Miss Garber

CONFIDENTIAL RFD. 2

Board of Governors of the Federal Reserve System
Division of Research and Statistics
International Section

REVIEW OF FOREIGN DEVELOPMENTS

January 22, 1945

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Gold

Mary Maroney

The altered position of the United States as the magnet for the world's gold became increasingly apparent in the year just passed. Our reported monetary stock went down by 1.3 billion dollars, in response primarily to the conversion into gold of foreign-owned dollar credits realized on exports to this country or from our military expenditures abroad not covered by reverse lend-lease. This is the largest yearly decline on record. It placed the reported gold stock at the year-end at 20.6 billion dollars, 2.2 billion under the peak figure at the end of October 1941.

A great part of the gold bought by foreigners in 1944 was actually exported in contrast to preceding years when such acquisitions were simply transferred to an earmarked account at the Federal Reserve Bank of New York. This does not represent any change in the Treasury export policy per se. Although it will be recalled that the United States banned gold exports to Argentina last July, the overriding factor in the situation was the fact that our allies were buying gold to take home. The repatriation of stocks so acquired seems to indicate a desire or need for gold either for replenishing reserves or for use in trade with third countries. Some figures of United States gold transactions with foreign countries in the last three years are shown on the following page.

There is, of course, nothing unfavorable to the post-war outlook in this development. Since the United States will be a great source of the materials required for reconstruction, it is well that other countries should have reserves with which to trade during the stocking up process. Nevertheless, the pronounced turn in the flow of gold is evidence of the possibility of unforeseeable changes. A few years ago it could hardly have been envisioned that in the course of a war in which we would be a great source of supplies we should simultaneously be on the short end of a redistribution of world gold stocks.

	Gold sold to United States	Gold bought from United States	Gold exported from United States	Gold under earmark in United States at end of year
	(Millions of dollars)			
Europe				
1942	52	271	-	2,036
1943	14	*125	9	2,152
**1944	24	*834	684	2,324
Asia				
1942	50	28	-	192
1943	-	64	15	241
**1944	-	99	21	317
Latin America				
1942	74	187	-	446
1943	25	606	20	1,085
**1944	33	444	248	1,296
All other				
1942	196	-	-	-
1943	12	-	-	-
**1944	18	-	2	-
TOTAL				
1942	371	486	-	2,674
1943	52	*795	44	3,477
**1944	74	*1,377	955	3,937

* Includes gold transferred to England by United States in settlement for our share of the gold sales program in India and the Middle East: 1943 - 10 million; 1944 - 70 million.
** Preliminary.

Preliminary estimates indicate that the trend of world gold production during 1944 continued downward in nearly all countries. A record low was established in the United States output of 1 million ounces. This is the smallest figure since the years prior to the California gold rush in 1849 and it reflects loss of the Philippines as well as the decline in continental production due to the manpower shortage and the diversion of supplies to more necessary lines of production. Not counting Russia, for which there is no reliable information, it appears that world production was in the neighborhood of 23 million ounces (800 million dollars) as compared with 36 million ounces (1,260 million dollars) in 1940, the highest year in history.

Central Banking in Liberated Belgium J. Herbert Furth

From 1941 until the liberation of the country, the National Bank of Belgium had two administrations. After the death of Governor Janssen in June 1941, the German occupation authorities appointed as governor one of the Bank's managing directors, A. Goffin. The Belgian government-in-exile did not recognize this appointment, and under decrees of November 27/28, 1941, set up an administration-in-exile under Georges Theunis, member of the Bank's Administrative Council and former prime minister, and Adolphe Baudewyns, managing director of the Bank. The administration-in-exile actually controlled only the Bank's foreign assets, including its reserves in gold and foreign exchange.

