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PARTITION OF INDIA - SOME ECONOMIC ASPECTS

John Exter

As the British Government relinquishes political power in India, the world will be watching with interest and trying to discern the pattern of economic development in the two new Indian states. Will development be accelerated or retarded by the passage of British rule? Will both states emphasize industrialization? If so, what will be their attitude toward foreign capital?

With questions such as these in mind I recently had an opportunity during a brief visit to India to interview a number of Indian leaders. This article is an attempt to summarize my impressions of their thinking, particularly with respect to industrialization and the part which foreign capital might play.

With the formal transfer of power by the British Government on last August 15, the Indian Union[1] and Pakistan have achieved full dominion status, the first parts of the Empire governed primarily by non-Europeans to do so. Most informed Indians outside the Muslim League deeply regret that irreconcilable religious differences have divided a people with substantially

1/ The Hindus are resisting the temptation of the British and Muslims to distinguish between the two states by calling the Indian Union "Hindustan." The Hindu state, they insist, is "India." In this article, "India" is used to refer to the combined states.

the same racial background from gaining their independence as a united state. From the economic point of view it is especially unfortunate, for the Muslim and Hindu areas are complementary to such an extent that unless mutually satisfactory trade relationships between the two areas can be retained, they will have difficulty in the next several years in maintaining even their present wretchedly low standards of living.

Unfortunately, the division does not solve the minority problem, as the present tragically bloody communal riots and the mass migrations testify. When boundaries have been finally settled, Pakistan probably will be a state of about 70 million people of whom as many as 20 million may be Hindus and Sikhs. Perhaps as many as 40 million Muslims will still be left within the Indian Union.

Economically, the new Pakistan state appears to be exceptionally handicapped. It is divided into two parts, the Punjab and Sind area in the west and the East Bengal section in the east, with more than 1,200 miles of Hindu India intervening. The distance by sea from Karachi in Sind to Chittagong in East Bengal is more than twice as great. If Pakistan and India erect trade barriers against each other, the high cost of transportation between the widely separated Pakistan sections will mean in reality that India has been divided into three economic units instead of two. While Pakistan has a number of important raw materials, it has relatively little industry of any sort. It has less than its per capita share of iron and coal, of highway and railroad mileage, of developed power projects, and of financial facilities. In addition, a considerable share of its production and trade is financed by Hindus, many of whom have engaged in recent months in a capital flight from Pakistan, thus further handicapping it. It does, however, have potential hydroelectric power and it will be a surplus area in jute, cotton, and staple foods. The Indian Union, on the other hand, has more than its per capita share of industries. On the basis of prewar data, apparently it will have all of the iron and steel mills, the jute mills, the paper mills, and the sugar mills. It will have about 98 per cent of the cotton spinning and weaving mills, 57 of 65 cement factories, and 112 of 117 glass factories. It has more than its per capita share of existing power projects, transportation and financial facilities, but will be a deficit area in staple foods.

While on most counts the Indian Union seems definitely to be economically the stronger of the two states, all estimates of their balances of payments indicate that for the immediate future, at least, it is Pakistan which will have the substantial surplus on current account while the Indian Union will have to cut its imports drastically in order to avoid a serious deficit. The strong international position of Pakistan appears to be based on its large exportable surpluses of jute, cotton, wheat, and rice, all of which are in very active demand in world markets today. The weak international position of the Indian Union, on the other hand, is a corollary of the strength of Pakistan. To the extent that the division throws the exportable surpluses to Pakistan, the international position of the remaining India will be weakened.

The bilateral payments between the two countries during the next few years promise to be very nearly in balance. Although the Indian Union will necessarily import large quantities of jute, cotton, and foodstuffs, principally wheat and rice, from Pakistan, the probability is that these imports will be paid for by shipments to Pakistan of textiles, sugar, coal, iron, and steel, and by relatively large receipts from Pakistan of rent, interest, dividends, and payments for banking and insurance services. The Indian Union must face the possibility, however, that Pakistan will use protective measures to develop its own industries and that the receipts from Pakistan on invisible account will gradually taper off. In this case the bilateral balance of payments between the two countries might grow more unfavorable to the Indian Union. The outcome will depend upon whether the latter can more rapidly increase production of those industrial commodities which Pakistan will want to buy than Pakistan can make them for itself.

