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AMERICAN CONSUMPTION AND FOREIGN AID

Randall Hinshaw

Recent increases in food prices have led to fears that present and prospective foreign-aid programs represent a serious threat to American living standards. In determining whether these fears are justified, it is helpful to examine current trends in the level of American consumption. The results of a preliminary inquiry, based on the recent revisions in the Department of Commerce income series, are presented below.

The revised Department of Commerce figures cover the period 1929-46, and provide annual estimates of consumption expenditures, including an exhaustive breakdown by individual commodities and services.^{1/} In order to remove the obscuring influence of population and price changes, indexes of per capita real consumption were constructed, with 1929 as base year. The year 1929 was regarded as a rather interesting norm, since, until the outbreak of World War II, it had been the most prosperous year in American history.

^{1/} The items of consumption are classified into twelve categories: (1) food and tobacco, (2) clothing, accessories, and jewelry, (3) personal care, (4) housing, (5) household operation, (6) medical care and death expenses, (7) personal business, (8) transportation, (9) recreation, (10) private education and research, (11) religious and welfare activities, and (12) net foreign travel and remittances.

The index of per capita real consumption was constructed by (1) dividing the annual consumption estimates by the consumers' price index of the Bureau of Labor Statistics, (2) dividing the adjusted consumption data by an index of U.S. population, and (3) expressing the resulting figures as a percentage of the 1929 total. The indexes of food consumption and of clothing consumption were constructed in the same way, using the B.L.S. food-price and clothing-price indexes for making the respective price adjustments. Because of its intrinsic interest, an index of total consumption, excluding consumption of alcoholic beverages, was also computed. The various indexes are presented in Table I.

Table I
Indexes of Per Capita Real Consumption
(1929 = 100)

	<u>Total Consumption</u>	<u>Total Consumption, Excluding Alcoholic Beverages</u>	<u>Consumption of Clothing</u>	<u>Consumption of Food</u>
1929	100	100	100	100
1930	91	91	87	95
1931	86	86	82	94
1932	77	77	67	86
1933	76	75	63	85
1934	81	78	70	84
1935	85	81	74	87
1936	93	88	79	96
1937	96	91	77	99
1938	93	89	77	102
1939	98	93	81	104
1940	103	98	84	109
1941	111	105	93	117
1942	110	103	95	124
1943	114	107	108	128
1944	121	113	109	138
1945	129	120	116	151
1946	139	130	124	155

All the indexes show a striking increase in per capita real consumption, despite the war and despite a high level of postwar foreign aid. Indeed, the advance has occurred almost entirely during and since the war, at the very time the external drain on American resources has been of major magnitude. According to the figures, per capita real consumption in 1946 was 39 per cent higher than in 1929; if alcoholic beverages are excluded, the increase in consumption was 30 per cent.^{1/} While the estimated per capita increase in clothing consumption is substantial (24 per cent above 1929), the estimated increase in per capita food consumption is truly

^{1/} It should be pointed out that these figures refer to legal consumption only. The Department of Commerce series make no allowance for illegal consumption of alcohol under Prohibition, nor for illegal consumption of other items, such as narcotics.

spectacular. According to the index, per capita real consumption of food (excluding alcoholic beverages) was 55 per cent higher in 1946 than in the boom year 1929.

It would, of course, be a mistake to take these indexes at their face value without making some attempt to appraise their validity. The principal question mark relates to the reliability of the price adjustment. The B.L.S. price series used for this purpose are designed to measure "average changes in retail prices of selected goods, rent, and services, weighted by quantities bought by families of wage earners and moderate-income workers in large cities." Sales taxes are included in the price data wherever applicable. Until 1935, the weights were based on a study of family expenditures for the period 1917-19; since 1935, the weights have been based on a similar study for the period 1934-36. In March 1943, the weights in the food price series were altered to take account of wartime food shortages and rationing. However, it has been officially admitted that the overall consumers' price index did not reflect "the full wartime effect of such factors as lowered quality and the disappearance of low-priced goods," and it has been officially estimated that, for these and other reasons, the B.L.S. index in late 1945 underestimated the price rise during the war by as much as 5 points. If the index for 1945 had in fact been 5 points higher than the published figure, our index of per capita real consumption for that year would have been 123.7 instead of 128.5. It should be remembered, however, that by 1946 the above-mentioned factors affecting the reliability of the price index were beginning to become considerably less important.

