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THE NETHERLANDS BUDGET

Robert W. Bean

The Committee of European Economic Cooperation has stated in its General Report that

" .. the Governments of the participating countries concerned undertake to carry out .. the internal measures within their power in fiscal and currency matters .. with the purpose of restricting forthwith calls on the bank of issue and other inflationary practices"

and reference is made to statements submitted by individual countries, "placing on record their resolve to achieve complete budget balance as quickly as possible." In the declaration made by the Netherlands Government, this resolve has been formulated simply as follows:

"The budgetary situation clearly constitutes one of the weak points of the general economic picture, and the Government are fully aware of the urgency to restore the balance."

There is no pledge by the Netherlands Government that inflationary financing of the budget deficit will be brought to an end within any specific period, nor that the deficit will be reduced in succeeding years below the current figure.

The size of the Netherlands budget deficit is not fully revealed. In the statement of the Government to the CEEC, the deficit for 1947 was declared to be 1,967 million guilders. This figure is probably the amount in the original budget as passed by the Parliament. In submitting the 1948 budget estimates to Parliament (September 1947), the Minister of Finance stated that the 1947 deficit, including supplementary appropriations, amounted to 2,150 million guilders, and it was likely that an additional 230 million guilders would have to be appropriated for subsidy payments. But this total of 2,380 million guilders is not complete. There are also substantial, but unbudgeted and unpublished, "advances to the Netherlands East Indies", which add to the actual deficit. Such advances include a large share of the cost of supporting the Netherlands army in the Indies, as well as the provision of funds for payment of pensions and salaries by the Indies Government to Netherlands residents. There are no figures available which make it possible to hazard a guess as to the amount of these advances and, therefore, of the total government deficit.

It is evident that the manner in which this deficit is financed is of considerable importance. Here also, however, the facts are not fully known. The Government does not borrow from the Netherlands Bank, but there are other means of financing which may be regarded as inflationary: borrowing from the commercial banks, drawing down of government cash balances, and acceptance of tax receipts or funds borrowed from the public to the extent that such payments to the Government are made out of blocked funds. The balance sheets of the commercial banks indicate that during the first half of 1947 holdings of Treasury obligations increased by 273 million guilders; government cash balances during the first nine months decreased by 350 million guilders; and blocked funds during the first six months diminished by 113 million guilders. On the basis of these fragmentary data, one may suppose that in 1947 inflationary government financing may amount to 1,225 million guilders (banks, 550 million; government cash balances, 450 million; blocked funds, 225 million). The balance of the deficit, probably at least a figure of the same magnitude, is presumably being financed without inflationary effect, out of unbudgeted tax receipts (which the Minister of Finance has claimed are substantial) and borrowings from the public, to the extent that both of these are paid in free funds, and out of borrowings from foreign countries. No direct evidence is available to indicate the amount of such receipts from domestic sources; actual drawings on foreign credits during 1947, according to an official estimate, will exceed 800 million guilders.

The amount of inflationary financing indicated would represent an addition of 19 per cent to the money supply during 1947. Inflationary financing of this magnitude will probably continue so long as military expenditures in the East Indies and the subsidy program at home--the two chief extraordinary types of expenditures--continue on the same scale.

It is impossible to obtain an accurate picture of the size of Netherlands military expenditures because a substantial portion of the unbudgeted "advances to the East Indies" are in fact for military purposes. The budgeted figures alone, however, show that a significant part of total expenditures is allocated to the military, viz., 1,021 million guilders out of 4,386 million (23 per cent). In the budget estimate for 1948, submitted to Parliament on September 16, the total budgeted deficit is reduced from 2,380 million guilders for 1947 to 1,566 million guilders,

and a share of the reduction is in military expenditures (an authoritative report is not yet available, but a news dispatch suggests that the cut in military appropriations will be about 130 million guilders). The actual amount of military expenditures in 1948, including advances to the Indies Government, cannot be foreseen, however, because they depend on the duration of the present truce and the speed of a final settlement.