Leaders of both countries are eager for industrialization and are determined to press it as rapidly as the capacities of their respective countries will allow. The Muslims are particularly ruthless and aggressive in their economic nationalism. The most articulate of their spokesmen to whom I had a chance to talk was Mr. M. A. H. Ispahani, a prominent Calcutta businessman (Ispahani Tea) and at that time a member of Mr. Jinnah's unofficial Muslim League "cabinet". He not only shared the well-known resentment of the Hindus toward the British for a policy which he said kept India as a whole economically subjugated, but he also accused the Hindus of having connived with the British to suppress the Muslims in particular. Having achieved independence, the Muslims are now in a mood to advance their own self interests regardless of the consequences to India as a whole. An outstanding example is jute, the principal industry of Bengal. The best jute acreage and 80 per cent of the output of raw jute is in the Pakistan part of East Bengal, but Pakistan has not a single jute mill. The jute processing mills are all in the hands of British and Hindu capitalists in the Calcutta area of the Indian Union. Mr. Ispahani claimed that the Muslims have always been blocked by British and Hindus in their efforts to establish jute mills, so they are now determined to use their control of raw jute to stifle the Calcutta industry. They intend to introduce marketing systems to control the price, to ship abroad as much jute as possible through Chandpur and Chittagong rather than through Calcutta, and to erect their own mills, probably in the Chittagong area. One of the prime motives will be to prevent the Indian Union from acquiring foreign exchange by buying, processing, and exporting jute which was grown in Pakistan.

This same aggressive economic nationalism may cause Muslim leaders to encourage foreign investment in order to stimulate economic development. Although the new state will not require foreign capital for balance of payments reasons, it urgently needs the technical knowledge and skills which such capital would bring with it. For the very reason that Pakistan does not have a serious balance of payments problem, it should be able to maintain the stability of its currency and thus should offer foreign capital exceptional security. Accordingly, many British firms now operating in the Indian Union are looking forward to opportunities either to transfer their capital or to expand their operations into Pakistan. American capital, too, may be expected to find attractive investment outlets as soon as the political situation shows signs of stabilizing.

The leaders of the Indian Union are much more circumspect in their attitude toward foreign capital. Such men as Sir Chintaman Deshmukh, the Governor of the Reserve Bank, and Mr. A. B. Shroff, a Parsi and a director of the large Tata enterprises, were seriously concerned about the worsening of their balance of payments prospects as a result of the partition, as well as about the aggressive Muslim economic policy, but they were not looking immediately to foreign capital as the salvation. Now that they have achieved political independence, they want to assure their economic independence as well. They are fearful of exploitation and are pondering various schemes for keeping control in Indian hands of such capital as does enter. Inasmuch as they already have most of the industry of India, as well as most of the native technical skill, they do not have the same sense of urgent need of outside help as do the Muslims. They can better afford to wait. Perhaps the most significant reason for their different attitude, however, is their stronger sense of the importance to them of the sterling balances accumulated in London during the war. Under any conceivable plan for the division of assets between the two countries, the Indian Union will get the bulk of the sterling balances. These balances are regarded as the primary resource for financing the program of economic development. If possible, Indian leaders would prefer to rely solely on the balances, plus whatever surplus they can develop in their balance of payments. By so doing they can avoid the complication of adding to what they already consider to be excessive control of India's economic life by foreign capital.

It is interesting to note that the Indian Union does not have the same misgivings concerning public as it does concerning private capital. It will in time welcome loans from international lending institutions such as the International Bank or the Export-Import Bank, but for the present there is a reluctance to apply for such loans for fear that success in getting them might jeopardize the Indian case against Britain's proposal to write off a portion of the sterling balances. It does not wish to incur additional international obligations until it has realized what it can from its international assets.

There is apprehension among British businessmen in India concerning the terms under which they may be permitted to stay. There are some who expect discriminatory legislation designed to insure Indian control of enterprises containing foreign capital. I was told by Mr. W. G. C. Parker, the Manager of Lloyd's Bank in Calcutta, that most British businessmen would prefer to leave rather than yield control to Indian interests.

