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REVIEW OF FOREIGN DEVELOPMENTS

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Post-UNRRA Needs of European Countries

J. Herbert Furth

In the period from the liberation of Europe to the end of 1946, UNRRA will have supplied around 2.4 billion dollars worth of goods in order to save Central and Eastern Europe from collapse. About 60 per cent of the total, 1,452 million dollars, was spent in countries falling into the Russian sphere of influence, i.e., the Soviet Union, Czechoslovakia, Poland, Yugoslavia, and Albania. Particularly for the last four countries UNRRA assistance has been of major significance in the process of economic rehabilitation and their economies have been restored to such an extent that cessation of relief deliveries will not create insoluble problems. The situation is more unfavorable in those European countries that have remained outside of the Russian orbit, namely, Austria, Greece, and Italy. In Austria, recovery has been decisively delayed by the continued presence of occupation armies and the uncertainty created by Russian claims.1/ In Greece, the threat of civil war has prevented stabilization of the country's economy.2/ In Italy, the territorial claims of Yugoslavia, as well as the activity of local radical groups, have thrown the country into a state of political and economic paralysis from which it is only slowly emerging. Thus the fact that these three countries are situated on the fringes of the Russian sphere of influence has some bearing on their precarious economic situation.

These countries cannot hope to conquer the difficulties of the coming years without some additional outside help. For all of them, UNRRA shipments constituted the bulk of total imports in 1945-46, and the sudden termination of relief imports would undo most of the

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1/ See Review of Foreign Developments, October 21, 1946, supplement.
2/ See Review of Foreign Developments, February 25, 1946, p. 1.

good that UNRRA assistance has achieved. As the continuation of UNRRA itself appears to be out of the question, the only practical alternative will be assistance rendered directly by the governments of those Western powers, and especially the United States, which actually contributed most of the money and commodities that constituted UNRRA help.

For 1947 the deficit in the balance of payments for each of the three countries mentioned above has been tentatively estimated as follows:

Tentative Estimate of Balance of Payments, 1947
(In millions of dollars)

Item	Austria	Greece	Italy
Food imports	122	69	351
Other imports	190	135	784
Other payments	-	37	23
Total payments	312	241	1,158
Exports	140	104	575
Other current receipts	5	55	240
Credits	25	20	100
Total receipts	170	179	915
Deficit	142	62	243

These figures exclude imports of United States army surplus financed by credits granted by the Foreign Liquidation Commissioner, and (in the case of Greece and Italy) anticipated purchases of United States surplus ships under Maritime Commission credits. "Other" current receipts include revenue from remittances, shipping, and (in the case of Italy) reimbursement of payments made in local currency for the United States occupation troops. Credits include the unexpended portion of an Export-Import Bank loan granted to Greece early in 1946, and credit applications from Austria and Italy which are under consideration, but have not been formally approved.

Greece will presumably be able to cover part of the deficit by the use of foreign exchange reserves, while Austria and Italy expect to recover a share of the gold removed from their countries by the Germans. In all cases, the sums available for import payments will be small. Greece and Italy are members of the Bretton Woods institutions, and Austria is expected to apply for membership in the course of the coming year. The nature of the deficit, however, precludes coverage by recourse to either the Monetary Fund or the International Bank. In all cases, the deficit is due to the temporary inability of these countries to maintain a level of domestic production which would provide a volume of exports sufficient to pay for the importation of consumers' goods, even on a mere subsistence standard of living. Financing of such imports cannot be self-liquidating, and therefore should proceed by means of relief grants rather than loans. The grants, however, would enable the countries to become acceptable credit risks in consequence of their rehabilitation, and in this way make it possible to put measures of reconstruction and development on a sound credit basis.

Under the assumption that each country will be able to finance about 10 to 20 million dollars of its deficit by other means, the grants would have to reach about 125 million dollars for Austria, 50 million dollars for Greece, and 225 million dollars for Italy, or a total of approximately 400 million dollars, as compared to total UNRRA assistance to these countries of 900 million dollars in 1945-46. Only for Austria, which did not receive UNRRA help until April 1, 1946, would the amount be as large as UNRRA shipments in 1946. In view of the strong economic and political interest which the United Kingdom has in these countries, it is to be expected that the United Kingdom would be willing to participate in a relief action. Just as in the case of UNRRA, however, the greater part of any assistance granted would have to be furnished by the United States.