The price adjustment is perhaps least satisfactory in connection with foods. In any case, a somewhat less favorable impression of the increase in food consumption is provided by figures showing per capita domestic consumption of individual commodities. In Table II, per capita consumption of certain important foods are shown in index form for selected years.

Table II
Per Capita Real Consumption of Certain Foods
for Selected Years
(1929 = 100)

	<u>1929</u>	<u>1932</u>	<u>1939</u>	<u>1946</u>	<u>1947</u>
Meat	100	99	101	116	118
Beef	100	93	109	122	141
Pork	100	101	92	109	98
Milk	100	98	97	119	113
Eggs	100	93	93	112	113
Butter	100	104	99	59	68
Margarine	100	52	72	124	132
Sugar	100	97	101	77	96
Wheat flour	100	91	88	90	87
Potatoes	100	90	78	79	79
Other fresh vegetables	100	102	109	123	117
Canned vegetables	100	75	111	164	155
Fresh fruits	100	89	106	98	103
Canned fruits	100	84	135	170	156

This table includes preliminary estimates for 1947. Unlike the indexes in Table I, the indexes in Table II were computed directly from physical quantities, and consequently do not involve any problem of correction for price changes.

While these figures provide a less striking indication of the increase in food consumption than the index in Table I, they are nevertheless impressive. Per capita consumption of fresh vegetables in 1946 was 23 per cent higher than in 1929 while, for canned vegetables, the increase was 64 per cent. Although per capita consumption of fresh fruits in 1946 was 2 per cent less than in 1929, per capita consumption of canned fruits was 70 per cent greater. It is estimated that for the year 1947 per capita consumption of milk and of eggs will be 13 per cent higher than in 1929, and that per capita meat consumption will be 18 per cent higher. The estimated figure for beef is actually 41 per cent higher than in 1929. These figures are offset by significant declines in a few items, notably butter, potatoes, and sugar. The reduction in butter consumption is partly compensated by a marked increase in consumption of margarine.

On the basis of figures supplied by the Department of Agriculture, a recent Congressional report has estimated that per capita food consumption was 16 per cent higher in 1946 than in 1929.^{1/} It is possible that this figure is too low and that our figure showing a 55 per cent increase is too high. In any case, it would seem clear that foreign aid has not thus far involved actual belt-tightening for American consumers. Indeed, the most that could be said on the basis of present evidence is that American living standards have improved less rapidly than might have been the case in the absence of a foreign-aid program.

^{1/} Report prepared by the Staff of the Joint Committee on the Economic Report on Food Prices, Production, and Consumption, 1947, p. 57.

RECENT EXCHANGE CONTROLS IN BRAZIL

Dorothy J. Lichens

After several months of relative freedom from exchange regulation, the Government of Brazil on June 4, 1947, reinstated a more restrictive system of foreign exchange control. The following discussion is concerned with the most important features of the new system and with certain factors which contributed to the need for exchange control at this time.

The fundamental objectives of the new exchange control regulations appear quite clear and may be summarized as follows: (1) the selective control of imports, giving preference to commodities defined to be essential; (2) the regulation of payments for non-merchandise transactions, giving priority to service of foreign capital within specified limits and reducing as far as possible exchange losses from speculative outflows of capital; (3) the conservation of remaining balances of gold and foreign exchange for economic development programs and for serious future contingencies; (4) the maintenance of the exchange rate at its present level, according to a public statement of the Finance Ministry.

The new exchange control provides for the conservation of Brazil's external reserves by restricting the total value of exchange authorizations to the amount of new exchange available. The regulations require that 30 per cent of the daily receipts of free foreign currencies be sold to the Bank of Brazil at its buying rate and are to be reserved for the use of the Government and its agencies. The remaining 70 per cent are to be distributed for other purposes in accordance with the following priority schedule:

- (1) foreign merchandise considered essential to the economy;
- (2) remittances of royalties, interest, profits and return of foreign capital;
- (3) expenses for travel and living abroad, and proceeds from sale of passages by airlines, steamship companies, etc.
- (4) all imports not classified in category (1);
- (5) gifts, relief remittances, and service of foreign capital in excess of the limits established for transactions covered in the second category.