There has not thus far been a repatriation of any significant percentage of British investments in India. Although there are no accurate figures available, officials of the Reserve Bank of India have estimated total British investment at £600 to £800 million at current values of which perhaps £20 to £50 million may have been repatriated during the past few years. Both my British and Indian informants emphasized that there had been practically no sale to Indians of British interests in basic Indian industries. Such sales as have taken place have been of small businesses owned primarily by people who have "served their time" in India anyway and who decided that the high prevailing prices presented an advantageous opportunity to go home. Although India would prefer that its sterling balances be used for the acquisition of capital goods rather than for the repatriation of British investments, it has not thus far restricted the transfer of funds from India to Britain nor do the negotiations on the balances to date indicate that Britain will agree to its doing so.1/

It is impossible to say at this time whether independence will accelerate or retard Indian economic development. Leaders of both countries quite naturally think that independence will release new energies and give a new impetus to their economic life. While the aggressiveness of the Muslim leadership may be able to overcome many of Pakistan's economic handicaps, it may also result in destructive economic warfare which would be detrimental to the development of India as a whole. The present more favorable balance of payments position of Pakistan appears to give it an initial relative advantage, particularly as long as sterling balance releases for current transactions are not large enough to offer adequate relief to the balance of payments deficit of the Indian Union. The attitudes of the new states toward outside help will also be significant. Both countries realize their need of such help, but they are looking for terms on which it may enter without exercising undesirable political or economic control. Overcautiousness in this respect might actually be a retarding factor. The crucial factor, however, will be the speed with which political and economic stability can be reached. Unless the communal disturbances cease and the major problems of division can be satisfactorily solved, it will be exceedingly difficult for either governments or businessmen to carry out long-run plans.

1/ This withdrawal of capital has already been partially responsible for a decline in official Indian sterling balances since the end of the war. Under the temporary agreement reached on August 14, 1947, that portion of the balances which is made unavailable for any current transactions can be used to cover further withdrawals of British capital from India.

SWISS FOREIGN TRADE

Rosa Ernst

Swiss foreign trade in the first half of 1947 rose both in terms of volume and value above the same period of 1946. As long characteristic for the Swiss economy (with the single exception of 1945), there was a substantial import surplus. During the first six months of this year, Swiss exports amounted to 1,593 million Swiss francs, and imports to 2,224 million; these were increases of 38 per cent and 36 per cent respectively over the same period of 1946. Although the import surplus of 631 million Swiss francs was about 31 per cent larger than that for the first six months of 1946, the relation it bore to total trade was substantially unchanged.

As indicated in a previous article in the Review,1/ the import surplus was covered by a variety of means in the balance of payments, notably receipts from tourist traffic2/ and capital inflow. Nevertheless,

1/ See this Review, June 3, 1947, p. 15.
2/ In this connection, it may be mentioned that, while suspension of the convertibility of sterling is not expected to have unduly adverse effects upon British-Swiss trade, the cessation of British tourist traffic will be felt.

during the first half of 1947, the official Swiss holdings of gold and foreign exchange declined. In connection with the gold sterilization program, the Swiss Government had held considerable sums of gold after April 1943. These dropped from 1,239 million Swiss francs at the end of December 1946 to 810 million at the end of June. During the same period, however, there was an increase of 105 million Swiss francs to 5,055 million in the gold holdings of the Swiss National Bank. The Bank's holdings of foreign exchange fell 38 million Swiss francs to 120 million. There was thus a net loss of 362 million Swiss francs in official holdings of gold and foreign exchange. Some part of the drop in the gold stocks must be attributed to domestic sales of gold coin and other operations unconnected with foreign merchandise trade.1/ Because of the considerable stock of gold and foreign exchange (at the end of June 1947 still 3-1/4 billion Swiss francs larger than in 1938), the sizable import surplus has not seriously affected the international position of Switzerland.

As shown in the following figures for the volume of Swiss foreign trade, the growth in value has been something more than a reflection of rising prices. Indeed, import and export prices were rather steady between the first half of 1946 and the same period of 1947, although the minor improvement Switzerland had secured in its terms of trade since 1938 continued.

Table I
Volume and Price Indexes of Swiss Foreign Trade
(1938 = 100)

	Imports	Exports
Volume		
1946		
First quarter	91.6	81.7
Second quarter	100.7	96.3
Third quarter	99.7	108.9
Fourth quarter	126.6	117.9
1947		
First quarter	127.0	108.1
Second quarter	150.5	115.4
Prices		
1946		
First quarter	240.9	252.9
Second quarter	231.9	250.7
Third quarter	229.3	257.4
Fourth quarter	233.9	251.8
1947		
First quarter	242.8	263.0
Second quarter	241.6	262.5

1/ On August 28, 1947, the domestic sales of gold coins were subjected to a severe rationing which partly reflects the intention to reduce further losses of gold.