Debt Management in the United Kingdom

Robert A. Rennie

For the first time in the history of the British public debt, the Chancellor of the Exchequer was able on October 28 to offer at par an issue of 2-1/2 per cent Treasury Stock which carried no final redemption date. It may, however, be redeemed at the option of the government on or after April 1, 1975. Thus, just over a year after the opening of the cheap money drive in his budget speech of October 1945, Mr. Dalton has successfully achieved the consolidation of his preliminary campaign, for the yields on all government obligations have been forced down by amounts ranging up to 0.73 per cent.

In spite of strong market resistance, the Chancellor has reflected in every action his conviction that interest rates are purely monetary phenomena and has intimated that he will force them still lower. The British authorities are not seriously concerned with the future trend in the volume of money and have reiterated that it is neither a cause nor a measure of inflation. This position can be maintained only so long as effective direct controls of investment, installment credit, consumption, and prices are maintained. If such controls continue, however, the only bar to the downward direction of interest rates in England is the infinite elasticity of the liquidity-preference demand for money.

Unlike the situation in the United States, where loans, investments, and total deposits have declined since the first of the year, the investments, advances, and total deposits of the London clearing banks have increased. From April through September 1946, new credit was created at a faster rate than in any previous six-month period. Bank deposits rose by £553 million, £331 million more than the six-month average for the war period. Whereas the decrease of bank deposits in the United States has reflected almost wholly Treasury retirement of public debt through withdrawal of government deposits in banks, the expansion of credit in Great Britain has been caused by the increase in sales of Treasury bills and Deposit Receipts and bank purchases of long-term securities. The government floating debt has risen by £241.3 million during the first half of fiscal 1946/47, although it is still below the level reached at the start of the latest cheap money campaign.

Part of the recent increase in liquidity in the United Kingdom has been caused by a rise in the rate of redemption of war bonds in the hands of "small savers" during the first half of the fiscal year. However, an increase in the gross purchases of war bonds by this group raised net cash payments to within 81 per cent of their contributions in the similar period in 1945. Another significant contrast between the United States and Great Britain is the trend of loans and deposits of non-government entities. Bank advances by the clearing banks to customers rose only £68 million from March 31 to the end of September. Whereas the net deposits of businesses and individuals in the United States increased by 15.9 per cent during the year ending June 30, 1946, in Great Britain such deposits increased only 1 per cent.

The divergent developments in the two countries have eliminated part of the spread in the interest rates between the two countries. The increase in idle funds in Great Britain at a time when the liquidity preference is decreasing because of the firmness of the cheap money policy of the authorities has the opposite effect on interest rates to the policy in the United States. In this country, the sopping up of funds, combined with a state of uncertainty about future interest rates, has served to increase the upward trend.

There has not been any significant "unfunding" of the national debt in Great Britain in the traditional sense within the last three years. In fact, at the end of the financial year 1945/46, there was a slight trend toward longer-term securities. Table I reveals the maximum maturity distribution of the national debt.

Table I
Maturity Schedule of the National Debt at the End of the Financial Year
(In millions of pounds)

Latest date of repayment	1938/39		1943/44		1944/45		1945/46	
	Value	% of total	Value	% of total	Value	% of total	Value	% of total
Under 1 year	1,305.3	18.1	7,753.6	42.4	9,210.1	43.6	9,597.3	41.2
1 to 5 years	452.8	6.2	1,283.2	7.0	1,426.8	6.8	1,530.8	6.6
5 to 10 years	306.7	4.2	2,093.5	11.4	2,347.8	11.1	2,348.0	10.1
Over 10 years	5,182.1	71.5	7,054.3	38.5	8,010.5	37.9	9,638.7	41.4
Unclassified	0.0	0.0	119.0	0.7	133.6	0.6	156.0	0.7
Total	7,246.9	100.0	18,303.6	100.0	21,128.8	100.0	23,270.8	100.0

