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MONETARY AND FISCAL STABILIZATION UNDER THE MARSHALL PLAN: PART II

Robert A. Rennie

During the war years, the United Kingdom met about 46 per cent of total government expenditures from taxes. This proportion was slightly higher than that in the United States, and required heavier taxation and more rigorous price and wage controls than were imposed in this country. Moreover, Britain was able to limit its borrowing from the banks to 25 per cent of the total wartime increase in the public debt. Although the resulting rise in money supply during the war was substantially less in the United Kingdom than in the United States, it nevertheless caused serious economic disturbances.

While approximate equilibrium has been restored to the United Kingdom budget, other aspects of the monetary and financial situation have not been changed significantly since the end of the war. The British economy continues to be characterized by a condition of "suppressed" inflation in which there is an excess of monetary demand over the supply of goods available at controlled prices. The effort of the Government to carry out a policy of lowering interest rates has been a major factor in the sustained upward movement of the money supply. In this connection, it should be noted that the domestic proceeds of foreign assistance and of liquidation of gold and foreign assets have amounted to the equivalent of almost $4 billion during the past two years. To the extent that the yield in local currency

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has been used to redeem floating debt held by the Bank of England and the chartered banks, the excessive money supply has been reduced. On the other hand, to the extent that these proceeds have been used to finance capital expenditures or to purchase long-term government securities from the public in order to sustain bond prices, no contraction in the money supply has resulted.

While the evils of "suppressed" inflation are not so serious as those of the "open" type which characterizes some of the economies of continental Europe, they have caused serious disorders in the recovery of production in the United Kingdom. The excess money supply, held in check by direct controls over prices, wages, and the allocation of goods, has reduced the incentives to work. Current income is adequate to buy available rationed goods, and the past accumulations of more or less involuntary savings are sufficient to provide for foreseeable emergencies. This situation makes for a withdrawal of marginal groups of wage earners, e.g., women and older workers from the market, and for a decline of marginal labor effort, e.g., for absenteeism and an unwillingness to work overtime. Moreover, with prices in essential sectors of the economy held at low levels, the shift of investment to more profitable occupations produces a tendency to deplete inventories and thus makes the economy particularly vulnerable to any disturbance such as strikes or accidental shortages. Finally, the surplus purchasing power originated by past and current savings tends to overflow from the regulated essential activities into non-essential sectors diverting manpower and goods into employment less vital to the recovery of the nation.

In addition to the impact of the inflationary pressures upon production, there are serious financial problems. Public and private capital expenditures are considerably in excess of the investment funds which the public is supplying at the present time. Although the Government has clearly indicated that there will be a reduction in its capital expenditures (especially in the field of housing), recent indications suggest that voluntary savings are also declining. Furthermore, the Cripps program to increase exports and to reduce imports will tend to narrow the deficit in the balance of payments and reduce the reliance upon foreign borrowing. Since the local currency proceeds of foreign loans have been a primary source of funds for financing extra-budgetary government expenditures, it may be necessary in the circumstances to resort to domestic credit expansion and thereby to increase further the already swollen money supply. This situation would impose an increasing pressure upon price and rationing controls. Naturally, if the Marshall Plan assistance becomes available to the United Kingdom, such pressure need not materialize.

The Chancellor of the Exchequer has stated that fiscal measures will be taken in the autumn budget to counteract the additional inflationary impact of the new program. Attempts may be made to lessen the inflationary pressure through higher excise and profits taxes, a reduction in government subsidies and other expenditures, or through some system of compulsory savings. In view of the current high income tax level, an increase in direct taxes does not seem to be a particularly appropriate means of bringing about a budgetary surplus, and might even be harmful because of a further lowering of incentives. On the other hand, a reduction of subsidies would appear to be an excellent measure to absorb a large portion of the demand that is at present diverted to black market and non-essential goods.

