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# REVIEW OF FOREIGN DEVELOPMENTS

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# RECENT DEVELOPMENTS IN THE SPANISH ECONOMY

Barbara Hinrichs

## Introduction

Spain's economic situation continued to deteriorate during 1949. 1/ As was pointed out in previous articles, the first marked signs of depression began in the last half of 1948. The depression continued and was intensified by the serious drought through the past year. Production in most industries has continued to decline, black market activities have increased in importance and, urban consumption has dropped as a result of the high cost of living and because of hoarding of food at the farm.

External economic difficulties have been accentuated by the sudden cancellation by Argentina of the 1946 and 1948 agreements, which provided credits for the shipment of Argentine wheat to Spain. Although Spain is primarily an agricultural nation, food production since the end of the war has not been sufficient to support its growing population. Lack of fertilizers, adverse weather conditions, and backward methods of cultivation have lowered agricultural production by 20 to 30 per cent from pre-civil war levels. As a result of price control policies which made wheat growing less remunerative than other land uses, the reduction in the wheat crop has been even larger. Under these conditions, the stoppage of Argentine deliveries, which amounted to approximately 400,000 tons or 20 per cent of total consumption, was a severe blow.

Largely as a result of the expansion in electric power production, industry on a whole has reached its pre-civil war level but it is evident that the development program for most basic industries other than electric power has fallen far short of announced goals. Machinery is generally outmoded or in need of repair, raw material bottlenecks are hampering industry, and technical skills are at a premium.

The general inefficiencies in industry and agriculture cause Spanish production costs to be high and make it increasingly difficult for Spain to compete in world markets.

With continued priority given to expansion in basic industries, cement, coal, and power production were the only industries showing a slightly increased production in 1949 as compared with 1948. New factories opened in aluminum, radios, fertilizer and other chemicals, motors, trucks, and tractors but these industries are being subsidized by the Government and are operating under conditions of raw material and power shortages and consequent high production costs. The principal industries of Spain -- textiles, fish packing, iron and steel, shipping, and construction -- all suffered serious setbacks in 1949.

1/ For a general survey of economic conditions in Spain see this Review, June 7 and July 5, 1949.

The industrial activity index, 1/averaged 104.6 (1935 = 100) for the first five months of 1949 compared with 98.9 for the same periods in 1948. However, in the early summer months of 1949 the index dropped to 100.1 due to the power shortage and increasingly severe import restrictions on raw materials. Throughout the summer, some firms closed completely and many others operated on a two or three day work week due to power restrictions.

A comparison of the level of industrial production in Spain with that in other European countries is perhaps the best indicator of the effects of economic isolation and the relative deterioration of the Spanish economy. The countries of the Organization for European Economic Cooperation showed an average increase of 14.5 per cent for the first half of 1949 over the same period of 1948, with the total output in September up to 118 per cent of the 1938 monthly average. Excluding Germany, the progress of the OEEC countries was even more marked, with the total production index in September at 131 per cent of the 1938 average.

## Agriculture

It is difficult to obtain a clear statistical picture of agricultural production due to hoarding of commodities such as wheat, potatoes and olive oil, and to unreliable reporting of citrus fruit and wine production. Wheat, rye, barley, and rice crops are estimated to be higher in 1949 than in 1948, in spite of a year's drought, but Spain will still rely heavily on foreign sources for grain imports. Estimates of other crops have varied with potato, pulse, and olive production ahead of 1948 and sugar and citrus fruits remaining behind last year's totals and 1948 was not a good year.

Trade figures for 1949 show a strong upswing for food imports, the increase being largely due to imports of potatoes from Europe to meet the production deficit. Meat imports declined through 1949; farmers sold their stock in greater quantity because the drought caused a deterioration in pasture conditions.

Wheat remained Spain's primary production and import problem. Though wheat production increased in 1949 over 1948, it wasknown that farmers were not turning over their full supply of wheat to the Commissariat of Supply despite tight controls. According to reports, more wheat was hoarded and found its way into the black market than flowed through official channels.

