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CONFIDENTIAL

RFD. 22

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

REVIEW OF FOREIGN DEVELOPMENTS

November 5, 1945

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War Damage and Reconstruction Needs in the Netherlands

J. Herbert Furth

The Netherlands Government has prepared a statement of the damage suffered by the Netherlands economy as the result of war and occupation, and an estimate of the country's reconstruction needs. The figures for war damage are given in guilders of pre-war purchasing power, those for reconstruction needs in guilders of present purchasing power, which is somewhat arbitrarily assumed to be 57-1/7 per cent of the pre-war level. In order to avoid confusion, and to render unnecessary the application of two different exchange rates (about 53 cents per guilder in 1939, and about 38 cents in 1945), all data are expressed in dollars of present purchasing power. Pre-war guilders are converted at the pre-war rate and the resulting figure inflated by 30 per cent to reflect the increase in dollar prices; current guilders are converted at the present rate.

The Government estimates the damage to the productive assets of the country's domestic economy at 5,390 million dollars. This figure does not include the value of about 200 million dollars of gold taken by the Germans, the loss of an estimated 350 million dollars in investments in Central Europe, or the damage to Netherlands assets in the Indies. It includes losses by physical destruction (1,610 million dollars), requisitioning of factors of production (980 million dollars), deterioration of factors of production because of the lack of replacements and repairs (630 million dollars), and reduction of inventories (2,170 million dollars). The total is equal to about 27 per cent of the country's estimated pre-war wealth of 20 billion dollars.

The country's commercial facilities, the most important prewar source of income, have suffered the greatest losses. Trade inventories valued at 910 million dollars have been virtually eliminated. The merchant marine has been cut in half, and the greater part of a fleet of 3,300 fishing boats and 20,000 vessels used on the inland waterways was either destroyed or removed by the Germans. The country has also lost about 31,500 of 33,000 railroad locomotives and cars, 47,000 of 54,000 trucks, most of its motorcars and bicycles, 90 per cent of all overhead electric wiring, 75 per cent of all railroad bridges, and all stocks of rails and sleepers. Altogether, the losses of the country's transportation system amount to 580 million dollars.

The damage suffered by manufacturing enterprises has been computed at 1,365 million dollars, including physical destruction (175 million dollars), requisitioning and looting of machinery (315 million dollars), deterioration because of lack of replacements and repairs (315 million dollars), and reduction of inventories (560 million dollars). Most of the damage was done to the heavy industry, a fact which will be of particular importance in the process of reconstruction. Public utilities, food processing enterprises, and medium and small-sized firms in general have suffered least.

Agriculture has been injured by the flooding of 450,000 acres, representing nine per cent of the country's agricultural area, and by heavy damage done to an additional 375,000 acres by military operations and the construction of the Atlantic Wall. In addition, the country has lost one-fifth of its cattle, two-thirds of its hogs, and seven-eighths of its poultry. The average yield of the land has been diminished by more than one-third because of the lack of machinery and fertilizers.

Finally, 360,000 houses, almost 18 per cent of the total, have been destroyed or damaged. In addition, a large part of the harbor installations of Rotterdam has been demolished.

The Government estimates the amount necessary to make good the actual war losses at 5 billion dollars. The normal expansion of the economy during the next five years (taking into account the lack of expansion under the German occupation) will require another 3.1 billion dollars, making a total of needed investments of 8.1 billion dollars. The program of expansion includes the electrification of all main railroads, a project which had been started before the war, and a more thorough mechanization of agriculture. The Government will finance programs affecting public buildings, railroads, waterways, mines, and a few key industries. The agricultural program will be entrusted to a special department for rural reconstruction and development, which will coordinate the activities of the powerful long-established farm associations and cooperatives. The bulk of the industrial program, especially the replenishment of inventories, will be financed by private means, mainly through commercial bank credits, with the assistance of the newly established semi-public Company for National Reconstruction (Maatschappij tot Financiering van het National Herstel), capitalized at 114 million dollars.