Since spending out of past savings is a major problem in the monetary disequilibrium of the United Kingdom, a direct method of attack would consist of measures designed to curtail the money supply. If the pattern adopted in Belgium and the Netherlands were followed, there could be a partial blocking of liquid assets followed by a capital levy and/or a forced loan. The wholesale deflation envisaged by these plans might be very difficult to manage. If carried too far, anti-inflationary measures could produce unemployment. In general, such measures have proved most successful in small countries with well-disciplined populations where the need for such action has been driven home by the emergence of an actual inflationary movement.

The relation between internal prices and foreign exchange rates is an integral part of the problem of "suppressed" inflation. The excess demand tends to intensify the balance of payments deficits by reducing the goods available for export and by creating an acute demand for imports. However, if controls are effective in keeping the purchasing power in check, the present exchange rate of the United Kingdom appears appropriate in terms of purchasing power parities. On the other hand, if equilibrium should be restored between the wage and price structure and the money supply through price increases, a revision of the exchange rate might become advisable in order to maintain the country's competitive position in the world market.

GERMANY AND THE PLAN FOR EUROPEAN ECONOMIC COOPERATION

J. Herbert Furth

Germany occupies a peculiar position within the framework of the Plan. Since the Soviet Union does not permit the participation of Eastern Germany, the Plan can be applied only to the combined U.S.-U.K. zones and the French zone of occupation. Moreover, the U.S. Government has stated expressly that the Plan should not give the rehabilitation of Germany priority "over that of the democratic countries of Europe", but on the contrary should make it possible for Germany "to contribute to the general rehabilitation of Europe." The aid to be given to Germany therefore is designed largely for the benefit of other nations.

Germany can contribute to the recovery of the rest of Europe by exporting coal, steel goods, machinery, timber, chemicals, and textiles. If Germany is to export these goods, it must reconstruct not merely its export industries but also the rest of its economy. The workers in the export industries can work at prewar efficiency only if they receive sufficient supplies of food, housing accommodations, and industrial consumers goods. Moreover, the industries depend upon domestic as well as foreign supplies of raw materials and equipment, and particularly upon the rehabilitation of the badly damaged transportation system. It is possible and necessary to establish priorities that will assure to workers in the export industries a higher level of consumption, and to the enterprises themselves a better supply of producers goods, than that available to the rest of the economy. Experience has shown, however, that differentials in supply availabilities must not become too large; otherwise leakages develop that drain substantial quantities into the black market and barter trade and thus defeat the purpose for which the priorities were established.

Ten months ago the United States and the United Kingdom concluded an agreement on the economic merger of the U.S. and U.K. zones and a foreign trade program, which they hoped would make Western Germany self-supporting within three years at a net expense of around $1 billion. This hope was premature. The world market prices of imports, mainly foodstuffs, rose contrary to general expectation so that even if all other assumptions had proved correct, the outlay would have to be greater by about 50 per cent than planned in December 1946. The unprecedented cold in the winter of 1946-47 paralyzed the economic life of Europe. The catastrophic drought of the summer of 1947 destroyed a large part of this year's crops and even is endangering next year's winter crop. Foodstuff imports had to be larger than planned, and despite that increase the level of nutrition remained below the programmed minimum of 1,550 calories per day and "normal" consumer. The continued malnutrition made impossible the expected rise in labor efficiency. These factors kept production at disastrously low levels and retarded rehabilitation by one or two years.

Apart from these unforeseeable reasons, the bizonal program was too optimistic in that it overrated the possible rate of increase in exports and underrated the need of Germany for imports of capital goods. It was hoped that accumulated funds and some credits secured by the occupation authorities would be sufficient to provide for the payment of the importation of raw materials during an initial period of transition, and that after such a relatively short period German exports of industrial goods would be sufficient to pay for the importation of raw materials if not also for that of food. Neither the credits nor the funds have been fully utilized, however, in part because of difficulties in securing supplies, and in part because of uncertainties about a comprehensive import program. Exports of finished goods have remained negligible and will remain so until greater quantities of raw materials and capital goods are imported. Thus by and large the situation in Germany today is no better than it was about a year ago. The so-called advances made by the United States and the United Kingdom in payment for food imports into Germany have kept the German people alive but have contributed little toward rehabilitation and reconstruction.