To encourage increased output, the Council of Ministers took account of the existing situation and permitted farmers to sell surplus wheat on the open domestic market without any price control, beginning with the 1950 crop. A National Wheat Service is to fix a production quota for each farm, plus a reserve for seeding and farm consumption. All production above this quota may be sold freely but for bread-making purposes only.

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1/ "Indices de las Actividades Industrial y Commercial", from Commercio, Industria y Navegacion de Espana. Some doubt has been cast upon the validity of these indexes because of the large segments of the economy omitted (construction, fishing, etc.) and because of the weighting of the various component parts. Also, no allowance is made for quality deterioration which in the case of coal, for example, may mean that an increase in production has resulted from power washing without an increase in thermal units produced.

Spain was notified on December 27, 1949 that Argentina had cancelled the wheat agreement of 1946 and the Franco-Peron Protocol of 1948. Throughout 1949 Argentina was an unreliable source of wheat imports and on its part Spain found it extremely difficult to meet the payments due on the Argentine wheat credit. As a result of the sudden Argentine action, Spain will have to look to other sources for essential wheat imports before the next harvest is in. It is estimated by the Spanish Government that 600,000 tons of wheat must be imported during the first half of 1950. Although this estimate may be high it is clear that the cessation of Argentine shipments presents Spain with a serious immediate problem. However, Australia has agreed to sell Spain 60,000 tons of wheat, and the United States and Canada have contracted to sell approximately 50,000 tons to date. The price of the wheat is reported to be above the ceiling set by the International Wheat Agreement to which Spain is not a party. Other negotiations for wheat are reported in progress between Spanish representatives and Pakistan, Egypt, Czechslovakia, and the United States.

The Importation of the wheat, which Spain expected to obtain from Argentina, confronts Spain not so much with a supply as with a payments problem. Non-dollar sources of wheat will be hard to tap and it is likely that most of the wheat needed will have to come from the United States or Canada. In view of Spain's already unfavorable trade balance with the United States, (see below, p.4) large scale wheat purchases will almost certainly require financing by loans or by a further depletion of Spanish gold reserves which are reported at only $85 million in the October 1949 balance sheet of the Bank of Spain. The press has recently reported that Spain is currently attempting to combine these two modes of financing by securing a loan from private U. S. banks against gold collateral. A first loan of this type of $25 million was granted by the Chase National Bank in February 1949, and was fully backed by gold sent to London from Spain.

Inflation, Cost of Living, and Wages

Continuing stagnation in industry and smaller food supplies led to renewed pressures on prices, in particular on the black market. Serious inflationary pressures are currently being avoided only because of the small volume of investments and the freezing of wages. The budget continues to be in deficit but to a far smaller extent than in 1946/47 when violent inflationary pressures were being experienced. The general cost of living index (base period 1922 - 26 = 100), repeating the pattern of 1947 and 1948, shows a decrease of one per cent (571.6 to 566.9) from January to June 1949. However, the June 1949 figure is 4 per cent above that for June 1948. Black market food prices are estimated to be extremely high and a Spanish worker must purchase at least a third of his food on the black market. Aggravated by the shortage due to the drought and uncertain deliveries of wheat from Argentina, the price of food, which is the largest item in the Spanish worker's cost of living, rose again during the second half of 1949.

Wage increases were few and small during 1949; total family take-home pay is estimated to have been lower than in 1948 due to irregular employment throughout the year. The present purchasing power of the average worker is generally estimated to be aboue 50 per cent of that of 1936.

Labor unrest has been evident and has found expression, in spite of the illegality of strikes, in a spontaneous demonstration of bank employees and students, and in strikes by textile workers in Barcelona and by the taxi drivers in Madrid. These are the only organized or group demonstrations which have been reported, but other and more serious interruptions of work have occurred because of absenteeism, sickness, and extended leave taken by workers to enable them to engage in black market activities. Several studies have been made recently in Spain on this subject with specific proposals to remedy the situation, but as yet no positive actions have resulted from the proposals.

