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REVIEW OF FOREIGN DEVELOPMENTS

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Debt Management in Canada

Robert A. Rennie

On October 15, 1946, Canada launched a vigorous savings campaign by offering to the public a new nonmarketable 2-3/4 per cent Savings Bond. It is designed to reduce Canada's inflationary pressures by maintaining a high rate of saving among the lower and middle income groups. To further this aim, the payroll deduction plans which characterized the war-time borrowing policy are continued, as well as regular sales through investment and banking channels.

The borrowing experience of Canada during the war was quite different from that of the United States or the United Kingdom. The Dominion launched its first Victory Loan on June 15, 1941, after two previous attempts to sell securities under the title of War Loans. Since that time, at about six-month intervals, there have been eight subsequent issues sold in large promotional subscription campaigns very similar to the United States Liberty Loan drives in the first World War. Pressure was put on all business enterprises and individuals to buy the bonds in large amounts.

The Loans were offered through the National War Finance Committee, which operated under the guidance of the Bank of Canada. Purchasers of the Victory Loan generally had a choice between 3 per cent bonds callable in 10 to 15 years and maturing in 15 to 20 years and a shorter term non-callable 1-3/4 per cent bond. Both types were issued at par. The smaller buyers could subscribe on an installment basis and pay for the bond over a six- to twelve-month period. Payments were often made through payroll deductions--one of the methods most encouraged by the government. The banks helped to finance the installment purchases of Victory Bonds, and by December 31, 1945, had granted credits of 838 million dollars for such purchases.

Before the Victory Loan program was terminated in November 1945, 12.3 billion dollars of such marketable bonds had been sold. This sum constituted 95 per cent of the total borrowing to finance the war effort and to assist in economic rehabilitation. Although both the Bank of Canada and the chartered banks bought some of these securities, the great bulk of the sales were made directly to individuals or to business institutions. It is estimated that of the 12.9 billion dollar increase in direct funded debt of the Dominion government from 1939 to 1946, roughly 5.3 billion dollars were placed in the hands of individuals.

Table I

Approximate Holdings of Direct Funded Debt
(December 31 of the indicated years)
(In millions of Canadian dollars)

	1939		1945	
	Amount	Per cent of total	Amount	Per cent of total
Dominion Government Accounts	129	3.7	681	4.1
Bank of Canada	215	6.1	1,823	11.1
Chartered Banks	827	23.4	3,069	18.7
Life Insurance Companies	373	10.6	1,871	11.4
Individuals in Canada	895	25.4	6,213	37.8
All other Investors				
(a) Resident in Canada	365	10.3	2,102	12.8
(b) Not resident in Canada	723	20.5	665	4.1
	3,527	100.0	16,424	100.0

While the proportion of debt held by the Bank of Canada has increased and that held by the chartered banks has decreased during the war, the combined relative holdings have varied only slightly. There were large transfers of government securities between the Bank of Canada and the chartered banks in both directions. In fact, the principal consideration in the monetary policy of the Bank of Canada is the reserve ratio of the chartered banks. To prevent any serious fluctuations in such reserves arising from changes in the volume of notes in circulation, from variations in foreign exchange holdings, or from the purchase or sales of government securities by the chartered banks to maintain a stable market, the Bank undertook open-market purchases and sales of securities from and to the banks.

Since the banks in the United States possessed such high levels of excess reserves at the start of the war, the Federal Reserve System was not subject to the same pressure to supply reserves to the banks through open-market purchases. Consequently, the increase in security holdings of the Bank of Canada was relatively greater than that of the Federal Reserve Banks, and the proportionate sales to the Canadian commercial banks were correspondingly smaller. A comparison of the distribution of debt holdings in Canada, the United States, and the United Kingdom is given below:

Table II
Percentage Distribution of Direct Funded Debt
by Type of Holder
(December 31, 1945, to March 31, 1946)

Type of holder	Canada	United States	United Kingdom
Commercial Banks	18.7	32.3	15.1
Bank of Canada	11.1	---	---
Federal Reserve Banks	---	8.2	---
Bank of England	---	---	7.0
Government Agencies	4.1	12.6	13.7
Other Investors	66.1	46.9	64.2
Total	100.0	100.0	100.0

Until late in 1943, security sales to the Canadian chartered banks were principally low-interest-bearing issues designed for that purpose. Since that time, however, practically the entire increase in the banks' Dominion security holdings has been in the form of Victory Bonds, which have been issued at a rate somewhat above the willingness of the public to absorb them. In addition, there were significant shifts in the preferences of the public as to the form in which it desired to hold liquid assets after 1942. Savings deposits, which had remained stationary from 1939 through 1942, have now more than doubled.