Probably because of the unsatisfactory experience with optimistic forecasts last year, the proposals of military government for the participation of Western Germany in the European Recovery Plan tend to lean in the opposite direction. The new program envisages Western Germany to be self-supporting at best by 1952. For the years 1948 through 1951, it calculates a total import surplus of $5 billion, apparently to be financed by the occupying powers. This sum would be in addition to the so-called advances made in 1945 through 1947, and thus would bring the total financing of German rehabilitation by the United States, and to a lesser degree by the United Kingdom, to a total of at least $6.5 billion. Under this program, the U.S.-U.K. zones would be a net exporter of coal, timber, chemicals, and textiles, but a substantial net importer of steel and machinery.

The program will have to undergo far-reaching changes in order to bring it more fully into accord with the general purpose of the European Plan. Western Germany must become again a net exporter of steel products, especially during the years of transition when the

scarcity of these goods will be felt most seriously, even at the price of delaying the time when the German people shall again reach a more normal standard of living. Imports must be cut because of the tight world supply of many scarce commodities and the competing requirements of the other countries. If the necessary changes in the program are made, the total balance-of-payments deficit of the combined zones in the four years under consideration should not exceed one-half of the sum estimated by military government, and under somewhat optimistic assumptions as to the speed of European recovery under the Plan may be cut even more than that.

The program calls for gradually increasing imports of foodstuffs, limited only by existing world scarcities. Unfortunately, the improvement in the level of nutrition will be a very slow process, and the continued tight food situation will constitute one of the greatest obstacles to the fulfillment of the program. Other consumer goods will be imported only in small quantities, within the framework of an incentive program for workers in the coal mines and the export industries. The bulk of all non-food imports will consist of industrial raw materials.

German coal exports are programmed so as to approach prewar levels by the end of the four-year period. They will represent the most important German contribution to European reconstruction, and large parts of the entire Plan will depend upon the attainment of the proposed level of coal output. Exports of textiles and other light industrial goods also are scheduled to reach prewar quantities, but those of steel goods, machinery, and chemicals will remain far below prewar levels. The relatively low level of machinery exports will be particularly disappointing to the other European nations which have to depend largely upon German spare parts and precision instruments. In part, this low level may be due to the decision, necessitated by political considerations, to limit German steel production to about 55 per cent of its 1938 capacity. Even without such a decision, however, the reconstruction of German heavy industry probably would not have been completed in time for a substantial increase in exports during the four-year period of the Plan.

The import surplus of Western Germany will arise mainly in relation to the United States and other dollar areas while Western Germany is expected to have a growing export surplus vis-a-vis the rest of Europe. This surplus will reduce the needs for dollar financing only if the rest of Europe consolidates its international financial position so that the foreign exchange acquired by Germany can be used for imports from non-European areas.

The proposals for Germany suffer from the general weakness of the entire Plan, namely, that while the targets are quite definite, very little is said about whether and how they can be reached. The recovery of Germany in particular is not mainly a function of its imports and exports. It presupposes a gradual improvement in economic organization and the absence of major political disturbances. Financial reform must be accomplished either on a quadripartite basis or at least in the Western zones, so that the German currency can resume its functions as a standard of value and means of payments, and a realistic foreign exchange rate can be established. The reparation and restitution program must be executed in such a way as not to interfere with the activities of peaceful industries.

The Plan does not contemplate the economic union of Western and Eastern Germany, but it assumes close cooperation between the U.S.-U.K. and the French zones, and the gradual restoration of trade relations with Eastern Europe. Finally, the Plan is based upon the maintenance of the existing world price level. Further increases in world prices, i.e., in U.S. prices, would require larger dollar outlays. On the other hand, a reduction in the prices of foodstuffs and raw materials, which Germany must import, as compared to those of industrial products, which Germany can export, would reduce the dollar deficit. In that case, equilibrium in the German balance of payments may be reached sooner than anticipated, perhaps even before the end of the four-year period of transition.