## Foreign Trade and Exchange

Trade figures available for the first months of 1949 show an increase of 17 per cent in exports and a decrease of 10 per cent in imports over the corresponding period of 1948. This brought the Spanish trade balance more nearly into balance as indicated in the following table;

Spanish Trade, Jan. - July 1948, 1949
(In thousands of dollars, $1 = 10.95 pesetas)

| | 1948 | 1949 |
|---|---|---|
| Exports | 225,252 | 263,267 |
| Imports | 365,450 | 352,488 |
| Balance | - 140,198 | - 89,211 |

The increase in exports was primarily due to an increase in trade with France, although other European markets opened up somewhat to Spanish exports of fruits, wine, and fish.

While Spain's over-all trade balance has improved, the balance with the United States has sharply deteriorated. According to figures from the U. S. Department of Commerce covering the first nine months of 1949, Spain's imports from the United States were almost twice the 1948 figure resulting in an unfavorable trade balance for Spain in the amount of $17,500,000. The decrease in the value of exports to the United States is due to a short olive crop in the fall of 1948 and high prices for metals and minerals. The 1949 export value of pickled olives decreased by 36 per cent over 1948 and exports of olive oil decreased in value by 51 per cent. With an improved 1949 olive crop, however, the prospects for an increase of exports to the United States in 1950 are somewhat more encouraging.

At the time of the general currency devaluations in September 1949, Spain issued a proclamation which formally maintained the official exchange rate of 10.95 pesetas to the dollar and all foreign exchange transactions were discontinued for a period of three weeks. On October 7, 1949, however, the Foreign Exchange Institute announced that the old rate of exchange would be retained as the basic rate, but at the same time the Institute published a thoroughly revised list of multiple exchange rates. This list uniformly devalued the eight groups of import rates by 30.5 per cent while adjustments of the many export rates varied from 7 to 42 per cent. The average devaluation of export rates probably amounts to from 20 to 25 per cent.

While import rates have remained substantially unchanged since devaluation, export rates continue to be changed at frequent intervals. The rates applying to exports of fruits and vegetables showed the greatest devaluation because of a slackening foreign demand, while fish products and olives showed the least change. In general, the multiple exchange rate system has been further complicated since September 1949 and is said to give rise to discriminatory treatments as among Spanish importers and exporters and to considerable interference with stable trade relationships.

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WESTERN GERMANY -- LIBERALIZATION OF TRADE

Gordon B. Grimwood

The Organization for European Economic Cooperation has requested that member nations liberalize restrictions on at least 50 per cent of the trade among themselves as soon as possible. In response to that request, the Federal Republic of Germany took two important steps during the last quarter of 1949. On November 3, 1949, the Government published a list of commodities, which has since been extended, for which automatic import licenses would be granted after that date. In addition, the Government has concluded liberalized trade agreements with a number of countries.

The free list of November 3, 1949, covered approximately 35 per cent of total OEEC imports, based on import statistics for the first half of 1949. On January 3, 1950, the German Government submitted an extended free list which, it contended, comprised 58 per cent of total OEEC imports based on import statistics from October 1, 1948, through September 30, 1949. That calculation, however, omitted imports from Belgium and Switzerland, since the German authorities reasoned that their agreements with those two countries contained import ceilings and should not be considered as falling under the free trade arrangements. A working group of the Organization for European Economic Cooperation, which met in Paris on January 11, 1950, to discuss the degree of liberalization achieved by participating countries, decided that imports from Belgium and Switzerland should be included in the calculations and that, therefore, the Germans had liberalized their intra-OEEC trade by only 44.2 per cent instead of 58 per cent. The working group also pointed out that there was no assurance that automatic licensing would be continued, and that a large deficit might cause the Germans to suspend it. In point of fact, the Germans threatened at one time to take that action against the Netherlands.