A more predictable and controllable part of the budget deficit is the amount spent on subsidies, which for 1947 and again in 1948 is expected to be 500 million guilders (32 per cent of the budgeted 1948 deficit). Subsidies have been applied to coal, bread, butter, and milk. In October 1946, subsidies on butter and milk were somewhat reduced and a slight price rise permitted; and in the summer of 1947 the bread subsidy was also reduced, with bakers forced to absorb the cut. A reduction of the subsidy on coal for industrial use was discussed last summer, with a view to stimulating the use of petroleum, but it is not known definitely here whether the reduction has been put into force. Despite the attempt to reduce subsidy rates somewhat, the total amount of subsidy payments has tended to increase, owing principally to the rising cost of grain imports. The magnitude of these expenditures has led to official discussion of the possibility of replacing commodity subsidies with family allowances, as has been done in Belgium.

For the present it has apparently been decided, however, that the Netherlands will not follow the Belgian example. It is claimed that wage differentials have been too greatly reduced during the war, with the result that unskilled workers have insufficient incentives to make themselves skilled; and it is contended that abolition of subsidies and institution of family allowances for the lowest-income groups would further diminish incentives. In fact, the Belgian policy is to grant family allowances to almost the entire working class, so that no effect on income differentials among workers is produced; but in the Netherlands it is claimed that so comprehensive a scheme of family allowances is extremely clumsy and expensive to administer, and would not result in a significant reduction of government expenditures. The alternative of abolishing subsidies without instituting family allowances would undoubtedly lead to difficulty with the labor unions, and the Government is quite unwilling to undertake this risk.

These considerations suggest that the budget deficit will continue for a number of years, and that it will exert upward pressure on prices. The dimensions of the problem, however, do not appear so great that prices are likely to get out of control. The Government has, moreover, fairly close control over private investment and the expansion of private credit. Thus, the Netherlands Bank has authority to disapprove individual bank credits in excess of 50,000 guilders, and the purchase of goods for investment purposes is subject to license by the Government.

Compared with the end of 1937, currency and demand deposits had increased 175 per cent by June of this year; the wholesale price index was 150 per cent above the 1937 average, and the cost-of-living index about 100 per cent. The degree of either open or suppressed inflation indicated by these figures is not particularly alarming, and one does not hear reports of any great misdirection of economic activity in the Netherlands.

The population is hard-working, the number of persons engaged in black market activities is believed not to be large, and trade generally flows through normal channels. During the twelve months ending in June 1947, the money supply increased by 18 per cent, and the wholesale price index by 11 per cent. Much of the rise in wholesale prices could be attributed directly to higher prices of imported goods, however, rather than to internal pressures.

RUSSIA'S FOREIGN TRADE: THE 1946 PATTERN

Alexander Gerschenkron and
Caroline Lichtenberg

Russia shares with Rumania and Yugoslavia the dubious distinction of being the only European countries where publication of foreign trade statistics has not been resumed since the end of hostilities. Accordingly, to obtain some idea of the character of Russia's postwar trade recourse must be had to the trade statistics of Russia's trading partners. This is a laborious and precarious procedure. Methods of valuing exports and imports vary from country to country and for some of the resulting differences no adjustment is possible. Allowance can be made for differences resulting from the cost of transportation. In the case of countries where imports are valued c.i.f. and exports f.o.b., the values of imports from Russia have been reduced and the values of exports to Russia have been increased by 13 and 15 per cent, respectively. For countries where both exports and imports are valued on the f.o.b. basis, only the values of exports have been increased by 15 per cent. It is obvious that such adjustments can be no more than very rough approximations. In addition, the data for individual countries must be converted into uniform monetary units (dollars), and this process raises questions concerning the choice of appropriate exchange rates. Finally, no information is available concerning Russia's trade with Germany; the data on Russo-Austrian trade are so fragmentary that no use can be made of them; for a few of the remaining countries incomplete information has been supplemented by estimates. The data in the following table, therefore, must be viewed with considerable caution and cannot give more than a general indication of the shifts which have taken place.

