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Currency Problems and Currency Reform in  
Central and Southeastern Europe

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Currency conditions in Central and Southeastern Europe continue to deteriorate. The situation is least dangerous in Czechoslovakia, which has suffered less than its neighbors from Nazi occupation and Russian liberation and which has just completed a drastic currency exchange after the Belgian model. In Austria, conditions are complicated by the artificial division of the country into four zones of occupation, and by lack of cooperation among the occupying powers. The occupation authorities have finally approved a currency conversion which may help to put an end to inflation. Greece has been pushed again on the road to monetary disaster, as much by political strife as by economic factors.<sup>1/</sup> Matters are worst of all in those countries that are occupied by the Red Army alone and where the provisions of the armistice agreements, the requirements of the occupation troops, and perhaps also the influence of Communist ideology add to the disequilibrium inherent in the post-war situation.<sup>2/</sup> The monetary policies of the more or less Communist-dominated governments of these countries show little evidence of that economic planning which the governments profess to favor, and are notable mainly for the absence of effective anti-inflationary measures.

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1/ Review of Foreign Developments, October 8, 1945, p. 9.  
 2/ Review of Foreign Developments, July 8, 1945, p. 1.

1. Czechoslovakia

Czechoslovakia has repeated a procedure adopted after the First World War in 1919, when the Austro-Hungarian bank notes circulating in the territory of the newly established republic were called in for over stamping and partial blocking. That earlier experiment is generally conceded to have been a failure since it caused a brief deflationary recession and did not prevent an inflationary expansion from occurring immediately afterwards. The new measure is more radical than the first one, and goes even further than the Belgian exchange in that it embraces every kind of currency, including coins, and in that the amount converted into cash is limited to 500 Czechoslovak crowns (Kcs) per head. This amount is officially equal to 10 dollars, as against an original limit of 45.60 dollars (later raised to about 114 dollars) in Belgium, 100 dollars in Yugoslavia, 15 dollars in Austria, and only 3.79 dollars in the Netherlands. All bank deposits have been blocked, with the exception of specified funds needed for the payment of wages and salaries. Blocked balances may be used, however, for paying existing debts by means of transfers from one blocked account to another.

The issue of new currency has been used also to unify the currencies of the former Protectorate, the former German puppet state of Slovakia, and the former German Sudetenland. Since November 1, 1945, the new crown has been the only legal tender for the entire nation. The new crown is equal in value to the crowns of both the Protectorate and Slovakia, although the Slovak crown was valued at only 0.87 Protectorate crown before liberation. No provision has been made for the exchange of reichsmark currency, which was legal tender in the Sudetenland up to July 31, 1945, nor for the exchange of the military currencies used in Czechoslovak territories by the Russians and the Western Allies. The withdrawal of the Allied armies from the republic presumably has been accompanied by the redemption of outstanding military notes.<sup>1/</sup>

At the time of the first partition of Czechoslovakia (September 30, 1938), currency in circulation amounted to 15.1 billion crowns, of which 10.0 billion circulated in the territory of the later Protectorate, 1.4 billion in that of the later State of Slovakia, and the remainder in the areas annexed by Germany, Hungary, and Poland. Of the total, a sum of 8.1 billion was in bank notes, the rest in various kinds of subsidiary currencies. Immediately before liberation, note circulation had increased to 37.7 billion crowns in the Protectorate (March 23, 1945), and 7.6 billion in Slovakia (March 7, 1945). After liberation, the circulation in the former Protectorate at first continued to rise moderately, but later on was sharply reduced, reaching 29.5 billion crowns on October 15, 1945. This decline, however, was

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<sup>1/</sup> Review of Foreign Developments, September 24, 1945, p. 5.