The definite percentage distribution of available exchange between the five categories listed above has not yet been officially established, but it is believed that a minimum of 60 per cent will be allocated during the initial period of operation to the first category. Allocations of exchange to the other four categories is subject to the approval of the Banking Superintendency.

Some illumination of the conditions which evidently led to the re-establishment of exchange control may be obtained from an examination of the movement of Brazil's foreign trade and international reserves during recent months. The total foreign trade of Brazil is shown in Table I below. The favorable balance of trade of the last quarter of 1946 and early 1947 abruptly became unfavorable in April and May. Furthermore, U.S. trade with Brazil for recent months, also shown in Table I, reveals that Brazil had an unfavorable balance with the United States from November of last year through June of this year, and that this unfavorable balance in recent months has been larger than in earlier months.

This trend in foreign trade is reflected in steadily declining foreign exchange reserves as indicated in Table II. From the end of December 1946 until the end of May 1947, reserves declined from \$733 million to \$624 million or by \$109 million. It may be of interest to note, however, that gold holdings remained constant throughout this period.

A number of factors have contributed to this situation: (1) imports were encouraged not only by the long pent-up demand which had accumulated during the war and which American manufacturers began to satisfy in greater volume in 1946, but also by the inflated price level in Brazil which made some imports less expensive than competing domestic merchandise; (2) export markets were seriously disturbed in April and May of this year by two factors:

(a) the cessation of sterling purchases by the Bank of Brazil between February 2 and May 2 and (b) the break in coffee prices in the United States last spring.

In order to meet this situation and apparently to avoid the sale of gold, Brazil invoked the provisions of its Stabilization Agreement with the United States. The Agreement as amended and renewed in 1942 provided for cruzeiro sales for U.S. dollars up to the equivalent of \$100 million. In April of this year, \$40 million was drawn, followed by \$20 million more in May, and another \$20 million in June. The comparatively large gold holdings of Brazil and the right which is apparently granted under present law to substitute foreign exchange, including inconvertible balances, for gold in the reserve against the note issue would seem to indicate that the recent use of the Stabilization Fund was largely a matter of choice on the part of Brazil. Last July, the Agreement expired with an unused balance of \$20 million. Brazil will have a period of twelve months from the dates of actual drawings to repurchase the cruzeiros held by the U.S. Stabilization Fund and to reclaim its gold collateral. All of these aforementioned factors undoubtedly influenced Brazilian authorities to take steps to discourage further losses of exchange.

Subsequent to the announcement of the new exchange controls, a list of first category goods^{1/} was published by the authorities on June 14 under instruction No. 27, amended and expanded in July, together with a statement covering a number of operating details. According to the instructions, letters of credit henceforth may be issued only for first category goods; the regulations provide that exchange to cover fourth category merchandise may not be issued until after such goods have arrived in Brazil. In order to make some provision for orders already placed, exemption from the new priority regulation is granted to merchandise shipped from abroad before June 11. However, no special provision is made for firm orders entered into with foreign suppliers prior to the effective date of the regulation.

Importers of fourth category goods have the right to apply for "anuencia previa" or prior approval of any particular order. If granted, this automatically confers first category status on such merchandise. However, the granting of this special priority does not constitute a precedent as regards future rulings inasmuch as applications will be handled on a case by case basis.

The import licensing system for certain luxury goods which was in effect prior to June 4 is continued under the new regulations. Although no official statement has been made on this subject, it may be inferred that few formal import licenses will now be granted, inasmuch as imports subject to the formal licensing requirement are all of a luxury nature (with the exception of certain rubber goods and used machinery) and are therefore placed in the fourth category. In the event that an import license application is approved, however, the importers must still face

^{1/} Commodities listed under the first category and deemed essential to the Brazilian economy include chiefly raw materials, machinery, transportation equipment, and chemicals.

the problem of obtaining exchange, since the approval of such license applications does not confer first category status on the goods involved.