The Government does not expressly state how much of the necessary material will have to be purchased abroad. It states only that up to the end of 1946 orders placed abroad will total 3 billion dollars. This figure includes "normal" imports (averaging before the war about 1 billion dollars at present prices) as well as reconstruction and investment materials to be delivered and paid for in subsequent years. Assuming the "normal" imports to reach the pre-war level, this would leave 2 billion dollars worth of extraordinary imports, equal to about one-fourth of the total investment requirements. In addition, the Government expects to receive reparations in kind from Germany, including the repayment of a "clearing credit" of 850 million dollars which the German authorities forced upon the Netherlands central bank.

The Government omits any estimate of the volume of imports to be secured from the United States or of the expected sum of foreign credits. It indicates that it will place orders mainly in countries willing to grant credits and hints that it would be unfortunate if the United States were unwilling to do so; in that case, the United States not only would lose a good customer but also would force the Netherlands to liquidate part of its holdings of American securities and thus unsettle the New York stock exchange. Finally, the Government points out that its solvency is unquestioned and that the country will have a balance of payments position at the end of the reconstruction period which will enable it to meet service charges on its foreign debt up to 95 million dollars a year.

The Government's calculation of war damages appears reasonable. In this respect, it differs from the estimates produced by most other countries, which have often included fantastic valuations and obvious double-counting. The estimate of reconstruction needs is somewhat more doubtful. At first glance, it would seem very moderate: the allowance for replacement of war losses is about 8 per cent lower than the actual damage calculated in the first part of the report. The figure for normal expansion represents 15.5 per cent of the estimated pre-war national capital; applied to the ten-year period 1940 to 1950, this represents an annual rate of expansion of only 1.55 per cent. Nevertheless, the figures are probably too high. When old installations have been destroyed or removed, expansion will take place at virtually the same cost as simple replacement in all cases in which the purchase of more efficient new installations would not be substantially more expensive than the simple replacement of the old ones. Moreover, the replacement of destroyed or removed installations will involve no extraordinary expenditures wherever the replacement of the old installations would have been necessary because of normal depreciation. Finally, replenishment of inventories will occur without an increase in purchases above the pre-war level in the case of commodities the current consumption of which will remain for some time below the peace-time standard. It is obviously impossible to state exactly by how much the estimate of reconstruction needs should be reduced because of these considerations. As a rough approximation, one may assume that the actual amount might be only one-half of the Government's figure. Under that assumption, the total requirements would be reduced from 8.1 billion to about 4 billion dollars.

The Government apparently assumes, judging from the data mentioned before, that about one-fourth of all reconstruction and investment materials will have to be imported. On the basis of our estimate, total "extraordinary" imports would thus be about 1 billion dollars for the entire five-year period of reconstruction. Most of that amount and a substantial part of normal imports will probably consist of shipments from the United States. The veiled threat of the Netherlands Government is not to be taken seriously; the American economy might be benefited rather than harmed if exports were reduced and the rise in stock market quotations halted in the immediate future. In fact, however, neither the Netherlands nor the United States will have much choice in the matter: the Netherlands because most of the needed materials will not be available outside of the United States, and the United States because of its economic and political interest in a speedy recovery of the Netherlands. For these reasons, the Netherlands balance of current payments with the United States is expected to show a total deficit of about 1,200 million dollars during the reconstruction period, about half of which may be incurred before the end of 1946. The Netherlands gold and dollar holdings (including securities) amount to about 1,400 million dollars. If half of that sum is used for covering part of the deficit, there will remain an amount of about 500 million dollars to be raised by public or private credits. This figure is certainly well within the limits of the lending capacity of the United States and the borrowing capacity of the Netherlands.

Reconstruction Loans Granted by Canada — C.R.H.

