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The Export-Import Bank

M. J. P. Roberts

Congressional and public attention has recently been focused upon the Export-Import Bank's operations and management. This interest was evoked by discussions in the House of Representatives in connection with an amendment offered to S. 375, "an act to provide for the effective administration of certain lending agencies of the Federal Government".^{1/} The amendment, originally designed to keep the Secretary of Commerce off the Board of Trustees of the Bank and later expanded to revise completely the Bank's administration, was ruled out on the floor of the House. In revised form it has now been presented by Representative Wolcott as a bill, H.R. 2178, "to provide for the management of the Export-Import Bank of Washington...." This bill would reduce the Board of Trustees of the Bank from eleven to five members, to be appointed by the President with the advice and consent of the Senate. Interest in the Bank has likewise been aroused with the announcement by Leo T. Crowley, Chairman of the Bank's Board of Trustees, that legislation will shortly be introduced increasing the Bank's lending authority from \$700 million to \$2,200 million.

The Export-Import Bank ("Eximbank") was organized in 1934 for the purpose of financing foreign trade.^{2/} Its loan operations gradually grew from short- and medium-term loans to United States exporters to include long-term loans to foreign governments or their agencies for industrial, public works, and other development projects.

^{1/} This law, signed by the President February 24, 1945, recreates the Federal Loan Agency as an independent agency to include the Reconstruction Finance Corporation and many of its subsidiaries, whose functions and powers were transferred to the Department of Commerce in 1942. The status of the Export-Import Bank is not affected by this law.

^{2/} Credits to finance United States exports have far exceeded those to finance imports into this country.

In the fall of 1940, such development credits were stimulated by an increase in the Bank's lending authority from \$200 million to \$700 million and an express statement that the funds were needed to make long-term development and stabilization loans, especially in the Western Hemisphere. The Bank's loan operations, however, have never exceeded modest proportions, not because of the limitation on the amount of loans outstanding, but because of the conservative loan policies adopted by the Bank.^{1/} The Bank has insisted, whenever possible, upon financing specific projects rather than providing funds for an overall development program. In general, the Bank has chosen projects for financing which might be expected to yield benefits over a ten or twelve year period and has not financed projects of a more fundamental, long-range character the indirect benefits of which, though more delayed and difficult to assess in advance, might also prove to be substantial. It has maintained close supervision of disbursements under its credits and has not permitted the borrower wide latitude in determining expenditures.

The Board of Trustees of the Bank, or the Executive Committee,^{2/} must formally authorize all loans, and is empowered to elect all officers of the Bank. Prior to the middle of 1943, the eleven members of the Board were elected by the Reconstruction Finance Corporation which held the \$174 million of preferred stock, and by the Secretaries of the State and Commerce Departments who jointly held the \$1 million of common stock. The Board has customarily included representatives of Government departments concerned with foreign trade. Representatives of the Reconstruction Finance Corporation, the Eximbank and the Commerce Department have comprised a majority of the Trustees because of the Reconstruction Finance Corporation's preponderance of voting power. Jesso H. Jones, in his capacities as Chairman of the Reconstruction Finance Corporation, Federal Loan Administrator, and Secretary of Commerce, has been able to elect a majority of the Trustees, and indirectly select officers of the Bank. All elections to the Board, however, were and are approved by the President although such procedure is not required by law. The policies of the Bank have been questioned on the grounds of ultra-conservatism and often of favoritism. The State Department has also exercised an important influence on Eximbank policy since no loan is made without its approval. Also, no development credits are made to Latin America without the approval of the President.

No change occurred in loan policy or the essential composition of the Board of Trustees with the transfer in 1943 of the voting rights of the capital stock of the Bank to the Office of

^{1/} Since 1940 at no time have loans outstanding exceeded \$250 million. The Bank has always interpreted the limitation upon its lending authority to mean that its loans outstanding plus commitments to make additional sums available should not exceed the prescribed limit. Even so, at the end of 1944 the Bank had about \$150 million not committed.

^{2/} The Executive Committee, composed of seven members of the Board of Trustees, handles all administrative matters between board meetings. The Committee usually includes the Chairman, and representatives of the Departments of State, Commerce, Agriculture, and Treasury, of the Reconstruction Finance Corporation, and the President of the Eximbank.

Economic Warfare and subsequently to the Office of Foreign Economic Administration.^{1/} As of February 1, 1945, the members of the Board were Leo T. Crowley (Chairman), Foreign Economic Administrator; Jesse H. Jones; Emilio G. Collado of the Department of State; Warren L. Pierson, President of the Eximbank; Charles B. Henderson, Chairman of the Reconstruction Finance Corporation; Harry D. White of the Treasury Department; Leslie A. Wheeler of the Department of Agriculture; H. A. Mulligan of the Reconstruction Finance Corporation; and W. D. Whittemore, Hawthorne Arey, and Eugene LeBaron, Vice Presidents of the Eximbank. The future position of Mr. Jones as a member of the Board is uncertain because of his resignation as Secretary of Commerce. Also, Mr. Pierson has announced that he will give up his position as President of the Bank in order to reenter private business.