After the liberation of the country, M. Theunis became Minister of State, and the Government appointed Maurice Frère as governor, and Adolphe Baudewyns as vice-governor of the Bank. M. Frère is an expert in international affairs. He acted successively as director of the economic service of the Reparations Commission, economic advisor to the Transfer Committee under the Dawes Plan, financial counselor to the Belgian legation in Berlin, advisor to the Austrian National Bank, and director of economic matters in the Belgian Ministry of Foreign Affairs. From 1938 on he also was president of the Belgian Banking Commission.

M. Theunis' report to an extraordinary meeting of the shareholders of the National Bank on November 4, 1944, sheds some light on the activities of the administration-in-exile and the present condition of the Bank's reserves. At the time of the German occupation, the Bank's gold holdings amounted to about 21.6 billion francs, the bulk of which was under earmark abroad (5.1 billion in New York, and 9.9 billion in London later shipped to Canada). The remainder of 6.6 billion had been entrusted to the Bank of France just before occupation by the Germans. The Vichy administration handed over this sum to the Germans, and the National Bank sued the Bank of France in the New York courts for restitution. By an agreement of October 8, 1944, the Bank of France promised to return the gold, and on December 22 the amount was transferred by earmark in New York.

During the period of German occupation, the gold reserves of the National Bank of Belgium diminished by only 247 million francs, of which 238 million was lent to the government-in-exile to cover its expenses up to February 1941, and to purchase Canadian wheat in anticipation of the liberation of the country. All later expenses of the government-in-exile were paid out of the foreign exchange holdings and gold production of the Belgian Congo, by means of a credit granted by the Bank of the Belgian Congo. The National Bank now has opened a credit of 3.5 billion francs to the Government in order to enable it to repay the advances of the Bank of the Belgian Congo, but the Government has not yet availed itself of this opportunity.

The Bank granted another credit of 6.7 billion francs to the Belgian Government in connection with the campaign of liberation; of that sum, 5.4 billion was for the use of the Allied Expeditionary Force, the remainder for the Belgian Civil Affairs Mission.

The shareholders' meeting voted to suspend the provision of the Bank's Charter requiring a minimum coverage of all demand liabilities by gold or foreign exchange. This was a formality, however, since that suspension already had been ordered by the German occupation authorities on May 10, 1942, and by the government-in-exile on May 1, 1944.

The Bank has not published a statement or balance sheet since August 24, 1944. This omission is due to the necessity of integrating the London and the Brussels books. But the present status of the Bank can be estimated on the basis of the figures available. At the eve of liberation the note circulation amounted to about 99.5 billion francs. To this sum must be added the equivalent of the credit granted to the Government for the use of the Allied Expeditionary Force and the Belgian Civil Affairs Mission, which has been fully utilized. Assuming that no further credits have been granted and utilized, the outstanding note circulation would amount to about 106 billion francs. To this sum must be added the Bank's demand deposits of about 2 billion francs, making a total of 108 billion. The present gold reserves are about 21.4 billion francs at the pre-war gold parity, equal to about 31.9 billion francs on the basis of the dollar rate set at the time of liberation. Thus the gold coverage of all demand liabilities amounts to 30 per cent. Actually, however, the coverage is far greater. The demand liabilities must be reduced by at least a sum corresponding to the "permanently blocked" currency accounts and the notes invalidated because they were not registered. Thus the amount would drop by about 47 billion to 61 billion francs, and the gold coverage would be 52 per cent. This ratio would be about 89 per cent if the "temporarily unavailable" currency accounts of 25 billion francs also were excluded from the demand liabilities.

The suspension of the gold coverage provision does not mean a permanent departure from the gold standard. The Belgian Government has reserved the right of using the Bank's gold holdings for the reconstruction of the country and stabilization of the franc rate. But it has announced that after the return of normal conditions the Bank's gold holdings would be revalued, the Government debt would be reduced by the resulting paper profits, and a new minimum cover would be established.

