +1,013 | +1,107 | +1,116 | +1,050 |

(For Sources and Footnotes see page 4.)

Sources and Footnotes to Table I

SOURCES: Data for 1938-39 through 1946-47 based on Reserve Bank of India, Report on Currency and Finance 1946-47, pp. 65, 72, Reserve Bank of India, Bulletin, June 1948, p. 41, and United Nations Document E/CN.8/31/ Annex 16, Dec. 7, 1948, India: Public Finance Data, pp. 3-5. Data for 1947-48 through 1949-50 based on India, Ministry of Finance, Budgets for 1948-49 and 1949-50.

1/ On the basis of General Statement I of the Budget. Excludes provinces' share of income tax. Includes on net basis: railways ("contribution to general revenues," "transfers to Railway Reserve Fund," and, beginning 1946-47, "transfers to Railway Betterment Fund"), posts and telegraphs, defense expenditure. Interest charged to railways, posts and telegraphs, etc. is deducted from interest paid on Central Government debt rather than counted as Central Government revenue.

2/ Adjusted to exclude subscriptions to International Monetary Fund and International Bank for Reconstruction and Development.

3/ Adjusted to exclude Rs. 2,157 million net outlay for commutation of sterling pensions, met by Floating debt.

4/ Differs from "Total Government Outlays" as shown, for example, in Reserve Bank of India, Report on Currency and Finance, by inclusion of civil expenditure on capital account and net loans and advances to provinces, etc. A further minor difference is created by exclusion of "appropriation for debt reduction."

5/ Data not available on "revised budget" basis used in this column. Total outlays excluding recoverable war expenditure (also excluding gold subscriptions to IMF and IBRD) are estimated at approximately 4 1/2 billion rupees. Accordingly it is estimated that "non-interest bearing debt and miscellaneous accounts" involved net payments exceeding 500 million rupees. One component of this item was an increase in sterling accounts receivable for recoverable war expenditure.

provinces, on provincial account. The government establishment of the Sundri chemical plant and government organization of the Damodar Valley Corporation are examples of the former, and provincial efforts to abolish the zamindari, or feudal landlordism, is an example of the latter. As a result, capital account expenditures (including net loans and advances to provinces, etc.) reached Rs. 773 million in 1947-48 (7 1/2 months), and Rs. 2,154 million in the 1948-49 estimates, according to revised budget estimates for these years. The 1949-50 budget puts such capital expenditures at Rs. 1,643 million.

It is this combination of extensive capital expenditures with continuing large-scale outlays for military and relief purposes which creates the lack of balance in public finance. The situation is doubly serious because the government's borrowing program in the postwar period has been less and less successful. The low rate of interest finally established for government securities had had the effect, in the last two years, of reducing public demand for new government securities. The government set a goal of Rs. 1,500 million for new borrowing in both 1947-48 and 1948-49. In the former period, only Rs. 410 million was raised, and in 1948-49 only Rs. 550 million. These amounts were less than the redemptions of rupee loans during these years. The failure of the borrowing program is explained not only by the maintenance of the cheap money policy through the postwar period, but also by the facts that the States, which were heavy investors in government bonds under British rule, are not now investing; and that the economic disruption attendant on partition was accompanied by general lack of confidence.

Postal savings deposits and other small savings yielded Rs. 329 million in 1948-49, as compared with Rs. 517 million in 1946-47. Subscriptions to floating debt also suffered a decline and the Reserve Bank of India was forced to subscribe to a larger proportion of the issues of Treasury Bills as public demand dropped. Even though the rate of interest on Treasury Bills rose slightly in the latter part of 1948, public response became so poor that the tender of Treasury Bills was stopped in early November, and the Reserve Bank of India became the exclusive buyer. Efforts to market the newly-instituted Treasury Deposit Receipts to institutional investors after this date met with more success. Therefore, it can be seen that outside of direct recourse to the Central Bank, these principal sources of income for the capital budget have dried up in relation to the needs of the capital budget.