Any extensive reorganization of the control and administration of the Bank is doubtful. It seems relatively certain that the bill introduced by Representative Wolcott will not be passed. A modified form of the bill might be accepted, particularly a limitation on the President's power to transfer administration of the Bank to an agency other than the reconstituted Federal Loan Agency. An amendment to that effect might be appended to Mr. Crowley's forthcoming bill removing the prohibition of loans to governments in default on World War I debts and increasing the lending authority of the Bank from \$700 to \$2,200 million.^{2/} These additional funds would be available for reconstruction and rehabilitation loans to war devastated countries in the two-year period prior to the commencement of operations by the International Bank for Reconstruction and Development. Even after the International Bank takes over a large share of this type of long-term credit, a broad field of operations will still be open to the Eximbank. It will be needed to promote United States foreign trade through short- and medium-term credits which the International Bank will not be authorized to grant and which commercial banks have been unwilling to risk. The Bank may grant long-term loans to finance exports of capital goods for reconstruction and development in cases in which the United States Government prefers to make a direct loan through a national lending agency rather than through the International Bank, or in cases in which the International Bank is not in favor of granting a certain loan because of the risks involved. Therefore, although after the war a larger share of the Eximbank's loans will probably be made to European and Asiatic countries than in the past, the most important field of the Bank's post-war operations may continue to be loans for public works and other development projects to Latin American countries, with which the United States has close political and economic ties.

^{1/} Under this arrangement, Leo T. Crowley, Foreign Economic Administrator, has been given a proxy to vote both the common and preferred stock. Voting rights in the stock will revert to its owners six months after the end of the war if no contrary action is taken in the meantime.

^{2/} This sum is a minimum estimate of funds which will be required by the Bank. Formal requests for credits so far received by the United States Government have not yet reached this figure.

Brazil's Evolution toward Central Banking

Robert Triffin

Central banks exist today, in one form or another, in every country of South America, except in Brazil. Central banking functions there are parcelled out between the Treasury and the Bank of Brazil, an official, but mainly commercial, institution. Banking supervision is also largely nonexistent in that country.

These weaknesses have constituted a very severe handicap to monetary and credit policy, especially during recent years. Small, irresponsible banks have come into being under the spur of the inflationary war boom. Last winter, an Economic Congress recommended the early creation of a central bank. Opposition to this step, however, is still strong, especially in the Bank of Brazil, which fears a loss of prestige and authority when the central bank is created.

Decree-Law No. 7293 of February 2, 1945, introduces an interim system, designed both as a temporary stop-gap and as a tactical move toward the establishment of a full-fledged central bank.

A Superintendence of Money and Credit is created, under the jurisdiction of the Minister of Finance, "with the immediate purpose of exercising control of the money market and of preparing the organization of a central bank". The Superintendence is to function under the authority of an Executive Director, appointed by presidential decree and of a Council, presided over by the Minister of Finance and composed of: (1) the President of the Bank of Brazil; (2) the Director of the Exchange Office; (3) the Director of the Rediscount Office and of the Banking Mobilization and Examinations Office; and (4) the Executive Director himself.

Until the central bank is definitely established, the new Superintendence is to exercise central banking functions, especially to:

1. request the Treasury to increase the note issue;
2. be the exclusive recipient of bank deposits;
3. regulate the interest rates of the banks;
4. fix each month interest rates on rediscounts and advances to banks;
5. authorize the purchase and sale of gold and foreign exchange;
6. authorize advances to banks up to 120 days, on collateral of Government bonds up to 90 per cent of their market value;
7. orient banking examination;
8. orient exchange policy and banking operations in general;
9. promote the buying and selling of Government bonds on the Stock Exchange;
10. authorize the rediscount of documents and banking advances.

In addition to their necessary working balances in cash, the banks will have to keep reserves in the form of deposits with the Bank of Brazil at the order of the new Superintendence. These reserve requirements are set at a very low figure (8 per cent against demand, and 4 per cent against time deposits) but may be raised or lowered up to 75 per cent of the basic rates, by the Superintendence.

An interesting feature of the Decree is the discretion left the Superintendence to establish different reserve requirements and rates on rediscounts and advances, "taking into account the regions and the peculiarities of transactions". Extreme regional differences in monetary and credit conditions, over such a wide and unequally developed area, make these differentiations highly necessary for effective and flexible controls.