By the terms of Part II of the Canadian Export Credits Insurance Act of August 1944, the Canadian Government was authorized to lend to foreign governments or agencies thereof up to 100 million dollars for the purchase of Canadian-produced goods. Last week the Minister of Trade and Commerce, Mr. J. A. McKinnon, reported to the House of Commons that this authority had been exhausted as a result of the six loans listed below:

Country	Amount	When repayable	Interest rate
Belgium	25,000,000	1947-76	3%
Czechoslovakia	19,000,000	1950-54	2-1/2%
Netherlands	25,000,000	1950-54	2-1/4%
Netherlands Indies	15,000,000	1950-54	2-1/4%
Norway	13,000,000	1951-59	2-3/4%
U.S.S.R.	3,000,000	1950-	2%

Mr. McKinnon stated that additional lending authority would be sought at a later date and mentioned tentative agreements which the Government had entered into both to increase the size of loans already made to the governments listed and to enter into loan contracts with other countries, if the necessary legislative authority could be secured. He explained that the small loan to the U.S.S.R. had been made to cover a specific group of purchases and that consideration was being given to larger credits in the future. Norway, Belgium, the Netherlands, and the Netherlands Indies were eager to increase their purchases from Canada. If the necessary authority were forthcoming, continued Mr. McKinnon, the Government would be prepared to negotiate a loan to France of nearly 250 million dollars; discussions regarding a loan to China had also been held.

The Minister called the attention of the House to the terms of the loans made to date. In making loans to allied nations for purposes of reconstruction, the Government policy was to fix interest rates equal to the rates at which the dominion government could borrow plus a small margin to cover costs of borrowing. Interest rates would accordingly depend upon the average length of the loan.1/

1/ No explanation was given for the different interest rates shown in the table for the Czechoslovakian loan and the Netherlands loans.

Canadian-Russian Trade Deal Falters W.E.T.

According to press reports, Canada appears to be having difficulty in developing satisfactory trade relations with Russia. Present negotiations concerning a considerable volume of industrial contracts and the terms and conditions of a new post-war credit are deadlocked. The Russians claim, among other things, that Canadian costs and other terms are excessive, while the Canadians are said to claim that the U.S.S.R. is unreasonable in its bargaining and general attitude.

The Canadians say that, now Mutual Aid is over, they are finding the Russians tough, hard-headed, and unreasonable negotiators when it comes to making a trade deal and that Canada is given no credit for having made a past contribution through Mutual Aid. The Canadians also contend that a number of Mutual Aid orders, which they had thought would continue into the post-war period, have already been cancelled. Reasons given by the Russians for these cancellations include the contentions that Canadian prices are too high and that delivery dates and delivery performance are unsatisfactory.

It is not at all clear what will result from these negotiations in the way of concrete orders. Estimates of possible Canadian-Russian trade range all the way from 30 to 60 million dollars annually down to 5 to 10 million dollars. The more realistic view emphasizes that Canada's past trade with Russia has been spasmodic and very much less in volume than is optimistically expected if negotiations are successfully completed. Between 1889 and 1940, the grand total of Canadian exports to the U.S.S.R. amounted to only 60 million dollars, or 1.5 million dollars annually.

One of the main difficulties in the negotiations appears to revolve around suitable credit arrangements. The rate proposed was said to have been 2-1/4 per cent for a 30-year credit, a rate considerably below that at which Canada can borrow money domestically; in addition, the Russians sought a 25 to 30 per cent discount in the sales price of Canadian goods.

The Russian argument for a reduction in price is based upon the fact that prices on a number of items which they ordered under Mutual Aid were subsequently renegotiated and materially reduced when it was found that the original quotation was too high. One case in point was for a piece of industrial equipment billed originally at over $5,000 and cut back to less than $4,000 when manufacturers' costs were investigated. On the basis of this and similar instances, the Russians now contend that all Canadian prices on industrial equipment should be cut back by something between 25 and 30 per cent, without waiting for renegotiation of individual items. Some 50 million dollars of so-called "industrial equipment" orders, originally placed under Mutual Aid, are subject to renegotiation. At the time these orders were placed, Canada insisted that, if the war should end before the orders were filled, the Russians must pay for uncompleted contracts and subsequent deliveries, since all the items on the list were considered as having a post-war commercial value. However, a considerable number of these items have already been cancelled. It is estimated that about half of the total remains undelivered, pending discussion of price, delivery, and over-all credit terms.