overbalanced by an increase in demand deposits with the central bank from 14.0 billion on March 23 to 47.6 billion on October 15. No figures for Slovakia, and no data on the circulation of subsidiary currency, have been made available since liberation. It appears likely that the movement in Slovakia was not very different from that in the former Protectorate, and that subsidiary currency did not increase at a faster rate than bank notes. Under these assumptions, total circulation at the time of the currency exchange may be estimated at four or five times the amount outstanding in September 1938. Considering the devaluation of the crown in terms of United States currency, from 3.45 cents in September 1938 to 2 cents in October 1945, and the rise in world market prices in terms of United States currency by at least one-third, a currency circulation equal to about 2 or 2-1/2 times the level of 1938 would probably be adequate under normal conditions. At present, cash requirements are certainly lower than this for two reasons. First, because economic activity still is below the pre-war standard; and secondly, because the country is about to expel its citizens of Sudeten-German and Hungarian descent, which form about one-fifth of its population and include an even larger part of its economically most active elements. The limitation of cash holdings to 500 crowns per head should decrease circulation at first to about 7 billion crowns, or less than half of the 1938 figure, an amount which certainly would be far too low even under present conditions. Experience in other countries indicates, however, that the release of blocked currency under hardship provisions and the flow of newly issued money are likely to swell the circulation figure considerably within a very short time. Success or failure of the Czechoslovak measure will depend less on the initial reduction of the circulation than on the control of the current outflow and on the expansion of production at a rate equal to the monetary reflation.

## 2. Austria

After a delay of many months,<sup>1/</sup> the Allied Council has finally authorized the Austrian Government to reestablish the Austrian currency. Since December 21, 1945, the Austrian shilling has been the sole legal tender, replacing the German reichsmark and the Allied military shilling at the rate of 1 new shilling = 1 military shilling = 1 reichsmark. All paper money of 10 reichsmarks or 10 military shillings or more has been exchanged for new notes of the Austrian National Bank while smaller denominations will remain in circulation for the time being. Holders of old currency, except for members of the Allied forces of occupation, received only 150 shillings in cash and had to deposit any excess in blocked accounts. Bank deposits were, or remained, blocked, with the exception of 40 per cent of balances accrued after May 1945.

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<sup>1/</sup> Review of Foreign Developments, July 9, 1945, p. 2.

Prior to the German occupation of March 1938, the Austrian shilling was worth about 19 United States cents. The new shilling will presumably be valued officially at 10 cents, corresponding to the official value of the military shilling. The actual purchasing power of the shilling reportedly has declined to about one-twentieth of its official value,<sup>1/</sup> or about 0.5 cent. The amount of currency in circulation has been estimated at 9.5 billion to 12.5 billion shillings, or about ten to thirteen times the figure of March 1938. It is expected that the currency exchange will reduce the sum to about 4.5 billion. About 45 per cent of the new money will be in the hands of the Allied (mainly Russian) forces of occupation so that some hundred thousand Russian soldiers will have about the same purchasing power in the Austrian market as some seven million natives. The Russian forces managed to accumulate Austrian currency not only by printing a very large amount of military notes, but also by dumping into Austria German currency from other Russian-occupied territories and by seizing the cash holdings of banks and other enterprises in Vienna and Lower Austria that had been taken over by the Germans in 1938. If the Russian authorities use the currency in the hands of the Russian armed forces for purchasing control of Austrian enterprises, they may achieve in Austria a high degree of economic control.

It is expected, however, that the sharp reduction of the amount of currency in circulation will at least temporarily put a brake upon the upward movement of black-market prices. At the end of November, a single cigarette was quoted in Vienna at 5 marks (50 cents at the official rate of exchange), one pound of potatoes at 9 marks, one pound of flour at 54 marks, a can of evaporated milk at 72 marks, and a pound of lard at 315 to 360 marks. In that part of the country occupied by American forces, prices were substantially lower. In Linz, the center of the American zone, a cigarette was worth "only" 1-1/2 marks, or 15 cents at the official rate of exchange, but even there trading in the black market was far more advantageous than accepting a paid job at the official wage rate of less than 1 mark per hour. The currency conversion, by bringing about a drop in black market prices, may force black market traders to look for more productive occupations, and also compel their customers to enter the labor market by making it impossible for them to draw upon their war-time savings. The country's system of production, however, can be reactivated only by restitution of the machinery and business inventories taken away by the Russian and, to a lesser extent, the French occupation authorities, and by the resumption of free trade within the country and of imports from abroad. These problems involve political decisions which are not likely to be made in the immediate future. The effect of the currency conversion will therefore be far less beneficial than if that measure had been taken in conjunction with a complete program of economic rehabilitation.

