

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

REVIEW OF FOREIGN DEVELOPMENTS

April 8, 1946

Handwritten initials

Handwritten initials

Nationalization of the Central Bank
of Argentina..... 1
Report of the Swiss National Bank for 1945... 5
Central Banking in Italy..... 6
Egypt's Sterling Balances..... 8
Extension of Government Control Over Central
Banks and Credit Machinery.....10

.....

Nationalization of the Central Bank of Argentina

Gerald Alter and
Florence Nixon

On March 25, without advance warning, the Banco Central de la República Argentina was nationalized. The surprise decree (No. 8503/46), issued by President Edelmiro Farrell at a general cabinet meeting and effective immediately, was described in an official statement as a measure intended to expand the nation's economy to meet the "emergencies and obligations of the post-war period" and "to assume the effective leadership of the credit and money economy, as basic elements of the general financial policy of the Nation." It has been reported that most high-policy officials of the Bank have submitted their resignations.

Under the nationalization decree, the Central Bank directorate of thirteen will be appointed by the Executive and will be composed of five members representing Government departments, five members representing the interests of agriculture, industry, commerce, stock raising and labor, and the three presidents of the Government-owned banks mentioned below. Under the 1935 Bank Law, the directors representing the private shareholding banks, who held one-half of the capital stock of the Central Bank, constituted ten out of the twelve directors. Although the Government appointed the President and Vice President of the Central Bank, the private shareholding banks influenced the Government's selection by virtue of their right to submit the panel of candidates. The nationalization decree also places three important Government banks (Banco de la Nación, Banco de Crédito Industrial, and the Banco Hipotecario Nacional) and other Government credit agencies under the control of the Central Bank. A former president of one of these banks (Banco de Crédito Industrial) and a reported supporter and friend of Juan Peron, Miguel Miranda, was appointed to

the presidency of the Central Bank. The nationalization decree provides for redemption of private holdings of Central Bank stock, constituting one-half of the total issue, in special two and one-half per cent Treasury bonds or cash.

In the short period since its establishment in 1935, the Central Bank of the Argentine Republic had become a strong influence in the economic and financial life of Argentina. In addition to its important operating functions, the supervision of the private banks, the administration of exchange control and the regulation of credit, the Central Bank has in the past constituted a source of expert advice to the various ministries on a wide range of economic problems. The prestige gained by the Bank permitted it to adopt a strong and independent position and, at times, to propagandize effectively its own views about national economic policies, while avoiding any direct criticism of, or conflict with, governmental action.

The conflict leading up to the present decree really began with the advent of the "Colonels' Government" in 1943. The nationalization decree represents the culmination of a series of differences between the Bank and the Revolutionary Government. Removal by the Government in October 1943 of Mr. Raúl Prebisch from his position as General Manager of the Central Bank was an early indication of basic differences between top Bank personnel and Government authorities. Mr. Prebisch had personally presented to a parliamentary committee investigating Axis activities in Argentina a Central Bank report on Axis financial holdings and dealings in Argentina. This action was the signal for a bitter anti-foreign capital, anti-semitic campaign against Mr. Prebisch and the whole Central Bank personnel by that part of the Argentine press favoring the Government. Finally, a public announcement was made that Mr. Prebisch's resignation, which he had not tendered, had been accepted. The situation being untenable, Mr. Prebisch finally resigned, though against the protest of the Bank's Board of Directors.

The campaign against Bank personnel continued even after the resignation of Mr. Prebisch. The practical embargo placed by the United States on gold shipments to Argentina in August of 1944 was seized upon by the Government as a powerful weapon in its propaganda to undermine the Bank in public opinion. Application by Argentina for an export license to ship a large quantity of gold held in custody for the Central Bank of Argentina was denied by the United States Government. Argentine Government circles viciously accused the Central Bank of "negligence" and even of having willfully mortgaged the country's national patrimony to foreign interests. It was reported that the Government was preparing to take away from the Central Bank the issue power and custody of reserves and to transfer these functions to the Argentine Treasury. The Government did not, however, execute this move, apparently satisfied with its efforts to weaken the Bank's prestige and fearful of the effect of such a move upon the commercial banks' willingness to absorb Treasury issues.

In addition to the conflicts emerging on a personal or bureaucratic level, monetary and fiscal policies inevitably became the object of a sharp conflict. The Revolutionary Government advanced a program of large-scale military expenditures, while the Central Bank became increasingly concerned with the problems of maintaining economic stability in the face of a very favorable balance of trade. The Central Bank in its annual reports has stressed repeatedly the necessarily close relationship between monetary policy and the financial policy of the Government, arguing for a reduction in the Government's budgetary deficit. In its Annual Report, the Bank stated: "In order to establish the conditions required for an active policy of absorption of means of payment, it would be necessary, in the present circumstances, to be able to count on a decrease in Government requirements to be financed by borrowing, which, in other words, means a reduction in expenditures or an increase in taxation or a combination of those two expedients." Although the 1945 report, issued about a week before the nationalization decree, has not yet been received here, it is reported that the Central Bank was openly critical of the mounting Government expenditures which it held largely responsible for the growing inflationary situation in Argentina.