The Government probably will not have to deplete seriously the Bank's reserves. It has at its disposal pound sterling balances in undisclosed, but certainly very substantial amounts, resulting from the large war-time export surplus of the Belgian Congo (2,320 million francs in 1943). The Belgian holdings of foreign assets, which before the war were estimated at the equivalent of 1.5 billion dollars, are an even greater source of potential foreign exchange. Moreover, the recently concluded agreements with the United Kingdom, the Netherlands, and France make possible the resumption of trade with those countries, which in 1937 accounted for 45 per cent of the entire Belgian foreign commerce, without the need for using foreign exchange reserves. In view of their good financial record, Belgian importers should have little difficulty also in obtaining credits from other countries, especially the United States. The main danger confronting Belgium in the sphere of international finance is not a scarcity of foreign exchange, as in the case of the United Kingdom, but a traditional reluctance to make bold use of available resources without regard to the conventional gold standard rules of central banking. In this connection it may be recalled that in 1932-36, when M. Frère was intimately associated with the management of the Austrian National Bank, some observers attributed the stagnation of the Austrian economy to the Bank's anti-expansionist policy.

(The Belgian franc has been pegged at 176-5/8 francs to the pound sterling, giving it a value of 2.28 U. S. cents.)

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Note Circulation in Hungary

The volume of outstanding notes of the National Bank, which has been rising steadily throughout the war, nearly doubled between the middle of March 1944, when German troops occupied the country, and the end of last October. On that date notes in circulation amounted to 9.4 billion pengö, an increase of 2.5 billion pengö since the middle of September. Part of this expansion undoubtedly reflects an inflationary condition, but if experience in other countries is a guide, other factors have contributed. As the war drew nearer to the borders of Hungary, it is not unlikely that the National Bank, anticipating a disruption of transportation, took steps to decentralize its note stock. This would entail an increase in the liability of the Bank for notes outstanding although the currency actually was in bank vaults and not in the hands of the public. With Russian armies actually fighting in Hungary, people undoubtedly withdrew funds from banks which they expected to be closed, to be ready to move quickly from danger areas. Furthermore, disruption of transportation and communication even in zones free from fighting slows down the velocity of money in circulation, a greater volume of currency being required to transact the same amount of business because the return flow to banks and government offices is hampered. This would be particularly true in the case of a country like Hungary with a highly centralized financial structure. A third, although somewhat less important factor, arises from the withdrawal of Hungarian troops. On foreign soil, they were paid in occupation money; but after their return they would be paid in Hungarian currency. In the absence of any information on the development of prices in Hungary, it is impossible to segregate the combined effect of these contributions to the increased volume of money in circulation from "real" inflation. The true position of Hungarian currency is further obscured by lack of data on the volume circulating in areas no longer under the control of Hungary.

C.B.R.

Future Composition of Russian Exports — Alexander Gerschenkron

Upon his return from Russia, Mr. Eric Johnston, President of the United States Chamber of Commerce, stated that in his opinion an appreciable increase in the share of industrial goods in the aggregate of Russian exports in the post-war period is very unlikely. This opinion has been accepted by other writers on the problems of Russia's foreign economic relations.

This view underestimates or ignores both the trends in Russian exports which became visible during the inter-war period and a number of forces which may tend to accelerate the development after the war. The problem has significance beyond the question of possible competition between Russian and American goods in foreign markets. An "industrialization" of Russian exports may affect the geographic distribution of Russia's trade and, by the same token, the way in which Russia will pay for her imports and provide foreign exchange for servicing her foreign loans. It may also affect the pattern of utilization of loans to some countries other than Russia.

For some time to come the main destination of industrial goods exported from Russia will be the huge belt of countries contiguous to the Southern boundary of Russia, spreading from the Turkish Straits to the Pacific Ocean. Russia's participation in the industrialization of these countries is likely to create a considerable Russian export surplus to this area instead of the bilateral balancing of trade which prevailed in the 'thirties. Such a development is likely to increase Russia's interest in multilateral trade and, accordingly, in the International Monetary Fund and the International Bank for Reconstruction and Development. It will also increase Russia's interest in an international trade organization which is at present under discussion.