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<sup>1/</sup> B. I. S. Press Review, October 11, 1945, p. 2.

### 3. Greece

Note circulation increased from 31 billion drachmas on June 30, 1945, to 48 billion on September 30, and 63 billion on November 5 (latest date available). As usual in a period of currency disintegration, prices rose far more rapidly than the amount of currency in circulation. The cost of living index (1939 = 100) stood at 1,053 on June 30, 1945, at 1,991 on September 30, and at 2,713 on October 31; reportedly, the rise continued at an even faster pace in November. Equally significant is the increase in the price of the gold sovereign, which has become the actual standard of value in Greece since the German occupation in 1941. The official parity of the gold sovereign, established in June 1945, is 4,000 drachmas. The market quotation, however, rose from 12,500 drachmas on June 30 to 35,000 on September 30, 43,000 on October 31, 70,000 on November 10.<sup>1/</sup> On the basis of these quotations, the value of the drachma in terms of United States currency has dropped to about 6 per cent of the official parity rate of 0.2 cent. Wages continued to lag behind the rise in the cost of living. In November, the Government granted to its employees an increase in salary, raising salaries by about 150 per cent over and above the September level, but at the same time the prices of UNRRA supplies were doubled. Government revenues still constitute but a fraction of Government expenditures. The Government recently renewed its pledge to restore the budget equilibrium, but there are no indications that it will be able to keep its promise any better than on former occasions. Increases in excise duties and in taxes upon "war profits" will probably be insufficient to make up for the loss caused by the abandonment of the Varvaressos system of business taxation.

The new governor of the National Bank of Greece, George Pesmazoglu, has submitted a number of recommendations, including measures for restoring the propensity to save (reevaluation of pre-war debts and bank deposits, including the domestic public debt), reorganizing the credit system, readjusting prices and wages so as to permit both sufficient payments to wage-earners and fair profits to producers, abolishing import duties, and covering the budget deficit by means other than the continuous expansion of the note circulation. The governor states that, if these measures were taken, even another devaluation of the drachma in terms of gold (which would be the third within little more than a year) to permit the readjustment of domestic prices to the world price level would be feasible without destroying whatever faith the Greek public still has in its currency. All these recommendations are based upon reasoning of unexceptionable logic, but unfortunately no concrete proposals for meeting the necessary expenditures in a non-inflationary manner are advanced.

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<sup>1/</sup> By the end of December the price of the gold sovereign reportedly had increased to 160,000 drachmas.

4. Rumania

In February 1945, the Government attempted to combat inflation by selling to the public gold pieces ("louis" or "napoleons" presumably equivalent to the 20 francs pieces of the Latin Monetary Union) at a price of 15,000 lei.<sup>1/</sup> In October, these gold pieces were quoted at 260,000 lei, revealing a depreciation of the leu in terms of gold by about 94 per cent within eight months. In December, the dollar was quoted in the black market at about 34,000 lei, twice the rate prevailing one month earlier. This price (equal to a value of the leu of 0.003 United States cent) represents a depreciation of the leu to about 3/5 of 1 per cent of its pre-war value. One reason for this continuing depreciation lies in the demands of the Russian occupation authorities which force the Government to borrow 1.5 billion lei per month from the National Bank on reparation account alone.<sup>2/</sup>