Since the end of March, the decline in the relative proportion of intermediate-term issues has been intensified. Such issues have only a limited market in the London clearing banks, which invest principally in Treasury bills and Treasury Deposit Receipts. Furthermore, private investors, facing the prospect of lower interest rates, were buying long-term issues after disposing of their intermediate holdings. With the removal of the glut in these securities, the rates on the remaining securities in this category have fallen significantly. In spite of the increase in floating debt previously noted, it is doubtful if the proportion of shorter maturities has increased above the level of 1944/45. On balance, therefore, it would appear that Mr. Dalton has reached his goal of cheaper money without significant amounts of shorter borrowing. This situation can readily be explained when it is realized that the Exchequer has in effect committed itself to support a rising market. Under such conditions, there can be no meaningful dividing line between "money" and "near money substitutes," for government securities of all maturities are equivalent to money for all practical purposes.

The distribution of holdings of such liquid assets is a more important consideration than the question of maturities. It has significance not only for the fiscal policy of the Treasury but also for the problem of the inflationary potential of the debt. Data for the United Kingdom are incomplete, and it has not been possible to obtain precise figures. A comparison of the distribution of holdings in the United Kingdom with those in the United States is presented as follows:

Table II
Distribution, by Type of Holder, of Interest-bearing National Debt, March 31, 1946

Type of holder	United Kingdom		United States	
	Amount (million £)	Percentage	Amount (million $)	Percentage
Commercial banks	3,509.4	15.1	89,000	32.3
Bank of England	1,616.4	7.0		
Federal Reserve Banks			22,601	8.2
Government agencies	3,198.0	13.7	34,581	12.6
Other investors	14,947.0	64.2	129,200	46.9
Total	23,270.8	100.0	275,382	100.0

Although strict comparisons cannot be made, it is obvious that commercial banks in the United States hold a much larger proportion of the public debt than in the United Kingdom. Bank holdings of short-term securities in the United States are more inflationary than in Great Britain, especially if there is a widening of the differential in the interest rate structure in the United States. In that case, member banks may increase their sales of short-term securities to the Reserve Banks and thus create new reserves to buy longer-term issues. In Great Britain, the Bank of England does not occupy quite the same position with respect to the banks and there is not a similar danger of inflation from this source.

Nor are the holdings of other investors in Great Britain as likely to be liquidated as those in this category in the United States. With rigid control of new investment issues in the hands of the government, and with the threat of nationalization hanging over several industries, British owners do not have the same opportunity to change their investment portfolios. In addition, many of the present holders of government securities in England had been owners of foreign securities which were liquidated to meet the expenditures of the war. They represent a highly stable group of investors which is not likely to convert its holdings into cash for current consumption needs. Finally, a large portion of the sterling balances accumulated in London by the Dominions, colonies, and other creditors are invested in government securities. Since there is little likelihood that such balances will be liquidated in the near future, the debt held by this sector will not change materially.

Although the proportion of the debt held by the government agencies in the two countries is approximately equal, their role in the management of the debt is different. In Great Britain the government departments are rapidly assuming functions similar to those of the Federal Reserve Banks in controlling the public debt. In a recent series of articles, both The Banker 1/ and the Economist 2/ have attempted to show that the government agencies have been used to absorb large amounts of securities, thereby providing the public with the cash it desired to hold. The Chancellor has twice denied the charge and has categorically stated that during the first six months of this financial year, the government departments have been net sellers of marketable gilt-edged securities other than Treasury bills. He added, however, that he would not hesitate to use the reserves of the Treasury and the Bank of England if such a measure became necessary to pursue his policies.