Over the course of the past two years, the Central Bank had several times petitioned the Government to take effective action against the emerging inflationary situation. In addition to calling for changes in Government budgetary policies and for the institution of a coordinated anti-inflationary program, the Central Bank asked for the power to increase or decrease reserves of the private banks in order to control effectively the volume of credit. The Bank has been unable to absorb purchasing power by placing with the public Certificates of Participation in Government bonds for fear of competing with the Government for funds. The Government has actually done little to institute anti-inflationary measures. The cost of living has risen to a greater extent (12 per cent) in 1945 than in the previous five years (7 per cent). In addition to the continuation of inflationary pressures emanating from a favorable balance of payments, a steady rise in Government expenditures and budgetary deficits has contributed to the inflationary situation. The rise in Government expenditures shown in the following table has been associated with a virtual doubling in the proportion of the total budget allocated to War, Navy, and related expenditures, so that in 1945 these expenditures constituted 46 per cent of the total.

Expenditures, Revenues, and Deficits of Argentine Republic
1940-1945

<u>Year</u>	<u>Total Expenditures</u>	<u>Fiscal Revenues</u> (In millions of pesos)	<u>Deficit</u>
1940	1,316.1	963.8	352.8
1941	1,367.1	910.4	456.7
1942	1,526.1	1,001.7	524.4
1943	1,761.3	1,024.5	736.8
1944	2,411.2	1,404.6	1,006.6
1945	2,849.4	1,355.3	1,494.1

In a report on national income made public in February, the Central Bank called attention to the growing percentage of national money income constituted by Government expenditures. It was shown that in 1945 total Government expenditures, including states and municipalities, represented 31 per cent of the national income (after deducting the balance of trade) as compared with 18 per cent in 1942.

With respect to the budgetary deficit, the Government appears to have been less concerned with the inflationary implications than with "where the money is coming from." Earlier in the war period, large supplies of liquid funds made absorption of Government issues fairly easy, and the yield on Government bonds declined considerably. The Central Bank, concerned about the long-run stability of the Government bond market and anticipating the Government's continued need for funds, recommended the floating of bond issues for the express purpose of stabilizing the market and maintaining the existing bonds at par. With the advent of the Revolutionary Government, the recommendation was not followed, however, and intent on following a policy of prestige, the Government permitted quotations on Government bonds to rise and secured conversion of the Government debt at lower rates of interest. As the Central Bank had foreseen, this situation could not be maintained in view of the continuing appeals to the market by the Government. Beginning in the second half of 1944, the Central Bank had to buy back bonds for the account of the Government to prevent a drastic drop in the market. The Government's cash resources being insufficient, increased pressure on the commercial banks to purchase Government securities was exerted. During 1945, it became increasingly difficult to place Government bonds with the commercial banks despite strong Government pressure. The difficulty encountered by the Government in financing its program was reflected in the 1946 budget decree (promulgated in January) in which, contrary to usual practice, the expenditures to be covered by bond issues were not included in the budget total. The amount of such expenditures, it was noted, would be fixed later in accordance with the financial possibilities of the market for Government bonds. The financial market in Argentina in recent months has not been favorable to Government financing. Quotations on Government bonds have fallen and tenders for Treasury bills have fallen short of requests. It has recently been reported that the Government is so short of funds it has been unable to meet current bills for supplies.

Under existing Argentine law, access by the Government to Central Bank credit is strictly limited. The Bank may only purchase bonds for its own portfolio up to the equivalent of its capital and reserves, plus the amount of the redemptions effected in Consolidated National Treasury bonds. This limit having been reached, the Bank has been unable to give any substantial support to the Government bond market. Short-term advances to the national Government must not exceed 10 per cent of the average revenues of the Government in the previous three years. In January 1946, for the first time in three years, the Government had recourse to the Central Bank under this provision, and it is reported that loans granted during January and February totalled nearly 90 million pesos. Since the maximum is about 125 million pesos, the limit to short-term advances was rapidly being reached.

Given the recent history of conflict between the Government and the Central Bank, the open criticism of Government policy by the Central Bank and the immediacy of the financial problem from the Government's point of view, the move by the Government to gain complete control of the Central Bank fits into place, even though the limitations on Government borrowing from the Central Bank have not been removed as yet. An important public institution, independent of executive authority to a substantial extent, might be a distinct handicap to the plans of the new Peron regime soon to assume power.