The inflationary potential of the trend from bonds to savings deposits, stressed by some economists, has justifiably been ignored for the most part by the authorities. During the later stages of the war, there was a certain amount of net selling of Victory Bonds by individuals, but the rate of liquidation had been steadily declining until the recent appearance of the Canadian Savings Bond induced the holders to switch to the new issue.

The rise in the rate of acquisition of higher yielding bonds by the banks did cause considerable concern in government circles because of the increasing profit margin provided. Early in 1946, a voluntary arrangement was made with the chartered banks whereby they agreed (a) to limit their holdings of long-term bonds to not more than 90 per cent of their savings deposits, and (b) to restrict their earnings on such bonds to a figure which would leave a net return of only 3/10 of 1 per cent above the interest and other operating expenses of their savings deposit business. If the banks wished to invest in additional government securities beyond the 90 per cent margin, short-term Treasury Bills and Deposit Certificates would be available to them. (At that time, the government lowered the interest rate on Deposit Certificates from 3/4 of 1 per cent to 5/8 of 1 per cent.)

It is difficult to understand why Canada did not issue more short-term paper for bank portfolios after 1943 when it discovered that the public demand for Victory Loans fell short of the financial needs of the Treasury. Table III reveals that the trend toward higher-interest, longer-term securities was pronounced during this period when the banks were absorbing a significant portion of the issues. The progressive "funding" of its debt has also prevented Canada from realizing its professed aim of lower interest rates on its national debt, since the average rate rose from 2.51 per cent to 2.60 per cent during the fiscal year 1946.

Table III
Maturity Schedule of the National Debt of Canada
(End of financial year, in millions of Canadian dollars)

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	418.5	12.3	2,494.1	22.9	2,650.0	19.0	2,643.4	15.7
1 to 5 years	659.1	19.5	2,021.6	18.5	2,515.5	18.0	2,616.2	15.6
5 to 10 years	374.8	11.1	2,031.7	18.6	1,948.2	13.9	1,917.8	11.4
Over 10 years	1,933.3	57.1	4,389.4	40.1	6,870.0	49.1	9,629.8	57.3
Total	3,385.7	100.0	10,936.8	100.0	13,983.7	100.0	16,807.2	100.0

A notable feature in Canadian debt management during the war was the repatriation of 78 per cent of the 875 million dollars in securities payable in London and New York. However, there has been an offsetting inflow of capital as a result of the large volume of sales of Canadian bonds in the United States. Net sales abroad of Dominion bonds payable in Canada amounted to 434 million dollars from the end of 1939 to the end of 1945.

The amount of money raised from War Savings Certificates, somewhat similar to the United States series E Savings Bonds, has been small in spite of the extensive campaign with which they were launched in May 1940. These Certificates were issued in denominations of 5, 10, 25, 50, and 100 dollars with respective purchase prices of 4, 8, 20, 40, and 80 dollars. They matured in 7-1/2 years with interest at 3 per cent, computed semiannually. At the end of the fiscal year 1946, only 274 million dollars of such securities were outstanding, for an additional 100 million dollars of gross sales had been redeemed.

The negligible role played by the Certificates is explained by various factors, including the severe restriction on their purchase (600 dollars per year) by any one purchaser, the small denominations in which they were issued, the high level of Canadian income taxation, and the fact that Victory Bonds were more attractive relative to the Certificates than was the case in the United States. They were given little sales promotion after early 1941, and were replaced by the Victory Bonds even in the payroll deduction plans. On December 7, 1945, Finance Minister Ilsley announced in Parliament that the sales of the War Savings Certificates and Stamps would cease in the autumn of 1946. He also reported the termination of the activities of the National War Finance Committee, since conditions requiring the large organized sales campaigns for the Victory Loans no longer existed.