German Foreign Trade During the War

Paul Herberg

During the last year, the German Government has published various semiofficial statements relating to the foreign trade of Germany. The figures are said to refer exclusively to genuine commercial exchanges, deliveries of war materials to and from satellite countries being included only insofar as such transactions were made on the basis of actual purchase contracts. Taking into account this somewhat inexact limitation, the German figures seem to be correct on the whole, and by additional use of the foreign trade statistics of other European countries and the statements relating to the German clearing debts, a fair estimate of the participation of the European countries in the German war trade can be made. The figures are presented in Table 2.

During the depression from 1929 to 1935, German imports decreased from RM 13.4 billion to RM 4.2 billion, while exports dropped from RM 13.5 billion to RM 4.3 billion. By 1938, imports had recovered to RM 5.4 billion and exports to RM 5.3 billion (or calculated at prices of 1928, to RM 11.0 billion and RM 8.2 billion respectively).

The figures of the war-time trade, however, as given in the German statements, pertain to the new Greater Germany and cannot be compared with the pre-war figures for the old Reich. In order to make a comparison possible, the foreign trade of the area which became Greater Germany has been calculated for 1938 and 1939 encompassing all districts later incorporated in the Reich during the years 1938 to 1941 (Austria, Sudetenland, Danzig, Memelland, Protectorate, incorporated Polish territories, Alsace-Lorraine, Luxembourg, Eupen-Malmedy, and incorporated Yugoslavian territories). Since the incorporated territories had cultivated an intensive foreign trade with countries other than Germany, their incorporation expanded German imports by about RM 1.2 billion and exports by about RM 1 billion. During 1939 and 1940, the value of German foreign trade decreased but thereafter increased remarkably to RM 8.9 billion imports and RM 8.6 billion exports in 1943. The expansion, however, was the result of changes in the price structure and not a quantitative increase in the actual turnover of goods. Calculated at 1938 prices, the volume of German foreign trade would be as follows:

Table 1. German Foreign Trade at 1938 Prices
(Billion RM)

	<u>1938</u>	<u>1942</u>	<u>1943</u>
Imports	6.6	5.0	4.8
Exports	6.3	4.4	5.0

After 1933, German foreign trade had shown a tendency to shift to regions which were under the political or economic control of the Reich and which, in case of war, probably would not be able to withdraw from German influence. In consequence, the trade moved

Table 2. Participation in the Foreign Trade of Germany Since 1929

	Germany Proper				Greater Germany					
	1929	1933	1937	1938	1938	1939	1940	1941	1942	1943
IMPORTS	(Per cent)									
Districts of origin ^{1/}										
Southeastern Europe	5.7	6.6	13.2	12.7	16.5	21.7	26.9	19.5	21.4	22.6
Eastern Europe	5.6	6.2	3.2	3.4	3.6	3.7	6.0	2.2	1.1	1.1
Northern Europe	7.3	7.5	10.1	11.3	10.5	12.8	19.8	16.4	12.9	15.1
Western Europe	13.3	13.2	10.4	9.8	10.2	10.2	26.0	39.1	45.7	46.3
Southwestern Europe	7.9	8.8	8.0	8.6	8.5	11.0	13.7	21.1	18.6	14.7
Territories later incorporated in Germany	7.0	7.4	4.3	2.9	--	--	--	--	--	--
Total Continental Europe	46.8	49.7	49.2	48.7	49.3	59.4	92.4	98.3	99.7	99.8
Overseas and residual	53.2	50.3	50.8	51.3	50.7	40.6	7.6	1.7	.3	.2
Total imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	(Billion RM)									
Total imports	13.4	4.2	5.5	5.4	6.6	5.4	5.0	6.9	8.7	8.9
EXPORTS	(Per cent)									
Districts of destination ^{1/}										
Southeastern Europe	6.4	5.2	12.3	14.1	16.7	20.9	28.6	21.7	26.6	28.0
Eastern Europe	5.2	7.1	3.7	3.2	3.5	3.9	6.1	5.1	4.6	3.5
Northern Europe	10.2	9.5	12.0	12.8	12.2	15.5	21.6	22.4	21.1	22.7
Western Europe	21.5	26.4	18.1	16.9	16.6	16.7	17.2	24.3	23.0	25.6
Southwestern Europe	11.3	14.3	10.7	11.8	11.9	13.4	21.6	22.9	21.8	17.5
Territories later incorporated in Germany	9.6	7.6	4.9	3.4	--	--	--	--	--	--
Total Continental Europe	64.2	70.1	61.7	62.2	60.9	70.4	95.1	96.4	97.1	97.3
Overseas and residual	35.8	29.9	38.3	37.8	39.1	29.6	4.9	3.6	2.9	2.7
Total exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	(Billion RM)									
Total exports	13.5	4.9	5.9	5.3	6.3	5.6	4.9	6.8	7.6	8.6

^{1/} Southeastern Europe includes: Slovakia, Hungary, Rumania, Yugoslavia, Bulgaria, Greece, and Turkey.

