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Rate of Disbursement of Development and Reconstruction

Loans of the Export-Import Bank

M.J. Roberts and L. Axelbank

With the International Bank about to begin active lending operations, there arises the question of how soon the Bank will need to raise funds in order to meet the calls of its borrowers for disbursements against loans. If, for example, the International Bank should make loans totaling two billion dollars in the next year, what proportion of these loans might borrowers wish to draw within various periods following the signing of loan agreements? Study of the actual rates of disbursement on past Export-Import Bank loans may assist in making forecasts on this subject, and the purpose of the present note is to **examine** rates of disbursement on selected Export-Import Bank loans.

On Export-Import Bank development loans it appears, in general, that disbursements to borrowers during the first year have amounted to only a small percentage of the amounts committed by the Bank. Out of a sample of eleven cases, drawings by borrowers in the first year amounted in two cases to 33 and 21 per cent of the amounts committed; in the other nine cases first-year drawings were less than 20 per cent. By the end of the second year, however, drawings on the more active loans had reached 50 per cent or more of the total amounts committed. On reconstruction loans, disbursements have been much more rapid under most of the agreements concluded thus far by the Bank, and the greater part of these loans will probably have been disbursed within one year.

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Rate of Disbursement on Development Loans. As a representative sample of Export-Import Bank development loans, eleven loans were selected. These include loans to governments, their agencies, and semi-governmental corporations, for the financing of various types of development projects such as roads, industrial projects, agricultural projects, overall development programs, and public works programs. The sample does not include any "exporter loans"--extended on the application of United States exporters to finance specific exports of equipment--even if the equipment involved were to be used for development purposes. The majority of the loans selected were made during the years 1940 through 1942, when the Bank was most active in making development loans.

Table I indicates the rate at which disbursements were made on each of these eleven development loans; the table covers a period of two and one-half years from the signing of each loan agreement,^{1/} and shows, for the end of each quarter during this period, the cumulative percentage of the loan that had been disbursed.

Before studying the disbursement pattern in detail, the following special factors that may have influenced the rate of disbursements should be noted:

1. After the Export-Import Bank agrees to finance a broad development program, each individual project must be approved by the Bank before loan funds may be used for its construction. Before approving, the Bank requires detailed technical data and engineering studies. Thus disbursements may be held up pending receipt of such studies and final approval of projects.

2. Disbursements may be retarded because of the lack of adequate planning and managerial organization by the borrower.

3. With many of the development loans in the sample, an important factor affecting the rate of disbursement was the war-time shortage of United States machinery and equipment which prevented borrowers from buying equipment as fast as they could have used it.

4. The Bank in certain cases agreed to advance a stipulated amount of the loan as a revolving fund, to provide the borrower with funds to initiate purchases of materials and equipment. Subsequent disbursements were made only after actual purchases, to replenish the original revolving fund. On such loans, the first disbursement may have been made earlier than would otherwise have been the case.

^{1/} In general, a borrower can begin to draw upon a loan any time after the "signing" of the loan agreement. In some cases, however, actual utilization of the loan may be held up until qualifying conditions or technicalities have been met.

Table I
 Rate of Disbursement on Development Loans of the Export-Import Bank
 (Cumulative by quarters)

| Borrower and Project | Date of Signature of Agreement | Amount (Millions of dollars) ^{1/} | Quarter | | | | | | | | | | | |
|--|--------------------------------|--|---------|--------|-------|--------|-------|-------|---------|--------|-------|-------|------|------|
| | | | First | Second | Third | Fourth | Fifth | Sixth | Seventh | Eighth | Ninth | Tenth | | |
| Chile Fomento Corporation: Overall development program | 6/13/40 | 12 | .0 | 11.6 | 21.3 | 21.3 | 29.1 | 35.6 | 58.2 | 58.2 | 66.4 | 66.4 | 66.4 | 66.4 |
| Republic of Costa Rica: ^{2/3/} Inter-American highway, tributary roads | 10/2/40 | 4.6 | .0 | .3 | 6.7 | 10.8 | 21.7 | 30.4 | 40.6 | 50.8 | 65.0 | 72.6 | 72.6 | 72.6 |
| Companhia Siderurgica Nacional (Brazil): Steel plant | 5/22/41 | 20 | .0 | .3 | 1.5 | 2.7 | 9.7 | 15.7 | 23.5 | 33.9 | 44.2 | 56.6 | 56.6 | 56.6 |
| Republic of Colombia: ^{2/3/} Public works, agricultural projects | 7/23/41 | 12 | .0 | .0 | 5.9 | 16.3 | 27.8 | 44.9 | 50.8 | 62.0 | 69.4 | 73.4 | 73.4 | 73.4 |
| Republic of Haiti - SHADA: ^{3/} Agricultural development | 8/15/41 | 5 | .0 | .0 | 5.1 | 10.5 | 16.3 | 30.7 | 38.8 | 48.8 | 56.8 | 56.8 | 56.8 | 56.8 |
| Republic of Brazil - Companhia Vale do Rio Doce: ^{2/3/} Development of ironmining industry | 7/27/42 ^{4/} | 14 | 1.6 | 8.8 | 20.4 | 33.9 | 44.9 | 68.1 | 82.8 | 88.3 | 94.6 | 98.0 | 98.0 | 98.0 |

(Percentage of total amount)