It is remarkable that, despite the genuine growth registered by Swiss foreign trade since the prewar period, the bulk of that trade moves in the same general direction as formerly. Thus the same eleven countries accounted for slightly more than two-thirds of the exports in the first half of 1947 as in the same period of 1938, and the same eleven also supplied approximately three-quarters of Swiss imports. As may be noted from the table below, however, there were shifts within the group. The United States has replaced Germany both as a source of supply and as a market for Swiss goods. Other overseas countries like Argentina and Brazil likewise have increased their share in Swiss trade. As a market, Sweden has replaced Great Britain. The role of France, however, is virtually unchanged from the prewar period, and that country remains Switzerland's second most important trading partner.

Table II
Distribution of Swiss Foreign Trade
(Per cent of total)

	Exports Jan.-June		Imports Jan.-June	
Country	1947	1938	1947	1938
United States	12.5	6.0	21.5	8.4
France	9.2	9.9	11.3	13.4
Sweden	8.8	2.7	2.7	1.2
Belgium-Luxembourg	8.0	3.4	9.4	3.9
Italy	6.8	7.3	7.4	6.8
Argentina	5.0	2.4	4.6	4.4
Czechoslovakia	4.9	3.9	5.7	4.4
Netherlands	4.1	4.3	3.3	3.0
Brazil	4.1	1.2	1.6	.7
Great Britain	3.4	11.1	6.1	6.0
Germany	.4	15.7	2.1	1.4
	67.2	67.9	75.7	74.9
Others	32.8	32.1	24.3	25.1
Total	100.0	100.0	100.0	100.0

Switzerland's importance for the reconstruction of Europe is manifold. The country supplies many goods in great demand, notably chemical and pharmaceutical products, but also machinery and tools, thus replacing Germany to a certain extent. In view of the pauperization of the rest of Europe today, Switzerland is more than ever important both as a stable market and as a source of supply. Sales to Switzerland mean the acquisition of a hard currency readily convertible into dollars. Moreover, Switzerland is the only potential importer of luxury goods left in Europe, and this is of particular significance for both Western and Eastern Europe. While trade with countries like Austria, Hungary, and Czechoslovakia may be relatively unimportant for Switzerland, Switzerland has been their most important trading partner since the war. Thus, trade with Switzerland has proved an important channel through which Eastern European countries can secure access to commodities which they must have in order to fulfill their reconstruction and development plans.

EXCHANGE CONTROL IN SWEDEN

Robert W. Bean

Until recently the Swedish krona has been generally regarded as a hard currency, readily transferable into other currencies for most purposes. With the dwindling of Sweden's gold and foreign exchange reserves during the past year, caused by both a large import surplus and a heavy capital outflow,1/ the krona has lost some of its hardness, and it is appropriate therefore to look at the Swedish apparatus of exchange control.

The system dates from 1939. Throughout the depression Sweden succeeded in remaining among the select group of European countries (the United Kingdom, France, Switzerland, Belgium, the Netherlands, Sweden, Norway, and Finland) which in the main avoided placing restrictions on international payments, other than those imposed by the terms of bilateral agreements. Neither exchange licensing nor import licensing was adopted, despite the fact that Sweden was engaged in a sizable program of domestic investment which involved heavy budget deficits and considerable import surpluses. Shipping receipts and income from overseas investments were the two main items which helped to pay for the gap in the trade balance, and--save for the period leading up to abandonment of the gold parity in September 1931 and the episode of the Kreuger crisis in the spring of 1932--an inflow of capital also served to augment Sweden's holdings of gold and foreign exchange. The events of early 1932 prompted the Ministry of Finance to prepare legislation establishing exchange control, and reluctant approval was obtained from the Cabinet's legislative committee, but it proved possible to ride out the storm without taking the proposal to Parliament. When in 1939 it again appeared advisable to arm against a loss of reserves, a blueprint was available.

Financial Controls During the War

The law which was passed on June 7, 1939, authorized the Government under certain conditions to bring into force the essential features of exchange control, i.e., a monopoly in foreign exchange and foreign security transactions, compulsory surrender of foreign exchange and foreign security holdings, and a system of licensing foreign exchange and security transactions. The exact provisions of the law and the manner in which it was brought into effect are discussed below, but two important limitations should first be noted: (1) the Government's authority could be exercised only "in case of war or menace of war or otherwise during extraordinary conditions caused by war",2/ and (2) it was intended that the law should be used for controlling capital movements and not for regulating commercial transactions, although this limitation was not stipulated in the law itself.

In these respects the law differed considerably from the 1932 proposal, which was intended for use under "extraordinary conditions caused by serious monetary crisis", a much less confining limitation. It was clearly anticipated in 1932 that exchange control would be used for "achieving equilibrium in the balance of payments by means of rationing foreign exchange . . [taking care] that imports be kept within the limit of the country's foreign

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1/ See this Review, July 29, 1947.