Since the Chancellor mentioned only "marketable" securities, the Economist has implied that there might still have been large purchases of non-marketable bonds. An examination of the articles cited reveals too wide a margin of error in the data assembled to justify the allegations made. The Banker attempted to compare the government's requirements for money with its actual receipts of "existing" money from the public and of "new" money borrowed from the banks. According to the estimates, the amounts borrowed were in excess of the "visible" needs of the government, and it was assumed that such excess borrowing was utilized for "invisible" purposes such as financing the purchase of gilt-edged securities by government departments. These "invisible" demands were estimated at £421 million and £529 million for the eleven-month periods ending August 31, 1945 and 1946, respectively.

Errors in the analysis are introduced in the treatment of the sterling balances in London. As presented in Table III, item (3), all the balances accumulated during the period were assumed to be invested directly in government securities. Yet, a recent survey of the large Egyptian balances reveals that almost a third of the reported holdings is not invested in government securities, but is held in current accounts.

1/ The Banker, October 1945. Pages 7-16.
2/ The Economist, London, September 7, 1946. Pages 382-384.

Table III

Government's "Visible" Demands for Money
Showing Net Need for "New" Money
(In millions of pounds)

	Eleven Months, end of September to end of August	1945/46		1944/45
Money required				
Ordinary deficit		1,216		2,382
"Below-line" deficit 1/		153		+ 81
Total deficit		1,369		2,301
Debt redemptions		347		245
Total money needed		1,716		2,546
"Existing" money received				
(1) From domestic public				
Savings bank deposits (net)	257		312	
Savings certificates (net)	53		113	
Defense Bonds (net)	247		68	
		557		493
National War Bonds	212		242	
Savings Bonds	992		370	
Exchequer Bonds	--		326	
	1,204		938	
Less purchases by banks	247		--	
		957		938
Tax Reserve Certificates (net)		- 101		79
Issue of currency 2/		43		185
(2) Through sundry extra-budgetary funds 3/		65		75
(3) From overseas sources		565		605
Total "existing" money received		2,086		2,375
Balance requiring "new" money		- 370		171
		1,716		2,546

1/ Includes only major items such as excess profits tax refunds, but excluded items vary only slightly from year to year.

2/ Increase in circulation of Bank of England notes and coin, adjusted for changes in clearing banks' till money (partly estimated).

3/ Estimates, based on White Paper, of extra-budgetary receipts not credited under other heads such as the "below-line" deficit and overseas finance; the principal item is the Unemployment Fund.

Furthermore, if the balances were invested in government securities through "tap" purchases, they have already been counted in other items, while if the securities were purchased from the British public, the money reached the government in other items. A similar error relates to purchases of securities by the banks from the general public. In Table IV, it was assumed by The Banker that money created against any other bank assets than bank advances represented money lent, directly or indirectly, to the government. But if the banks have bought securities from the public instead of from the government, the possible absorption of securities by the departments would be smaller than the totals indicated in Table V.

The Economist, in a less detailed study, came to conclusions similar to those reached by The Banker for the ten-month period ending July 1946 but to opposite results for the preceding year. Instead of estimating that the government departments were heavy buyers of securities, it stated that they might even have been net sellers of government issues. However, the analysis contained all the errors of the preceding study, and neither one presented a definitive picture of the movement of funds.

The true position of the government departments can be seen from an inspection of the changes in the composition of their holdings. Their floating debt holdings dropped by £265 million, while other securities rose £555 million in the fiscal year 1945/46 after falling £27 million and £40 million in 1943/44 and 1944/45, respectively. In other words, the government is supplying the liquidity desired by the public by exchanging both cash and short maturity securities in the portfolios of the government departments for long-term securities held by the public.

Several factors in the future will tend to check this trend toward liquidity and offset the desire of individuals and industry to have money available for post-war purchases and replacements of equipment. The issue of the virtually irredeemable 2-1/2 per cent Treasury Stock should remove much of the uncertainty as to the future course of interest rates and the ability of the government to control them. Already, the search for dated securities has pushed the yield on 18-21 year obligations down to 2-1/4 per cent. Furthermore, the prospect of a balanced budget in the next fiscal year will lessen the government's demands on the capital market and give it greater control over the various types of securities. Above all, elimination of many of the political and economic uncertainties of the war period will progressively increase the advantages to investors of holding longer-term securities and will decrease the liquidity preference of the people. Finally, as the ownership of securities shifts from overseas and domestic holders who have saved merely because they could not make desired purchases to holders with higher propensities to save, the proportion of short-term securities can be reduced.