Russia's Trade, 1938 and 1946
(In millions of current dollars)

	<u>Imports</u>		<u>Exports</u>		<u>Balance</u>	
	<u>1938</u>	<u>1946</u>	<u>1938</u>	<u>1946</u>	<u>1938</u>	<u>1946</u>
Eastern Europe	5.0	254.8	6.5	207.8	+1.5	-47.0
ERP countries	106.9	74.3	152.3	74.5	+45.4	+2
Germany	13.4	--	17.6	--	+4.2	--
United States	81.2	404.7 ^{a/}	19.4	100.6	-61.8	-304.1
Canada	6.1	19.5	.3	1.4	-5.8	-18.0
Latin America	1.7	39.1	.1	.1	-1.6	-39.0
Rest of the world	70.2	20.3	67.7	10.2	-2.5	-10.1
	<u>284.5</u>	<u>812.7</u>	<u>263.9</u>	<u>394.6</u>		

^{a/} Deliveries from U.S. include UNRRA and lend-lease shipments of \$337.9 million.

The table indicates that striking shifts have occurred in the pattern of trade. Exports to Eastern Europe, in 1938 a negligible portion of total Russian trade, have risen to 52.6 per cent of total Russian exports. On the other hand, exports to European Recovery Program countries in Europe have fallen from 57.3 to 18.4 per cent. Exports to the United States increased from 7.3 to 26 per cent of total Russian exports. Latin America remained as insignificant in Russian exports as it had been before the war. Exports to the rest of the world, however, that is to say to Asia, Africa, Australia, and New Zealand fell from 22.8 to 2.6 per cent of total Russian exports.

On the import side, the share of Eastern Europe in total Russian imports increased from 1.8 to 29.7 (39.9) per cent.^{1/} These figures do not include reparations deliveries from Rumania, Hungary, and Finland, which may have amounted to about 150 million current dollars in 1946. Adding reparations deliveries to total imports would raise the percentage of Eastern Europe to 40 (51) per cent. As in the case of exports, the share of European Recovery Program countries in total Russian imports has declined considerably, i.e., from 38 to 8.7 (10.0) per cent. Latin America with 4.6 (6.1) per cent had become a sizeable source of imports in 1946. Imports from the United States were 47 (37.8) per cent of total Russian imports as against 28.5 per cent in 1938. Hence, the United States, in 1946, was by far the most important single source of supplies to Russia. Imports from the rest of the world suffered a decline similar to that mentioned on the export side--from 20 per cent in 1938 to 2.4 (3.2) in 1946.

The changes in the volume of trade are difficult to determine. If it may be assumed that both export and import prices increased by about 100 per cent between 1938 and 1946, the 1946 volume of trade may be shown as follows:

<u>Exports</u>		<u>Imports</u>		
(In millions of 1938 dollars)				
<u>1938</u>	<u>1946</u>	<u>1938</u>	<u>1946</u>	
			<u>UNRRA deliveries:</u>	
			<u>Included</u>	<u>Excluded</u>
263.9	197.0	284.5	428.0	319.0

Thus, if the deflationary coefficient used is at all realistic, the volume of exports in 1946 may have been about 25 per cent lower than in 1938, and the volume of imports (including UNRRA deliveries) about 42 per cent higher than in 1938. If UNRRA deliveries are excluded, the volume of imports in 1946 appears roughly the same as that of 1938. In appraising these relationships, it should be noted that the volume of Russian imports in 1938 was about 62 per cent lower than in 1931, and the volume of exports 55 per cent lower.

Changes in the pattern of trade apparently did not involve any great changes in the multilateral structure of trade. There is a rather widespread presumption that the trade of a planned economy should tend toward a bilateral rather than a multilateral pattern. The history of Russian trade in the 'thirties does not bear out this expectation.

^{1/} The percentage for 1946 is based on total imports including UNRRA deliveries; the percentage in parentheses is based on total imports excluding UNRRA deliveries.

The basic structure of Russia's foreign trade, geared to the country's industrialization program, required net imports from Central Europe and the United States; these were compensated by net exports to Western Europe. In fact, trade under the first Five Year Plan was more multilateral than before World War I. The percentage of bilaterally compensable Russian trade was 68.3 per cent of the total in 1913; this percentage fell to 55.7 in 1931, and rose again to 69 per cent in 1938. On this level it was lower than the corresponding percentages of most important trading countries. While the postwar shift toward Eastern Europe destroyed much of this basic pattern in Russian trade, the percentage of bilaterally compensable trade was lower in 1946 than in 1938. In 1946, if UNRRA deliveries are excluded, the bilaterally compensable percentage in Russia's trade amounted to 65 per cent. Inclusion of UNRRA deliveries would lower this percentage, by raising the net balance, to 55.7 per cent.