Eastern Europe includes: Lithuania, Estonia, Latvia, U.S.S.R., and Poland not incorporated in Germany.

Northern Europe includes: Denmark, Sweden, Norway, and Finland.

Western Europe includes: Holland, Belgium, and France.

Southwestern Europe includes: Switzerland, Italy, Spain, and Portugal.

Overseas includes: Great Britain and the rest of the world.

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from Western Europe^{1/} to Southeastern^{1/} and Northern Europe^{1/} which together contributed 14 per cent of German imports in 1933 and 24 per cent in 1938, and took 14.7 per cent of German exports in 1933 and 26 per cent in 1938. In contrast, the participation of Western Europe decreased with respect to imports from 13.2 per cent in 1933 to 9.8 per cent in 1938, and with respect to exports, from 26.4 per cent in 1933 to 16.9 per cent in 1938. This development, however, did not proceed during the war. Since German trade was almost entirely limited to the Continent, the war-time development is more clearly revealed by examining the share of each area in German trade with the Continent alone.

Table 3. Percentage Participation of Various Regions in the Trade of Germany with Continental Europe

	1938	1939	1940	1941	1942	1943
From:						
	Imports of Greater Germany					
Southeastern Europe	34	36	29	20	21	23
Eastern Europe	7	6	7	2	1	1
Northern Europe	21	22	21	17	13	15
Western Europe	21	17	28	40	46	46
Southwestern Europe	17	19	15	21	19	15
Total for Europe	100	100	100	100	100	100
To:						
	Exports from Greater Germany					
Southeastern Europe	27	30	30	23	27	29
Eastern Europe	6	5	6	5	5	4
Northern Europe	20	22	23	23	22	23
Western Europe	27	24	18	25	24	26
Southwestern Europe	20	19	23	24	22	18
Total for Europe	100	100	100	100	100	100

As the table shows, the participation of the different regions in German continental exports remained nearly unchanged during the war. Indeed, the German controlled regions of Southeastern and Northern Europe each gained about 2 per cent. With regard to imports, however, the incorporation of Austria, Sudetenland, and the Protectorate increased only temporarily the importance of Southeastern trade relations. In contrast, after the occupation of Western Europe the combined deliveries of France, Belgium, and Holland increased rapidly, amounting to nearly one-half of the total German imports in 1942 and 1943.

The dominant position of Western Europe as the source of deliveries to the Third Reich would be more clearly evident if that part of the foreign trade which is not included in the German statements also could be taken into account. This, however, can be done only in a very rough manner. A considerable part of the German-Netherlands trade is probably not included in the reports. Although it is explicitly stated that the German figures include the trade with the Netherlands, actually a substantial volume, especially of the Netherlands exports, may not be covered by the trade statistics since no customs or exchange borders existed between the two countries.

^{1/} See the annotation on Table 2.

Beside this incompleteness--which pertains only to the German-Netherlands trade--the report is affected by the fact that the statistics do not include the so-called "Veredelungsverkehr" (goods sent abroad for processing and then re-imported).¹⁷ Before the war, this trade was relatively small (value of finished goods, reimported after improvement = RM 32 million in 1938), but it became very important after the occupation of Belgium, Holland, and France when almost all Western European industry was incorporated in the German war economy. The claims which originated from "Lohnveredelung" may account for about 40 per cent of the gap between the export surplus--calculated according to the trade statistics--and the clearing claims against Germany. The origin of the clearing claims of the three western countries may be estimated very roughly as follows:

Clearing Claims of Western Europe Against Germany
(at the end of 1943)

<u>Originating From</u>	<u>Billions of RM</u>
Export surplus	6-7
Improvement trade	2-3
Remittances of workers	1-1.5
Other services and capital imports (penetration)	2-3
Total	13.5

While each European region has an active clearing balance against Germany, only Western Europe shows an active trade balance while all other regions have an import surplus, the clearing claims originating from services supplied and other sources. The following table shows a rough estimate of the composition of the clearing balances of the different European regions against Germany:

Clearing Balances of European Regions Against Germany
At the End of 1943
(Billions of RM)

	<u>Import surplus</u>	<u>Claims from services and other sources</u>	<u>Clearing balance</u>
Southeastern Europe	- 0.7	+ 3.7	+ 3.0
Eastern Europe	- 0.7	+ 2.2	+ 1.5
Northern Europe	- 1.7	+ 2.2	+ 0.5
Western Europe	+ 5.3	+ 8.2	+13.5
Southwestern Europe	- 0.9	+ 2.9	+ 2.0
Total European Continent	+ 1.3	+19.2	+20.5

¹⁷ Considered from a general economic viewpoint, a substantial part of the European foreign trade normally consisted in "improvement trade", many raw materials and half-finished products being exported to a neighboring country and reimported in the form of finished manufactures. Before the war, however, it was only the exceptional cases where such shipments were covered by specific contracts between suppliers and manufacturers that were regarded as "passiver Veredelungsverkehr" and the merchandise involved was excluded from the foreign trade statistics of most European

(continued on following page)

The claims of Southeastern and Eastern Europe originated partly from transportation services and remittances of foreign workers in Germany. The bulk, however, rose from deliveries and services to the German Army in the satellite countries. In the occupied countries the requirements of the German Army were satisfied by occupation contributions or credits granted by the Central Banks to the Reichskreditkassen, but no clearing claims originated out of deliveries to the occupation army.