Table IV

Borrowings of "New" Money: Government and Public
(In millions of pounds)

	Creation of New Money (Change in "true" deposits) (a)	Amount required by Public (Change in bank advances) (b)	Balance absorbed by Government (Change in "net" deposits) (a-b)
		1944/45	
Totals at end of September	4,134	735	3,399
Eleven months	+ 613	+21	+ 592
Totals to end of August	4,747	756	3,991
		1945/46	
Totals at end of September	4,767	763	4,003
Eleven months	+ 291	+132	+ 159
Totals to end of August	5,058	896	4,162

Table V

Government's "Invisible" Demands for New Money
(= Absorption of Securities)

	3 months to end of Dec. 1944	1945	3 months to end of Mar. 1945	1946	5 months to end of Aug. 1945	1946	11 months to end of Aug. 1944/5	1945/6
New Money Created (a) (Cols.1 & 4 of Table II)	235	-107	-42	-64	420	462	613	291
Government's "Visible" Need for New Money (b) (Balances from Table I)	132	-519	-199	-74	238	223	171	-370
Public Borrowings of New Money (c) (Cols.2 & 5 of Table II)	18	51	17	38	-14	43	21	132
Total "Visible" Demands for New Money (b+c)	150	-468	-182	-36	224	266	192	-238
Excess of New Money: Government's "Invisible" Demands (a-(b+c)).	85	361	140	-28	196	195	421	529

In any case, the level of interest rates would have little effect upon the expenditure of liquid assets in England. The spending of the British public for the goods and services not available during the war can be controlled only by direct measures; no readjustment of rates alone could prevent any significant dis-saving by the public for these purposes. Nor would a change of rates at the present time increase the volume of savings appreciably when there exists such limitations on domestic consumption. In fact, if controls were removed, savings would probably fall, however high the rate of interest might rise. Until new instruments of financial control can be devised to replace the obsolete bank rate, the British authorities apparently plan to use lower interest rates and debt management as their most effective means both to alleviate their fiscal problems and to promote their anti-deflationary economic programs.

Evidence of Difficulties Faced by French Export and Tourist Trade

A.O. Hirschman

The favorable development of French exports during the past year might seem to contradict the view that the franc is overvalued at its present rate. If direct information tells us that French exports are progressing more than satisfactorily and that they can compete in world markets in spite of the abolition of export subsidies in December 1945, why should we give undue weight to calculations of price and wage parities which can only be intended as an indirect measure of a country's export prospects?

In reply to this line of reasoning, it will be pointed out, first, that French exports started from practically zero in 1945 and that in the international sellers' market prevailing at present even a sharp rise in exports is not indicative of a sound basic price-cost structure. Secondly, insofar as the official abolition of subsidies is concerned, it can easily be seen that, as long as there exists a dual domestic price level in France, the French producer can always recoup losses incurred by selling abroad at competitive prices, by selling a relatively larger fraction of his output intended for domestic use on the black market.[1] The coexistence of official ceiling and black market prices provides the producer with an export subsidy borne entirely by the domestic consumer. Although such practices are equivalent to dumping, the charge of dumping cannot actually be advanced because of the unrecognized status of black market prices.

Finally, there is some evidence that receipts from exports and tourism are not what they could be. The following is an excerpt from a speech given at the Paris Chamber of Commerce on September 25, 1946, by Mr. Moitessier, Commercial Councilor of France in Argentina:

1/ An incentive to export is given by the preferential treatment accorded exporters with respect to the allocation of raw materials.

"Insofar as brandy, champagne, and quality wines are concerned, our great enemies are: our insufficient domestic production; the increase of whiskey consumption abroad; and above all French prices.... I find it impossible to tell you whether, as a general rule, French prices are prohibitive or in line with those of similar products of other countries.