2/ The Government's authority to establish exchange control was also limited to times when the Riksdag was not in session, and early subsequent approval by the Riksdag was required.

exchange resources, and that within this limit the country's need for foreign goods be suitably met."1/

The 1939 foreign exchange law was enacted at a time when Sweden's balance of payments position was strong, but when it was feared that sudden capital flight in one or the other direction might either drain the country of its foreign exchange resources, or subject the banking system to a flood of foreign funds seeking safety. Although the wording of the law would permit the use of exchange licensing for the purpose of restricting imports, at the time this was clearly stated not to be the intent. Partly for this reason, additional legislation was required and a new mechanism established when it was found necessary to restrict commodity imports.

When the European war began in September 1939, the Swedish Government did not immediately use its powers under the foreign exchange law. Instead, the Riksbank began to limit its sales of foreign exchange to cases involving payments for commercial purposes or the withdrawal of foreign balances from Sweden. In December, soon after the outbreak of the Russo-Finnish war, the commercial banks agreed to observe voluntarily the same restrictions. On February 25, 1940, the Government established by decree a complete system of exchange control under the law of June 1939. This system has been extended in force from time to time by various decrees, the latest having been issued in June 1947. Justification is presumably found in the phrase "extraordinary conditions caused by war."

The Foreign Exchange Order of February 25, 1940, required that all purchases or sales by the public of foreign exchange against Swedish kronor should be made with the Riksbank or an authorized bank. It did not, however, require the public to surrender foreign exchange holdings. There was no need at that time to marshall all foreign exchange assets and to channel them through a rationing system. The only purpose was to subject all transactions to scrutiny and to ensure that the country's exchange resources were not consumed by capital flight on a large scale. Control was exercised in a liberal fashion. An exporter was permitted to accumulate balances abroad in any amount and to hold them indefinitely. They might be disposed of abroad, however, only if the transaction was of a type authorized by the Foreign Exchange Office, and this had to be determined by either the Riksbank or an authorized bank.

The regulations themselves gave little clue to what types of transactions actually were permitted. General licenses were liberally granted, however, and throughout the war the krona had the reputation of being a relatively free currency. Many of the restrictions which were imposed had to do with the blocking of foreign funds in Sweden on political grounds. Thus, accounts of non-residents with foreign exchange banks were identified as either "regular", "limited", "blocked", or "blocked clearing" accounts, and varying rules were applied to payments and withdrawals on such accounts. On the whole, however, foreign companies were freely granted permission by the Foreign Exchange Office to take their earnings out of the country.

1/ Minutes of Cabinet meeting concerning foreign exchange law proposal, March 31, 1932.

The Development of Import Controls

During the first year after the war, Sweden's foreign exchange position remained generally strong, although some difficulties were encountered, particularly with respect to trade with Switzerland. These difficulties were intensified after revaluation of the krona in July 1946, and it appears likely that, owing to the Swiss National Bank's refusal to accept gold from Sweden, for a brief time the Riksbank rationed Swiss francs for import purposes. This situation was created partly by the strong speculative demand for Swiss francs during the time when it was expected that the Swiss would follow the example of the Canadian and Swedish exchange rate policies. Once the speculative demand had subsided, and an agreement been reached whereby Switzerland resumed acceptance of gold from Sweden, the Foreign Exchange Office was again able to make Swiss francs available for all commercial transactions. By early 1947, however, the dimensions and currency pattern of Sweden's import surplus and capital outflow made it evident that the country's gold and hard currency reserves would soon be exhausted unless preventive steps were taken. On March 15, all imports not specifically placed on a free list were made subject to license. The authority to issue import licenses, however, was given not to the Foreign Exchange Office of the Riksbank, but to various autonomous commissions connected with the Ministry of Supply.

The purpose of the present system of import licensing is to conserve foreign exchange. It is therefore important to inquire into the relationship between the exchange control authorities and the import licensing authorities, and to understand why these two functions, directed toward a single objective, have been separated. The reasons for the dual system of control are both historical and rational. As early as the spring of 1940, during a period when Swedish stockpiling of imported commodities was running very high, it was felt necessary to take steps to conserve foreign exchange by limiting imports of certain luxury products such as tea and coffee. Domestic rationing was established for these commodities, and import licenses were required. The import licensing, as well as the rationing, system was placed under the aegis of the Ministry of Supply, which had itself been newly established during this period. As reason for this, there was, first of all, the well-understood limitation on the exchange control system that it was not to be used as an instrument of commercial policy. And secondly, there was the fact that the foreign exchange reserves were not immediately endangered; there was no need for day-to-day regard for their level, and no overall import program had been evolved. The import control of a few commodities clearly belonged under the surveillance of a supply board, rather than of a financial body like the Foreign Exchange Office.