In Northern and Southwestern Europe, the claims originated from improvement trade, transportation services, remittances of foreign workers from Germany, to a small extent from interest and amortization of old German debts, and--in the case of Denmark--from advances to the occupying governmental and semi-governmental authorities.

1/ countries. As a matter of fact, the German statistics, which formerly did not include this category of trade in the "special trade", were changed by the law of March 31, 1939. This innovation, however, was probably cancelled during the war and the figures of the semiofficial German statements of the trade during the war do not include the trade in goods sent abroad for processing.

Reparations for Russia

Alexander Gerschenkron

I. The Terms

Armistice agreements, at the negotiation of which Russia has acted on behalf of the United Nations, have been signed with four countries: Rumania (September 12, 1944), Finland (September 19, 1944), Bulgaria (October 28, 1944), and Hungary (January 20, 1945). In each of these agreements the obligation to make reparation payments has been imposed. The Bulgarian agreement need not concern us here. Although reparations have been provided for under the terms of the agreement, their magnitude has not been determined; moreover, in all likelihood they will be paid not to Russia, but to Greece and Yugoslavia.

In the three other cases, reparation payments have been fixed in U.S. dollars and the period of payment is uniformly six years. The total bill payable to Russia, and the annual instalments, are shown in the following table:

	<u>Reparations to Russia</u>		
	<u>Total Bill</u> (millions of U.S. dollars)	<u>Payment over</u> (Years)	<u>Annual Payments</u> (millions of U.S. dollars)
Rumania	300	6	50
Finland	300	6	50
Hungary	200	6	33-1/3
	<u>800</u>		<u>133-1/3</u>

Czechoslovakia and Yugoslavia together are scheduled to receive 100 million dollars from Hungary, but no stipulations regarding the division of this sum between the two recipients were included in the original agreement. The imposition of reparation payments for Russia and the two countries just mentioned does not prejudice the claims for damages inflicted upon other Allied States. This has been explicitly stated in all three cases.

The agreements carry the uniform provision that reparations are to be paid "in kind". The types of reparation commodities are indicated.^{1/} This mode of determining reparation payments immediately raised the question of evaluating the reparation goods. Therefore, additional agreements with Finland and Rumania became necessary. The solution adopted in these instances was then incorporated in the agreement with Hungary, which is the most recent.

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- ^{1/} Rumania: Oil products, grain, timber, sea and river craft, various machine equipment and similar products.
Finland: Timber, paper cellulose, sea and river ships, and various machine equipment.
Hungary: Machine equipment, river craft, grain, livestock, etc.

II. Evaluation of Reparation Deliveries

The concept of "reparations in kind" makes evaluation of the delivered goods unnecessary only if the total reparation bill has been stated in terms of specified quantities of specified commodities. A part of the German reparations under the Treaty of Versailles was to be delivered in kind and the quantities of individual commodities were exactly prescribed. Yet even in that case the total value of those deliveries was to be credited to the aggregate German reparation account. Thus, also in this case the evaluation, i.e., pricing of the individual commodities, was necessary and provisions for such an evaluation were included in the Treaty.

The agreements under consideration refrain from specifying the quantities to be delivered. Therefore, the statement that the reparations are to be paid "in kind" means in substance that the Russian Government is under obligation to accept payments in goods and must not claim payments in foreign exchange or gold. On the other hand, payments in kind may be interpreted as signifying also an obligation on the part of the reparation debtor to pay in goods and not in foreign exchange. Something more will be said about this later. Thus, the significance of payments in kind lies in the fact that the difficulties inherent in the transfer of monetary payments are obviated. But it would be premature to assume under all circumstances that this alleviates the position of the reparation debtor, as compared with reparations in money.

After the publication of the first two agreements, there was a great deal of speculation as to the method of pricing the reparation deliveries. A number of possibilities were discussed:

1) Current prices in the local currencies of the reparation debtors could have been chosen, and then translated into dollars at the pre-war official rate of exchange. This would mean that the burden of reparations would be diminished by the extent of the enormous rise in prices which has occurred in the debtor countries since the outbreak of the war.