Report of the Swiss National Bank for 1945

Rosa Ernst

The annual report of the Swiss National Bank reviews Switzerland's economic and financial developments during 1945. The end of the war did not cause any fundamental changes in the country's economy. Reconversion of industry to a peace-time basis proceeded smoothly, although there proved to be a labor shortage in industry, agriculture, and other fields instead of the expected unemployment. For the second time in the last 80 years, Swiss exports during 1945 exceeded imports by 248 million francs (approximately 58 million dollars at the official rate of exchange of 1 Swiss franc = \$.2336). The first time was in 1916, when the export surplus amounted to 69 million Swiss francs. The Federal Government during the early part of the year again spent substantial amounts both for military and economic national defense. Even after the termination of hostilities outlays continued on a large scale for purposes of financing exports, for granting credits to foreign countries, and for buying gold and foreign exchange from other governments which required large amounts of Swiss francs for diplomatic and welfare expenditures. These transactions, coupled with an import deficit, contributed in a large measure to the expansion of currency reserves, despite the efforts of the Government to check this trend partly by launching bond issues during 1945 in an aggregate amount of 1,090 million francs, and partly by extending to various industries restrictions (formerly applicable to the watch industry only) regarding disbursement of dollars.

The Bank's volume of business expanded accordingly. For the first time in its history, the balance sheet total exceeded the five billion mark, with the highest amount of 5,352 million reported in the middle of June and with 5,251 million francs at the end of December. The gold holdings at the end of the year amounted to 4,777 million francs, an increase of 223 million as compared with the previous year. For the first time since June 1938, the Bank reported separately gold held at home (1,128 million) and gold held abroad (3,649 million francs). Of the latter amount, 1,212 million francs was freely available, while 2,437 million was blocked but applicable to payments for commodity purchases. Holdings of foreign exchange increased by about 60 per cent during the year from 102 to 163 million francs. Thus at the end of 1945 about 94 per cent of the Bank's total assets were on a non-productive basis. As in former years, the Federal Government borrowed from the National Bank only infrequently and in comparatively small amounts, and at the end of December all but 40 million francs of these borrowings (rescriptions) had been repaid.

On the liabilities side, attention is called to the expansion in note circulation from 3,548 million at the end of December 1944 to 3,835 million francs a year later, an increase of about 8 per cent. This increase is attributed in part to continued hoarding and in part to larger business requirements. It is worth noting, however, that the expansion in 1945 was less than in 1944 (500 million) or in 1943 (411 million francs). It is hoped that this decreasing trend will continue; recent reports show that during the first three months of 1946 the note circulation fell to 3,614 million francs. Sight deposits increased considerably from a total of 1,015 million francs at the end of 1944 to 1,110 at the end of December 1945 in sharp contrast to the trend the year before when these deposits fell from 1,239 to 1,015. In view of the high liquidity of the money market, private economy had little recourse to central bank credit during the year under review. Interest rates did not change during the year. Mr. Weber, the President of the Swiss National Bank, in his speech presenting the report to the annual meeting of shareholders, emphasized that in view of the favorable export position, the present development of industrial production, and conditions in the home market there was no prospect of and no need for a devaluation of the Swiss franc and that any rumors of devaluation appearing in the press were totally unfounded. The report closes with an optimistic note stating that on the whole the business year 1945 turned out better than financial circles had dared to hope at the beginning.

Central Banking in Italy

J. Herbert Furth

The Bank of Italy has resumed the issue of monthly statements although these statements have not yet been made available to the general public. The following table compares its balance sheet of December 31, 1945, with those of the end of 1939 and 1942.

Year End Balance Sheet Data of Bank of Italy
(In millions of lire)

	<u>1939</u>	<u>1942</u>	<u>1945</u>
<u>Assets</u>			
Gold	2,738	2,673	463
Cash	801	440	18,431
Domestic bills	4,857	24,168	50,509
Advances to Government	10,773	51,773	345,470
Advances to I.R.I.	4,708	4,708	4,708
Other advances	3,079	7,283	5,684
Other assets	2,661	3,378	81,341
	<u>29,617</u>	<u>94,423</u>	<u>506,606</u>
<u>Liabilities</u>			
Bank notes	24,432	73,320	296,021
Bank checks	1,218	5,754	13,449
Government deposits	475	5,387	20,505
Other demand deposits	1,268	6,224	46,865
Time deposits	491	491	124,170
Other liabilities	1,131	2,343	4,643
Capital and reserves	602	904	953
	<u>29,617</u>	<u>94,423</u>	<u>506,606</u>