There are other receipts that enter into the capital accounts such as intake from reserve funds and other interest-bearing deposits and advances. However, the major portion of the deficits in these years was met by drawing down the cash balances of the government. At the beginning of fiscal year 1946-47 the cash balance was Rs. 5,395 million; it had reached this high figure during the war as a result of borrowing operations to mop up inflationary purchasing power, and other government income. Three years later the balance had dropped by 70 per cent to Rs. 1,630 million. Part of this drop was due to the transfer of government assets to Pakistan at the time of partition, but nevertheless it represented a very rapid rate of exhaustion. The fact that the borrowing program was not proceeding successfully only meant that these balances were being drawn upon at an even faster rate. Since this type of financing is clearly inflationary, the absolute necessity arose for the government to cut its capital expenditures, and to develop new methods of raising receipts through increases in public holdings of floating debt and small savings, as was announced in the anti-inflationary program of last October.

Although there are certain signs in early 1949 that the inflationary dangers have been overcome and that a certain stabilization of prices and money supply has appeared, it is still too early to judge the success of the government's efforts to narrow the gap between expenditures and revenue. The failure to implement the announced anti-inflationary program with a balanced 1949-50 budget leaves a critical problem, demanding early solution, in the hands of the Government of India.

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# TRADE AMONG EUROPEAN RECOVERY PROGRAM COUNTRIES IN 1948 1/

Guenter H. Mattersdorff

Trade among ERP countries in 1948 was 25 per cent higher than in 1947. In volume it remained some 15 to 20 per cent below 1938, on the basis of a rough calculation assuming doubling of dollar prices between 1938 and 1948. The percentage of intertrade in the total exports of the ERP countries remains somewhat below the prewar figure, but intertrade is becoming more important in relation to the total imports of the participating countries.2/

The following table shows the volume of trade among ERP countries since 1938, and the relative importance of this trade compared with their total imports and exports (Trade with dependencies and overseas possessions is excluded).

| (Billions of Current $) | | Percentage Share of Intertrade in Total Exports of ERP Countries | Percentage Share of Intertrade in Total Imports of ERP Countries |
|---|---|---|---|
| 1938 | 4.7 | 51 | 38 |
| 1946 | 4.0 | 46 | 29 |
| 1947 | 6.0 | 46 | 30 |
| 1948 | 7.5 | 45 | 34 |

While all countries shared in the expansion of intra-European trade in 1948, the expansion of British, Dutch, German and Austrian trade is particularly noteworthy.

| | Imports | | Exports | | Imports as Per Cent of Expor | |
|---|---|---|---|---|---|---|
| | 1947 | 1948 | 1947 | 1948 | 1947 | 1948 |
| Austria | 75.9 | 143.7 | 58.5 | 132.0 | 77.1 | 91.9 |
| Belgium-Luxembourg | 768.0 | 849.5 | 884.4 | 990.1 | 115.2 | 116.6 |
| Denmark | 301.7 | 340.5 | 339.8 | 398.2 | 112.6 | 116.9 |
| France | 656.9 | 811.5 | 721.3 | 783.0 | 109.8 | 96.5 |
| Germany | 202.0 | 489.3 | 317.4 | 605.5 | 157.1 | 123.7 |
| Greece | 84.0 | 118.7 | 45.8 | 56.0 | 54.5 | 47.2 |
| Iceland | 39.5 | 32.4 | 29.5 | 45.8 | 74.7 | 141.4 |
| Ireland | 291.2 | 342.6 | 157.4 | 183.2 | 54.1 | 53.5 |
| Italy | 288.9 | 322.1 | 380.1 | 481.9 | 131.6 | 149.6 |
| Netherlands | 567.8 | 806.9 | 434.0 | 641.6 | 76.4 | 79.5 |
| Norway | 354.7 | 393.8 | 217.3 | 243.7 | 61.3 | 61.9 |
| Portugal | 133.6 | 187.2 | 70.1 | 70.7 | 52.5 | 37.8 |
| Sweden | 507.1 | 625.4 | 505.7 | 661.9 | 99.7 | 105.8 |
| Switzerland | 520.4 | 547.7 | 368.6 | 390.4 | 70.8 | 71.3 |
| Turkey | 117.5 | 132.6 | 110.8 | 97.7 | 94.3 | 73.7 |
| United Kingdom | 1088.5 | 1373.1 | 1357.0 | 1735.3 | 124.7 | 126.4 |
| Total | 5997.7 | 7517.0 | 5997.7 | 7517.0 | 100.0 | 100.0 |