Success or failure of the German program will be largely determined by the efficiency of economic controls and incentives. Military government will be constantly faced with the problems of whether to rely more upon strict government controls or upon the incentives of the market. Government controls might facilitate the direction of goods and services to those industries that are to be expanded under the Plan, especially to export industries at the expense of domestic consumption. The maintenance of such controls, however, not only contradicts the principles of our economic policy but also stifles whatever initiative can be found in Germany after twelve years of totalitarian rule. The strict control of foreign trade, for instance, probably is in part responsible for the extremely low level of German commercial exports and imports. On the other hand, liberalizing these controls might lead to German sabotage of the Plan insofar as it aims at restoring the rest of Europe rather than of Germany itself. It will be one of the most difficult and important tasks of military government to find a judicious compromise between government regulation and free market operation and to combine the advantages rather than the shortcomings of both methods.

Execution of the Plan will mean a considerable burden upon the U.S. Treasury, which certainly will have to finance the bulk of the deficit. Success of the Plan, however, would free the U.S. Treasury from the permanent burden which it would have to bear if Western Germany were kept permanently on a dole basis as in 1946 and 1947. At present, the import surplus of the U.S.-U.K. zones, caused almost entirely by the shipment of bread grains, is at an annual rate of more than $600 million. The average annual import surplus of these zones under the Plan over a four-year period hardly will be larger than that sum. Moreover, the outlay will be fully justified by the economic and political advantages resulting from the reintegration of Western Germany into the European economy.

POSSIBLE REDISTRIBUTION OF U.S. EXPORTS

Randall Hinshaw

One of the obvious ways of reducing the inflationary repercussions of the European recovery program on the American economy is by curtailing exports to countries which are not included in the program. At the present time, American exports of goods and services are near record peacetime levels; and while the net outflow of American production is not large in relation to total production (amounting to less than 6 per cent of the gross national product), much of it is in the form of goods in critically scarce supply throughout the world. Where the supply of a commodity is short, a small addition to the total demand for the commodity may lead to a sharp rise in its price. Since foreign demand for American goods is largely concentrated on just those items which are in short supply--notably food and steel--the inflationary impact of the current level of exports is a much more serious matter than is indicated by the low ratio of net exports to total output.

If we are to achieve the twin objectives of domestic price stability and European recovery, the destination of American exports becomes a matter of genuine concern. Nor can it be assumed that the problem of export allocation is satisfactorily solved when the appropriate sum of dollars is placed at the disposal of the countries selected as eligible for American assistance. For these dollars must compete with gold and dollars held by countries whose reserves may be large and whose purchases from the United States, though far less urgent in terms of need, may also be large. In this situation, the result is far from ideal from the standpoint of either the American consumer or the foreign beneficiary of American aid.

Satisfactory allocation of exports under present conditions can be achieved only by direct controls. American exports are still subject to such control, though at present licenses are required for only about 25 per cent. The President's Council of Economic Advisers has advocated a strengthening of the present system of control, and there is evidence that much more, indeed, might be done in the direction of diverting exports from countries which are not candidates for U.S. assistance to countries which are.

The following table, showing the destination of American exports by major commodities, is based on data for the first half of 1947. The dollar figures are expressed at annual rates.

One most striking fact revealed in this table is that about two-thirds of our exports are going to countries which are not included in the Marshall group. Of this two-thirds, the bulk goes to Canada and Latin America.

Only half of our recorded food exports go to the European Recovery Plan countries;1/ only about a fifth of our exports of machinery and of iron and steel products go to the same destination. For textiles, the fraction is only about a sixth.

1/ The figures in the table do not include unrecorded food exports to occupied areas, which have been amounting to about one-sixth of total recorded exports of food.