On the assets side, "Gold" includes that part of the Italian holdings removed by the Germans that the Allies have brought back to Rome. These holdings are kept by the Bank of Italy for the Allied Control Commission, and thus are not available to the bank management; their fate will be decided by the peace treaties, and their inclusion in the balance sheet is at least premature. The value of the gold holdings is still computed on the basis of the pre-war foreign exchange value of the lira (5.26 United States cents), rather than the present official rate (0.44 cent). "Cash" includes Allied Military lire which the Bank is seeking to withdraw from circulation. "Domestic bills" include 40,752 million bills of the "Consorzio Sovvenzioni su Valori Industriali," which is a Government institution granting industrial credits; this item should probably be included with the advances to the Government. "Advances to the Government" include pre-war advances (among them a credit of 1,773 million for gold pledged to the United Kingdom during the first World War), and 342,697 million of "special" advances connected with the war emergency. The figure probably includes the amount advanced to the fascist regime of Northern Italy by the Bergamo administration of the Bank of Italy in 1944 although the Government has not yet disclosed whether or not it will acknowledge the validity of that debt. "Advances to I.R.I." (Institute for Industrial Reconstruction) should also be considered part of the Government debt. "Other advances" are made almost exclusively upon Government securities. The huge amount of "other assets" has not been explained; it may represent in part advances granted by the Bergamo administration in connection with the German occupation.

The circulation figure refers only to notes issued by the Bank of Italy (including those issued by the Bergamo administration). Other currency in circulation includes Allied Military notes (86 billion) and subsidiary currency (8 billion). The latter sum presents no problem, but the unification of bank notes and Allied Military notes remains to be put into execution. Until recently, it was believed that the Government would decree a currency conversion on the Belgian model, in which case unification would have been easy. The Government, however, has abandoned that idea. Experience in all countries which have tried such a conversion has shown that the deflationary effect of a conversion is only temporary, and that its main advantage is a psychological restoration of confidence in the currency. Surprisingly enough, it appears that the Italian people have not lost confidence in the lira, and during the last twelve months circulation and price level have remained virtually stable. Under such conditions, a conversion **might** have adverse rather than beneficial psychological effects, and the decision of the Government is probably justified.

"Time deposits" represent the statutory reserves which credit institutions have had to maintain with the Bank of Italy since 1943. Deposits with credit institutions stood at 474 billion lire in November 1945, as against 89 billion in 1938. Although the increase is proportionately much smaller than that in the note circulation, it is remarkable that in spite of the war-time inflation deposits still are higher than the entire currency circulation.

The Bank's balance sheet shows that its liabilities are covered almost exclusively by various types of advances to the Government. Since liberation, the Government has refrained from using central bank credit for its deficit spending. In the current year, it will be more difficult to maintain this practice since the Government will have to shoulder expenditures borne hitherto by the Allied Control Commission and covered by the issue of Allied Military lire. On the other hand, UNRRA aid and foreign credits will cut down the needs for domestic borrowing. Unfortunately, Italy's main problem is neither fiscal nor monetary, but concerns the country's physical reconstruction and especially the replenishment of its inventories, and the wisest central banking policy can contribute but little to its solution.

Egypt's Sterling Balances

Ali R. Bengur

Indications are that the question of Egypt's sterling balances may soon come up for discussion, if it is not already being discussed, between the British and Egyptian Governments. The Finance Minister of Egypt revealed in an interview as early as the middle of February that the British Government had been requested to set a date for the discussions. This request was made in consideration of the approaching end of the Anglo-Egyptian financial agreement (which had been extended for three months upon its expiration at the end of 1945) and perhaps also in anticipation of an early approval by the United States Congress of the financial agreement signed on December 6, 1945, between this country and the United Kingdom.

Under the terms of the Anglo-American financial agreement, Britain is expected to discontinue the type of sterling area currency arrangements to which Egypt has been a party since the early years of the war, and at the same time to reach settlements with those countries that have accumulated large sterling balances over the war years. Those settlements are expected (1) to scale down the total British indebtedness, (2) to fund a portion of the remaining debt, and (3) to release the balance in fully convertible currency.

Egypt is known to hold the largest balances outside the Empire countries. There is no information on the exact amount of these balances, but available estimates place them at the equivalent of 1,300 to 1,600 million dollars. The lack of information results from the fact that close to two-thirds of the balances are privately owned; government holdings are valued at about 585 million dollars according to an official release. The Egyptian Government recognizes the difficulties which may be presented by the existence of such large unofficial balances in a settlement with Britain. In order to determine the amount of these balances, the Government decreed on December 31, 1945, that residents of Egypt should report to the statistics department of the Ministry of Finance all credits, shares, and other sterling assets in their possession. The Government's action was apparently taken in preparation for the projected Anglo-Egyptian negotiations, but has also been interpreted as a first step toward the centralization of the private balances if that should be found necessary.