Table I (continued)

| Borrower and Project | Date of Signature of Agreement | Amount (Millions of dollars) ^{1/} | Quarter | | | | | | | | | | |
|---|--------------------------------|--|---------|--------|-------|--------|-------|-------|---------|--------|-------|-------|------|
| | | | First | Second | Third | Fourth | Fifth | Sixth | Seventh | Eighth | Ninth | Tenth | |
| Republic of Cuba: ^{2/3/} Public works, refrigerated warehouses | 4/8/42 | 25 | .0 | .0 | .0 | 1.2 | 6.0 | 6.0 | 6.0 | 6.0 | 9.3 | 12.5 | 16.1 |
| Republic of Uruguay: ^{2/} Hydro-electric power system | 7/22/42 | 12 | .0 | .0 | .0 | .4 | .4 | 1.9 | 4.4 | 15.5 | 22.8 | 27.6 | |
| Petroleos Mexicanos: Gasoline refinery | 3/2/44 | 10 | .0 | .0 | .0 | .0 | 5.0 | 61.0 | 83.0 | 95.0 | 99.5 | | |
| Republic of Colombia - Caja Credito: ^{3/} Agricultural development | 12/30/43 | 10 | .0 | .0 | .0 | .0 | .0 | .0 | .6 | 2.4 | 2.4 | 3.6 | |
| Chile Fomento Corporation: Steel plant | 11/27/45 | 28 | .0 | .0 | .0 | | | | | | | | |

(Percentage of total amount)

1/ The amount of the loan is either the original amount or the original amount plus increases authorized prior to the first disbursement.

2/ Loan agreements provided for the establishment of revolving funds with Export-Import Bank loan funds in order to facilitate initiation of purchases by borrowers. The amounts of the revolving funds are: Costa Rica \$500,000; Cuba \$500,000; Uruguay \$100,000; Colombia \$100,000; Brazil \$500,000 (plus an additional \$500,000 advanced to engineering firm).

3/ Local expenditures are eligible for financing.

4/ Date of resolution of Board of Trustees of the Export-Import Bank.

5. On some loans expenditures made locally, as well as those for United States products and services, were eligible for financing.

From Table I it is apparent that the rate of disbursement on the eleven loans in the sample does not follow any single clear-cut pattern. However, it may be noted that only one disbursement was made in the first quarter, and in most cases only relatively small disbursements during the second quarter. By the end of the first year disbursements did not in any case exceed 33 per cent.

For the first six loans in the table (set apart because they form a group of loans on which disbursements were relatively rapid and on which the rates of disbursement followed a rather similar pattern) the average amount disbursed during the first year was about 16 per cent. During the second year disbursements on these six loans were considerably larger than during the first, reaching on the average about 37 per cent by the end of the sixth quarter and about 57 per cent by the end of the eighth. By the end of two and one-half years, disbursements on these loans had risen, on the average, to about 70 per cent of the total amount of the respective commitments.

As to the loan to the Chile Fomento Corporation on which disbursements reached 12 per cent by the end of the second quarter and 21 per cent by the end of the first year, it is relevant to note that the Corporation had already been in operation for more than a year when the loan was signed and that it had already drawn up broad plans for its development program. The Companhia Vale do Rio Doce project, on which loan funds were disbursed rapidly, received special priority treatment because of the war-time importance of its prospective iron ore production.

Disbursements on the other five development loans in the sample follow no clear-cut pattern. On the loans to Cuba and Uruguay the rate of disbursement was slow but steady. No disbursements were made on either until the fourth quarter. By the end of the second year, 9 per cent of the Cuban loan had been disbursed and 15 per cent of the Uruguayan loan. One possible reason for the slowness of disbursement of these two loans is that shortages of United States equipment were particularly acute during the first two years of these loans. Also, utilization of the loan to Cuba was held up because the Cuban government agency managing the development program was delayed in formulating plans and beginning construction.

Of the remaining three development loans, the loan to the Colombian Caja Credito was not used at all until the seventh quarter; at the end of two and one-half years less than four per cent had been disbursed.^{1/} The loan to Petroleos Mexicanos was disbursed almost

^{1/} Disbursements on this loan have been slow because the Bank has had difficulty in getting sufficient information and completed engineering studies on the projects which the Caja Credito has proposed. By June 30, 1946, the Bank had approved projects, some on a tentative basis, which would require disbursements of \$3,600,000, or 36 per cent of the loan.

entirely during the second year. This pattern of disbursement may indicate that a period of one year was needed for the placing of orders and the completion of manufacture of the desired refinery equipment for delivery during the second year.^{1/} On the loan to the Chile Fomento Corporation for the construction of an iron and steel mill no disbursements had been made by the end of the third quarter, the present date.

Rate of Disbursement on Reconstruction Loans. The rate of disbursement on Export-Import Bank reconstruction loans has been much more rapid than on development loans. This difference results in large part from the difference in the purposes for which the two types of loans are granted and in the manner in which they are utilized. In the case of development loans, the use of loan funds is restricted to purchases of equipment and services required in connection with specific projects approved by the Bank. Reconstruction loans, on the other hand, may be used to purchase a wide range of United States capital and consumer goods and have, in fact, been designed to assist in meeting current dollar deficits of the borrowing country.

Up to May 1, 1946, reconstruction loan agreements were signed with Denmark, Netherlands, Belgium, Greece, and Finland. These loans have now been available to the borrowers for periods of three to eleven months.^{2/} Table II indicates the rate at which disbursements were made on each of these loans; it shows, at monthly intervals, the cumulative percentage of the loan that has been disbursed.

Three of the six loans showed no disbursements for the first three months. On the other three (the Danish and Finnish loans and the 50 million dollar Dutch loan) the amounts drawn were in each case around 20 per cent by the end of the third month and around 50 per cent by the end of six months. The percentage increased by the end of the third quarter to 75 and 80 per cent respectively for the Danish and Dutch loans, the only ones available for so long a period. Most of the Belgian loan was disbursed between the fourth and seventh months; the Belgians did not begin to draw on their loan until the fourth month, but had utilized 85 per cent by the end of the seventh, and latest, month.