The Finance Minister presented a detailed picture of Canada's post-war borrowing policy in a speech to the same body on June 21, 1946. At that time, he announced the creation of the Canada Savings Bond, designed to replace both the Victory Bond and the War Savings Certificate as the government security in which personal savings might conveniently be invested. To foster such savings, the terms were to be more favorable than those existing for comparable investments at the time of issue. He reiterated the advantages of personal thrift and stated that a survey taken in November 1945 revealed that employers representing approximately one million employees were in favor of continuing a payroll savings plan and that many were planning to institute one themselves if the government did not continue such facilities. A second survey indicated that 82 per cent of the past buyers of Victory Bonds and War Savings Certificates planned to buy government securities if available. As an additional justification for such bonds, the Finance Minister referred to the savings facilities provided by other governments:

> "It is clear that a majority of citizens save most readily through a government investment programme of some kind. This has been the experience of other countries, including the United Kingdom and the United States. In the United States steps have been taken to continue government savings facilities, and in the United Kingdom such facilities have been maintained since the war of 1914-1918."

The sales of these Savings Bonds are not expected to cover the government's total borrowing requirements, most of which will be met by public offerings of the usual type at appropriate times. In the light of the favorable Dominion revenue and expenditure figures, the statement that the government is not primarily concerned with the proceeds of this Savings Bond as a means of meeting fiscal requirements is undoubtedly valid, since the regular bond issue projected for next spring can meet all foreseeable needs of the Treasury.

The principal characteristics of the Savings Bond can be summarized as follows:

(a) The bond is in denominations of 50, 100, 500, and 1,000 dollars.
(b) The interest rate is 2-3/4 per cent, payable annually by coupon.
(c) The bond is dated November 1, 1946, and will mature in 10 years.
(d) The bond is redeemable at face value plus accrued interest at any time on presentation by the owner at any branch of a chartered bank in Canada.
(e) The limit for the purchase by any individual is 2,000 dollars.
(f) The purchase of the new security may only be made in the name of individuals and not in the name of firms, institutions, or in trust for second parties. The bonds are registered in the name of the owners and are neither transferable nor assignable.

Sales amounting to 239.8 million dollars to 623,000 applicants were reported for the month of October, and the latest available figures record total sales of 467 million dollars to November 29, 1946. There is considerable evidence that holders of Victory Bonds are converting their holdings into this more favorable security, or at least that the government and the banks are supporting the market. The Bank of Canada increased its investments in long-term government securities by 64 million dollars and the chartered banks by 56 million dollars during the month of October after two months of virtually no change in their portfolios.

There was every reason to expect such conversions. The gilt-edged issue most comparable to the Savings Bond is the 3 per cent Dominion of Canada Victory Bond maturing in 1959 and callable in 1956. The actual yield on this security is approximately 2.43 per cent. Thus, the yield on the Savings Bond of 2-3/4 per cent plus the added feature of redemption on demand makes the new security considerably more attractive. Bank savings deposits pay only 1-1/2 per cent, while even the Dominion 3 per cent perpetuals yield only 2.73 per cent. Its closest counterpart in the United States, the Postal Savings Certificate, yields only 2 per cent, which, unlike the rate for the Savings Bond in Canada, is below the yield on the marketable long-term government securities in this country.

While part of the sales of the new Savings Bond reflects a shift out of other government securities, the terms are undoubtedly sufficiently favorable to have a temporary effect upon the rate of savings. With the need for immediate anti-inflationary measures, it may be a valuable instrument at the present time, but in the longer run it is doubtful if a slight subsidy in the rate of interest will greatly increase the rate of consumer savings. Furthermore, in the longer run, the objective of a stabilized economy may well preclude a policy of diminishing the propensity to consume among lower income groups, even if it could be carried out.