The Egyptian Government has taken the position that the sterling balances should be paid in full. In a recent statement upholding this position, the Finance Minister explained that the volume of these balances was a concrete evidence of Egypt's great contribution to the war effort and that they had been accumulated from "the sweat of the felseen" (Egypt's agricultural workers). He stressed Egypt's need for these funds by stating further that a great majority of the people were poor and that many of them were more unfavorably placed than before the war. It is reported, however, that the Egyptian Government may be induced to alter its original stand and to consider certain reductions of Egypt's accumulated sterling balances. This would depend, according to the same report, largely on the extent to which Britain may be prepared to allow Egyptian balances to be converted promptly into other currencies, more particularly into United States dollars.

There has been no official statement on the part of the British Government as to its stand with respect to the settlement of the balances in question. Opinions have been expressed in the press and privately to the effect that Britain, having saved Egypt from invasion by the enemy, has the right to expect that country to consent to a considerable reduction in its sterling balances. The Egyptian Government has similarly been criticized for its reluctance to assume responsibility for the centralization of private balances. It is pointed out that, in the absence of governmental assumption of responsibility, holders of these balances would suffer as a result of any settlement involving an over-all reduction. The concern of such British critics, and perhaps of the British Government as well, is quite understandable in light of the strong political movement existing today in Egypt for British evacuation of the country. If it should be true, as general impressions suggest, that the British are not prepared to withdraw from Egypt at this time, the British Government may be reluctant to press for any settlement that might increase the antagonism of the Egyptian people and thereby jeopardize the possibility of a political understanding. The **indifference** of the Egyptian Government toward the mobilization of private holdings is not incomprehensible if viewed against the same background.

The question of Egypt's sterling balances can not be considered separately from other problems now pending between the two countries. Britain might well be disposed to yield to Egypt's terms on certain financial and economic matters in order to obtain political advantages which it deemed more important. For example, the British Government was considered lenient, and on that account attacked by certain people in Britain, for undertaking under the financial agreement with Egypt^{1/} to make available hard currencies (chiefly United States dollars) in excess of the amount which Egypt could expect to receive from exports and other services to the hard currency countries. If Britain should maintain its conciliatory attitude toward Egypt, a settlement satisfactory to both sides might be reached, by which Egypt

^{1/} Egypt was allotted the equivalent of about 60 million dollars in hard currencies for the 15-months period ending on March 31, 1946. According to a dispatch from London published in the papers on April 8, 1945, this agreement has been extended until March 31, 1947, with Britain making available to Egypt the equivalent of about 48 million dollars in hard currencies during the next year.

would secure from Britain the right to convert into other currencies as high a proportion of its sterling balances as might be considered necessary for the satisfaction of its immediate needs, and Britain would in turn obtain Egypt's consent to a reduction of its balances.

Extension of Government Control Over Central Banks
and Credit Machinery

Beatrice Bulla

Throughout the world the area for the operation of private capital and individual initiative is growing smaller. The wave of nationalization of banks which has risen during the second World War reached its crest in the sudden and spectacular taking over of the Argentine central bank. This unheralded act, discussed elsewhere in this issue, was not typical; in most countries nationalization has been a part of the published programs of political parties, has been presented as draft legislation and deliberated by the legislative bodies or their agencies. In countries which have participated in or contributed to the war effort, scarcity of credit and the need to finance radical reconstruction of production and other forms of economic activity have been the compelling motives. Revolutionary changes in political organization of several countries have given impetus to Government acquisition of central banks. In some instances, a new structure of relationships among various agencies has resulted, in which the central bank may have more or less prestige than before. The situations and purposes leading to nationalization differ according to the history and war experience of the country concerned.

United Kingdom. The question whether the change in control and distribution of credit is as great as it appears on the surface requires separate consideration in each case. Sober opinion in England takes the view that, as regards the Bank of England, little has been achieved that was not possible under private ownership of the Bank. Its obligation to conform to Government policy was publicly acknowledged by Governor Norman ten years ago and has been recognized through two wars. Efforts to prove that the Bank has at any recent time resisted the Government's will show scant success. The fact that fifteen persons from the old Court of Directors of the Bank have been reappointed to the new Court of B (including the Governor and Deputy Governor) gives ample reassurance against any radical changes of policy at present.

Powers which the Bank has hitherto exercised through persuasion to enlist the cooperation of the joint stock (commercial) banks in pursuance of its own or the Treasury's policies are now formulated in the law. The Bank may now, with specific approval of the Treasury, direct a banker to follow a certain course. But the banker must be consulted before any such direction can be given, and he is assured of the right to discuss the direction with the Treasury, in the presence of the Governor of the Bank. It is also made clear by the law that no bank can be forced to reveal the details of an individual customer's business. No change in the ownership of the commercial banking system is effected by the new law.