Instruction No. 27 also provides that the Bank of Brazil not furnish exchange for payment of foreign collections held by other banks, nor permit transfer of such collections to its own portfolio. Inter-bank transfers of exchange in any given category will be permitted only upon prior approval of the Banking Superintendency, and only if the selling bank has no outstanding demand for the funds in the category in question. Furthermore, the Bank of Brazil will have prior rights to the purchase of any such funds. Small exchange brokers dealing in travel and maintenance funds have been hard hit by the requirement that all of their funds be transferred to banks, with preference to the Bank of Brazil, whenever there are any unsatisfied demands for exchange in the first category. After allocating 30 per cent of their acquisitions of foreign exchange to the Bank of Brazil for government use, banks which had a net foreign exchange liability on June 4 are required to apply one-fifth of the remaining 70 per cent to the liquidation of such liabilities. The other four-fifths may be sold in accordance with the priority categories established in the regulations.

To facilitate the clearance of goods through customs, the new regulations restore the system in use in the 'thirties of temporary cruzeiro deposits to the credit of foreign exporters pending the availability of exchange and final settlement of the account. The banking instruction specifically provides that any exchange risk shall be for the account of the importer and that foreign suppliers lose none of the legal rights which they would otherwise have pending final remittance. The regulations further stipulate that the application for foreign exchange shall be filed automatically when such deposits are made.

One of the most important features of the new exchange regulations is the restoration of limits on the servicing and amortization of foreign capital invested in Brazil. Limits on such remittances were originally imposed by Decree-Law No. 9025 of February 27, 1946. In August of the same year, limitations were discontinued although it was specifically stated at the time that this was a temporary situation and depended upon the country's balance of payments position for continuation. Under the new priority schedule of June 1947, remittances of interest, earnings and profits on registered private foreign investments and the amortization of private capital have been placed in the second category of exchange availability. Such remittances will be permitted at the annual rate of 8 per cent of registered capital for interest or earnings, and not more than 20 per cent for the amortization of principal. Provision is made for remittances in excess of the re-established limits, but foreign exchange for such excess remittances will be made available only under the fifth category. It seems probable that little exchange will be made available for such purposes for some time to come.

An important feature of these controls is that their operation depends fundamentally upon the actual amount of foreign exchange available in the market at any given time. While this has definite advantages from the point of view of the authorities, Brazilian importers and foreign exporters, as well as those desiring to make remittances for other purposes,

are confronted with considerable uncertainty. Although a relatively adequate supply of exchange for first category goods probably will be available most of the time, foreign firms shipping merchandise in this category on any but letter of credit terms can have no full assurance that the importer actually will be able to remit exchange promptly at the maturity of the draft. There is no assurance at all of payment at any prescribed time for merchandise in the fourth category. However, at least 60 per cent of the value of Brazil's total imports appears to be included in the first category grouping of essential commodities. If Brazil's exports should continue to be sold in foreign markets at high prices, delays in payment for fourth category goods, i.e., chiefly luxuries, may not be excessive. Moreover, if foreign firms should be willing to ship only a moderate amount of fourth category goods against cruzeiro deposits, they may obtain foreign exchange remittances fairly quickly. It therefore seems possible that fourth category payments may fluctuate from prompt to slow since foreign exporters, learning that payments are being made promptly, may tend to increase their shipments which may precipitate an exchange shortage in that category leading to slow payment and in turn to reduced shipments which may then reproduce the cycle.

As far as capital movements are concerned, the re-establishment of controls, together with Brazil's failure thus far to fix its exchange rate within the framework of the International Monetary Fund Agreement, may retard the inflow of new private foreign capital of which Brazil stands greatly in need at the present time.

As yet little is known regarding the effect of the new regulations on Brazil's foreign trade and international reserves. The New York Federal Reserve Bank reports that collections during July for exports to Brazil had slowed substantially over those in June. Whereas in June 60.5 per cent of the total number of collections were classified as prompt, only 47.5 per cent were so classified during July. This is attributed in large measure to confusion arising in connection with the omission of a provision for goods ordered before but shipped after the regulations became effective. When such interim problems have been resolved, a clearer picture of Brazil's international trade and financial position may be expected.