M. Schuman's Devaluation Paradox

A. O. Hirschman

During his last interview as Finance Minister of the outgoing Bidault Cabinet, M. Robert Schuman declared that "it would be folly to devalue the franc in view of the huge excess of imports over exports in France's balance of payments" (New York Times, November 21, 1946). In thus contradicting, with the greatest assurance and without any explanation, the generally held view that devaluation is precisely in order when a country is faced by an unduly large import surplus, M. Schuman might at first be suspected of having been inspired by the "big-lie technique" of public relations.

After some reflection, the reader's satisfaction at having readily spotted a fallacy should give way, however, to the admission that M. Schuman does make sense within the framework of the situation in which he operates (or operated). What he undoubtedly had in mind were the well-known arguments for the maintenance of the franc at its present rate: (a) French imports are priced in foreign currencies and are set by the requirements of the reconstruction and modernization program; (b) French exports are enjoying an international sellers' market and are limited only by French production which in turn is held back by insufficient supplies of raw materials and by shortages of manpower. Hence, the only effect of devaluation would be an increase in the cost of imports and, to a smaller extent, of the yield of exports in terms of francs, with disastrous consequences for French public finance and domestic price stabilization.

There certainly is some validity to this line of reasoning although it stands in definite need of qualification. It is not the purpose of this note, however, to enter into this discussion. Rather, it will be attempted here to prove the general proposition that, under definite assumptions, the hugeness of an import surplus might constitute by itself an argument against devaluation, quite independently from the contingencies of the present French situation.

It is clear that, under competitive conditions, devaluation will always reduce the commercial deficit of a country if the demand schedules for imports and exports are both highly elastic. When, however, one of the demand schedules is relatively elastic and the other relatively inelastic, it can be shown that the effect of devaluation on the import surplus depends not only on the comparative elasticities, but also on the size of the import surplus relative to total trade. This can best be illustrated by a numerical example showing, in terms of the currency of the devaluing country, the effect of devaluation on the trade balance in two different situations.

Situation I

	Imports	Exports	Deficit
Before devaluation	100	80	20
After devaluation	115	100	15

Situation II

	Imports	Exports	Deficit
Before devaluation	200	80	120
After devaluation	230	100	130

It is assumed here that the country in question has an inelastic demand for imports and an elastic demand for exports, a situation often thought to be characteristic of industrial countries such as England and France, importing mainly raw materials and foodstuffs and exporting mainly manufactures. It will be seen that the assumed elasticities have not been altered from one situation to the other. This is shown by the ratio of post-devaluation to pre-devaluation imports remaining constant in both situations, and by assuming no change whatsoever in the export figures. The only change of Situation II with respect to Situation I consists in the doubling of the import figures. It is the resulting pre-devaluation increase of the portion of imports not covered by exports which accounts for the changing effect of devaluation upon the import surplus: in Situation I the import surplus is reduced by the effect of devaluation, whereas in Situation II it is increased. The explanation is, of course, not far to seek: the larger the absolute figure on which a <u>given</u> inelastic demand schedule operates upon devaluation, the larger will be the total unfavorable effect on the trade balance. On the specific assumption of inelastic demand for imports and elastic demand for exports, it follows therefore that devaluation is the less likely to produce a favorable effect on the trade balance, the larger the import surplus relative to total trade.[1/] In other words, the sicker the patient, the more likely it is that the usually prescribed medicine will harm rather than help.

Aside from its meaningfulness for the short-run French situation, M. Schuman's "fallacy" can be developed into a paradoxical general theorem which is valid under specific assumptions as to the nature of demand for a country's imports and exports.

1/ Similarly, the effect of devaluation on the trade balance becomes more favorable with increasing import surplus if one assumes inelastic demand for exports and elastic demand for imports. In this case, therefore, the remedy of devaluation is the more effective the more it is needed, i.e., the greater the import surplus before devaluation.

The British Exchange Control Bill

F. Jaffy

The British Exchange Control Bill, which was launched in Parliament in November and has passed its second reading, is essentially a delegation of broad powers to the Treasury on matters relating to dealings in gold and foreign currency, payments, and the issue and transfer of securities, outside the sterling area.