1/ Data on trade among the countries participating in the European Recovery Program in 1946 and 1947 were published in the issues of August 12, 1947 and June 15, 1948 respectively, of this Review. The following article on the intertrade of the ERP countries in 1948 is based on methods used and statistics compiled in the previous articles on the subject and has been contributed by Mr. Mattersdorff, a member of the staff of the Intra-European Trade Branch, Fiscal and Trade Policy Division, Economic Cooperation Administration.

2/This is of course the result of the noticeable improvement in the overall trade balance of the ERP countries which has taken place in 1948.

In only two countries, Austria and Germany, did trade move significantly toward greater balance - in both cases, aggregate trade with other ERP countries more than doubled. The Austrian trade deficit was cut by a third, while the German trade surplus remained numerically the same but was considerably smaller in relation/total German trade.

Italy's exports increased at a faster rate than imports, resulting in a relatively very large positive trade balance for that country. Sweden also achieved a slight export surplus after its trade had been practically balanced in 1947, while France had a small negative balance in 1948, compared to a surplus before.

The Greek, Portuguese, and Turkish position deteriorated markedly, the latter country being the only one which exported less in 1948 than in the preceding year.

## Intertrade and Trade with United States

Table I shows the comparative importance of intertrade and trade with the United States of each of the ERP countries. Only Germany, Greece and Italy imported considerably more from the United States than from other ERP countries while Austria bought approximately the same amount from each. These and the United Kingdom are least dependent on imports from other ERP countries. On the export side the countries with the largest percentage of shipments to the United States are Turkey, Switzerland and Portugal, while the countries most dependent on exports to other ERP countries are Ireland, Germany, Austria, and the Scandinavian and Benelux countries.

## Bilateralism, Multilateralism, and Net Balances

The following table shows in greater detail the possibilities of compensations in intra-European trade. It can be seen that the percentage of bilaterally compensable trade (i.e. that part of total bilateral trade in which exports are offset by imports), the percentage of multilaterally compensable trade (i.e. the bilateral surpluses or deficits which can be offset by bilateral deficit or surpluses with other countries) and the percentage of net balances (i.e. the amounts which cannot be compensated on trade account) are practically identical with a similar calculation for 1938.

| | Bilaterally Compensable | Multilaterally Compensable | Net Trade Balances |
|---|---|---|---|
| | | (In percentages of total trade) | |
| 1938 | 82 | 7 | 11 |
| 1946 | 69 | 10 | 21 |
| 1947 | 80 | 9 | 11 |
| 1948 | 81 | 7 | 12 |

As Table II shows, the shift away from multilaterally compensable trade since 1947 seems to be caused by the significant degree of bilateral trade balance achieved by Belgium-Luxemburg, Netherlands, Switzerland, and Italy. The latter country became a creditor on trade account with almost all the other ERP countries, and therefore had very few negative balances to offset against its export surpluses. Almost one fourth of the multilaterally compensable trade

involves the United Kingdom, mainly through its trade deficit with Italy and, to a lesser degree, Belgium-Luxemburg. Other important bilateral trade balances whose sign is the opposite of that of the overall intra-European trade balance of the country concerned are the Swedish trade deficit with the United Kingdom, the French surplus with Switzerland, the Danish deficit with Germany, and the Austrian positive balance with Switzerland and Italy. These bilateral relationships seem to be quite permanent and could form the foundation for multilateral settlements. Of great importance, if of doubtful long-term character, is also the position of Germany, which in 1948 had a large trade deficit with the United Kingdom and a substantial positive balance with France.

## Notes to Tables

All data are derived from official trade statistics of the countries concerned, except for Greece, statistics for which were derived from the trade statistics of its trading partners. An effort has been made to confine German trade data to those of the three Western Zones. In general export statistics were used, but in the case of substantial conflict with import statistics, adjustments were made on the basis of supplementary information obtained from consular reports and other sources. All figures were converted at the official exchange rates into dollars.