^{1/} The loan agreement limited the availability of this credit to a two-year period. However, the date at which a loan will expire may be extended if the circumstances warrant so that expiration dates do not necessarily fix the date on which disbursements will terminate.

^{2/} The loans to Denmark, Belgium, Finland, and the Netherlands were also available to finance purchases made prior to the signing of the loan agreements. The Danish loan can be used to finance purchases made since March 13, 1945, the Belgian for purchases since September 1, the Finnish for purchases since November 15, the \$50 million Dutch loan for purchases since September 19, and the \$200 million Dutch loan for purchases since April 1, 1946.

Table II
Rate of Disbursement on Reconstruction Loans of the Export-Import Bank
(Cumulative by months)

| Borrower | Date of Signature of Agreement | Amount (Millions of dollars) | M O N T H | | | | | | | | | | |
|--|--------------------------------|------------------------------|-----------|--------|-------|--------|-------|-------|---------|--------|-------|-------|----------|
| | | | First | Second | Third | Fourth | Fifth | Sixth | Seventh | Eighth | Ninth | Tenth | Eleventh |
| Kingdom of Denmark ^{1/} | 8/30/45 | 20 | 8.5 | 19.5 | 25.0 | 38.0 | 47.5 | 51.0 | 61.5 | 66.0 | 75.0 | 75.0 | 75.0 |
| Kingdom of the Netherlands ^{1/} | 10/31/45 | 50 | .0 | 12.4 | 23.0 | 23.0 | 35.2 | 49.8 | 65.4 | 65.4 | 80.0 | | |
| Kingdom of Belgium ^{1/} | 12/19/45 | 45 | .0 | .0 | .0 | 22.2 | 63.1 | 78.7 | 85.3 | | | | |
| Kingdom of Greece ^{1/} | 1/16/46 | 25 | .0 | .0 | .0 | .0 | .0 | .0 | | | | | |
| Republic of Finland ^{1/} | 2/1/46 | 35 | 14.3 | 14.3 | 17.4 | 27.4 | 30.3 | 45.7 | | | | | |
| Kingdom of the Netherlands | 5/1/46 | 200 | .0 | .0 | .0 | | | | | | | | |

^{1/} Loan agreements provided for the establishment of revolving funds with Export-Import Bank loan funds in order to facilitate initiation of purchases by borrowers. The amounts of the revolving funds are: Denmark \$1,000,000; Netherlands \$5,000,000; Belgium \$5,000,000; Greece \$3,000,000; Finland \$5,000,000.

New Currency in Albania

J.H.F.

The Government of Albania, by a decree-law of July 11, implemented by an order of the Minister of Finance of July 15, 1946, has re-established the Albanian franc at par with the pre-1914 gold franc. Between July 15 and July 24, all existing money (cash and deposits with the State Bank, the only credit institution in operation) was exchanged for new currency on the basis of one new for five old francs. No household, however, was permitted to receive more than 1,000 new francs in either cash or currency; holdings exceeding 5,000 old francs were deposited in blocked accounts, which will be made available "for the requirements of agriculture and reconstruction"-- whether for the account of the former owners or of the Government has not been stated. All money claims as well as prices and wages were reduced to one-fifth as of July 15, 1946.

The new currency will not include gold coins, but will consist entirely of notes of the State Bank and subsidiary coins. The country's former gold reserves were removed by the Italians and at present the new currency has no gold coverage at all. The fiction that the new franc is equal to the gold franc, which had been the national currency before the Italian occupation, was created in order to support public confidence in the new currency and in order to "justify" an extraordinary overvaluation of the new unit in terms of foreign currencies. In recent months, the exchange rate between the Albanian franc and the dollar, based upon the price of the gold Napoleon (piece of 20 gold francs), was approximately 1.05 United States cents per franc. According to the ratio of one new franc for five old francs, the new exchange rate should have been approximately 5.25 cents per new franc. Actually, however, the new exchange rate, based upon the decreed value of the Napoleon equal to 20 new francs, would be 32.669 cents per new franc. Moreover, the Government has fixed the exchange rate of the paper dollar around 10 per cent below the decreed gold parity, at a level equal to 36.101 cents per new franc, probably in order to force Americans (i.e., the staff of the United States mission) to purchase needed Albanian currency, as hitherto, by selling gold rather than paper dollars. In contrast, the rates of the Czechoslovak crown and the Yugoslav dinar have been set at their gold parity in spite of the fictitious nature of the gold parity of these currencies.

The purchasing power of the dollar is thus less than one-sixth as high as before. Economic relations between Albania and other members of the Soviet economic bloc are based upon barter agreements and are independent of exchange ratios. The overvaluation of the Albanian franc therefore affects only nations outside of the Soviet bloc. Like similar moves in connection with the Yugoslav currency reform of 1945 and the Hungarian reform of August 1, 1946, the Albanian action is to be viewed as part of the communist strategy in Southeastern Europe, aimed at making economic relations with the West extremely difficult.

Sweden's International Lending

Robert W. Bean

The Swedish Government is presently considering the extension of a one billion krona credit to Soviet Russia. To appreciate the effect this credit would have on Sweden's internal economy, it is necessary to know the total volume of foreign credits already granted by Sweden. Unfortunately, no regular official statement is available. Foreign Minister Uden was reported to have said on April 15, 1946, that total credits "made or promised" amounted to 2,700 million kronor.^{1/} Other statements indicate that this figure included gifts as well as credits. The composition of this amount, however, is not clear. This article presents a summary of what detailed information is available.

On the basis of this information, the totals shown in the accompanying table would appear to be approximately correct. With regard to the immediate effect on Sweden's economy, gifts are equally as important as credits, and are therefore included.