The administration of exchange control in Britain was carried out during the war under the authority of war-time measures, as specified in Defense Regulations. The present bill would set up permanent legal authorization under which the Treasury may continue to issue orders and regulations regarding exchange control.

The bill does not spell out the manner in which exchange control is actually to be administered, and it is to the accompanying government White Paper, and press comment, that one must turn for indications of the intent of the government--and indeed for details of operation which seem to be generally understood in Britain though not mentioned in the bill itself. The White Paper tells us that "the emphasis .... is on a liberal administration of Exchange Controls, so that genuine current transactions are not obstructed," and that "Exchange Control will not be administered more stringently than hitherto." The general understanding is that, within the framework of the bill, gradual relaxation of controls on current transactions is intended. However, the bill itself is a definitive answer to those who expected that a free exchange market in the pre-1914 sense could be restored in London.

A brief summary of important provisions of the bill follows:

Part I requires all transactions in gold and foreign currency to be carried on through "authorized dealers," and requires gold and foreign currency in other hands to be surrendered to authorized dealers, but gives the Treasury power to make exceptions and to specify conditions of use.

[No mention is made in the bill of the Exchange Equalization Account, but authorized dealers (principally banks) will presumably have to buy from and sell to the Exchange Equalization Account, and at officially prescribed rates.]

Part II prohibits payments to persons outside the "scheduled territories" (i.e., the sterling area) except with Treasury permission. [The White Paper adds the information that "it is intended to issue Payments Orders (as hitherto)....exempting approved classes of payments, which the banks can then handle without formality."]

Part III maintains Treasury control over the issue and transfer of securities to non-residents of the scheduled territories, and over the payment of capital sums outside the United Kingdom on British securities. It also adds a new control: this requires that all securities not registered in the United Kingdom (i.e., securities on a foreign register and British bearer securities) shall be kept by an "authorized depositary," through which all interest and capital sums due shall be paid. On the other hand, a war-time power--that of requiring foreign securities held by residents to be sold to the Treasury--has been dropped from the present bill. The object of these provisions is to ensure that all foreign exchange earned on securities, or received in payment for their transfer abroad, be turned in to the Treasury. Foreign and bearer securities (which are not registered in the United Kingdom) might have constituted a loophole in the control mechanism without the new clauses since, with the ending of the war, postal censorship has been removed. Another reason for the control on capital <u>inflow</u> appears to be fear that some of it may be hot money. It may be noted that, except for the clause on payment abroad of capital sums on British securities (and except for the requirement of deposit of foreign securities in authorized banks), there appears no control of capital outflow in this section; this is secured through the control over foreign exchange and payments abroad in Parts I and II.

Part IV prohibits the import or export of currency notes and securities, except with Treasury approval. It also provides that no goods may be exported from the United Kingdom unless the authorities are assured that satisfactory payment has been or will be made.

Part V contains miscellaneous provisions relating to prompt collection of debts, prompt sale and payment for sale of goods, transfer of annuities, settlement of properties, and foreign companies.

Part VI gives the Treasury power to issue exempting orders, and provides that all Treasury orders, except those specified on a list, are subject to review by Parliament. It also permits the Treasury to block accounts to the credit of non-residents.

A question of interest in this country in connection with the bill is, Does it conform to British commitments[1] under the Bretton Woods Agreements

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1/ These, aside from general obligations as to exchange stability, are the commitments to free payments for current transactions from restrictions within one year after the Loan agreement went into effect (or by July 1947); and within the same period to make current sterling receipts of sterling area countries freely available for current transactions anywhere without discrimination. The Fund Agreement also prohibits discriminatory currency arrangements.

and the Anglo-American loan? The answer cannot be found in the pages of the bill. Powers are granted to the British Treasury by virtue of which almost any kind of exchange control policy might be followed. However, the quotation from the White Paper given earlier, and other statements in it, indicate that Britain intends to administer exchange control so as to adhere to her obligations. The Fund Agreement not only permits but in certain instances requires that countries shall exercise control over capital movements; and no way has yet been found of restricting capital movements without bringing all transactions, on current as well as capital account, under scrutiny. In the past, Britain has exercised selective control over imports by means of quantitative import regulation rather than through exchange control, and it is expected this will continue. As to the differential position of sterling and non-sterling area countries, arising from the fact that dealings in the sterling area are left completely unregulated, there will be no conflict with the Fund Agreement if differential treatment is confined to capital transactions (assuming, as seems likely, that the Fund will interpret its ban on discriminatory currency arrangements as relating only to current transactions).