### Table I

Data for trade with the United States are from U. S. customs statistics.

### Table II

For the method of dividing trade into the three categories of (1) bilaterally compensable trade, (2) multilaterally compensable trade, and (3) net balances, cf. League of Nations, Review of World Trade, 1935 (Geneva, 1936), p.65.

Minus and plus signs in column "Net Balances" refer to import and export surpluses, respectively. Summation is made regardless of sign.

The figures for "Total Intertrade" are one-half of those for "All Countries"; the latter figures contain twice the amount of the actual flow of trade since every movement of goods is recorded in both imports and exports.

TABLE I:

Intertrade, Trade with the United States, and
Total Trade of ERP Countries in 1948

| | Imports | | | | | Exports | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | From ERP Countries | | From United States | | | To ERP Countries | | To United States | | |
| | Mill of $ | % of total imports | Mill of $ | % of total imports | Total Imports | Mill of $ | % of total exports | Mill of $ | % of total exports | Total Exports |
| Austria | 143.7 | 31.4 | 145.8 | 31.9 | 457.0 | 132.0 | 66.5 | 10.2 | 5.1 | 198.4 |
| Bel.-Lux. | 849.5 | 47.5 | 309.7 | 17.3 | 1,786.0 | 990.1 | 58.9 | 101.1 | 6.0 | 1,680.3 |
| Denmark | 340.5 | 53.3 | 53.8 | 8.4 | 639.6 | 398.2 | 70.2 | 30.6 | 5.4 | 567.7 |
| France | 811.5 | 24.6 | 590.7 | 17.9 | 3,301.8 | 783.0 | 39.1 | 63.0 | 3.1 | 2,006.0 |
| Germany | 489.3 | 31.0 | 865.1 | 55.0 | 1,572.6 | 605.5 | 86.7 | 28.1 | 4.0 | 698.9 |
| Greece | 118.7 | 32.0 | 235.5 | 63.6 | 370.0 | 56.0 | 64.8 | 19.5 | 2.3 | 86.5 |
| Iceland | 32.4 | 51.2 | 10.1 | 16.0 | 63.2 | 45.8 | 75.4 | 4.0 | 6.6 | 60.8 |
| Ireland | 342.6 | 62.1 | 37.0 | 6.7 | 550.9 | 183.2 | 95.7 | 1.5 | .8 | 191.6 |
| Italy | 322.1 | 21.5 | 427.5 | 28.5 | 1,498.9 | 481.9 | 41.3 | 89.7 | 7.7 | 1,167.6 |
| Netherlands | 806.9 | 48.5 | 312.2 | 18.8 | 1,665.2 | 641.6 | 64.0 | 27.4 | 2.7 | 1,003.2 |
| Norway | 393.8 | 58.6 | 84.6 | 12.6 | 671.5 | 243.7 | 58.6 | 31.7 | 7.6 | 415.0 |
| Portugal | 187.2 | 50.5 | 76.2 | 20.6 | 370.3 | 70.7 | 41.2 | 17.5 | 10.2 | 171.5 |
| Sweden | 625.4 | 52.6 | 118.0 | 9.9 | 1,189.3 | 661.9 | 60.0 | 82.0 | 7.4 | 1,101.5 |
| Switzerland | 547.7 | 52.5 | 171.4 | 16.4 | 1,042.4 | 390.4 | 49.1 | 105.6 | 13.3 | 795.8 |
| Turkey | 132.6 | 48.7 | 101.7 | 37.3 | 272.2 | 97.7 | 50.1 | 42.3 | 21.7 | 194.7 |
| U.K. | 1,373.1 | 18.6 | 644.1 | 8.7 | 7,374.8 | 1,735.3 | 27.2 | 283.3 | 4.4 | 6,380.8 |
| TOTAL | 7,517.0 | 33.5 | 4,183.4 | 18.6 | 22,414.4 | 7,517.0 | 45.0 | 937.5 | 5.6 | 16,720.3 |