2) The prices of any one of the pre-war years could be chosen and converted into dollars at the pre-war rate of exchange. Since the magnitude of the burden varies inversely with the level of prices, the choice of a depression year would benefit the creditor; that of a prosperity year, the debtor.

3) An attempt might be made to determine the current "true" rate of exchange of the debtor currency from price comparisons in that country and the United States. In this event, current prices in the debtor country would be used. Assume that in, say, 1938 there was an equilibrium between the relative prices in the United States and the debtor country, on the one hand, and the official rate of exchange, on the other. If this was the case, this method would differ from (2) in that the reparation burden would be diminished by the rise in prices that has taken place in the United States since 1938.

4) The exchange rates as now established between reparation debtors' currencies and the ruble might be brought into the picture, and then either the parity rate of \$1 = 5.30 rubles or one of the special ruble-dollar rates now in use might be employed to convert the current prices in local currencies into dollars.^{1/}

As a matter of principle, none of these methods possesses any abstract superiority over the other. There has been some tendency to regard the "true" rate-of-exchange-method as particularly equitable. Such an attitude rests upon an implicit assumption as to the intentions of the parties concerned with respect to the real burden of the reparations. In reality these intentions can be deduced only from the method used to evaluate the reparation payments. The choice of the dollar as the unit of measurement does not necessarily mean more than expressing the value of reparations in a stable gold currency. The relation of \$35 per ounce of gold has been expressly incorporated in the agreements. It would be possible, of course, although hopeless on the basis of present information, to ask whether the reparation burden is equitable relative to the damage inflicted by the individual reparation debtor. But to do this we have precisely to know the burden of reparations. Thus, the method of evaluation should be judged on the basis of expediency rather than on that of principle. One method can, of course, be more or less favorable than another to the reparation debtor.

The actual method chosen by the Russians after the conclusion of the Finnish and the Rumanian agreements was the following: The reparation goods will be evaluated at the world market prices of 1938; furthermore, these prices will be increased in the case of agricultural goods by 10 per cent and in that of industrial goods by 15 per cent.

This method undoubtedly has the very great advantage of simplicity. A large number of reparation goods are standardized and are typically traded in well organized markets. For goods such as oil, wheat, and timber, prices are stated in dollars or in currencies, that, in 1938, were freely convertible into dollars. This method obviates the use of exchange rates of the reparation debtors. The choice of 1938 suggested itself as the last full pre-war year. In that year, however, prices of important reparation commodities reached the bottom of the recession that began in 1937. Thus, between the high in 1937 and the low in 1938, the wheat price fell by about 55 and the timber price by about 29 per cent. The averages for the whole year 1938 are somewhat higher, but the choice of this year undoubtedly imposes a larger burden on the debtor than would either the preceding or succeeding year. The upward adjustment by 10 and 15 per cent is probably intended to take into account the fact that a year unfavorable to the debtor was chosen. On the other hand, the higher premium on industrial prices apparently takes into account that industrial prices have risen more than agricultural prices in the debtor countries during the present war.

^{1/} It has been reported that the exchange rate of the lei has been fixed at 100 lei to 1 ruble; and that of the pengó at 2½ pengó to 1 ruble. It appears that both rates of exchange overvalue the ruble; their use would therefore be unfavorable to the reparations debtor.

III. The Composition of Deliveries

If the reparation deliveries consisted of only one commodity in each country, it would be possible to compute the reparation burden in terms of this commodity. Thus, we could say that 300 million dollars at the average prices of 1938 plus 10 per cent could have bought 369.8 million bushels of wheat; or about $4\frac{1}{2}$ billions of standards of sawn timber; or about 240 millions of barrels of crude petroleum.^{1/}

Assume that the reparations consisted only of one commodity or, more broadly, that, quantitatively and qualitatively, the composition of reparation deliveries was determined at the outset. In this case the paying country would naturally be concerned as to the relation of the market price of the reparation good or goods to other prices in its economy, and particularly to prices of exportable goods. If the market price of the reparation commodity rose more than other export prices after the war, this would--*ceteris paribus*--make the terms of trade in the normal commerce of the paying country less favorable than they would have been in the absence of reparations. If the price of the reparation commodity lagged behind other export prices, this particular disadvantage would not be felt.

The problem assumes practical significance because the quantitative composition of reparation deliveries may not have been fixed. Only the types of goods have been made public. Accordingly, it is to the advantage of the debtor country to have the reparation deliveries be composed primarily of commodities the prices of which, since 1938, have risen less or fallen more than those of other commodities included in the agreements. If the price of wheat had doubled from 1938 while the price of timber had trebled, the reparation debtor would prefer to pay in wheat. By exporting timber and exchanging it for wheat to be then delivered to Russia, 50 per cent more will be credited to the reparation account than if the timber were delivered directly to Russia. The opposite is in the interest of the reparation receiving country. Thus, the composition of reparation deliveries has significance in determining the value of reparations in real terms. By insisting on a certain composition or by agreeing to another composition, the Russians can raise or lower the reparation burden.