An area of possible conflict between the Fund and the British administration of exchange control lies in the distinction between current and capital transactions. A case in point is the treatment of tourist expenditures. According to press and diplomatic reports, the British do not consider tourist expenditures as a current transaction, and wish to be free to continue present restrictions. However, classification of tourist expenditures as a capital transaction seems open to question, and the Fund will no doubt have to rule on this.

Regarding the effectiveness and workability of exchange control under the new bill, a few of the points made by commentators are as follows:

1. Since no control is imposed over payments within the sterling area, the effectiveness of the British control will depend to an important extent on the strength of controls in other sterling area countries. For instance, it is possible that in the absence of effective exchange control in, say, Egypt, a flight from sterling to dollars might take place by way of a transfer of funds from Great Britain to Egypt to the United States. It has been suggested that at least a few sterling area members may not enforce adequate controls against such a contingency. The British Treasury has the power, under the new bill, to alter the list of "scheduled territories"--i.e., to change membership in the sterling area--but it may be questioned whether such a power would be used.

2. The bill has been criticized for failure to provide adequately for forward exchange needs. In view of the fact that the bill is merely a general delegation of powers and not a detailed document, it does not appear that this criticism should be directed to the bill, but rather to the manner of its administration. On this point, it should also be recognized that the International Monetary Fund is involved, inasmuch as the Fund is empowered to prescribe limits for dealings in forward exchange.

3. A feature of the present bill which has met with general approval is a slight change in wording from the war-time measures, which has the effect of giving authorized dealers the status of principals rather than of agents of the Treasury. Just how much difference this will make is not clear, but more freedom of action may be allowed the banks than heretofore. It is expected, for instance, that banks will be allowed to match buying and selling orders for foreign exchange, thus dealing with the Exchange Equalization Account only in net balances, instead of on each transaction, as before. Further, the Chancellor of the Exchequer, in House of Commons debate, has said that the possibility of allowing dealers to operate among themselves was under discussion, and that the government would not object to "reasonable arrangements."

The general non-political reaction to the bill, as reported in the British press, appears to be one of somewhat regretful acceptance, or "sober approval" of what is understood to be an unavoidable necessity. On the part of the Conservative opposition in Parliament, the main lines of attack have centered on (1) the absence of a time limit on the powers conferred, and (2) the great delegation of power to the Treasury.

Russia's Post-war Trade with Some of the "Zone" Countries

Alexander Gerschenkron

The time has not yet arrived for a comprehensive quantitative appraisal of Russia's post-war trade with countries located in what has come to be called the Russian Zone of Influence in Eastern Europe. One reason for this is that trade statistics are still very sparse. They are not available at all for Rumania and Yugoslavia; for Poland they are presented in a rather questionable form. Moreover, in several cases, commercial trade proper is still overshadowed by reparations, restitutions, and occupation costs on the one hand and UNRRA deliveries on the other. Nevertheless, complete statistics are available for a considerable portion of 1946 for three countries of the Zone--Finland, Czechoslovakia, and Bulgaria. There is also some information on Poland and Hungary. It may be worthwhile, therefore, to see to what extent Russia has succeeded in monopolizing the foreign trade of these countries. It should be noted that the values of commercial trade in 1946 were very considerably below those of the pre-war period. The following estimate for mid-1946 shows the foreign trade proper of five Zone countries as percentages of the respective 1938 levels:

Finland	20 Per cent
Poland	20 " "
Czechoslovakia	20 " "
Hungary	20 " "
Bulgaria	30 " "

The fact that trade is just beginning to recuperate doubtless diminishes the value of such conclusions as may be drawn from the following discussion of Russia's trade with the five countries just listed.