Recorded Exports from the United States, January-June 1947
(In millions of dollars at annual rates
and per cent of total)

	Marshall Plan countries		North and South America		Rest of world		Total	
	Value	%	Value	%	Value	%	Value	%
Foodstuffs	1,240	50.0	647	26.1	595	24.0	2,482	100.0
Industrial and agricultural machinery	323	19.7	854	52.1	462	28.2	1,639	100.0
Textiles and textile manufactures	266	17.4	618	40.5	644	42.1	1,528	100.0
Autos and parts	182	15.7	735	63.5	240	20.8	1,157	100.0
Iron and steel products	228	21.3	641	59.8	203	18.9	1,072	100.0
Cotton, tobacco	542	56.2	94	9.7	329	34.1	965	100.0
Chemicals	194	25.0	353	45.6	227	29.4	774	100.0
Petroleum and products	255	41.3	212	34.3	150	24.4	617	100.0
Total Exports	4,911	32.6	6,283	41.6	3,902	25.8	15,096	100.0

It is clear from these figures that a large fraction of American exports are making no direct contribution to the foreign-aid program. This does not mean that it would be wise to channel all U.S. exports to countries which are eligible for American assistance. A large part of the exports to non-European countries represents payment for American imports. Thus it is the export surplus to areas not covered by the European Recovery Plan which is of primary interest in the present connection. This surplus is substantial. In the second quarter of 1947, it amounted to an annual rate of about $5 billion, or not far from half of total net exports.1/ The magnitude of this surplus is such as to give point to the sentiment that a proper use of direct export controls is the most relevant method of dealing with the twin problems of stability at home and recovery abroad.

1/ This figure refers to merchandise trade, including unrecorded transactions.

SWEDEN'S IMPORT SURPLUS

Robert W. Bean

The import restrictions which Sweden imposed last March 15 in an effort to diminish the widening gap in its trade balance have failed to achieve their purpose; imports and the import surplus in the second and third quarters of the year have exceeded the first-quarter figures. There has been a tendency in Sweden to place a major share of blame for this development on concessions of policy which the Swedish Government made to the United States in an understanding announced on June 24.1/ The purpose of this article is to weigh the truth of this complaint.

The Trade Figures

The import controls put into effect on March 15 took the form of requiring a license for all types of imports not expressly included on an unrestricted list. It was the intention of the Swedish Government that this system of control should make it possible to limit the 1947 import surplus to not more than 300 million kronor;2/actually, however, the annual rate of surplus during the first nine months has exceeded 2,000 million kronor. The fault is not failure of the export drive, for actual exports during the first nine months have been at an annual rate close to 3,000 million kronor, whereas the 1947 plan called for exports of only 2,700-2,800 million kronor. The fault is rather that imports, which were to be limited to about 3,000 million kronor, have been at an annual rate of 5,000 million. Either licenses have been granted too freely or too many commodities have been put on the unrestricted list, or both.

The Swedish contention is that, in order to live up to the terms of the June 24th understanding with the United States, Sweden has been compelled (1) to accept over a long period a greater volume of commodities from the United States (and at higher prices) than can be sustained, (2) to admit a substantial volume of luxury imports from all sources as late as six and one-half months after the import ban was imposed, and (3) to continue indefinitely admitting token imports of a whole array of non-essential commodities from the United States.

1/ This understanding was reached after prolonged negotiations begun at the request of the United States. The relevant terms of the understanding are discussed below.

2/ There have been various recent statements that the original plan envisaged an import surplus of 1,000 million kronor, rather than 300 million, during 1947. In March, however, both Prime Minister Erlander and Governor Rooth of the Riksbank declared that the intention was to reduce imports by about 10 per cent below the 1946 figure (i.e., to about 3,000 million kronor), and to increase exports by about 8-12 per cent above 1946 (i.e., to 2,700-2,800 million kronor).