The figure of 2,135 million kronor represents total credits authorized since the beginning of the war, and not repaid or cancelled. This is not synonymous with the amount presently outstanding, for it includes lines of credit which have not been entirely used. The great bulk of these credits has been used or committed by the borrowers, however, and it is likely that all but a very minor portion will eventually be drawn upon. It is probably safe to say that the amount presently outstanding is in the neighborhood of 1,800 million kronor (500 million dollars at the present rate of exchange). This is equivalent to one-tenth of Sweden's national income in 1944.

If the credit to Soviet Russia is granted in the amount indicated, total gifts and lines of credit extended by Sweden since the beginning of the war (and still on the books) will amount to some 3,700 million kronor,^{2/} representing more than 20 per cent of Sweden's 1944 national income. About 2,500 million will have been made available over a three-year period (1945-47), including an estimated 300 million of the credit to Russia, which might mean an average of more than 4 per cent of the national income during each of those years.

^{1/} This figure (about 640 million dollars at the old rate of exchange) was quoted in the July 1 issue of this Review.

^{2/} The existing 100 million krona credit to the U.S.S.R. would be consolidated with the new loan.

Millions of kronor

| | |
|--|-------------------------|
| A. <u>Total credits granted in connection with the war and not repaid or cancelled:</u> | |
| Interest-bearing Government credits | 328 |
| Non-interest-bearing credit in form of Riksbank agreement to accept sterling balances ^{1/} | <u>80</u> |
| | 408 |
| B. <u>Total reconstruction and commercial credits extended since beginning of the war and not repaid or cancelled:</u> | |
| Interest-bearing: | |
| Long-term Government credits | 923 ^{a/} |
| Short-term Government and Riksbank credits | 85 ^{b/} |
| Short-term Government-guaranteed credits | <u>57^{c/}</u> |
| | 1,065 |
| Non-interest-bearing credits in form of Government, Riksbank, and private agreements to accept sterling balances ^{1/} | <u>662^{d/}</u> |
| | 1,727 |
| TOTAL CREDITS | 2,135 |
| C. <u>Total gifts since beginning of war:</u> | |
| Originally extended as gifts | 470 |
| Interest-free credits later written off by Sweden | <u>200</u> |
| | 670 |
| TOTAL GIFTS AND CREDITS | 2,805 |

1/ "Repayment" of this type of credit consists of Sweden's liquidating the sterling balances acquired. This has not yet been accomplished.

a/ Including a 100 million krona credit to the U.S.S.R., of which a portion may have been repaid.

b/ Including a 5 million krona credit to Norway, which has not been-- and probably will not be--drawn upon.

c/ Amount outstanding as of the end of 1945.

d/ Estimated.

World Income, 1924-37

Randall Hinshaw

A little over a year ago, there appeared in this Review an article by the writer presenting indexes of world income for the period 1929-37.^{1/} Since these series were constructed, new income data have come to light, making it possible to add more countries, to substitute several superior income series, and to extend the indexes back to 1924. At the same time, advantage has been taken of certain suggestions concerning the method of constructing the indexes.^{2/}

For the period 1924-37, consecutive national-income series can be obtained for thirteen countries, while for the period 1929-37 at least twenty-three series are available.^{3/} The various series of course differ widely in reliability and, because of conceptual differences, frequently are not strictly comparable. These difficulties, however, can easily be exaggerated, particularly if all that is desired is an index. While the indexes in this study are obtained from income totals expressed in dollars, it is the indexes rather than the totals on which major reliance should be placed.

Theoretical Difficulties

The chief problem in constructing dollar totals of income for a group of countries is to find appropriate rates at which to convert income figures expressed in the various national currencies. The most obvious procedure is to use actual rates of exchange, but this approach is open to the serious objection that exchange rates during the thirties were in various cases maintained at arbitrary levels by means of exchange control, quotas, export subsidies, and similar measures. A more rational procedure is to use purchasing-power parities since, in the last analysis, international income comparisons and summations have meaning only in terms of what such income can buy.

There is another question of method, however, which is also important. Should fixed rates of conversion be used throughout the period, or should the rates used change from year to year? That is to say, should income figures be converted throughout at the average rates for the period as a whole or at the changing annual rates? The latter procedure is sometimes used in combining income figures, but it is open to the grave objection that relative movements in the income total depend upon the currency in which the total is expressed; for example, for the period covered in this study, the relative movements would be different when expressed in sterling than when expressed in dollars.

1/ "World Income, 1929-1937" (Supplement), Review of Foreign Developments, June 23, 1945.

2/ The writer is indebted to Messrs. Ernest M. Doblin, Hal B. Lary, W. G. McCarroll, and Lloyd A. Metzler for suggestions and criticisms.

3/ These countries account for the bulk of world income, the major omissions being China, India, and Russia. According to Mr. Ernest M. Doblin, the twenty-three countries referred to above accounted in 1940 for 59.3 per cent of estimated total world income, while the thirteen countries for which figures are available from 1924-37 accounted for 54.4 per cent.

This problem exists whether actual exchange rates or purchasing-power parities are used. The only way to avoid the difficulty is to employ fixed conversion rates throughout.

World Money Income, 1924-37

In Table I below, three indexes of world income (money income) are presented, covering the period 1924-37. Each index is derived from dollar totals obtained at fixed conversion rates. In the first index, the rates of conversion are the average exchange rates for the period as a whole; in the second and third indexes, the rates of conversion are the average purchasing-power parities for the period.^{1/} The first two indexes (Columns A and B) are based on income data for thirteen countries.^{2/} From 1929 on, it is possible to add ten countries to the series.^{3/} When this is done, the second index appears as in Column C.