In the latter part of the inter-war period the following trends became visible in Russian exports: (1) A reduction of the share of agricultural products which before the First World War was 70 per cent of the total and which dropped by the second half of the 'thirties to only 30 per cent. The shift, which represents actually a complete reversal, was primarily due to the increase in exports of lumber, mineral oil, and other minerals (phosphates, etc.), and the decrease in exports of foodstuffs, particularly grains. (2) A shift from unprocessed to processed or from less to more processed products in a number of commodities, e.g. an increase of the share of dressed, and dressed and dyed furs in total fur exports; a relative decrease in exports of raw flax in favor of the combed product; a decrease in exports of logs in favor of sawn lumber and plywood; a relative increase in exports of gasoline to the detriment of crude oil. (3) An increase in the range and quantity of exports of industrial goods proper (products of the metallurgical industry, machinery, and equipment). For instance, in the 'thirties the Russians exported complete equipment for two large textile factories in Turkey and provided technical assistance for their construction.

Changes of this character have been watched with considerable interest in the Russian literature concerning foreign trade and great emphasis has been placed on them. On both economic and political grounds there is good reason to believe that the change in the composition of exports will be considerably accelerated in the future. It is natural that a lag should take place between the industrialization of a country and its ability to compete on the world market with products of "old" industrial countries. Russia may be able to catch up more rapidly than other countries: the great effort of industrialization compressed into little more than one decade since the initiation of the First Five Year Plan (1928) may result in Russia's reaching the point of industrial exports simultaneously for a wide range of commodities.

The Russian policy is likely to be a deliberate "pushing" of industrial exports. There are indications that the Russians will apply to their exports the "infant industry argument". This means that they will, to a certain extent, disregard the short-run comparative cost calculus and be willing to incur losses incidental to the process of acquainting foreign markets with their goods and, on their own part, learning the requirements of foreign markets. Thus the natural trend toward industrialization of exports may well be intensified beyond what would really be warranted at any given stage of the economic development of the country.

In adopting such a policy the Russians will be strengthened by the memory of the unfortunate experience of the Great Depression, when the terms of trade turned sharply against them. A unit of exports in 1932 fetched only 70 per cent as much imported goods as in 1929. If the Russians accept large reconstruction loans, the fixed obligations for payment abroad will reinforce their reluctance to face a deterioration in their terms of trade. In contemporary Russian economic literature there is a marked preoccupation with favorable terms of trade; and it is characterized by the belief that the terms of trade of agricultural countries become adverse during depressions and, furthermore, that there is a secular trend at work making for a deterioration of the terms of trade of such countries.

A crucial question for the planned economy of the Russian type is quality of production. In the past there have been frequent attempts to fulfill the plans at the expense of quality. To secure a better quality managers have been known, when putting through their orders, to pretend that the goods were to be exported. Large exports of industrial goods are expected to improve the quality of production for home consumption. This is an additional, although less important, motivation for fostering industrial exports.

The Russians regard agricultural exports as an attribute of a colonial or semi-colonial country. Obversely they are alive to the potential power positions inherent in industrial exports abroad. Thus economic and political motivations may combine to increase the share of industrial exports in the total exports of Russia.

It is difficult to appraise the length of the periods involved, but it would be inadvisable to underestimate the possible speed of the development. At the end of the inter-war period, the share of manufactured goods in total Russian exports was 21 per cent. This corresponds roughly to the composition of United States exports at the beginning of the present century. In 1930 the share of manufactured goods made up as much as 50 per cent of United States exports. The evolution in Russia is likely to be much more rapid. The period of reconstruction recently has been estimated to be comparatively short -- about four years. Within 15 years Russia may become an industrial exporter of considerable magnitude. By that time its industrial goods may well appear in markets other than those of the backward Asiatic countries.