Table I
Foreign Trade of Sweden, October 1946 - September 1947
(In millions of kronor)

	Imports		Exports		Balance	
1946						
October	327		238		-89	
November	345		220		-125	
December	331		237		-94	
		1,003		695		-308
1947						
January	371		222		-148	
February	334		119		-216	
March	279		139		-140	
		984		480		-504
April	355		220		-136	
May	460		251		-209	
June	467		295		-172	
		1,283		766		-517
July	520		318		-202	
August	496		318		-178	
September	549		305		-244	
		1,565		941		-624

The June 24th Understanding

These contentions are based on the following undertakings by Sweden in the exchange of memoranda with the United States on June 24:

(1) "Licenses will, unless otherwise agreed, be granted permitting the importation of commodities from the United States listed in Schedule I of the Commercial Agreement between the United States of America and Sweden of 1935, and not on the unrestricted list, to an amount, for the period from January 1, 1947, to June 30, 1948, equivalent to not less than 150 per cent of the volume of like imports from the United States during 1946."

(2) "... licenses will be granted for the import of all commodities which were placed under import restrictions on /March 15, 1947/, provided that the Swedish importer when applying for an import license establishes the following facts: (a) that a bona fide contract contemplating delivery prior to October 1, 1947, had been entered into, on or before March 15, 1947, and (b) that the delivery in Sweden of the goods mentioned in the contract will be effected before October 1, 1947."

(3) "No commodity or class of commodities imported from the United States during the operation of the Commercial Agreement between the United States of America and Sweden of 1935 shall be entirely excluded."

Quantitative Significance of the Swedish Concessions

For the present, the third of these concessions has little significance for the size of the Swedish import surplus. The problem is scarcely one of token imports, but rather of unusually heavy imports of nearly every category of goods (except coal and other scarce commodities).

The first commitment is probably the most important. In 1946 Sweden imported from the United States 167 million kronor of Schedule I commodities,1/ representing 21 per cent of total Swedish imports from the United States. All but a few of the Schedule I commodities were placed on the restricted list in March 1947, and the remainder have since been added; the commitment therefore now applies to the entire Schedule I. Incomes are sufficiently high in Sweden, and demand sufficiently great, that applications probably will be made for licenses to import these commodities in a volume at least as great as during 1946. It is thus possible that the Swedish Government may have to issue licenses permitting--in view of the general rise of prices--as much as 300 million kronor of Schedule I commodities to be imported from the United States during 1947 and the first half of 1948.

One cannot deny that, as a result of promising to follow this policy, the Swedish Government may have to permit the import of commodities which it regards as unessential, but for a number of reasons the quantitative significance of this is less than it appears. The figure of 200 million kronor (taking this as the value of Schedule I imports in 1947 alone) is not large compared with the gap of 2,000 million kronor between planned and probable total imports during 1947; i.e., the chief cause of the continued high level of imports lies elsewhere. Moreover, a substantial portion of Schedule I imports would have occurred even in the absence of the June 24th understanding with the United States. The transitional arrangements provided for by that understanding did not take effect until July 1, and very heavy imports of Schedule I commodities were made during the first six months of 1947 (imports from the United States of automobiles and of fruit each amounted to 52 million kronor during this period). Finally, many Schedule I commodities placed on the restricted list in March were not of luxury character, and it was not intended at that time to restrict their import severely; import licenses were freely granted even before the June 24th understanding was reached. Such commodities were placed on the restricted list only as a precautionary measure and in order to give the Government control over their allocation in Sweden. It is probably safe to conclude that during 1947, as a result of this commitment, Sweden will have to import, at most, 100 million kronor more than would otherwise have been the case.

Additional imports from the United States of both Schedule I and other commodities have been required, however, as the result of the transitional provisions which Sweden adopted in accordance with the June 24th understanding (the second commitment mentioned above).

1/ Of which automobile imports amounted to 65 million kronor; and fruit imports, 56 million kronor.