The recent exchange control regulations would not appear to represent a by-passing of the International Monetary Fund, because under the terms of Article 14, Sec. 2, of the Fund Agreement, a member may "In the post-war transitional period ... maintain and adapt to changing circumstances ... restrictions on payments and transfers for current international transactions." Although Brazil is a member of the Fund, failure to establish the par value of the cruzeiro has denied Brazil access to the Fund's resources. But even if such access were permissible, it is likely that exchange control would nevertheless have been instituted, under present circumstances, since such controls would be preferable to the use of Fund resources for luxury imports and excessive capital payments.

Table I
The Foreign Trade of Brazil
(In millions of U.S. dollars)

<u>End of</u>	<u>Total exports</u>	<u>Total imports</u>	<u>Balance</u>	<u>Exports to U.S.</u>	<u>Imports from U.S.</u>	<u>Balance</u>
1946-Oct.	91.4	57.4	+34.0	30.0	20.1	+ 9.9
Nov.	92.4	64.9	+27.5	37.8	47.8	-10.0
Dec.	89.6	90.3	- 0.7	37.3	51.1	-13.8
1947-Jan.	115.0	86.3	+28.7	51.5	52.8	- 1.3
Feb.	84.6	87.7	- 3.1	37.5	56.3	-18.8
March	115.2	86.5	+28.7	29.4	65.4	-36.0
April	73.0	120.5	-47.5	42.7	61.2	-18.5
May	71.8	126.4	-54.6	26.8	68.5	-41.7
June	88.7	-	-	17.0	50.0	-33.0

Table II
Brazil's Official Gold and Foreign Exchange Holdings
(In millions of U.S. dollars)

<u>End of</u>	<u>Gold held by Bank for Treasury</u>	<u>Net foreign exchange holdings of Bank of Brazil ^{a/}</u>	<u>Net total</u>	<u>Decline (-) or increase(+)</u>
1946-Dec.	354.3	379.0	733.3	
1947-Jan.	354.3	362.3	716.6	-16.7
Feb.	354.3	356.8	711.1	- 5.5
March	354.3	328.6	682.9	-28.2
April	354.3	301.2 ^{b/}	655.5	-27.4
May	354.3	269.9 ^{b/}	624.2	-31.3
				<u>-109.1 total deficit</u>

^{a/} Includes foreign securities held by the Bank of Brazil.

^{b/} Net foreign exchange holdings of Brazil have been corrected for liabilities incurred under the U.S.-Brazil Stabilization Fund Agreement arising from the drawing of \$40 million in April and \$20 million in May. The adjustment was made when an identical amount of gold pledged as collateral for these operations was not deducted from Brazil's gold holdings.

CZECH INDUSTRY IN THE FIRST SIX MONTHS OF 1947

C.B.R., Jr.

The Czechoslovaks have announced that their Two Year Plan for industrial production was fulfilled 101 per cent in the first half of 1947. The record by branches of industry was reported as follows:

<u>Branch</u>	<u>Percentage of Plan</u>	<u>Branch</u>	<u>Percentage of Plan</u>
Mining	102.2	Stone, earth, &	
Power	99.5	ceramic	88.2
Foundry	107.9	Paper	109.0
Iron & metal	98.3	Timber	105.7
Chemical	88.5	Textile & clothing	101.0
Glass	90.6	Leather & rubber	110.8

A comparison of figures of actual output during the period shows that in some lines production in January was higher than in June. Moreover, the Plan was fulfilled to only 97.2 per cent in the latter month. The official explanation that this drop was of a "seasonal" character due to "transfers of workers" emphasizes the shortage of labor in Czechoslovakia. It seems unlikely that workers went into agriculture at that time of year. Moreover, true seasonal influences should have been allowed for in setting monthly goals. The inadequacy of the industrial labor force must be pronounced if shifts are required at the expense of production goals.