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Croat Corporation Returns

The complete stagnation of the Yugoslav economy is shown by some data recently revealed in the German press. The 50 largest Croat corporations, including financial, commercial, industrial, and mining enterprises, reported a net worth of 2.7 billion kunas at the end of 1943, and a net profit of 84 million kunas for that year. One-sixth of the net worth, and one-half of the net profit, belonged to five companies the shares of which were controlled by the Croat Government. The figures cannot be compared directly with pre-war statistics, which did not separate the data for Croatia from those for the rest of Yugoslavia. The kuna figures for 1943 probably are somewhat higher than the corresponding dinar figures for 1939 in the case of the net worth, and somewhat lower in the case of the net profit. In terms of a stable currency, however, both net worth and net profits have declined to a small fraction of the pre-war level. The Croat kuna was made equal to the Yugoslav dinar in 1941, but its value meanwhile has been reduced to one-eighth by a premium of 700 per cent for the reichsmark, the only foreign currency of importance in Croat economic life. If this devaluation is taken into consideration, the net worth of the 50 enterprises is equal to only 6.8 million dollars (on the basis of the pre-war reichsmark-dollar rate), and their net profit amounts to only 0.2 million dollars. The German press points out that many enterprises have been affected by the decline in foreign trade and the increase in guerilla warfare. Both factors probably became even more important in 1944. Moreover, Croatia has enjoyed greater favor with the German invaders than most other parts of dismembered Yugoslavia. The complete picture of Yugoslav economic life therefore is certainly even darker than that suggested by the Croat data.

J.H.F.

A New European Foreign Exchange Rate Structure[1/]

Hans J. Dernburg

With Allied troops closing in on Germany from the south, west, and east, the Allies are overthrowing step by step the foreign exchange rate structure which had grown up under German influence. These developments culminated in the fall of 1944 in the establishment of an Allied rate for Germany herself.

As long as Germany dominated the European continent, intra-European trade was transacted at rates which she had established or to which at least she had given her approval. In the earlier years of the war (1939-1941), some of the European currencies--including those of France, Belgium, Rumania, Yugoslavia, and Russia--were devalued in varying degrees. The devaluations unduly raised the value of the reichsmark, which had been already overvalued in pre-war days, and changed the terms of trade in Germany's favor. However, having once established a certain rate structure, the Germans, in order not to impair the prestige of the "New Order" and not to disturb the intra-European clearing over Berlin, kept the rates stable, although price developments in the individual countries during the war would have justified certain adjustments in Germany's favor. In the course of the war all European countries have undergone price inflation in varying degree. However, because of stricter price control, prices rose in Germany less than in the other European countries, with the result, finally, that the reichsmark was undervalued with respect to the currencies of most of the European countries.

While these developments took place on the European continent, the Allies maintained exchange rates of their own. In this system the pound sterling was the standard currency, the French colonies under de Gaulle and the Belgian Congo attaching themselves at fixed exchange rates to the sterling area. Because the French and Belgian possessions in Africa were fighting on and because the first victories over the Axis were scored in Africa, the first steps in the direction of a new foreign exchange rate structure were taken on that continent.

The first new rate to be established was that for the Italian lira in colonial Italy. It was fixed in 1941, first for the Italian colonies in East Africa and subsequently for Libya at 480 lire to the pound, equivalent to about 120 lire to the dollar. After the invasion of Sicily in July 1943, the lira rate for European Italy was fixed by the Allied Governments at 400 lire to the pound and 100 lire to the dollar. If we compare the present rates with the rate of $1 = lire 19.8 prevailing in mid-1940, the colonial lira was devalued by 83.5, the metropolitan lira by 80.2 per cent. The actual devaluation relative to the pre-war period is, however, not quite as great because before the war the lira was somewhat overvalued, as was indicated by the black market rates prevailing for lira notes.

1/ This paper discusses the new rates established for France, Belgium, the Netherlands, Germany, and Italy. Comments on the new exchange rates established by Britain in Greece and by Russia in eastern and southeastern Europe may be found in Current Comments of December 5, 1944, and in Review of Foreign Developments of January 8, 1945.

