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REVIEW OF FOREIGN DEVELOPMENTS

May 8, 1951

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MONETARY ASPECTS OF THE POST-WAR AUSTRALIAN INFLATION

Samuel I. Katz

The sustained inflation which Australia has undergone since the end of the war has recently accelerated into the most serious one in the country's history. On the external side, the balance-of-payments surplus, growing out of booming export prices and a heavy inflow of foreign capital, has been a major contributor to the monetary expansion. Devaluation in September 1949 also had a limited inflationary impact. On the internal side, the Government's development and immigration programs have been, both directly and indirectly, the most significant internal inflationary factors. Despite monetary controls of a radical character, including the Special Accounts system and rather detailed qualitative controls, commercial bank lending has been an important source of monetary expansion, a good portion of which has been associated with the immigration and development programs.

The post-war inflation

The Australian economy has been subjected to persistent inflationary pressure throughout the post-war period, but the pace of the inflation has accelerated markedly since mid-1948. Both the general nature of the inflationary pressures and the acceleration since mid-1948 are reflected in the annual percent changes in major statistical indicators shown in Table I below. During 1948 and 1949, the yearly expansion in the money supply exceeded ten percent and reached 17 percent during 1950.

Table I

Australia: Statistics on Banking, Prices and Wages
(December to December Comparisons, 1946 to 1950)

	1946-1947	1947-1948	1948-1949	1949-1950
	(Percent increase)			
1. Total money supply a/	2	11	12	17
2. Nine trading banks:				
a. Non-interest deposits	9	23	20	28
b. Advances	29	11	9	22
3. Export price index	40	28	7	71
4. Import price index	18	4	10	13 a/
5. Wholesale price index	13	14	11	19 b/
6. Retail price index	6	9	9	10 a/
7. Hourly wage rates	8	21	8	8 a/

Source: Commonwealth Bank Statistical Bulletin

a/ September to September comparisons.

b/ December 1949 to November 1950 change.

The expansion in the non-interest bearing deposits of the nine trading banks has exceeded 20 percent in each of the last three years; only during 1950, however, has the expansion in advances accounted for as much as half the increase in their deposits. Rises in the indexes of wholesale and retail prices and of wage rates have accompanied the substantial monetary expansion. Important increases in the export price index occurred during 1947 and 1948, but these rises were dwarfed by the 71 percent increase (largely wool) which took place in the second half of 1950. The persistent rise in the cost of imports reflects inflationary developments outside Australia and, since the fall of 1949, to a limited extent the direct effect of the devaluation of the Australian pound. 1/ The perceptible quickening of inflationary pressures from mid-1948 to the early part of 1950 was in contrast to the general stabilization of prices which was in evidence elsewhere.

Sources of post-war monetary expansion

Rising foreign exchange reserves and increased commercial bank lending have been the major sources of monetary expansion during the post-war period, as shown in the upper portion of Table II. In the earlier

Table II

Australia: Annual Changes in Selected Financial Statistics, December to December, 1945 to 1950.
(In millions of Australian pounds)

	1946	1947	1948	1949	1950
I. Sources of monetary expansion:					
1. Government securities a/	-107	+ 20	- 70	+ 50	+ 19
2. Gold and dollar balances b/	+ 47	- 47	+169	+ 64	+156
3. Bank advances c/	+ 63	+ 84	+ 71	+ 63	+119
Total monetary expansion	+ 3	+ 57	+170	+177	+294
II. Total bank deposits d/	+ 33	+ 34	+137	+162	+254
III. Assets of nine trading banks within Australia:					
1. Cash	0	+ 1	+ 7	+ 8	+ 4
2. Treasury bills and government securities	- 67	- 42	+ 18	+ 31	+ 1
3. Special Accounts deposits	+ 33	- 4	+ 45	+ 33	+149
4. Advances	+ 52	+ 75	+ 36	+ 33	+ 87
Total change in assets	+ 18	+ 30	+106	+105	+241
IV. Total deposits of nine trading banks	+ 29	+ 34	+120	+126	+219

Sources: Commonwealth Bank Statistical Bulletin and monthly "Australian Banking Statistics" by Commonwealth Statistician.

a/ Security holdings of Commonwealth Bank, the nine trading banks and all other check-paying banks.

b/ Holdings only of Commonwealth Bank.

c/ Advances of nine trading banks and other check-paying banks.

d/ Deposits of nine trading banks and other check-paying banks. Includes both interest-bearing and non-interest-bearing deposits.

1/ The major portion of Australia's imports originates in the United Kingdom and other sterling countries, all of which devalued by 30.5 percent against the U. S. dollar

post-war years, the extension of advances by the banks was the more significent factor. This lending was encouraged by the authorities, through a reduced callup of commercial bank assets to the Special Accounts and through other means, to facilitate the conversion to peace-time production. Up to the end of 1948, however, the expansion in bank lending was virtually offset by reduced Treasury borrowing from the banks.