For notes on this table, see below

## Table II

### Bilateralism, Multilateralism, ≠ Net Balances

| Country | Bilaterally Compensable | | Multilaterally Compensable | | Net Balances | | Total Trade |
|---|---|---|---|---|---|---|---|
| | Mill of $ | % of total trade | Mill of $ | % of total trade | Mill of $ | % of total trade | Mill of $ |
| Austria | 200.0 | 72.5 | 64.0 | 23.2 | (-) 11.7 | 4.3 | 275.7 |
| Bel-Lux | 1,629.6 | 88.6 | 69.4 | 3.8 | (≠)140.6 | 7.6 | 1,839.6 |
| Denmark | 651.6 | 88.2 | 29.4 | 4.0 | (≠) 57.7 | 7.8 | 738.7 |
| France | 1,428.0 | 89.6 | 138.0 | 8.6 | (-) 28.5 | 1.8 | 1,594.5 |
| Germany | 837.0 | 76.5 | 141.6 | 12.9 | (≠)116.2 | 10.6 | 1,094.8 |
| Greece | 110.0 | 63.0 | 2.0 | 1.1 | (-) 62.7 | 35.9 | 174.7 |
| Iceland | 53.6 | 68.6 | 11.2 | 14.3 | (≠) 13.4 | 17.1 | 78.2 |
| Ireland | 366.0 | 69.6 | .4 | .1 | (-)159.4 | 30.3 | 525.8 |
| Italy | 619.0 | 77.0 | 25.2 | 3.2 | (≠)159.8 | 19.8 | 804.0 |
| Netherlands | 1,263.0 | 87.2 | 20.2 | 1.4 | (-)165.3 | 11.4 | 1,448.5 |
| Norway | 453.2 | 71.1 | 34.2 | 5.4 | (-)150.1 | 23.5 | 637.5 |
| Portugal | 136.4 | 52.9 | 5.0 | 1.9 | (-)116.5 | 45.2 | 257.9 |
| Sweden | 1,096.2 | 85.2 | 154.6 | 12.0 | (≠) 36.5 | 2.8 | 1,287.3 |
| Switzerland | 742.8 | 79.2 | 38.0 | 4.0 | (-)157.3 | 16.8 | 938.1 |
| Turkey | 162.6 | 70.6 | 32.8 | 14.2 | (-) 34.9 | 15.2 | 230.3 |
| U.K. | 2,498.6 | 80.4 | 247.6 | 8.0 | (≠)362.2 | 11.6 | 3,108.4 |
| Total | 12,247.6 | 81.5 | 1,013.6 | 6.7 | 1,772.8 | 11.8 | 15,034.0 |
| Intertrade | 6,123.8 | | 506.8 | | 886.4 | | 7,517.0 |

For notes on this table, see below.

TABLE III

INTERTRADE OF ERP COUNTRIES IN 1948
(millions of dollars)