At the time the new rates were established they greatly undervalued the lira; but in the course of time this was compensated for by price rises in the colonial and metropolitan areas--in some degree as a result of the policy of undervaluation. According to the latest reports, prices seem to have risen even above a level corresponding to the reduced exchange rate, with the consequence that purchasing power in the hands of the Allied troops, which was originally abnormally high, seems now to be rather low.

Following the landing of Allied troops in French North Africa in November 1942, a rate of 300 francs to the pound and 75 francs to the dollar was established for French North Africa. As a result of strong French representations at the Casablanca conference, these rates were modified to 200 francs to the pound and 50 francs to the dollar, which implied an upward revaluation of the franc by 33 per cent. As a result of agreements in February 1944, the latter rates were extended to the other parts of the French Empire under de Gaulle, which until then had belonged to the sterling area and where during the whole course of the war the pre-war rate of exchange of 176-5/8 francs to the pound had been maintained. With the invasion of metropolitan France in June 1944, military franc currency was issued there and the new colonial rates were applied to metropolitan France. At present they apply to the whole of metropolitan and colonial France, except for Indo-China, which is still under Japanese rule, and except also for the mandates of Syria and Lebanon, where special conditions prevail.

The new rate compares with a pre-war rate of 47.73 francs to the dollar which somewhat undervalued the franc. France has experienced considerable price inflation during the war so that the loss in purchasing power exceeded the formal devaluation of 5 per cent represented by the new rate, and consequently the franc is greatly overvalued. The new high rate was chosen by the French Government not only to maintain prestige but also to limit the volume of purchasing power in the hands of the liberating troops. While the latter objective has been fully realized, it is doubtful whether France--which so far has not embarked on a deflationary policy on the Belgian pattern--will be able to maintain the new rate in the long run, if she is to recover her export markets and to revive her tourist trade.

Coinciding with the entry of Allied armies into Belgian territory and the impending transfer of the Belgian Government from London to Brussels, the Belgian Government decreed in early September 1944 an exchange rate of 176-5/8 Belgian francs to the pound and 43.773 Belgian francs to the dollar.1/ The rate of 176-5/8 to the pound had been adopted in January 1941 for the Belgian Congo by agreement between the British and Belgian Governments which made the Belgian Congo a member of the sterling area. The rate chosen at that time was identical with that prevailing in the French Colonial possessions under de Gaulle, and with the pre-war French exchange rate. The rate of 176-5/8 to the pound and the corresponding dollar rate now apply to Belgium,

1/ On the basis of these rates Belgian currency and coin were issued in Belgium and Luxembourg. No special exchange rate was established for Luxembourg because Belgian currency circulates at par in that country.

and to the Belgian Congo which left the sterling area in early October 1944. An agreement between Belgium, Luxembourg, and the Netherlands, concluded in October 1943, established close monetary cooperation between the three countries. It fixed the ratio at 16.52 Belgian francs to the guilder, identical with the cross-rate for the two currencies under the German rate structure. The new dollar and pound exchange rates for the two currencies established in 1944 are consistent with the 1943 agreement.

The new Belgian exchange rate compares with a pre-war rate of 29.7 francs to the dollar and about 150 francs to the pound, with a devaluation against the dollar amounting to about 33 per cent. Though the devaluation is considerable, the new rates were believed still to overvalue the Belgian franc. However, coincident with establishing the new rates, the Belgian Government carried out a strict deflationary program in order to contract the volume of currency and deposits from the inflated levels reached under German occupation, and to bring the cost of living to a level approximately in keeping with the newly established exchange rates, or at least to keep the cost of living from rising further.

In early October 1944 the Netherlands Government established exchange rates for the guilder, namely 2.64957 guilders to the dollar and 10.691 guilders to the pound. This represents a devaluation of 29 per cent from the pre-war rate of about 1.87 guilders to the dollar. In those colonies which are free from enemy occupation, the pre-war metropolitan rates are being maintained. Because price control has been effective in the occupation period, prices have not--so far as is known--gotten out of hand in the Netherlands, as they did in Belgium and France, and neither has the black market flourished as in these countries. The new rates, though somewhat overvaluing the guilder, are therefore expected to be more in keeping with actual economic conditions than in any other country for which new exchange rates have been set.