The tea and coffee licensing system was in effect only a very brief time, the German invasion of Denmark and Norway making import restrictions on these commodities superfluous. The machinery established at that time, however, was developed for other ends during the war. As soon as ships were allowed through the blockade, it became necessary to plan carefully an import program so that the limited shipping space available would be allocated for the most essential imports. Many supplies were purchased by government buying agencies, but some were privately contracted for, and these transactions had to be licensed. Trade with German Europe for the most part could have been carried on without licensing, the pattern having been established in advance by trade agreements, and the problem being to secure sufficient imports rather than to limit their volume. During the first months after the end of the war in Europe, two considerations necessitated continuance of import licensing: the need to keep a check on the future supply of rationed goods, and the need to exclude imports which would have to sell at prices above Swedish ceilings. As supplies improved and goods were removed from rationing in Sweden, they were added to the free list of imports not requiring license. The machinery had not entirely atrophied by March 1947, and the new system merely involved strengthening of the old, and adaptation to new purposes.

Under the present arrangement, the various industrial and wholesalers organizations submit estimates of their import requirements to one of the supply commissions. These estimates are screened and in turn submitted to the Foreign Trade Board, which draws up an overall import program. This program then has to be scaled to a size which, in the judgment of the Foreign Exchange Office of the Riksbank, is appropriate to the country's foreign exchange resources. The question of how much to cut requirements for each currency belongs to the Foreign Exchange Office; the question of where to cut belongs to the Foreign Trade Board and the supply commissions. Import licenses issued by the supply commissions indicate the type of currency required, and automatically entitle the holder to an exchange license for the required amount.

Current Financial Controls

Having authorized the Foreign Trade Board to proceed with a certain import program, the Foreign Exchange Office then has the task of ensuring that the needed foreign exchange is not drained away for other purposes. At present this means that Swedish investors do not find it easy to obtain permission for placing funds abroad. Foreign companies, however, are still generally permitted to withdraw earnings from Sweden. Some inroads on this policy were begun last May when importers of American films were told that they must accept either a drastic cut in imports or a reduction in the transfer of their profits to the United States. The importers agreed to the blocking of about two-thirds of their estimated gross receipts during 1947. This arrangement may have been nullified, however, by the terms of certain assurances given by Sweden to the United States during the negotiations in Washington concerning Swedish commercial policy. These assurances were that dividends, interest, company transfers, and other remittances generally would be facilitated.

There is, finally, the question of marshalling foreign exchange assets. So far Sweden has not taken this step; neither foreign investments nor current foreign exchange receipts need be surrendered. Early in 1947, however, it was apparent that exporters and shipping firms were accumulating unusually large balances abroad, rather than returning them to Sweden. In May, a census was taken of private hard currency assets, and in June the Government obtained renewed authority from the Riksdag specifically to requisition Swedish assets abroad if necessary.

None of the more sophisticated devices of exchange control is employed by Sweden. There is no compulsory division of the market which requires that certain demands for exchange be satisfied at higher rates than others. Exporters, travellers, and investors alike receive uniform payment in kronor for foreign exchange. As an instrument designed to control capital movements, there is nothing in the Swedish exchange control system which would contravene the provisions or the spirit of the International Monetary Fund Articles of Agreement; and the allied system of import control is regarded as temporary, and so falls within the transitional period arrangements permitted by the draft ITO charter. The recent negotiations in Washington were regarded as a test-case for determining some of the limits to be placed on quantitative trade restrictions during the transition period, and the manner in which the Swedish system was adapted to the principles of non-discrimination will be the subject of a later note in this Review.