Table 1
Indexes of World Money Income
(1929 = 100)

| | <u>A</u> At Average Exchange Rates | <u>B</u> At Average Purchasing-Power Parities | <u>C</u> B, with Ten Countries Added in 1929 |
|------|---|--|---|
| 1924 | 83.6 | 83.8 | 83.8 |
| 1925 | 87.7 | 87.9 | 87.9 |
| 1926 | 90.8 | 91.0 | 91.0 |
| 1927 | 92.6 | 92.7 | 92.7 |
| 1928 | 97.3 | 97.4 | 97.4 |
| 1929 | 100.0 | 100.0 | 100.0 |
| 1930 | 88.1 | 88.3 | 88.7 |
| 1931 | 73.6 | 74.2 | 74.7 |
| 1932 | 60.3 | 61.4 | 62.3 |
| 1933 | 63.1 | 64.3 | 65.3 |
| 1934 | 69.5 | 70.5 | 71.3 |
| 1935 | 75.6 | 76.6 | 77.6 |
| 1936 | 85.0 | 85.9 | 86.8 |
| 1937 | 93.6 | 94.9 | 96.2 |

^{1/} The purchasing-power-parity rates were computed from cost-of-living indexes in the conventional way, with 1929 as base year. However, instead of assuming that the exchange rates prevailing in 1929 accurately reflected purchasing-power parities, it was assumed that they diverged from such parity to the extent estimated by Colin Clark (Conditions of Economic Progress, pp. 51-52). Thus, where possible, the 1929 rates were adjusted by the amount which, according to Clark, would have equalized international price levels.

^{2/} The thirteen countries are Australia, Canada, Denmark, France, Germany, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

^{3/} The additional ten countries are Austria, Belgium, Brazil, Bulgaria, Chile, Czechoslovakia, Estonia, Finland, Hungary, and Mexico.

It will be seen that the three indexes agree closely. They appear to show that between 1929 and 1932 world money income fell by something in the neighborhood of 40 per cent, thereafter recovering steadily, so that by 1937 it was not far below the level of 1929.

In Chart 1, world money income (as measured by the third index in Table 1) is compared with the national income of the United States. The chart confirms the contention that the world depression was much more severe in this country than in the rest of the world. Foreign incomes appear to have fallen only by about one fourth between 1929 and 1937, whereas American income fell by more than half. Moreover, foreign incomes were appreciably higher in 1937 than in 1929, while American income was 14 per cent lower.

It is interesting to note, however, that the indexes in Chart 1 do not support the conclusion that there is a persistent tendency for American income to fluctuate more widely than foreign income. For example, there is no evidence that American income, during the period 1924-29, rose more sharply than foreign income; in Chart 1, the two series during this period are virtually congruent. The divergence in the rates of change does not appear until the depression.