Nothing has been said as to whether the reparation goods must have their origin in the paying country or may be bought in the world market. If the latter is true, the debtor country would be in a somewhat better position in that a larger range of quantitative variation could be proposed to the Russians. Russia would probably not object too strongly in such case. But it is unlikely that she would refrain from re-exporting goods received on reparation account if this should prove advantageous. Almost all reparation goods named in the recent agreements are more or less regularly exported by Russia. Second, Russia may not be willing to accept payment of reparations in foreign exchange, say, in dollars. The arrangement seems to imply

^{1/} The prices used were taken from League of Nations, Monthly Bulletin of Statistics, 1939.

the duty of the paying country to pay in goods rather than in foreign exchange. Otherwise, Russia would obtain dollars of the current purchasing power, which is smaller than that of the 1938 dollar, and, besides, would forego her right to agree or not to agree to the composition of reparation payments.

In the case of monetary reparations, a fall in prices would increase, and a rise in prices diminish, the reparation burden. If prices rise over the period of the six years during which reparations are paid, then the 300 million dollars fixed as monetary reparation and adjusted upward for the rise in dollar prices during the war would--transfer problem apart--have been more favorable to the paying country than the present arrangement of reparations in kind.

IV. Reparations and the Economy of the Paying Countries

Since neither the composition of reparation deliveries nor the present and future economic situation in the paying countries is known, it is possible only to compare the monetary value of the reparations with the pertinent magnitudes in the pre-war years. Moreover, one general remark may be in order. The outstanding feature of the Russian reparation schedules is their extraordinarily short duration. However large may be the burden they impose on the population of the paying countries, the feeling that they will be repaid by the end of 1950 will go a long way toward making them acceptable. It is true that the reparations start at a time when the economies are disorganized and impoverished as a result of the war. But the same is true, and probably to a larger extent, of Russia.

a) Reparations and National Income

A heavier relative burden seems to have been imposed on Finland than on Hungary and Rumania.

	Pre-War National Income ^{1/} (Millions of dollars)	Annual Reparations as Percentage of National Income (Per cent)	Annual Reparations Per Capita of the Population (Dollars)
Finland	775	6.4	12.5
Rumania	1,100-1,300	3.8-4.3	2.50
Hungary	930	5.3	5.80

^{1/} Hungary: National income for 1937/38 given as 4,705 million Peng² (Hungarian Institute for Economic Research); rate of exchange \$1 = 5.06 Peng².

Rumania: An estimate for 1938, suggested by Dr. Furth, and based on the assumption that the national income of 1933 = 100 billion lei (League of Nations, World Economic Survey, 1938/1939) rose until 1938 proportionately to the prices plus 10 per cent upward adjustment for increase in employment; \$1 = 142 lei.

Finland: National income for 1938 given by Professor Lindberg (Mercator, Sept. 11, 1943) as Finnish Marks 3,524 millions; rate of exchange \$1 = 45.5 Finnish Marks.

In the cases of Rumania and Finland, the territorial losses to Russia may be assumed to involve a reduction of national income by about 15 per cent. In all countries, the national income will be severely cut as a result of the war. In Rumania and Hungary, the land reforms are likely to reduce the productivity of agriculture for a number of years. This must make the annual reparation burden quite substantial in relation to income. Under the terms of the Young Plan, the German annuity was fixed at 2 billion marks which equalled only 2.6 per cent of the national income in 1929. The German national income of 1929 had actually been created immediately prior to the conclusion of the Young agreement, while the 1938 level of national income in Finland, Rumania, and Hungary will not be restored for a number of years. The present reparations may therefore appear rather heavy. Yet the Young annuities were to continue for fifty-nine years!

b) Reparations and Exports

The annual reparation payments of 50 million dollars constitutes an appreciable proportion of the exports of the three countries concerned:

	<u>Annual Reparations as Percentage of Average Annual Exports, 1935-1938^{1/}</u> (Per cent)
Finland	29.2
Rumania	29.6
Hungary	32.8

Again it may be noted that the Young annuity was only 16 per cent of the German exports on an annual average 1926-1929.

Russia's 1939 trade with Rumania and Hungary was virtually nonexistent. In the case of Finland, Russia's share in Finnish trade^{2/} was very low:

	<u>Imports</u> (Per cent)	<u>Exports</u> (Per cent)
1935	3.01	1.07
1936	1.97	.52
1937	1.42	.62
1938	1.23	.52

This means that payment of reparations is likely to entail a considerable change in the pattern of trade of the reparation debtors. For if Russia's share had been high in the trade of these countries, they could reduce their imports from Russia while maintaining the distribution of the remaining trade more or less intact. As it is, only part of reparation exports may be presumed to be "additional" and their imports from a number of countries will have to be reduced. In some cases, this reduction may give rise to retaliations which may reduce even further their exports to the world

^{1/} Computed from League of Nations, Review of World Trade.
^{2/} Statistisk Årsbok för Finland, 1939.

outside Russia. Thus, Finland may still endeavor to sell her timber in France but prefer to use the proceeds for purchases of American machinery rather than French luxuries. Thereupon the French may try to limit imports from Finland.