Figures for months since June are not available except for coal, the output of which fell even further below the targets than in May or June. Coal output in July was below January, a month in which production was said to be handicapped by severe weather. In this case also the decline has been attributed to the departure of volunteer workers from the mines. The Czech Government is indeed making great efforts to increase the labor force in the mines, even resorting to a scheme under which workers in coal-consuming industries must devote a portion of their time to mining. Skilled miners, however, are lacking, and the per man output of the volunteers or other specially recruited labor is relatively low. The situation is much the same in the case of iron ore with the gap between performance and plan steadily increasing in the second quarter of the year.

In comparison with planned goals, the foundry industries have made a good record. In the iron and metal working industries, however, not only was the Plan not reached but in such a crucial branch as machine tools, actual output in the six months period was below requirements. The most noticeable failure to reach the Plan was in the chemical, glass, and the "stone, earth, and ceramic", the latter including building materials, industries. The components of the chemical group are fertilizer (both phosphate and nitrogenous) which lagged seriously, sulphuric acid and soda which did better, and staple fibre and rayon, production of which, while less than planned in some months, adds up satisfactorily on an annual basis. No reports have been given for synthetic fuels or lubricants; it may be assumed that performance in those lines has been disappointing. Marked improvement in building materials in the second quarter was not enough to compensate for the poor record of the first quarter when particularly severe weather prevailed. No reports are available on the progress of the construction program but it must have been adversely influenced. The felling of timber by the end of June is reported to have been accomplished to the extent of 83 per cent of the planned figure for the whole year. Only scattered figures are available for the woodworking industries. The various branches of the paper industry, however, did well both in comparison with the Plan and in regard to actual production.

Goals in the textile industry must have been set very high since in several branches, particularly weaving, comparisons between June and January output are better than the percentage of the Plan reported fulfilled in the first six months of the year. The most severe lags have occurred in finished goods, which is especially unfortunate from the point of view of the consumer. Better progress, however, was made in footwear.

On the whole, it may be said that if actual production data rather than the Plan goals are considered, progress at least in some strategically important lines was less satisfactory in the first half of 1947 than is implied in the official statements.

FRENCH EXPORTS AND THE FRANC

A. O. Hirschman and C. Lichtenberg

One of the factors contributing to the present critical dollar position of several Western European countries has been the failure of their 1947 exports to reach anticipated levels. Exports to the dollar area have been particularly disappointing.

In the case of France, this development can be ascribed partly to the continuing rise in French prices since the setting of the present parity of the French franc (119 francs to the dollar) in December 1945. The rise of wholesale prices amounted to 80 per cent in the course of 1946; after an interruption, during the first four months of the current year, the rise resumed in May, and in August reached a level that places wholesale prices 113 per cent higher than in December 1945. Compared to 1938, the wholesale price level had risen almost exactly 10 times. This figure does not take into account the much greater price increases which occurred in the black markets.

It is true that the upward movement of prices, particularly during the current year, has affected mainly agricultural rather than industrial commodities. But the higher food price level naturally brings about demands for higher wages and is, therefore, translated in due course into higher costs for the exporting industries.^{1/}

Overvaluation of the French franc is an easily ascertainable fact. It is far less easy, however, to provide a quantitative measurement for the degree of overvaluation. There are, of course, the familiar problems as to the selection of the appropriate base period and price index. Moreover, it appears that the usual method of comparing only French and U.S. prices can be seriously misleading since only 5 to 10 per cent of French exports (excluding shipments to the colonies) goes to the United States. For this reason, purchasing power parity calculations have been extended to France's most important trading partners. Exports to these countries amount to approximately four-fifths of French exports to foreign countries. As to the base period, in addition to the use of the year 1938, it is assumed as a working hypothesis that the devaluation of December 1945 brought about a temporary equilibrium between French and foreign prices. This was indeed the impression at the time although some scepticism was expressed as to the adequacy of the 58 per cent devaluation which had then taken place. The advantage of selecting December 1945 as our base period is twofold: The prewar years are not only receding into the ever more distant past, but in the case of France were marked (after 1936) by continuous monetary depreciation which makes selection of an "equilibrium period" particularly difficult. Furthermore, a comparison of 1938 and present official price levels would have to be corrected for the transactions taking place at black market prices whereas a comparison of two postwar official price levels gets to a