Western Germany's liberalized trade agreements, excepting those with Belgium and Switzerland, provide for unrestricted trade in both directions, apart from so-called "negative lists" which place ceilings on certain commodities. The dollar transfer clause has been eliminated in most cases, and the majority of the agreements increase substantially the annual "swing" (mutual credit) allowed under the agreements. Trade is liberalized only bilaterally; there is no provision for multilateral currency conversion, but goods may be sold against credits in the trading partner's currency, rather than against "hard" currency. These agreements differ in no important respect from the payments which became familiar during the 1930's. They can work only as long as trade is maintained bilaterally near equilibrium within the "swing" provided for in the agreements.

## Results of Trade Liberalization

The immediate results of the liberalized trade procedures were extremely unfavorable to Western Germany's balance of payments. The trade account with participating countries, which showed a favorable balance of $112.1 million for the first six months of 1949, changed to a deficit of $42.6 million for the last six months of 1949. This development is shown in more detail in the following table:

Western Germany's Trade with Participating Countries, 1949
(Millions of dollars)

| | Imports | Exports | Balance |
|---|---|---|---|
| Jan. - June Total 1/ | 326.5 | 438.6 | +112.1 |
| July | 76.8 | 86.2 | +9.4 |
| August | 93.7 | 77.9 | -15.8 |
| September | 60.1 | 31.8 | +21.7 |
| October | 58.1 | 61.7 | +3.6 |
| November | 78.3 | 66.5 | -11.8 |
| December | 136.6 | 86.9 | -49.7 |
| July - December Total 1/ | 503.6 | 461.0 | -42.6 |
| Jan. - June monthly av. | 55.1 | 73.1 | +18.0 |
| July - Dec. monthly av. | 83.9 | 76.8 | -7.1 |

1/ Jan. - Sept. figures include French Zone invisibles.

Sources: Monatliche Aussenhandelstatistik, Jan. - June, 1949.
Der Aussenhandel der Bundesrepublik Deutschland, Oct. 1949 and Nov. 1949.
JEIA Report for July 1949.

Although detailed statistics covering the last quarter of 1949 are not yet available, the most important cause of this rapidly developing trade deficit probably is due to the commodity composition of trade. The German importers have been ordering goods which are available for immediate delivery, such as raw materials and consumers' goods, while German export orders are mainly for capital goods (machinery) which will take some time to complete and which will not appear in trade and payments statistics until later. To the extent that the deficit is attributable to this time lag it is transitional and will correct itself shortly.

The German authorities have been criticized sharply by the London Economist for allowing increased imports of semi-luxury goods without making a sufficient effort to increase their imports of raw materials or to increase their exports.1/ The Germans, on the other hand, contend that the present situation is the result of insufficient liberalization of trade on the part

1/ The Economist, January 21, 1950, p. 126.

of other participating countries. Recent discussions with the Dutch, with whom Western Germany has showed her most serious deficit, have helped this situation and have resulted in a larger list of commodities that the Netherlands will accept from Western Germany on an unrestricted basis.

Basically, however, the present situation results from the structural difficulties of the German economy, the most serious of which continues to be the shortage of long-term capital. Most Germans decline to make their savings available for long-term investment, and prefer to hold them in the form of demand deposits. At the same time, interest rates for long-term borrowing, including bond rates, are substantially higher than even the high rates for short-term bank credit. In consequence, entrepreneurs prefer to borrow on short term for transactions which promise quick turnover and high profits, such as are provided by the importation of semi-luxuries. Such borrowing does not make for the type of investment that is needed for an increase in the output of German industries, both to replace imported consumers' goods and to provide for additional exportable goods to pay for imports. Moreover, the importation of consumers' goods uses up foreign exchange that would be needed for the purchase of capital goods and raw materials once the problem of financing increases in domestic production is eventually solved.