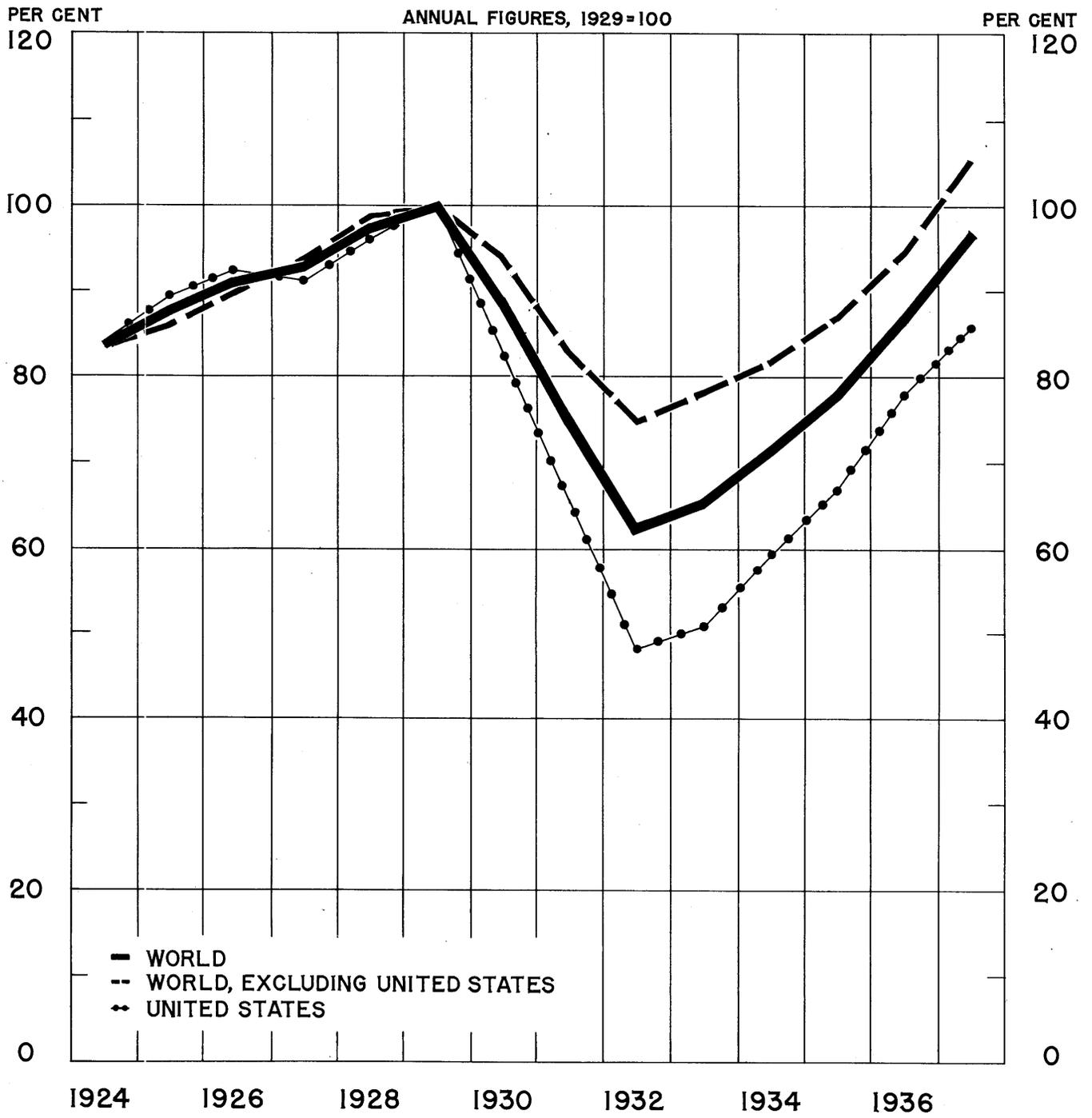
World Real Income, 1924-37

Since cost-of-living indexes are available for the countries in the foregoing group, it is possible to compute a real-income series for each country and a real-income index for the group as a whole. To construct this index, the various income series were first expressed in the original currencies at 1929 prices (cost of living). Each series was then converted into dollars at the average purchasing-power parity for the whole period. Thus the British series, for example, was converted into dollars at a rate of 5.2974 dollars per pound, the estimated average purchasing-power parity for the period 1924-37. In this form, the various income figures for each year were added and an index made of the totals.

The world real-income index is shown with other real-income series in Table 2. It will be noted that the addition of ten countries in the period 1929-37 makes little difference in the index of world real income. According to indexes A and B, which cover the same countries as the corresponding indexes in Table 1, world real income fell by about one fourth between 1929 and 1932, and by 1937 had not only completely recovered, but was more than 7 per cent higher than in 1929. As in the case of money income, the contrast between the United States and foreign countries is striking. Whereas American real income dropped by 40 per cent between 1929 and 1932, foreign real income (Column C) fell by less than 13 per cent; and whereas American real income in 1937 was at almost exactly the same level in 1929, foreign real income was 13 per cent higher.

CHART 1

INDEXES OF WORLD MONEY INCOME, 1924 - 1937



In fact, according to the index, foreign real income had achieved almost complete recovery by 1934, and by 1935 was actually higher than in 1929.^{1/}

Table 2
Indexes of Real Income
(1929 = 100)

| | <u>A</u> Real Income of Thirteen Countries | <u>B</u> A, with Ten Countries Added in 1929 | <u>C</u> B, Excluding United States | <u>D</u> United States |
|------|---|---|--|------------------------------|
| 1924 | 86.0 | 86.0 | 87.9 | 84.2 |
| 1925 | 88.2 | 88.2 | 89.0 | 87.4 |
| 1926 | 90.1 | 90.1 | 91.0 | 89.3 |
| 1927 | 92.9 | 92.9 | 95.4 | 90.4 |
| 1928 | 97.9 | 97.9 | 99.9 | 96.0 |
| 1929 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1930 | 90.9 | 91.2 | 96.9 | 84.8 |
| 1931 | 82.7 | 83.2 | 91.7 | 73.5 |
| 1932 | 73.9 | 74.6 | 87.7 | 59.8 |
| 1933 | 80.1 | 80.6 | 92.8 | 66.7 |
| 1934 | 86.5 | 86.9 | 97.2 | 75.1 |
| 1935 | 92.9 | 93.2 | 102.7 | 82.5 |
| 1936 | 102.0 | 101.9 | 107.9 | 95.0 |
| 1937 | 107.6 | 107.4 | 112.7 | 101.3 |

For nine of the years (1929-37), the index of world real income includes twenty-three countries. In Table 3, the twenty-three countries are listed in the order of their average real income over the nine-year period. The real-income figures are expressed at 1929 prices (cost of living), and are converted into dollars at the average purchasing-power parity for each country.

According to these figures, the two countries with the largest incomes account for over half the total, while the first five countries account for more than four fifths. The twelve countries with the lowest incomes (more than half the entire number) account for only 7.5 per cent of the total income of the group.

^{1/} If Russia were added to the index, the disparity between American and foreign income would be still more striking. A Russian real-income series exists for the period 1928-37, but was not included in the index, primarily because of a lack of the necessary price data with which to compute an appropriate rate for converting the Russian income figures into dollars.