THE BULGARIAN TWO YEAR PLAN

C. B. Rose, Jr.

The Two Year Plan inaugurated in Bulgaria on April 1, 1947, proposes a substantial development of industry which now accounts for only about one-quarter of the value of total Bulgarian production. Achievement of planned increases in power and coal production are essential to the fulfillment of this goal. Although relatively less expansion is designed for agriculture, the value of the increase over present levels will be substantially larger than in any other field, and the predominantly agricultural character of the economy will be maintained. Projects also are included for the improvement of forestry, fishing, shipping, and transportation. The overall goals of the Plan are shown in the table below. The success of the Plan is premised upon the removal of various obstacles referred to in an earlier article in this Review.[1/]

Overall Goals of the Two Year Plan

Type of Production	In Billion Leva (At 1939 prices) 1939	1946	1947	1948	In Per Cent (1939 = 100) 1946	1947	1948
Agricultural	35.2	28.1	39.7	47.2	80	113	134
Industrial	11.1	10.7	15.1	18.6	91	136	167
Power	.6	.9	1.0	1.1	156	168	196
Coal	.7	1.2	1.5	1.6	160	206	225
Ore	.02	.1	.2	.2	600	857	983
Total	47.6	41.0	57.4	68.7	86	120	144

Although some specific projects are included in the legislation embodying the Two Year Plan, particularly with respect to agriculture and power production, more attention is given to the means by which the respective ministries are to prepare detailed plans and schedules for the branches of the economy within their competence. All materials and labor are mobilized for distribution through a central agency. The Cabinet is empowered to make changes in the Plan "after having received the opinion of the Supreme Economic Council".

1/ See this Review, August 26, 1947, p. 12.

The expansion in agricultural production is designed to be reached through extending plantings, increasing (only slightly) the area of arable land, and by using improved methods, high grade seeds, and more fertilizer. Reliance also is placed upon mechanization, with the establishment of 30 tractor stations projected for 1947 and 50 in 1948. These stations would be equipped not only with tractors but with other auxiliary machinery, almost all of which would have to be imported. It is a question where Bulgaria can secure this equipment; there is a great shortage of agricultural machinery in Russia (Bulgaria's chief trade partner) and production this year cannot begin to make up the deficit.1/

Bulgaria also hopes to be able to import significant quantities of insecticides and artificial fertilizers; here again the goal seems difficult of attainment in view of the great demand throughout Europe and the limited supplies available. Under the Plan an effort will be made to make Bulgaria self-sufficient in respect to chemicals required by agriculture, but even if the program is carried out it can affect agricultural production in the immediate future only to a very slight extent, if at all.2/

At the time the Plan was projected, it called for a 40 per cent increase in agricultural production in 1947 over 1946, and a further 19 per cent gain in 1948. On the basis of early estimates, it appears possible that the harvest will be somewhat better than last year but that it is unlikely to be that much better. Indeed, it may still be necessary for Bulgaria to import grains in the coming year. To reach the goal of the Plan, marked improvement would have to take place in livestock production. Not only is this the slowest branch of agriculture to respond to improvement programs, but it is in this area that the most serious deficiencies exist. Meat production in 1946 was only 54 per cent of 1939, milk 57 per cent, cheese 23 per cent, eggs 54 per cent, and hides 51 per cent.

Percentages of increase envisaged by the Plan in industrial production are misleading since in many branches, the base is quite small. The greatest expansion in comparison with 1939 is planned for the rubber and chemical industries, present output of which is negligible. The food industries, at present probably the most developed branch of Bulgarian industry, will receive the least relative expansion. It should be noted that even if the goals of the Plan are reached, the value of industrial production in Bulgaria will still be only 39 per cent of the value of agricultural production which will account for 69 per cent of total output. Moreover, the projected increase in total industrial production of 50 per cent between 1946 and 1947 (to 36 per cent above prewar) would represent a major achievement. Such a development not only would have to overcome competition with other planned construction for materials and labor, but would require the importation of much machinery and equipment. It is open to serious doubt whether this could be supplied in adequate amounts by the countries with which Bulgaria has the closest trade relations (see p.   below).

1/ See this Review, May 6, 1947, p. 26.
2/ It has just been reported that Bulgaria will use part of the credit granted by Russia on August 23, 1947, for the purchase of fertilizer plant from the U.S.S.R.

It has been estimated that 103,000 new workers will be needed to implement the Plan. In March 1947, the month before the Plan went into operation, it was reported that 125,000 workers were engaged in non-agricultural pursuits, while in April the number had risen to 136,000. This was more than usual for that time of year and above the average for any recent year. Nevertheless, lack of hands is not likely to prove a stumbling block. A more serious handicap is the absence of skilled labor, especially engineers who can supervise construction of the necessary plants. The need for training workers is recognized in the Plan which provides for the establishment of schools and the institution of technical courses. Partly by this means and partly through more efficient organization, it is hoped that the productivity of labor will be increased by as much as 20 per cent in the next two years.