| Importer / Exporter | AUSTRIA | BEL-LUX. | DENMARK | FRANCE | GERMANY | GREECE | ICELAND | IRELAND | ITALY | NETHERLANDS | NORWAY | PORTUGAL | SWEDEN | SWITZERLAND | TURKEY | U. K. | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Austria | - | 3.9 | 2.4 | 8.5 | 11.5 | 6.0 | neg. | neg. | 37.0 | 7.9 | 1.3 | .2 | 7.6 | 26.4 | 4.5 | 14.8 | 132.0 |
| Bel-Lux. | 5.9 | - | 45.4 | 156.0 | 74.2 | 6.9 | 1.6 | 9.8 | 27.9 | 259.8 | 23.4 | 32.6 | 89.7 | 101.2 | 4.4 | 151.3 | 990.1 |
| Denmark | 2.7 | 48.0 | - | 24.1 | 8.1 | 1.3 | 5.4 | 1.1 | 20.1 | 12.6 | 36.6 | 4.0 | 42.7 | 25.1 | .6 | 165.8 | 398.2 |
| France | 8.1 | 165.0 | 20.0 | - | 105.9 | 7.1 | .4 | 2.7 | 21.3 | 85.4 | 32.4 | 11.9 | 61.9 | 98.1 | 11.6 | 151.2 | 783.0 |
| Germany | 49.4 | 97.1 | 20.6 | 164.9 | - | 4.8 | .1 | .4 | 27.3 | 76.0 | 10.9 | 1.4 | 26.5 | 52.3 | 2.2 | 71.6 | 605.5 |
| Greece | 1.0 | 1.5 | .2 | 5.5 | 2.7 | - | .1 | .6 | 10.6 | 2.6 | .8 | na | 2.5 | 2.1 | 1.6 | 24.2 | 56.0 |
| Iceland | .2 | neg. | 2.5 | 2.6 | 10.4 | 1.8 | - | neg. | 2.0 | 5.3 | .3 | neg. | 2.3 | .1 | neg. | 18.3 | 45.8 |
| Ireland | neg. | 5.9 | .1 | .8 | neg. | neg. | neg. | - | .7 | 7.1 | neg. | neg. | .6 | 1.6 | neg. | 166.4 | 183.2 |
| Italy | 25.0 | 28.1 | 20.0 | 53.1 | 28.9 | 11.9 | 1.5 | 1.5 | - | 23.2 | 26.0 | 5.4 | 40.9 | 74.3 | 20.0 | 122.1 | 481.9 |
| Netherlands | 10.5 | 158.6 | 13.2 | 81.2 | 60.1 | 4.1 | 3.4 | 7.9 | 20.7 | - | 22.6 | 5.6 | 61.6 | 42.1 | 6.4 | 143.6 | 641.6 |
| Norway | 1.4 | 20.1 | 24.5 | 27.4 | 20.5 | 1.6 | .8 | .7 | 9.4 | 22.5 | - | 6.9 | 36.4 | 4.5 | 1.5 | 65.5 | 243.7 |
| Portugal | neg. | 12.5 | .6 | 6.2 | 2.6 | na | neg. | 1.3 | 3.4 | 5.6 | 2.0 | - | 3.8 | 2.5 | neg. | 30.2 | 70.7 |
| Sweden | 3.9 | 72.7 | 44.2 | 56.4 | 39.7 | 6.9 | 2.8 | 8.6 | 24.4 | 67.8 | 101.7 | 11.1 | - | 27.8 | 6.9 | 187.0 | 661.9 |
| Switzerland | 16.9 | 80.9 | 16.7 | 76.3 | 16.0 | 1.7 | .2 | 1.4 | 52.6 | 46.8 | 7.4 | 12.0 | 20.8 | - | 8.3 | 32.4 | 390.4 |
| Turkey | 5.1 | 4.2 | .7 | 11.1 | 7.5 | 10.5 | neg. | 1.5 | 12.5 | 1.9 | 1.0 | neg. | 6.5 | 6.5 | - | 28.7 | 97.7 |
| U. K. | 13.6 | 151.0 | 129.4 | 137.4 | 101.2 | 54.1 | 16.1 | 305.1 | 52.2 | 182.4 | 127.4 | 96.1 | 221.6 | 83.1 | 64.6 | - | 1735.3 |
| TOTAL | 143.7 | 849.5 | 340.5 | 811.5 | 489.3 | 118.7 | 32.4 | 342.6 | 322.1 | 806.9 | 393.8 | 187.2 | 625.4 | 547.7 | 132.6 | 1373.1 | 7517.0 |

TABLE IV

BILATERAL TRADE BALANCES IN INTERTRADE OF ERP COUNTRIES IN 1948

(In millions of dollars)