The dramatic expansion in London funds had begun to emerge as a major inflationary force by mid-1948; this factor was responsible for the tripling of the rate of monetary expansion recorded during the calendar year of 1948. During 1949, the increase in foreign reserves moderated as heavier Australian imports resulted in a deficit on current account, and domestic factors (Treasury borrowing and bank lending) accounted for almost two thirds of the expansion during the year. The monetary expansion accelerated markedly to record levels during 1950. While foreign balances rose sharply, bank lending to domestic customers provided about 40 percent of the monetary increase during the year.

The problem of credit control.

Since the Commonwealth Bank is empowered to call up into the Special Accounts any increase in the assets of the commercial banks above those reported for August 1939, the data on changes in the assets of the nine trading banks shown in the lower portion of Table II provide a summary picture of the changes in credit control policies adopted by the Australian authorities since the end of the war. 1/

Throughout 1946 and 1947, bank lending was encouraged, and commercial banks obtained reserve funds through the sale of Treasury securities. During 1948, over 40 per cent of the increase in bank assets which resulted from the balance-of-payments surplus was called into the Special Accounts; in addition, the Commonwealth Bank's own holdings of Treasury securities were reduced. The callups to Special Accounts was cut back during 1949; at the same time, additional funds were provided by the banks to the Treasury and to business to meet requirements associated with the developmental and immigration programs. The authorities became more rigorous during 1950 when the bulk of the inflow of foreign funds (about 60 per cent of the increase in commercial bank assets) was impounded in the Special Accounts. Nonetheless, internal financial requirements led to a substantial increase in bank lending.

Post-war Treasury internal borrowing has been for the purpose of financing capital development projects and, within the recent past, the Government's quite large immigration program. Since commercial bank lending in Australia is diversified and includes a substantial amount of longer-term financing such as seasonal loans to agriculture and real estate loans as well as the provision of short-term working capital for importers and manufacturers, the immigration program has led to calls upon their resources. These demands

1/ For a detailed discussion of credit control in Australia, including an analysis of the Special Account technique, see this Review, Oct. 24, 1950, esp. pp. 6-10.

have been both direct, particularly for real estate financing, and indirect; but it is difficult from published data to ascertain how significant this factor has been. Data on bank advances, found in Table III below, show an increase between June 1949 and June 1950 from £A450 million to £A526 million. Major areas showing increases during this period were in loans to agriculture, finance and property and real estate loans to individuals.

Table III

Australia: Classification of Bank Advances,
June and December 1949 and June 1950
(In millions of Australian pounds)

	June 1949	December 1949	June 1950
I. Business Advances: a/			
1. Agriculture	112.8	112.4	121.7
2. Manufacturing	99.9	97.3	97.4
3. Finance and Property	56.6	64.5	69.9
4. Commerce	62.8	70.1	71.8
5. Other	39.5	41.7	46.9
Total business advances	371.5	385.9	407.8
II. Public Authority Advances	8.5	10.8	19.0
III. Personal Advances: b/			
1. Real estate	46.7	55.4	68.5
2. Other	23.9	25.7	30.5
Total personal advances	70.6	81.1	99.1
IV. Total Advances	450.5	477.8	525.8

a/ Classified according to main industry of the borrower.
b/ Classified according to main purpose of the advance.
Source: Commonwealth Bank Statistical Bulletin.

In analysing the importance of internal credit creation as a contributor to the Australian inflation, the effects of government policies should be distinguished from the effects of private lending by the commercial banks. The government's migration and development programs are undoubtedly responsible for borrowing by both the Treasury and by private business. 1/

1/ An analysis of the economic effects of the development and migration programs on Australia is found in The Impact of the Migrant, issued by the Commonwealth Bank in October 1950, esp. pp. 13-20.

The current immigration target of 200,000 persons represents a proportionately larger population movement than occurred at the peak of the inflow into the United States. For defense and other national reasons, the Australians have placed the highest priorities upon these programs despite the additional demand placed upon domestic resources; only recently, because of the intensity of inflationary pressures, has the Government begun to discuss the need to cut back the annual rate of inflow.

No doubt commercial banks have also been making loans which are not closely related to the requirements of the development and immigration programs. Certainly up to mid-1948, bank lending was actively encouraged, and only about 45 per cent of the new assets were called into the Special Accounts. Since then, the authorities have been more rigorous, but they have not reimposed the wartime position of calling up virtually 100 per cent of any additions to trading bank assets.