The text of the Bulgarian Two Year Plan dismissed the question of financing very briefly. The Finance Minister is directed to include the necessary funds for the implementation of the Plan in the 1947 budget. The Bulgarian National Bank is to supply credits under the direction of the Supreme Economic Council. The intention is to use receipts from the recently enacted capital levy to bolster ordinary sources of government revenue. No estimates have been made of the anticipated volume of receipts from the capital levy, but stiff rates have been applied and if the assessments can be collected, it is expected that a considerable volume of funds will be made available.1/ It has been announced that the budget for this year will total only 56 billion leva, considerably below the level of last year's outlays. Included in this sum, it is reported, is 7.5 billion leva for the purposes of the Two Year Plan. A further 3 billion leva has been provided for in an extraordinary budget. To mobilize the credit resources of the country, the Minister of Finance recently has been authorized to float a 30 billion leva 4 per cent long-term loan, and an 8 billion leva 3 per cent short-term loan. Since at least part of the proceeds of these loans will be used to repay the debt of the State to the National Bank, the sum available for financing the Two Year Plan will be less than the 38 billion leva total of the two loans. The investment required for the Plan has been estimated at 55 billion leva over the two year period.

The inflationary effect of these government expenditures, in the absence of a substantial increase in the quantity of consumer goods available, will require the enforcement of strict controls over distribution and prices. Actually, a reduction in prices is called for in the implementation of the Two Year Plan. Part of the proposal already has been put into effect. As of May 1, 1947, a reduction in the prices of a number of articles and services was decreed. These were basically transportation charges, the price of electrical energy for industrial use, and of coal for the State railroads and for power stations, while prices of certain imported foods were lowered by cutting customs duties and transportation expenses. Profit margins also were whittled down, and the retail prices of various consumer goods such as beds, stoves, nails, shoes, and cotton textiles were lowered.

1/ Referring to the capital levy law and the monetary reform law (discussed in the previous Review article), Free Bulgaria (June 15, 1947, p. 183) says: "Both laws while they do not seriously affect the bulk of the population, will assure a considerable portion of the financial means which will be expended for the fulfillment of the Two Year Plan".

Prices paid the agricultural producer were left unchanged and "inducement" increments even were granted in some cases, but reductions were ordered in the retail prices of some food items. These measures are only a step in the direction of eliminating the maladjustments indicated in the earlier article.

Successful execution of the Plan appears to hinge to a large degree upon a favorable development in Bulgaria's foreign trade position. The Plan contemplates an increase by 1948 to 148 per cent of 1946 in exports, and 146 per cent in imports, calculated at constant prices. The type of goods which have been the chief exports of the country, with the exception of tobacco, are not likely to find a ready market in the Europe of today which is concerned with meeting essential needs. In the case of tobacco, the value received has been held down by competition in world markets from other sources of supply. Even if Bulgaria is able to export in a volume which would make possible the purchase of imports needed for the Plan, it is questionable whether Bulgaria could acquire the desired goods in view of the great demand from all European countries for capital equipment, and the lags in production in exporting countries. Imports for the first four months of 1947 (the latest information available) amounted to 5.5 billion leva compared with 3.5 billion leva in the corresponding period of 1946, while exports of 5.0 billion leva in 1947 compared with 2.2 billion leva in the first four months of the previous year. Although a considerable part of this increase can be attributed to higher prices, the volume of both imports and exports at constant prices also improved; the level was still far below prewar, however,

An important element of governmental policy in recent months has been the creation of a network of long-term trade agreements under which Bulgaria hopes to get the goods it needs. One of the most significant of these is with Czechoslovakia which is to supply heavy capital equipment and has advanced a sizable credit to Bulgaria. In part, imports of goods from Czechoslovakia will be paid for by the earnings of Bulgarian workers who have gone there on one to three year contracts. Another agreement which should be important for the future is that with Yugoslavia which proposes the creation of a customs union for the two countries. Yugoslavia, however, is engaged in carrying out a Five Year Plan 1/ of its own and is not in a position to supply immediately much of the goods Bulgaria requires for its Two Year Plan. Despite the orientation of the bulk of Bulgaria's trade toward Russia and its satellites, links are being maintained with the West through other agreements (though for the most part these are of a short-term character) with Switzerland, Denmark, France, the Netherlands, and a number of other countries. In most of these the major Bulgarian export is tobacco which also figures prominently in the Bulgarian-Russian trade agreement. With the U.S.S.R. taking the bulk of the exportable surplus, Bulgaria's opportunities for the development of fruitful trade relations elsewhere are strictly limited.

1/ See this Review, June 3, 1947, p. 10.