The monthly data for 1947 are as yet too fragmentary to provide a comprehensive picture of more recent developments in Russia's postwar trade. Some data are available, however, concerning Russia's trade with Eastern Europe during the first six months of 1947. Russian imports from Eastern Europe in the first half of the current year were at an annual rate of \$329 million as against \$254.8 million in 1946. On the other hand, Russia's exports to Eastern Europe were at an annual rate close to \$127 million as against \$208 million in 1946. Since world market prices appear to be widely used in the trade between Russia and Eastern European countries, it is likely that the volume of imports rose and the volume of exports fell more than is indicated by the figures. At any rate, they testify to the Russian inability or unwillingness to supply the goods even though trade proceeds within the framework of bilateral agreements. At the same time, it appears that Russia's share has declined, as against 1946, not only in the total imports of the countries concerned, but also in their total exports. Thus Russia in 1946 took 66.6 per cent of Bulgaria's exports; in the first six months of 1947 only 37.1 per cent; the corresponding figures for Hungary are 31.9 and 13.3, for Czechoslovakia 12.0 and 4.6, and for Finland 20.1 and 18.4. This seems to indicate that most of the increment in exports of Eastern Europe between 1946 and 1947 went to countries other than Russia. The fall of Russia's relative importance in the imports of the countries concerned is even greater.

The first half of 1947, of course, preceded Russia's rejection of participation in the European Recovery Program and the initiation of what has come to be called the Molotov Plan. Apparently in pursuit of the latter, the Russians have concluded a number of new trade agreements with Eastern European countries, among them the five-year agreement with Czechoslovakia. This agreement provides for 1948 deliveries of 400,000 tons of wheat and corn and 65,000 tons of fertilizers. A two-year agreement has been concluded with Finland which envisages a great increase in the volume of Russo-Finnish trade. Under the terms of a one-year agreement with Poland, Russia is to deliver 170,000 tons of grain. Finally, an agreement with Yugoslavia involves Russian deliveries of equipment for the metallurgical industry, as well as for the oil, chemical, and timber industries. The fact that these agreements were all concluded in considerable haste in July and August of this year testifies to the underlying propaganda purpose on the part of Russia, but probably detracts from the seriousness of the agreed stipulations. At any rate, after the losses which Russia suffered in 1947 in its relative strength in the trade of the countries concerned, it is unlikely that at best the great effort of the Molotov Plan will do more than restore Russia's 1946 position in the trade of Eastern Europe.

DISTRIBUTION OF THE "GOLD POT"

M.M.

On October 17, the Tripartite Commission for the Restitution of Monetary Gold announced the distribution of \$145 million in gold to certain of the countries which, during World War II, had been despoiled of monetary gold by Germany. The distribution consisted of \$102 million to Belgium; \$40 million to Netherlands; and \$2 million to Luxembourg. In addition there was set aside \$29 million for Austria and \$4 million for Italy.

Before the above distribution and allocation, the Commission had at its disposal \$321 million in gold. Of this, \$263 million represented the gold recovered in Germany in the Merkers salt mine in 1945. The remaining \$58 million was received from Switzerland in settlement for looted gold which Germany had sold to that country. Negotiations have been proceeding with other countries for the return of gold stolen by Germany and sold to them. Sweden has agreed to return \$8 million and Rumania \$20 million of such gold.

After the distribution and allocation on October 17, the Commission held \$144 million in gold against which there are undetermined claims by Albania, Czechoslovakia, Greece, Poland, and Yugoslavia. The fact that these unvalidated claims exist makes it impossible to forecast how much more may be allocated to the countries whose claims have already been established.

Special interest attaches to this gold now because of the fact that resources of some European Recovery Program countries will be bolstered as the distribution proceeds and claims are finally decided. Gold reserve estimates currently in use heretofore have accounted for this gold under "Germany".