CHART II

INDEXES OF WORLD REAL INCOME, 1924-1937

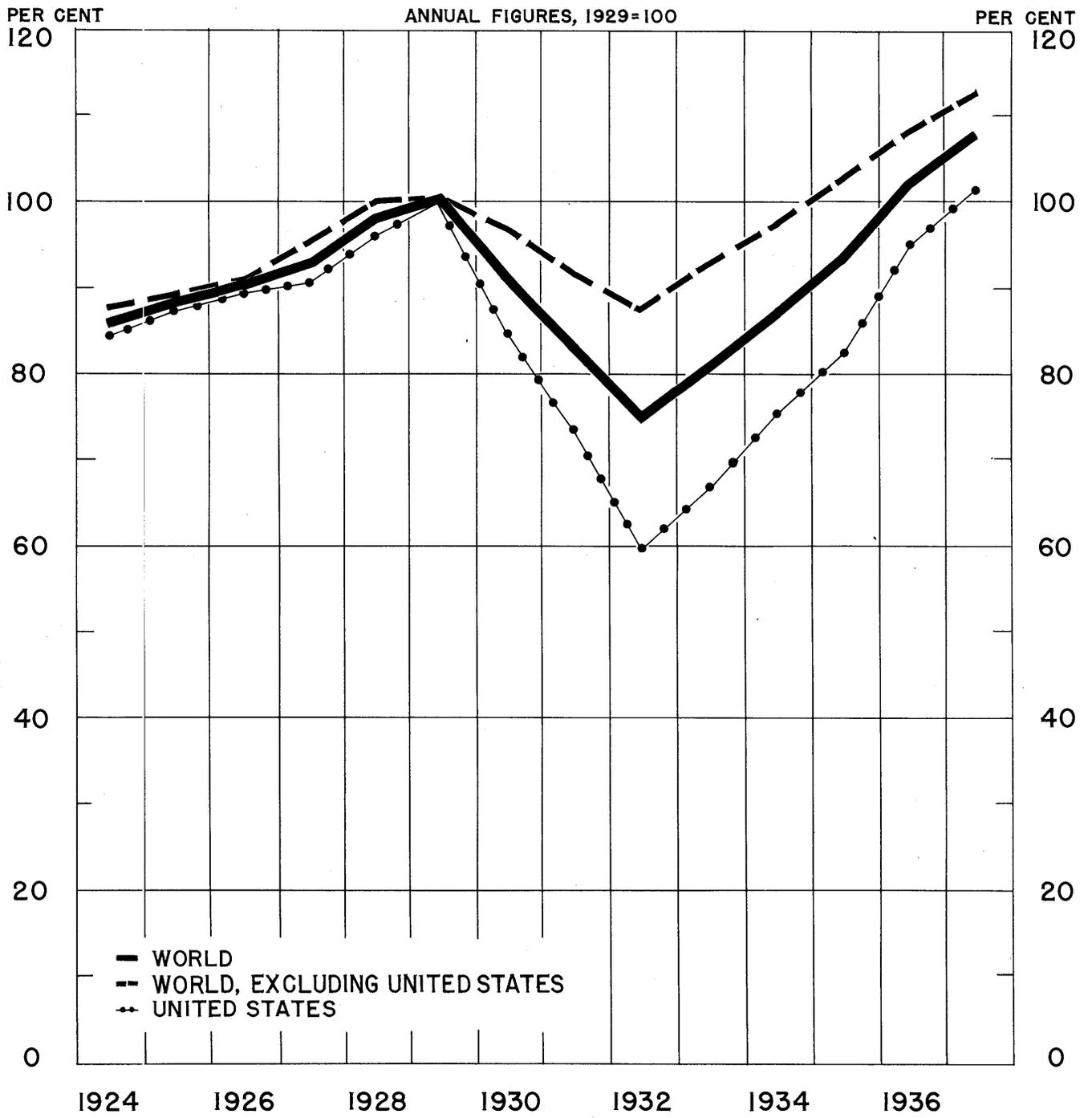


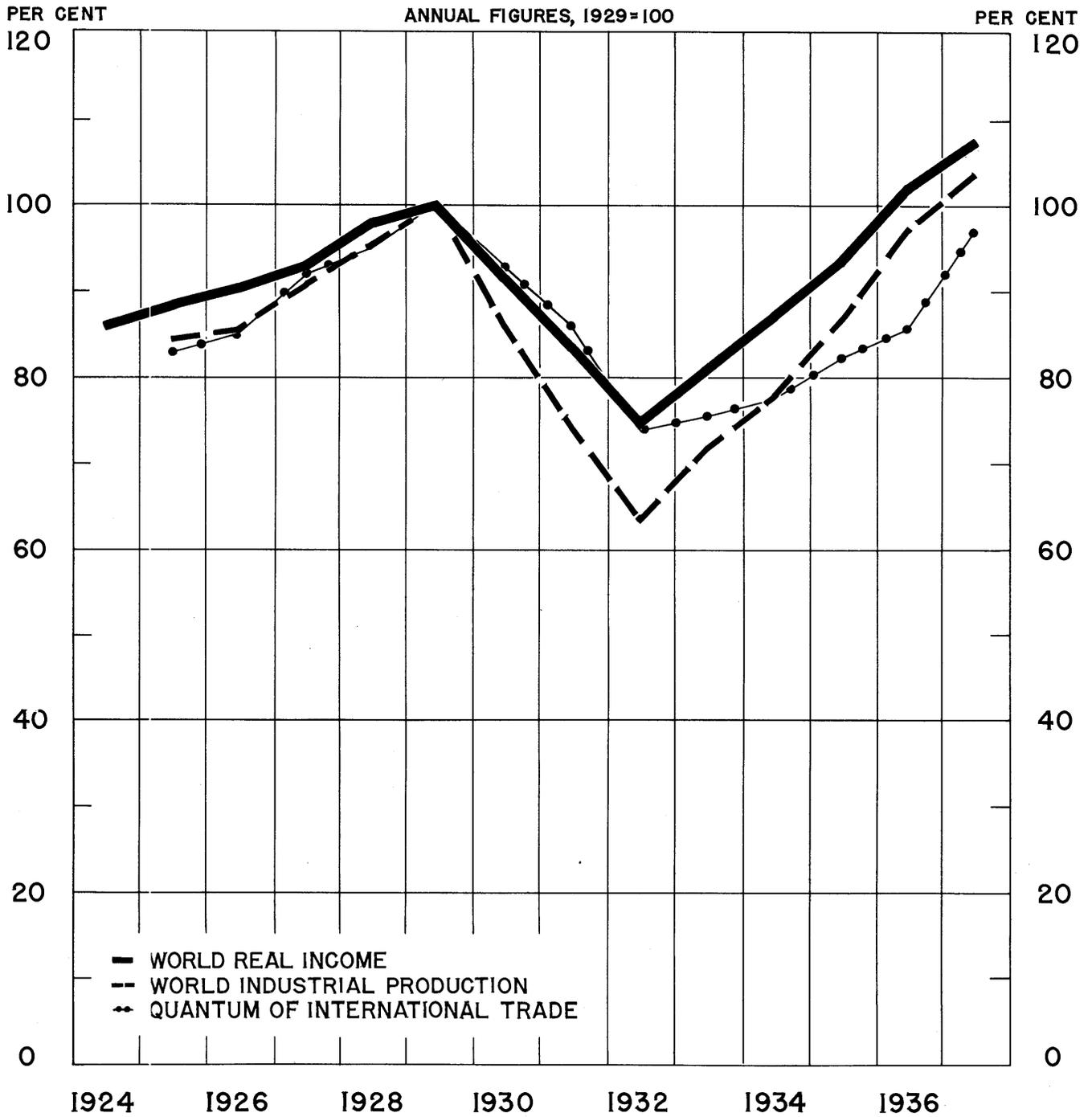
Table 3
Average Real Income, 1929-37
(In billions of dollars at 1929 prices)