Nonetheless, it should be recognized that, as a monetary technique, the Special Account system is limited as a device to cope with a balance-of-payments surplus. For the Special Accounts can, with a 100 per cent callup, prevent any secondary expansion in credit, but it cannot eliminate the primary expansion in deposits which occurs when the Commonwealth Bank purchases foreign exchange. Perhaps more significant in the Australian case, the increased incomes of exporters which have accompanied the rise in export prices have a multiplier effect upon national income; an initial increase in income produces a chain expansion in national income, even where no additional credit creation takes place. In other words, even where a 100 per cent callup prevented a multiple expansion in credit, the operation of the multiplier by itself would initiate a movement toward a higher level of national income. Where additional credit is created, the upward movement would of course be more vigorous.

A 100 per cent callup of bank assets would have interfered with such financing of the immigration and development programs as has been done by the commercial banks. Even without such programs, it is not clear that a 100 per cent callup is practical. Such a policy would place severe limits on the lending which banks could undertake. Only by a most strict qualitative control over bank lending could urgent business requirements be met under those circumstances. Such a program, which would be most rigorous especially under peacetime conditions, would have seriously interfered with the immigration and development programs as well as with the financing of an expansion of imports, which was designed to reduce the balance-of-payments surplus.

Credit restriction as an anti-inflationary factor.

The limited effectiveness of the Special Accounts as a monetary technique to sterilize an inflow of funds from abroad, on the one hand, and the undesirable effects to be expected from the absolute ceiling on bank lending implicit in a 100 per cent callup of assets to the Special Accounts, on the other, explain why the Australian authorities have not pursued an even

more effective internal monetary policy. As they were, the reserve requirements in Australia have been more rigorous than those in effect elsewhere. Confronted with rising inflationary pressure, however, the authorities have felt the need for some additional curtailment of bank lending; on November 30, 1950, for example, the qualitative controls over bank lending were strengthened with a view to limiting "the inflationary effect of expenditure, financed from bank advances, on goods generally and on capital goods in particular." 1/

Despite this implicit judgment that advances should be further curtailed, however, it is difficult not to conclude that private bank lending has not been an important contributor to the recent acceleration of inflation in Australia. The main sources of monetary pressure continue to be associated with the external surplus and with the Government's migration, development and -- more recently -- defense programs. Important inflationary forces are also to be found outside the monetary sphere. For example, Australia's basic wage structure, under which wage adjustments are made by Arbitration Courts on the basis of changes in the cost-of-living index operates as a nation-wide escalator clause. By providing an automatic link between wages and cost-of-living during a period of rising prices, the system has brought about a continuous rise in money wages during the post-war period and encouraged the development of wage-price spiral. Failure of productivity to rise at a rate comparable to the increases in other industrial countries has added to the inflationary impact of continuously higher money wages. The inflationary pressure within the country at present is so vigorous that a multi-pronged attack on both internal and external factors would have to be combined in any effective anti-inflationary program. Within such a program, further curtailment of bank lending to private business would have a useful, though by no means a decisive, role to play.

1/ Commonwealth Bank Statistical Bulletin, December 1950-January 1951, p. 47.

May 8, 1951

PHILIPPINE DEVELOPMENTS IN THE LAST HALF OF 1950

Frank H. Golay

Postwar Philippine foreign trade has been characterized by a huge import surplus which has been primarily responsible for the decline in Philippine external reserves from $647 million in December 1945 to $260 million at the end of 1949. This drain of reserves was terminated in December 1949 by recourse to effective exchange and import controls. By May 1950 import controls had been extended to all commodities.

External reserves of the Philippine banking system increased during 1950 by $96 million, of which $92 million accrued following June. The gain in Philippine foreign exchange reserves in 1950 was in sharp contrast to the loss of reserves of $160 million experienced in 1949.

Philippine Balance of Payments a/
(In millions of dollars)

	July-Dec. 1950	Jan.-June 1950	1949
Receipts:			
Exports (f.o.b.)	190	142	260
Non-monetary gold	1	1	--
U. S. Government disbursements	119	101	324
Other	17	29	37
Total	327	273	621
Payments			
Imports (c.i.f.)	171	206	673
Other	45	35	92
Total	216	241	765
	+111	+ 32	-144
Errors and omissions	- 19	- 28	- 16
Net change in international reserves	+ 92	+ 4	-160
Net international reserves of banking system at end of period b/	356	264	260

a/ As reported by the Philippine Central Bank. Actual imports and exports according to manifest entries.

b/ Includes net gold and foreign exchange balances of the Philippine Central Bank and of private banks.