| Trade Balance of / Trading Partner | AUSTRIA | BEL-LUX. | DENMARK | FRANCE | GERMANY | GREECE | ICELAND | IRELAND | ITALY | NETHERLANDS | NORWAY | PORTUGAL | SWEDEN | SWITZERLAND | TURKEY | U. K. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Austria | - | + 2.0 | + .3 | - .4 | + 37.9 | - 5.0 | + .2 | - | - 12.0 | + 2.6 | + .1 | - .2 | - 3.7 | - 9.5 | + .6 | - 1.2 |
| Bel-Lux. | - 2.0 | - | + 2.6 | + 9.0 | + 22.9 | - 5.4 | - 1.6 | - 3.9 | + .2 | -101.2 | - 3.3 | -20.1 | - 17.0 | - 20.3 | - .2 | - .3 |
| Denmark | - .3 | - 2.6 | - | - 4.1 | + 12.5 | - 1.1 | - 2.9 | - 1.0 | - .1 | + .6 | -12.1 | - 3.4 | + 1.5 | - 8.4 | + .1 | - 36.4 |
| France | + .4 | - 9.0 | + 4.1 | - | + 59.0 | - 1.6 | + 2.2 | - 1.9 | + 31.8 | - 4.2 | - 5.0 | - 5.7 | - 5.5 | - 21.8 | - .5 | - 13.8 |
| Germany | - 37.9 | - 22.9 | -12.5 | -59.0 | - | - 2.1 | +10.3 | - .4 | + 1.6 | - 15.9 | + 9.6 | + 1.2 | + 13.2 | - 36.3 | + 5.3 | + 29.6 |
| Greece | + 5.0 | + 5.4 | + 1.1 | + 1.6 | + 2.1 | - | + 1.7 | - .6 | + 1.3 | + 1.5 | + .8 | na | + 4.4 | - .4 | + 8.9 | + 29.9 |
| Iceland | - .2 | + 1.6 | + 2.9 | - 2.2 | - 10.3 | - 1.7 | - | - | - .5 | - 1.9 | + .5 | - | + .5 | + .1 | - | - 2.2 |
| Ireland | - | + 3.9 | + 1.0 | + 1.9 | + .4 | + .6 | - | - | + .8 | + .8 | + .7 | + 1.3 | + 8.0 | - .2 | + 1.5 | +138.7 |
| Italy | + 12.0 | - .2 | + .1 | -31.8 | - 1.6 | - 1.3 | + .5 | - .8 | - | - | 2.5 | -16.6 | - 2.8 | - 16.5 | - 21.7 | - 7.5 | - 69.9 |
| Netherlands | - 2.6 | +101.2 | - .6 | + 4.2 | + 15.9 | - 1.5 | + 1.9 | - .8 | + 2.5 | - | - .1 | - | + 6.2 | + 4.7 | - 4.5 | + 38.8 |
| Norway | - .1 | + 3.3 | +12.1 | + 5.0 | - 9.6 | - .8 | - .5 | - .7 | + 16.6 | + .1 | - | - 4.9 | + 65.3 | + 2.9 | - .5 | + 61.9 |
| Portugal | + .2 | + 20.1 | + 3.4 | + 5.7 | - 1.2 | - | - | - 1.3 | + 2.0 | - | + 4.9 | - | + 7.3 | + 9.5 | - | + 65.9 |
| Sweden | + 3.7 | + 17.0 | - 1.5 | + 5.5 | - 13.2 | - 4.4 | - .5 | - 8.0 | + 16.5 | - 6.2 | -65.3 | - 7.3 | - | - 7.0 | - .4 | + 34.6 |
| Switzerland | + 9.5 | + 20.3 | + 8.4 | +21.8 | + 36.3 | + .4 | - .1 | + .2 | + 21.7 | - 4.7 | - 2.9 | - 9.5 | + 7.0 | - | - 1.8 | + 50.7 |
| Turkey | - .6 | + .2 | - .1 | + .5 | - 5.3 | - 8.9 | - | - 1.5 | + 7.5 | + 4.5 | + .5 | - | + .4 | + 1.8 | - | + 35.9 |
| U. K. | + 1.2 | + .3 | +36.4 | +13.8 | - 29.6 | - 29.9 | + 2.2 | -138.7 | + 69.9 | - 38.8 | -61.9 | -65.9 | - 34.6 | - 50.7 | -35.9 | - |
| TOTAL | - 11.7 | +140.6 | +57.7 | -28.5 | +116.2 | - 62.7 | +13.4 | -159.4 | +159.8 | -165.3 | -150.1 | -116.5 | + 36.5 | -157.3 | -34.9 | +362.2 |