5. Hungary

In Hungary the stage of hyper-inflation has already been reached.<sup>3/</sup> Note circulation increased from 42 billion pengö on September 30 to 107 billion on October 31 and 355 billion on November 30. The rise was due mainly to the necessity of financing Government expenditures, which were covered by tax revenues to only 7 per cent in September, and 5 per cent in October. According to the original budget estimate, expenditures during the last quarter of 1945 would have amounted to about 37 billion pengö per month; actual expenditures in November probably were six times as high. About 60 per cent of all expenditures was due to the provisions of the armistice agreement and the requirements of the Red Army, and thus not under the control of the Hungarian Government. Price data are fragmentary and fictitious, and sales are increasingly replaced by barter. Between July and November, wages were increased 2-1/2 times, but prices are reported to have risen 25 times. By the end of November, the dollar was quoted in the black market at 100,000 pengö, and a "purchasing power parity" rate for the dollar, computed for the purpose of establishing an official rate for remittances from the United States, was proposed at 73,000 pengö. The latter rate, corresponding to a pengö value of about 0.0014 cent, represented a depreciation of the Hungarian currency to about 1/150 of 1 per cent of the pre-war level.

Meanwhile, the Government has decreed a 75 per cent devaluation of all Hungarian bank notes, excepting notes of 100 pengö or less and notes issued by the Soviet authorities. After January 1, 1946, the notes will become completely invalid unless certain tax stamps are purchased by the holders and affixed. Details of this curious plan

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1/ Review of Foreign Developments, April 30, 1945, p. 6.

2/ B. I. S. Press Review, November 1, 1945, p. 1.

3/ Review of Foreign Developments, October 22, 1945, p. 10.

are not yet available. In any case, it does not seem to have halted the downward movement of the currency since immediately after the introduction of the measure the dollar was quoted at 154,000 stamped pengö, or about 50 per cent higher than three weeks earlier in undervalued and unstamped currency. Moreover, the measure does not affect the main roots of the trouble, namely, the demands of the occupation authorities and the disorganization of the fiscal system. A complete collapse of the monetary system has been forecast for the immediate future, and the only question appears to be whether the Russian authorities will permit the Government to build a new currency on a more stable basis.

Canadian - United States War Committees

Wendell E. Thorne

With the exception of the Permanent Joint Board of Defense, all Canadian-United States war committees are expected to be dissolved by the end of the calendar year 1945. On August 17, 1940, eleven months after Canada declared war on Germany, President Roosevelt and Prime Minister King signed the Ogdensburg Agreement, which brought into being the Permanent Joint Board on Defense. As a result of the Hyde Park Declaration of April 1941, which recognized the need for further measures to coordinate the productive facilities of both countries if the utmost aid was to be given to the United Kingdom and the other democracies, the Material Coordinating Committee, the Joint Economic Committees, and the Joint War Production Committee were established. The Joint Standing Committee on Agriculture and the Joint War Aid Committee were not set up until March and August 1943, respectively.

Permanent Joint Board on Defense - As the name implies, the board, which was established in August 1940, is expected to continue on a permanent basis and during the last quarter of 1945 it has been meeting every two months instead of every three months as it did during the war. The over-all plans for the defense of North America were drawn up by this board and implemented by the two governments. Recommendations of the defense board resulted in the building of the Alaska Military Road, the construction of a chain of air fields between Edmonton and Alaska, and construction and other operations in Labrador, Newfoundland and Alaska by United States and Canadian civilian and military forces. The United States and Canada are still cooperating on joint defense measures against any future attack, particularly across the Arctic regions. The United States has assigned six observers to accompany "Exercise Musk-ox", the Canadian army and air force expedition which will make a 3100-mile expedition through the Arctic early in 1946 to gather information on possible military operations in that region. The expedition will be supplied by air. The air forces expect to obtain vital information on Polar operations and the ground forces will gather data on equipment needed in the Arctic area. American officials are also supporting the Arctic Institute at McGill University in Canada, which is studying problems of existence in the Arctic. There are six United States members representing air, ground, and navy forces, with

one member from the Department of State and a civilian chairman. There are five Canadian members representing air force, army, and navy, with one member from the Department of External Affairs. The Board acts in a recommending capacity only.