The large payment made to Belgium (\$102 million) as well as that to Luxembourg (\$2 million) will go to France since France had already compensated these countries in full for their gold (Belgium \$223 million, Luxembourg \$5 million), which had been deposited with the Bank of France for safekeeping and was taken from that institution to Germany during the occupation. Because a substantial amount is still owing on this account, French reserves stand to gain from any further distribution to Belgium and Luxembourg. The estimates of French needs during the interim period which have been submitted to the Congress, are based on the assumption that the gold already received by France from Belgium and Luxembourg will be available for current expenditures during this period.

The \$40 million granted the Netherlands compares with a reported decline of 95.9 tons (\$108 million) during the German occupation in the Netherlands Bank reserve.

The \$29 million set aside for Austria compares with our estimate of \$56 million of gold held by the Austrian National Bank when occupied by Germany in 1938.

Four million dollars was set aside for Italy. The Italian claim was much higher since in 1944 the Neo-Fascist Government transferred to Berlin approximately \$80 million out of gold reserves of about \$108 million.

Included in this amount, however, were \$10.5 million of Yugoslav gold and the Albanian reserve of \$2.5 million. It is understood that the allocation of further amounts of gold is under discussion. This allocation of \$4 million is in addition to the return to Italian control in September of this year of the \$26 million recovered at Fortezza (Italy) in May 1945.

ECONOMIC AND FINANCIAL DEVELOPMENTS IN SIAM

John Exter

Siam is a country of approximately 18 million people. There is relatively little industry; the great majority of the people are employed in agriculture, mining, and forestry. Lacking industry, Siam is dependent upon imports for a wide variety of consumers' goods. It pays for these goods with four principal exports: rice, teak, rubber, and tin. Of these four, rice alone ordinarily accounts for between 45 and 65 per cent of total exports. Before the war the financial policy of the country was strictly orthodox. The Government's budget was normally in balance. The monetary system^{1/} was a 100 per cent sterling and gold reserve system with monetary authority vested in the Ministry of Finance. The note circulation fluctuated automatically with fluctuations in the balance of payments. There was no central bank. The banking system was rather primitive and was dominated by branches of foreign banks, principally British, which were engaged primarily in financing foreign trade. There were only two Siamese commercial banks. Internationally Siam was a creditor country. Its external long-term debt amounted to approximately 5 million pounds sterling. Its international assets greatly exceeded this figure. Short-term official sterling assets alone equaled approximately \$14 million. In addition, there were official holdings of sterling securities of about \$2 million, as well as gold and dollar holdings totaling more than \$40 million.

Wartime Developments

There was a marked change in the typical pattern of the Siamese economy when Siam entered World War II. Trade with countries other than those controlled by Japan was cut off and at the same time Siam was obliged to play host to the Japanese military. By its pact of Alliance with Japan, Siam agreed to devalue the baht^{2/} by about 35 per cent in April 1942, thus placing it on a par with the yen, and, in return for yen credits with the Bank of Japan, to provide practically unlimited supplies of baht for Japanese military expenditures in Siam. The Bank of Thailand, now called the Bank of Siam, was created in 1942 and took over the note issue function from the Ministry of Finance. The Bank quickly became the instrument for greatly expanding the money supply. This expansion took place in three principal ways.

First, the Bank sold baht for yen to finance the Japanese military. From December 1941 to September 1945, when the relation with Japan was finally severed, the Bank financed expenditures of more than 1.5 billion baht.

^{1/} The legal currency unit in Siam is the baht; however, the term "tical", the legal term until 1928, is still in more common usage.

^{2/} Until the war the baht was pegged at 11 to the pound sterling; its approximate value in December 1941 was 36 U.S. cents.

Second, the Bank financed that part of the government budget deficits which could not be financed by sales of securities to the public and to the commercial banks. This was done by purchasing non-interest-bearing government bonds to the extent of approximately 300 million baht between December 1941 and September 1945.