Another important element in the present German difficulties is the effect of the recent round of devaluations. Tentatively, it appears that the Western German devaluation has not resulted in the hoped-for increase in sales. Figures for September, October, and November 1949, valued both in Deutsche marks and in dollars, indicate that exports have remained substantially the same, while their dollar value has dropped sharply. Domestic prices of imported raw materials have increased since devaluation, and unless the German export industries can increase productivity sufficiently to reduce the unit cost of production by a comparable amount, this development may completely negate the competitive advantage of lowered export prices.

The Economic Cooperation Administration's Special Mission to Germany has sharply criticized German authorities for an alleged failure to work out more of a balance between agricultural and industrial productivity for the remaining years of the Marshall Plan. Unusually favorable weather during the past summer resulted in food production equal to the 1950-51 target, and as a result the German authorities raised consumption standards to 1950-51 targets. Industrial production, however, lags slightly behind the 1949-50 target. It is the contention of the Special Mission that unless funds already programmed for food imports for next year are diverted to the purchase of essential capital equipment and raw materials, the German industrial production at the end of 1951-52 will not be in a position to maintain the level of consumption already attained. It will then become necessary for the German population to suffer a painful drop in the level of consumption, or for the United States to continue dollar aid. The Mission feels that the German authorities should take advantage of the fortunate circumstance resulting from this year's excess food production to expand Western Germany's export potential, rather than to increase consumption standards at this time.

Possible Developments in Immediate Future

Imports. Detailed trade statistics for December 1949 are not yet available. A broad commodity breakdown of November and December imports, however, indicates that the rise in imports of semi-luxuries, which would be mainly reflected in an increase in purchases of finished goods, was smaller than assumed by the Economist; these purchases have, in fact, declined from the first six months' average. The substantial rise in the importation of foodstuffs during November and December is largely seasonal, although it might bear out to some extent the Economist's accusation of unwarranted high living.

Western Germany
Imports by Major Commodity Groups
1949
(Millions of dollars)

| | Jan-June (Aug) | Per cent | November | Per cent | December | Per cent |
|---|---|---|---|---|---|---|
| Food and agriculture | 81.1 | 46.7 | 94.1 | 55.7 | 150.0 | 54.3 |
| Raw materials | 48.9 | 28.2 | 37.8 | 22.4 | 62.0 | 22.5 |
| Semi-finished goods | 26.0 | 15.0 | 21.1 | 12.5 | 37.0 | 13.4 |
| Finished goods | 17.6 | 10.1 | 15.9 | 9.4 | 27.0 | 9.8 |
| Total | 173.6 | 100.0 | 169.0 | 100.0 | 276.0 | 100.0 |

Sources: Monatliche Aussenhandelstatistik, Jan. - June 1949.
Der Aussenhandel der Bundesrepublik Deutschland, Nov. 1949.
JEIA Report for July 1949.

The rise of 63 per cent in imports between November and December is due, according to ECA officials in Germany, to liberalized trade agreements, heavy ECA imports, and seasonal purchases. In this respect it may be noted that total German imports for the Bizonal Area increased by 33 per cent between November and December 1948. Figures released by the German press on January 24, 1950, indicate that the import boom may be slackening. Import licenses issued under the free lists declined from $17 million during the week of January 16 to $12 million during the week of January 23; these figures compare with a total of $26 million issued during the week of November 21, 1949. Import licenses granted under the terms of the liberalized trade agreements declined from $38.5 million during the week of December 12, 1949, to $10 million during the week of January 16, 1950. However, the issue of import licenses is not an accurate measure of imports, and the decline may be explained in part by a growing shortage of foreign exchange.

Exports. Exports to participating countries took a sharp turn upward in December 1949, as can be seen from the table on page 2. This may be partly the result of seasonal factors -- it is an increase of 31 per cent over November 1949, as compared with an increase of 8 per cent between November and December 1948 -- but it would seem to lend support to the argument that the trade deficit which developed during the last quarter of 1949 was to some extent a transitional matter.