The British Balance of Payments and National Income

Lloyd A. Metzler

The statement is frequently made, in popular discussions of Britain's post-war international problems, that "the United Kingdom is a bankrupt nation," or that "the United Kingdom has been reduced to a state of poverty by her war-time losses." Assertions of this nature refer, of course, to the loss of British overseas assets, to the increase of her overseas liabilities, and to the fact that, with the resulting loss of overseas income, the United Kingdom will find it difficult to produce and sell enough exports to pay for her imports. Without intending to minimize Britain's post-war problem, it may be said that most discussions of the bankruptcy or impoverishment of the United Kingdom give a distorted impression of the importance of the war-time changes to the British standard of living. While it is true that the British have been highly dependent upon foreign trade in the past, it does not follow that a reduction of imports will result in a permanent deterioration of the British standard of living. When the figures for exports, imports, overseas assets, and overseas liabilities are compared with the size and rate of growth of British income, it becomes apparent that British prosperity is much less dependent upon foreign trade than is commonly supposed.

Figures for net national income, total consumption, and the balance of trade are presented in the following table for the years 1938 through 1944:

Year	Net income	Total consumption	Retained imports	Exports of U.K. produce	Import surplus
	(In millions of pounds sterling)				
1938	4,619	3,607	858	471	387
1939	4,970	3,672	-	-	-
1940	5,913	3,762	-	-	-
1941	6,877	3,813	-	-	-
1942	7,554	3,953	991	269	722
1943	8,079	3,972	1,227	232	995
1944	8,334	4,183	1,299	258	1,041

(The export and import statistics in this table include only non-munitions items. Foreign trade statistics for 1939, 1940, and 1941 are excluded because the official data for these years include munitions as well as civilian goods.)

It is well known that the international problem which faces the United Kingdom at the present time is partly a result of the abnormal import surplus which developed during the war. The British economy was so completely mobilized for war that resources were not available for the production of normal exports. The large import surplus which developed when exports were reduced, together with the munitions imports of the United Kingdom, were financed both by Lend-Lease and by an increase in Britain's banking obligations (sterling balances) to the rest of the world. The termination of Lend-Lease and the reluctance of many countries to accumulate further sterling balances mean that other methods must be found to finance the British trade deficit in the transition from war to peace. The British expect that, in the long run, they will be able to increase their exports sufficiently to pay for their imports; but in the meantime they need financial assistance for the transition years.

The exact size of the deficit in the British balance of payments cannot be accurately foreseen, but various estimates have placed it between 750 and 1,500 million pounds, over a three-year post-war period. In any case, however, it is important to note that even the largest of these estimates is small relative to the probable value of domestic production in the United Kingdom. It has been estimated that, at full employment, Britain could produce a post-war net income of approximately 5.6 billion pounds, stated in 1938 prices. In post-war prices, this income would amount to approximately 7.8 billion pounds. The actual level of income will, of course, be lower than this goal, owing largely to the difficulties of reconversion. But even if an allowance in excess of 10 per cent is made for these difficulties, it is likely that the net income of the United Kingdom over the three years 1946-1948 will exceed 7 billion pounds per year. Compared with a national product of this magnitude, even the maximum deficit of 1.5 billion pounds is relatively small. Over the three-year period, in fact, the deficit amounts to only 7.1 per cent of the aggregate net product. Considering the fact that productivity per worker increased about 1.5 per cent per year in the pre-war period, it is apparent that the deficit in the post-war balance of payments will not, in the long run, be a serious burden on the British economy. Under these conditions, it is surely an exaggeration to say that Britain is bankrupt or destitute.