In view of these repercussions, the difficulty of readjustment, and the fact that, with the changing structure of her foreign trade, Russia may continue to purchase abroad goods of the reparation type, some of the changes in the pattern of trade may become permanent.^{1/}

c) Reparations, Taxation, and Military Expenditure

The relation of reparations to the 1937 revenues from taxes and customs duties was as follows:^{2/}

	Revenues from Taxes and Customs Duties (Millions of dollars)	Annual Reparations as Percentage of Total Receipts from Taxes and Customs Duties (Per cent)
Finland	66	75
Rumania	185	27
Hungary	146	34

At least in Finland the reparations will necessitate maintenance of taxation on a much higher level than before the war. It should be noted, however, that before the war Hungary and Rumania devoted a very appreciable part of their revenues to military expenditure. Thus, as early as 1936/37 Rumania spent an army and rearmament about 70 million dollars or 38 per cent of her revenues. In the last pre-war year, Hungary's military budget amounted to 201.8 million pengö or 40 million dollars or 80 per cent of the annual reparation burden. In both countries, the real expenditure on armaments seems to have exceeded the figures of the ordinary budget considerably. Only in Finland, where the military expenditure of 1938 was 14 million dollars, would this sum represent not much more than a quarter of the annual reparation burden. But also in this case inclusion of concealed expenditure would raise the relation to reparations to about 40 per cent. Thus, in Rumania the annual reparation burden will be considerably, and in Hungary probably somewhat, smaller than was the armament expenditure before the war. The military expenditure during the war certainly was a multiple of the reparation burden. In the 1944 budget, Rumania reserved 148 billion lei for war expenditure; deflated by the rise of prices between 1939 and 1944, this sum amounts to 31.5 billion pre-war lei or about 218 million dollars, that is, more than 4 times the reparation burden. The corresponding figure for Finland, in 1943, is almost 4 times higher than the annual reparation payment.

^{1/} It is reported that a pipe line Ploesti-Moscow is in the process of construction. It is unlikely that it is to be used only for the short period of six years.

^{2/} Figures from Statistisches Jahrbuch für das Deutsche Reich, 1938, and Statistisk Årsbok för Finland, 1939.

In conclusion it may be said that there is little doubt that raising reparations and exporting goods the value of which will be a very sizeable part of national income, total exports, and state revenues will make maintenance of price and/or import controls inevitable.^{1/}

V. Reparations and the Russian Economy

Given the size of Russia in relation to that of the reparation debtors, the reparations cannot be expected to amount to much in relation to Russia's national income. Still, they are not wholly insignificant. The total value of reparations of 133-1/3 million dollars amounts to about one-third of one per cent of Russia's pre-war national income. Taking into account the effects of the war, the relation may be as high as one-half of one per cent. Assuming that Russia's national income will be restored to the pre-war level within six years, the relation of reparations will be about one-half of one per cent in the first and one-third of one per cent in the last reparation year.

It is perhaps more pertinent to compare the reparations with factors having direct bearing on Russia's international economic position, that is, gold production and foreign trade. If the assumption of an annual production of 250 million dollars is correct, the reparations from the three countries equal about 50 per cent of the value of the annual gold production. It should be remembered, however, on the one hand that the reparation dollars are on the basis of 1938 prices plus 10 to 15 per cent adjustment while the gold production would presumably pay for imports of goods bought at considerably more than the 1938 prices; on the other hand that gold allows of purchases throughout the world, while the reparation goods are limited to the reparation debtors.

Because of the smallness of Russia's foreign trade since the inception of the Second Five Year Plan, the relationship between reparations and Russian imports is rather impressive. On an annual average, Russian imports in the years 1934-1938 amounted to 233.7 million dollars. The annual reparations thus would amount to almost 65 per cent of the annual imports. However, Russian imports in the immediate post-war period may be expected to amount to a multiple of those in the last years of the inter-war period. If the annual Russian imports in the first six years after the war should be in the vicinity of, say, 1.5 billion dollars, then the value of reparations would be only about 9 per cent, plus an adjustment for the price changes between 1938 and the years of the deliveries. Even so, the reparations are by no means insignificant in the aggregate of Russia's foreign economic relations in the post-war period.

^{1/} For Finland this has been explicitly stated by a member of the cabinet in his speech on February 26, 1945.