It is understood that the United States and Canada have co-operated closely in liquidating their joint war-time ventures, particularly the air route between the U. S. and Alaska and the installations connected with it. The highway sections linking Alaska and the U. S. will be taken over by Canada on April 1, 1946, and the telephone lines on June 1. Canada has paid for every permanent air facility installed by the United States, and the United States has not requested any bases on Canadian soil. In view of the mutual confidence between the two countries, it is believed that a comprehensive defense program can be worked out in any emergency.

Material Coordinating Committee - Although formal dissolution of this committee has not been announced, it has ceased operation and is expected to be dissolved by December 31, 1945. It was set up in May 1941 to plan the over-all raw material supply and requirements position of the two countries and to iron out distribution problems arising from short supply.

Joint Economic Committees - Establishment of these committees was announced June 17, 1941. They were to harmonize economic controls, priority regulations, shipping problems, questions of tariff, duties and exchange, and generally to mesh production in both countries for the most effective prosecution of the war. They were dissolved in March 1944, when it was apparent that other agencies had taken over most of their functions.

Joint War Production Committee - This committee has actually gone out of existence although no official dissolution date has been announced, but members of the committee favor arbitrarily setting December 1, 1945, as the date. This committee was first set up as the "Joint Defense Production Committee" by President Roosevelt and Prime Minister King in November 1941 pursuant to an earlier recommendation of the Joint Economic Committees. The objective of the committee was to integrate and speed up munitions production in both countries. It was successful in reducing duplication, increasing the exchange of technical information, closing short-term gaps and in rationalizing production to take advantage of the best facilities available in both countries. There were ten technical sub-committees which did the basic ground work for the committee. These expert bodies covered aircraft, artillery, artillery ammunition, conservation, chemicals and explosives, small arms and small arms ammunition, naval shipbuilding, merchant shipbuilding, signal corps equipment, and tank automotive.

Joint Standing Committee on Agriculture - This committee has not been active since October 1943 when full membership on the Combined Food Board was extended to Canada. Most of the functions of the committee were absorbed at that time by the Food Board. The committee was originally set up in March 1943 to keep in constant review agricultural and food production and distribution in the light of war and civilian needs at home and in liberated areas.

Joint War Aid Committee - Since the purpose of this committee was to study problems arising out of the operations of the United States Lend-Lease and the Canadian Mutual Aid programs, its operations may be said to have ended with the termination of these programs early in September 1945. Its formation was announced by President Roosevelt and Prime Minister King during the Quebec Conference in August 1943.

The Devaluation of the French Franc

Hans J. Dernburg

In the final week of 1945 the French Government adopted a series of far-reaching financial measures. By a decision of the French Cabinet the franc was devalued, effective December 26, from about 50 francs to about 119 francs to the dollar.<sup>1/</sup> The decision was approved by the National Constituent Assembly on December 26, when it voted 506 to 44 to give the Government authority to revalue the gold stock of the Bank of France on the basis of the new gold content of the franc. In the same session the Assembly unanimously ratified the Bretton Woods plan and accepted the French-American economic agreement under which the Export-Import Bank will grant France a credit of 550 million dollars.

Devaluation of the franc has been expected for a long time. There was a widespread consensus that the rate of 50 francs to the dollar on which France had insisted since February 1943 greatly overvalued the franc. In the earliest post-liberation period there were sound reasons for a high rate for the franc. Such a rate curtailed the purchasing power of Allied soldiers and thus minimized the impact of Allied troop spending. France was able to acquire dollars and

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<sup>1/</sup> The exact dollar rates of the Bank of France were 49.53 francs for buying and 49.72 for selling; they are now 118.90 francs for buying and 119.30 for selling. While the former rates were also generally applied to the French Colonies, the new rates are applicable only to the Colonies in North Africa, in the West Indies and French Guiana. For the remaining colonies (which were divided into two groups) the newly established rates differ from those for Metropolitan France.

pounds sterling at a favorable exchange rate in payment for the net amount of franc currency disbursed to American and British troops. Moreover, during this period, France was mainly interested in imports and had few products to export. The relatively high rate could be defended as a temporary expedient from the point of view of French national interest.