The power secured by the Government to determine priorities in the use of short-term funds will be paralleled by the control over investment and real capital development under the Investment (Control and Guarantee) Bill^{1/} introduced in Parliament on January 23. Under this Bill all new capital issues involving amounts of more than 200,000 dollars (£50,000) will be subject to the permission of the Treasury. To stimulate new capital investment, the Treasury may guarantee loans for industrial development up to a total of 200,000,000 dollars (£50,000,000) in any financial year. The third instrument of financial management is to be an Exchange Control Bill, which will "insulate domestic capital from the temptation to foreign travel" and will have the function of providing free exchange in payment for current transactions, as outlined in the Washington financial agreement.

The effect which the channelling of capital investment in accordance with a national plan may have on limiting the fields in which commercial banks may operate opens up the possibility, as the Economist remarks, that the banks may be forced to place their funds in fields less profitable than their free choice would dictate. The Chancellor of the Exchequer has given assurance that it is not the Government's intention to force the banks into types of lending which they consider "seriously likely to involve them in grave losses." But if the banks are deprived of freedom to choose their own risks, the Government would sooner or later have to choose between guaranteeing the position of both bank depositors and bank stockholders or nationalizing the banks outright.

To aid in administering the powers of investment control, the Government now has the advice of a National Investment Council. This body will be, according to the Chancellor, "an experiment in consultation." But the Council's advice will not necessarily be followed and responsibility for decisions will rest with the Chancellor.

The Labour Government has thus far given little information as to the limits of its action in socializing the economy of Britain. Beyond the control of finance, nationalization of the coal mines, control of civil aviation, railways and overseas communications there are no stated boundaries for future changes. It is roughly estimated that 80 to 85 per cent of industry will remain in private hands, but regardless of who owns the commercial banks the Chancellor of the Exchequer, with the authority of the party in power, will have means to feed or starve any industry and to decide whether it shall stand still or expand. It is safe to assume, however, that British public opinion can still act as effectively under a Socialist regime as under any other type of government.

France. The French banking nationalization started with the law of December 2, 1945, adopted by the Constituent Assembly, which provided for the purchase by the Government of the stock of the Bank of France and of the four leading deposit banks. Further measures of nationalization are in preparation. These four banks jointly held some 55 per cent of all bank deposits in France. Plans for the control of banks and insurance companies had been publicly announced by the Consultative Assembly at Algiers in the middle of 1944 and were said to have the support of various resistance groups.

^{1/} Now called Borrowing (Control and Guarantee) Bill.

The Bank of France, since the Blum reforms of 1936, had been effectively under Government control and the shareholders were represented by only two out of twenty councillors (directors). Apparently the ghosts of the sinister "200 families" still lingered about the Bank of France in 1945 and the charge of collaboration had been laid at the door of the four deposit banks. But it is to be noted that the principal officers in the reconstituted banks are for the most part important members of the former bank administrations. Purchase of the shares of the Bank of France has been carried out by the issue of government securities for the purpose but purchase of the shares of the deposit banks is to extend over a fifty-year period. Nationalization as a principle is part of the fundamental doctrine of the Communist and Socialist parties, two of the three leading parties in the present Assembly. The urgency of a vast restoration and reorganization of French economy requires central planning, which in turn requires that the principal credit agencies shall conform to the plan.

Direction of credit is to be studied and planned by a **National Credit Council** of 38 members set up by the Law of December 2, 1945. The membership of the Council, which has already been appointed and begun its work, includes representatives of Government ministries, semi-public financial bodies, and important economic group interests; the Governor of the Bank of France is **vice-president ex officio**. At present the Council's most important duty appears to be to devise means for carrying out the plan for modernization of the national economy. Little power of independent action has been entrusted to it but it will be called upon to advise the Government on all the most important economic and financial programs. Proposals for further banking nationalizations are to be made by the National Credit Council, and the press has carried reports of **recent** proposals by the Finance Minister for the nationalization of ~~thirty-two~~ insurance companies, of the **two largest "business" banks**, and of the merchant marine.

The French scheme of credit control has been described as a compromise between the present British system and the Russian system. The British banks can be required to direct credit into channels marked out by the Government; in the U.S.S.R., credit needs are taken care of through government-owned banking agencies for specified types of financing. The French scheme includes a central plan for the national economy, an agency to work out measures to carry out the plan through a banking system of government-owned and privately-owned banks, and a group of semi-public agencies for long-term financing. The new law of 1945 authorizes the Government to set up new agencies for long-term financing or to reorganize existing establishments.