Finally, the Bank financed an export surplus in the trade with Japan and its satellite countries. From January 1943 to August 1945, the only period for which figures are available, this surplus has been estimated at more than 150 million baht. This large surplus was a particularly heavy burden to Siam during these years because several normal sources of imports were cut off and Japan's ability to supply imports progressively deteriorated. Moreover, the initial effect of the devaluation of the baht was a worsening of the terms of trade; Siam's import prices went up immediately by the amount of the devaluation, while the prices of its exports rose more slowly.

It should be noted that both the Bank of Siam and the Ministry of Finance were aware of the danger of accumulating yen credits with the Bank of Japan and exerted every effort to convert the yen to gold. Siam succeeded with difficulty in having approximately \$30 million in gold earmarked in Japan during the war and with still greater difficulty in having less than \$2 million of it transported to Siam during the last year of the war. The earmarked gold remaining in Japan at the end of the war included some that had been earmarked before the war and totaled altogether about \$43 million. It is now the basis for Siam's claim to a portion of the Japanese gold stock. The 1.5 billion of yen deposits, none of which Siam succeeded in converting into gold, have undoubtedly been lost to it forever.

The above operations of the Bank of Siam resulted in a more than sevenfold expansion of the note circulation by the end of the war. In addition, there was an almost fivefold increase in commercial bank deposits. Note circulation and demand deposits amounted to about 2.4 billion baht in September 1945 as against 360 million baht in December 1941. As a consequence, the domestic price level rose almost continuously throughout the war period. This rise was accentuated by the heavy reduction of imports and of supplies of consumers' goods in general. The best available figures indicate that by the end of 1945 the cost of living in Bangkok had increased more than nine times as compared with December 1941.

Postwar Situation

With the end of the war Siam had again to adjust its economy to new conditions. With its yen assets suddenly wiped out and the success of its claim to gold earmarked in Japan questionable, Siam had to rely for international reserves upon its domestically held gold plus such assets as it could recover in Great Britain and the United States. Great Britain promptly blocked Siamese sterling pending satisfaction of British private war claims. Siam therefore entered the postwar period with a money supply greatly expanded as compared with prewar and free reserves reduced to about \$40 million of domestically held gold and about \$10 million of gold earmarked in the United States.

Ever since the end of the war the central problem of the Siamese economy has been that of restoring normal trade based on a stable exchange rate with full convertibility. During the last quarter of 1945, Siam was virtually cut off from commercial transactions with the outside world. Then in January 1946, the Government established an official rate of 15 baht to the dollar, which was increased in June to 10 to the dollar, at which level it still stands. This appreciation of the baht appears now to have been ill-conceived, for the Bank of Siam has not had the international reserves to provide convertibility. It is questionable that even the 15 to 1 rate could have been maintained. A legalized open market has been allowed to arise in which the rate has usually fluctuated around 25 baht to the dollar and more recently at between 20 and 22 baht to the dollar. The Government has attempted to capture the bulk of the foreign exchange resulting from exports by requiring exporters of the four principal commodities, rice, teak, rubber, and tin, to yield all or part of their foreign exchange proceeds to the Bank of Siam. All other dollar proceeds, including those from exports other than those just mentioned, flow into the open market.

This system has not worked at all satisfactorily. The disparity between the open market and official rates is so great that heavy pressures have developed from those interested in the four principal commodities. Exporters of these commodities have won concessions in the form of larger and larger percentages of their foreign exchange proceeds which they may legally sell in the open market. At present these percentages are 80 per cent for rubber, ¹/_{and} 50 per cent for teak and tin. This is tantamount, of course, to a selective depreciation of the currency for these commodities and has had the effect of considerably increasing the physical volume of shipments. On the other hand, from the point of view of the Bank of Siam the increase in its foreign exchange receipts resulting from the considerably increased value of exports of these commodities, has at times been more than offset by the increase in leakages of exchange to the open market. In June of this year the Bank had only enough official exchange to meet the needs of the Government. It had ceased allocating any exchange at all to private importers.

The Government has held the line more effectively on rice. Only 10 per cent of the exchange proceeds can be retained by exporters, and that only in sterling. The result has been, however, that the whole system of rice procurement has been placed under severe strain. The pressure on the rice producing peasant in particular has been unconscionable. To appreciate fully the extent of this pressure some explanation of the Siamese rice situation is required.