These transitional provisions have been applied only to goods placed on the original restricted list. Their purpose was to prevent hardship to importers and suppliers resulting from the suddenness with which restrictions were imposed; subsequent additions to the restricted list, now that warning has been given, do not carry with them such liberal transition arrangements. The original restricted list was limited to luxury commodities, imports of which were to be sharply cut down, and certain more useful commodities, the domestic allocation of which was to be brought under control. The importance of this fact is that in general one may presume that the liberal transition terms would be of less significance for luxury imports than for scarcer items; i.e., orders for most luxury goods need not be placed more than two or three months in advance of delivery in Sweden, so that the restrictions should have begun to take effect by June or July, despite the liberality of the transition arrangements. For some luxury goods, however, much longer delivery terms currently apply, and this is particularly true with respect to automobiles. Although the intention in March was to cut down severely on automobile imports, the Swedish Government has undoubtedly had to license a greater volume of imports than desired because of the delayed-delivery rule. Thus, automobile imports from the United States in July (the latest month for which this figure is available) amounted to almost 12 million kronor, compared with a monthly average rate of about 5 million kronor required by the 1946-volume rule.

It is difficult to estimate the total amount of additional imports which may have been made necessary by application of the June 24th transitional arrangements. One should point out, however, that the continued import of luxury goods at unusually high levels throughout the summer frequently had other causes. Among the commodities in this category are, e.g., nylon stockings, of which 22 tons were imported in August 1947 compared with 30 tons in February 1947, the month preceding the import ban; facial powders and creams, of which 9 tons were imported in August compared with 6 tons in February; and perfumes and toilet waters, of which 9 tons were imported in August against 7 tons in February (Table II).

Table II
Swedish Imports of Certain Luxury Goods
(In metric tons)

	Average 1936-38[a]	1946		1947	
		Year[a]	August	February	August
Cocoa beans	6,200	9,700	605	782	669
Biscuits	48	300	31	84	93
Canned fruits[b]	1,800	3,800	86	647	163
Facial powders and creams	60	86	12	6	9
Perfumes and toilet waters	61	81	10	7	9
Silk fabrics, pure, synthetic	320	1,300	106	89	121
Jewelry	44	69	7	6	2
Bananas	11,400	21,600	1,039	1,230	478
Fresh apples[b]	15,300	32,700	1,675	2,014	1,218
Fresh pears[b]	8,100	12,800	114	1,042	0
Chocolate and other candies	710	2,100	196	636	274
Cigars, cigarettes	240	1,200	78	16	4
Volatile vegetable oils	110	170	16	19	9

a/ Large figures are rounded. b/ Commodities included in Schedule I of the U.S.-Swedish Commercial Agreement of 1935.

France, Belgium, and Switzerland, however, were important sources of these goods, and their sustained volume may be attributed in large part to Sweden's obligations under the terms of trade agreements with those countries. The amount of luxury imports which Sweden had to accept as a result of the transitional arrangements probably did not exceed--one may give only a rough guess--an additional 100 million kronor.

Altogether, then, the June 24th understanding may add 200 million kronor to the Swedish import surplus in 1947, and an additional 100 million in 1948.

The Real Cause of the Import Surplus

The conclusion is that by far the major part of the unexpected import surplus is accounted for by unusually large imports of commodities which the Swedish Government did not last March intend to restrict, and this may be verified by looking at the figures for imports of raw materials, petroleum, and machinery.

Table III
Swedish Imports of Certain Industrial Commodities,
Annual Rate During January-April and May-August 1947
(In millions of kronor)

	Annual rate, January-April	Annual rate, May-August
Gasoline	58	101
Crude oil	18	44
Diesel oil	100	146
Rubber, crude	25	41
Wool	58	106
Iron and steel, and other non-precious metals and products	501	813
Machinery and electrical equipment	308	536
	1,068	1,787

Here, in this brief list alone (Table III), are items which may well account for 700 million kronor of the unexpected import surplus. A more comprehensive listing of raw materials would add to this figure. There have also been substantial increases in imports of consumer goods which, in certain quantities at least, are ordinarily regarded as essential. For this reason, on September 17, the Swedish Government found it necessary to remove from the free list practically all such commodities which still remained.

These figures indicate that Sweden has been well recompensed for much of the severe loss of gold and foreign exchange suffered during recent months. Imports of capital equipment have been considerable, and stocks of raw materials have been accumulated. The tightening of restrictions may stop industrial expansion, but few serious hardships will be incurred.