From the evidence at hand we may expect that the trade deficit with participating countries which developed largely as a result of German trade liberalization will disappear, perhaps during the first half of 1950. This will almost certainly be the case if the other OEEC members increase the degree of liberalization in relation to Germany. Bilateral deficits or surpluses may, however, interfere with the flow of trade unless an Intra-European Payments scheme is adopted which will allow convertibility of currency among participating countries.

## Western Germany's Liberalized Trade and Payments Agreements

Set forth below are short resumés of Western Germany's liberalized trade and payments agreements, with available information concerning recent developments under these agreements:

Austria. A revision of the agreement with Austria was signed September 30, 1949, and provides for free trade in both directions with the following exceptions: Germany will accept high-grade steel only to the value of $1 million; paper to the value of $1.5 million; timber to the value of $3.5 million; and no cellulose or fertilizers. Austria will accept rolling mill products only to the value of $1.25 million; only 16,000 tons of potash, and coal to the value of $40-50 million with the understanding that it will be paid for with drawing rights to be granted by Germany. It is expected that exchanges under this agreement will be kept in close equilibrium, with an estimated trade of $36 million in each direction.

Parties to the agreement have experienced great difficulty in reaching a payments agreement, largely because of Austria's present multiple exchange rate. The following provisions, which have been drafted but not initialed, are in use pending further negotiations to be held this month. A dollar clearing account is to be established in the Austrian National Bank, although traders may invoice their goods in dollars, Deutsche marks, or any third currency. Conversion into dollars will be at official cross rates. Any balance in excess of $3.5 million may become due and payable in dollars upon demand of the creditor; by mutual agreement this payment may also be made in another currency. Austria is to make $2 million a year available for Western German tourists, as it is expected that present regulations prohibiting travel from Western Germany will be relaxed in the immediate future.

Belgium-Luxemburg. A trade agreement concluded with Belgium-Luxemburg on November 16, 1949, provides that Western Germany will make available $21 million per quarter to German importers of Belgian products, to be used as they see fit, with certain exceptions, mainly concerning foodstuffs. Belgium did not lay down a quarterly maximum for her imports, but limited imports of livestock, hops, grain seed, and seed potatoes. A payments agreement signed the same date provides for a swing of $15 million, with any excess balance becoming due and payable in dollars.

Denmark. A trade agreement signed on November 24, 1949, with Denmark removes all Western German restrictions on imports from Denmark with the exception of ceiling values on fish, seeds, chocolate, and spirits. Denmark, in return, has agreed to grant import licenses for German goods to a value of not less than $5 million for the year, the goods to be the free and unrestricted choice of Danish importers. It was also understood that the Danish Government would not issue export licenses in excess of last year's agreement for cheese, curd, dried milk, or horses.

A payments agreement signed the same date provides for an annual swing of $6 million, any excess to be paid in dollars. Kroner and Deutsche mark accounts are to be set up in the respective central banks, and if the balance in either account is approaching the limit, a joint commission will discuss ways and means of avoiding dollar payments. Invoices may be denominated in any currency which the trading partners may choose. Denmark's purchases of coal and coke from Western Germany are excluded from the payments agreement.

France. After long and painful negotiation, complicated by the political argument over France's Saar policy, a trade and payments agreement was signed on January 30, 1950, which liberalizes approximately 60 per cent of the trade on each side. This agreement is for the first half of 1950 only, during which period trade is estimated at $150 million each way. It is expected that France's exports will develop faster than Western Germany's, and will take care of France's current deficit on trade account ($37 million by November 1949). Such a development would, however, increase Western Germany's over-all deficit with Western Europe.

The payments agreement provides for the abolition of the dollar clause. From now on invoices may be made out in French francs or Deutsche marks. All "invisible" payments may be made, with the exception of interest, profits, or capital transactions.