The real problem, then, is not the financing and rehabilitation of an economically bankrupt nation, but simply the provision of temporary assistance for a relatively small part of the entire British economy. While such assistance is obviously not absolutely essential for the survival of the United Kingdom as an industrially strong nation, it is nevertheless highly desirable. War damage and depreciation have reduced the value of British capital by approximately four billion pounds, and the speed with which these losses can be replaced depends partly upon the assistance which the United Kingdom receives from abroad. Thus the British are faced with a choice of accepting a loan from the United States, if offered, and thereby accelerating their rate of recovery, or reducing their deficit immediately to the point where it can be financed by bilateral arrangements with countries in the sterling area. The latter alternative would, of course, increase the time required to restore Britain's post-war standard of living as well as her capital equipment.

The nature of the alternative confronting the British may be seen more clearly by considering the possible disposition of the net national income in 1946. If the British income is 7 billion pounds in that year, as suggested above, and if assistance of 500 million pounds is received from other countries, the total value of resources available to the British will be 7.50 billion pounds. On the assumption that consumption is restricted to the 1944 level by means of rationing, the resources devoted to this purpose will amount to 4.18 billion pounds, leaving 3.32 billion pounds for reconstruction, other capital development, military and other governmental expenditures. Non-military government expenditures on goods and services in 1944 were approximately 0.5 billion pounds. It may be assumed that this rate will continue into the post-war years. While military expenditures are much more difficult to estimate, it is generally believed that they will be about one-fourth of the war-time peak, or approximately 1.2 billion pounds per year. Thus total government expenditures on goods and services may be about 1.7 billion pounds, leaving 1.6 billion pounds for reconstruction and other capital development. At this rate of development, the domestic war losses could be replaced in approximately 2.5 years. But such a rapid rate of reconstruction is hardly to be expected. It seems more likely that the British will permit their standard of living to increase somewhat above the 1944 level, and will restore their war losses in perhaps four years.

The figures just presented are summarized in the table below:

		(In billions of pounds)
Net national income in 1946		7.00
Loans from abroad		.50
Total resources available to the U.K.		7.50
Less: Consumption		4.18
Resources available for other purposes		3.32
Less: Government expenditure of resources		
Military	1.20	
Non-military	.50	1.70
Balance available for capital development		1.62

The general impression created by these figures is that foreign assistance, even on a generous scale, is a relatively small factor in the total British recovery program. The actual importance of foreign aid, however, is no doubt greater than these figures indicate. To some extent, the products received in foreign trade are essential to the maintenance of national output. The textile industry, for example, cannot operate without the cotton received from abroad. Similarly, the food industries are highly dependent upon importation of foodstuffs. In view of this inflexibility, it cannot be inferred that elimination of foreign aid from the figures above would simply reduce the possible level of capital development from 1.6 billion pounds to 1.1 billion pounds. Actually, the resulting shortage of raw materials would probably reduce the national income below the figure suggested above, and the rate of capital development would be correspondingly reduced.

Even after making allowances for inflexibility, however, the fact remains that the British standard of living is by no means entirely dependent upon the international position of the United Kingdom. Even before the war, the United Kingdom devoted less than 20 per cent of her national income to imports. Thus even a 50 per cent reduction in imports, compared with pre-war, would involve less than a 10 per cent reduction in national income. In the long run, such a reduction could be offset by the general rise of productivity per worker which will certainly continue in the post-war years.

New Exchange Control Law for Paraguay

Gerald Alter

The Republic of Paraguay decreed on August 29, 1945, a law (No. 10,043) establishing a new exchange control regime to be administered by the Division of Exchange Control under the direction of the Monetary Board of the Bank of Paraguay. The new law, to become effective in 90 days as a substitute for the one now in effect, was prepared in collaboration with Mr. Robert Triffin of the Board staff and Mr. Raúl Prebisch, former general manager of the Central Bank of the Argentine Republic. The system of controls over international transfers established by the new law is limited to what is considered indispensable for the success of domestic economic policy, eliminating, as far as possible, discriminatory measures harmful to the international trade and foreign relations of the country. The law thus complements the reforms previously effected in the Paraguayan monetary and banking system.1/ Although sanction of the International Monetary Fund will be required for such exchange controls as are continued in Paraguay after the Fund agreement becomes effective and the initial transition period has passed, the new law is designed to provide a framework acceptable within the Bretton Woods agreement whenever exchange control should become necessary. The law itself provides some guarantees to ensure the country against exchange restrictions not required by a dangerously low level of the country's monetary reserves, and its provisions are sufficiently flexible to permit adjustment in the nature of controls depending upon the extent of any exchange scarcity.