Improvement in the Balance of Trade

The reduction in imports, following the imposition of effective import and exchange controls, was the major contribution to the improvement in Philippine reserves. Imports (c.i.f.) declined from $673 million in 1949 to $377 million in 1950. A significant contribution was also made by earnings from exports which were $72 million greater than in 1949. The improvement in export earnings, resulting chiefly from generally increased volume and partly from higher prices of copra, coconut oil, and abaca, was concentrated in the last half of 1950. The trade deficit of $64 million in the first half of 1950 was converted to a surplus of $19 million in the last half of 1950

Principal Philippine Exports

Exports (f.o.b.)	VALUE a/ (In millions of dollars) 1950	1949	Percentage increase	VOLUME b/ 1950	1949	Percentage increase
Copra (000 metric tons)	135.4	89.6	51	691	582	19
Abaca (bales)	41.2	28.9	43	745	551	35
Coconut oil (000 metric tons)	20.0	17.5	14	69	66	6
Dessicated coconut (000 metric tons)	24.2	19.4	25	130	106	22
Sugar (000 metric tons)	48.4	45.2	7	433	467	- 7
Lumber (million bd.ft)	6.8	2.3	197	80	26	211
Canned pineapple (000 metric tons)	7.8	6.8	15	60	52	15
Copper concentrates (000 metric tons)	2.3	2.8	-18	40	20	99
Embroideries (000 metric tons)	6.3	5.9	4	2.4	1.7	43
Chromite ores (000 metric tons)	2.2	2.8	-22	236	238	- 1
Iron ore (000 metric tons)	4.6	2.4	192	559	176	318
Rope (000 metric tons)	2.0	1.8	11	3.9	3.0	29
Rubber (000 metric tons)	.6	.3	50	2.1	1.2	77

a/ Central Bank of the Philippines.

b/ United States Chamber of Commerce Journal (Manila).

To some extent, the large "errors and omissions" item in the balance of payments of $47 million in 1950 as compared with $16 million in 1949 reflects an increase in unreported foreign assets held by Philippine citizens. The conversion of current account earnings into foreign assets in contravention of the exchange controls was stimulated

by speculation, prior to the release of the Bell Mission Report, regarding possible depreciation of the peso. 1/ The black market rate for the dollar rose from ₱2.35--the official rate is ₱2.00--at the end of May to ₱3.80 at the end of October, while the free market price of gold rose from ₱108 ($54) in January 1950 to ₱140 ($70) in October 1950.

Further evidence of evasion of Philippine exchange control is to be found in a comparison of the relative changes in the reported volume of exports in 1950 as compared with 1949, and relative changes in their value. The generally higher prices in 1950, as compared with 1949, should have resulted in greater relative increases in value than in physical volume. However, in the case of lumber, canned pineapple, embroideries, iron ore, rope and rubber, the relative increase in the volume of exports exceeded the relative increase in their value, while for copper concentrates and chromite ore, the relative decrease in volume was less than the relative decrease in their value.

Implications for Philippine Fiscal Problem

While the improvement in the balance of payments "solved" an important problem confronting the Philippine Government, the fiscal problem of balancing the national government budget was intensified by the improvement in the balance of payments. First, taxes on imported merchandise have been the major source of Philippine national government revenues. Revenues obtained by excise taxes on Philippine imports in PFY 1949-50 amounted to $118 million, or 65 per cent of national government tax revenues. These revenues amounted to 21 per cent of the c.i.f. value of Philippine imports during this period. The decline in imports, in the absence of compensatory increases in rates, resulted in lower levels of government revenues. 2/

1/ Early in March 1951, the Import Control Board announced that imports not requiring purchase of foreign exchange from the banks would be freely licensed. The Import Control Office was reportedly swamped with such applications and by March 20, these applications were being made at the rate of several million dollars weekly. To some extent, these imports will be made with foreign exchange acquired by smuggling of gold, undervaluation of exports, and other illegal methods.

2/ Following the recommendations of the Bell Mission, the Philippine Congress recently enacted a 17 per cent tax on sales of foreign exchange, and higher excise tax rates primarily on imports of cigarettes, liquors and luxury items. Additional revenues from these taxes are estimated at ₱148 million at present low levels of imports. These new taxes will tend to increase the amount and proportion of Philippine Government revenues derived from excise-type taxes on imported commodities.

Philippine Government Revenues Derived from Excise-Type Taxes on Imported Commodities in Philippine Fiscal Year 1949-50 a/
(In millions of dollars)

Import duties	15
Excise tax on imported goods	58
Sales and compensatory taxes on imported goods	45
Total tax revenues from imported goods	118
Total tax revenues	181
Value (c.i.f.) of imports b/	543

a/ Bell Mission Report, Shere Appendix, "Tax Program for the Philippines." Additional indirect tax revenues which should be attributed to import commodities would be included in license, business, occupation, and income tax revenues. The Philippine fiscal year ends June 30.

b/ Reported imports (c.i.f.) for period January-June 1950 plus one half of reported imports (c.i.f.) for calendar year 1949. Bell Mission Report.