The Bank of France has evidently suffered a considerable loss of influence through the creation of the national planning agency and the Credit Council^{1/} which will plot the course to be followed by the Bank under direction of the Minister of Finance. To offset this loss, the Bank acquires representation on the Council itself and on certain other bodies through which it may extend its influence. The law permits the Minister who is appointed President of the National Credit Council to delegate his powers to the Governor of the Bank of France, and if such a delegation should occur, the Bank might regain all or more than it had lost.

1/ The Council takes over the Committee on Banking Organization (a Vichy agency) and controls credit information and statistical services.

Aside from these radical changes in financial organizations, Socialist policy has made only moderate changes in the economy in the period since liberation. Government ownership and operation of public utilities is no novelty in Franco. The Constituent Assembly in March passed a bill for nationalizing the production of gas and electricity, and coal mining in certain areas was taken over by the Government shortly after the liberation.

Czechoslovakia. The most sweeping experiment in State Socialism outside of the U.S.S.R. is that which was formally inaugurated by the decree of October 24, 1945, in Czechoslovakia. The policy thus adopted by the Provisional National Assembly is being put into effect as rapidly as possible despite the fact that the 1945 decrees are to be submitted for ratification to the new Parliament scheduled for election in **May 1946.** President Benes, when adding his signature, expressed regret that the changes had not been introduced more gradually. In January, the Minister of Industry said that he expected nationalization to be technically complete by February 15. It affects principally large industries and banking. It was reported in the British press that over 10,000 concerns were nationalized by mid-December, bringing about 1,000,000 workers into State enterprises. All joint stock companies engaged in banking and finance were taken over.

The Minister of Industry of Czechoslovakia explained recently in an interview that the Germans after the occupation took possession of the two most important banks and liquidated **most of the Czech banking houses.** With this coup they obtained possession of a considerable part of Czech industry which was under the ownership of banking concerns. Upon the liberation of the country from the Germans, there was a "vacuum of ownership" created in nearly two-thirds of Czech industry. When the Protectorate Government collapsed in May 1945, the new Government was forced to step in at once to **carry on production** and it was decided on grounds of justice that the recovered banks and industries should belong to the nation rather than to private individuals. Management of all large enterprises and some small ones was placed in the hands of national administrators.

By the end of July 1945, the National Bank of Bohemia and Moravia, set up by the Germans, had become the National Bank of Czechoslovakia in Prague, the central bank of the country. The commercial banks were nationalized de facto. In 1939, immediately before the German invasion of Bohemia and Moravia, all credit institutions were placed under the control of the Ministry of Finance by a decree of the Czechoslovak Government. A similar system has been reestablished; directors and managers of the nationalized banks will be appointed by the Minister of Finance and unified banking policy will be enforced through a central management of banks, established by the Government.

The field in which this banking system will operate is a mixed economy combining private ownership (in agriculture and in many small and medium-sized enterprises), cooperative ownership, and national ownership. All State enterprises are to be managed on commercial principles and while the State will share in the profits it will not guarantee liabilities. The State now controls about 60 per cent of the industrial output of the country.

Poland. The establishment of the post-war Central Bank of Poland antedated that of the Czechoslovakian central bank. The Polish institution draws its authority from a decree of January 15, 1945, by the Russian-approved Lublin Provisional Government which established itself in Warsaw a few days later. The Bank operates with capital provided by the Treasury. While the status of other banking institutions in Poland in the early part of 1945 is somewhat **obscuro**, the Polish Minister of Finance was quoted in June 1945 as follows:

"An efficient financial apparatus is in operation in the country, comprising 250 establishments the sole monetary system being entirely controlled by the Government."

The National Bank does not directly participate in financing the operation of the country's economic life but operates through the intermediary of other credit institutions. This enables the Bank, as sole credit supplier, to regulate the monetary circulation, and to control the national credit by subjecting it to the general policy of the Government. According to a recent study of the Polish credit system from the European press, the banking system consists of 8 banks with branches and 120 municipal banks. Allocation of credit proper is carried out through these banks which receive their resources from the National Bank by rediscounting their portfolios.^{1/}

Apparently the question of ownership and operation of banks had been effectively settled before the adoption of the famous nationalization decree of January 3, 1946, issued by the Polish National Council of the Homeland. Banking and insurance are referred to in only a single article which provided for the taking over by the State, without compensation, of "Industrial, mining, communication, banking, insurance, and commercial undertakings" if they belonged to German interests or individuals or to the German Reich. The decree announced the Government's purpose of achieving a planned rehabilitation of the national economy, of assuring the economic sovereignty of the State, and of raising the general level of prosperity. But there is frequent and emphatic denial by the Government of any purpose to duplicate the Soviet system. The Minister of Industry recently stated that nationalization would affect about 2,000 industries employing a total of some 600,000 workers. Certain heavy and basic industries such as mining, fuel and power production, transportation and communications, breweries and distilleries, sugar and grain mills, textile manufacture and printing are to be taken over against compensation. Enterprises not specifically named in the decree will be nationalized only if they employ more than 50 workers on a single shift. Upon authority of the Council of Ministers, operation of larger nationalized undertakings may be transferred to municipalities or cooperatives and that of smaller undertakings may be ceded or leased. Under the pre-war regime, foreign capital held 50 to 80 per cent of most Polish industries and foreign capital will be welcomed by the present administration, but will not be allowed to obtain control. Estimates of the Government's share of the nation's industry under the present regime run from 40 to 60 per cent.