In the course of time, however, the disadvantages of an abnormally high rate began to outweigh the advantages. American soldiers complained bitterly to their Congressmen, indicating that they were being unfairly treated in converting their dollars into francs at the prevailing rate. To silence these protests the French Government decided early in August to pay every American soldier a monthly subsidy of 850 francs, equivalent to 17 dollars. Foreign trade considerations became increasingly important; as France tried to resume exports she found herself seriously handicapped by the exchange rate at prevailing prices. In mid-April, therefore, legislation was passed paving the way for the granting of export subsidies, a device which is in direct conflict with the trade liberalization program of the United States and with the spirit of the Bretton Woods plans. However, the stimulation to French exports afforded by this program seems to have been moderate as indicated by the development of Anglo-French trade since conclusion of the Financial Agreement in March 1945. Trade between the two countries has been criticized by the British as "one-way traffic" with France importing heavily from Britain (possibly more than 60 million pounds sterling) while exporting only a trifle.

As a result, devaluation will be welcomed by both the United States and Britain. It should foster the exchange of goods by stimulating French exports and by making subsidization unnecessary. It will foster good will, inasmuch as it increases considerably the purchasing power of Allied soldiers stationed in France. The devaluation of the franc combined with French adherence to the International Fund and Bank, should also create a more favorable atmosphere for the coming loan negotiations with the United States. France, which has already received an Export-Import Bank loan of \$550 million, expects to borrow very much larger sums. Unofficial French estimates of the expected new loans vary between 2 and 3 billion dollars.

Whether the degree of devaluation will prove adequate will depend on the future development of relative price and wage levels in France and abroad; particular importance will be attached to the movement of price levels in the United States and the United Kingdom. For the time being, one may try only to determine whether the starting point has been chosen wisely. But even that meets considerable difficulties because of the rather rapid rise of the French price level and the complicated structure of French prices. The wholesale price index (1938-1939 = 100) which in 1944 averaged 252, stood in January 1945 at 259, in March at 269, in April at 318, and in May at 366 (latest available

figure, published in November). On the basis of these data and the corresponding American wholesale index number, one might estimate a purchasing power rate for May of about 104 francs to the dollar. In the meantime, the French price level has continued to rise and the purchasing power rate based on the official wholesale index numbers may be in the neighborhood of the new exchange rate of about 119 francs.

Retail prices are very much higher than wholesale prices, especially when black market prices are taken into account. On the black market in October a pound of butter cost about \$4.50 to \$5.00<sup>1/</sup> (legal price was \$1.70); meat cost \$3.50 to \$5.00 a pound (legal price from 80 cents to \$1.00); sugar cost \$2.00 a pound and more, 10 times the official price. Coffee sold in the black market for \$8.00 to \$10.00 a pound and tea for \$25.00. To meet general public discontent the French Government announced in September a program to stabilize the prices of essential foods (wheat, meat, milk, butter, and sugar) by paying subsidies to producers. The subsidies, amounting to 22 billion francs, would stimulate production and encourage producers to sell their goods to consumers at the prevailing legal prices. It will have been noted that the French price structure is extremely complicated. Price comparisons with other countries are therefore bound to be inconclusive.

Before the devaluation was carried out, estimates of the future value of the franc ranged between 80 and 150 francs to the dollar, but rates as low as 200 and 300 francs to the dollar were suggested. Black market rates for American bank notes were quoted at 137 francs in September (latest available figure).