| | <u>Average Real Income</u> | <u>Per Cent of Total</u> |
|----------------|--------------------------------|------------------------------|
| United States | 68.4 | 42.2 |
| United Kingdom | 22.2 | 13.7 |
| Germany | 18.2 | 11.2 |
| France | 13.4 | 8.3 |
| Japan | 9.3 | 5.8 |
| Canada | 4.9 | 3.0 |
| Netherlands | 3.1 | 1.9 |
| Australia | 2.9 | 1.8 |
| Czechoslovakia | 2.6 | 1.6 |
| Brazil | 2.4 | 1.5 |
| Belgium | 2.4 | 1.5 |
| Sweden | 2.0 | 1.3 |
| Mexico | 2.0 | 1.2 |
| Switzerland | 2.0 | 1.2 |
| Austria | 1.3 | .8 |
| Denmark | 1.0 | .6 |
| Hungary | 1.0 | .6 |
| New Zealand | .7 | .4 |
| Norway | .7 | .4 |
| Chile | .6 | .3 |
| Finland | .5 | .3 |
| Bulgaria | .5 | .3 |
| Estonia | .1 | .1 |
| | <u>162.1</u> | <u>100.0</u> |

In Chart 3, the index of world real income (Column B, Table 2) is compared with two global indexes prepared by the League of Nations: (1) the League index of world industrial production and (2) the League "quantum" index of world trade (both series excluding Russia). Generally speaking, the three series move together, but world industrial production appears to rise and fall more sharply than world real income. Of the three indexes, world industrial production shows the greatest drop for the depression period, while volume of world trade shows the slowest recovery. According to these series, both world real income and world industrial production were higher in 1937 than in 1929, but the volume of world trade in 1937 was still below the 1929 level.

CHART III

INDEXES OF WORLD INCOME, PRODUCTION, AND TRADE, 1924-1937



Budgetary Loan to the Philippines

J.E.

The budgetary problems of the new Philippine Government^{1/} have been eased temporarily by the action of the American Congress in tacking on to the Bill which extends the life of the Reconstruction Finance Corporation an amendment authorizing the R.F.C. at any time before June 30, 1947, to make loans to the Philippine Government the total of which shall not be more than 75 million dollars. The amendment was offered on the floor of the House of Representatives in the final moments before the R.F.C. Bill was passed. It provided that the exact amount of the credit or credits and their terms were to be those which "the R.F.C., after consultation with the National Advisory Council, shall deem to be warranted by the financial position of the Government of the Republic of the Philippines." The rate of interest shall not be less than 2 per cent, which is roughly the average cost to this Government of borrowing funds. The Bill, as amended, was signed by President Truman on August 7.

The decision to authorize the R.F.C. to lend 75 million dollars to the Philippines was admittedly an emergency decision taken in the last crowded legislative days of the 79th Congress. It was feared that the Philippine Government might face a crisis before the next Congress could act in January. As a matter of policy the N.A.C. and the Board of the Export-Import Bank had decided that it would be unwise for the Bank to make a budgetary loan. Congress itself was reluctant to authorize a direct Treasury loan, so the use of the R.F.C. was a compromise expedient.

President Manuel Roxas had requested a total of approximately 400 million dollars to cover anticipated budgetary deficits over the next five years. He asked for 100 million dollars for the fiscal year 1947 with four succeeding annual installments decreasing each year by 12-1/2 per cent. The 100 million dollars for the first year was pared to 75 million dollars on the recommendation of the N.A.C. based on a preliminary study by its Staff Committee. In the hearings before the House Banking and Currency Committee, State and Treasury representatives of the N.A.C. made it very clear that the Council was making no commitment with regard to President Roxas' 400 million dollar request. Rather, they recommended the establishment of a joint American-Filipino Commission to study the financial and budgetary problems of the Philippines and to make recommendations to the two Governments. It was evident from the hearings that the American Government was not sufficiently informed about Philippine governmental receipts and expenditures to make a long-run decision at this time concerning possible American aid.

It is generally acknowledged that the real purpose of the American budgetary loan to the Philippine Government is to enable the Philippine Treasury to maintain the 100 per cent reserve requirement of its monetary system. Since the reserves backing the currency are dollars on deposit in the United States Treasury, the R.F.C., under

^{1/} For background on this subject see Review of Foreign Developments, June 17, 1946, "Budgetary Problems of the Independent Philippines."

the present authorization, will simply make additional dollars available against which the Philippine Treasury can issue pesos to meet governmental deficits in the Islands. The dollars will not be used in the first round of expenditures, though they may very well be used in succeeding rounds by Filipinos who buy American goods. Thus, in the absence of import controls, the loan may tend to perpetuate the present large import surplus in the Philippine balance of trade.