"I have noticed considerable disparities for certain industrial materials. Our prices were too high in this field while foreign competition created difficulties for our passenger cars, machine tools, and locomotives. I have been asked to arrange for sale of French furniture at prices at least six times the Argentine prices. I have been offered bedroom or dining room suites for 1.5 million francs. That is expensive.

"A recent exhibition of luxury articles at Buenos Aires which had brought together magnificent articles of jewelry, crystals, and lingerie, has unfortunately proved that our prices are far too high. This magnificent exhibition has yielded nothing except a propaganda success."

During the ensuing discussion, Mr. Roger Nathan, Director of France's Foreign Economic Relations, added the following comments:

"Mr. Meitessier has talked about the price of our luxury articles. I believe that it is essential for you to know and to make known around you that we shall be able to sell luxury products only if the price will not appear out of proportion with the price of the more common merchandise. Our wines may be excellent--they are excellent--but one is prepared abroad to pay a certain price 30, 50, or even 80 per cent, but not 300, 400, or 500 per cent, above the price of ordinary wines. Therefore, the question of the price of our luxury articles is of great importance."

With respect to tourism, an indication that the situation is far from satisfactory is implicit in a recent Franco-Swiss agreement which requires all Swiss tourists to buy 500 francs per day during their stay in France at the official exchange rate from the Central Exchange Control Agency. This agreement was apparently made necessary by the fact that Swiss tourists have been financing their stay in France by buying francs cheaply in the black market which is supplied by private French sources for purposes of capital export or of speculation. The large differential between the official and the black market rate of exchange obviously made such transactions very profitable for the Swiss tourists. The agreement is certainly curbing these transactions rather effectively for the poorer tourists who do not intend to spend more than 500 francs per day. It is actually discouraging those who want to spend less from coming to France at all, while it leaves the wealthier tourists free to acquire francs in excess of the daily forced spending ration in the black market.

The two instances of France's difficulties which have been cited are far from constituting conclusive evidence that a new devaluation of the French franc is in order. They do point to the necessity for France not to let itself be blinded by the success of its export drive which may be only temporary.

Note on the Economic Position of Czechoslovakia — Alexander Gerschenkron

The present economic position of Czechoslovakia is greatly superior to that of her neighbors in Eastern Europe. The amount of war damage sustained by the country has been estimated at about 15 per cent of its pre-war wealth, while the corresponding percentages for Poland, Hungary, and Yugoslavia are 40, 30, and 25 per cent, respectively. Moreover, Czechoslovakia has emerged from the war with an increase rather than a decrease in heavy-industry plant. Industrial output did indeed reach a perilous low during the period of liberation, but began to recover almost at once. The brevity of foreign occupation doubtless proved a blessing in this respect.

The monetary reforms carried out in November 1946, comparatively soon after liberation, effectively checked the inflationary pressures which were not inconsiderable at the time, and prevented further disorganization of the economy. In the months following the reforms monetary developments were altogether normal, as is indicated by the following figures:

Indexes
(January 1946 = 100)

1946	Notes in Circulation	Output of Coal	Output of Steel	Industrial Consumption of Electric Power	Prices
January	100	100	100	100	100
February	108	--	--	--	107
March	115	113	177	--	110
April	123	102	180	126	110
May	127	106	186	122	111
June	131	96	183	--	112
July	138	110	156	--	117
August	138	113	--	--	--

The three industrial series (used in the absence of an index of industrial output) indicate a strong and coordinated recovery, even though progress to date has been interrupted by setbacks. This impression is reinforced, on the agricultural side, by the information that the 1946 harvest was very satisfactory.

The rise in prices shown in the preceding series was moderate, and may reflect in part deliberate government efforts to reduce the discrepancy between the price levels in the Eastern and the Western provinces of the country as well as that between official and black market prices. By all accounts, black markets were rather effectively combatted. The increase in note circulation is in part attributable to the necessity of relaxation after a stringent currency reform. There is no indication of popular lack of confidence in the koruna, let alone of a flight from the currency.

The relatively rapid rate of recovery is perhaps best epitomized by the following estimates.