Purpose of Exchange Control. The exchange control regime established in the new law is designed to meet a situation created by a temporary deficit in the balance of payments, when all demands cannot be met and foreign credits are unavailable on satisfactory terms. In many countries of Latin America, including Paraguay, dependence upon a few export commodities implies violent and frequent fluctuations in the balance of payments of a fairly temporary nature. These undeveloped countries, furthermore, rarely enjoy a level of international reserves sufficient to cushion even temporary disequilibria in the balance of payments. At a time of scarcity of international reserves, it becomes impossible to maintain both exchange stability and free exchange markets, and the choice appears as between devaluation of the currency and exchange control. When the situation is judged to be temporary, exchange control is to be preferred.

The new law gives expression to this logic of exchange control. The statement of objectives recognizes the need to protect the economy from violent disturbances in the balance of payments, but expressly prohibits the use of exchange control for extraneous purposes, particularly as a means to avoid fundamental economic and monetary adjustments required by a persistent disparity between internal and external prices and production costs. The situation justifying the imposition of limitations on exchange is defined in the law, and the situation under which restrictions once applied must

1/ Monetary Reform of October 5, 1943; Central Banking Legislation of September 8, 1944; General Banking Legislation of September 27, 1944.

be removed is also specified. Only when the net reserves of the Monetary Stabilization Fund drop to less than 35 per cent of the annual average of the exchange sales during the past three years, or when a continuing deficit in the balance of payments threatens to reduce reserves in the course of 12 months to 35 per cent, may restrictions be imposed. If in any year following the initiation of limitations, net reserves exceed 35 per cent during three consecutive months and are not expected to drop below 35 per cent within a year, exchange limitations must be eliminated.[1/]

The General Structure of Controls. Exchange control systems as traditionally conceived have required the rationing of exchange (or the granting of import permits) at rigid prices. Such systems in operation have exhibited serious defects and have been subjected to severe criticism. The administration of controls has been extremely cumbersome. Untold opportunities are provided for discriminatory treatment of particular countries, or of particular importers, and officials actually in charge of exchange operations may apply controls in a purely arbitrary manner. The allocation of exchange to favored importers at a fixed price permits large windfall profits on the sale of imports, which in turn offer a strong temptation to collusive agreements between officials and importers.

The structure of controls provided in the new Paraguayan law is designed to avoid or minimize these defects. The effective rates of exchange to result from the operation of the system represent a compromise between stable and flexible rates. Selective exchange flexibility with a high degree of automatic channelling of exchange is provided. Full exchange freedom and stability are maintained for all essential economic transactions through the establishment of a special market in which exchange must be sold for specified purposes at a rate varying from the parity level by no more than two per cent.[2/] This market may be called the "fixed price market for essentials." The assignment of exchange for other purposes is accomplished by the use of exchange rates which are made flexible in effect through the sale of exchange certificates on the auction market and on the free market. The certificate price will vary with supply and demand conditions on these markets and will allocate exchange with a minimum of management by the exchange authorities.

The System of Controls. All official exchange, including that arising from the appraised value of exports,[3/] public loans and foreign credit operations, and new registered capital imports must be

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1/ The only exceptions to these prescriptions concerning permanent exchange control relate to non-essential merchandise of a luxury nature and to capital transfers. The Chapultepec Conference recognized the need to prevent squandering of the reserves acquired by Latin American Republics during the war on the import of luxuries, and the Monetary Fund Agreement sanctions control of capital transfers.