^{1/} The pre-war Bank of Poland was privately owned. State banks granted one-third or more of all credit in Poland.

The Netherlands. Two countries in Europe have taken preliminary steps toward eventual nationalization of their central banks. The Netherlands Royal Decree of October 1945, which reinstated the Bank Act of 1937, set aside by the Germans, introduced some fundamental alterations clearing the way for a new Bank Act. A Commission appointed to draft new legislation for the Bank is to advise the Government "concerning the strengthening of the principle of public interest in the charter of the Netherlands Bank pending the transfer of the Bank from private to public or semi-public ownership." Thus there is a probability but not a certainty of the extinction of all participation of private capital in the Bank's ownership. In the same decree, the Government gave notice that the present Bank's right of note issue is to be canceled and that the period of delay before the cancellation becomes effective may be shorter than the preceding legislation required. Through the enlargement of open-market powers of the present Bank by the 1945 decree, the Government obtains access to further long-term funds from the Bank; also, Treasury paper may now be bought by the Bank direct from the Treasury.

Belgium. Nationalization of the National Bank of Belgium was announced as a Government project last fall by Premier Van Acker but not carried out. After the March elections and the fall of two successive ministries, M. Van Acker again heads the Ministry and may have an opportunity to carry out the plan of nationalization. He has asked for special powers under which measures would be taken in a broad range of domestic economy and Government financial policy. No project affecting commercial banks appears thus far in the Government's program.

Australia. Government influence over the national economy has been extended in some countries which already have Government-owned central banks, as, for example, in Australia. To make the Commonwealth Bank more directly responsible to the will of the Government, its board of directors has been replaced by a single governor. Through legislation adopted in the summer of 1945, the Bank has been made the directing agency for the entire banking system on the principle that the Government must accept responsibility for the economic health of the nation and must have a thoroughly integrated mechanism for that purpose. A separate commercial banking department of the Bank will compete with the trading banks.

Sweden. Sweden, whose central bank is entirely Government-owned and responsible to the legislature, appointed in 1945 a Government commission on banking to consider whether the Riksbank should engage in commercial transactions in competition with established commercial banks, to examine interest rates charged by the commercial banks and to recommend means of obtaining satisfactory credit conditions. Private business enterprise in Sweden may be considered to be well tamed, as the Swedish State owns or controls industries constituting a large part of the economy.

Finland. Reports of a vote by the Finnish Parliament toward the end of December 1945 to nationalize the Finnish banks have appeared in London and Paris, purporting to come from Helsinki. As no confirmation of such action can be obtained, it must at present be regarded as rumor rather than fact. The Bank of Finland is a State bank and is under the guarantee of the House of Representatives.

New Zealand. Purchase by the Government of the privately-owned portion of the shares of the Bank of New Zealand, effective November 1, 1945, represents no great innovation in policy. This institution, which is not the central bank, was formerly about one-third Government-owned and general opinion in New Zealand assumed that nationalization would result in no major changes in operation of the Bank. The Bank is the most important in the group of trading banks, doing by far the larger part of the banking business of the Dominion. The Prime Minister, in supporting the proposed nationalization, emphasized the Government's desire to determine the policy of the bank but gave assurance against any drastic change in management and operations. The note-issuing bank, the Reserve Bank of New Zealand, is fully Government-owned.

Latin America. The recent action in Argentina brings up to seven the number of fully Government-owned central banks in Latin America. Two of these are new institutions chartered since the beginning of the second World War. The Bank of Paraguay, established by law of September 8, 1944, superseded the former central bank (Banco de la Republica de Paraguay). The new institution, like its predecessor, is fully Government-owned and the present bank has central banking powers far beyond those granted to the older institution. The Monetary Board of the new Bank directs the monetary and banking policy of the banking system. The Bank of Guatemala is a new institution created by the law of December 20, 1945, which like the Bank of Paraguay is the policy-making agency for credit control of the country. These new institutions represent the recent development of monetary and credit theory and were established after prolonged study and orderly legislative action. Within the war period, the National Bank of Nicaragua, owned by the Government since 1924, was completely reorganized (May 1940). It has some degree of control over monetary and banking policy, but far less than the Banks of Paraguay and Guatemala possess.