Economic Position of Czechoslovakia in Mid-1946
(Estimated percentages of 1938 levels)

Gross National Product	80
Industrial Output	75
Agricultural Output	80
Foreign Trade	20

The first three figures indicate that Czechoslovakia's recovery is closer to that of countries in Western than in Eastern Europe; it may be noted that estimates of the same economic factors for Belgium yield almost identical results. It is only the low relative level of foreign trade in which the position resembles that of most Eastern European countries. It may be noted, however, that the foregoing estimate refers only to commercial trade and does not include UNRRA deliveries. If the latter are taken into consideration and if allowance is made for price changes, Czechoslovak imports from October 1945 to July 1946 are only about 40% below the level of 1937. This result indicates the magnitude of the UNRRA contribution; over the period this organization supplied Czechoslovakia with an estimated 160 million dollars worth of goods (on a C.I.F., Paris, valuation). While it is true that without these deliveries the rate of recovery would have been much slower, it should also be considered (not necessarily as a stricture of the UNRRA operations) that a somewhat lower volume of UNRRA imports might have resulted in a more rapid revival of commercial trade proper.

The pattern of Czechoslovak commercial trade does not seem to have been such as to establish a monopolistic position for Russia, although trade with Russia has naturally increased substantially. The following table shows the distribution of Czech trade between East and West in the first seven months of 1946:

	Exports	Imports (In 1,000 korunas)	Balance
West	3,436,711	1,982,527	+1,454,184
East	1,259,803	1,488,980	- 229,177
Germany-Austria	547,003	463,388	+ 83,615
Total	5,243,517	3,934,895	+1,308,622

This is fairly surprising. Traditionally, the exports of heavy industry in Czechoslovakia went East and South, while the products of its light industries found markets in Western countries. The increased share of heavy industry in Czech industrial production, to say nothing of Russia's present role in Eastern Europe, would justify the expectation of a very different pattern of trade. Czechoslovakia was able not only to let the bulk of her trade go to, and come from, the West, but also to build up balances in the foreign exchange of the West. However, the volume of trade has as yet been so small, and the need for goods everywhere so urgent, that no definite conclusions for the future may be drawn. It is still quite likely that in the future the East will play a preponderant role in the country's exports, and the concomitant inability to finance imports from the West may become a problem of some gravity.

This, however, is by no means the only disturbing point as far as the future economic development of the country is concerned.

It may be pointed out that the present comparatively favorable economic situation should not obscure a number of serious difficulties under which the country is laboring. Some of these may be mentioned briefly.

(1) Perhaps the most important obstacle to further development is the supply of labor. In this field a commendable effort appears to have been made, and industrial employment increased from 991,500 in September 1945 to 1,070,500 in June 1946. But the latest pronouncements of the Government cast some doubt on the validity of these figures. Whatever the true conditions, the situation remains grave. The main reason for the labor shortage is, of course, the expulsion from the country of the German and to a much lesser extent of the Hungarian population. The results are desperate shortages. Industry is reported to be in need of some 100,000 skilled workers, while the total shortage of man-power in agriculture has been estimated at 250,000 workers.

(2) The nationalization of some 60 per cent of the country's industry has created, or greatly magnified, the managerial problem, while the effects on workers' discipline have been far from favorable. While this factor may be of transient importance and cannot be compared in significance with the economic effects of the expulsion of almost one-fifth of the country's total population, the immediate situation is serious enough.

(3) A good deal of the industrial plant is obsolete and requires modernization and adjustment to new conditions, including the reduction in man-power.