2/ The one per cent provisions in the Bretton Woods Agreement will, of course, take precedence over these provisions when the International Monetary Fund becomes effective.

3/ The Monetary Board is directed to assign periodically arbitrary values to exports, the appraisal value to be changed depending on whether it is desirable to increase or decrease the exchange to be allocated to the official markets.

sold to the Bank of Paraguay or its agents. The exchange thus made available to the authorities will be assigned preferentially to the fixed price market and then to the auction market and to the regulation of the free market. The free market will be supplied by the difference between the appraised and real value of exports, non-registered foreign capital, repatriated capital, and miscellaneous other categories. In times of great affluence of exchange, the Monetary Board may reduce the appraised value of exports, even to zero, in which case all exchange arising from exports will be available to the free market.

The exchange assigned to the "fixed price market" is allotted for specified uses: essential payments of the state and municipalities, essential and non-postponable imports, authorized interest, dividend, and amortization payments, and essential service payments. The Monetary Board is expected to designate by regulation the classes of import commodities deemed essential, and importers of those commodities are thus assured of an unlimited volume of exchange at fixed price without discrimination as to importer or source of supply. The basic standard of living is made more secure, the stability of exchange rates making possible the more effective application of price control to essentials, if such control is necessary. Furthermore, since access to the fixed price market is granted under terms established at the time of registration to the servicing of registered foreign capital, including interest, dividends and amortizations, desirable foreign investment should be attracted.

Exchange available after essential purposes are provided for will be supplied by the authorities to the auction market, where, through the auctioning of official exchange certificates, authority to purchase exchange is granted for payment of non-essential or postponable imports. The authorities may classify imports into various groups, and thus establish a series of auction markets in terms of the essentiality of the goods to be imported. The bidding procedure should serve to eliminate a large part of the complexities and red tape characteristic of traditional exchange control procedures. Furthermore, it will recapture for purposes of the general interest the extraordinary and high profits that exchange control grants to the fortunate few who obtain foreign exchange at a fixed price. Since the general control of internal prices is considered impractical in Paraguay, it seems preferable to concentrate price control on essential merchandise enjoying the stability guaranteed by the fixed price market, and to recapture windfall profits on the sale of non-essentials through the auction certificate charge.

Exchange will be available on the free market for those buyers who do not have access to the official markets, fixed price or auction. It will be used for purposes not recognized in those markets, such as dividend or amortization remittances above certain limits, foreign travel of a luxury nature, etc. Exchange purchases on the free market are negotiated through the use of exchange certificates, the price of which is determined by supply and demand. The certificate charge will obviously be higher on the free market than on the auction market, but the existence of this market should provide a useful escape valve and at the same time provide a check to what may be considered unjustified international transfers at times of exchange scarcity. The existence of the free market will also greatly simplify the practical functioning of exchange regulations.

It should be observed that the possibility under the Paraguayan law of several different effective exchange rates bears only a nominal resemblance to the rigid multiple selling rates established under other systems. Under the traditional multiple rate system, the authorities may apply a special selling rate as an instrument of discrimination and need not adjust rates to changes in the demand and supply situation. In contrast, the flexible rates under the Paraguayan law do not permit such manipulation and will vary automatically.

Conclusion. The new Paraguayan exchange control law provides guarantees against abuse and discrimination and establishes structure adapted to the attainment of legitimate economic objectives. Furthermore, the new law would vastly simplify the task of any International Trade Authority which might be established to secure orderly and non-discriminatory trade policies. The policing of the more conventional exchange control system, with its individual allocations, would be practically impossible. The new Paraguayan system limits narrowly the discretion of operating officials and brings out into the open the decisions of the exchange authorities as to those imports which are to be given preferential treatment. It might be possible, for example, to subject to the approval of an International Trade Authority the original list (or changes in the list) of commodities granted access to the fixed price market. Whatever elements of danger are still present in such a system of controls under present conditions might thus be corrected by action of an international authority.

November 5, 1945