^{1/} An average increase in wages of 11 per cent was granted in August, but retail prices (in Paris) increased by exactly the same percentage during the month.

large extent around this difficulty since the black market was in existence at both points of the comparison.^{1/}

The table below shows the degree of overvaluation of the French franc as of June 1947 with respect to the currencies of the 11 countries which are France's most important customers, on the basis of both 1938 and December 1945. All calculations are based on wholesale price indexes. Experimentation with cost-of-living indexes yielded very similar results.^{2/}

Table I
Degree of Overvaluation of the French Franc with Respect to
Currencies of France's Main Customers^{a/}

<u>Country</u>	<u>June 1947,</u> <u>base</u> <u>period</u> <u>1938</u>	<u>June 1947,</u> <u>base</u> <u>period</u> <u>Dec. 1945</u>	<u>Aug. 1947,^{b/}</u> <u>base</u> <u>period</u> <u>Dec. 1945</u>	<u>Per cent of</u> <u>total French</u> <u>exports</u> <u>(1946)</u>
Belgium-Luxembourg	18.4	62.2	79.0	30.4
Switzerland	24.3	85.5	104.8	14.1
United States	40.5	39.8	39.2	9.2
United Kingdom	71.4	72.5	90.4	8.2
Netherlands	45.2	55.1	71.2	5.2
Sweden	32.8	57.5	73.8	4.9
Norway	82.8	82.2	101.0	2.1
Argentina	46.4	70.7	88.4	1.8
Denmark	34.7	70.5	88.2	1.6
Italy ^{c/}	-15.1	61.4	78.1	.9
Czechoslovakia	48.7	30.9	44.4	.9
Average, weighted by export shares	32.8	64.6	79.9	

a/ Actual parity (foreign currency per one franc) as percentage of purchasing power parity minus 100.

b/ Estimated on basis of French August wholesale prices and June prices for other countries, except for the United States for which August figure is available.

c/ In order to include in the computations of Franco-Italian parities the effects of the Italian devaluations, the calculations for Italy have been carried out as though the devaluations of the lira in January 1946 and in August 1947 had taken place in December 1945 and June 1947, respectively.

In August, wholesale prices took a sudden jump of 13 per cent over July which put prices 10 per cent over the June level. For this reason, the table shows estimated August parities for this new high level

1/ Between December 1945 and today both the importance of black market in total transactions and the spread between black market and official prices are likely to have decreased to some extent. For this reason, the calculations based on December 1945 overstate somewhat the degree of overvaluation while calculations based on 1938 understate it substantially.

2/ In view of the progressive abolition of subsidies in France the cost of living will be even more closely determined by the level of wholesale prices.

of French prices on the assumption that no change has intervened between June and August in the price levels of the other countries for which, with the exception of the United States, more up-to-date figures could not be obtained.

The figures point to an average overvaluation of the franc of 33 per cent on the basis of 1938 and of 65 per cent on the basis of December 1945. As might be expected, the dispersion of the figures based on 1938 is much greater than that of the figures based on December 1945. If the August rise in French prices is taken into account, the estimated average overvaluation on the basis of December 1945 becomes 80 per cent.^{1/} It is this figure which, for the reasons advanced, seems to be a reasonably close approximation to an evaluation of the present position of the French franc.

The overvaluation thus appears far less marked when 1938 rather than December 1945 is taken as the base period. This derives from the fact that the rise in French prices since 1938 has been at least partly compensated for by successive depreciations in the exchange rate and by simultaneous price rises in other countries. On the contrary, the doubling of the price level since December 1945 took place while the franc remained pegged and several among France's trading partners maintained substantial stability in their domestic price level.

It may come as a surprise that, in the series based on December 1945, next to Czechoslovakia, the franc is least overvalued with respect to the United States; this is, however, easily explained by the relatively large increase in prices in the United States during the past 20 months. The only other country which, during this period, has experienced an increase in prices similar to that of France is Italy, but the lira was recently devalued by an additional 36 per cent.