Second, Philippine trade in the postwar period 1946-49 was characterized by a huge import surplus amounting to $1,363 million, which was made possible primarily by U. S. Government disbursements over the same period of $1,400 million, The import surplus, together with the recovery of Philippine productivity in the postwar period, more than offset the inflationary impact upon prices of the successive postwar deficits of the Philippine Government which totalled $461 million as of June 30, 1950. The cost-of-living index (Manila) declined fairly steadily throughout the postwar period from 522 (1941 = 100) in 1946 to 330 at the end of 1949. A further decline to 323 occurred in the first half of 1950, while in the last half of 1950 prices advanced rapidly and the index reached 352 at the end of the year.

Implications for Philippine Price Level

While prices paid for Philippine imports increased following June 1950, increases in Philippine prices were in part due to the inflationary impact of the export surplus, and the smaller supplies of imported goods which, in the absence of rationing and effective price control, were sold at higher prices. Higher prices will tend to increase the costs of government, while the negligible reliance on income taxation will minimize the gain in governmental revenues to be derived from higher levels of money incomes.

Windfall profits have tended to accrue to the holders of import permits as retail prices of imported goods increased sharply when imports were curtailed by controls. For example, the average increase between November 30, 1949 and July 31, 1950 in the retail prices of ten "representative import commodities" reported by the Central Bank and shown in the following table was 46 per cent.

Retail Prices of Ten Representatives
Import Commodities a/
(In pesos)

	November 30, 1949	July 31, 1950
Cheese, Kraft	.83	1.14
Flour, wheat	.45	.49
Potatoes	.32	.50
Oranges, Sunkist	1.21	2.15
Coffee, ground	1.57	2.21
Whiskey	6.25	9.00
Cigarettes, Camel	.48	1.00
Cloth, cotton Kakki	1.68	2.10
Soap, Palmolive	.20	.25
Pencils	.08	.10

a/ Philippine Central Bank, Statistical Bulletin, Vol. II, No. 3.

Under the circumstances, if the Philippine Government were to allow a larger amount of foreign exchange to be used for imports, particularly imports of less essential goods (e.g., cigarettes, gasoline, liquors, automobiles, etc.) which were drastically cut back by import controls, and which tend to be taxed at high rates, Philippine tax revenues would increase. At the same time the increased supplies of goods would result in lower prices to Philippine consumers. In effect, the increased tax receipts would come out of windfall profits presently being received by holders of import permits, and therefore would introduce a desirable element of progression in the present regressive Philippine tax system.

May 8, 1951

RECENT DEVELOPMENTS IN THE BURLAP AND JUTE MARKETS — Harrison Parker

The spot price of burlap in New York doubled (from about 17 to 34 cents per yard) in the period from the beginning of the Korean war to the price freeze order of January 25, 1951.1/ This price rise, which may increase India's earnings from the United States by as much as $100 million in 1951, was caused chiefly by the rise in world demand. The burlap market has been further strengthened in recent months by the elimination on March 9 of Indian price controls on jute and jute manufactures. By April 7, burlap prices in Calcutta rose to two and one half times the old ceiling levels. Translated into delivered prices in New York, these new Calcutta prices are above the present U. S. frozen price for burlap.

The U. S. price control authorities are now faced with the problem of where to set a ceiling price, if any, to replace the present frozen price. Few transactions are now taking place. The ending of the price control in India, and the cancellation of most export contracts with U. S. buyers at the old prices, have prompted the U. S. buyers to retire from the market in Calcutta. The fact that Calcutta prices are now too high to permit the profitable importation of burlap at the present frozen price has kept them from reentering the market. While it is not likely at present that this withdrawal of U. S. buyers will force down these high prices, some weakness may develop next fall when the expected large raw jute crop comes into the market. Since a U. S. price ceiling on burlap would tend to become a Calcutta floor price, it has been suggested that the wisest course here might be to avoid setting a ceiling.

Indian price controls and the black market in burlap

Pakistan is the chief supplier of raw jute for India's mills. Since Pakistan did not devalue its currency in September 1949, jute prices in Indian rupees would have risen sharply had not the Indian Government instituted price controls and directed the Reserve Bank of India not to buy and sell Pakistan rupees. At the same time, India raised the export duty on burlap by a sufficient amount to cover most of the additional rupee earnings from burlap sold at the prevailing prices in New York. In this way the Government attempted to channel the windfall devaluation profits away from the jute mills to the Government, and to maintain, as nearly as possible, the pre-devaluation internal price structure of the Indian jute industry. This was one of the things which disturbed India-Pakistan relations, for Pakistan claimed that India in this way tried to get all the benefits of devaluation for itself, with the effect of reducing the proportionate share that Pakistan would receive from the earnings of the jute and burlap trade.