Bulgaria

During the whole of the inter-war period Bulgarian exports to Russia were nil. Before 1933 some Russian goods were imported into Bulgaria by devious routes over Germany and Austria, but on an annual average the value of these goods never reached one-half of one per cent of total Bulgarian imports. In other words, trade relations were virtually non-existent. The situation has been radically changed since the war. Over the period January-August 1946 no less than 65 per cent of total Bulgarian exports went to Russia; the corresponding figure for imports is even higher--82 per cent. These are percentages which were formerly peculiar to the German trade drive in the Balkans. Apart from Russia, the only trading partner that was not negligible was Czechoslovakia which took about 10 per cent of Bulgaria's exports. It should be noted, incidentally, that Bulgaria imported from Russia about 40 per cent more than she exported to that country. One probable explanation lies in the imports of Russian raw cotton for spinning and weaving in Bulgarian mills for subsequent partial re-export of the product to Russia. These transactions may have caused a lag between imports from, and exports to, Russia.

Czechoslovakia

The situation in Czechoslovakia was quite different from that in Bulgaria. Czechoslovakia is of course a much more important trading country than Bulgaria, or than any other country of the Zone, as may be seen from the following tabulation:

Foreign Trade of the Zone Countries as Percentage of the Total Trade of the Zone, 1924-38

	Exports	Imports
Czechoslovakia	35.6	34.0
Poland	18.3	19.8
Rumania	12.4	11.4
Finland	11.0	11.0
Hungary	10.5	11.5
Yugoslavia	8.8	8.8
Bulgaria	3.4	3.5
	100.0	100.0

Czechoslovakia leads the list while Bulgaria is a safe last. It will be seen that Czechoslovakia's trade in the inter-war period roughly equaled the combined trade of Hungary, Rumania, Bulgaria, and Yugoslavia. Inter-war trade between Czechoslovakia and Russia, although steadily maintained, was relatively small. It rose to a maximum of about 2 per cent both of Czech total imports and exports in the period of the First Five Year Plan. Russia was able to increase her share in Czech trade very greatly in the first nine months of 1946. She supplied 13.4 per cent of Czech imports and took 12.8 per cent of Czech exports. This increase, however, does not indicate as yet any tendency toward preponderance of Russia in Czech trade which would be comparable to that acquired by Germany in the trade of the Balkan countries in the second half of the 'thirties. It may be added that if Czech trade with all the countries of the Zone, excluding Austria, is added to the figures on trade with Russia the corresponding percentages become 28.8 for imports and 22.1 for exports. The conclusion is that the bulk of Czechoslovakian trade was with the West. In fact the share of the "West" (excluding Germany and Austria) in Czechoslovak trade amounted to 61 per cent of her imports and 65 per cent of her exports. As pointed out in an earlier issue of this Review,1/ inclusion of UNRRA deliveries would result in an overwhelming share of the "West" in Czech imports over the period.

Finland

In the inter-war period (1924-38 average) Russia had a higher share in Finnish imports and exports than in those of any other Zone country. But the share was still very small--2.4 and 2.9 per cent, respectively.

Finland has by far the best statistics on post-war trade among the Zone countries. Her total trade and her trade with Russia in 1945 and during the first nine months of 1946 developed as follows:

	Imports				Exports			
	1945		1946 1/		1945		1946 1/	
	Million Fmks.	% of total	Million Fmks.	% of total	Million Fmks.	% of total	Million Fmks.	% of total
U.S.S.R.	504	13.6	4,335	25.2	671	36.4	3,377	23.5
Total	3,692	100.0	17,194	100.0	1,845	100.0	14,358	100.0

1/ January-September 1946.

It appears from the foregoing that the absolute value of trade increased greatly between 1945 and 1946. In the larger trade of 1946, Russia managed to increase considerably her relative position as supplier of goods to Finland as compared with 1945, while her very high share in Finnish exports was greatly reduced. As a result about one quarter of Finnish commercial trade was with Russia.