The Czech Government's two-year plan, which was adopted at the end of September, tries to cope with these problems. It envisages for 1947 and 1948 a very substantial amount of capital investment, which has been estimated by the Czechs at 15 per cent of their national income in the plan years. In the case of industry alone, capital investment is scheduled to amount to more than 400 million dollars. A part of this sum apparently will be employed in transporting industries from Bohemia and Moravia to Slovakia, an operation which seems to be an imitation of the industrial shift eastward in Russia. As a result, the level of industrial output at the end of the period is scheduled to increase to 110 per cent of pre-war. This implies from mid-1946 to the end of 1948 an average annual rate of industrial growth of about 13 per cent which is even higher than the rate of industrial growth anticipated in the current Five Year Plan in Russia. This goal appears to be very ambitious indeed. If capital were the only question, sufficient loans from abroad to finance the imports of capital equipment would be the strategic factor; it is known that the Czechs have applied to the International Bank for Reconstruction and Development for a loan of 350 million dollars. But even if finance were assured, the question of man-power still remains; some increase of the aggregate labor force, and a disproportionate increase in the supply of skilled labor will be required. The Czech Government is currently negotiating with the Italian Government for the import of labor. Apart from migratory labor, it is trying to solve the problem by forced mobilization of domestic labor. It does not seem likely that, if a considerable amount of coercion is involved, such mobilization can be more than a short-term expedient under Czech conditions. More promising are programs for training skilled industrial labor and the introduction of certain labor-saving adjustments in agriculture, such as the increased diversion of land for pastures.

There is no doubt that the success of the plan will require a stupendous effort. It is likely that during the plan period multifarious distortions will appear in various parts of the economy and will tend to jeopardize fulfillment of the plan. At any rate, it is safe to assume that the ambitious nature of the plan means that domestic and foreign controls of the economy will be even more stringent than would have been the case had a more modest goal been chosen. In particular, under the impact of the plan the Czech Government may adopt practices used by the Russian Foreign Trade Monopoly.

War-time Price Developments in Egypt

Ali R. Bengur

Prices in Egypt, as in all other Middle Eastern countries, rose steeply during the war. The cost-of-living index for Cairo (first half of 1939 = 100) advanced to 290 in September 1945, thereafter declining gradually to 279 in March and April 1946. The rise in the wholesale price index for the country as a whole was even more pronounced, reaching a maximum of 341 in October and November 1945, in relation to the same base period, and declining gradually to 336 in March and to 333 in April 1946.

A study of the various items entering into the cost-of-living index shows that foodstuffs are of outstanding importance and that the movement of food prices largely determined the height of the index. Egypt normally produces all the essential foods that its population requires and was able, moreover, to increase production in certain categories during the war as a result of the government's decision to reduce cotton production by half, thereby releasing land for the cultivation of other crops. The relatively high increase in food prices is explained on the one hand by enhanced demand arising from the presence of Allied expeditionary forces in Egypt and other Middle Eastern areas during the war, and on the other hand by the world-wide shortage of food supplies characteristic of both the war and post-war periods.

An idea of the extent of Allied expenditures in Egypt may be gained by perusal of Egyptian monetary statistics which show that currency in circulation has increased about fivefold and that sterling balances, which constitute the backing for the greater part of the Bank of Egypt's note circulation, reached the equivalent of about 1,700 million dollars by the end of 1945. Allied expenditures still continue, but on a much reduced scale. Their amount in 1945 was one-half of that in the peak war year, and probably continued to fall rapidly during 1946. The effect of falling economic activity, largely as a result of reduced Allied operations, has already become perceptible in general price movements.

Cost-of-living and wholesale price indexes have both declined since the end of the war. It is perhaps too early to say whether this indicates the beginning of a downward trend. But it must be recognized that forces are now in operation which in time may be expected to bring about a further and more pronounced decline in prices. The extraordinary demand for food products may be expected to fall as Allied troops are withdrawn from Middle Eastern areas, and as other countries approach the pre-war level of agricultural production. It is very unlikely, however, that agricultural production in Egypt will decline appreciably as a result of the expected reduction in demand. Foodstuff production will undoubtedly fall somewhat when cotton production is fully restored. But the decline may be very small in comparison with the expected fall in demand, largely because of the overpopulated condition of agriculture. There are reasons, therefore, to expect a considerable drop in food prices and consequently in the cost-of-living index. The wholesale price index will also respond to food price changes, though to a more limited extent. This is because the wholesale price index is reported to be heavily weighted with cotton, the price of which is regulated by the government in relation to cotton price movements in the United States.