1/ The Office of Price Stabilization's General Ceiling Price Regulation of January 25, 1951, temporarily froze all prices pending the issuance of ceiling price regulations for individual classes of commodities. The Ceiling Price Regulation No. 31 on imported goods, effective May 9, 1951, which freezes resale margins only and does not control prices paid by importers, does not apply to certain strategic commodities including jute and burlap, nor to certain "cost-of-living" imports. Other regulations, which will probably set dollar-and-cents resale prices rather than just resale margins for at least some of these latter commodities, are expected in the near future. Such an order was issued on May 9 for imported wool.

To take advantage of the difference between the Indian ceiling price and the New York price, a black market soon developed in which the Indian exporters and American importers evaded the Indian price and exchange control regulations. This black market never became serious, however, until the black market premium increased perceptibly because of the rise in the New York spot price after the outbreak of the Korean conflict. The Indian Government then requisitioned burlap stocks in India and shuffled contracts between Indian sellers and American buyers in order to cut off these black market transactions. These actions were strongly protested by the U. S. burlap traders because they interfered with the normal movements of burlap to the United States. In October and November 1950, the export duty was increased in two steps to 430 per cent of its former value, but this change was not nearly enough to eliminate the black market premium.

The shortage of raw jute in India, together with the realization that Pakistan would soon sell all its current crop of raw jute to non-Indian buyers, was one of the factors which led to the conclusion of the India-Pakistan trade agreement on February 25, 1951. Under this agreement, India, for the first time, recognized the exchange rate of 144 Indian rupees to 100 Pakistan rupees. This, in turn, forced the removal on March 9 of price controls on jute and jute goods, because the Indian rupee price of Pakistan jute to be imported under the trade agreement was far above the Indian ceiling price. By April 7, the prices of raw jute and jute manufactures in Calcutta rose to around two and one half times the old ceilings.

Raw jute price developments

At the time of decontrol, all holders of raw jute were holding tight to their stocks in expectation of the price rise. The Indian jute mills, which were operating with rationed supplies made available to them by the Jute Controller at official prices, had decided to close down sooner than usual for the customary 10 days annual vacation, because the Jute Controller's stocks were nearly exhausted. Immediately after decontrol, the mills were able to obtain sufficient stocks of Indian raw jute at the higher prices to cover several weeks operations.

During the previous crop year, India obtained a limited amount of raw jute from Pakistan at negotiated prices, which were expressed in Indian rupees without reference to an exchange rate. Indian ceiling prices, affecting primarily Indian jute, were maintained at relatively low levels, corresponding more nearly to Pakistan prices at a 100-to-100 exchange rate rather than at a 144-to-100 rate. The price series shown in Chart I do not show the full extent of the discrepancy between Indian ceiling prices and Pakistan market prices, because the Pakistan price shown in the chart relates to a lower grade of jute. 1/ Beginning in January 1951, Pakistan market prices began to rise sharply, reflecting anticipation of Indian buying and continued strong demand from other countries.

The rise in Indian prices following the decontrol on March 9 results partly from the official recognition of the Pakistan rate. Partly

1/ The temporary slump in Pakistan prices beginning in September reflected the end of Pakistan governmental procurement for barter to India and the beginning of a new crop season.

it results from the sharp rise in Pakistan market prices in the first quarter of 1951. The April 7 Calcutta price of first grade jute, in Indian rupees, is over 10 times the 1937 average, and about 6 times the 1937 average in terms of U. S. dollars.

Along with the rise in prices of raw jute, prices of jute manufactures rose also. The ceiling price was 55 Indian rupees per 100 yards of burlap (40 inch, 10 ounce), or 11.55 U. S. cents per yard. With the addition of export duty, shipper's commission, freight, and import duty, this price was estimated as being equivalent to 16 cents per yard before October 1950 and to 23 cents a yard after the November increase in the export duty. The New York spot price, as Chart II shows, was above this level all through 1950, the premium varying from over 3 cents in January to about 1/2 cent before Korea and reaching a maximum of nearly 13 cents in October. It is this premium which promoted the black market in burlap. By April 7, one month after decontrol, the price of this type of burlap rose in Calcutta to 124 rupees per hundred yards, equivalent to more than 37 cents per yard in New York (including export duty, etc.). The spot price in New York climbed to a peak of 36.25 cents per yard in early April, although this was a nominal price at which few transactions were occurring, due to the price freeze order which caught the price of this type of burlap at 34 cents a yard on January 25. At any rate, it is obvious that the rise in prices in Calcutta was sufficient to eliminate the old black market premium.