Two observations may be added:

(1) Commercial exports to Russia in January-September 1946 remained far short of the reparation and restitution exports to Russia during the same period, the latter exports together amounting to 6,155 million marks, or about 185 per cent of commercial exports. If these exports are taken into consideration, Russia's share in total Finnish exports, commercial and political, would amount to 51 per cent.

(2) The import and export figures for commercial trade as given in the foregoing table refer to "countries of purchase and sale." A comparison of these figures with trade data arranged by "country of consumption and origin" reveals a curious discrepancy in the case of Finnish imports from Russia. Of the total of Fmks. 4,335 million of goods purchased from Russia,

1/ November 18, 1946, p. 13.

only goods to the value of Fmks. 2,878 million originated in Russia. Where did the difference of Fmks. 1,457 million, or about one-third of total purchases, come from? A scrutiny of the statistics suggests that a small portion of this amount, about 14 per cent, came from the Soviet Zone of Occupation in Germany; the bulk of it, however, seems to represent Russian re-exports to Finland of Polish coal. It will be recalled that the Russians concluded, in connection with the German reparations, a rather advantageous agreement with the Poles, under the terms of which very substantial quantities of Polish coal are being delivered to Russia, allegedly at a price which is less than one-tenth of the world market price. The first post-war trade agreement between Poland and Finland, on the other hand, was concluded comparatively late, on July 5, 1946. It may be assumed that in the future some of the Polish coal will go directly to Finland. What has become known of the agreement, however, suggests that the Russians may continue to re-export Polish coal to Finland, although to a somewhat diminished degree.

Hungary

In the inter-war period there was virtually no trade between Hungary and Russia. The first month for which complete official trade statistics have been published is September 1946. Prior to that only occasional statements were made. According to the latter, Russia in the first six months of 1946 took 11 per cent of Hungary's exports and supplied 24 per cent of Hungary's imports. In September 1946 this relation was reversed as Russia received about 36 per cent of total Hungarian exports and supplied less than 14 per cent of total imports. While, in September, Russia occupied the first place in exports and Switzerland the second, on the import side Czechoslovakia was leading, followed by Switzerland and the U.S.S.R. The Swiss press explained that the high share of Russia in Hungary's September exports resulted from the necessity of repaying the import surplus accumulated in earlier months.

Poland

On the average for the period 1924-38, Russia supplied 1.2 per cent of Poland's imports, and took 2.5 per cent of Poland's exports. It may be noted that in the inter-war period Poland's trade was second only to that of Czechoslovakia among the countries in the Zone, although it fell far short of that of the leader. According to official Polish statistics, Russia's position in Poland's total trade for the months January-August 1946 was as follows:

	Imports (Million zlotys)	Per cent of total	Exports (Million zlotys)	Per cent of total
U.S.S.R.	5,082	75	5,279	70
Total	6,743	100	7,535	100

The basis of the foregoing statistics is somewhat irregular inasmuch as the Poles revalue all imported and exported quantities at domestic prices, so that foreign trade figures reflect the domestic price structure, rather than the price structure of actual transactions. Whatever distortions may result from this method, however, it is clear that Russia has established a position of absolute preponderance in Poland's foreign trade. It may be noted, however, that about one-half of the 1946 exports to Russia were under special agreements in connection with German reparations.

In conclusion it may be said that Russia's share in the trade of the countries of the Zone has increased enormously. But the rate of the increase has varied. In Poland and Bulgaria, Rússia has acquired an overwhelmingly strong position. It would not be surprising if Rumanian statistics, when published, revealed a similar picture. At the other end of the scale is Czechoslovakia which apparently has been able to preserve its freedom of action in the field of foreign trade. There, Russia's share has remained altogether moderate. Between the two extremes we find Finland and, closer to the former group, Hungary.

Trade, however, is still extremely small if compared to the prewar period. To retain her present share in a normal or near-normal volume of trade would require a considerable effort on Russia's part. It is unlikely that she can be successful without use of great additional amounts of political pressure. The extent to which Russia may be able to exert such pressure may vary among the countries of the Zone.