Netherlands. An agreement signed on September 7, 1949, with the Netherlands envisaged trade in the magnitude of $150 million each way for a twelve-month period. A small "negative list" for Western Germany includes vegetables, fish, and radio and electrical products. The Netherlands was permitted to maintain import licensing, but agreed to take so-called "less essential" German manufactures at the rate of $8 million per quarter. The payments agreement provided for a swing of $15 million annually, with any excess to be payable in dollars; the Netherlands agreed, however, not to require such payment as long as German authorities did not reimpose import restrictions.

Over a period of the first five months of the agreement, Western Germany ran a trade deficit estimated to be in the neighborhood of $30 million, largely because of the high demand for food and consumers' goods on the part of importers. Dutch exports exceeded expectations because Dutch traders, unable to meet German demand, began to handle goods on a transit basis, mostly from the sterling area.

As a result of this rapidly increasing deficit with the Dutch, Western Germany threatened to reimpose import restrictions. Therefore, on February 2, 1950, the Netherlands and Western Germany signed a renegotiated agreement which sharply increased the amount of Western German goods which could be imported into the Netherlands on the free list. It is estimated that under this new agreement trade will reach a magnitude of $200 million each way during the period of the agreement.

Norway. A trade agreement signed on September 16, 1949, with Norway provides for unrestricted imports into Germany except for fish, for which import licenses up to $7 million will be issued. The Norwegian Government has agreed to grant import licenses up to $700,000 per quarter for certain commodities of special interest to the German export trade. No information with regard to payments arrangements is available.

Sweden. An agreement was signed November 26, 1949 with Sweden along lines of other recent liberalized agreements. Germany has free-listed extensive imports from Sweden, reserving certain items for which a ceiling has been established.

A payments agreement is expected to be signed in the near future providing for the maintenance of dual accounts. Credits and debits to these accounts will be made at the dollar rate, and balances will be paid in Deutsche marks or Swedish kroner. An annual swing of 80 million kroner (about $16 million) is to be established, with overdrafts to be balanced by payments in gold or dollars. Sweden has, however, announced her intention of settling any export balances by increased imports of German coke, iron, machinery, and heavy chemicals.

Switzerland. The first "liberalized" agreement between Western Germany and Switzerland was signed on August 27, 1949, and provided for unrestricted imports by both parties with the exception of food and agricultural products. Western Germany will issue import licenses up to $10.5 million for food and agricultural products during a 12-month period; similar licenses to a value of $3.4 million can be issued by Switzerland. Western Germany has agreed to make a total of not less than $4.8 million per month available for financing imports from Switzerland.

Invoices may be denominated in Swiss francs or Deutsche marks and paid through dual accounts to be established at the Swiss National Bank and the Bank Deutscher Laender. The payments agreement provides for a swing of $8 million, with any excess to be paid in dollars; this latter provision, however, will not go into effect until March 15, 1950.

At a joint meeting held the latter part of December it was indicated that the agreement was working to the satisfaction of both parties. The Swiss have an import balance of only 40.6 million Swiss francs for the period January-November 1949, as compared with an import surplus of 211.8 million Swiss francs for 1948. German demand for Swiss imports has far exceeded the $4.8 million per month allotted, but shortage of foreign exchange so far has precluded higher imports.

Invisible transactions were specifically excluded from the payments agreement with the exception of certain payments characterized as "rent" for Swiss electrical power plants located on German territory on the border between the two countries, small sums to be made available to Germans traveling in Switzerland for health or educational reasons, and for some services in each direction. The satisfactory operation of the trade and payments agreements would indicate that these "invisible" payments may be increased shortly.

United Kingdom. Negotiations have been carried on with the United Kingdom for the past two months on a payments agreement, but it has not yet been concluded. Until the recent liberalization on the part of Western Germany, the United Kingdom had been running a trade deficit with Germany and had been compelled to settle the deficit in dollars. This situation has recently been reversed, and the success of negotiations may depend upon the willingness of the United Kingdom to grant credits to Western Germany until the latter's export program is further advanced.