There is some indication that the rate of 119 francs to the dollar is the result of a compromise; on at least two occasions the French government seems to have placed a somewhat lower value on the franc. If the subsidy of 850 francs (17) which the French Government has been paying American soldiers since August is related to the 15 per cent of the overseas pay of \$55 which soldiers were reported to have actually spent, the adjustment in soldier's pay appears to have been based on a rate of 154 francs to the dollar. A somewhat lower rate may be computed from other data. In a report by an official French war damage commission presented in July 1945, a ratio of 3.4 present francs to 1 franc of 1939 was used. If this ratio is applied to a somewhat corrected pre-war rate,<sup>2/</sup> one arrives at 134 francs to the dollar.

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<sup>1/</sup> All these prices converted into dollars at the rate of 50 francs to the dollar.

<sup>2/</sup> Assuming that before the war the franc was undervalued by as much as 10 per cent, the pre-war rate of 43.80 has been converted to 39.42.

It is quite likely that in determining the rate a certain margin was left for price developments abroad and at home. Price rises abroad would in the long run justify a somewhat smaller devaluation and so would possible price declines at home. There is the possibility, if not the likelihood, that in the early postwar period price and wage levels in the United States and the United Kingdom will rise above their wartime levels. Prices in France, on the other hand, may decline or at least cease to rise as a result of increased production and imports. Industrial activity is as yet only one-third of the pre-war level, while agricultural production is perhaps nearer two-thirds. Conditions in both fields are improving slowly.

Currency Problems in the Netherlands Indies

J.H.F.

The present unrest in the Netherlands Indies has aggravated the currency problem which even without that complication had been sufficiently difficult. Before the Japanese occupation, currency in circulation amounted to about 600 million guilders, and included about 370 million guilders in notes of the Javasche Bank, 200 million in coins, and the remainder in Treasury notes, issued in 1941-42 in order to replace hoarded silver coins. The Japanese left the existing currency in circulation and added an estimated 2,500 million guilders of their own occupation paper money. While liberation was in progress, the Netherlands Indies Government announced that it would recognize the validity of all pre-war money, but would not redeem any Japanese-issued currency except in cases of individual hardship. This policy conformed to the position taken by the Allies in the Philippines and in Malaya and Burma. It has proved impossible, however, to put this program into execution. First of all, it appeared that the Japanese had paid their supporters in pre-war currency, and the less "reliable" parts of the population in their own paper money. Full redemption of the former and repudiation of the latter would therefore have amounted to a premium for collaborationists and a fine for loyalists. Secondly, the slow pace at which the Allies regained actual control of the Indies made it impossible to introduce new currency in sufficient amounts to meet the needs of the population, with the result that the Japanese-issued money remained virtually the only one in existence and was used even by the Allied authorities. Thirdly, the Indonesian nationalists refused to accept the currency notes which the Government had printed during the war -- an attitude widely supported by the population which has always distrusted paper money and has seen its distrust apparently justified by the paper inflation under Japanese rule. The result is that pre-war currency and Japanese-issued money still are circulating side by side, with the Japanese paper guilder valued at about 0.04 pre-war guilder.

At this valuation, the entire amount of Japanese-issued money would be the equivalent of only 100 million pre-war guilders. Part of the pre-war money, especially silver coins, has certainly disappeared during the occupation, and thus the total circulation probably does not substantially exceed the pre-war amount. In spite of this, it appears that prices have risen seriously and that owners of goods prefer barter to sales. This tendency is caused by the political situation which makes the economic prospects of the country and the future fate of its currency more uncertain than ever, and which delays the rehabilitation of production and transportation. The dislocation of the economy under Japanese rule has reduced the supply of most consumers' goods far below the pre-war amount by decreasing domestic output and virtually stopping all imports. The technological conditions of the Indies economy, however, will permit the resumption of full production within a very short time after the restoration of order. In this respect, the simpler agricultural pattern of the Indies is very different from the intricate industrial system of liberated Europe, where the period of transition from war to peace will be longer and harder. When the supply of goods again reaches its pre-war level, the currency problem will probably lose its threatening aspects. How soon this will happen, will depend primarily on the wisdom with which the Allies deal with the current unrest.