It is interesting to compare the Allied rates established for Italy, France, Belgium, and the Netherlands with the cross-rates of these currencies to the dollar on the basis of the German exchange rates and the German dollar rate of $1 = RM 2.50. During the war, the Germans maintained the pre-war clearing rate for the lira; but in September 1943, after the surrender of the Badoglio government to the Allies, the lira was devalued to 10 lire per reichsmark. Computed at over the German exchange rate for the dollar, the lira is worth four times as much in German-occupied as in Allied-occupied Italy. Comparing the new French rate of 50 francs to the dollar with the German franc/dollar cross-rate, one finds that the rates are exactly the same, which can be explained by the fact that both the Germans and the Allies devalued the franc and chose conveniently rounded-off figures. Comparing the new Belgian and Netherlands exchange rates with the corresponding German cross-rate, we find that the Germans give a higher value to both the Belgian and the Netherlands currencies. The new rate of 43.8 Belgian francs to the dollar is to be compared with a German cross-rate of 31.25 francs to the dollar, and the new rate of 2.65 guilders to the dollar is to be compared with a German cross-rate of 1.88 guilders to the dollar, the latter being equivalent to the pre-war guilder rate in New York.

Since the end of September 1944, the military forces under General Eisenhower have been issuing military mark currency in occupied German territory at an exchange rate of 10 marks to the dollar. It was officially stressed that the rate should not be considered as a general rate of exchange but as a provisional basis for the purpose of computing the pay of troops. For the time being it is, for all practical purposes, the prevailing rate of exchange.

If the rate of 10 marks to the dollar is compared with a pre-war rate of 2.50 reichsmarks, the new rate represents a devaluation of 75 per cent. Taking into account the considerable overvaluation of the reichsmark in pre-war days, the percentage of depreciation against pre-war days would be correspondingly smaller. In view, however, of the present European situation the depreciation of the mark in economic terms would amount to even more than 75 per cent, since the price level in Germany has risen relatively less than in the other European countries. Comparing the new cross-rates for the mark in the Allied exchange rate structure with the old German rates, we find that the mark has now been devalued by 75 per cent against the French franc and by 65 per cent against the Belgian and Netherlands currencies. Such devaluations are not in harmony with present price structures and the new rates greatly undervalue the mark.

From a review of the policies followed with respect to the individual countries, we may draw the conclusion that in general the new exchange rates were not established on the basis of a study of the relative price structure in the individual countries. In establishing the rates, ease of computation seems to have been an important factor. In the case of France, Germany, and Metropolitan Italy, round rates divisible by 10 were set to facilitate the work of conversion for American paymasters. For Italian North Africa under British control, the new rate was adapted to the duo-decimal system, one lira being equivalent to 1/2 penny. (Similarly for Greece a rate was set by the British which makes the drachma worth 2-1/2 pennies.) In the case of Belgium and the Netherlands where the rates were established by the respective Governments, fractional rates were chosen.

There has been a marked tendency to overvalue the Allied currencies, while undervaluing the currencies of the enemy. Overvaluing the Allied currencies has the advantage not only of keeping the purchasing power of the liberating troops in due limits, but also of securing more favorable terms of trade for the liberated countries in the first years of reconstruction when large quantities of foodstuffs and raw materials are to be imported and while exports of goods and services (as the tourist trade in the case of France) are not yet an important factor. In the long-run the relatively high rates would, of course, prove an impediment for exports; a revision, as in the case of France, is not unlikely. Undervaluation of the enemy currencies increases the purchasing power in the hands of the Allied troops and turns the terms of trade against the conquered nations. Price rises in Italy have already more than compensated the undervaluation and price inflation in defeated Germany is likely to keep that country from becoming a dangerous competitor in foreign trade, unless hyper-inflation develops, which in previous experiences has proved to be a constant stimulus to exports.