While the evidence for the overvaluation of the franc is overwhelming on the basis of purchasing power parity calculations, inspection of French export statistics does not yield as unequivocal a conclusion. While, as shown in Table II, total French exports have almost ceased expanding during the current year, the only clear-cut case of an absolute drop in export values is that of French exports to the United States--that is to say, precisely to that country the currency of which is least undervalued with respect to the franc. From a monthly average of \$7.8 million during the last quarter of 1946, French exports to the United States have fallen to an average of \$4.6 million during the first seven months of the current year. For France's most important markets, i.e., Belgium, Great Britain, Switzerland, and the Netherlands, the statistics for 1947 reveal a leveling off and stagnation of French exports, but not yet an actual decline, while distant markets still register gains as prewar trade connections are being further activated. The fact that the effects of overvaluation were felt first in the U.S. market in spite of comparatively low overvaluation may be explained by the following factors.

(1) The U.S. market was the first one to regain some balance between supply and demand, in particular with regard to the main articles

^{1/} Weighting of the averages according to the export shares of the individual countries in 1938 does not yield significantly different results.

traditionally imported from France. French exports to the United States consist, to a larger extent than French exports to any other country, of luxury goods, demand for which is particularly sensitive to price.

(2) If trade is conducted as in most of Europe along strictly bilateral lines and in a sellers' market, high prices are much less of an obstacle to exports; in fact, they have been defended as a shrewd move to exploit semi-monopolistic positions so as to improve terms of trade. This aim, however, often is not attained because of what might be called competitive overvaluation. A striking instance was the recent Italian refusal to extend to the French the benefits of the "average rate"^{1/} which they had previously granted to Belgium. Trade with France is to take place at the official rate (which now is 350 lire to the dollar or 2.9 lire to the franc) rather than at the far lower average rate (at present about 500 lire to the dollar or 4.2 lire to the franc). Although it had been Italy's intention to renegotiate all of its payments agreements on the basis of the average rate, it found it impossible to accept the degree of overvaluation of the franc which the application of that rate would have implied.

Table II
French Exports, 1946-47
(In millions of dollars)

	<u>Total French exports^{a/}</u>	<u>U.S. imports from France^{b/}</u>
<u>1946</u> (monthly averages)		
1st quarter	16.0	2.3
2nd quarter	43.2	4.8
3rd quarter	50.4	5.9
4th quarter	80.6	7.8
<u>1947</u>		
January	75.3	6.2
February	90.7	3.5
March	83.0	4.5
April	102.2	5.1
May	91.2	3.9
June	100.4	3.3
July	92.9	5.4

a/ Excluding shipments to French Colonies.

b/ According to U.S. import statistics.

On the whole, it appears that French exports staged a good come-back in the course of 1946, but have been marking time since December 1946 when they amounted to \$91 million. The Monnet Plan goal of \$1,230 million worth of exports can only be reached if monthly exports during the last five months of the year are 31 per cent higher, on the average, than during the first seven months (during which they totaled \$634 million). The Monnet

1/ That is, the average between the official rate and the rate obtained in the free market by exporters for 50 per cent of hard currency proceeds.

Plan goal, moreover, was set in the middle of 1946 on the basis of the lower dollar prices then prevailing. The performance is, therefore, even less adequate than is indicated by the above figures.

This development must be traced in the first place to limits imposed on exports by lags in output. The present stagnation of exports is indeed paralleled roughly by the index of industrial production which has remained stationary since October 1946. In the second place, expansion of exports is also impeded by inability or unwillingness of French producers to market a substantial portion of their output abroad at the present relation between world market and French prices.

While the physical factor may still be the major obstacle, the monetary factor cannot be overlooked. The necessity of providing industrial producers with additional incentives to export has been recognized by the introduction of special legislation during the current year under which exporters may retain 10 per cent of their foreign exchange proceeds for financing equipment and modernization imports. It is too early to appraise the effects of this measure. In its present form, however, it can hardly be expected to compensate fully for the great price disparities which have developed. At the very least, maintenance of the present rate will require greatly increased governmental controls designed to enforce implementation of export allocations.