Under the terms of the peace treaty with Great Britain, Siam was required to provide without charge all of the accumulated surplus of rice then existing in Siam, subject to a maximum of 1-1/2 million tons. The moral basis for this huge indemnity was that Siam, by siding with Japan, had avoided much of the devastation of war to which many areas of South-eastern Asia had been subjected. It soon became clear that even with the best of good faith the Siamese Government would find it impossible to deliver such a large quantity of rice without charge. Largely on the insistence of

¹/₇₅ per cent if the proceeds are sterling.

the United States,^{1/} Great Britain in May of 1946 agreed to a basic price of £12-14s. per ton, which was substantially below world prices. When this price proved still insufficient to bring forth adequate shipments, it was raised to £24 early this year and was finally raised to £31, the Burmese price, on August 31. Until recently, then, Siam was forced to sell its rice at an artificially low price, which in itself constituted a hardship for the Siamese peasant. To make matters worse, the Government has for cost-of-living considerations held down the domestic price and, in order to produce revenue, collected a £4 per ton export tax. The price which the Siamese peasant has been able to get for his rice has been subjected to three successive squeezes: first, the export price of his rice has been much lower than the prices which rice has been bringing in world markets; second, his baht proceeds have been further reduced by as much as 50 or 60 per cent because rice exporters have been compelled to accept 90 to 100 per cent of their baht proceeds at the official rate of 10 to 1 rather than at the open market rate of 20-25 to 1; third, he has been the victim of an internal procurement system one of whose purposes has been to produce revenue for the Government.

Under these circumstances it is no wonder that the problem of getting rice out of Siam has met with almost insurmountable difficulties. A black market has developed in which rice is sold chiefly to smugglers into Malaya. Stocks have accumulated in the country and much more has been retained for domestic consumption than would have been if the legitimate export price had been higher. The result is that for the first nine months of 1947 Siam exported at an annual rate of 420,000 tons as compared with about 1.4 million tons before the war. The 1947 figure, of course, omits shipments of smuggled rice, for which there are no records.

Export goals and international allocations for Siamese rice have been successively lowered from 1.5 million tons to 1.2 million, to 600,000 (for an 8 months period), and finally to 420,000 tons. However, there are already indications since August 31, when the Siamese price was raised to the level of the Burmese price, that the rate of shipments has markedly improved. If the present crop is as successful as predicted by earlier estimates, the prospects for Siamese rice may prove to have taken a permanent turn for the better. The low rice price in the past has made it particularly difficult to get incentive goods to the peasant. His purchasing power has been so low that he has been unable to pay the high prices that other groups in the population have been able to pay for such limited supplies of goods as have been available. The problem has been accentuated by the lack of import controls. Exchange bought in the open market can be used by the wealthy classes to purchase all sorts of luxury and other non-essential goods.

^{1/} Although Siam declared war on both the United States and Great Britain, the United States never recognized that a state of war existed and no Siamese-American peace treaty has been necessary. The United States was able, however, to claim an interest in the British treaty with Siam on the ground that Siam had been defeated largely as a result of American effort in the Far East.

It was against this economic background that the Government of Premier Luang Dhamrong was overthrown ten days ago in a bloodless coup. The overall economic strategy of the recent Government was quite evidently to maintain the present unrealistic official exchange rate of the baht and, by bringing on a more severe deflation than has yet occurred, to force the open market rate gradually into line. The tactics, however, frequently obscured the strategy as special interest groups were able to have the exchange regulations modified to suit their particular needs. As a result, a disproportionate share of the burden of the deflation was borne by those classes, who, like the peasants, were unable to make their wishes effective in Bangkok. The dissatisfaction with the economic policies of the Government was accentuated by a record of public morality which was bad even by Siamese standards. News stories indicate that an overthrow might have come either from the left or from the right. The strong man of the coup, Field Marshall Luang Pibul Songgram, apparently intends to move to the right. He has announced publicly that the former Government was too far left and that his coup was accomplished to forestall a revolution which might have overthrown the monarchy and established a republic. Parliament will be appointed by the King rather than elected. This change in the nature of the popular representation makes it appear doubtful that the new Government intends to serve the interests of the people any more effectively than the old.