The Indian Government sought to cover a part of its own burlap requirements at the ceiling prices, by requisitioning all burlap of six important types on March 8, one day before decontrol. This gave the burlap dealers the excuse they needed to cancel all old contracts, chiefly with U. S. buyers, at the old low prices. At the present time, only non-U. S. buyers are purchasing burlap in India at the new high prices.

Effect on Indian dollar earnings

U. S. burlap imports from India in 1950 were about 362 million pounds. A comparison of monthly unit values derived from U. S. import statistics with the Indian ceiling price and export duty suggests that the recorded values probably included neither the export duty nor that part of the black market premium which was paid to Indian exporters. Thus the total recorded value of $76.6 million for imports of burlap from India in 1950 appears to understate the amount of dollars obtained by the Indian exchange control authorities, and to exclude entirely the additional hidden payments to Indian exporters.

Total imports of all jute manufactures from India in 1950 were valued at $87.2 million. With the elimination of the ceiling price and the black market, the same volume of imports at prices around current levels should result in the Indian exchange control authorities acquiring more than $200 million from the United States for jute manufactures in 1951. Even allowing for the probability that the $87.2 million figure for 1950 understated India's receipts, the gain may be of the order of magnitude of $100 million.

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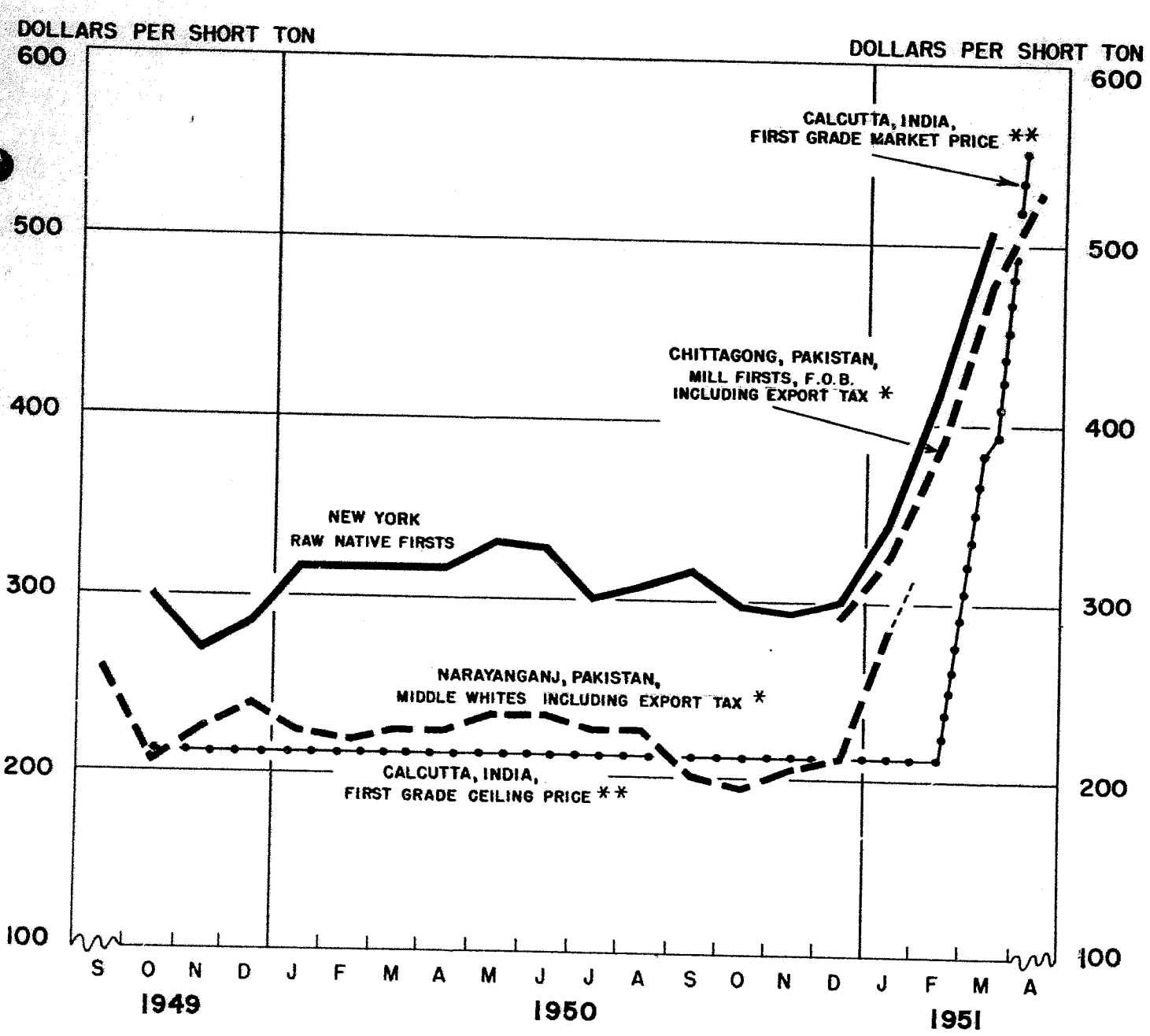
CHART I

RAW JUTE PRICES 1949 - 1951

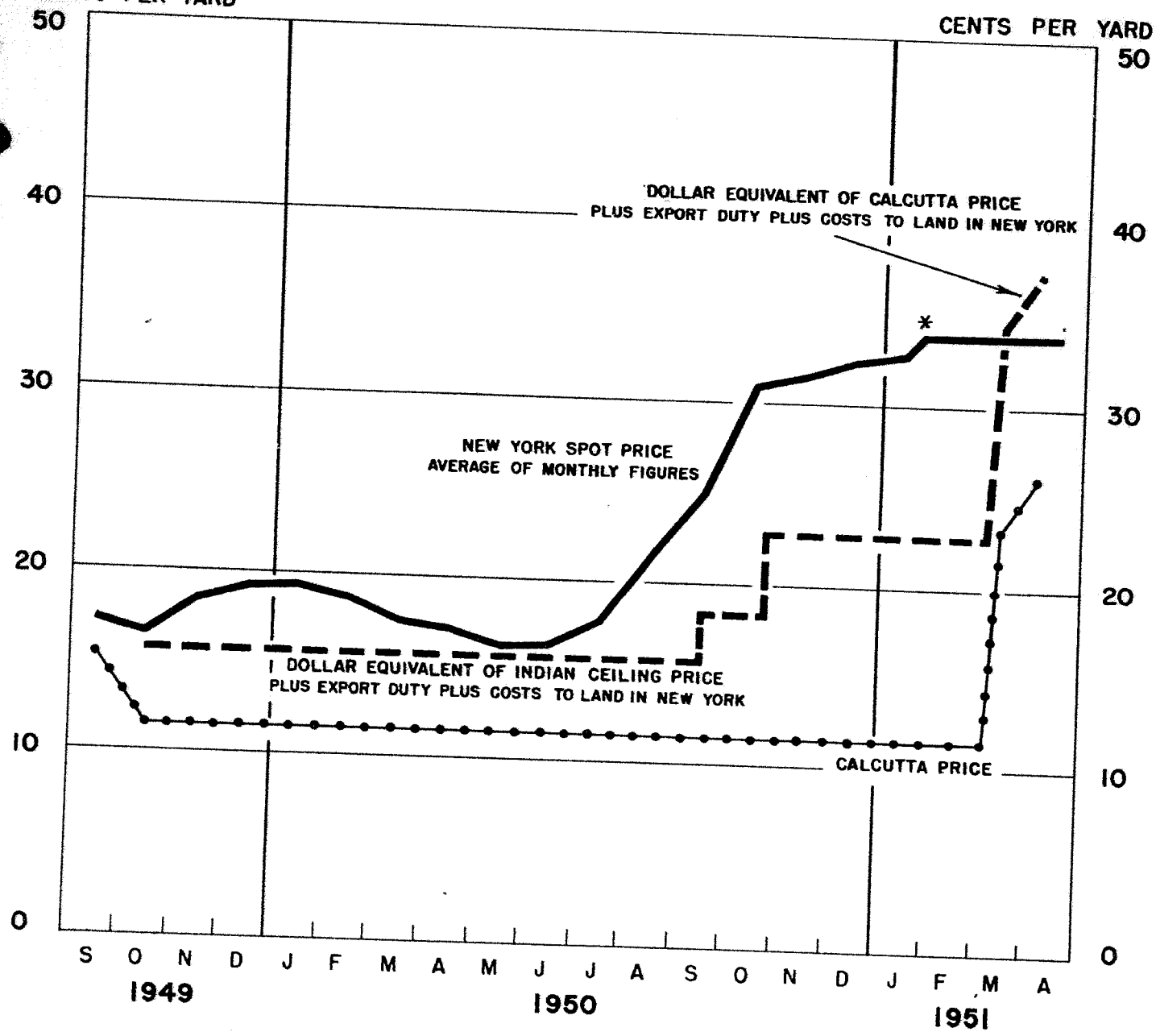


* PAKISTAN EXPORT TAX EQUIVALENT TO $30.23 PER SHORT TON.
** EXCLUDING INDIA EXPORT TAX EQUIVALENT TO $16 PER SHORT TON.

CHART II

BURLAP PRICES 1949-1951

10 OUNCE 40 INCH VARIETY



*U. S. PRICE FREEZE WENT INTO EFFECT JANUARY 25, 1951.